Federal Emergency Management Agency

Annual Performance & Accountability Report
Fiscal Year 2002

Table of Contents

Management's Discussion and Analysis

Message from the Director

In 2002, the Federal Emergency Management Agency began its final year as an independent agency the same way it ended 2001: helping New York City recover from the terrorist attacks of September 11, 2001 and preparing the entire nation for the challenges we all face in the post-9/11 world.

The year ended—42 major disaster declarations and 83 fire management assistance grants later—with the Agency preparing its transition into the new Department of Homeland Security. Designed to be an all-hazards entity focused on protecting the lives and property of the American people, the Department's mission meshes with FEMA's seamlessly, which is why our Agency will continue to serve the American people as one of the pillars of America's revamped Homeland Security network.

In addition to responding to immediate disasters like Hurricane Lili and Tropical Storm Isidore, FEMA designated $360 million through the Fire Grants program for thousands of fire departments around the country to strengthen the fire service's response capability. We also were provided with $225 million to distribute to states to modernize their emergency operations centers, update emergency response plans, and improve their emergency preparedness.

This Annual Performance and Accountability Report documents those and other successes and lessons, and I hope it will serve to guide our growth in the new year. The performance data enclosed is extracted from the various databases that are identified in the performance report and is reliable and complete to the best of our knowledge. KPMG LLP audited the principal financial statements and rendered an unqualified opinion on them.

On the basis of available evidence, plans underway, and the assurance statements submitted by Agency senior managers, I am able to certify with reasonable assurance that, with the exception of any items identified in "Systems, Controls, and Legal Compliance" and the Independent Auditor's Reports on the FY 2002 financial statements, the Agency is in compliance with the provisions of the Federal Managers' Financial Integrity Act (FMFIA).

This report should serve as a valuable tool for our Agency in the future, in its thorough documentation of FEMA's activities and success in FY 2002. I hope the momentum we built will help make our transition into the Department of Homeland Security as seamless and efficient as the American people expect and deserve.

Joe M. Allbaugh
Director
January 24, 2003

Overview

FEMA will become part of the Department of Homeland Security (DHS) in March 2003 as the Emergency Preparedness and Response Directorate. There will be challenges ahead as the new DHS divisions attempt to merge multiple cultures, systems, functions, and program delivery methods and approaches. At the same time, FEMA brings to the new department skills, knowledges, and abilities that add considerable value to meeting the mission of DHS.

FEMA provides disaster assistance to states by assessing damage and deciding what assistance is needed. FEMA then makes disaster aid available and manages the application, approval and disbursement process. In addition, FEMA coordinates other federal agency involvement, keeps the public informed, and identifies opportunities to mitigate future disasters.

FEMA works with state and local governments, professional groups, and the public to reduce or eliminate the risk to people and property from floods, earthquakes, hurricanes, and other hazards. The Agency does this by improving disaster resistance at the community level, promoting the adoption and enforcement of sound building codes and practices, preparing risk assessment maps to assist local planners with effective community planning and to inform property owners of the degree of risk associated with their property's location, and by helping local communities adopt hazard management ordinances.

Baton Rouge, LA, October 3, 2002

The Emergency Operations Center is staffed 24 hours a day during the approach of Hurricane Lili reaching land.

PHOTO BY BOB MCMILLAN/FEMA NEWS PHOTO

New York, NY

FEMA/NY State Disaster Field Office personnel meet to coordinate federal, state and local disaster assistance programs.

PHOTO BY ANDREA BOOHER/FEMA NEWS PHOTO

FEMA's National Flood Insurance Program (NFIP) offers federally backed flood insurance coverage in more than 19,000 communities. The NFIP works to identify the flood hazard and promotes floodplain management, flood insurance policy sales, and in partnership with the insurance industry, works to sell and service policies and make claims payments to assist individuals, businesses and communities facilitate recovery from flooding. The NFIP also provides flood insurance incentives to reinforce measures to mitigate future flood losses.

Through the United States Fire Administration, FEMA helps reduce fire deaths, injuries, and damage by developing new fire management technologies, training the nation's firefighters and emergency medical professionals through the National Fire Academy (NFA), educating the public on how to lower fire risk, and working with 30,000 fire departments to collect and analyze national fire statistics.

FEMA helps states and localities prepare for a wide range of hazards by training emergency management professionals and state and local officials at FEMA's Emergency Management Institute, sponsoring exercises that let people work together under conditions similar to a real disaster, pre-positioning personnel and supplies in disaster prone areas, and partnering with governments, the private, and not-for-profit sectors.

FEMA has a long history of partnering with states and local governments, the private sector, and not-for-profit groups. FEMA knows how to launch, maintain, and sustain such partnerships. FEMA has excelled at coordinating intergovernmental efforts and has skillfully developed cooperative relationships with state and community leaders. FEMA communicates openly with the public through one of the most active Web sites in the government, and through an open and sharing approach has cemented positive relationships with the electronic and print media. In order to realize the vision of the new DHS and accomplish the mission, we know it will take a determined intergovernmental effort and an all out citizen centered approach. FEMA is well positioned to support and provide leadership in this regard.

FEMA has demonstrated both responsibility and responsiveness in using evaluations, assessments, and audits to improve program performance and Agency operations. GAO and IG audits as well as customer input provided an impetus for reengineering the Public Assistance Program. This program continues to receive high marks from customers as the new Public Assistance Program fine-tunes operations and methodologies.

The Federal Insurance and Mitigation Administration (FIMA) has traditionally and consistently used evaluation information to refine and retool operations to make various programs and operations more cost beneficial and to increase program effectiveness and efficiency. The USFA always has used student evaluations and recommendations by the Board of Visitors of the NFA to improve performance and certify course offerings. FEMA's detailed responses to the Office of Inspector General's Program and Management Challenges (see Section III of the Report) demonstrates all that has been done to both strengthen and improve program performance and management practices.

The success of FEMA's award winning Web site instilled confidence in the Agency's ability to support the President's electronic government initiatives DisasterHelp.Gov and Project SAFECOM. Both of these e-government initiatives are important to the overall success of DHS by providing a single location to keep the public informed about disaster preparedness and response and to significantly improve wireless communication capabilities for public safety organizations across all levels of government.

In FY 2002, our last year as an independent agency, FEMA achieved many internal and external goals in pursuit of its unchanging mission to save lives and protect property. As always, the FEMA family reacted swiftly and efficiently in response to 42 major disasters of all sorts, expending nearly $3.9 billion in disaster aid to communities across the country, managing our first mainland hurricane in three years, and weathering one of the worst fire seasons in history.

FEMA's activities away from disaster sites were also successful this year. We were provided with $225 million in national preparedness grants to distribute to states to upgrade their emergency communications apparatus, their emergency operations centers, and emergency response plans.

Internally, we approved our six-year strategic plan, "A Nation Prepared," to guide our progress in the future. FEMA also reformed its disaster assistance regulations to end a long-standing double-standard against certain non-profit groups. FEMA broadened its interpretation of other regulations to help lower Manhattan rebuild its transportation infrastructure to meet the needs of the 21st century. Finally, we also began our work to transition into the new Department of Homeland Security.

It was a pivotal year for the Agency, and this report documents the challenges and successes we met along the way.

Mission and Organization

MISSION

Since its founding in 1979, the mission of the Federal Emergency Management Agency (FEMA) has been clear: to prepare for, mitigate against, respond to, and help individuals and communities recover from natural and man-made disasters. FEMA was established through consolidation into one agency of the emergency management functions formerly administered by five different federal agencies.

Upon becoming Director of FEMA in February 2001, one of Director Allbaugh's highest priorities was to assess how the Agency was accomplishing its mission and to chart a course for the future. In July 2002, FEMA issued a new Strategic Plan for FY 2003 and beyond, that established a new-vision and anticipated the transition into the Department of Homeland Security. To achieve its new vision of a "nation prepared," FEMA will work to prepare the nation for disasters by encouraging individuals, governmental entities, and public and private groups at all levels to become informed of the risks they face, to make decisions that help keep people, property, and institutions out of harm's way, and to possess the capability and knowledge needed to act when disasters occur.

The vision and mission will be achieved through a series of goals focused around FEMA's lines of business that build a strong internal foundation based on human capital development and performance-based management, and which meet customer needs as follows:

➤ **GOAL 1.** **Reduce loss of life and property.**

➤ **GOAL 2.** **Minimize suffering and disruption caused by disasters.**

➤ **GOAL 3.** **Prepare the Nation to address the consequences of terrorism.**

➤ **GOAL 4.** **Serve as the Nation's portal for emergency management information and expertise.**

➤ **GOAL 5.** **Create a motivating and challenging work environment for employees.**

➤ **GOAL 6.** **Make FEMA a world-class enterprise.**

WHO WE REPORT TO

In addition to the President, the Agency reports to a myriad of committees and subcommittees spread throughout each chamber of the Congress. The main disaster work of the Agency comes under the purview of the Transportation Committee in the House, and the Environment and Public Works Committee in the Senate. The National Flood Insurance Program (NFIP) oversight is by the House and Senate Banking Committees. The U.S. Fire Administration (USFA) oversight comes from the House Science Committee, and Senate Commerce Committee. Interest in FEMA matters also comes from the House Government Reform Committee. Some of the most diligent and consistent oversight of all FEMA programs comes annually from the House and Senate Appropriations Committees.

HOW WE ARE ORGANIZED

FEMA's organizational structure mirrors the functions that take place in the life cycle of emergency management:

- mitigation;
- preparedness;
- response and recovery.

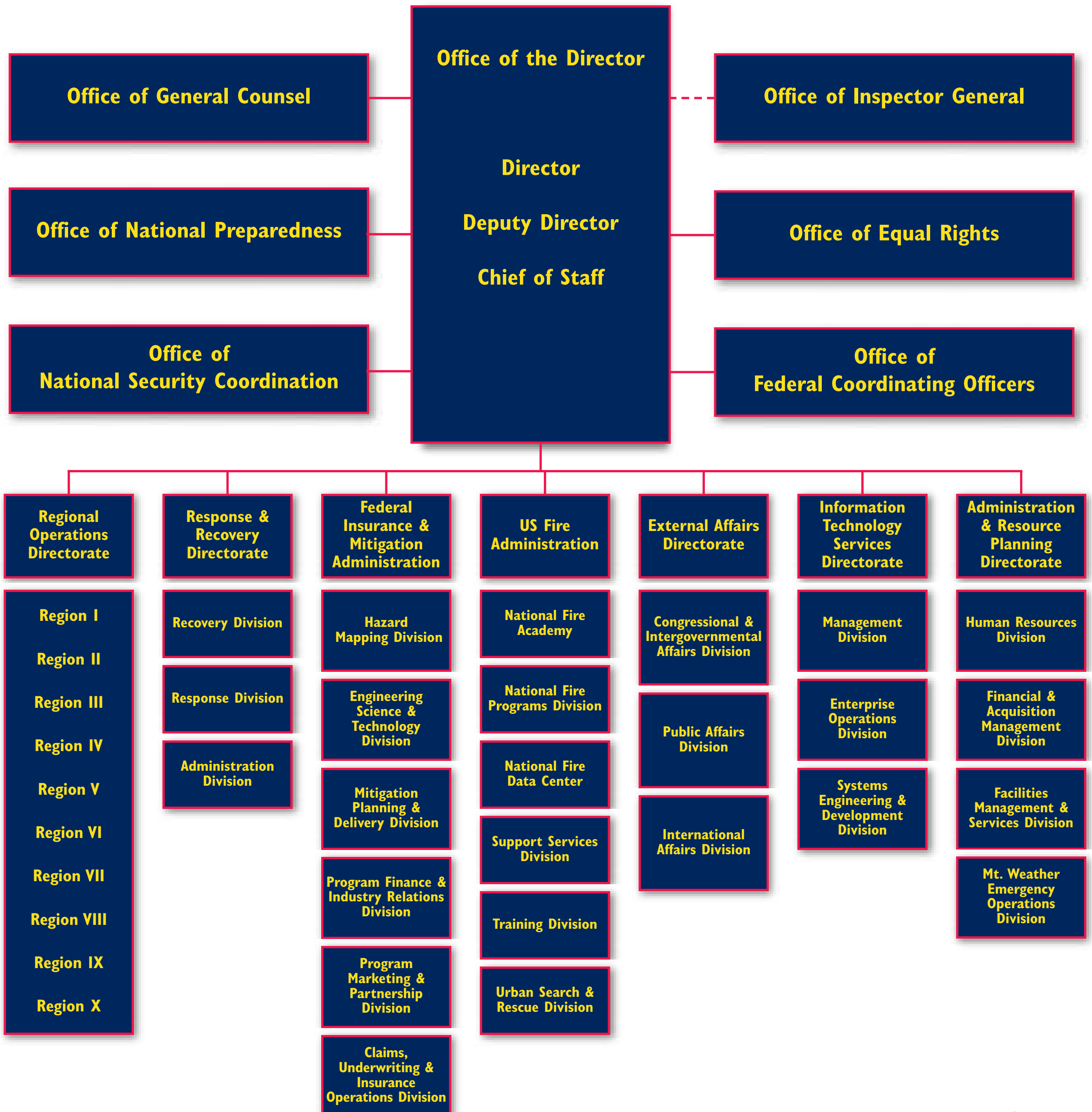
FEMA also contains the U.S. Fire Administration, which supports the nation's fire service and first responders, and the Federal Insurance and Mitigation Administration (FIMA) that operates the NFIP, and which provides flood insurance to property owners nationwide. (See the Organizational Chart on page 10 and the Regional Map on page 11.)

THE PEOPLE OF FEMA

FEMA has more than 2,900 full-time employees working at FEMA headquarters in Washington, DC, at regional and area offices across the country, at the Mount Weather Emergency Operations Center in Virginia, and at the National Emergency Training Center in Maryland. In a catastrophic disaster, as many as 4,000 temporary and reserve employees, other federal agency personnel, and volunteers may join the response and recovery team.

RESOURCES TO ACCOMPLISH THE MISSION

FEMA's appropriations support many activities that are vital either to our national security or to the nation's ability to cope



As of end FY 2002

with various disasters or emergencies. FEMA is committed to demonstrating compassion for disaster victims, and at the same time helping these victims reduce the potential impact from future disasters. In FY 2002, FEMA continued to support programs that integrated an all-hazards approach to developing capabilities at all levels of government and in the private sector. Our appropriations allow the Agency to continue to provide flexibility for states to target grant funds to meet their specific emergency management priorities, and to improve and maintain state and local capabilities and programs.

FEMA's Disaster Relief Fund includes an annual appropriation of $664 million and $8.0 billion in supplemental funds. During FY 2002 nearly $1.0 billion in emergency contingency funds were also released by the President for disaster response and recovery. These funds were used to respond to the attacks on the World Trade Center and Pentagon and were used for activities associated with efficient and effective disaster response and recovery actions.

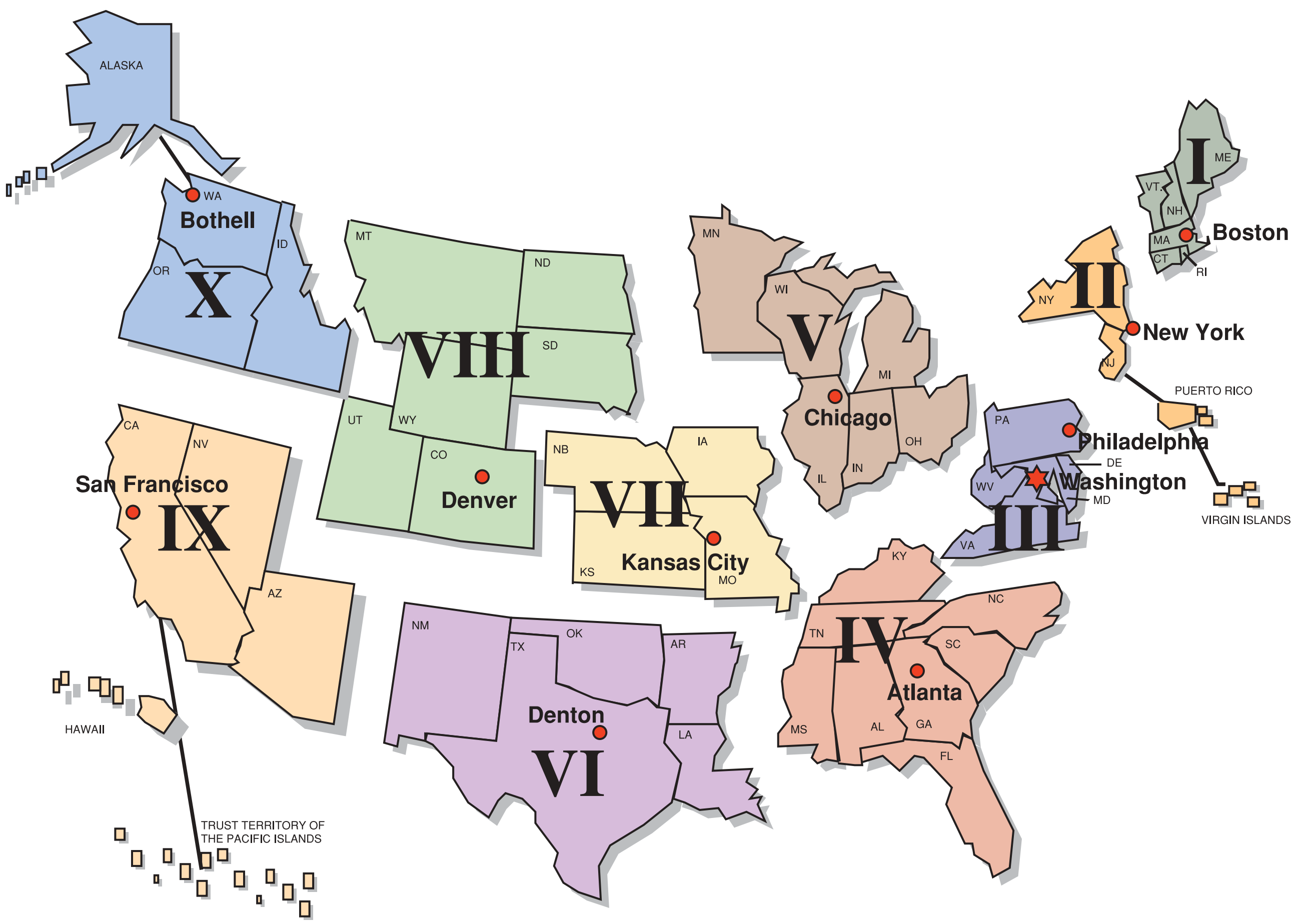
FEMA's appropriation of approximately $844 million for Emergency Management Planning and Assistance provides resources for the following activities:

- Developing and maintaining an integrated operational capability to respond to and recover from the consequences of a disaster. This is accomplished through partnerships with other federal agencies, state and local governments, volunteer organizations, and the private sector.

- Coordinating, integrating, and implementing preparedness, technical assistance, assessment, and exercise programs to effectively develop, build, and maintain a knowledgeable, professional, and prepared emergency management capability that is capable of saving lives, responding to and recovering from terrorist incidents and other threats, and mitigating the economic impact of disasters.
- Enhancing the nation's fire prevention and arson control capabilities, supporting fire and emergency medical service personnel through research and information dissemination, and providing training programs through the National Fire Academy.
- Supporting urban, suburban, and rural fire departments across the country through grants for training, equipment, vehicles, and fire prevention programs.
- Supporting Agency logistic, security, and health and safety requirements.
- Providing information technology resources such as, automated data processing, telecommunications, and information services and systems necessary to accomplish the Agency's mission.
- Developing, coordinating, and implementing policies, plans, and programs to mitigate the long-term risk to life and property from hazards such as floods, earthquakes, hurricanes, and dam failures.
- Supporting FEMA's national security program, public information program, and financial management system.

FEMA's salaries and expenses appropriation of approximately $264 million provides the salaries and related expenses required to accomplish the Agency mission, vision, and goals.

Federal Emergency Management Agency Regional Map



Most Important Goals and Results

DISASTER ASSISTANCE GOAL

FEMA's Disaster Assistance Goal is to: (1) help local governments continue to provide services following disasters by reconstructing public facilities and removing debris; and (2) help individuals by providing minimal repair for homes that can be quickly restored to a habitable condition, rental assistance for those whose residences are uninhabitable, and mortgage assistance to those suffering disaster related financial hardship.

Approximately $3.9 billion in disaster funds were expended in FY 2002 to aid people and communities overwhelmed by disasters which included earthquakes, floods, ice and winter storms, fires, tornadoes, hurricanes and tropical storms. The expenditures were in response to 42 major disasters declared by President Bush involving 28 states and four U.S. territories in the Western Pacific. In addition, the Agency authorized a near-record 83 fire management grants to help fight wildfires in 18 states, with the western part of the nation experiencing one of the worst fire seasons in U.S. history.

FEMA funding as obligated at year-end and immediately thereafter showed that the costliest disaster recoveries in 2002 included the February ice storms that crippled Kansas, Missouri, and Oklahoma ($241.5 million); Hurricane Lili, which struck Louisiana in early October ($158.8 million); and Typhoons Chata'an and Pongsona, which devastated Guam in July and December, respectively ($119.6 million).

New York City, NY, September 11, 2002

People from all over the world come to New York for an observance ceremony for the one year anniversary of 9/11.

PHOTO BY ANDREA BOOHER/FEMA NEWS PHOTO

New York City, NY, September 11, 2002

People from all over the world have come to Ground Zero to honor the victims lost a year ago at the World Trade Center site.

PHOTO BY LAUREN HOBART/FEMA NEWS PHOTO

Among other major events that FEMA responded to in 2002 were:

- *Floods*—Spring and summer floods struck Kentucky, Tennessee and Virginia in April; West Virginia in May; Indiana, Iowa and Minnesota in June; and Texas in July;
- *Wildfires*—The massive Hayman fire in Colorado and the Rodeo-Chediski fire in Arizona resulted in major disasters being declared in June for wildfires in those two states;
- *Tropical Weather*—The U.S. Gulf Coast was lashed with Tropical Storm Isidore in September and Hurricane Lili in October, which led to major disaster declarations for Alabama, Louisiana and Mississippi;
- *Tornadoes*—A swarm of Veterans Day tornadoes ravaged parts of Alabama, Mississippi, Ohio and Tennessee; and,
- *Winter Weather*—An early December ice storm paralyzed North Carolina, causing extensive public property damage and prolonged power outages.

Statistically, Alaska and Texas led the nation in the need for federal aid, with each state requiring three major disaster declarations. Alabama, Guam, Indiana, Kentucky, Louisiana, Micronesia, Mississippi, Missouri, New York, the Northern Mariana Islands, Tennessee, Virginia and Wisconsin each required two.

In addition to the numerous disasters that struck in FY 2002, FEMA continued its full support to the City and State of New York in their recovery efforts from the World Trade Center attacks, including the release of funding projections for how FEMA will distribute the $9.0 billion allotted by President Bush and Congress in the days after September 11, 2001. Specifically, based on the projected commitments in New York, FEMA estimates that over $4.2 billion will go towards public assistance projects that include debris removal, emergency protective measures, and the repair or restoration of damaged public facilities. An additional $2.75 billion has been approved to revamp Lower Manhattan's transportation infrastructure damaged during the attack. FEMA also estimates that approximately $500 million is being spent to provide assistance to individuals and families affected by the attack through such programs as FEMA's Mortgage and Rental Assistance, Individual and Family Grants, and Crisis Counseling.

New York City, NY, March 15, 2002

FEMA debris specialist Jim Leach looks down into the pit of the World Trade Center site from the ARCO bridge, which is used to allow heavy machinery to access the pit.

PHOTO BY LARRY LERNER/FEMA NEWS PHOTO

NATIONAL FLOOD INSURANCE PROGRAM (NFIP)

Flood-loss reduction, a most important performance goal, is aimed at reducing estimated losses from NFIP activities by an estimated $1 billion. Flooding is one of the most common forms of disaster in the U.S. The NFIP was created to address this problem, and to provide the alternative to direct federal disaster assistance. The NFIP has three purposes: (1) to reduce federal expenditures for disaster assistance and flood control; (2) to reduce future flood damages through state and community floodplain management regulations; and (3) to better indemnify individuals for flood losses through insurance.

The NFIP has had a significant impact on reducing this nation's flood losses. More than 19,700 communities in all 50 states participate in the NFIP. Structures built to NFIP criteria experience 80% less damage through reduced frequency and severity of losses. The NFIP floodplain management requirements are estimated to save in excess of $1 billion per year. Detailed data depicting the results of the program are included in the Annual Performance part of this report on page 36 under Goal M.3.1.

In FY 2002, FEMA re-calculated and re-projected loss avoidance achieved through its flood mitigation and insurance efforts. The results indicate that the growth in savings is continuing. An additional $62 million in cost avoidance was projected for FY 2002.

Guerneville, CA

Succesfully having raised their home after they lost nearly everything in the January 1997 floods, Robert and Karen Feldt now also carry NFIP insurance.

PHOTO BY DAVE GATLEY/FEMA NEWS PHOTO

HAZARD MITIGATION GRANT PROGRAM (HMGP)

Another important FEMA performance goal is to increase community resistance to natural hazards and prevent future losses from hazards. Hazard mitigation involves changing conditions and behavior to protect lives and prevent the loss of property. Reducing the risk of disaster damage through mitigation controls escalating disaster costs, including not only costs to the federal government, but also those to state and local governments, the private sector, and the public. Disaster resistance thus leads to a more stable economic environment for communities and the nation. FEMA's role is to acquire and share risk management information, and to coordinate and support community efforts to identify and assess potential risk, to develop plans to address the risks, to effectively communicate the risks, and to take action to reduce or eliminate the risks. Mitigation is an ongoing, multi-hazard effort to lessen the impact disasters have on people and property, with a number of mitigation programs directly aimed at taking people and property out of harm's way.

FEMA's hazard mitigation efforts exceed its FY 2002 goals in three areas: (1) lives at less risk; (2) structures at less risk; and (3) the number of communities taking disaster resistance actions. Decreased risk lessens the potential payout of disaster assistance costs and contributes to the long term $2.45 billion in projected cost avoidance stemming from the FEMA's mitigation grant program by FY 2008. Detailed data depicting the results of the program are included in the Annual Performance part of this report on page 35 under Goal M.1.1.

Point of Rocks, MD

Home scheduled to receive HMGP funds from FEMA for elevation or demolition.

PHOTO BY LIZ ROLL/FEMA NEWS PHOTO

UNITED STATES FIRE ADMINISTRATION (USFA)

The USFA goal is to support the reduction of loss of life from fire related incidents. This goal is achieved through public education and awareness, training of fire service personnel, supporting the use of new technology, and through public/ private partnerships. Data accumulated on the impact of fires during the last decade indicates significant progress in realizing the USFA overall goal. Detailed data depicting the results of the program are included in the Annual Performance part of this report on page 45 under Goal P.3.

College Park, MD, January 25, 2002

FEMA Director Allbaugh talks about his visit to the Maryland Fire and Rescue Institute.

PHOTO BY MICHAEL CONNOLLY/FEMA NEWS PHOTO

That data shows that in FY 2001, the last year for which data is available, 3,745 deaths from fires, omitting the WTC data, declined to the next to lowest figure in the last decade. Injuries caused by fire were the lowest in the last decade, while direct dollar losses, (unadjusted for inflation) again omitting WTC, were consistent with the recent past despite the growth in population.

FEMA successfully delivered hundreds of millions of dollars in firefighter grants. The funds will be used by the nation's firefighters to increase the effectiveness of firefighting operations, improve firefighter health and safety programs, purchase new fire apparatus, enhance Emergency Medical Service (EMS) programs, and support Fire Prevention and Safety Programs. In all, in FY 2002, FEMA and the USFA distributed fire grants totaling more than $175 million, and an additional $185 million, by the end of the calendar year, in an investment to enhance fire service and EMS delivery nationwide.

FEMA's major program goals have been and continue to be accomplished. Despite the level of goal achievement, we recognize that much can be gained from reengineering and restructuring elements of program design and by reinforcing management practices.

Actions Taken or Planned to Improve Program Performance

FEMA continues to retool, refine, and fine-tune program delivery mechanisms to improve program performance and deliver enhanced services to program participants and the general public. Program staff drove many improvements. Customers and auditors suggested others.

Lewes, DE

Town signed an HMGP agreement with FEMA to allocate funding for mitigation projects such as buyouts and elevations.

PHOTO BY LIZ ROLL/FEMA NEWS PHOTO

GRANT MANAGEMENT

OMB's Program Assessment Rating Tool (PART) identified grant management as an area that needed to be improved so that the Public Assistance (PA) Program and the Hazard Mitigation Grant Program (HMGP) could achieve full performance. Improving grant management has been a government-wide initiative for the last several years. FEMA's Office of Inspector General (OIG) indicated improvements have been made in grant management practices in each of the last two years.

In FY 2002, the OIG assisted the Grants Office in presenting audit-related training to regional grants staff. The training explained what non-federal auditors look for and provided instruction on using the Federal Audit Clearinghouse as a means of monitoring federal grant recipients. Grants management staff in the regions and at headquarters now regularly utilize the Clearinghouse as a tool when evaluating grant awards and compliance with the Single Audit Act.

Improved Policy and Guidance

A FEMA grants handbook containing important information on FEMA's grant programs for disaster and non-disaster assistance was approved and distributed to headquarters and regional offices. The grants handbook has served as an internal resource document for grant management specialists and is now available more widely throughout the Agency. Both the handbook and other guidance documents are designed to ensure consistent application of grant-related policy by all FEMA staff.

We are continuing to build a cooperative working relationship between the grant staff and program staff so that other procedures which might improve the timeliness of grantee and subgrantee reporting can be implemented as opportunities arise.

Basic grants management training is being developed to provide a consistent baseline level of knowledge and skills for grants and program staff. Advanced grants training and training that meets the needs of states also will be developed.

The PA Program developed and pilot tested a grants administration class that is specific to the requirements of that program. The course, offered to regional PA staff as well as grants management staff in FY 2002, will be updated and offered again in FY 2003. HMGP offered its grant administration course to regional HMGP program staff several times in FY 2002 and also plans to continue the course. More FEMA grant programs, including Cooperating Technical Partners, and Flood Mitigation Assistance are offering program-specific training in grants administration and the Grants Office continues to encourage and support these efforts.

Grant Closeout

Grant closeout teams continue to facilitate the timely closeout of grants by providing technical assistance to regional offices. One area being emphasized is the timely deobligation of unliquidated grant funds. The Chief Financial Officer (CFO) Field Support Team visits FEMA regions regularly to assist grants specialists and program staff in monitoring unliquidated funds.

In another effort to help expedite grant closeout, we plan to revise FEMA's adoption of OMB *Circular A-102, Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* to include expanded guidance on FEMA's requirements for grantee time extensions. The guidance will be published for public comment to ascertain if any deviations in proposed policy are warranted.

FEMA's policy on granting time extensions is being enforced to ensure consistent adherence to grant management requirements by grantees. In addition, the HMGP recently issued policy guidance that set a three year period of performance on its project sub-grants and underscores the Agency's adherence to it's time extension policy.

Grant Monitoring

We're increasing our monitoring of grant recipients in their use of federal funds to prevent past problems cited in audit reports from recurring.

One focus of our monitoring is on financial reporting. We recently issued procedural guidance to help clarify for FEMA staff the information that is required from grantees to accurately report on the financial status of federal grants. We expect this to result in more accurate and consistent financial reporting by grantees. As part of the regions' grant monitoring, we asked for information on some key areas such as numbers and timeliness of financial and progress reports, numbers of requests for time extension, and disaster closeouts. Monitoring reports from regions indicate that the regions are working with grantees to help them improve their own programmatic and administrative performance and that of their subgrantees. In addition to financial reporting, other areas being monitored include the timeliness of payments, record retention, and cost share requirements.

Frankstown, PA

After Randy Black's home was flooded he had it elevated using FEMA HMGP funds.

PHOTO BY LIZ ROLL/FEMA NEWS PHOTO

Electronic Grants Management

We are automating the grants process to increase our capability to process and monitor grants. FEMA launched the first lifecycle grants management system in FY 2002 to process grant awards from the $360 million Assistance to Firefighters Program. More than 19,000 awards were received by the system from fire departments across the country. More than 5,000 grants will be awarded by December 30, 2002.

A newly established e-Grants Task Force is working to streamline and ensure consistency in the grants process throughout the Agency as we expand our own electronic grants initiative. The task force has as one of its primary goals ensuring compliance and compatibility with the Health and Human Services e-Grants system that will be delivered in October 2003 and will accept grantee applications and transfer data to federal grant-making agencies. We are aligning ourselves not only with the e-Grants system effort, but also with the related efforts such as the Business Partner Network (BPN), and FedBizops for our grant announcements.

STRENGTHENING MITIGATION EFFORTS

Although FEMA met its mitigation goals for FY 2002, we acknowledge that effective coordination and planning at the federal, state, local, and tribal government levels, as well as the coordination of pre-and post-disaster mitigation funding opportunities, is essential to the continued achievement of mitigation goals and the prevention of disaster losses. This precept applies regardless of the mitigation activities or the funding source for those activities undertaken by states, tribes and local communities.

FEMA's new planning regulation, 44 CFR Part 201, Hazard Mitigation Planning, which was published as an Interim Final Rule in the Federal Register on February 26, 2002, and replaces 44 CFR 206 Subpart M, Hazard Mitigation Planning, establishes new criteria for state, tribal and local hazard mitigation planning. With this emphasis on mitigation planning, many communities will be better positioned to develop proposals for cost-effective "brick and mortar" mitigation projects and activities, including buyouts, and to link pre-and post-disaster mitigation planning and initiatives with public and private interests to ensure a comprehensive, community-based approach to disaster loss reduction. The deadline for approval of state and local mitigation plans as a condition of receiving HMGP grants will be November 1, 2004. A November 1, 2003 deadline for plans has been set as a condition for local governments to receive Pre-Disaster Mitigation (PDM) grants for "brick and mortar" mitigation projects. The Interim Final Rule:

- Continues the requirement for state mitigation planning as a condition of disaster assistance;
- Provides incentive for strengthening mitigation programs by establishing criteria for states to receive increased (20%) HMGP funding if, at the time of the declaration of a major disaster, they have an enhanced mitigation plan in place;
- Establishes a new requirement for local mitigation plans as part of the HMGP; and
- Allows states to use up to 7% of HMGP funds for the development of state, tribal, and local mitigation plans (this provision has been in effect for all disasters declared after October 30, 2000).

The new planning regulations provide a framework for linking pre- and post-disaster mitigation planning and initiatives with public and private interests to ensure a comprehensive approach to disaster loss reduction. Such decision-making, based on sound understanding of vulnerability to hazards and appropriate mitigation measures, is the best indicator of a successful mitigation strategy that can be sustained over the long-term.

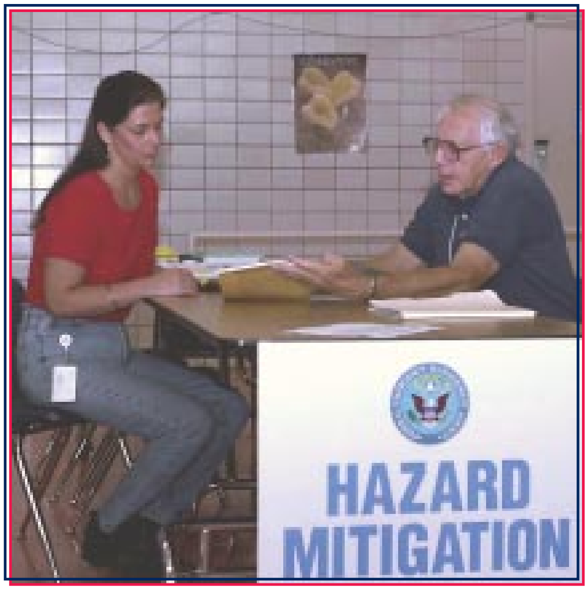
In FY 2003, FEMA expects to publish a proposed rule that will amend the existing regulations for HMGP. This rule will implement amendments to the Stafford Act that provide for delegating the administration and management of the HMGP to states. These revisions include:

- The criteria and process for designation as a Managing State;
- The HMGP program authorities and responsibilities of Managing States, and of FEMA in working with Managing States; and
- The evaluation process for Managing States.

In addition, this proposed rule amends the existing regulations to clarify the language of the rule in general, to more fully reflect program and grants management practices previously detailed in guidance, to strengthen the use of cost-effectiveness in prioritizing and selecting projects at the state level, and to make the rule more reader-friendly.

FEMA staff and managers work internally to coordinate mitigation opportunities afforded through a variety of programs, e.g., HMGP, PDM, the Flood Mitigation Assistance Program, and the National Flood Insurance Program (NFIP), toward the goals of targeting repetitive loss properties, reducing loss of life and property, and reducing disaster costs. We believe the disaster recovery process will be streamlined through implementation of planned, pre-identified, cost-effective mitigation measures, and we are working across programs to ensure that program requirements are complementary in order to facilitate mitigation efforts at the state, local community, and tribal levels. These will help reach the Agency's long-term goal of avoiding $10 billion in potential property losses, disaster, and other costs by FY 2008.

During FY 2002, FIMA undertook an organization-wide strategic planning initiative to chart the organization's course as the landscape of emergency management changes to an all-hazard approach for risk communication, risk assessment, mitigation, and insurance. The vision that FIMA has derived from its planning efforts is "a disaster-free America." This couldn't be more timely as the new Department of Homeland Security becomes a reality. FIMA has dovetailed its strategic planning effort with the Agency-wide PCCM effort. The net result will be to make FIMA a center for excellence with a motivated and dedicated workforce in assessing risks, communicating them, and reducing their effects through effective mitigation and adequate insurance.



Baton Rouge, LA

FEMA employees discuss hazard mitigation at the East Baton Rouge Disaster Relief Center, following tropical storm Allison.

PHOTO BY ADAM DUBROWA/FEMA NEWS PHOTO

Production of the *Mitigation Planning How-To Guide Series* of publications built upon the earlier release of *How-To-Guide #2: Understanding Your Risks: Identifying Hazards and Estimating Losses (FEMA 386-2)* with the release in FY 2002 of *How-To Guide #1: Getting Started: Building Support for Mitigation Planning (FEMA 386-1)* and *How-To Guide #7: Integrating Human-Caused Hazards into Mitigation Planning (FEMA 386-7)*. *How-To #1* provides state, tribal, regional and local government readers with information on how to engage political and popular support and resources to initiate and sustain the mitigation planning process, while *How-To #7* assumes that the reader is engaged in a state, tribal, regional or local mitigation planning process and serves as a resource to help expand the scope of the process to include terrorism and technological hazards.

FIMA recovered over $109 million in unused HMGP funds from disasters that occurred prior to FY 1999, as part of FEMA's unliquidated obligations reduction effort. The CFO assembled a team to evaluate funds that had been obligated to states for HMGP projects but had not been drawn down by the states. The team visited several regions to help identify these funds, and to provide assistance in getting projects back on track, or closing out projects that were completed or had no work in progress. These funds reflect funds recovered, not deobligations that were then reobligated.

FIMA chaired the Task Force on the Natural and Beneficial Functions of Floodplains task, helped develop the interagency floodplain report, and forwarded it to the appropriate Congressional committees. The task force was established by the National Flood Insurance Reform Act of 1994. It was charged with identifying the natural and beneficial functions of floodplains that reduce flood losses and making recommendations on how to protect those functions. The task force included the U.S. Army Corps of Engineers, Environmental Protection Agency, Natural Resources Conservation Service, National Oceanic and Atmospheric Administration, U.S. Fish and Wildlife Service, and National Park Service. The report is titled *The Natural and Beneficial Functions of Floodplains: Reducing Flood Losses by Protecting and Restoring the Floodplain Environment* and is available through FEMA Publications.

EFFORTS TO REDUCE FIRE LOSS

The U.S. Fire Administration (USFA) has 27 active Memorandums of Understanding/Memorandums of Agreement (MOU/MOAs) that partners with various federal agencies, national fire service organizations and other entities to address common goals and objectives that contribute to the achievement of USFA's mission. Three new agreements were negotiated during FY 2002, and 24 of the agreements negotiated in previous years have continued. New agreements are in the areas of public fire education (partners are the Consumer Products Safety Commission and the Centers for Disease Control); efficient traffic flow and safer emergency responder operations on our nation's highways (partner is Department of Transportation, Federal Highway Administration); and office space for a new wildfire position to be located in Boise, ID (partners are the United States Department of Agriculture, Forest Service, and Bureau of Land Management).

FY 2002 wildfire season was the most devastating in the nation's history. The average loss over a ten-year period is 3 million acres annually. In FY 2002 alone, over 6.5 million acres and over 1,700 structures were destroyed. Although the USFA has no formal role in wildfires, USFA staff was assigned to the National Interagency Fire Center (NIFC) in Boise, ID, to participate and coordinate USFA mission and objectives. USFA was able to provide technical assistance to the firefighting agencies in solving equipment requests. At the peak of this fire season, USFA was instrumental in fostering the partnership between the federal agencies responsible for wildfire containment such as the U.S. Department of Agriculture, Forest Service, Bureau of Land Management, Bureau of Indian Affairs, U.S. Park Service, U.S. Fish and Wildlife Service, and the National Association of State Foresters. On behalf of FEMA, USFA provided technical assistance for the first phase of training of structural firefighters in wild-land fire certification. A permanent position has been established at NIFC to continue the efforts, which began in FY 2002.

The record is clear that FEMA has taken advantage of lesson slearned, experimenting with new approaches, and building on its partnerships to improve program operations and performance.

Forward Looking Information

FEMA'S MOVE TO THE DEPARTMENT OF HOMELAND SECURITY

FEMA will transfer to the Department of Homeland Security in March 2003, as part of the Emergency Preparedness and Response (EP&R) Directorate. EP&R will retain all current operational and programmatic functions of FEMA, and will additionally operate the Strategic National Stockpile (formerly HHS-CDC National Pharmaceutical Stockpile), National Disaster Medical System (formerly HHS-OER-NDMS), and the Metropolitan Medical Response System (formerly HHS-OASPHP-MMRS). The new directorate will also establish standards for the Nuclear Incident Response Teams (NIRT) and certify those standards have been met. EP&R will direct the NIRT assets during an actual or threatened terrorist attack, major disaster, or other emergency in the United States. EP&R will retain FEMA's comprehensive (preparedness, mitigation, response, recovery) all-hazards approach to national capacity building and maintenance. Through its transition into DHS, FEMA will implement the following new or improved capabilities:

- Establish a National Response Plan, including a National Incident Management System. Currently, multiple federal emergency plans are maintained to provide federal emergency response to various hazards. EP&R will provide leadership in consolidating these plans into a single National Response Plan, including establishment of a National Incident Management System. EP&R will, along with state, local, and private sector organizations, build a cohesive national incident management system for response to natural disasters and terrorist incidents, employing common terminology and unified command structure to ensure a safe and coordinated national response to major emergencies and disasters.

- Create a single application process for homeland security preparedness grants. Various federal agencies provide homeland security funding to state and local governments, thus providing possibility for duplication, overlap and gaps. EP&R will provide leadership within the Department to establish a single grant application and management process. The Department will collaborate with other federal agencies to encourage participation in this streamlined application process. A multi-year priority is to begin correcting communications interoperability shortfalls that exist in nearly every community in the nation which severely hamper intergovernmental and interagency coordination.

- Consolidate all DHS EP&R assets and realign command and control with one agency. The transfer of various emergency response agencies (and/or assets) into the Department of Homeland Security, Emergency Preparedness and Response Directorate, provides significant opportunities to unify and ensure timely response of critical federal emergency resources. EP&R will seek ways to improve efficiency in the management of these programs, and will seek to further enhance national response capabilities, including emergency medical capabilities.

- Develop, coordinate, and publish a national exercise and assessment evaluation system. EP&R will develop and implement a comprehensive national exercise and assessment program to validate the adequacy of emergency plans and response capabilities. This system will incorporate exercises between civil and military emergency response personnel to respond to natural disasters, threats and acts of terrorism.

- Create standardized and coordinated first responder training curriculum. The Department will serve as the central coordinating body responsible for developing curriculum standards. Existing regional centers of excellence will train the instructors who train our responders. EP&R will coordinate an initiative to provide distance learning training programs, develop and maintain an inventory of available federal/national training programs, and develop and operate a Training Management System to facilitate appropriate course selection, electronic registration, and tracking of student attendance at federal training programs.

- Support the Single Department of Homeland Security Command Center operating 24/7. The EP&R Directorate will provide resources to support a fully operational DHS Command Center to coordinate emergency/disaster information and resources. EP&R will employ its existing expertise to enhance and coordinate interagency and intergovernmental communications and operations during crisis and consequence management.

- Integrate post-disaster mitigation program into the recovery process to expedite vulnerability reduction during reconstruction. EP&R will incorporate hazard mitigation techniques and technologies into the recovery phase of disasters to reduce future vulnerability and future losses. This will expedite the delivery of services and lower the overall cost of recovery programs by coordinating funding priorities during the recovery process. These priorities may include housing relocation from floodplains, housing elevation, flood proofing, safe rooms, seismic retrofitting, and critical infrastructure hazard resistant retrofits.

E-GOVERNMENT

Electronic government is a major present and forward-looking initiative of the government and of FEMA. FEMA has responsibility for two of the three President's electronic government initiatives, DisasterHelp.Gov and Project SAFECOM.

DisasterHelp.Gov

The Disaster Management Initiative is one of the President's top three electronic government initiatives. It was created to provide citizens with a single location, DisasterHelp.gov, for obtaining all publicly available information on disaster preparedness and response, to make this information available via multiple access channels, and to minimize the impacts of disaster-inflicted damage. DisasterHelp.gov also maximizes the availability of information to responding agencies by aggregating their disaster management operations and simplifying access to services offered, ease the strain of content management, disseminate "best practices" information for managing government IT assets, and establish cost containment measures for future system improvements. As a result, this e-government initiative is composed of two elements:

- *Public Portal*—A one-stop Internet based portal to allow public access to information and services provided by public and private institutions related to disaster preparedness, response and recovery, as well as a consolidated single point of application for all disaster assistance programs.
- *Government Portal*—A secure portal with varying access rights to allow public and private organizations to provide services and exchange appropriate information relating to disaster preparedness, response and recovery. This will not only support first-responders, but also allow them to easily share information with second-responders.

This initiative focuses on three important components: (1) interoperability between first responders; (2) the capability (scalability) to support over four million members of the responder community; and (3) collaboration applications that assist in disaster prevention, preparedness, response, recovery, and mitigation. It increases interaction with the public to ensure greater understanding of the programs available in these areas as well as allows easier access to registration for the programs available. In addition, the investment leads to streamlined cooperation between the government agencies involved, improved processes, where possible, and to the avoidance of duplication of effort, both on part of the citizens requesting assistance as well as the agencies involved. It greatly enhances the ability of the citizen to obtain any information and/or services that relate to disasters from the federal government, and from state and local and non-governmental organizations as well.

A view of the DisasterHelp.gov Web site.

This initiative also supports the mission of the partner agencies by allowing them to provide their services to the government, to citizens, and to businesses in a more efficient and cost-effective manner. While FEMA is designated as the managing partner agency, there are 26 additional partners that are involved with this initiative. Others may be added as the requirements are further defined.

At present, disaster relief efforts are designed around federal agencies. Each agency involved in a particular disaster effort has its own data collection needs, and processes its own applications for disaster relief for affected citizens. Post-interview collaboration between agencies occurs, but is neither standardized nor coordinated.

Recent events have highlighted the difficulty of providing coordinated, comprehensive, timely, and effective information and disaster relief. This project has the potential to significantly improve the delivery process for disaster relief by simplifying the benefits determination process (data collection occurs once), improving the response time of government agencies during a disaster, and providing additional services to the public while making them simpler and easier to find.

The vision of this project is to coordinate this process such that it will only be necessary to have a single point of contact with the citizen for data collection purposes. A consolidated single application process for all disaster assistance is also a central part of this project. As data will only be collected once per citizen, the information request must encompass the needs of all participating agencies and be compliant with the requirements of the customer relationship management (CRM) database that will store all the data. This centralized database will also be accessible via the Internet or phone to all affected citizens looking for information regarding their requests for financial disbursements or related services. Additionally, the privacy and integrity of the data will be protected through the accredited security plan.

Project SAFECOM

Project SAFECOM is one of the President's top three electronic government initiatives created to establish effective wireless communications capabilities for public safety organizations across all levels of government. FEMA is the managing partner. Contributing partners include the Department of Justice (DOJ), Department of Treasury, and the U.S. Department of Agriculture (USDA). Customers include federal, state, and local agencies working as partners to address the difficulties associated with public safety radio network incompatibilities, and the need to develop better business processes for the cross-jurisdictional coordination of existing systems and future networks. The scope is broad. The customer base includes up to 53,000 state and local public safety agencies and organizations according to reports published by the Public Safety Wireless Network (PSWN). Federal customers include up to approximately 100 federal law enforcement organizations, plus agencies engaged in public safety disciplines relating to firefighting, public health protection and disaster recovery.

Public safety personnel need interoperable wireless communication tools while mobile in order to provide effective and coordinated responses to incidents and large-scale events. Recent data indicates that most public safety agencies have limited confidence in their ability to perform in regional response situations requiring mutual aid (54%) or task force communications interoperability (66%). Even more striking, local public safety agencies express limited confidence in their ability to communicate with state (56%) or federal (81%) public safety organizations based on PSWN published reports.

Key issues that hamper public safety wireless communications today include:

- Antiquated systems and a general lack of available funding for system upgrades and replacements;
- A lack of open standards and the use of proprietary equipment that limits communications among differing systems;
- Insufficient spectrum availability or incompatible frequency usage;
- A need for new operational constructs that support multi-agency response and resource sharing.

Legacy networks operate on a wide range of different frequencies. The FCC has initiated efforts to provide public safety agencies with a common band of radio spectrum in the 700MHz UHF band. While this provides public safety agencies with the long-term ability to plan future networks that are interoperable, the migration of public safety networks into that band will take time. The nation is heavily invested in existing infrastructure that is largely incompatible and spectrum solutions alone are long-term at best.

Federal, state, and local agencies will continue to acquire, develop, operate and maintain their own networks as directed by their individual oversight bodies and as funding permits. No one organization can begin to address the individual needs of over 53,000 organizations. With the help of representative organizations, a national program can establish a framework for evaluating and recommending "best of breed" integration technologies for near-term implementation by agencies. Project SAFECOM products may include but are not limited to:

- Recommended models, solutions and guidelines for achieving network compatibility/interoperability;
- Grants to help agencies implement integration solutions tied to recommended standards and guidelines;
- An education and training center established to assist agencies in implementing interoperable solutions; and
- The establishment of an innovation research and evaluation center for the evaluation and demonstration of advanced radio technologies.

Project SAFECOM will offer customers already established processes and technology to help them achieve the successful implementation of interoperable solutions.

SAFECOM's role is to provide public safety agencies with the knowledge, leadership and guidance needed to help them achieve short-term interoperability and long-term compatibility. Public safety agencies at all levels of government want to make the best business decisions possible for developing, upgrading and maintaining interoperable radio networks. As public safety agencies adopt integration solutions identified by Project SAFECOM, the drive for interoperability will gain momentum because agencies will want increased capability.

Project SAFECOM is early in the Select Phase stage of the Capital Planning and Investment Control (CPIC) process. Program management efforts are focused on defining an investment concept for standing up the program, and are evaluating individual investments regarding their alignment with early program goals and objectives. Specific investments have already been identified for inclusion in the program portfolio including the PSWN program. As a joint program, partnering agencies and their projected funding contributions have been identified along with their specific functional roles in the program.

PRE-DISASTER MITIGATION PROGRAM (PDM)—CHALLENGES FOR FY 2003 AND BEYOND

FEMA has long been promoting disaster resistant construction and retrofit of facilities that are vulnerable to hazards in order to reduce potential damages due to a hazard event. The goal is to reduce loss of life, human suffering, economic disruption, and disaster costs to the federal taxpayer. This has been, and continues to be accomplished, through a variety of programs and grant funds.

Through the Disaster Mitigation Act of 2000, Congress authorized the establishment of a national pre-disaster hazard mitigation program to provide funding to states, tribes and local communities for cost-effective hazard mitigation activities that complement a comprehensive mitigation program, and reduce injuries, loss of life, and damage and destruction of property. For FY 2002, $25 million was appropriated for pre-disaster mitigation grants. The PDM grant program builds on the experience gained from the HMGP and other pre-disaster mitigation initiatives with an emphasis on "brick and mortar" mitigation projects.

The Administration's FY 2003 budget proposal included $300 million under the National Pre-Disaster Mitigation Fund to initiate a competitive grant program for pre-disaster mitigation. The Administration's budget proposal outlines a program whereby grants would be awarded on a competitive basis to ensure that the most worthwhile, cost-beneficial mitigation activities receive funding.

FEMA'S ALL-HAZARD MAPPING PORTAL

Hazard mapping is an integral part of preparing the nation and managing risk to reduce losses from disasters of all types, natural and man made. Mapping efforts to date have been effective at defining the flood hazard, but they have not capitalized on the data collection and distribution efforts of others. They have also not fully capitalized on communicating the risk to wide audiences. Previous maps have also been difficult to obtain and use by all stakeholders, especially those who use the maps for technologically advanced hazard mitigation activities. The all-hazards Mapping Portal will be a knowledge management tool using leading edge technologies to enable FEMA to lead in identification of all-hazards, vulnerability assessment, and risk management practices that are essential to protecting our nation against all threats.

The Federal Insurance and Mitigation Administration (FIMA) is undertaking a large-scale overhaul of the nation's flood maps. This initiative, known as Map Modernization, will put in place the infrastructure for development and distribution of maps and geo-spatial data of all-hazards, including those that are man-made.

The strategic vision of Multi-Hazard Map Modernization embraces working in partnership with the private sector, states, and other federal agencies to deliver technology-assisted solutions. These partnerships will result in leveraging resources, mapping technology, and data software advancements for an effective interdependent relationship. FEMA will implement "knowledge management" practices that will:

- Enable state and local governments to achieve their mitigation performance objectives;
- Communicate success for continuous improvement; and
- Deliver seamless, nationwide multi-hazard "themes" based on the initial data developed during flood mapping.

FEMA has the mandate for developing regulatory maps for flood hazards. It has also been given the authority, under the Disaster Mitigation Act of 2000, to develop advisory maps showing multiple types of hazards.

Little more than six months after it was introduced, a Web site designed to give the public access to a nationwide coverage of digitally available multi-hazard maps and supporting data from federal, state, and local sources is operating at an annual rate of more than 800,000 hits and 225,000 unique visitors.

The maps are available on the Internet at www.HazardMaps.gov and can be viewed with a typical Web browser. The user can view maps by hazard theme or create a custom view showing areas of hazard overlap. In addition, more sophisticated users such as state or local government technicians can download Geographic Information Systems (GIS) files—an important tool in land-use planning, hazard mitigation, and disaster preparedness and response—and upload their own hazard map data.

Map Modernization planning was initiated in FY 1997 and has yielded a framework of flexible processes for identifying flood hazards on maps to support the National Flood Insurance Program (NFIP). Flood mapping stakeholders are informed and actively involved in the refinement of these processes. This has created a very successful partnership structure for cooperation with local, state, and federal agencies, and a vision for a technology based mapping program. It was always envisioned that Map Modernization would result in the infrastructure necessary to support a network of users and providers sharing multi-hazard data for risk management. Now, however, the need for this infrastructure is even more critical and is broadening to include man-made hazards. Thus, Map Modernization will also be used as the impetus for establishing an interoperable geo-spatial infrastructure for all-hazards risk management.

The Map Modernization program relies on partnering and technology in map production and product delivery. The reengineered processes will use base maps supplied by others, Geographic Information System (GIS) based hydrology and hydraulic modeling, and remote sensing to the maximum extent practicable. FEMA's modernized flood data will be provided via the Internet. Leading edge Internet mapping technologies developed through the Geo-spatial One-Stop Initiative will enable the dynamic combination of FEMA's data with state and local data sets to provide instant online access to FEMA's flood hazard information. In effect, FEMA's multi-hazard mapping resource will function as the hazards portal of Geo-spatial One-Stop.

By producing and providing the new flood hazard data products using GIS technology, FEMA will capture and maintain the value of the local analyses. These analyses will be accessible and updateable rapidly via the Internet. In addition, GIS flood hazard studies will provide the building block for accurate, fully modern all-hazard maps. This planned investment will allow FEMA, working with federal, state, and local partners, to realize the vision of the Geo-spatial One-Stop and the National Spatial Data infrastructure. The GIS data and infrastructure developed through Map Modernization will allow FEMA to build all-hazard knowledge management systems to access and synthesize federal, state and local information to provide tools for risk management and hazard mitigation nationwide.

Services and Interoperability

FIMA's Map Service Center houses the Internet map store, a systems architecture that is the cornerstone for future geo-spatial tools like the All-hazard Mapping Portal for FIMA's government-to-citizen services. A government-to-government implementation of the same systems infrastructure will serve the more sensitive needs of risk management for man-made hazards. FEMA continues to expand innovative state, local, and federal partnerships, implement advanced technologies for determining and depicting flood hazards, and improve e-government processes for communicating risk.

Creating updated digital flood maps for the nation will require the collection and integration of a great deal of basic mapping information. Increasing inter-agency cooperation and elimination of government duplication in the production of geo-spatial data is a core value of FEMA's Map Modernization plan.

FEMA, as the nation's risk management leader, will build on our existing partnerships necessary to facilitate the exchange and distribution of interoperable data for all-hazards mapping. The use of GIS and Web technology will not only allow, but encourage a multi-hazard approach. In addition, each flood data update project includes coordination with affected local communities throughout the process. The Flood Hazard Mapping program will encourage participation from experts in all-hazards identification and mitigation at each step of the process so that all hazards are considered to the maximum extent possible while the flood data update is underway.

Seamless Hazard Layers

Flood maps are currently a paper product, and exist as separate panels based on individual jurisdiction boundaries. The future All-Hazard Portal will include a flood data layer that exists seamlessly across the United States. This seamless data technology will remove limitations of the existing maps and provide a more responsive and powerful tool for risk management. New technology will also enable migration of data into FEMA's risk loss estimation model (HAZUS–Hazards U.S.), which will further increase the utility of the data collected. Changes made to the data through the normal processes will be reflected immediately as an update to this layer. This immediate online access will help to streamline the implementation of updated flood data and provide current, accurate, and easily accessible flood hazard information. This will be a model for how all types of hazard data are managed and distributed.

ASSISTANCE TO FIREFIGHTERS E-GRANTS SYSTEM

FEMA's first e-Grants system was released in March 2002. The challenge was integrating system with financial requirements. FEMA also needed to develop an e-Signature/e-Authentication policy and meet various federal regulations. The implementation of the application module involved the coordination of several contractors who would merge the software into FEMA's system architecture. More than 19,000 fire departments applied for the Assistance to Firefighters Grants Program through the Internet. Since the release of the application module in May 2000, many other modules have been added to the system that incorporate the life-cycle process for grants including initial review, recommendation for peer review, peer review process, and grant award. FEMA also released an online payments module so that grantees can request payment through the Internet. The last two modules, Amendments/Reporting and Closeout are under development. FEMA is moving aggressively to make e-Government a reality.

Analysis of Financial Statements

FEMA's financial statements were prepared to report the financial position and results of operations of the Agency. The principal financial statements include: (1) Consolidated Balance Sheets; (2) Consolidated Statements of Net Cost; (3) Consolidated Statement of Changes in Net Position; (4) Combined Statement of Budgetary Resources; and (5) Consolidated Statement of Financing. Additional financial information is also presented in the required supplementary stewardship schedules.

The Consolidated Balance Sheets is presented in a comparative format providing financial information for FY 2002 and FY 2001. It presents assets owned by FEMA, amounts owed (liabilities), and amounts that constitute FEMA's equity (net position). The Consolidated Balance Sheets reflects total assets of $14.8 billion and liabilities of $1.8 billion for FY 2002. Almost 97% of the assets are Fund Balance With Treasury, with a book value of $14.4 billion.

The Consolidated Statements of Net Cost presents the "income statement" (the annual cost of programs) and distributes fiscal year expenses by programmatic category. Appropriations used (costs expensed by enterprise) are as follows:

- *Disaster Relief*—68.0%
- *National Flood Insurance*—19.5%
- *Emergency Planning and Assistance*—7.1%
- *Cerro Grande Fire Claims*—1.7%
- *Other Programs*—3.7%

The Net Cost of Operations is reported on the Consolidated Statements of Net Cost and also on the Consolidated Statement of Financing.

The Consolidated Statement of Changes in Net Position identifies appropriated funds used as a financing source for goods, services, or capital acquisitions. This statement presents the accounting events that caused changes in the net position section of the Consolidated Balance Sheets from the beginning to the end of the reporting period.

The Combined Statement of Budgetary Resources highlights budget authority for the Agency and provides information on budgetary resources available to FEMA for the year and the status of those resources at the end of the year.

Outlays reported in this statement reflect cash disbursements for the fiscal year by the U.S. Department of the Treasury for FEMA.

Trend of FEMA's Budget (Dollars in Thousands)

FY 2002	$10,431,773
FY 2001	$4,751,281
FY 2000	$4,500,059
FY 1999	$3,300,581

Total Outlays (In Thousands of Dollars)

FY 2002	$4,270,484
FY 2001	$4,476,644
FY 2000	$3,067,776
FY 1999	$4,092,291

The Consolidated Statement of Financing provides a reconciliation between the obligations incurred to finance operations and the net costs of operating programs. Costs that do not require resources include depreciation. Costs capitalized on the Consolidated Balance Sheets are additions to capital assets made during the fiscal year. Obligations incurred include amounts of orders placed, contracts awarded, services received, and similar transactions that require payment during the same or future period. Obligations incurred links the Combined Statement of Budgetary Resources to the Consolidated Statement of Financing.

Required Supplementary Stewardship Information is included to provide information (financial and nonfinancial) on resources and responsibilities that cannot be measured in traditional financial reports.

Limitations on Financial Statements

Responsibility for the integrity and objectivity of the financial information presented in the financial statements lies with FEMA management. The financial statements and supplemental financial schedules included in this report reflect the financial position and results of operation of the Agency pursuant to the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. While these statements have been prepared from the books and records of

FEMA in accordance with guidance provided by the Office of Management and Budget and the Federal Accounting Standards Advisory Board, the statements differ from financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The financial statements should be read with the realization that FEMA is an agency of the executive branch of the U.S. Government, a sovereign entity. Accordingly, unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation, and ongoing operations are subjected to enactment of appropriations.

Systems, Controls, and Legal Compliance

FINANCIAL MANAGEMENT SYSTEMS

FEMA's financial management system, the Integrated Financial Management Information System (IFMIS), is a commercial off-the-shelf system designed for government agencies and activities operating in a federal financial management system environment. IFMIS is separated into major functional subsystems:

- Funding;
- Cost Posting;
- Disbursements;
- Accounts Receivable; and
- the General Ledger.

The current version of IFMIS, implemented in FY 2002, satisfies an agency's Federal Financial Management System Joint Financial Management Improvement Program (JFMIP) core requirements.

Number of Sub-systems in Non-Conformance by Fiscal Year

Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected by End of Fiscal Year	Number Remaining at End of Fiscal Year
1996	4	0	4
1997	4	0	4
1998	4	1	3
1999	3	0	3
2000	3	2	1
2001	1	0	2*
2002	2	0	2

*Includes: Financial System Documentation, and Non-Compliance with FFMIA (added during the FY).

FY 2001 FFMIA COMPLIANCE AND FMFIA MATERIAL WEAKNESSES

The independent audit (IA) of FEMA's FY 2001 financial statements indicated that FEMA's financial management systems and the financial statement preparation process needed improvement.

Financial Systems Improvements

The IA identified two improvements to FEMA's financial system: (1) information security controls for the financial systems environment; and (2) the financial system's functionality.

In response to the recommendations, the Financial and Acquisition Management Division developed and implemented a comprehensive Remediation Plan that addressed each one of the recommendations.

To further improve the financial management system, a new version of IFMIS was installed during the 4th quarter of FY 2002. This new version will make it possible for FEMA to produce and prepare financial statements and reports directly from IFMIS.

Financial Reporting Improvements

The IA identified four areas needing improvement in the financial statement process: (1) the reporting process; (2) the real and personal property accounting systems and processes; (3) the account reconciliation process; and (4) the accounts receivable process.

FEMA is working on methods to streamline the reporting process to make it less labor intensive. Actions are underway to review property system requirements, and bills for collection have been issued for all amounts owed the Agency.

Number of Material Weaknesses by Fiscal Year

Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected by End of Fiscal Year	Number Remaining at End of Fiscal Year
1996	3	1	2
1997	2	0	2
1998	2	1	1
1999	1	1	0
2000	0	0	0
2001	0	0	6
2002	6	0	6*

*Includes weaknesses in the Financial Statement preparation process: (1) the reporting process; (2) property accounting systems and reporting; (3) reconciliation process; (4) accounts receivable process; (5) general EDP controls; and (6) financial system functionality.

Because of the success of these efforts, and progress in other areas, financial management at FEMA moved to green on the OMB scorecard (see the description of the OMB scorecard on page 30) during the 4th quarter of FY 2002.

STATUS OF MANAGEMENT CONTROLS

A primary focus for financial management at FEMA is to integrate management controls with other management improvement initiatives, and to streamline budget and management reports to provide more useful information to decision makers.

The Financial Management and Acquisition Division conducted the following activities to improve internal and management controls:

- Performed quarterly analyses and reconciliations of general ledger account balances, held weekly status meetings with management and accounting staff, and conducted monthly reconciliation of fund balances with Treasury.
- Hired and trained 9 disaster comptrollers. Six comptrollers were certified after completing the Core Competency requirements. Also provided management control training to 39 students in the Comptroller/Acquisition Advanced training course and 23 students in the Basic Financial Management training course. Comptrollers are deployed to each disaster to ensure that financial management activities and controls are implemented properly.
- Ensured proper separation of duties between financial staff and reviewed and updated standard operating procedures and other documentation.
- Developed new and improved existing financial reports. Reports are standardized and include a range of data, from summary to comprehensive reports, that provide consistent, meaningful information to Federal Coordinating Officers and others who must make immediate operational decisions.
- Posted financial information to FEMA's Internet and Intranet Web sites to assist other federal agencies and FEMA employees in processing bills and progress reports in accordance with laws and regulations.

The Federal Insurance and Mitigation Administration (FIMA) implemented the following initiatives to help strengthen management controls for the National Flood Insurance Program (NFIP):

- Required audits of the Write Your Own (WYO) companies, and all that submitted a Biennial Audit in FY 2001 received unqualified opinions from their auditors.
- Continued claims re-inspection efforts with WYO companies which resulted in the NFIP being reimbursed for overpayments. This also resulted in additional premiums due to mis-rated policies. During FY 2002, the following enhancements were made to the process:
  - — Established Standard Operation Procedures (SOPs) for the Bureau and Statistical Agents' (B&SA) use to strengthen their documentation when reporting an overpayment, due to a special request or routine re-inspection. Also worked with B&SA to tighten control and oversight of the WYO companies statistical reporting errors, which will help to ensure the financial integrity of the NFIP.
  - — Monitored and analyzed trends or issues regarding deficiencies found due to re-inspections. This is helpful when scheduling and performing WYO operational reviews.
- Completed several full years of claims and underwriting operational reviews of the WYO companies, with reviews completed on all but three of the WYO companies. Companies that failed claims and/or underwriting operational reviews in FY 2002 are scheduled for revisit in FY 2003. These operational reviews were very beneficial and will be performed on all WYO companies.
- Chairing a Fraud Task Force along with staff from the Office of General Counsel and the OIG to conduct a review of the vulnerability of various program areas to fraud and to make recommendations on reducing vulnerability. Several management recommendations have already been implemented from the Task Force to include:
  - — Compiling and employing best practices from WYO special investigative units as they pertain to claims;
  - — Issuing underwriting bulletins clarifying the proper application of policy effective dates;
  - — Revising operational review procedures to increase the frequency of revisits to companies that fail reviews; and
  - — Putting controls in place to take stronger measures on companies that fail the operation reviews two consecutive times.
- Provided support to the OIG in their investigation of WYO companies investing NFIP funds which, along with debt collection efforts, has resulted in millions of dollars being reimbursed to the NFIP.
- Contracted with several CPA firms to assist in the adjusting and examination of NFIP claims in order to prevent and detect claim frauds.
- Completed updating and revising the Financial Control Plan (FCP). WYO companies use the FCP as a guideline to the regulations and procedures on the NFIP.
- The OIG has contracted with the accounting firm KPMG to conduct test of controls and compliance on several WYO companies as an element of their FY 2002 financial statement audit.

FEMA has made notable strides in recent years in its management of federal grant funding. In FY 2002, FEMA continued to realize major improvements to include:

- Increased monitoring of grant recipients' use of federal funds, and developed a report on regional grant monitoring to document those efforts and to keep top management apprised of progress being made.
- Held a regional grants conference to initiate the development of grant monitoring plans by each region. The monitoring plans focus regional efforts on the common theme of grant monitoring while, at the same time, allow each region to undertake improvements it determines necessary in its administration of grants.
- Issued procedural guidance to help clarify the information that is required from grantees in order to accurately report on the financial status of federal grants. This is expected to result in more accurate and consistent financial reporting by grantees. Other areas being monitored include the timeliness of payments, granting time of extensions, record retention, and cost share requirements.
- Facilitated the timely closeout of grants by providing technical assistance to regional offices from grant closeout teams. A Chief Financial Officer Field Support Team visits FEMA regions regularly to assist grants specialists and program staff in monitoring unliquidated funds. In addition, the Hazard Mitigation Grant Program recently issued policy guidance that set a three-year period of performance on HMGP project sub-grants and underscores the Agency's adherence to its time extension and closeout policy.
- Approved and distributed a Grants Handbook containing policies and procedures on the administration of FEMA's grant programs for disaster and non-disaster assistance to headquarters and regional offices.
- Developing grants management training, both basic and advanced, to provide a consistent baseline level of knowledge and skills for grants as well as program staff. The Grants Office continues to assist with the Public Assistance Grant Administration course which will be updated and offered again in FY 2003 as will the Cooperating Technical Partners and Flood Mitigation Assistance and HMGP grant courses.

Particular effort has been made to ensure that solid management controls have been built into the new e-Grants system and process that supports the Assistance to Firefighters Grant (AFG) Program. These include:

- Precise positions/roles for staff that can affect processing of AFG grants, and access to the e-Grants system and its modules that is carefully controlled through a variety of checks and balances, and approval process.
- Checks and balances within the program office through the separation of authority between the program staff role and the program manager role.
- Checks and balances that exist in the grants office through the separation of authority between the Grants Management Specialist role and the Assistance Officer role (which is the only role that can obligate an award according to that AO's warrant level).
- Similar checks and balances that exist in the Accounting Office through the separation of authority between the vendor file specialist role and the obligation file staff role.
- Separation of authority between offices so that tasks that are designated to the program office can only be performed by those users with roles such as program staff and program manager. For example, no grant applications can be touched by the Grants Management Branch for award, until recommended for award by the program office.
- Allowing only one application per fire department. Each application is compared to the established program criteria and the applications that match up best with that criteria are subject to a second level of review, which consists of a panel of three individuals with fire service background. Subject mater specialists then validate the panels' work, which is then confirmed by a fire program specialist.
- Applications selected for award by the program office are reviewed for eligibility, completeness, reasonableness, etc., prior to award. The program office scrutinizes payment requests and the grants management staff also scrutinizes payment requests in excess of $50,000 or 65 percent of the total grant.
- Program office and grants management staff must approve scope of work changes, and 10 staff members are dedicated to the continued monitoring of the performance of the grants.

MANAGEMENT FOLLOW-UP TO OIG RECOMMENDATIONS

FEMA began FY 2002 with 24 audit reports carried over from FY 2001. These contained approximately $35.9 million in costs (adjusted down slightly from the *FY 2001 Annual Performance & Accountability Report*) that should not be charged to the Agency's programs (disallowed costs). Another 8 audit reports represented just over $1 million in funds that could be used more efficiently (funds put to better use).

During the year, 36 new audit reports were identified containing over $8.5 million of disallowed costs. FEMA completed action on 32 of the total 60 open audit reports, recovering almost $13.1 million. Seven new audit reports identified over $8.8 million in funds to be reallocated (one audit accounted for $8.5 million). Five of the total 15 audit reports of that type were closed. The table, next page, depicts these activities.

	Number of Audit Reports Identifying Disallowed Costs	Amount of Disallowed Costs	Number of Audit Reports Identifying Funds to be Put to Better Use	Amount of Funds to be Put to Better Use
Beginning FY 2002	24	$35,892,817	8	$1,003,526
New Audits During FY 2002	36	$8,582,616	7	$8,859,438
Audits Closed During FY 2002	(32)	$(13,075,252)	(5)	$(282,678)
End of FY 2002	28	$31,400,181	10	$9,580,286

*An additional $3,176,526 was allowed.

The Agency continues to focus on audit report closing, especially audits that have been open for more than a year. In FY 2002, although the number of open audits increased slightly, we reduced the amount of outstanding disallowed costs by almost $5.5 million. Despite this, some long-term disaster recovery and grant programs will remain open for an extended period, but closely monitored.

Progress in Implementing the President's Management Agenda

OMB developed a scorecard that assesses agencies' progress in meeting the President's Management Agenda (PMA). The scorecard assigns three levels of achievement: (1) green, where significant progress has been made; (2) yellow, where moderate progress has been made; and (3) red, where little progress has been made. Since June 30, 2002, FEMA made headway in implementing three of the initiatives included in the PMA.

FINANCIAL PERFORMANCE

Activities to improve FEMA's financial performance moved this initiative into the green category for overall progress. Although much needs to be done, significant progress was acknowledged across the board for most of our financial deliverables.

Actions taken since June 30, 2002:

- A FEMA staff task force is examining ways to improve disaster cost projections and is currently developing recommendations.
- We acknowledged financial management deficiencies reported by the Office of Inspector General (OIG) and conducted extensive internal meetings on how we can resolve weaknesses.
- The Agency successfully completed the upgrade of our financial management system, the Integrated Finanacial Management Information System (IFMIS).
- The Agency put on hold plans for implementing an enterprise resource plan (ERP).

Planned Actions for 1st Quarter, FY 2003:

- Implement CheckFree (to improve the account reconciliation process) by the end of the calendar year.
- Identify IFMIS modifications to allow for a system for debt collection processing. Changes are scheduled to be completed by May 2003.

HUMAN CAPITAL

FEMA's human capital initiative progress report moved this score to yellow for improvement in implementing the initiative. New policies, collaborative efforts, and a redesign of the Human Resources Division provide more strategic human capital leadership and assistance for the Agency.

Actions taken since June 30, 2002:

- Established the Human Resources Council to forge a more collaborative and strategic human capital effort.
- Developed a policy to allow managers the flexibility to pay recruitment and relocation bonuses, retention allowances, and student loan repayments.
- Put in place a policy to allow management the flexibility to reward and recognize Stafford Act employees.
- Rolled out a telework program.
- Fully implemented the redesign of the Human Resources Division to provide a more strategic human capital leadership and assistance posture.

Planned Actions for 1st Quarter, FY 2003:

- Submit a detailed Human Capital Strategic Plan with specific milestones, timelines and assignments of responsibility aligning human capital activities and initiatives with FEMA's critical mission areas.
- Complete a comprehensive workforce analysis of Stafford Act and career employees.
- Roll out a childcare subsidy program and a Family Support Guide.

E-GOVERNMENT

Actions taken to implement the e-Government initiative moved us to yellow in the latest progress report. We assumed the managing agency role for Project SAFECOM and launched the e-Gov disaster Web portal.

Actions taken since June 30, 2002:

- The Agency has recently assumed the managing agency role from Treasury for the Project SAFECOM e-Gov initiative.
- We submitted business cases for all major projects within the Agency's IT investment portfolio.
- Completed a launch of e-Gov disaster Web portal.

Planned Actions for 1st Quarter, FY 2003:

- Revisit the Agency's enterprise architecture and investigate how to replace NEMIS as the centerpiece of the Agency's architecture.

- Work with OMB to revise and improve FY exhibit 300s.
- Continue updating the CPIC process, Enterprise Architecture, and IRM plan demonstrating their use within the Agency's FY 2004 budget process for making IT investments.

BUDGET AND PERFORMANCE INTEGRATION

The Agency has designed the FY 2004 Annual Performance Plan based on our new strategic plan and initiated a new process for developing the program budget based on performance targets. Much needs to be done to integrate performance and budget data. Progress remained in the red category.

Actions taken since June 30, 2002:

- The Agency has designed the FY 2004 Annual Performance Plan based on the new strategic plan, which was finalized in July 2002.
- The Agency began using a new process for developing the budget this year so that program budgets will be based on performance targets.

Planned Actions for 1st Quarter, FY 2003:

- Work with OMB staff to refine the budget justification materials and performance plan prior to submission of the President's Budget for FY 2004.

COMPETITIVE SOURCING

The Agency submitted a Federal Activity Inventory Reform (FAIR) Act inventory and has produced a preliminary schedule for outsourcing temporary disaster personnel. Competitive sourcing remains in the red designation.

Actions taken since June 30, 2002:

- The Agency produced a preliminary schedule for outsourcing temporary disaster personnel.
- The Agency hired a contractor to present options for revitalizing its disaster workforce. We also hired a contractor to perform workforce competency modeling, which would serve as a basis for contract statements of work.
- Submitted a FAIR Act Agency inventory in July identifying 77% of our 5,009 work years as commercial in nature.

Planned Actions for 1st Quarter, FY 2003:

- The Agency will begin competency modeling of the entire disaster workforce, to be completed during the 2nd quarter. This analysis could serve as the starting point for a statement of work for outsourcing this workforce.

Performance Section

STRATEGIC GOAL 1

PROTECT LIVES AND PREVENT THE LOSS OF PROPERTY FROM NATURAL AND TECHNOLOGICAL HAZARDS

1. Increase community resistance to natural hazards and prevent future losses from hazards. (M.1.1)

Hazard mitigation involves changing conditions and behavior to protect lives and prevent the loss of property. Reducing the risk of disaster damage through mitigation controls escalating disaster costs to the federal government, state and local governments, the private sector and the public. Disaster resistance thus leads to a more stable economic environment for communities and the nation. FEMA's role is to acquire and share risk management information, and to coordinate and support community efforts to identify and assess potential risk, to develop plans to address the risks, to effectively communicate the risks, and to take action to reduce or eliminate the risks.

FEMA's Hazard Mitigation Grant Program (HMGP) and other mitigation grant assistance programs, such as Flood Mitigation Assistance (FMA), provide for the acquisition and relocation, elevation, or retrofitting of vulnerable properties to reduce the number of structures and lives at risk. In addition, building of "safe rooms" (shelters from high-wind events) protects lives in areas prone to tornados and other wind hazards. FEMA's mitigation grant programs also assist states and communities to protect their infrastructure, such as water and sanitary sewer systems, roads, bridges, culverts, and flood control systems designed to protect critical facilities. Communities are encouraged to enforce building codes that will result in safer construction and to support media campaigns, education, and training events that help community members understand their roles in disaster mitigation. Taken together, these various mitigation measures address all types of hazards, and reduce the impact of both natural and man-made hazards, including terrorist activities.

In FY 2002, FEMA published an Interim Final Rule, *44 CFR Part 201, Hazard Mitigation Planning*, which was authorized by the Disaster Mitigation Act of 2000, and established new criteria for state and local hazard mitigation planning. With this emphasis on mitigation planning, many communities will be better positioned to develop proposals for cost-effective "brick and mortar" mitigation projects and activities, such as buyouts and retrofits, and to link pre-and post-disaster mitigation planning and initiatives with public and private interests to ensure a comprehensive, community-based approach to disaster loss reduction. Such decision-making, based on sound understanding of vulnerability to hazards and appropriate mitigation measures, is the best indicator of a successful mitigation strategy that can be sustained over the long-term.

In addition to the HMGP and the FMA program, FEMA mitigation programs also include a leadership role in coordinating the nation's risk reduction efforts under the auspices of the

Fiscal Year Goal Achievement

	FY 2001 Goal	FY 2001 Actual
Lives at less risk[1]	5,000	11,274
Structures at less risk[2]	2,200	10,528
Infrastructure at less risk[3]	150	305
Communities taking disaster resistance actions	500 increase	520 increase

	FY 2002 Goal	FY 2002 Actual
Lives at less risk[1]	5,000	10,504
Structures at less risk[2]	2,200	4,205
Infrastructure at less risk[3]	150	113
Communities taking disaster resistance actions	500 increase	621 increase

Data Sources: National Emergency Management Information System (NEMIS); NFIP Community Information System (CIS); NFIP Community Master File; Monitoring Information on Contractor Studies System.

[1] **Lives at less risk** means persons who have implemented mitigation measure for their homes leaving them less vulnerable to the effects of disasters.

[2] **Structures at less risk** means structures that have been approved for mitigation measures such as acquisition, relocation, elevation, retrofit, etc., that lessen their risk of damage.

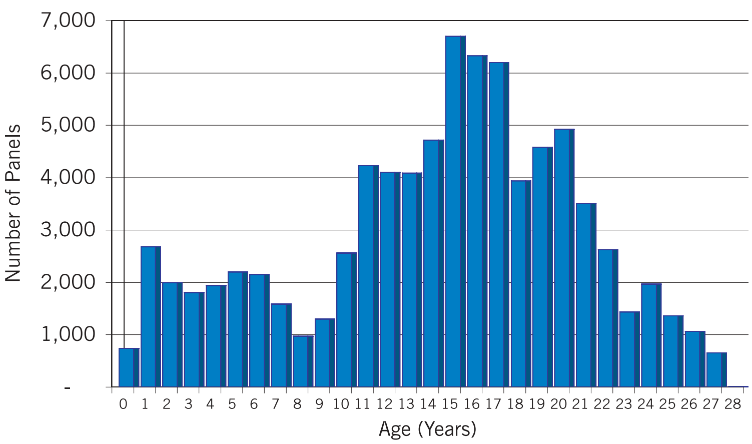
[3] **Infrastructure at less risk** means utilities, water and sanitation sewer systems, roads and bridges, etc., for which mitigation measures were implemented reducing their vulnerability to disasters.

National Earthquake Hazards Reduction Program (NEHRP), the National Dam Safety Program, the National Hurricane Program, the National Flood Insurance Program (NFIP), and the NFIP's extensive flood risk mapping and modernization efforts including its Cooperating Technical Partners (CTP) initiative.

As shown in the table on the preceding page, three of the four elements of the Annual Performance Goal were met in FY 2002. In FY 2001, the first year for this goal, all elements were met. FEMA did not reach the performance indicator set for the number of infrastructure elements protected because states and local communities, which establish mitigation priorities for their jurisdictions, chose to protect more buildings or structures, than infrastructure.

Development in many of the nation's watersheds has caused flood risks to increase over time. Up-to-date and modernized flood hazard maps are critical to reducing future disaster costs. In FY 2002, nearly two-thirds of FEMA's flood hazard maps were older than 10 years, and some 3,000 at-risk areas had never been mapped. The majority of the maps now depict outdated road networks and were prepared using manual cartographic techniques, which makes them difficult for customers to use, and expensive for FEMA and its mapping partners to maintain. The figure below displays the current age distribution for effective Flood Insurance Rate Maps (FIRMs).

Age of Effective Maps



Data Source: Flood Map Status Information System

FEMA is implementing a modernization plan to update its aging flood map inventory. This involves a multi-year upgrade to the 100,000-panel flood map inventory and an enhancement of products, services, and processes. In FY 2002, reflecting a major appropriation request for FY 2003, detailed planning was completed to assure all elements were in place for a rapid acceleration of the modernization. Moreover, in FY 2002, over 2,500 map panels became effective for more than 450 communities. Additionally, over 2,900 map panels were issued as preliminary maps for over 350 communities. The average age of the inventory however was not significantly affected. Further, through the CTP initiative, partnerships are being formed with communities, states and regional agencies to fully integrate them into FEMA's flood hazard mapping process, making more resources available for flood hazard data collection and mapping efforts nationwide. In FY 2002, FEMA entered into 36 additional partnership agreements across the nation.

Visit www.fema.gov/fima for more information about these programs.

2. Flood-Loss Reduction. Collect, validate, and refine building and flood-loss data and confirm that the reduction in estimated losses from NFIP activities exceeds $1 billion. (M.3.1)

The impact of flooding, the most destructive natural hazard in terms of economic loss to the nation can be reduced by mitigation measures. These measures are an integral component of the National Flood Insurance Program (NFIP). The NFIP requires local communities to adopt and enforce floodplain management and building ordinances and are a condition for the availability of flood insurance. FEMA activities assure proper building in Special Flood Hazard Areas (SFHAs) and every year help

Flood Loss Reduction Savings and Projections

	1999	2000	2001	2002	2003	2004
Number of Post-FIRM Structures in SFHAs	2,602,702	2,700,254	2,800,965	2,906,659	3,015,659	3,128,746
Number of Compliant Post-FIRM Structures in SFHAs	2,212,297	2,295,216	2,380,820	2,470,660	2,563,310	2,659,434
Reduction in Average Annual Damages per Compliant Structure	$420	$428	$437	$446	$455	$460
Savings from NFIP Mitigation Requirements	$929M	$982M	$1,040M	$1,102M	$1,166M	$1,223M

Data Source: NFIP Actuarial Information System individuals and communities completely avoid or reduce the costly impact of flooding. Insurance measures are used to reinforce these requirements. For example, insurance premium rates are set to recognize proper constructions and discourage improper building. NFIP makes available Increased Cost of Compliance coverage to help policyholders cover the costs of rebuilding flood-damaged homes and businesses to meet current floodplain management ordinances. The Community Rating System (CRS) recognizes and encourages community floodplain management and related activities that exceed the minimum NFIP standards. Under CRS, premium insurance rates are adjusted to reflect the reduced flood risk resulting from community and state activities. At the end of FY 2002, there were 959 CRS communities.

Montegut, LA, October 7, 2002

Montegut remains underwater after it's levee broke from the tidal surge brought in by Hurricane Lili. This home was elevated which saved the owners from damage.

PHOTO BY BOB MCMILLAN/FEMA NEWS PHOTO

In FY 2002, FEMA re-calculated and re-projected loss avoidance achieved through its flood mitigation and insurance efforts. The results indicate that the growth in savings is continuing.

In FY 2002, FEMA also continued an important parallel activity, an evaluation of the NFIP, its impacts, and effectiveness. Study awards were made and the required request to OMB to clear data collection activities was developed.

3. Flood Insurance Policy Growth. Increase the number of NFIP policies in force by 5 percent, with the active assistance of new and existing program partners. (M.4.1)

The National Flood Insurance Program (NFIP) helps ensure that the recovery of individuals and businesses suffering flood losses is made possible by insurance as opposed to disaster assistance. This allows those at risk to assume some of the responsibility for their own well being and reduces the burden on taxpayers.

Lake McQueeny, TX, July 8, 2002

Many homes along the Guadelupe River have been flooded by the recent rains that dumped over 30 inches of rain in less than six days.

PHOTO BY BOB MCMILLAN/FEMA NEWS PHOTO

A growth goal of a 5% increase, or 217,393 policies, was set for FY 2002. Our actual increase was 42,228 policies, which represents an actual growth rate of only .97%, i.e., 19% of our goal. During FY 2002, through the work of our stakeholders, new business increased nearly 14% with the addition of 598,411 new policies to the NFIP's books. These gains in flood insurance policies, however, were offset by the attrition of 556,183 policies from the previous year's total number of policies-in-force.

While the policy count increased in the early months of FY 2002 due to flooding at the end of the prior year, it did not continue throughout the remainder of the year. Careful analysis of the data seems to indicate that lack of growth can be attributed to the absence of a major flooding event during the first three quarters of the fiscal year. Without such an event, the typical generator of new policies, insured owners continued to drop policies as time eroded their perceived risk, or for other reasons. Revisions to FEMA maps removed the mandatory purchase requirements for a large number of policyholders. Particularly significant was a 13.74% decrease, or 45,464 policies in California. Nearly 43,300 of these lost policies are seen to be as a result of map changes. Although the goal would not have been met even without these losses, they did impact heavily on program growth.

FEMA has initiated several activities to address the disappointing growth. In FY 2002, we reached out to stakeholders in a forum to get fresh ideas about what we can do, both from a tactical and a strategic standpoint, to increase NFIP policy sales. Joining us were agents, representatives from insurance companies and the lending industry, as well as other federal agencies, to discuss how to improve compliance with mandatory flood insurance requirements as well as increase voluntary flood insurance purchases.

Among other specific actions taken, FEMA changed the strategy for television advertising from awareness to response-oriented. Marketing and public awareness campaign activities included:

- Distribution of Spanish-language radio public service announcements to Hispanic radio stations across the U.S. and Puerto Rico;

- Outreach to meteorologists, weather forecasters, and other media representatives encouraging them to educate their audience regarding flood insurance;

- Television advertising on national cable networks and broadcast news programs with more spots aimed at prime time;

- Direct mailings to approximately 160,000 insurance agents and 1.4 million consumers in 32 markets prone to hurricanes and tropical storms; and

- Re-opening of a co-operative advertising program for insurance agents.

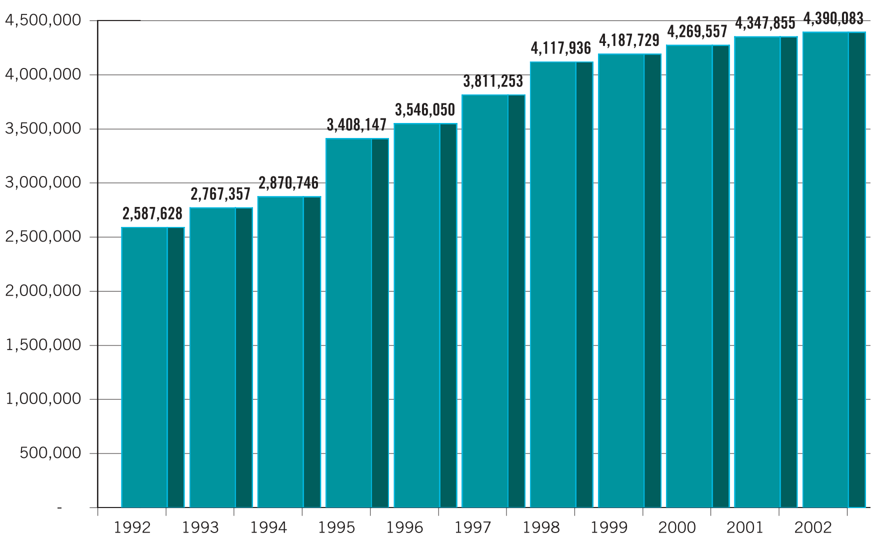
Further, we have initiated new Web-based capabilities and partnerships to improve agent training which is known to help policy sales. New reports have been developed for the *Write-Your-Own* (WYO) insurance companies to assist in their marketing and help identify sales prospects.

In addition, FEMA continued its focus on policy retention including:

- Revising financial incentives for the WYO companies and providing them with more information useful in retaining business; and

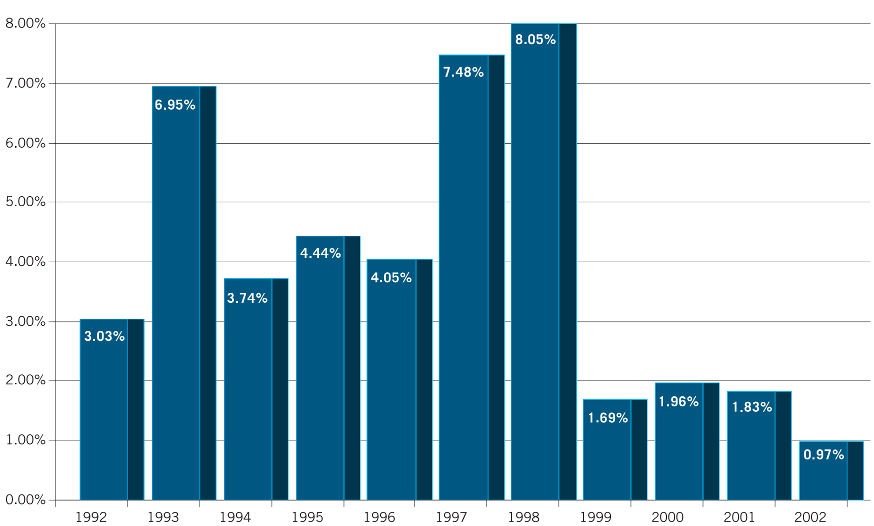
- Encouraging policy retention through public relations activities in connection with major flood anniversaries, e.g., news releases were issued in Texas and Louisiana in connection with the one-year anniversary of Tropical Storm Allison, and news conferences were conducted in Norfolk, Virginia and Kinston, North Carolina in connection with the three-year anniversary of Hurricane Floyd.

Policy Count 1992-2002



Data Source: NFIP Policy Master File

Growth Rate 1992-2002



Data Source: NFIP Policy Master File

FEMA is also working to send a clear message to the public when map revisions occur by reminding people to keep their flood coverage even though their property has been remapped into a less hazardous area. The message is being delivered in correspondence and by all of the FEMA regional offices. This, combined with advance notification to the WYO companies of areas where major mapping changes are to occur, will help to keep some of the policyholders who might otherwise cancel their coverage.

To achieve its growth goals in FY 2003 and beyond, FEMA will be working to further reinvigorate its marketing and advertising campaign. FEMA will be developing a fresh campaign with a paramount objective to increase the number of NFIP policies by motivating consumers to buy National Flood Insurance and policyholders to renew their policies.

4. Repetitive Loss, Subsidy Reduction, and Operations Modernization: Improve the "bottom line" or combined loss and expense ratio by 1%. (M.5.1)

The long term success of the National Flood Insurance Program (NFIP) requires that it be financially sound. In FY 2002, the combined loss and expense ratio improved from the 112.4% baseline established in FYs 2000 and 2001, to 113.6%, thereby exceeding the 1% improvement goal. This was made possible by the significant accomplishments in the activities described below.

- *Repetitive Loss*—There are approximately 45,000 insured repetitive loss properties. FEMA has determined that they have a hugely disproportionate impact on the NFIP, generating about 30% of the losses and costing almost $200 million in the average, historical loss year. To decrease program expenses, FEMA moved a target group of about 11,000 repetitive loss policies to a central servicing facility in order to provide closer oversight of any new claims and to facilitate coordination with the mitigation initiatives. Loss history information on these and other NFIP Repetitive Loss Policies/ Properties is made available to state and local governments to encourage them to target those properties for flood loss reduction actions when FEMA's HMGP or FMA funds are available. In total for FY 2002, 168 target group policies were identified for mitigation actions such as property acquisition, relocation, elevation and flood-proofing using grant funds and, where applicable, Increased Cost of Compliance insurance claims payments.

Point-Aux-Chenes, LA, October 7, 2002

This small fishing community was hit hard by a seven foot tidal surge that accompanied Hurricane Lili.

PHOTO BY BOB MCMILLAN/FEMA NEWS PHOTO

- *Subsidy Reduction*—In FY 2002, FEMA performed analyses in support of proposals contained in the FY 2003 budget. Other proposals addressing the NFIP subsidy and repetitive loss properties contained in the budget submission were not enacted. However, even without authorities to promulgate more dramatic changes, FEMA continued to make progress within existing authorities changing rates and achieving modest reductions in the level of subsidy. Revenue generating rate adjustments were also made to address erosion related flood losses and to reflect changes in expected losses indicated by the annual review of underwriting experience.

- *Operations Modernization*—FEMA continued work to modernize the operations of the NFIP by incorporating state-of-the-art business practices and technologies that assure operating integrity, cost efficiency, and customer-service standards are met or exceeded. In FY 2002, FEMA continued to focus on the development of an e-commerce architecture to facilitate the processing of flood insurance for the NFIP. FEMA continues to work with the *Write-Your-Own* companies and their vendors to further refine the design of this architecture with cooperative, joint working groups established for underwriting, claims, financial management, marketing, communications and training and information technology. Currently, FEMA estimates a 4-year implementation period for the systems modernization effort. FEMA has contracted for the necessary staff and incidental resources through this 4-year period for the systems engineering management support required to assure delivery of a quality "NFIP e-government" implementation, on time and within budget.

5. State, Tribal, Local, and Private Sector Preparedness Capability. Provide federal, state, tribal, local, and private sector partners with the tools to improve their knowledge, skills and abilities in all phases of comprehensive emergency management (preparedness, mitigation, response, and recovery functions). (P.1.1)

Prior to FY 1997, emergency management officials lacked a common automated format for self-assessment whereby states, local jurisdictions and Indian tribes could evaluate their emergency management capabilities. The Capability Assessment for Readiness (CAR) process provides an all-hazard approach to an evaluation process based on 13 emergency management functions. The value to the public is that emergency managers have a tool that will assist them in assessing their readiness, identify critical deficiencies, and develop the capabilities to effectively prepare for, respond to, and recover from disasters.

In FY 1997, FEMA and the National Emergency Management Association (NEMA) joined in a collaborative effort to develop the state CAR. All 56 states, territories, and insular areas participated in CAR assessments in FY 1997 and 2000. In FY 2002, a CAR for local jurisdictions (cities and counties) was developed by FEMA with assistance from the International Association of Emergency Managers (IAEM). The local CAR is currently available to local jurisdictions on a FEMA Web site. In addition, FEMA has worked closely with the National Congress of American Indians (NCAI) to develop a tribal CAR because tribes face the same disaster threats as state and local governments. The tribal CAR has been developed and will be distributed to approximately 550 tribes before the end of this calendar year.

Emergency Management Institute Training

	# Resident Offerings	# Students	# Independent Study Enrollments
FY 1999	223	6,507	59,433
FY 2000	255	6,990	71,227
FY 2001	260	8,208	83,105
FY 2002	334	8,612	148,043

Data Source: EMI Admissions Data Base

FEMA has involved partners in the development and acceptance of the CAR assessments. FEMA also has received input from the National Association of Counties (NACo), the National League of Cities, the Conference of Mayors, and the International City/County Management Association.

FEMA plans to review the state CAR in FY 2003 to determine whether it is still viable. The National Association of Emergency Managers and the Council of State Governments has developed an Emergency Management Accreditation Program (EMAP) that has been widely accepted by the states. We will try to merge the state CAR with the EMAP process.

Training is an important component of developing and sharpening capabilities. FEMA's Emergency Management Institute (EMI) in Emmitsburg, MD, provides performance-based emergency management training to assist at the federal, state, local, and tribal level in the development and maintenance of emergency management knowledge and skills. While training does not guarantee efficient and effective emergency management decision-making and operations, lack of training can result in uncoordinated operations and unnecessary death, injury, and damage to property and the environment.

Training ultimately achieves its goal when course participants use what they learned to improve performance on the job. A follow-on survey instrument is sent to each EMI resident student three months after completion of the course. Surveys returned by EMI participants continue to support the value of the training opportunities. Seventy-one percent reported that they are already using the instruction either in their day-to-day jobs or on emergency assignments. Twenty-six percent reported they had not yet had the opportunity to use the instruction, but expect to. Only three percent stated the instruction was not applicable or being used. While there are no specific benchmarks to apply our results, we believe they are excellent given the nature of the work by emergency managers at the federal level. In some cases, no opportunity means that the participant hasn't experienced an emergency/disaster assignment for which he/she could apply the EMI training.

In FY 2002, EMI delivered 334 resident courses to 8,612 students. This was 1,812 students and 74 course offerings above the estimated goal. A record number of 148,043 students enrolled in distance learning courses. This increase above the 75,000 estimate demonstrates the value of non-traditional course delivery to meet the complex schedules and varied locations of the participants.

EMI conducted 219 of the estimated 400 Conference and Training Center (CTC) activities. Only 54% of the projected 400 activities were conducted at CTC due to the closing of Buildings 430 and 411 from October 2001 to March 2002 to accommodate Continuity of Operations (COOP) and Emergency Support Team (EST) activities for the agency as a result of September 11th response and recovery efforts. In contrast, we had a 100% increase in the projected number of students enrolled in distance learning courses. The resident program reflected a 27% increase in the projected number of students and course offerings.

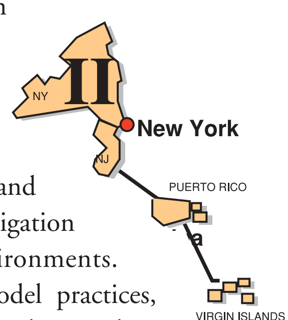
- *Illustrations*—We anticipate the estimated number of resident activities and participants at EMI and CTC will remain about the same. With increased emphasis on distance learning delivery, that number will continue to grow within funding limitations.

6. Regional Office Support to State and Local Capability. Continue to support FEMA's emergency management mission at the regional level to build state and local emergency management capability. (P.1.2)

FEMA Region I provided technical assistance and information resources to emergency management leaders, and educational systems supporting the six New England states. A workshop for 30 state and local officials was held to explain the benefits of using the Hazards U.S. (HAZUS) model. As use of this model grows in future years, more and more communities will be better able to understand the risks faced by their communities, and thus be better able to prepare for future disasters. Region I developed an informational CD for local officials providing valuable information needed in preparing for and responding to a hurricane, and 4,500 copies of this CD will be distributed in FY 2003. The New England states have been extremely fortunate to have very little recent occurrences of the devastating hurricanes that have slammed the region in the past. This CD will assist state and local governments to better prepare for the serious hurricanes that might eventually occur.

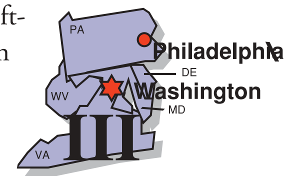
Region I conducted a series of workshops for state, local, and tribal governments as well as other federal agencies on such topics as Coastal Construction Techniques, and Mitigation Activities and Practices. These workshops assist all levels of government to work as partners in reducing future losses. Region I has developed a five year plan to test the terrorism preparedness plans of federal, state and local government and then build on this in future years to include work with FEMA Region II, the Canadian Provinces which border New England, and businesses and private industry. In FY 2002, this activity focused on planning conferences. In future years we will follow up with exercises and workshops. Region I has begun a two-year effort to develop a comprehensive integrated Geographical Information System (GIS) based inventory of chemical, biological, radiological infrastructure and demographic databases within one single computer system. The first phase of this project, the integration of the consolidated databases into Computer Aided Management of Emergency Operations (CAMEO) is now underway.

Region II planned and hosted an Urban Hazards Forum for representatives from the private, academic and public sectors, aimed at stimulating an exchange of ideas, policy needs and further research to identify mitigation opportunities in urban environments. Through the development of model practices, planning guidelines, and recommendations, key decision-makers will be better prepared to take actions to protect the public and mitigate loss of life and property. With the successful completion of the Forum, and the draft Forum report currently under FEMA review, the project is 95% completed. The final report will be disseminated on the Web site established by the Forum co-sponsor, John Jay College of Criminal Justice, in time for the second Urban Hazards Forum, to be held in January 2003.



The retrofit of a vehicle to include operational facilities, equipment and full communications capabilities, will enable Region II to deploy key staff while remaining operational in emergencies, particularly those which require immediate relocation of personnel from the Regional Operations Center. This capability will significantly expedite the provision of assistance to the public in time of crisis. Completion of the project was delayed to provide an opportunity to enhance the vehicle beyond our initial objectives. GSA is in the process of soliciting and selecting a contractor to build the vehicle to the enhanced specifications, and completion is projected in March 2003. Although the project is estimated 50% complete, the upgraded design will significantly improve the operational capability of the vehicle.

Region III has embarked on a project to improve on FEMA's HAZUS software that has been created with default, generalized datasets for the entire nation. The current software provides reasonable results for potential disaster scenarios, given the inputs, but to improve on the results, better data is needed, which is the purpose of the soils mapping and building stock inventory.



This project is creating a map of the soils in the Wilmington, DE area to define for the first time the depth to bedrock, the sediment thickness, a soil classification map and a liquefaction hazard map of the Wilmington area, all in digital form. In addition to the soils, the building stock identified by the Census Bureau is being examined for accuracy to provide a baseline for hazard modeling. This project will be valuable to the Wilmington public by creating a qualified model that will be available to run various disaster scenarios to make predictions of damage to buildings and infrastructure. This information with graphical output can be distributed to inform people at risk and be the basis for mitigation planning and insurance campaigns.

Significant achievement was made in FY 2001. The depth to bedrock map is complete. Progress on the other maps is at 25% completion. The building stock evaluation has not begun, but the project remains on track for completion by September 30, 2003.

An earthquake retrofit initiative was proposed for the Wilmington Emergency Services Building to mitigate the risk of an operations stoppage within due to an earthquake. It is intended to serve as a showcase within the city of simple interventions that can be taken to reduce risk from hazards, specifically an earthquake in this case. The concept was well received at a meeting to coordinate with the City Emergency Services Department, and there was commitment from the city to move forward with the project. The project is 10% complete, and remains on track for completion by September 30, 2003.

A seismic risk outreach project is intended to communicate with Wilmington, DE area earthquake risk-to-risk management audiences and then through these groups to the general public and businesses, to raise the level of awareness that Wilmington is in a moderate earthquake zone and, given the old building stock, is highly vulnerable to even a mild earthquake. Region staff met with the City Emergency Services Department, Delaware Emergency Management Agency, and Wilmington Project Impact. The concept was well received and there was commitment from all three groups. The project is 10% complete, and remains on track for completion by September 30, 2003.

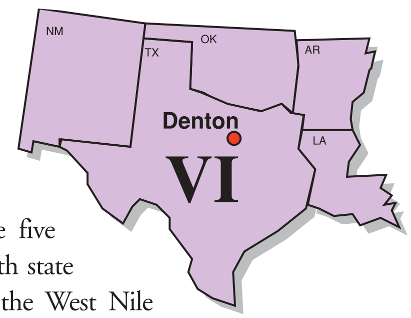
Region IV made extensive plans to host a "Southeastern Public Safety Leadership Summit" to build and enhance the relationship between the First Responder and Emergency Management communities. Invitees will include representatives from each of the following entities:

- Governor's Office;
- State Attorney General's Office;
- Homeland Security;
- Emergency Management;
- Fire Marshal;
- State Law Enforcement/ Public Safety; and
- a State Medical Official.

The public will directly benefit by all the attendees working together to network valuable information pertaining to the implementation of federal, state and local emergency plans in the event of a weapons of mass destruction incident in Region IV. By drawing on the expertise of the federal and state participants at the symposium, Region IV state and local governments will be better prepared to implement their respective plans and procedures. The Summit was to be held during FY 2002 but had to be postponed until the 2nd quarter of FY 2003.

Region V is creating a product for display on an Internet Web site that will provide an interesting format for informing/educating the public about FEMA's grant program activities in all six Region V states. The proposed product will also benefit FEMA (Federal Insurance & Mitigation Division, Public Assistance program, and Individual Assistance program), state Emergency Management Agencies, and state Floodplain Management Agencies by providing them a ready source of information to aid in compliance and monitoring activities.

The Web site will showcase the positive effects mitigation can have on governments, communities and individuals, will describe various types of projects, and will use high-impact graphics to display their locations. Through demonstration we hope to empower people to take actions to reduce or eliminate the risks they face and motivate them to achieve disaster resistance. Through the use of success stories, the public will gain knowledge that will assist them in replicating these activities in their community. Use of current Internet technology will also provide a platform that will speed delivery of documents to target applicants and provide convenience of online access to a wide audience, allow the end-users to reproduce the downloaded documents in whatever quantity they require, provide electronic archive of the documents, and ease of retrieval. To complete this goal, we will develop one Web page each year until all 6 pages are completed.



Region VI contractors facilitated a training session on terrorism response and conducted a table-top exercise for state and local communities in four of the five Region VI states (the fifth state rescheduled because of the West Nile Virus). Emergency responders and government officials now have a better understanding of the Federal Response Plan as it relates to terrorism, the state's capabilities and procedures in terrorist incidents, and the integration of local response and decision-making. The region accomplished 85% of our goal in this fiscal year. Materials and plans are developed to conduct the program in the fifth state in December 2002. Region VI also conducted two additional training/exercise programs in January of this year that were rescheduled from FY 2001 because of the events of September 11th.

Region VII offered a one-day workshop titled *Evaluating Tornado Refuge Areas in Schools* to representatives from school districts within the region. Region VII has contracted with Kansas State University to deliver the one-day workshops.

The workshop will provide the expertise and tools needed to evaluate potential tornado refuge areas (areas used as evacuation areas during tornado events) and select the best alternative(s). The evaluation is a multi-hazard approach that considers wind, flood, and seismic hazards, and is based on the refuge area evaluation that is included in *FEMA 361, Design and Construction Guidance for Community Shelters.*

Region VII clients have increased the number of shelters and heightened the awareness among design professionals, school administrators, and emergency managers of the value of adequate tornado refuge areas. Over 8,033 school children were provided near absolute protection by constructing tornado shelters, surpassing the goal of Performance Indicator 1 by 236.3%. From an indirect measure supporting this indicator, the region can report a 105.0% increase (from a baseline of 27 to 42) in the number of schools that have approved funding from FEMA for tornado shelters.

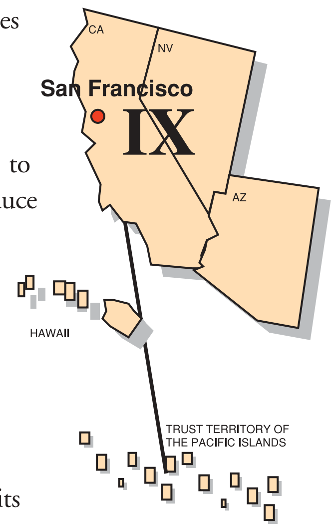
Performance Indicator	Baseline	Goal	Accomplishment
1. School population at facilities with tornado shelters meeting FEMA's guidance	1,210	3,400	8,033
2. School population represented by attendees at FEMA workshops	239,659	400,000	397,276

While the goal for Performance Indicator 2 was not fully achieved, the measurement does not reflect representation of design and emergency management professionals in addition to representatives from school districts at FEMA sponsored Refuge Area Workshops. Based on attendance from both critical groups the region feels that they have met their objectives of providing the necessary skills to survey existing schools and to build awareness of the value of using FEMA's shelter criteria in designing school facilities. Region VII is planning to conduct additional workshops, contingent on funding, with the objective to reach as many school administrators as possible.

Region VIII training staff members, State Training Officers (STOs) from Wyoming and Colorado, and individuals selected by the Wyoming and Colorado STOs as future state Community Emergency Response Team (CERT) trainers will participate in a 3-day Train-the-Trainer exercise in Ft. Collins, CO. The course is designed to train the selected participants to a level that will enable them to organize local offerings of the basic CERT course in their own communities. Region training staff members will provide offerings of the basic CERT course to other FEMA region staff members and other agencies at the Denver Federal Center, and will train other federal agency trainers interested in promoting CERT team development within their departments and agencies.

The region continued field delivery of CERT training to one Region VIII tribal reservation, and provided grants to the tribes to obtain contract trainers for tribal trainers to shadow so that the tribal trainers can replicate the training throughout reservation communities.

The project supports President Bush's Volunteer Civil Defense Force development, and provides the opportunity to foster critical linkages between the federal, state and local, tribal, and private sector to reduce losses of lives and property from disasters and acts of terrorism. The region was unable to complete training an in-house CERT team because of time and scheduling issues.



Region IX directed its activities toward building state, local, and tribal capability. Specifically, its goal was to improve the capability of its customers to respond to disaster and to reduce the impact of future disasters. Activities included:

- Increasing the HAZUS User Group activity in Region IX states, supporting the Bay Area Earthquake Risk Assessment Project, and providing HAZUS training to its customers; and
- Providing training information and technical assistance to Region IX tribes in establishing an emergency management preparedness and disaster response capability.

HAZUS is a natural hazard loss estimation methodology developed by FEMA in partnership with the National Institute of Building Sciences. Using GIS technology, HAZUS allows users to compute estimates of damage and losses that could result from an earthquake. With Region IX support, the HAZUS User Groups and their activities work toward the creation of state and local mitigation plans as required under the Disaster Mitigation Act of 2000. This mitigation will result in less costs to the Disaster Relief Fund and the taxpayers. To expand the use of HAZUS, the region held one-day meetings in San Francisco and Los Angeles. With respect to the Bay Area Earthquake Risk Assessment study, the regional plan for documenting the study is near completion and its contractor is writing the final version of the documentation. FEMA regional support of this project utilizes Emergency Management Planning and Assistance (EMPA) funds to generate HAZUS runs for the ten most probable earthquake events expected to occur over the next thirty-year period. This will result in increased awareness of the imminent risk of a large damaging earthquake in the Bay area. The project will definitely result in an improved local government capability to do emergency planning based on the scenarios of the project. Further, FEMA regional staff, with contractor support provided by EMPA funds, conducted several trainings for different skill levels for over 100 HAZUS users during FY 2002. This training will also result in increased performance by local governments in emergency planning capabilities.

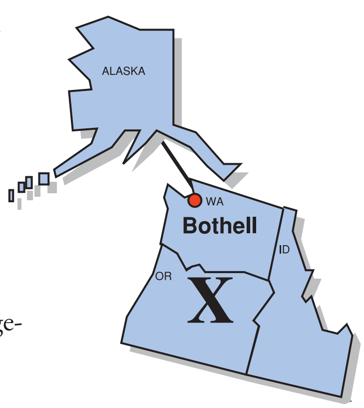
In recognition of the vastly increased number of capable users of the HAZUS software, and in light of the imminent creation of user groups in states other than California, the region's success in utilizing EMPA funds for their intended goals is roughly 75%. The states of Hawaii and Nevada have expressed an interest and desire to have the regional office assist them in pilot HAZUS user group meetings in FY 2003. Therefore, with expanded user groups, overall, there will be an increased capability for the region's state and local partners.

The region has utilized many resources in the past several years to improve the emergency management capability of tribal governments. This tribal project using EMPA funds will provide the Pyramid Lake Paiute Tribe with the tools necessary to protect its people and its lands, which include focal points where accidents, disasters, and terrorism can have major impacts on the tribe and the surrounding communities of Reno, Fernley, and Naval Air Station Fallon, all in Nevada. One section of this project will result in the development of an Emergency Operations Plan for the tribe. The second aspect of this project will involve the coordination with a consultant to conduct an assessment of the tribe with respect to emergency response area, weaknesses, and focal points on the tribal reservation. Once this project is complete, the region is confident that the emergency management capability of this tribe will be enhanced significantly.

This contract to perform this tribal activity was only recently approved by FEMA. Therefore , there is a delay in commencing the project. There have been several leadership changes within the tribal government which have also caused this project to be delayed. Therefore, any reporting on this project under GPRA umbrella will occur in FY 2003. The region has not achieved this measure but expects to in the first quarter of FY 2003.

The region feels that it has partially met its goal of building state and local capability. They have not fully met their goal because Hawaii and Arizona have yet to join the HAZUS Users Group, and because of the delays in the tribal area. They anticipate meeting their goal during FY 2003.

Region X developed three outreach products:



- A 72-page *Tribal Resource Guide*, outlining important information valuable to tribes, states, and federal agencies, including critical emergency management resources;
- A guide for local officials, outlining land-use concepts that incorporate prudent property protection safeguards for new developments; and
- A publication made available to potential employees to ensure a heightened state of readiness and diversity within the FEMA regional disaster workforce.

The region conducted four major outreach efforts to target audiences: (1) they conducted the FEMA Tribal Workshop with the theme, "Protecting our Way of Life through Strong Partnerships." Representatives from 29 tribes attended the workshop, along with representatives from state and federal organizations and U.S. congressional state and district staff. The goal of the workshop was to raise the emergency management capability of tribes; (2) through the University of Washington, Burke Museum, they participated in the dissemination of scientific and general seismic information to the general public; (3) through the Municipality of Anchorage, AK, they supported the conduct of a citizen-focused outreach effort providing citizens with guidance and training for measures to take following disasters and emergencies. The program is being enhanced to become a model Citizen Corps community and has been shared with all Region X states and communities; (4) they supported, assisted in developing, and participated in a critical infrastructure preparedness conference and exercise in Welches, OR, which resulted in enhanced coordination of key federal, state, local, international, and private-sector partners.

Continued achievement of this goal has resulted in increased collaboration among all the various local, state, tribal, and federal organizations involved in homeland security efforts. Beyond FY 2002, Region X will continue the collaboration, exchange of key emergency management initiatives, understanding of collective roles in homeland security, and enhanced coordination of homeland security assets and efforts during future response activities.

7. Communication. The United States Fire Administration (USFA) supports the reduction of the loss of life from fire-related incidents (1998 Baseline: 4,500) (P.3)

Each year fire kills more Americans than all natural disasters combined. The annual impact of fire includes over 4,000 deaths, more than 22,000 injuries, and direct property losses in excess of $11 billion.

In response, USFA has developed a series of operational objectives that target the nation's high-risk groups and communities. The USFA continues to focus on children ages 14 years and younger, adults ages 65 and older, and firefighters. To maintain this focus, USFA conducts national fire service training programs to enhance the effectiveness of the nation's fire and emer-

USFA Publication Outreach

FY 1998	1,647,375
FY 1999	1,780,771
FY 2000	2,624,158
FY 2001	4,214,640
FY 2002	4,126,445

Data Source: Publications Ordering Management System

Fire Academy Training Opportunities

	Participants by year	Course deliveries
FY 1998	48,612	1,150
FY 1999	52,600	1,182
FY 2000	39,273	1,163
FY 2001	50,810	1,617
FY 2002	80,397	1,697

Data Source: NFA Admissions Database

gency response personnel, and has partnered with other federal agencies, national fire service organizations, state and local fire service training agencies, and colleges and universities. Through these partnerships, USFA continues to leverage resources and develop strategies that promote safety and health for the nation.

During FY 2002, USFA disseminated 4,126,445 publications to the general public, private industry, and federal, state and local governments. There were also 2,894,475 Web site visitors. Likewise, the National Fire Academy (NFA) delivered 1,697 courses to 80,397 students nationwide. Based on evaluations completed by supervisors, overall NFA training has improved participant job performance which has far reaching benefits. Eighty-three percent of the supervisors who responded think that their participant/ subordinate's job performance was improved as a result of NFA training. While only 54% indicated they thought their community's fire-related risks had been reduced as a result of the training, 81% of those same supervisors indicated that the training would improve their departments' performance in the future.

USFA continues to partner with various federal agencies, national fire service organizations and other entities to address common goals and objectives that contribute to the achievement of USFA's mission. Presently there are 27 active Memorandums of Understanding/ Memorandums of Agreement (MOU/MOAs). Three new agreements were negotiated during FY 2002, and 24 of the agreements negotiated in previous years have continued. New agreements are in the areas of

The National Fire Problem

Year	Fires	Civilian Fatalities	Civilian Injuries	Dollar Loss	Firefighter Fatalities
1991	2,041,500	4,465	29,375	$10,906,000,000	109
1992	1,964,500	4,730	28,700	$9,276,000,000	75
1993	1,952,500	4,635	30,475	$9,279,000,000	77
1994	2,054,500	4,275	27,250	$8,630,000,000	104
1995	1,965,500	4,585	25,775	$9,182,000,000	96
1996	1,975,000	4,990	25,550	$9,406,000,000	95
1997	1,795,000	4,050	23,750	$8,525,000,000	94
1998	1,755,500	4,035	23,100	$8,629,000,000	91
1999	1,823,000	3,570	21,875	$10,024,000,000	112
2000	1,708,000	4,045	22,350	$11,207,000,000	102
2001*	1,734,500	6,196	21,100	$44,023,000,000	441
2001	WTC	2,451	800	$33,440,000,000	343

*Includes the World Trade Center (WTC) Data.

Data Sources: National Fire Protection Association; National Fire Information Reporting System public fire education (partners are the Consumer Products Safety Commission and the Centers for Disease Control); efficient traffic flow and safer emergency responder operations on our nation's highways (partner is Department of Transportation, Federal Highway Administration); and office space for a new wildfire position to be located in Boise, ID (partners are the United States Department of Agriculture, Forest Service and Bureau of Land Management).

College Park, MD, January 25, 2002

FEMA Director Allbaugh visits the Maryland Fire and Rescue Institute for a fire exercise.

PHOTO BY MICHAEL CONNOLLY/FEMA NEWS PHOTO

The FY 2002 wildfire season was the most devastating in the nation's history. The average loss over a ten-year period is 3 million acres annually. In FY 2002 alone, over 6.5 million acres and over 1,700 structures were destroyed. During this season, USFA staff were assigned to the National Interagency Fire Center (NIFC) in Boise, ID, to participate and coordinate USFA mission and objectives. USFA was able to provide technical assistance to the firefighting agencies in solving equipment requests. At the peak of this fire season, USFA was instrumental in fostering the partnership between the federal agencies responsible for wildfire containment such as the U.S. Department of Agriculture, Forest Service, Bureau of Land Management, Bureau of Indian Affairs, U.S. Park Service, U.S. Fish and Wildlife Service, and the National Association of State Foresters. On behalf of FEMA, USFA provided technical assistance for the first phase of training of structural firefighters in wild-land fire certification. A permanent position has been established at NIFC to continue the efforts, which began in FY 2002.

College Park, MD, January 25, 2002

FEMA Director Allbaugh visits the Maryland Fire and Rescue Institute for a fire exercise.

PHOTO BY MICHAEL CONNOLLY/FEMA NEWS PHOTO

In FY 2002, USFA successfully awarded competitive grants to more than 2,755 rural, urban, and suburban fire departments across the country worth approximately \$171 million. USFA awarded nearly \$335 million in Assistance to Firefighter grants by the end of calendar year 2002, and estimate that approximately 5,500 grant awards will be made. Over 19,500 grant applications were received. Of this number, 99.9% were received online—an enormous e-grant success. Evaluation of the applications was based on a peer review of the financial need and cost benefit for those applications that best conform to established funding priorities. Grants were awarded for fire operations and firefighter safety, fire prevention, emergency medical service, and firefighting vehicles.

Early indications of the results of the 1,855 awards made in FY 2001 are extremely positive. Grantees in the equipment, training and wellness categories were asked to provide FEMA/USFA with comments about their results. Some typical comments were:

- "We received a '9' fire rating from (the) Rating Bureau for a 10 mi. radius of our first fire station. This would not have been possible without a FEMA Grant." And, "because of the additional equipment received, we will be going for our ISO rating reduction to a 6 from a 7/9."
- "…through the program we were able to strengthen our wild-land units so we could attack wild-land fires with enough manpower to keep them to a minimum habitat loss. So far the largest wild-land fire has been 250 acres."
- "The (department) had little equipment with which to fight fires…no hand tools or other equipment to effectively bring a fire under control. The tools and equipment helped us achieve a higher level of firefighter safety. The grant also helped us achieve a class nine rating…which resulted in lower insurance premiums for the district."
- "This (communications equipment) has greatly improved fire ground and emergency scene communications. It has enabled us to provide a more organized scene command, because everyone can hear clearly what is being said over our radios without background interference."

Based on the events of September 11, 2001, and the increase in the loss of life from fire and fire-related incidents, there was a significant increase in the number of requests for NFA training. As residential training was filled to capacity, training delivered through hand-off programs at the state and local level increased by approximately 26% in FY 2002. As a direct result the number of students trained through hand-off delivery programs increased approximately 58%.

8. National Security Policy, Programs, and Plans. Support the Director of FEMA, the White House, and National Security Council on national security policy, programs, and plans as related to contingency programs, continuity of government, continuity of operations. (P.4.1)

The Office of National Security Coordination (NS) serves the Director of FEMA, the White House, and the National Security Council by providing planning, readiness and operational support. The Office assists in preserving the Continuity of Government (COG) operations and executive decision-making authority during national security emergencies. The Office, in coordination with other FEMA entities, led an agency-wide Continuity of Operations (COOP) exercise for FEMA Headquarters during November 2001. Operationally, the Office provided analysis and support to FEMA offices, administrations and directorates in the aftermath of September 11, 2001.

FEMA works closely with its federal, state, and local government partners to assure that critical government services at all levels will be met following a national emergency. NS serves as the focal point for FEMA activities related to national security matters. Among the most important NS customer service activities are those in training, workshops, exercises, guidance, and planning. NS ensures that these activities are coordinated within FEMA and appropriate Executive Branch organizations and are uniform and consistent with national security policy and FEMA positions on all-hazards initiatives. In support of this goal, NS conducted seven COG and COOP training sessions during the year. More than 90% of the over 200 participants returned customer satisfaction surveys and rated the sessions as satisfactory, thus meeting NS's goal. Three questions from surveys of past years were utilized in the surveys to insure consistency in the measurement tool.

FEMA's publications warehouse contains books, pamphlets, CD-ROMs and videos on a wide range of emergency preparedness topics. Publications are aimed at both professionals and the general public. Resources designed specifically for children are also available.

PHOTO BY BILL RECKERT/FEMA NEWS PHOTO

In addition to meeting its customer service goals, NS exceeded its goal to provide its customers with at least five, researched, emergency-preparedness publications:

- *FEMA Headquarters Continuity of Operations Plan*
- *Draft Federal Preparedness Circular on Vital Files, Records and Databases*
- *Draft Federal Preparedness Circular on Federal Executive Branch Warning and COOP Activation*
- *Draft Federal Preparedness Circular on Interoperable COOP Communications*
- *Update of the Office of National Security Continuity of Operations Plan*
- *Draft After-Action Report on FEMA Headquarters COOP Rotations*
- Several classified communication, evaluation, operations and contingency plans.

9. Safety and Security. Determine proactively the internal and external requirements for a secure, safe, and healthy environment for FEMA and its emergency management partners preparing for disasters and at disaster facilities. (P.5.1)

The Facilities Management and Services Division manages and supports the operation and maintenance of all FEMA facilities for three business lines: (1) property management; (2) facility support services; and (3) safety and security.

The Safety Section conducted facility inspections to identify safety deficiencies. The deficiencies were corrected to eliminate resultant safety hazards. During FY 2002, safety hazards were eliminated at 16 FEMA facilities at a total expenditure of approximately $1.1 million.

The Security Section conducted risk assessments to ensure that FEMA facilities were protected in accordance with Department of Justice Level IV security standards. During FY 2002, risk assessments were conducted on four Regional HQ facilities: (1) Chicago, IL;

(2) Denton, TX; (3) Denver, CO; and (4) Oakland, CA, and the National Emergency Training Center in Emmittsburg, MD.

As a result of the events of September 11, 2001, resources were expended to ensure that FEMA facilities are protected in accordance with the Homeland Security Advisory System Threat Condition. This system provides a comprehensive and effective means to disseminate information regarding the risk of terrorist attacks. The Safety & Security Branch will continue to evaluate and monitor the safety and security posture of all FEMA facilities to ensure a safe, healthy, and secure environment for FEMA and its emergency management partners.

10. Emergency Food and Shelter. Continue to support and fund the National Emergency Food and Shelter Board in the effective provision of grants to providers of emergency food and shelter. (P.6.1)

The Emergency Food and Shelter (EFS) program provides supplemental funds to local, non-profit, faith-based, and government agencies to assist in efforts to address homelessness and hunger throughout the country. The EFS National Board program focuses solely on non-disaster emergency financial assistance in jurisdictions that have the greatest economic need due to high unemployment and poverty rates. With limited resources available to assist people in financial crisis, the program is considered by most agencies to be an "emergency safety net" for the thousands of people who are homeless or hungry. These funds are often the only funds available to prevent homelessness and hunger in thousands of communities nationwide.

This annual goal has been met with 100% success. FEMA allocated the funds to the National Board within 30 days of receiving them. The program has funded 11,000 non-profit and local government agencies in 2,500 counties. It has effectively monitored the use of the funds in the provision of more than 87 million meals, more than 4 million nights of shelter, and the payment of more than 350,000 rent, mortgage or utility bills to prevent families from losing their homes.

Emergency Food and Shelter Accomplishments

FY	Meals & Food Provided	Shelter Nights Provided	Rent, Mortgage, Utility Bills Paid
1998	85 million plus	3.9 million	300 thousand
1999	80 million plus	3.3 million	287 thousand
2000	76 million plus	3.5 million	238 thousand
2001	85 million plus	5.0 million	400 thousand
2002	87 million plus	4.0 million	350 thousand

Data Source: The Emergency Food and Shelter National Board Database

11. State and Local Preparedness and Mitigation Capability. In collaboration with federal and local governments, states establish clearly defined and mutually agreed-upon strategic goals and priorities for their Emergency Management Performance Grant (EMPG) agreements. (MP.1.1)

The EMPG provides federal assistance for the maintenance and improvement of state and local emergency management departments and agencies. The primary responsibility of these state and local organizations is to respond and coordinate the operations of all emergency services in disasters and major emergencies caused by any hazard. When not involved in emergency operations, emergency management departments and agencies carry out programs of systems development—maintaining and improving facilities and equipment, planning, training, and exercising—so that everything possible is being done to mitigate hazards and to be prepared for future disasters. The EMPG, which is now under the management of FEMA's Office of National Preparedness, features very detailed plans of work. All recipients develop strategic goals, priorities, and performance measures.

Due to greatly expanded responsibility for capabilities of both emergency management agencies and other first responder organizations, FEMA has elevated performance measurement and the development of baselines to the status of a major program initiative. In coordination with the National Emergency Management Association and the International Association of Emergency Managers, FEMA is sponsoring the Emergency Management Accreditation Program (EMAP) a key element of which will be to conduct baseline assessments of all state and territorial emergency management programs. In future years, support for state and local emergency management agencies through the EMPG will remain critically important, serving as a keystone in the larger structure of FEMA's support for the development of a broad range of first responder, emergency services capabilities.

STRATEGIC GOAL 2

REDUCE HUMAN SUFFERING AND ENHANCE THE RECOVERY OF COMMUNITIES AFTER DISASTER STRIKES

12. Human Services Programs. Improve customer satisfaction with Human Services (HS) programs. (RR.1.1)

The Response and Recovery (R&R) Directorate administers the Disaster Housing Assistance program to help people displaced by disasters by providing money for rent of a temporary housing unit and expeditious repairs to the existing unit. In some cases, manufactured housing is provided until the home can be repaired. In addition, FEMA refers individuals and business owners to a variety of other federal, state, and private voluntary organizations offering other forms of assistance. Program staff measure the success of these efforts in part by asking those who register for assistance how satisfied they are with the services provided. R&R uses the information gathered through the surveys as a primary basis for improvement to the Disaster Housing Assistance program and to the overall referral process. In this manner, FEMA helps individual citizens overcome adversity and return to their normal lives.

Enid, OK, February 7, 2002

FEMA Director Joe M. Allbaugh holds a media availability at the Red Cross Shelter in Enid. The Director announced that individual assistance was available for victims in 45 Oklahoma counties who suffered damage from the recent winter ice storms.

PHOTO BY GENE ROMANO/FEMA NEWS PHOTO

Using the method described below, R&R measures overall satisfaction among those who received disaster assistance. Initially, the Human Services program achieved an 88.3% rating of satisfaction for FY 2002. This is 1.7% below the overall goal for the year, but within the margin for error of +/-2.6%. Tropical Storm Allison created flooding havoc in the Gulf states of Texas and Louisiana causing tele-registrations to exceed 50,000 the first week. By deleting these two disasters from the calculation due to exceeding the measurement parameters, customer satisfaction is 89.4%, with 95% confidence level and a margin for error of +/- 0.7%.

Beginning in April 2001, a new telephone survey of registrants for individual assistance programs was instituted. While registrants are surveyed at three points in their recovery, the only measure included here is at the conclusion of the government's involvement in their recovery process. This measure consists of a statistically valid sampling of registrants who received assistance and who responded positively to the following survey question: "Overall, the assistance and support I received from government personnel since the disaster has been excellent." Response options were: Strongly Disagree, Disagree, Agree, Strongly Agree.

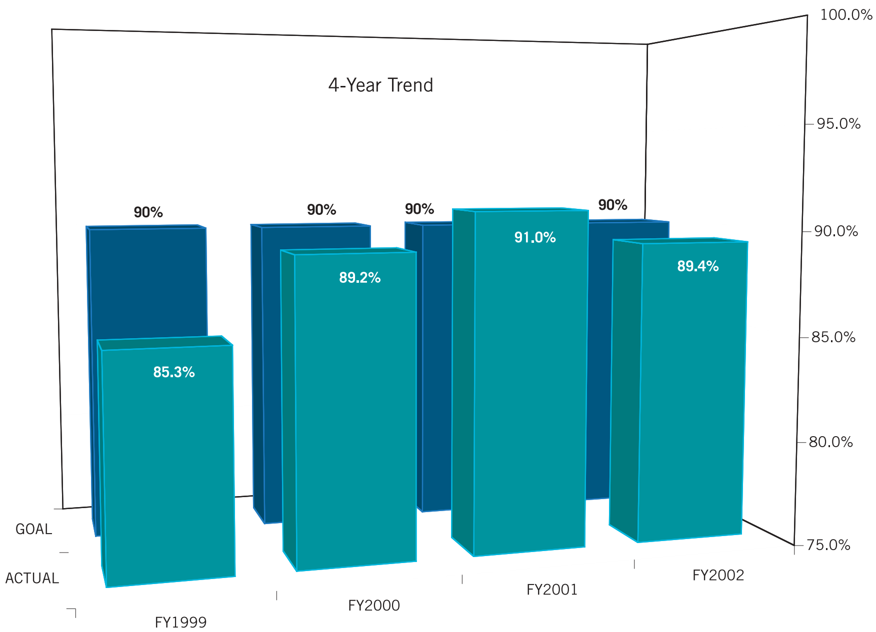
It should be noted that only responses from persons actually receiving assistance from FEMA's Disaster Housing Assistance program are used in this calculation. Responses from persons determined ineligible under this program are not considered. All current report data includes a six-month lag from disaster to analysis. This data is from telephone surveys of disasters declared in April 2001 through disaster declarations in March 2002.

Data shown on next page under "4-Year Trend" is based on a combination of survey types and measures. FY 1999 includes only six month's of data from the previous paper survey index of two questions. FY 2000 and 2001 are an index of positive scores to two questions regarding the applicant's perception of their ability to recover and their overall satisfaction with FEMA's assistance (from the paper survey). FY 2002's scores are from applicants who received assistance and responded positively to the overall question as indicated above as the current measure.

With the initiation of the Individual and Households Program (IHP) in October 2002, next year's performance will include six months of ratings on the Disaster Housing and Individual and Family Grant Program along with six months of ratings on the new Individuals and Households Program. It is expected that satisfaction with the new program will be higher due to streamlining of the processes and that administration of the program for most disasters will reside with one agency instead of being split between federal and state.

While performance is statistically within valid range of the goal, further analysis was needed in the particular disasters where performance was lower than our goal. It was found that dissatisfaction occurs when applicants expect more from our programs than is allowed. Information regarding our programs' limitations and the effects of insurance coverage needs to be clear and forthright.

Customer Satisfaction With Individual Assistance Programs



(Charts were prepared using Microsoft Excel software: 95% confidence level and a margin for error of +/-. 07%)

Data Source: Annual Individual Assistance Surveys

The specific benefits from achievement of the overall goal are found in terms of meeting performance standards. Achievement of these sub-goals would mean that customers are:

- Satisfied with the overall PA program and process;
- Issued policy that is consistent, appropriate, and flexible;
- Satisfied with the overall Project Worksheet process;
- Satisfied with the information received about the PA program;
- Asked to bear a minimal administrative burden;
- Served in a timely manner;
- Served with minimal turnover, by staff who are responsive, competent, accountable, and customer friendly; and
- Treated as partners.

13. Public Assistance Programs. Increase overall customer satisfaction with Public Assistance (PA) programs. (RR.1.2)

Major components of the PA program were redesigned in FY 1997 as part of an Agency-wide effort to improve program performance. The general goal was to transform the PA program into a customer satisfaction-driven and performance-based program, thereby improving the quality and delivery of service to our state and local applicants.

To accomplish this goal, program managers established a set of performance standards, indicators, and targets for the PA program. Each performance standard was a sub-goal that addressed an aspect of policy, process, or human performance that affects the delivery of disaster services to customers. To evaluate the effectiveness of the PA program, customer satisfaction surveys were conducted for each disaster in FY 2002 where Public Assistance was given. All disaster PA applicants and state/local partners were surveyed.

near Kingfisher, OK, February 7, 2002

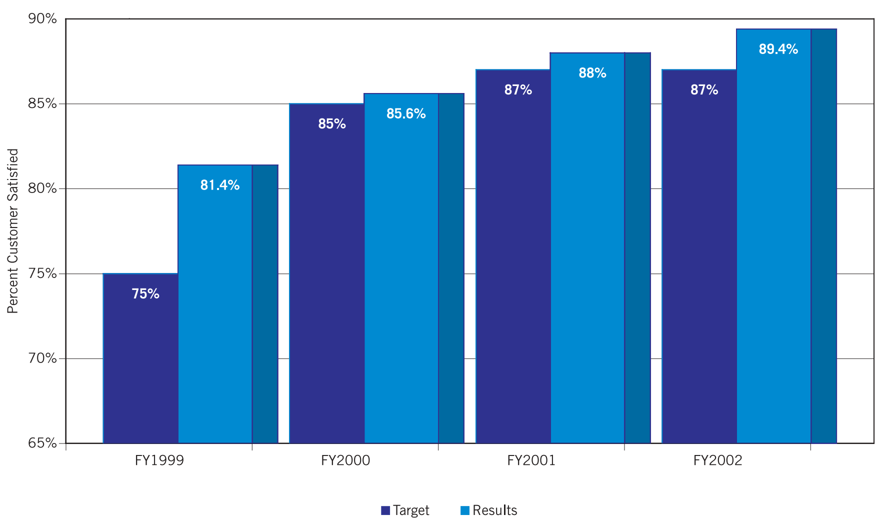
FEMA Director Joe M. Allbaugh talks with electrical workers who have been working for several days straight to restore power to communities throughout the state. The Director made a visit to Oklahoma on and announced that individual assistance was available for victims in 45 counties who suffered damage from the recent winter ice storms.

PHOTO BY GENE ROMANO/FEMA NEWS PHOTO

The overall PA goal and all eight sub-goals were successfully achieved in terms of performance exceeding their FY 2002 targets. The overall customer satisfaction rate in FY 2002 was 89.4%. This surpassed the target by 2.4%, and represents a 1.4% improvement over the previous FY 2001 performance.

Within each of the eight performance standards, there are various indicators to measure different dimensions of customer service and satisfaction. Each indicator/ measure has its own FY 2002 target. There are 51 indicators behind the eight sub-goals. Each indicator is relevant to the program evaluation of a particular sub-goal and reflects results of a specific customer survey question. Each sub-goal's indicator ratings are averaged for each disaster to determine the disaster's sub-goal performance. These sub-goal results are averaged to obtain the overall customer satisfaction rate for that disaster. The overall rates for each disaster in FY 2002 are again averaged to determine the annual customer satisfaction rate. This annual PA goal performance is compared to the rising annual PA target as well as previous years' PA goal performance.

PA Post-Disaster Customer Survey Results



Data Source: Annual Public Assistance Survey

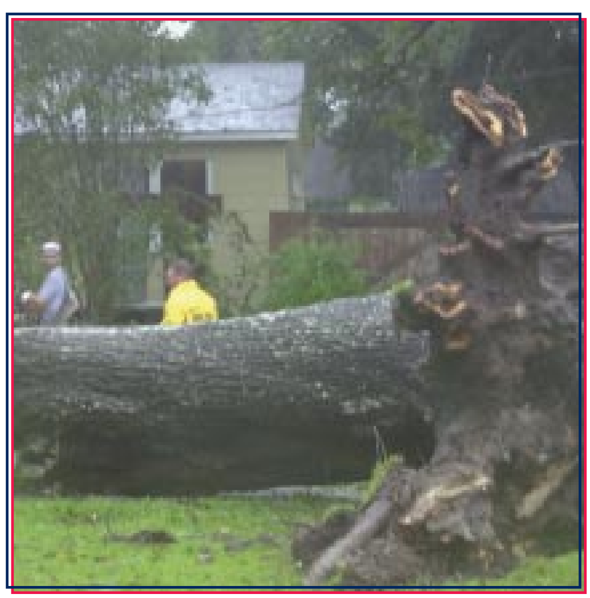
In light of past improvement trends, a higher overall customer satisfaction goal of 88% is targeted in FY 2003. The FY 2003 projected target represents an average of the FY 2002 target and actual FY 2002 goal performance.

Two sub-goals will be dropped in FY 2003 in order to reduce the customer survey's time burden and to increase survey response rates. The targets of these sub-goals (e.g., treat customers as partners, and issue policy that is consistent, appropriate, and flexible) were invariably met in past years.

14. Disaster Response. Improve response operations. (RR.1.3)

The FY 2002 Performance Indicator requires that FEMA act on all identified requests to meet the needs of catastrophic disaster victims for water, food, and shelter within 12 hours after a Presidential disaster declaration. The intent is to coordinate through partnerships with other federal agencies, state and local governments, private and voluntary organizations for the initial provision of these basic needs within 72 hours.

There were no catastrophic disasters in FY 2002. The Response Division increased its ability to achieve this goal in future catastrophic disasters by implementing organizational and staff performance capability in the following ways:



Welsh, LA, October 3, 2002

Emergency crews in Welsh, Louisiana saw limbs off a fallen tree from Hurricane Lili.

PHOTO BY LAUREN HOBART/FEMA NEWS PHOTO

- Conducted an Emergency Team Conference with Emergency Response Team-National (ERT-N) and Emergency Support Team (EST) participants at the Mount Weather Emergency Operations Center. Participants reviewed current documentation, established guidelines and streamlined rosters in accordance with Incident Command System principals.
- Conducted two ERT-N Steering Committee Meetings to discuss the ERT-N program; reviewed revisions to the ERT-N Con Plan; conducted an exercise for ERT-N, Regional Support Team (RST) and EST leadership; and established a Response Steering Committee to develop a forum for addressing response policies and procedures.

Reorganized ERT-N's; established a NCR ERT-N, established the ERT-N Blue, and reduced the staffing to 40 personnel per ERT-N Team. All positions on all ERT-N's and the EST have been rostered.

Held three RST courses held during FY 2002. A Response Operations Course and IEMC Exercise for the HQ EST were held at Mount Weather Emergency Operations Center. The IEMC exercise included two active RST's in the Exercise Control Cell staffed by ERT-N controllers. Region III hosted a Response Operations Workshop.

15. Logistics. Operate a logistics program that provides timely and cost-effective resources in support of the hazards emergency management mission of the Agency. (RR.2.1)

FEMA operates a logistics program that supplies and supports the management of items vital to disaster victims (e.g., water, meals, emergency generators, tents, blankets, and cots) and items vital to federal disaster response staff (e.g., computers, phones, office supplies, and equipment). Timeliness and cost effectiveness are emphasized by standardizing processes, prepackaging items into kits, recycling equipment, rapidly recovering disaster assets for redeployment, predeploying to centralized locations to reduce delivery time, and training Agency personnel in property management.

New York, NY

Jack Herbert and Ryan Bentley, of the Logistics team, pack up a portion of the DFO.

PHOTO BY LARRY LERNER/FEMA NEWS PHOTO

FEMA's work toward achievement of this goal has resulted in substantial cost-savings to the taxpayer:

- FEMA exceeded 92.6% on-time delivery of disaster assets. FEMA has improved customer service and efficiency by centralizing the transportation ordering process. Based on circumstances during disaster response, FEMA continues to identify additional commercial carriers that will be able to meet our immediate and unusual requirements, while eliminating those carriers that are unable to perform adequately. FEMA has improved customer service by pre-deploying disaster support packages to FEMA facilities and continuing to meet inventory-stocking goals. If assets are located closer to a disaster scene, they can be delivered quicker and cheaper.

- The Disaster Information Systems Clearinghouse/Territorial Logistics Center (DISC/TLC) exceeded its goal of maintaining the FY 2000 baseline of DISC/TLC assets available to support disasters. This was accomplished by the fast recycling of property and equipment recovered after disaster closeouts. During this period, FEMA was very efficient in responding to multiple disasters without any major shortfalls. Logistics continues to follow a back charge policy to replenish assets that could be available to support potential disasters.

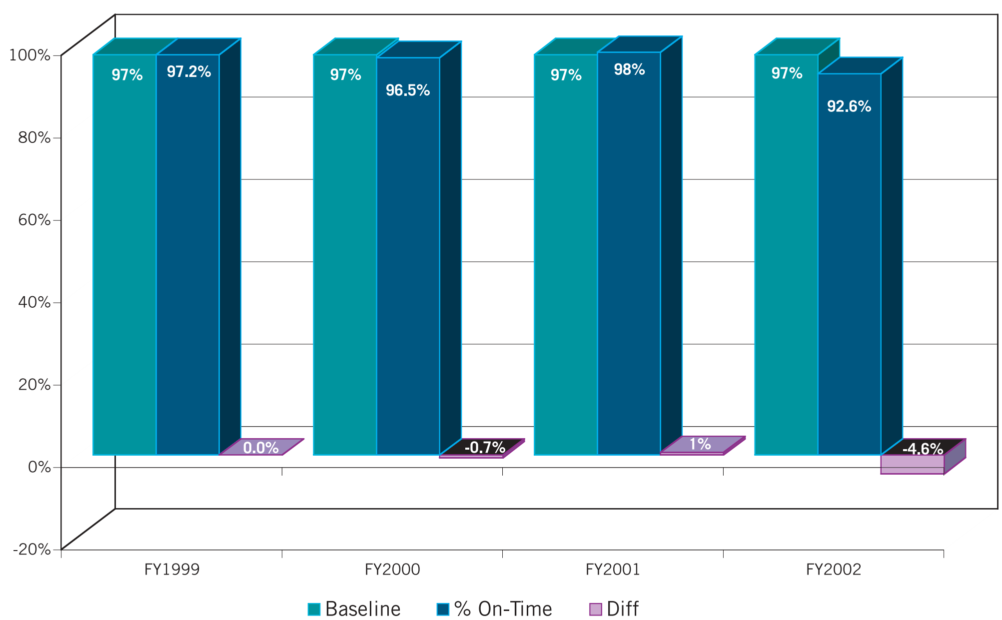
- For the end of FY 2002, the Automated Inventory Control indicates that FEMA's inventory at closed Disaster Field Offices (DFOs) was 2,976 items with a value of $3,368,365. This amounts to a 48% reduction over the FY 2000 baseline ($6,471,000) of total dollar value of assets remaining at closed DFOs, and is a significant cost avoidance.

The logistics on-time objective was not met this year due to circumstances beyond FEMA's control, i.e., weather conditions affecting off shore moves (Guam), local law enforcement requirements (New York City), and local and federal law enforcement requirements (2002 Olympics). However, 19% (115) of FEMA's overall freight moves (614) for FY 2002 arrived earlier than scheduled. FEMA continues to identify additional commercial carriers that will be able to meet our immediate and unusual requirements based on circumstances during disaster response, while eliminating those carriers that are unable to perform adequately.

Data regarding on-time delivery of disaster assets is captured after shipments have arrived at their final destination. Cost-avoidance calculations are simply based on the average value of assets issued to each disaster from Agency stock. The greater the value of equipment re-used, the greater the costs avoided. Similarly, greater (or larger-sized) disaster activity provides greater cost-avoidance opportunities.

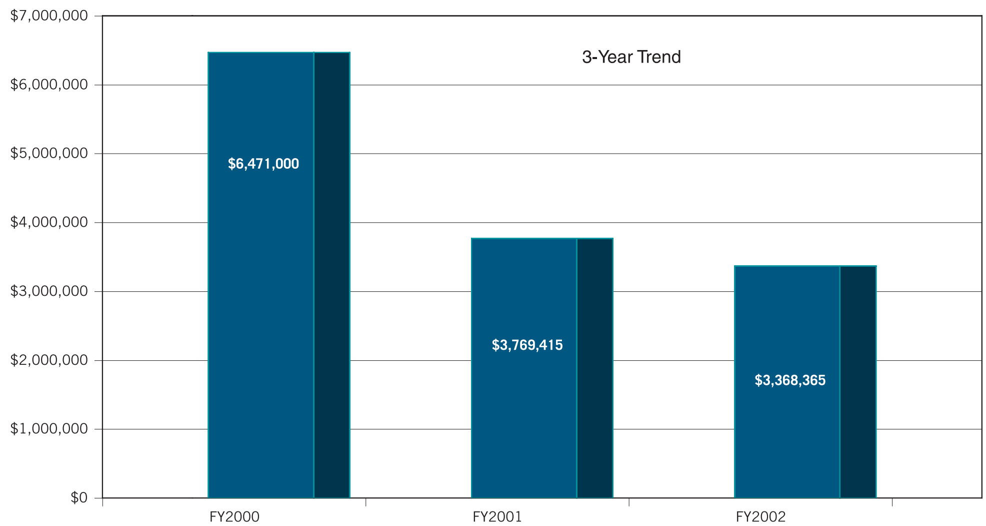
We anticipate that logistics support to disaster operations will continue to result in significant cost savings over the next year using the baseline established in FY 2001. On-time delivery achievement will increase as quality carriers are streamlined.

On-Time Deliveries



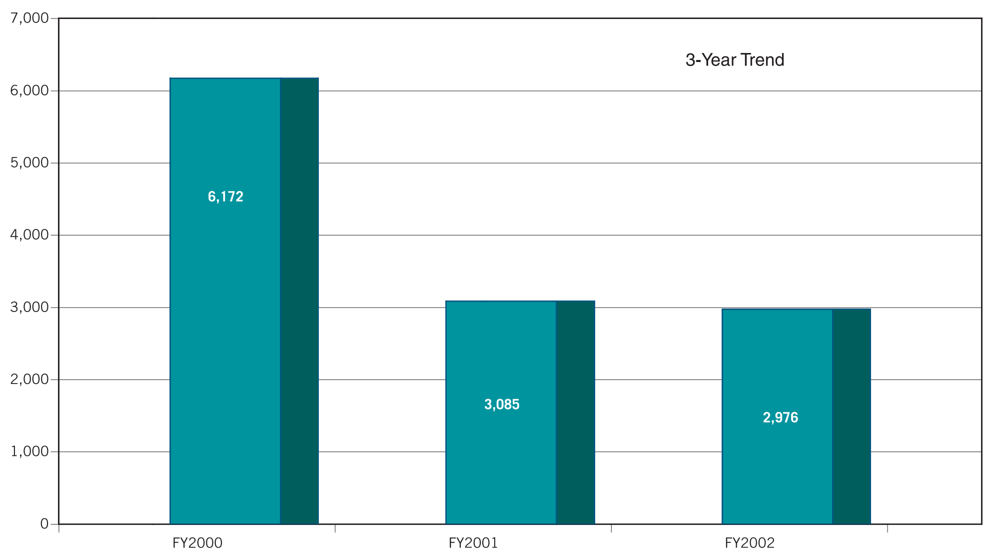
Data Source: Contractor records

Value of Items Remaining at Closed DFOs



Data Source: Logistics Information Management System

Quantity of Items Remaining at Closed DFOs



Data Source: Logistics Information Management System

16. Operate Emergency Communications Systems. Operate emergency communications systems to deliver emergency warnings, messages, and critical information to reduce losses and lower response and recovery costs. (RR.3.1)

These systems provide emergency alerts and emergency response communications nationwide or regionally by means such as the National Warning System (NAWAS), Emergency Alert System (EAS), and Geographical Information System (GIS). They provide emergency communications among federal, state, and local governments. They also disseminate information from sources inaccessible by local or state offices. The EAS allows state governments as well as the President to broadcast emergency alerts and information to the public:

- Hundreds of NAWAS/NOAA alerts were transmitted within two minutes of receipt.

- During testing, relayed EAS messages within 12 minutes.
- The Mapping and Analysis Center (MAC) maintained an interactive mapping Web site that enables FEMA Intranet users to create customized maps with the same data that the MAC staff uses.
- During FY 2002, the MAC produced over 800 unique maps within 72 hours.
- Maintained electronic links to states and territories.
- Released Phase 2 of the GIS Active Maps, that includes a tutorial for new users, and a new module for users who need data on National Flood Insurance Program communities.
- Developed a GIS strategic plan for the enterprise GIS effort.

Lake George area, LA, October 2, 2002

Hurricane evacuation orders were in affect for coastal areas in Louisiana, preparing for Hurricane Lily.

PHOTO BY LAUREN HOBART/FEMA NEWS PHOTO

Beyond FY 2002, more and more users will create maps using the interactive mapping Web site. FEMA will not be able to track how many or when the maps are created. The MAC staff in coordination with the Response and Recovery, and Insurance and Mitigation Directorates will develop a standard set of HAZUS earthquake maps to be used for disaster response.

17. National Emergency Management Information System. Direct remaining NEMIS development activities and monitor operations and maintenance of the system. (RR.4.1)

FEMA deployed in FY 1999, the National Emergency Management Information System (NEMIS) which serves as the information technology standard for the agency's presidential disaster operations. NEMIS automates federal disaster programs including incident activities, preliminary damage assessment, declaration processing, human services, infrastructure support, mitigation, and associated administrative and financial processing.

During FY 2002, NEMIS supported more than 197 disasters, 42 of which were Presidential declarations. In addition, 1 emergency, and 80 fire suppression declarations were issued during FY 2002. NEMIS allocations totaled over $2,412 million, including more than 105,000 disaster-housing grants totaling $195 million, and more than 183,000 individual family grants totaling $116 million. NEMIS operations processed 257 Hazard Mitigation Grants Program projects totaling $201 million and processed 138 Flood Mitigation Assistance projects totaling $16 million.

Auto-determination of disaster claims averages between 80-95%, depending on the type of disaster. Eleven percent of auto-generated awards are not auto-certified. One hundred percent of the status updates from the Small Business Administration (SBA) are transmitted and integrated automatically. The enhanced interfaces with SBA, Flood Insurance Program databases and other external databases are resulting in greater efficiency and accuracy in the processing of registrations for all programs. Turnaround time from registration to initial decision has dropped to 7 days. FEMA is continuing to develop upgrade and correct problems in reliability and throughput.

Jefferson Davis County, LA, October 3, 2002

Wind and rain from Hurricane Lily damage road signs along I-10 in Louisiana.

PHOTO BY LAUREN HOBART/FEMA NEWS PHOTO

In FY 2002 and 2003, efforts will be focused on achieving initial compliance with the Disaster Mitigation Act of 2000, with additional work to improve scalability and the capacity to manage large disasters.

In FY 2003, this goal becomes part of Goal 11, Information Management.

FEDERAL EMERGENCY MANAGEMENT AGENCY
FY 2002 OBLIGATIONS BY ANNUAL PERFORMANCE GOALS

Annual Performance Goals (APG)	WY*	S&E	EMPA	DRF	REP	NFIF/S&E	NFIF/OPS	NFIF/EMPA	NFMF	FMMF	EFS	Total
M.1.1 Development of Disaster Resistance	191	9,464	18,423	1,266		19,781		56,275	17,956	31,659		154,824
M.3.1 Flood Loss Data	14	1,624					2,500					4,124
M.4.1 Policies in Force	11	1,276					7,899					9,175
M.5.1 Reduce Subsidies to pre-FIRM properties	30	3,476					29,027					32,503
P.1.1 Federal, State, Tribal, Local & Private	238	24,856	6,957	4,437	13,792							50,042
P.1.2 Regional Off. Support, S/L Capability	181	12,482	924									13,406
P.3.1 Fire Loss	99	18,042	222,558									240,600
P.4.1 National Security Policy, Programs & Plans	34	5,159	8,969									14,128
P.5.1 Safety and Security	21	4,602	2,040	1,254								7,896
P.6.1 Emergency Food & Shelter	3	280									140,000	140,280
MP.1.1 S/L Preparedness & Mit. Capabilities			134,546									134,546
RR.1.1 Human Services Program	407	6,493		39,058								45,551
RR.1.2 Public Assistance Program	80	7,421		918,887								926,308
RR.1.3 Disaster Response	352	61,916	23,316	820								86,052
RR.2.1 Logistics	80	2,232		3,410								5,642
RR.3.1 IT Upgrades	18	1,500	3,900	430								5,830
RR.4.1 NEMIS	21	2,323	240	10,800								13,363
Total (APG)	1,780	163,146	421,873	980,362	13,792	19,781	39,426	56,275	17,956	31,659	140,000	1,884,270
Other **	3,423	65,594	44,593	2,951,073	—	—	801	—	—	—	—	3,062,061
FY 2002 Actuals	5,203	228,740	466,466	3,931,435	13,792	19,781	40,227	56,275	17,956	31,659	140,000	4,946,331

Notes:
*Total workyears include DRF CORE, DAE, and other temporary employees.
** Funds used for activities not specific to the performance goals.

Key:
WY: Workyears
S&E: Salaries and Expenses
EMPA: Emergency Management Planning and Assistance
DRF: Disaster Relief Fund
REP: Radiological Emergency Preparedness
NFIF: National Flood Insurance Fund
NFMF: National Flood Mitigation Fund
FMMF: Flood Map Modernization Fund
EFS: Emergency Food and Shelter

Financial Section

Message from the Acting Chief Financial Officer

I am pleased to present to you the Federal Emergency Management Agency's Performance and Accountability Report for fiscal year (FY) 2002. This report is submitted in compliance with the Chief Financial Officer's Act of 1990 and the Government Management Reform Act (GMRA) of 1994 and provides pertinent information and supporting data regarding the Agency's financial and program performance. The FY 2002 financial statements have been prepared in accordance with generally accepted accounting standards.

FEMA has initiated a series of actions to improve its financial performance in compliance with the CFO Act and GMRA and in support of the President's Management Agenda. In November 2002, FEMA submitted a comprehensive Financial Management Plan to OMB that outlined the steps we are taking to implement a sound financial management system and the President's financial management initiatives, and to identify remedial actions we are taking to address material weaknesses identified in prior year audits. This long-term Plan provides the Agency's overall goals and strategies to improve financial performance, financial management systems, and grants management, and contains detailed action plans to meet our goals.

In support of the President's initiative to "Improve Financial Performance," FEMA developed an Erroneous Payments Action Plan and a Draft Report on Improving Disaster Cost Projections that were submitted to OMB in June 2002. FEMA also submitted a revised Remediation Plan to OMB in June 2002 in accordance with the Federal Financial Management Improvement Act of 1996 (FFMIA). The Remediation Plan was designed to directly address the six material weaknesses and recommendations reported as a result of FEMA's FY 2001 financial statement audit. The Remediation Plan contains 29 Action Plans to address the financial system requirements; the material weaknesses identified in audits; and broader FEMA goals to improve its financial performance. Each Action Plan includes a schedule of tasks/activities for FY 2002 and beyond to ensure that we meet our objectives.

Upon OMB's review of our submission in June 2002 and subsequent status reports, FEMA was given a "green light" rating in the June and September OMB Scorecard progress reviews. OMB indicated that FEMA needs to continue meeting its milestones for resolving its six material weaknesses, and we will continue to closely monitor our progress in completing the actions that will bring FEMA into substantial compliance with the requirements of FFMIA and will ensure that our financial management system can produce financial data that is accurate, timely, and useful. During FY 2002, the Agency's Integrated Financial Management Information System (IFMIS) was upgraded with IFMIS Version 5.1.6 for compliance with FFMIA and Joint Financial Management Improvement Program (JFMIP) requirements. While the Remediation Plan acknowledges potential impediments to achieving our goals against the scheduled milestones, primarily our ongoing disaster operations demands and resource constraints, I am confident that we can achieve the goals that we have laid out to improve our financial performance.

Matt Jadacki
Acting CFO

Consolidated Balance Sheets

as of September 30, 2002 and 2001 (dollars in thousands)

	2002	2001 As Restated
ASSETS (Note 14)		
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 14,318,575	$ 8,809,198
Investments, net (Note 4)	1,702	1,599
Accounts receivable (Note 5)	2,812	16,287
Advances and prepayments (Notes 7 and 18)	67,891	11,663
Total intragovernmental	14,390,980	8,838,747
Cash and other monetary assets (Note 3)	15,119	3
Accounts receivable, net (Note 5)	28,362	28,493
Advances and prepayments (Note 7)	293,110	283,989
Credit program receivables, net (Note 6)	14,353	2,145
Inventory and other related property, net (Note 8)	6,306	4,179
General property plant and equipment, net (Notes 9 and 18)	94,967	79,009
	452,217	397,818
Total Assets	**$ 14,843,197**	**$ 9,236,565**
LIABILITIES (Note 16)		
Intragovernmental		
Accounts payable	$ 35,045	$ 19,505
Debt (Note 10)	19,136	612,176
Accrued workers' compensation liability (Notes 13 and 16)	5,895	5,406
Advances from others	98,088	79,737
Other (Note 15)	1,112	4,638
Total intragovernmental	159,276	721,462
Accounts payable	93,203	112,040
Liability for grants payable	33,869	30,614
Claims and claims settlement expenses (Notes 11 and 16)	489,221	518,126
Deferred revenue	976,053	922,264
Actuarial workers' compensation liability (Notes 13 and 16)	28,742	25,208
Other governmental liabilities (Note 15)	59,429	83,820
	1,680,517	1,692,072
Total Liabilities	**1,839,793**	**2,413,534**
Commitments and contingencies (Notes 10, 12, 20, 22 and 23)		
NET POSITION		
Unexpended appropriations (Notes 17 and 18)	14,025,258	8,351,253
Cumulative results of operations (Note 18)	(1,021,854)	(1,528,222)
Total Net Position	**13,003,404**	**6,823,031**
Total Liabilities and Net Position	**$ 14,843,197**	**$ 9,236,565**

The accompanying Notes are an integral part of these statements.

Consolidated Statements of Net Cost

for the years ended September 30, 2002 and 2001 (dollars in thousands)

	2002	2001 As Restated
Disaster Relief		
Program Costs		
Intra-governmental (Note 18)	$ 157,635	$ 877,416
With the public	3,952,871	2,403,560
Earned Revenue		(52)
Intra-governmental	(1)	
With the public	(14)	
Net Cost of Disaster Relief Program	4,110,491	3,280,924
National Flood Insurance		
Program Costs		
Intra-governmental	26,008	21,975
With the public	1,154,292	2,170,847
Earned Revenue		(1,603,071)
With the public	(1,706,677)	
Net Cost of National Flood Insurance Programs	(526,377)	589,751
Emergency Planning and Assistance		
Program Costs		
Intra-governmental	17,487	148,702
With the public	409,543	237,586
Earned Revenue		(77,715)
Intra-governmental	(54,983)	
With the public	(713)	
Net Cost of Emergency Planning and Assistance Programs	371,334	308,573
Cerro Grande Fire Claims		
Program Costs		
Intra-governmental	808	260
With the public	101,474	77,691
Earned Revenue	—	—
Net Cost of Cerro Grande Fire Grants Program	102,282	77,951
Other Programs		
Program Costs		
Intra-governmental	12,925	78,126
With the public	213,419	220,669
Earned Revenue		(39,749)
Intra-governmental	(24,894)	
With the public	(20,079)	
Net Cost of Other Programs	181,371	259,046
Net Cost of Operations (Note 21)	$ 4,239,101	$ 4,516,245

The accompanying Notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

for the year ended September 30, 2002 (dollars in thousands)

	Cumulative Results of Operations	Unexpended Appropriations	Total
Beginning Balances	$ (1,528,046)	$ 8,339,638	$ 6,811,592
Prior period adjustments (+/-) (Note 18)	(176)	11,615	11,439
Beginning balances, as adjusted	(1,528,222)	8,351,253	6,823,031
Budgetary Financing Sources:			
Appropriations received	—	10,431,700	10,431,700
Other adjustments (rescissions, etc) (+/-)	—	(13,751)	(13,751)
Appropriations used	4,743,944	(4,743,944)	—
Nonexchange revenue	41	—	41
Donations and forfeitures of cash and equivalents	11	—	11
Other Financing Sources:			
Transfers-in/out without reimbursement (+/-)	(13,685)	—	(13,685)
Imputed financing from cost absorbed by others (Note 13)	15,158	—	15,158
Total Financing Sources	4,745,469	5,674,005	10,419,474
Net Cost of Operations (+/-)	(4,239,101)		(4,239,101)
Ending Balances	**$ (1,021,854)**	**$ 14,025,258**	**$ 13,003,404**

The accompanying Notes are an integral part of these statements.

Combined Statement of Budgetary Resources

for the year ended September 30, 2002 (dollars in thousands)

Budgetary Resources:		
Budget Authority		
Appropriations	$	10,431,773
Borrowing Authority		664,595
Contract Authority		
Net transfers, current year authority		1,902
Other — emergency appropriations		306,000
Unobligated Balance		
Brought forward October 1st, as restated (Note 24)		3,196,634
Spending Authority from Offsetting Collections		
Earned		
Collected		1,863,932
Receivable from Federal sources		(43,272)
Change in unfilled customer orders		
Advance received		44,011
Without advance from Federal sources		10,386
Subtotal		1,875,057
Recoveries of Prior Year Obligations		455,114
Permanently Not Available		
Cancellation of expired and no year accounts		(12,918)
Enacted rescissions of current/prior year balances		(833)
Capital transfers and redemption of debt		(645,827)
Other authority withdrawn		(24,595)
Pursuant to Public Law		(306,000)
Total Budgetary Resources	**$**	**15,940,902**
Obligations Incurred		
Direct and reimbursable	$	6,159,815
Unobligated Balances Available		
Apportioned		2,112,374
Exempt from apportionment		1,808
Unobligated Balances Not Yet Available		7,666,905
Total, Status of Budgetary Resources	**$**	**15,940,902**

The accompanying Notes are an integral part of these statements.

Combined Statement of Budgetary Resources continued

for the year ended September 30, 2002 (dollars in thousands)

Relationship of Obligations to Outlays:

Obligated Balance, Net, Beginning of Period, as restated (Note 24)	$ 6,354,247
Obligated Balance, Net - End of Period	
Accounts receivable	783
Unfilled customer orders	(28,764)
Undelivered orders	5,376,635
Accounts payable	564,753
	$ 5,913,407
Outlays	
Disbursements	6,178,427
Collections	(1,907,943)
Subtotal	4,270,484
Less Offsetting Receipts	—
Net Outlays	**$ 4,270,484**

The accompanying Notes are an integral part of these statements.

Consolidated Statement of Financing

for the year ended September 30, 2002 (dollars in thousands)

Resources Used to Finance Activities:	
Budgetary Resources Obligated	
Obligations incurred	$ 6,159,815
Less: Spending authority from offsetting collections and recoveries	2,330,171
Obligations net of offsetting collections and recoveries	3,829,644
Less: Offsetting receipts	—
Net obligations	3,829,644
Other Resources	
Transfers in/out without reimbursement (+/-)	(13,685)
Imputed financing sources	15,158
Net other resources used to finance activities	1,473
Total Resources Used to Finance Activities	3,831,117
Resources Used to Finance items not Part of Net Cost of Operations	
Change in budgetary resources obligated for goods, services & benefits ordered but not yet provided	333,605
Resources that fund expenses recognized in prior periods	(54)
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	4,792
Resources that finance the acquisition of assets or liquidation of liabilities	(33,100)
Other	1,234
Total Resources Used to Finance Items not Part of the Net Cost of Operations	306,477
Total Resources Used to Finance the Net Cost of Operations	4,137,594
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:	
Components Requiring or Generating Resources in Future Periods:	
Increase in unfunded annual leave liability	1,994
Upward/Downward reestimates of credit subsidy expenses	(19,049)
Increase in exchange revenue receivable from the public	(5,214)
Increase in unfunded Cerro Grande claims expense	90,977
Other	17,982
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods:	86,690
Components not Requiring or Generating Resources:	
Depreciation and amortization	15,015
Other	(198)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	14,817
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	101,507
Net Cost of Operations	$ 4,239,101

The accompanying Notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

September 30, 2002 and 2001 (dollars in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Federal Emergency Management Agency (FEMA) was founded in 1979 by consolidating the emergency management functions formerly administered by five different Federal agencies. FEMA is an independent Federal agency reporting to the President charged with planning for, mitigating against, responding to, and recovering from natural and manmade disasters. FEMA will become part of the Department of Homeland Security in March 2003 as the Emergency Preparedness and Response Directorate. This transfer is not expected to have an effect on the reported assets. Since its creation in 1979, FEMA's mission has been clear: *to reduce loss of life and property and protect our nation's critical infrastructure from all types of hazards, through a comprehensive, risk-based emergency management program of mitigation, preparedness, response, and recovery*.

In addition to responding to disasters, FEMA plays a vital role in the development of disaster resistant communities. This is accomplished through FEMA's helping states to assess their capabilities and training decision makers; providing and managing grant support for mitigation activities; building and actively participating in private and public emergency management partnerships; and supporting building code adoption. Additionally, the National Flood Insurance Program's (NFIP) partnerships offer flood insurance in return for better community floodplain management.

FEMA also works to enhance the professionalism of the nations' fire service and allied professionals through comprehensive training and education. Extensive educational outreach to individuals, schools, and communities is used to reduce the loss of life and property from fires.

The accompanying financial statements reflect all activities of FEMA. The Agency receives funds from appropriations, revenues from sales of goods and services to the public, trust fund revenues, interest revenue, and revenue from other government entities. Revenues, expenses, assets, and liabilities resulting from transactions between various FEMA activities have been eliminated in preparing the accompanying consolidated financial statements.

FEMA is not subject to federal, state or local income taxes. Accordingly, no provision for income taxes is recorded.

Major program funding components of the Agency are described below:

Disaster Relief Fund (DRF): Provides a significant portion of the total Federal response to victims in Presidentially-declared disasters and emergencies. Established under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (PL 93-288, as amended), assistance supplements state and local governments' disaster response, recovery, preparedness and mitigation efforts. DRF is funded through no-year appropriations.

National Flood Insurance (NFI): Provides flood insurance on a national level, through sale or continuation-in-force only in communities that enact and enforce appropriate floodplain management measures. The Federal Insurance and Mitigation Administration (FIMA) is the FEMA entity that administers the insurance program and corresponding flood insurance and management funds.

Emergency Planning and Assistance (EMPA): Provides for the development and maintenance of the operational needs in building emergency management capability, in partnership with other Federal agencies, State and local governments, voluntary organizations and the private sector. Activities supported include financial and technical assistance, training and exercise support, logistics management support, and policy and planning guidance; and overall partnership building with and among State and local governments and other entities.

Cerro Grande Fund (CGF): Under the Cerro Grande Fire Assistance Act (PL 106-246), the fund was established to compensate victims of the Cerro Grande Fire. The Act authorized FEMA to receive, process, and pay claims associated with the fire and to reimburse other federal agencies for claims related to processing support. CGF is funded through a no-year appropriation.

Other Programs: Provides the necessary resources to various Agency programs at the headquarters and regional level. Salaries and Expenses, working capital, Emergency Food and Shelter, the Inspector General Office, Radiological Emergency Preparedness, and other smaller funds are included in other programs.

B. BASIS OF ACCOUNTING AND PRESENTATION

The accompanying financial statements have been prepared from the accounting records of FEMA in conformity with accounting principles generally accepted in the United States of America (GAAP) and the Office of Management and Budget's (OMB) Bulletin 01-09, Form and Content of Agency Financial Statements. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body of the Federal Government by the American Institute of Certified Public Accountants. These statements are different from the financial reports, also prepared by Treasury, pursuant to OMB directives that are used to monitor and control Treasury's use of budgetary resources.

Comparative statements are presented for the Balance Sheet and the Statement of Net Cost, as required by OMB Bulletin 01-09. The segregation of earned revenues between "intragovernmental" and "with the public" is not required for fiscal year 2001, and that breakout is not readily available. Comparative Statements of Changes in Net Position, Budgetary Resources, and Financing will be presented, as required by OMB Bulletin 01-09, for reporting periods beginning after September 30, 2002.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

C. BUDGETS AND BUDGETARY ACCOUNTING

Budgetary accounting measures the appropriation and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over the use of federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of purchase. Assets and liabilities, which do not consume current budgetary resources, are not reported, and only those liabilities for which a valid obligation has been established are considered to consume budgetary resources.

Within FEMA, budget authority, the authority to enter into financial obligations that will result in an immediate or future outlay, is derived from: (1) cost reimbursement for the provision of goods or services, (2) receipts that are held in trust for use in carrying out specific purposes and programs in accordance with agreements or statutes, and (3) congressional appropriations or other authorizations to spend general revenues.

D. REVENUES AND FINANCING SOURCES

FEMA receives the majority of the funding needed to support its programs through congressional appropriations. FEMA receives annual, multi-year, and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained through sales of goods and services to the public. The revenue from the sales of goods and services to the public consist primarily of: (1) insurance premiums for FIMA's flood insurance program which are recognized as income ratably over policy coverage periods; and (2) user fees for the Radiological Emergency Preparedness Program that provides services to commercial nuclear power plants. FEMA receives interest revenue from its loan program as well as from Treasury on invested funds. FEMA receives gifts from donors in a trust fund. In addition, FEMA has programs for which the expenses are reimbursed by other federal agencies.

Imputed financing sources consist of imputed revenue for post-retirement benefits for FEMA employees as described in Note 1.S.

Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred.

E. FUND BALANCE WITH TREASURY AND CASH AND OTHER MONETARY ASSETS

FEMA does not, except for minimal balances maintained by FIMA's Write Your Own (WYO) Insurance companies, maintain cash in commercial bank accounts. The U.S. Treasury processes cash receipts and disbursements. The Fund Balances with Treasury and Cash and Other Monetary Assets are primarily appropriated, revolving, or trust funds that are available to pay current liabilities and finance authorized purchase commitments.

F. INVESTMENTS, NET

Investments in Treasury notes are reported at cost or amortized cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. FEMA's intent is to hold investments to maturity, unless they are needed to sustain operations. No provision is made for unrealized gains or losses on these securities because they are expected to be held to maturity.

G. ACCOUNTS RECEIVABLE, NET

Accounts Receivable—Intragovernmental consists of amounts due from other federal agencies.

Accounts Receivable, Net consists primarily of premiums and restitution due from WYO insurance companies participating in the FIMA flood insurance program, amounts due from insurance customers and agents' commissions from canceled policies, amounts due from overpayments to grant recipients in the Disaster Relief Fund, and related interest receivable.

Amounts due for public receivables are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on past experience and an analysis of the outstanding balance. No allowance is established for intragovernmental receivables, as they are considered fully collectible.

H. ADVANCES AND PREPAYMENTS

It is FEMA's policy to advance funds to grant recipients so that recipients may incur expenses related to the approved grant. Advances are only made within the amount of the recorded grant obligation and are intended to cover immediate cash needs. Advances are expensed when drawn by the grant recipients; at fiscal year end the amount of grant funding unexpended by grant recipients is estimated. This estimate is based on data included in the PMS 272 Federal Cash Transaction Report. In previous years, the estimate was based on advances drawn within the last three business days of the fiscal year. Had FEMA applied the fiscal year 2002 estimate in fiscal year 2001, FEMA would have recognized $13,661 thousand less in Disaster Relief costs in fiscal year 2002 than is reported in the fiscal year 2002 Statement of Net Cost.

Advances consist of disaster assistance grants to states, other federal agencies tasked with mission assignments, and other grants to states of which the largest category is Emergency Management Performance Grants, a consolidation of grant programs, that supports state and local emergency management staffs and operations. When grant funds are used, the advances are liquidated.

Payments made by FEMA in advance of the receipt of goods and services are recorded as prepaid assets at the time of prepayment and recognized as expenses when the related goods and services are received. Policy acquisition costs, consisting of commissions incurred at policy issuance, are prepaid and amortized over the period in which the related premiums are earned, generally one to three years.

I. CREDIT PROGRAM RECEIVABLES, NET

Loans are accounted for as receivables as funds are disbursed. For loans obligated prior to October 1, 1991, loan principal and interest receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience and an analysis of outstanding balances.

Post 1991 obligated direct loans and the resulting receivables are governed by the Federal Credit Reform Act of 1990 (FCRA). Under FCRA, for direct loans disbursed during a fiscal year, the corresponding receivable is adjusted for subsidy costs. Subsidy costs are an estimated long-term cost to the U.S. Government of its loan programs. The subsidy cost is equal to the present value of the estimated cash outflows over the life of the loans minus the present value of the estimated cash inflows, discounted at the applicable Treasury interest rate. Administrative costs such as salaries and contractual fees are not included in the subsidy costs. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults, and other cash flows. FEMA calculates the subsidy costs based on a Subsidy Calculator model created by OMB.

Loans receivable are recorded at the present value of the estimated cash inflows less cash outflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recorded in the Allowance for Subsidy. This Allowance for Subsidy is re-estimated annually, as of September 30.

The Interest Receivable is the total interest that has accrued on each of the outstanding loans, less any cancellations that may have been recorded due to the FEMA cancellation policy as described in 44 CFR §206.366.

J. INVENTORY AND OTHER RELATED PROPERTY, NET

Inventory and Other Related Property, Net are comprised of floodplain maps and studies. Inventory on hand at year-end is stated at the lower of cost or market using the average cost method. The recorded values are adjusted for the results of physical inventories taken periodically in accordance with a cyclical counting plan. Excess, obsolete or unserviceable inventory is recycled and expensed in the period identified. Expenses are recorded when the inventories are sold or distributed.

Operating materials and supplies that are pre-positioned in Territory Logistics Centers for disaster use are expensed when purchased.

K. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

General Property, Plant, and Equipment is generally capitalized at cost using a capitalization threshold of $25,000. Property, plant, and equipment is depreciated using a 1/2 year convention and the straight-line method over the assets' useful lives.

Two exceptions to the $25,000 threshold exist: (1) For improvements, betterments and enhancements to owned real property, leasehold improvements and capital leases, capitalization is also based upon cost but uses a threshold of $100,000. Such expenditures are normally spread over the assets' remaining useful lives; and (2) Internal Use Software, including off-the-shelf or developed by contractor or internally, is capitalized using a $750,000 threshold.

FEMA has adopted the following useful lives for classes of capitalized depreciable property:

3-Year Property: internal use software.

5-Year Property: cars, light and heavy general purpose trucks, qualified technological equipment, computer-based telephone switching equipment, radios and other voice/data communications equipment, computers and peripheral equipment, office machinery and equipment (typewriters, calculators, etc.), office furniture and fixtures, any additional personal property that is not otherwise classified.

20-Year Property: residential and nonresidential buildings, structures, and any other land improvements, and any of these or other capital assets purchased or acquired through capital leases.

Other: Depreciable life based upon existing circumstances. Improvements to capital assets such as: additions; betterments; enhancements or upgrades; and replacements fall in this category along with capitalized leasehold improvements.

L. LIABILITIES

Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Since FEMA is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources or an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as unfunded liabilities since there is no certainty that the appropriations will be enacted. The Government, acting in its sovereign capacity, can abrogate liabilities of FEMA arising from other than contracts.

Liabilities Covered by Budgetary Resources are those liabilities funded by available budgetary resources including: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the fiscal year, and (5) permanent, indefinite appropriations or permanent, indefinite or definite borrowing authority.

Liabilities Not Covered by Budgetary Resources are incurred when funding has not yet been made available through Congressional budget authority. FEMA recognizes such liabilities for employees' annual leave earned but not taken; amounts billed to FEMA by the Department of Labor for Federal Employee's Compensation Act payments, and related actuarial liabilities; and certain projected claims of the Cerro Grande Fire Assistance Act.

M. ACCOUNTS PAYABLE

Accounts Payable consists of amounts owed to other federal agencies, trade accounts payable, interest on trade accounts payable, and commissions payable.

N. GRANTS LIABILITY

Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, requires the accrual of amounts payable to grantees at year-end. FEMA contracts the Department of Health and Human Services (DHHS), Program Support Center to disburse the majority of its grants through their Payment Management System. In fiscal year 2002 FEMA expanded the requirements of DHHS to perform period ending grant liability accruals.

The process adopted by DHHS to estimate a year-end grant accrual relies on a simple linear regression model using historical spending patterns to predict unreported grantee expenditures. The regression model uses the relationship between cumulative advances and cumulative PMS 272, Federal Cash Transaction Report, disbursements over 20 quarters.

FEMA relied on actual grant expenditure data included in the PMS 272 Federal Cash Transaction Report in previous years. This change in estimate did not materially affect the grant liability balance.

O. CLAIMS AND CLAIMS SETTLEMENT EXPENSES

Provision for NFIP loss adjustment expenses and estimates for incurred but not reported losses are based on reports of individual cases. Adjustments to estimated provisions are reflected in the financial statements as they occur. Loss adjustment expense includes direct costs of settlement and, for the WYO portion of Insurance Underwriting Operations, a provision for unallocated loss adjustment expenses. Loss reserves for the period ended September 30, 2002 and 2001 were derived using loss development data available through November of each year.

Provision for Cerro Grande Fire claims settlement expenses are based on a detailed analysis as of September 30, 2002 and 2001 of each year.

P. DEFERRED REVENUE

NFIP premium revenues are recognized ratably over the life of the policies. Deferred revenue relates to unearned premiums that are reserved to provide for the unexpired period of insurance coverage.

Q. DEBT

Debt results from the Treasury loans and related interest payable to fund NFIP and Disaster Assistance Direct Loan Program (DADLP) operations disclosed in Note 10. These programs are required to make periodic principal payments to the Treasury based on the terms of the notes.

FEMA's NFIP and DADLP include interest payable to Treasury in the amount recorded as Debt. DADLP interest rates are based on a weighted average for the years of disbursement. Balances of all borrowed funds that have not been disbursed earn an interest rate equal to the interest rate that is being charged on the borrowed funds.

To simplify interest calculations, all borrowings are dated the first day of the fiscal year, all receipts and payments made to Treasury (except borrowings specified at year end) are given a mid-year calculation date. Principal repayments are required only at maturity, but are permitted at any time during the term of the loan. All loan and interest payments are financed from flood premiums and map collection fees.

NFIP loans are for a three-year term. Interest rates are obtained from the Bureau of Public Debt. Simple interest is calculated monthly—offset by an interest rebate, if applicable. The interest rebate is calculated at a rate equal to the weighted average of the interest rates of outstanding loans for the month multiplied by the "positive" daily account fund balance for the month. Interest is paid semi-annually, October 1 and April 1. Partial loan repayments are permitted. Principal repayments are required only at maturity, but are permitted any time during the term of the loan. All loan and interest payments are financed flood premiums and map collection fees.

Additional funding for FIMA's NFIP may be obtained through a Treasury Department borrowing authority of $500 million (up to $1 billion with the approval of the President). P.L. 105-65, regarding appropriations for fiscal year 1999 and for other purposes, maintained FEMA's borrowing authority at $1.5 billion.

R. WORKERS' COMPENSATION LIABILITY

Workers' Compensation is comprised of two components: (1) the accrued liability which represents money owed for claims incurred through the current fiscal year, and (2) the actuarial liability for approved compensation cases incurred beyond the current fiscal year.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for FEMA employees under FECA are administered by the Department of Labor and are ultimately paid by FEMA.

Future workers' compensation estimates were generated from an application of actuarial procedures developed by the Department of Labor to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined utilizing historical benefit payment patterns related to a specific period to estimate the ultimate payments related to that period.

S. PENSIONS, OTHER RETIREMENT BENEFITS, AND OTHER POST-EMPLOYMENT BENEFITS

FEMA recognizes the full costs of its employees' pension benefits, however, the liability associated with these costs are recognized by the Office of Personnel Management (OPM), rather than by FEMA.

Most employees hired prior January 1, 1984; participate in the Civil Service Retirement System (CSRS). On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, the Agency also contributes the employer's matching share for Social Security.

Similar to Federal retirement plans, OPM rather than FEMA, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. As a result, of SFFAS No. 5, FEMA is required to report the full cost of providing other retirement benefits (ORB). In addition, SFFAS No. 5 also requires that FEMA recognize an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full costs of pension, ORB and OPEB benefits and the amount paid by FEMA is recorded as an expense and offsetting Imputed Financing Sources in the accompanying consolidated financial statements.

T. ANNUAL, SICK, AND OTHER LEAVE

A liability for annual leave is accrued as leave is earned and paid as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior-year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Sick leave and other types of non-vested leave are not accrued but are expensed as taken.

U. NON-ENTITY ASSETS

Non-entity assets disclosed in Note 14, are defined as assets held and managed by FEMA but not available to finance FEMA's operations. FEMA classifies interest on past due accounts receivable as a non-entity asset and records amounts equal to the non-entity asset as a non-entity liability payable to the Department of Treasury's miscellaneous receipt account.

V. USE OF ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

W. EXPIRED ACCOUNTS AND CANCELED AUTHORITY

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account into which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is canceled.

X. PRICING POLICY FOR USER FEES

FEMA's NFIP provides flood mitigation products and services to the government, state and local governments, and to the public. Under the authority of 31 U.S.C., Sec. 9701, the NFIP established the goal to become self-supporting by charging user fees for flood mitigation products and services.

In 1985, FEMA published a final rule in the Code of Federal Regulations (CFR) to add part 72 to Title 44, Chapter I, Subchapter B. Part 72 provides cost reimbursement procedures for the engineering review and processing associated with requests for changes to flood maps. This established the first flood mitigation user fee and set a precedent for other user fees for retrieving, reproducing and distributing stored technical support data and flood map products. These fees were based on incurred costs and have been reviewed periodically since 1985.

The Flood Mitigation User Fee Group was established in January 1995 to determine whether current user fees covered the costs of providing NFIP products and services to the public. The Fee Group meets periodically during the year to recommend increases and or decreases to map products.

The Omnibus Budget Reconciliation Act of 1990 directed the NFIP to establish a user fee to recover administrative expenses from flood insurance policyholders. In 1991, FEMA initiated a Federal Policy Fee of $25 per policy to pay for administrative expenses. The Federal Policy Fee and the flood mitigation user fees pay for administrative expenses of the NFIP.

FEMA also oversees the Radiological Emergency Preparedness Fund (REP) through 100% user fee financing. The fund supports state and local government in REP planning around Nuclear Regulatory Commission (NRC) licensed planning zones nationwide. Fees are assessed and collected from NRC licensees.

NOTE 2. FUND BALANCE WITH TREASURY (IN THOUSANDS)

A. FUND BALANCES

	2002	2001
Appropriated Funds	$ 14,176,985	$ 8,676,066
Other Fund Types	61,866	60,427
Revolving Funds	79,583	72,508
Trust Funds - Restricted	141	197
Total	$ 14,318,575	$ 8,809,198

B. STATUS OF FUND BALANCE WITH TREASURY

	2002	2001
Unobligated Balance		
Available	$ 1,166,658	$ 1,670,548
Unavailable	7,596,253	311,708
Obligated Balance not yet Disbursed	5,555,664	6,826,942
Total	$ 14,318,575	$ 8,809,198

FEMA recognizes that there are differences between Treasury's TFS-6653 and FEMA's general ledger cash. These differences are due to conversion from a non-general ledger based system and the timing of OPAC and IPAC transactions. At the end of the year, FEMA allocates the net change in this difference occurring in the fiscal year for financial statement purposes. Specifically, items identified or approved by the program officer subsequent to year-end relating to the previous fiscal year are charged to the appropriate fund and any remaining balance is allocated on a percentage basis to the major organizational components.

NOTE 3. CASH AND OTHER MONTARY ASSETS (IN THOUSANDS)

Minimal cash balances are maintained at commercial banks by the Write Your Own insurance companies and the servicing agent, to fund claim payments and other cash needs, related to the flood insurance program.

	2002	2001
Cash		
Other Cash — Contractor	$ 15,132	$ —
Other Cash — Agency	(13)	3
Total	$ 15,119	$ 3

NOTE 4. INVESTMENTS, NET (IN THOUSANDS)

2002	Cost	Amortization Method	Unamortized Premium (Discount)	Investments, Net	Market Value
Marketable	$ 1,668	Straight Line	$ 34	$ 1,702	$ 1,702
Total	$ 1,668		$ 34	$ 1,702	$ 1,702

2001	Cost	Amortization Method	Unamortized Premium (Discount)	Investments, Net	Market Value
Marketable	$ 1,543	Straight Line	$ 56	$ 1,599	$ 1,599
Total	$ 1,543		$ 56	$ 1,599	$ 1,599

NOTE 5. ACCOUNTS RECEIVABLE, NET (IN THOUSANDS)

	2002	2001
Disaster Relief		
Accounts Receivable - Intragovernmental	$ 188	$ 231
Accounts Receivable	52,497	77,751
Interest Receivable	7,982	7,658
Allowance for Loss	(49,241)	(70,353)
	11,426	15,287
National Flood Insurance		
Accounts Receivable - Intragovernmental	175	44
Accounts Receivable	16,895	13,450
Interest Receivable	1	1
Allowance for Loss	(26)	(85)
	17,045	13,410
Other programs		
Accounts Receivable - Intragovernmental	2,449	16,012
Accounts Receivable	248	71
Interest Receivable	6	—
	2,703	16,083
Total	$ 31,174	$ 44,780

The reconciliation of the allowance for uncollectible accounts as of September 30, 2002 and 2001 is as follows:

	2002	2001
Beginning Allowance for Uncollectible Accounts	$ 70,438	$ 37,690
Additions	8,311	33,050
Reductions		
Write off for states	(28,383)	—
Write off for individuals	(1,099)	(302)
Subtotal	(29,482)	(302)
Ending Allowance for Uncollectible Accounts	$ 49,267	$ 70,438

NOTE 6. CREDIT PROGRAM RECEIVABLES, NET (IN THOUSANDS)

A. FEMA OPERATES SEVERAL DIRECT LOAN PROGRAMS FOR NON-FEDERAL BORROWERS. THE NET LOANS RECEIVABLE BALANCES, BY PROGRAM, ARE AS FOLLOWS:

	2002	2001
Community Disaster Loans	$ 14,353	$ 761
Individual & Family Grant Loans	-	426
Public Assistance Loans	-	612
Hazard Mitigation Loans	-	346
	$ 14,353	$ 2,145

An analysis of loans receivable and the nature and amounts of the subsidy and administrative costs associated with the direct loans is provided in the following sections.

B1. DIRECT LOANS OBLIGATED PRIOR TO FY 1992 (PRESENT VALUE METHOD):

2002	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
Community Disaster Loans	$ 172	$ 38	$ 20	$ 190
Total	**$ 172**	**$ 38**	**$ 20**	**$ 190**

2001	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
Community Disaster Loans	$ 172	$ 55	$ —	$ 227
Total	**$ 172**	**$ 55**	**$ —**	**$ 227**

C. DIRECT LOANS OBLIGATED AFTER FY 1991:

2002	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Community Disaster Loans	$ 130,887	$ 46,183	$ (162,907)	$ 14,163
State Share Loans	—	—	—	—
Individual & Family Grant Loans	—	—	—	—
Public Assistance Loans	—	—	—	—
Hazard Mitigation Loans	—	—	—	—
Total	**$ 130,887**	**$ 46,183**	**$ (162,907)**	**$ 14,163**

2001	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Community Disaster Loans	$ 160,003	$ 54,681	$ (214,150)	$ 534
State Share Loans	—	—	—	—
Individual & Family Grant Loans	1,379	10	(963)	426
Public Assistance Loans	1,980	14	(1,382)	612
Hazard Mitigation Loans	1,120	8	(782)	346
Total	**$ 164,482**	**$ 54,713**	**$ (217,277)**	**$ 1,918**

There are no fiscal year 2002 ending balances for the State Share Cost Direct Loans (i.e. Individual & Family Grant, Public Assistance, or Hazard Mitigation) because all outstanding loans for State Share Cost Direct Loans for fiscal year 2001 were repaid in full during fiscal year 2002. No new State Share Cost Direct Loans were disbursed during fiscal year 2002.

D. TOTAL AMOUNT OF DIRECT LOANS DISBURSED (POST-1991):

	2002	2001
Community Disaster Loans	$ —	$ 1,423
Total	**$ —**	**$ 1,423**

E. SUBSIDY EXPENSE FOR DIRECT LOANS BY PROGRAM AND COMPONENT:

2002 Subsidy Expense for New Direct Loans Disbursed

	Interest Differential	Defaults	Fees	Other	Total Subsidy
Community Disaster Loans	$ —	$ —	$ —	$ —	$ —
State Share Loans	—	—	—	—	—
Total	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

2001 Subsidy Expense for New Direct Loans Disbursed

	Interest Differential	Defaults	Fees	Other	Total Subsidy
Community Disaster Loans	$ 374	$ —	$ —	$ 995	$ 1,369
State Share Loans	—	—	—	—	—
Total	**$ 374**	**$ —**	**$ —**	**$ 995**	**$ 1,369**

2002 Modifications and Reestimates

	Total Modification	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Community Disaster Loans	$ —	$ —	$ (19,014)	$ (19,014)
State Share Loans	—	—	(35)	(35)
Total	**$ —**	**$ —**	**$ (19,049)**	**$ (19,049)**

2001 Modifications and Reestimates

	Total Modification	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Community Disaster Loans	$ —	$ (1,315)	$ 44,033	$ 42,718
State Share Loans	—	—	(201)	(201)
Total	**$ —**	**$ (1,315)**	**$ 43,832**	**$ 42,517**

Total Direct Loan Subsidy Expense:

	Current Year	Prior Year
Community Disaster Loans	$ (19,014)	$ 44,087
State Share Loans	(35)	(201)
Total	**$ (19,049)**	**$ 43,886**

F. DIRECT LOAN SUBSIDY RATES

The direct loan subsidy rate, by component, for the FY 2002 and FY 2001 cohorts, are as follows:

	FY 2002		FY 2001	
	Community Disaster Loans	State Share Loans	Community Disaster Loans	State Share Loans
Interest Subsidy Cost	2.30%	1.26%	26.28%	6.67%
Default Costs	0.09%	—	—	—
Other	89.53%	0.36%	69.91%	0.04%
	91.92%	1.62%	96.19%	6.71%

G. SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES

	2002	2001
Beginning Balance of the Subsidy cost allowance	$ 217,277	$ 160,212
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
(a) Interest rate differential costs	—	374
(b) Other subsidy costs	—	995
Adjustments:		
(a) Loans written off	(44,682)	(5)
(b) Subsidy allowance amortization	9,361	13,184
Ending balance of the subsidy cost allowance before reestimates	181,956	174,760
Add subsidy reestimate by component		
(a) Technical/default reestimate	(19,049)	42,517
Ending balance of the subsidy cost allowance	$ 162,907	$ 217,277

H. ADMINISTRATIVE EXPENSES

	2002	2001
Community Disaster and State Share Loans	$ 291	$ 225

NOTE 7. ADVANCES AND PREPAYMENTS (IN THOUSANDS)

	2002	2001 Restated
Intragovernmental		
DRF	$ 67,315	$ 11,615
NFI	24	48
Other	552	—
	67,891	11,663
With the Public		
NFI	288,351	258,516
EMPA	1,908	2,411
DRF	2,850	22,985
Other Programs	1	77
	293,110	283,989
Total	$ 361,001	$ 295,652

Fiscal year 2001 amounts were restated via a prior period adjustment in fiscal year 2002 to correct the expensing of these amounts (see Note 18).

NOTE 8. INVENTORY AND OTHER RELATED PROPERTY, NET (IN THOUSANDS)

2002	Valuation Method	Held for Current Sale	Held for Distribution	Total
Floodplain Maps and Studies	Average Cost	$ 3,134	$ 3,241	$ 6,375
Allowance for Obsolescence		(69)	—	(69)
Total		$ 3,065	$ 3,241	$ 6,306

2001	Valuation Method	Held for Current Sale	Held for Distribution	Total
Floodplain Maps and Studies	Average Cost	$ 1,918	$ 2,303	$ 4,221
Allowance for Obsolescence		(42)	—	(42)
Total		$ 1,876	$ 2,303	$ 4,179

NOTE 9. GENERAL PROPERTY, PLANT, AND EQUIPMENT (IN THOUSANDS)

2002	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Software	Straight Line	3 Years	$ 25,357	$ (6,526)	$ 18,831
Buildings, Improvements, and Renovations	Straight Line	20/5 Years	148,269	(99,807)	48,462
Construction in Progress	none	—	3,183	—	3,183
Equipment	Straight Line	5 Years	117,387	(95,808)	21,579
Improvements to Land	Straight Line	20 Years	8,139	(7,103)	1,036
Land and Land Rights	none	—	349	—	349
Leasehold Improvements	Straight Line	5 Years	—	—	—
Other Structures and Facilities	Straight Line	20/5 Years	4,322	(2,795)	1,527
Total			$ 307,006	$ (212,039)	$ 94,967

2001 Restated	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Software	Straight Line	5 Years	$ 16,797	$ (2,709)	$ 14,088
Buildings, Improvements, and Renovations	Straight Line	20/5 Years	141,963	(95,137)	46,826
Construction in Progress	none	—	1,392	—	1,392
Equipment	Straight Line	5 Years	103,070	(89,510)	13,560
Improvements to Land	Straight Line	20 years	8,139	(7,010)	1,129
Land and Land Rights	none	—	349	—	349
Leasehold Improvements	Straight Line	5 Years	—	—	—
Other Structures and Facilities	Straight Line	20/5 Years	4,322	(2,657)	1,665
Total			$ 276,032	$ (197,023)	$ 79,009

FEMA's fiscal year-end property valuations also include property owned by FEMA, but held by Federal contractors. FEMA's personal property includes: (1) property acquired by FEMA and held by Federal government contractors (contractors) and (2) property acquired and held by contractors, to which FEMA holds title (contractor-held, FEMA—owned). Contractor-held, FEMA-owned property is reported as property in the financial statements upon delivery or constructive delivery to the contractor for use in performing contract services, or to FEMA. As of September 30, 2002 and 2001, the net book value of capitalized personal property held by contractors is $701 thousand and $525 thousand, respectively.

FEMA used an estimated value in recording the Internal Use Software as required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 10. The estimated value was extracted from the FY 2002 attachments to the FY 2004 budget and reviewed with the responsible offices to arrive at the estimated value in accordance with SFFAS No. 10.

Fiscal year 2001 balances for all property, plant, and equipment, with the exception of land and land rights, were restated via a prior period adjustment in fiscal year 2002 as a result of an extensive review of all FEMA real and personal property (see Note 18).

NOTE 10. DEBT (IN THOUSANDS)

2002	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Treasury	$ 612,176	$ (593,040)	$ 19,136
Total	$ 612,176	$ (593,040)	$ 19,136

2001	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Treasury	$ 416,220	$ 195,956	$ 612,176
Total	$ 416,220	$ 195,956	$ 612,176

	2002	2001
Interest Expense Related to Debt	$ 17,134	$ 11,963

Borrowings from Treasury for FEMA DADLP and NFIP

Loan amount, interest rate, and maturity date as of September 30, 2002 and 2001 are as follows:

Cohort	2002 Loan Amount	Interest Rate	2001 Loan Amount	Interest Rate	Maturity Date
FY 93 CDL	$ 39	6.21%	$ 76	6.21%	9/30/2003
FY 96 CDL	4,359	6.21%	8,610	6.21%	9/30/2003
FY 01 & Modified	—	—	1,538	5.46%	9/30/2005
FY 01	10,000	4.375%	410,000	4.375%	8/31/2004
FY 01	—	—	190,000	4.125%	9/30/2004
Total Loans	$ 14,398		$ 610,224		
Interest Payable	4,738		1,952		
Total Debt	$ 19,136		$ 612,176		

Interest rates are based on a weighted average rate for the years of disbursement. Balances of all borrowed funds that have not been disbursed earn an interest rate equal to the interest rate that is being charged on the borrowed funds. To simplify interest calculations, all borrowings are dated the first day of the fiscal year, all receipts and payments made to Treasury (except borrowings specified at year end) are given a mid year calculation date. Principal repayments are required only at maturity, but are permitted at any time during the term of the loan.

NOTE 11. CLAIMS AND CLAIMS SETTLEMENT LIABILITIES (IN THOUSANDS)

National Flood Insurance Program

The liability for unpaid losses and loss adjustment expenses represents an estimate of the ultimate net cost of all losses that are unpaid at the balance sheet date and is based on the loss and loss adjustment expense factors inherent in the NFIP Insurance Underwriting Operations experience and expectations. Estimation factors used by the Insurance Underwriting Operations reflect current case basis estimates and give effect to estimates of trends in claim severity and frequency. These estimates are continually reviewed; and adjustments, reflected in current operations, are made as deemed necessary.

Although the Insurance Underwriting Operations believes the liability for unpaid losses and loss adjustment expenses (LAE) is reasonable and adequate in the circumstances, it is possible that the Insurance Underwriting Operations' actual incurred losses and loss adjustment expenses will not conform to the assumptions inherent in the estimation of the liability. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary from the amount included in the financial statements.

Activity in the liability for unpaid losses and loss adjustment expenses can be summarized as follows:

	2002	2001
Beginning Balance:		
Loss & LAE Reserve	$ 258,025	$ 36,309
Incurred Related To:		
Current Year	463,858	1,482,043
Prior Year	(6,515)	49,210
Total Incurred	457,343	1,531,253
Paid Related To:		
Current Year	158,508	1,231,379
Prior Year	245,175	78,158
Total Paid	403,683	1,309,537
Ending Balance		
Loss & LAE Reserve Related to:		
Current Year	305,350	250,664
Prior Year	6,335	7,361
Total Reserves	$ 311,685	$ 258,025

Cerro Grande Fire Assistance Act

The U.S. Department of Interior, National Park Service initiated a prescribed burn on federal land at Bandelier National Monument in New Mexico during the peak fire season in the Southwest. The prescribed burn exceeded the capabilities of the National Park Service and became classified as a wildfire. The fire resulted in the loss of federal, state, local, tribal and private property. The Secretary of the Interior and the National Park Service assumed responsibility for the fire and subsequent losses of property. On July 13, 2000, President Clinton signed into law the Cerro Grande Fire Assistance Act ("CGFAA"). Congress passed the CGFAA to compensate as fully as possible those parties who suffered damages from the Cerro Grande Fire. The goal of Congress in passing the CGFAA was to provide a fair, simple, fast and inexpensive method for receiving compensation for losses from the Cerro Grande Fire. Congress appropriated $455 million for the payment of claims in accordance with the CGFAA as well as $45 million for administration costs.

For the years ended September 30, 2002 and 2001, the estimated claims liability for the CGFAA is $177,536 thousand and $260,101 thousand, respectively. The liability for unpaid claims and claim adjustment expenses represents an estimate of the known probable and estimable losses that are unpaid as of the balance sheet date and for September 30, 2001 and 2002 is based on the Final Rules dated March 21, 2001 entitled, the Disaster Assistance: Cerro Grande Fire Assistance, Final Rule, published in the Federal Register Part II at *44 CFR Chapter I, Part 295.* This estimated claims liability for September 30, 2002 and 2001 includes $127,477 thousand and $36,500 thousand, respectively, which is unfunded.

In fiscal year 2002, FEMA changed its estimate for the remaining claims liability for the CGFAA. The factors used in the development of the fiscal year 2002 estimate include case basis estimates and trend estimates for claim severity and frequency. These estimates will be reviewed and adjustments will be reflected in current operations, as deemed necessary. As a result of payments made and this change in estimate, the claims liability changed during fiscal year 2002 as follows:

Beginning balance	$ 260,101
Claims paid in FY02	(173,542)
Change in estimate	90,977
Ending balance	$ 177,536

NOTE 12. OPERATING LEASES (IN THOUSANDS)

Description of Lease Arrangements

Includes Agency payments for rented/leased office and other space and land.

Future Payments Due as of September 30, 2002:

Fiscal Year	GSA (1) *	Non-GSA (2)	Total
2003	$ 29,305	$ 3,066	$ 32,371
2004	31,069	3,189	34,258
2005	32,312	3,317	35,629
2006	33,604	3,450	37,054
2007	34,948	3,588	38,536
After 5 Years	**	—	**

(1) GSA controlled leases: 2003 based on GSA estimates

(2) Non-GSA-controlled leases (e.g., buildings): Does not include short-term disaster field office leases, which are leased to meet short-term disaster needs, as necessary.

* 2004 and beyond reflect planning estimates only

** Future lease payments are expected; however, amounts cannot be reasonably estimated

NOTE 13. WORKERS' COMPENSATION, PENSIONS, AND OTHER RETIREMENT BENEFITS (IN THOUSANDS)

Workers' Compensation

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for FEMA employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by FEMA.

Future workers' compensation estimates were generated from an application of actuarial procedures developed by the DOL to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to estimate the ultimate payments related to that period.

Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2002	2001
5.20% in year 1	5.21% in year 1
5.20% in year 2 and thereafter	5.21% in year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors that include cost of living adjustments and medical inflation factors are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars. The methodology also includes a discounting formula to recognize the timing of actual compensation payments as thirteen payments per year instead of one lump sum per year.

The model's resulting projections were analyzed by DOL to ensure that the amounts were reliable. The analysis is based on three tests: (1) a comparison of the current year projections to the prior year projections, (2) a comparison of the prior year projected payments to the current year actual payments, excluding any new case payments that had arisen during the current year, and (3) a comparison of the current year actual payment data to the prior year actual payment data. Based on the outcome of this analysis, ad hoc adjustments were made by DOL to correct any anomalies in the projections.

Based on the actuarial liability estimates provided by the DOL, FEMA's recorded expense and the related increase in the estimated unfunded liability for future worker's compensation benefits as of September 30, 2002 and 2001 were $28,742 thousand and $25,208 thousand, respectively.

Accrued FECA Liability

The accrued FECA liability is the difference between the FECA benefit paid by the FECA Special Benefits Fund and FEMA's actual cash payments to the Fund. For example, the Special Benefits Fund will pay benefits on behalf of FEMA through the current year. However, FEMA's actual cash payments to the FECA Special Benefit Fund for the current fiscal year will reimburse the Fund for benefits paid through a prior fiscal year. The difference between these two amounts—benefits paid by the Fund and reimbursements made by FEMA—is the unfunded accrued FECA liability, which amounted to $5,895 thousand and $5,406 thousand at September 30, 2002 and 2001, respectively.

Pensions and Other Retirement Benefits

To calculate the liability for pensions and other retirement benefit costs, the "service cost" or normal cost is calculated. Service cost is defined as the actuarial present value of benefits attributed by the pension plan's benefit formula to services rendered by employees during the accounting period. The amount of the service cost, less any employee contributions attributable to post-retirement benefits is defined as the "pension expense" for the entity.

Cost factors and imputed cost calculations provided by OPM Retirement and Insurance Service Benefits Administration Letter 02-315 dated September 11, 2002 were used to calculate the amount of additional expense to be recorded by FEMA. The employer's contribution is subtracted from the pension expense since FEMA's contribution is expended with each pay period. Since the benefit for pensions is received after retirement, employee and employer contributions are attributed to the period after retirement and are subtracted from the service costs.

The employee and employer contributions for health care and life insurance are attributed to the current period, and therefore, there is no offset to these service costs to calculate the other retirement benefit expense for the entity. These additional expenses represent the "subsidy" being made by the OPM for employees' retirement benefits.

Based on the information provided by the OPM, FEMA determined that the imputed costs for Pensions and Other Retirement Benefits for the period ended September 30, 2002 were:

	Pensions	Health Insurance	Life Insurance	Total
	$ 6,124	$ 8,997	$ 37	$ 15,158
Total	$ 6,124	$ 8,997	$ 37	$ 15,158

NOTE 14. NON-ENTITY ASSETS (IN THOUSANDS)

Interest on past due accounts receivables is payable to Treasury.

	2002	2001
Accounts Receivable — Interest	$ 245	$ 3,333

NOTE 15. OTHER LIABILITIES (IN THOUSANDS)

	2002	2001
Intragovernmental:		
Accrued Payroll and Benefits	$ 867	$ 1,305
Other — Non-entity Liability	245	3,333
	1,112	4,638
Accrued Payroll and Benefits	10,181	22,793
Accrued Annual Leave	19,871	17,717
Contractor liability — NFIP	14,733	21,428
Loan Subsidy re-estimate payable to Treasury	8,644	—
Other — NFIP	3,644	21,882
Other	2,356	
	59,429	83,820
TOTAL	$ 60,541	$ 88,458

All of the above liabilities, except annual leave, are current liabilities.

NOTE 16. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES (IN THOUSANDS)

	2002	2001
Intragovernmental:		
Accrued FECA Liability	$ 5,895	$ 5,406
Downward Loan Subsidy Reestimate	8,644	281
	14,539	5,687
Accrued Annual Leave	17,558	15,565
Actuarial FECA Accrual	28,742	25,208
Cerro Grande Claims Expense	127,477	36,500
	173,777	77,273
TOTAL	$ 188,316	$ 82,960

FEMA anticipates that the above liabilities will be funded from future budgetary resources when required.

Under accrual accounting, the expense for annual leave is recognized when it is earned. However, for most of FEMA's funds, appropriations are provided to pay for the leave when it is taken. As a result, budgetary resources do not cover a large portion of Accrued Annual Leave.

FEMA receives budgetary resources for the Actuarial FECA Liability when they are needed for disbursements.

Due to the unique funding structure of Cerro Grande, $127,477 thousand, and $36,500 thousand of the September 30, 2002 and 2001, respectively Claims Expense Liability is the portion of claims and claims settlement liabilities that is not covered by budgetary resources.

NOTE 17. UNEXPENDED APPROPRIATIONS (IN THOUSANDS)

	2002	2001 Restated
Unobligated		
Available	$ 1,085,681	$ 2,435,699
Unavailable	7,699,007	267,515
Unexpended Obligations	5,240,570	5,648,039
Total	$ 14,025,258	$ 8,351,253

Fiscal year 2001 amounts were restated via a prior period adjustment in fiscal year 2002 to correct the recording of advances that were expensed in error during fiscal year 2001 (See Note 18).

NOTE 18. PRIOR PERIOD ADJUSTMENTS (IN THOUSANDS)

	Effect on Cumulative Results of Operations as of September 30, 2001	Effect on Unexpended Appropriations as of September 30, 2001 and FY 01 Net Costs	Total Effect on Net Position as of September 30, 2001
Unexpended Appropriations			
Recording of Intragovernmental Advances	$ —	$ 11,615	$ 11,615
Cumulative Results of Operations			
Recording of ADP Software	(594)	—	(594)
Recording of Buildings, Improvements, and Renovations	(1,538)	—	(1,538)
Recording of Construction in Progress	(582)	—	(582)
Recording of Equipment	2,807	—	2,807
Recording of Leasehold Improvements	(38)	—	(38)
Recording of Other Structures and Facilities	(231)	—	(231)
Total Restatements and Prior Period Adjustments	$ (176)	$ 11,615	$ 11,439

FEMA recorded an adjustment in FY 2002 to restate intragovernmental advances as of September 30, 2001, to the Department of Labor and to the National Institute of Mental Health, totaling $11.6 million, that were previously recorded as program costs, in error. This increased intragovernmental advances and unexpended appropriations by $11.6 million, as of September 30, 2001. Correction of this error also results in a $11.6 million decrease to the previously reported net cost of disaster relief programs and total net cost of operations included on the FY 2001 *Consolidated Statement of Net Cost*.

FEMA recorded an adjustment in FY 2002 to correct the amount of its general property, plant and equipment as of September 30, 2001. The correction is related to the results of a nationwide inventory to ensure the completeness, existence and valuation of equipment as of September 30, 2002 and 2001. FEMA determined the property, plant and equipment balance as of September 30, 2001 by adjusting the current year inventory amount for additions and disposals during fiscal year 2002. This decreased general property, plant and equipment, net and the cumulative results of operations included on the September 30, 2001 *Consolidated Balance Sheet* by $176 thousand, and increased both the gross cost and accumulated depreciation of its property by $71 million as of September 30, 2001. This adjustment had no affect on the total net cost of operations included on the FY 2001 *Consolidated Statement of Net Cost*.

NOTE 19. ALLOCATION OF SUPPORT ORGANIZATION COSTS (IN THOUSANDS)

FEMA allocated Support Organizations FY 2002 program costs to the DRF, the NFIP, EMPA and other programs to reflect the costs of operating these organizational components. FEMA allocated costs based on FY 2002 program costs.

NOTE 20. ESTIMATED DISASTER COSTS (IN THOUSANDS) (UNAUDITED)

One of FEMA's primary missions is to respond to major disasters and emergencies under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288, as amended). By law, all requests to the President of the United States for disaster assistance must be made by the Governor of the affected state. The Governor requests assistance for specific disaster programs through the FEMA Regional Director. The FEMA Regional Office and the state conduct preliminary damage assessments to determine if the situation is of such severity that it is beyond the ability of the state and the local governments to respond. If the impact of the disaster warrants federal assistance, the Director of FEMA submits a recommendation to the President for a major disaster or an emergency declaration.

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, liabilities for federal accounting purposes are "probable and measurable future outflows or other sacrifices of resources" as a result of past transactions or events, such as major disasters. Such transaction or events can arise from: (1) past exchange transactions, (2) Government-related events, (3) Government-acknowledged events, or (4) non-exchange transactions.

Government-acknowledged events, such as declared natural disasters, are of financial consequence to the federal government because it chooses to respond to the event in its role in providing for the public's general welfare, assuming responsibilities for which it has no prior legal obligation.

Costs from many natural disasters may ultimately become the responsibility of the federal government and FEMA. However, these costs do not meet the definition of a liability for financial reporting purposes until the government formally acknowledges financial responsibility for costs from the event and an exchange or non-exchange transaction has occurred. In the case of Government-acknowledged events such formal acceptance of financial responsibility by the federal government occurs when the President declares a disaster. Liabilities resulting from exchange transactions are recognized when the goods or services are provided. For non-exchange events, the liability is recognized only when the unpaid amount is due.

The FEMA Disaster Finance Center tracks all of the disasters that have been declared since FY 1989 under the guidance of the Stafford Act. Cost projections are built based on historical data for the disasters considering all of the following components:

— Public Assistance

— Individual Assistance

— Mission Assignments

— Hazard Mitigation

— FEMA Administration

Cost projections are compared against current obligations and expenditures incurred to provide FEMA with budgeting information, and to prepare appropriations requests to Congress.

FEMA has projected the ultimate total costs of the declared disasters to be approximately $42.7 billion as of September 30, 2002, of which approximately $34.5 billion has been obligated and $29.9 billion paid or accrued. Should all projected remaining costs and obligations be funded by the government and paid or accrued by FEMA, an additional $12.8 billion in expenses would be recorded.

Information regarding the disaster cost projections and their effect on DRF as of September 30, 2002, is summarized below:

Unfunded Cost:		
Cost Projections	$	42,717,564
Obligations		(34,548,739)
Total Unfunded Costs	$	8,168,825
Unliquidated Obligations:		
Obligations	$	34,548,739
Expenditures Incurred		(29,869,609)
Total Unliquidated Obligations	$	4,679,130
Remaining Project Cost:		
Unfunded Cost	$	8,168,825
Unliquidated Obligations		4,679,130
Remaining Cost	$	12,847,955

NOTE 21. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION (IN THOUSANDS)

2002		Gross Cost		Earned Revenue		Net Cost
		Intragovernmental	With the Public	Intragovernmental	With the Public	
050	National Defense	$ 67,749	$ 576,547	$ (59,353)	$ (770)	$ 584,173
450	Community & Regional Development	142,980	5,115,797	(747)	(1,725,925)	3,532,105
600	Income Security	—	140,000	—	—	140,000
800	General Government	4,134	(745)	(19,778)	(788)	(17,177)
Total		$ 214,863	$ 5,831,599	$ (79,878)	$ (1,727,483)	$ 4,239,101

2001 Restated		Gross Cost		EarnedRevenue		Net Cost
		Intragovernmental	With the Public	Intragovernmental	With the Public	
050	National Defense	$ 192,931	$ 342,919	$ (82,309)	$ (50)	$ 453,491
450	Community & Regional Development	923,232	4,615,625	(6)	(1,621,611)	3,917,240
600	Income Security	—	139,692	—	—	139,692
800	General Government	10,317	12,116	(6,050)	(10,561)	5,822
Total		$ 1,126,480	$ 5,110,352	$ (88,365)	$ (1,632,222)	$ 4,516,245

The intragovernmental costs presented in this note and on the *Consolidated Statements of Net Cost* represent transactions with other federal agencies. They do not represent the costs associated with generating intragovernmental earned revenue.

NOTE 22. LITIGATION CONTINGENCIES

FEMA is a party in various administrative proceedings, legal actions, and claims brought against it. FEMA is subject to suits of approximately $663 thousand where an adverse outcome is probable. This amount has been recognized in the financial statements, as accounts payable. There is pending litigation against FEMA of $38,997 thousand where the chance of the future confirming events occurring is possible, and, in addition, FEMA is one of the plaintiffs in pending litigation of $187,702 thousand where the chance of the future confirming events is possible. In the opinion of FEMA management and legal counsel, the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

In the course of settling insurance claims, FIMA is a defendant in litigation filed by claimants disputing the amount of insurance coverage or the amount of loss. The estimated liability for any resulting settlements is considered when establishing reserves for losses and loss adjustment expense. The FIMA is also seeking subrogation remedies against communities and others for reimbursement of certain claims. The proceeds of such actions are recognized as reductions of losses incurred.

NOTE 23. CONTINGENCIES

NFIP premium rates are generally established for actuarially rated policies with the intent of generating sufficient premiums to cover losses and loss adjustment expenses of a historical average loss year and to provide a surplus to compensate the Insurance Underwriting Operations for the loss potential of an unusually severe loss year due to catastrophic flooding.

Notwithstanding the foregoing, subsidized rates are charged on a countrywide basis for certain classifications of insureds. These subsidized rates produce a premium somewhat less than the loss and loss adjustment expenses expected to be incurred in a historical average loss year, and do not include a provision for losses that may result from catastrophic flooding. Subsidized rates are used to provide affordable insurance on construction or substantial improvements started on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (i.e., an official map of a community on which NFIP has delineated both the special hazard areas and the non-subsidized premium zones applicable to the community).

Any future loss potential of catastrophic flooding cannot be meaningfully quantified as it relates to insurance policies in effect. Accordingly, the financial statements do not include any provision for this contingent liability.

NOTE 24. STATEMENT OF BUDGETARY RESOURCES

The Disaster Assistance Direct Loan Program annually requests borrowing authority to cover the principal amount of direct loans not to exceed $25,000 thousand less the subsidy due from the Program Account. This borrowing authority is for FEMA State Share Loans. Borrowing authority for Community Disaster Loans is requested on an “as needed basis”. At the end of the Fiscal Year, borrowing authority is reduced by the amount of any unused portion.

The National Flood Insurance Fund has borrowing authority of $1,500,000 thousand. Borrowing authority available for National Flood Insurance Fund is $1,490,000 thousand and $900,000 thousand as of September 30, 2002 and 2001, respectively.

Under Credit Reform, the unsubsidized portion of direct loans is borrowed from the U.S. Treasury. The repayment terms of FEMA’s borrowing from Treasury are based on the life of each cohort of direct loans. Proceeds from collections of principal and interest from the borrowers is used to repay Treasury. In addition to this, an annual re-estimate is performed to determine any change from the original subsidy rate. If an upward re-estimate is determined to be necessary, these funds are available through permanent indefinite authority. Once these funds are appropriated, the original borrowings are repaid to Treasury.

FEMA identified certain corrections needed to the ending balance of unliquidated and obligated balances previously reported in the FY 2001 *Combined Statement of Budgetary Resources*, which affects the beginning balances reported in the FY 2002 *Combined Statement of Budgetary Resources*, as follows:

	Unobligated Balances	Obligated Balances
As previously reported	$ 3,164,914	$ 6,356,290
Prior period adjustments	31,720	(2,043)
As restated	$ 3,196,634	$ 6,354,247

The adjustments were primarily related to correcting an improper elimination of funds transferred between the Federal Insurance and Mitigation Administration and mitigation funds in FY 2001 of $37,730 thousand (increase in unobligated beginning balance) and an improper categorization of $6,989 thousand in EMPA (decrease unobligated in beginning balance). The beginning unobligated and obligated balances include additional adjustments of $979 thousand (increase in beginning balance) and $2,043 thousand (decrease in beginning balance), respectively, related to other immaterial adjustments.

FEMA maintains three funds under the Credit Reform Act:

58-4234 Disaster Assistance Direct Loan Financing

58-0105 Disaster Assistance Direct Loan Program (no-year)

58-0105 Disaster Assistance Direct Loan Program (annual)

FEMA also provides for the Radiological Emergency Preparedness Fund, a user financed fund (58-5436 and 58-0897) and the National Flood Insurance Fund (58-4236).

FEMA appropriations contain limits as to time or purpose, and these may apply wholly to a fund or merely to part of a fund. For example, the agency's general appropriation for Salaries and Expenses is an annual appropriation, while the Disaster Relief Fund is a "no-year" fund. The National Flood Insurance Fund is a permanent fund that is the source of funding for various flood related projects or programs that are limited in amount by Congress. The Emergency Planning and Assistance Fund also contains a one-year limit on pre-disaster mitigation grant assistance.

In addition, the following funds contain restrictions for this reporting year.

Enacted Rescissions: $833 thousand pursuant to PL 106-113, Salaries and Expenses (58-0100)

Permanent Restrictions: $1,812 thousand pursuant to PL 96-446

Cora Brown Trust Fund (11-8244) receives cash gifts or bequests from the public to benefit disaster victims without insurance or other resources needed for recovery. FEMA is authorized to invest cash deposited in the fund in public debt securities, which are recorded at cost or amortized cost, net of unamortized premiums or discounts.

FEMA's Statement of Budgetary Resources serves as a tool to link budget execution data to information reported in the "actual" column of the Program and Financing Schedules in the Appendix of the Budget of the United States Government (referred to as the "President's Budget") as well as information reported in the Reports of Budget Execution and Budgetary Resources (SF-133). Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources, the President's Budget and the SF- 133. The differences arise from timing, varying OMB reporting requirements, and current and prior year audit adjustments.

The Budget of the United States Government with actual numbers for FY 2002 has not yet been published. The expected published date is February 3, 2003. A copy of the Budget can be obtained from the Office of Management and Budget Web site at http://www.whitehouse.gov/omb.

The Federal Emergency Management Agency

Required Supplementary Information

for the year ended September 30, 2002

- Consolidated Schedule of Intragovernmental Activity
- Segment Information
- Schedule of Budgetary Resources by Major Budgetary Account
- Deferred Maintenance

Consolidated Schedule of Intragovernmental Activity (unaudited)

as of and for the year ended September 30, 2002 (dollars in thousands)

INTRAGOVERNMENTAL ASSETS:

	Fund Balance with Treasury	Investments, net	Accounts Receivable	Advances and Prepayments
Department of Agriculture	$ —	$ —	$ 415	$ —
Department of Commerce	—	—	671	15,862
Department of Navy	—	—	71	—
Department of Treasury	14,318,575	1,702	—	—
Department of Army	—	—	177	—
Environmental Protection Agency	—	—	387	—
Department of Transportation	—	—	472	—
Agency for International Development	—	—	60	—
Department of Health and Human Services	—	—	—	41,161
U.S. Army Corps of Engineers	—	—	1	—
Other	—	—	558	10,868
TOTAL INTRAGOVERNMENTAL ASSETS	$ 14,318,575	$ 1,702	$ 2,812	$ 67,891

INTRAGOVERNMENTAL LIABILITIES:

	Accounts Payable	Debt	Accrued Workers' Compensation	Other Liabilities
Department of Agriculture	$ —	$ —	$ —	$ 95
Department of Commerce	—	—	—	185
Department of Interior	12	—	—	—
Department of Justice	—	—	—	285
Department of Labor	—	—	5,895	—
Department of the Navy	12	—	—	—
Department of Treasury	6	19,136	—	1,578
Department of Army	112	—	—	79,200
General Service Administration	1,449	—	—	—
Environmental Protection Agency	519	—	—	407
Department of Transportation	685	—	—	154
Agency for International Development	—	—	—	413
Department of Health and Human Services	20,608	—	—	750
National Aeronautics and Space Administration	2	—	—	83
Department of Energy	—	—	—	5
U.S. Army Corps of Engineers	10,074	—	—	104
Other	1,566	—	—	15,941
TOTAL INTRAGOVERNMENTAL LIABILITIES	$ 35,045	$ 19,136	$ 5,895	$ 99,200

Consolidated Schedule of Intragovernmental Activity (unaudited)

as of and for the year ended September 30, 2002 (dollars in thousands)

Federal Emergency Management Agency Intragovernmental Earned Revenues and Related Costs
For the Year Ended September 30, 2002 (In Thousands)

Trading Partner	Amount
Department of Army	$ 55,510
Office of Management and Budget	14,500
U.S. Army Corps of Engineers	1,776
Department of State	1,703
Department of Treasury	1,116
Agency for International Development	1,066
Department of Justice	1,054
Department of Transportation	658
Department of Agriculture	477
Department of Housing and Urban Development	367
Office of the Secretary of Defense - Defense Agencies	366
Department of Health and Human Services	272
General Service Administration	200
Environmental Protection Agency	158
Department of Commerce	114
Department of Navy	110
Department of Energy	109
Department of Interior	103
Department of Veterans Affairs	68
U.S. Postal Service	59
Federal Communications Commission	50
Department of Education	20
Selective Service System	17
National Aeronautic and Space Administration	4
Social Security Administration	1
Total	$ 79,878

Gross Costs that Generated Intragovernmental Earned Revenues:

Budget Functional Classification	Amount
050 National Defense	$ 59,353
450 Community and Regional Development	19,778
800 General Government	747
Total	79,878

Segment Information (unaudited)

as of and for the year ended September 30, 2002 (dollars in thousands)

WORKING CAPITAL FUND

FEMA's Working Capital Fund (WCF) is a fee-for-service entity that is fully reimbursable and competitive. The fund's mission is to provide, in the most efficient and economical manner possible, the centralized services required by the operating entities of FEMA and by other Federal entities. The WCF operates on a revolving fund basis, whereby current operating expenses charged to the customer finance the cost of goods and services. The overall financial goal of the fund is to fully cover the operating expenses while building a minimal capital improvement reserve.

The WCF provides a variety of support services to inter-FEMA divisions and to other Federal entities. The major customers of the WCF are FEMA divisions, accounting for 64 percent of revenue. The amounts below include inter-FEMA activity.

Working Capital Fund (In Thousands)	Amounts
Fund Balance with Treasury	$ 37,210
Accounts Receivable	6
Property, Plant and Equipment	23,237
Total Assets	$ 60,453
Accounts Payable	$ 168
Actuarial Workers Compensation Liability	956
Other Liabilities	6,145
Total Liabilities	7,269
Cumulative Results of Operations	53,184
Total Liabilities and Net Position	$ 60,453
Total Costs	$ 21,467
Exchange Revenue	38,550
Excess of Revenues over Costs	$ 17,083

Statement of Budgetary Resources by Major Budgetary Account (unaudited)

for the year ended September 30, 2002 (dollars in thousands)

Budgetary Resources:	Disaster Relief	National Flood Insurance	Emergency Planning and Assistance	Cerro Grande Fire Grants	Other Programs	Total
Budget Authority	$ 9,118,671	$ 665,000	$ 1,093,670	$ 61,000	$ 465,929	$ 11,404,270
Unobligated Balance	2,627,390	459,586	31,017	8,175	70,466	3,196,634
Spending Authority from Offsetting Collections	285	1,703,113	97,420	2,305	71,934	1,875,057
Recoveries of Prior Year Obligations	439,114	7,079	5,223	393	3,305	455,114
Temporarily Not Available Pursuant to Public Law	—	—	—	—	—	—
Permanently Not Available	—	(640,000)	(229,827)	(61,000)	(59,346)	(990,173)
Total Budgetary Resources	**$ 12,185,460**	**$ 2,194,778**	**$ 997,503**	**$ 10,873**	**$ 552,288**	**$ 15,940,902**
Obligations Incurred	$ 3,971,423	$ 1,189,810	$ 557,219	$ 10,491	$ 430,872	$ 6,159,815
Unobligated Balances Available	695,239	997,221	380,246	382	41,094	2,114,182
Unobligated Balances Not Yet Available	7,518,798	7,747	60,038	—	80,322	7,666,905
Total, Status of Budgetary Resources	**$ 12,185,460**	**$ 2,194,778**	**$ 97,503**	**$ 10,873**	**$ 552,288**	**$ 15,940,902**
Relationship of Obligations to Outlays:						
Obligation Balance, Net, Beginning of Period	$ 5,159,898	$ 462,237	$ 303,063	$ 233,445	$ 195,604	$ 6,354,247
Obligated Balance, Net, End of Period	$ 4,705,246	$ 519,088	$ 465,689	$ 56,521	$ 166,863	$ 5,913,407
Outlays	3,986,675	(577,233)	291,950	184,718	384,374	4,270,484
Less Offsetting Receipts	—	—	—	—	—	—
Net Outlays	**$ 3,986,675**	**$ (577,233)**	**$ 291,950**	**$ 184,718**	**$ 384,374**	**$ 4,270,484**

Deferred Maintenance (unaudited)

as of and for the year ended September 30, 2002 (dollars in thousands)

CONSOLIDATED DEFERRED MAINTENANCE

Deferred maintenance for fiscal year ending September 30, 2002 on general property plant and equipment was $7,543 thousand. These amounts were determined using a condition assessment survey following the requirements set forth by the Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant and Equipment* as amended by SFFAS No. 14, *Amendments to Deferred Maintenance Reporting*. The Federal Emergency Management Agency estimates that these amounts will be required to service and repair property, plant and equipment including buildings and other structures.

Asset Class	Deferred Maintenance (000's)	Asset Condition
Buildings & Structures	$7,543	Fair

Required Supplementary Stewardship Information (unaudited)

for the year ended September 30, 2002 (dollars in thousands)

HUMAN CAPITAL

Stewardship Investments

	1998	1999	2000	2001	2002
State and Local Responders					
National Fire Academy	$ 16,385	$ 19,163	$ 26,474	$ 23,803	$ 27,682
Emergency Management Institute	$ 7,855	$ 7,079	$ 8,022	$ 7,160	$ 4,542

National Fire Academy

FEMA provides training and professional development to emergency management "first responders" at the state and local level. Conducted through the National Fire Academy (NFA) in Emmitsburg, Maryland, training promotes the professional development of the fire and the emergency response community and its allied professionals. To supplement and support state and local fire service training programs, the NFA develops and delivers educational and training courses having a national focus. In 2002 and 2001, 89,955 and 48,270, respectively, state and local emergency responders received training.

NFA maximizes participation through three different delivery modes. The first is the traditional method where NFA provides the instruction directly to the students and is responsible for all the costs associated with the delivery. The second method of delivery is done in conjunction with state and local sponsors who share cost of delivery. The third method of delivery is the indirect method where the NFA develops course materials, and they are delivered by state and local fire and rescue training agencies or used independently.

Emergency Management Institute

Through its courses and programs, EMI serves as the national focal point for the development and delivery of emergency management training to enhance the capabilities of state, local, and Tribal government officials, volunteer organizations, and the public and private sectors to minimize the impact of disasters on the American public. EMI curricula are structured to meet the needs of this diverse audience with an emphasis on how the various elements work together in emergencies to save lives and protect property. In addition to classroom courses that train in excess of 8,968 and 5,491 students in 2002 and 2001 respectively, EMI provided training programs online over the Internet to 148,043 state and local emergency responders.

RESEARCH & DEVELOPMENT

	1998	1999	2000	2001	2002
Fire Administration	$ 900	$ 1,400	$ 1,800	$ 2,200	$ 2,250

The United States Fire Administration (USFA) continues to work with public and private groups to promote and improve fire prevention and life safety through research and special studies on fire detection, suppression, and notification and on fire and emergency responder health and safety. For example, research was conducted on the fire suppression effectiveness of hose streams and structural ventilation techniques were evaluated. These two projects will lead to improved techniques for fire attack and reduction of harm caused by the presence of the products of combustion. Three initiatives were also undertaken with the Consumer Product Safety Commission. These projects dealt with smart stove technologies, electrical home wiring, and mattress fires. Research also continued into fire sprinkler technology, especially residential sprinklers, and firefighter protective clothing.

Required Supplementary Stewardship Information (unaudited)

for the year ended September 30, 2002 (dollars in thousands)

RISK ASSUMED INFORMATION

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, we have performed an analysis of the contingencies associated with the unearned premium reserve. That analysis shows that the unearned premium reserve is greater than the combined values of (i) the estimated present value of unpaid expected losses and (ii) other operating expenses associated with existing policy contracts. So in accordance with SFFAS No. 5, we can state that the likelihood is probable that the unearned premium reserve will be adequate to pay future losses and other operating expenses associated with existing policy contracts. However, there is always a chance that, given the volatile nature of flooding, the volume of flood losses in the next year could exceed the unearned premium reserve.

Our estimate of the present value of unpaid expected losses is based on a loss ratio (losses to premium) which is then multiplied by the current unearned premium reserve. This loss ratio is derived from the NFIP actual historical premium, historical losses, and historical mix of business; each adjusted to today's level. More specifically, historical premiums have been adjusted to reflect the premium levels of the present by making adjustments for historical rate changes and historical changes in coverage amounts. Historical loss have been adjusted for inflation, using inflation indexes such as the CPI as well as chain price indexes, to reflect the values that historical losses would settle at if they were settled today. In addition, the historical mix of business is adjusted to reflect today's mix of business. Examples of how the historical mix of business has changed are the fact that today there are proportionately fewer pre-firm policies versus post firm policies in-force compared to in the past, and today there are proportionately more preferred risk policies in-force than there have been historically.

KPMG

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Office of Inspector General, Federal Emergency Management Agency and
Director, Federal Emergency Management Agency:

We have audited the accompanying consolidated balance sheets of the Federal Emergency Management Agency (FEMA) as of September 30, 2002 and 2001, and the related consolidated statements of net cost for the years then ended, and the related consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002 (hereinafter referred to as consolidated financial statements). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our audits, we also considered FEMA's internal control over financial reporting and tested FEMA's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that FEMA's consolidated financial statements presented in the *Fiscal Year 2002 Annual Performance & Accountability Report* as of and for the years ended September 30, 2002 and 2001, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our opinion includes a reference to a restatement of the fiscal year 2001 consolidated balance sheet and consolidated statement of net cost, and to the beginning balances reported on the 2002 combined statement of budgetary resources. In addition, our opinion indicates that the claims settlement liability under the Cerro Grande Fire Assistance Act is estimated based on known probable and estimable losses, a portion of which is unfunded.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions, the first six of which we consider to be material weaknesses:

- Information Security Controls for FEMA's Financial Systems Environment Need Improvement
- FEMA's Financial System Functionality Needs Significant Improvement
- FEMA Must Improve Its Financial Reporting Process
- FEMA Must Improve Its Real and Personal Property System Processes
- FEMA Must Improve Its Account Reconciliation Processes
- FEMA Must Improve Its Accounts Receivable Processes
- FEMA Must Improve Its Cerro Grande Estimation Processes

The results of our tests of compliance with certain provisions of laws and regulations disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards,* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements:*

- Government Information Security Reform Act
- Federal Managers' Financial Integrity Act
- Cerro Grande Fire Assistance Act
- Federal Financial Management Improvement Act

The following sections discuss our opinion on FEMA's consolidated financial statements, our consideration of FEMA's internal control over financial reporting, our tests of FEMA's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the Federal Emergency Management Agency as of September 30, 2002 and 2001, and the related consolidated statements of net cost for the years then ended, and the related consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002.

In our report dated February 6, 2002, we qualified our opinion on the fiscal year 2001 consolidated financial statements for the effects of such adjustments, if any, as might have been necessary had we been able to apply adequate procedures to two matters: (1) FEMA's equipment balances, and (2) an unsupported $77 million adjustment to the combined statement of budgetary resources. As described in Note 18 to the fiscal year 2002 consolidated financial statements, during fiscal year 2002, FEMA inventoried and valued its equipment and restated its fiscal year 2001 consolidated balance sheet to conform with accounting principles generally accepted in the United States of America. This restatement had no effect on the fiscal year 2001 consolidated statement of net cost. Accordingly, our present opinion on the fiscal year 2001 consolidated balance sheet and consolidated statement of net cost, as presented herein, is different from that expressed in our previous report. The unsupported $77 million adjustment, discussed above, does not affect the beginning obligated balances reported in the fiscal year 2002 combined statement of budgetary resources.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of FEMA as of September 30, 2002 and 2001, and its net costs for the years then ended, and its changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 18 and 24 to the consolidated financial statements, the fiscal year 2001 consolidated balance sheet, consolidated statement of net cost, and the beginning unobligated and obligated balances on the fiscal year 2002 combined statement of budgetary resources have been restated.

As discussed in Note 11 to the consolidated financial statements, FEMA has been designated by Congress to administer entitlement claims under the Cerro Grande Fire Assistance Act (CGFAA). The claims settlement liability is estimated based on known probable and estimable losses, a portion of which are unfunded.

The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it. We determined that FEMA did not complete the intragovernmental balance reconciliations with its trading partners semi-annually, as required by OMB Bulletin No. 01-09.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect FEMA's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In our fiscal year 2002 audit, we noted certain matters, described in Appendix I, involving internal control over financial reporting and its operation that we consider to be reportable conditions, the first six of which we consider to be material weaknesses. The status of prior year material weaknesses is also discussed in Appendix I.

We also noted other matters involving internal control over financial reporting and its operation that we will report to the management of FEMA in a separate letter.

Compliance with Laws and Regulations

Our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act* (FFMIA), disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and are described below.

- The *Government Information Security Reform Act* (GISRA), passed as part of the *Defense Authorization Act of 2000*, mandates that federal agencies implement sufficient information security program management processes, including security planning, implementation, and evaluation. As part of our financial audit procedures, we conducted information security testing of FEMA's security program and practices. We found that FEMA needs to make improvements to fully comply with GISRA.

- The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) is implemented in part through policy guidance in OMB Circular A-127, *Financial Management Systems* and OMB Circular A-123, *Management Accountability and Control.* OMB Circular A-123 requires agencies and individual federal managers to take measures to (i) develop and implement management controls; (ii) assess the adequacy of management controls; (iii) identify needed improvements; (iv) take corresponding corrective action; and (v) report annually on management controls. OMB Circular A-127 states that financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public. However, we found that FEMA does not fully meet the requirements of FMFIA, OMB Circular A-123, and OMB Circular A-127 as described in Appendix I.

- The *Cerro Grande Fire Assistance Act* (CGFAA) directed FEMA to expeditiously investigate victims' claims and to determine and compensate victims of the Cerro Grande fire in northern New Mexico in May 2002. The CGFAA requires FEMA to submit a report to Congress on an annual basis related to CGFAA activities. The 2002 annual report was due to Congress by August 28, 2002, but it was submitted on December 17, 2002.

The results of our tests of compliance with other laws and regulations, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed instances, described in Appendix I, in which FEMA's financial management systems did not substantially comply with federal financial management systems requirements or with applicable federal accounting standards. Appendix I includes our recommendations to the Acting Chief Financial Officer and to the Chief Information Officer. The results of our tests disclosed no material instances in which FEMA did not substantially comply with the United States Government Standard General Ledger at the transaction level.

Responsibilities

Management's Responsibilities

The *Government Management Reform Act of 1994* (GMRA) requires each federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, FEMA prepares annual consolidated financial statements.

Management is responsible for:

- Preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America;

- Establishing and maintaining internal controls over financial reporting, and preparation of the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information; and

- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud, may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the consolidated financial statements of FEMA based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2002 audit, we considered FEMA's internal control over financial reporting by obtaining an understanding of FEMA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the FMFIA. The objective of our audit was not to provide assurance on internal controls over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered FEMA's internal control over Required Supplementary Stewardship Information by obtaining an understanding of FEMA's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over required supplementary stewardship information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether FEMA's fiscal year 2002 consolidated financial statements are free of material misstatement, we performed tests of FEMA's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to FEMA. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether FEMA's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

Distribution

This report is intended for the information and use of FEMA's management, FEMA's Office of Inspector General, OMB, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 24, 2003

The internal control weaknesses discussed in this report, and the Federal Emergency Management Agency's (FEMA) progress toward correcting these weaknesses, are discussed in the context of FEMA's existing statutory and organizational structure and its future as a part of the newly-formed Department of Homeland Security (DHS). We recognize that many Information Technology (IT) control enhancements have been externally postponed because of FEMA's integration into DHS. In addition, as of the date of this report, it is unclear how future legislative and budgetary changes will impact FEMA, and what effect such changes may have on FEMA's ability to implement existing or future corrective action plans.

We acknowledge that FEMA has taken certain actions to address these matters. However, we understand that implementing sufficient change to mitigate the internal control weaknesses is a multiyear task due to the complexity of the issues and depends upon available resources.

This appendix describes the material weaknesses and the reportable condition as of and for the year ended September 30, 2002 and our recommendations. Our assessment of management's response is presented in Appendix II.

MATERIAL WEAKNESSES

1. INFORMATION SECURITY CONTROLS FOR FEMA'S FINANCIAL SYSTEMS ENVIRONMENT NEED IMPROVEMENT

Information security is a critical control element for FEMA. This is especially true for the agency's financial systems. The citizens of the United States entrust the stewardship of federal government financial resources and assets to government financial and program managers. Without effective information security controls for financial systems, there is substantial risk that the resources under stewardship may be exposed to unauthorized modification, disclosures, loss, or impairment.

Because of the criticality of information security for federal systems, several laws require that federal systems, including financial systems, have high quality information security controls. For example:

- The *Chief Financial Officer's Act of 1990* (the CFO Act) mandates through general requirements that agencies develop and maintain financial management systems that comply with applicable accounting principles, standards, and requirements; internal control standards; and requirements issued by the Office of Management and Budget (OMB), U.S. Treasury, and others. OMB has issued Circular A-130, *Management of Federal Information Resources*, Appendix III, *Security of Federal Automated Information Resources*. OMB Circular A-130, Appendix III, requires agencies to implement technical information security controls in accordance with National Institute of Standards and Technology guidance. Such guidance relates to the implementation of access controls, maintenance and review of audit trails, segregation of duties, and maintenance of software in a secure manner.

- The *Federal Financial Management Improvement Act of 1996* (FFMIA) mandates that federal financial management be advanced by ensuring that federal financial management systems provide reliable, consistent disclosure of financial data, and that they do so on a basis that is uniform across the federal government from year-to-year, consistently, using professionally-accepted accounting standards. As with the CFO Act, federal agencies need to comply with FFMIA by adhering to policies established by OMB, such as OMB Circular A-130, Appendix III.

- The *Government Information Security Reform Act (*GISRA), passed as part of the *Defense Authorization Act of 2000*, mandates that federal agencies implement sufficient processes for security program management, security controls implementation, and security evaluation. The *Federal Information Security Management Act of 2002* (FISMA), passed as part of the *E-Government Act of 2002*, replaces GISRA for FY2003.

During our FY2001 financial statement audit, we identified several security weaknesses related to FEMA's IT environment that led to a reported material weakness. During FY2002, FEMA took actions to improve information security, including addressing certain issues identified during the FY2001 financial statement audit. For example, in FY2002, FEMA established the Office of Cyber Security, which subsequently began designing an information security program planning and evaluation process. FEMA also strengthened security controls for devices available over the Internet, such as agency websites, and addressed a key security weakness that was identified with the Integrated Financial Management Information System (IFMIS), the agency's core financial management system.

Despite addressing these information security weaknesses, FEMA still needs to address a number of outstanding weaknesses from prior audits, as well as address new issues identified during this audit. Contributing to these weaknesses is FEMA's lack of an adequate information security program that ensures consistent and effective information security controls throughout the life cycle of the agency's various information systems. FEMA's Office of Cyber Security was established to address this underlying problem.

Information security issues that remain outstanding from the FY2001 financial statement audit are:

- Entity-wide security controls need to be improved, most notably in the areas of information security program planning, training and awareness, background investigations, and system certification and accreditation. Although the Office of Cyber Security is in the process of addressing these areas, as of the end of FY2002 they had not been fully addressed.

- Several significant security weaknesses continue to exist with FEMA's system, database, and network environment, including devices supporting the National Emergency Management Information System (NEMIS), which is FEMA's enterprise-wide disaster response system. The existence of these technical weaknesses can be directly attributed to weaknesses in the agency's overall information security program.

- Several information security weaknesses with IFMIS, including issues with audit trails, segregation of duties, and user access controls, continue to exist.

FEMA attributes its inability to fully address these weaknesses to a lack of sufficient resources.

We also identified the following additional information security related weaknesses during the FY2002 audit:

- FEMA's payroll system, QuickTime, lacks certain information security controls required by federal information security guidelines and FEMA requirements.

- FEMA's acquisition system, the Automated Acquisition Management System (AAMS), lacks certain information security controls.

- FEMA does not have consistent policies or practices for ensuring that IT contractors that process, store, or maintain agency data have sufficient information security controls.

- FEMA does not have consistent policies or practices to ensure that employee system access is promptly removed upon employee termination.

- FEMA's process for managing the security of its wireless devices needs improvement. Maintaining controls over devices with wireless communication capabilities is a key step in protecting an organization from unauthorized access via wireless network penetrations.

- FEMA's policies and practices for identifying sensitive but unclassified (SBU) IT information needs to be improved to ensure proper handling.

These issues significantly reduce the overall information security controls for FEMA's financial systems processing environment.

We have provided details of the issues summarized above to FEMA management. Management has agreed to the issues, and in some cases has started corrective actions.

Recommendations:

We recommend the Chief Information Officer (CIO):

1.a. Continue efforts to implement enhanced entity-wide information security controls to address the identified weaknesses.

1.b. Ensure that technical vulnerabilities with FEMA IT platforms are corrected, and that processes are established and maintained to ensure the conditions are not repeated.

1.c. Ensure that policies and practices are implemented to better manage the agency's devices that have wireless connectivity capabilities.

1.d. Ensure that policies and practices are implemented regarding the appropriate classification and management of SBU data.

1.e. Ensure that an inventory is completed of all agency functions where contractors process, transmit, or maintain data on behalf of FEMA. After the completion of the inventory, and as part of the agency's certification and accreditation methodology, the potential risks to the agency should be assessed based on the nature of the support the contractors provide and the level of access the contractors have into the agency's physical and logical IT environment.

We recommend the Assistant Director for the Administration and Resource Planning Directorate, in coordination with the CIO:

1.f. Ensure that QuickTime information security controls are improved.

1.g. Implement additional policies and practices to ensure that terminated employees' system access is promptly removed.

We recommend the Acting Chief Financial Officer (CFO), in coordination with the CIO:

1.h. Ensure that noted information security weaknesses with IFMIS are corrected.

We recommend the Acting CFO and Senior Procurement Officer, in coordination with the CIO:

1.i. Ensure that AAMS information security controls are improved.

1.j. Develop acquisition policies and practices to require that for all procurements where a contractor's site is used to process, transmit, or maintain FEMA data, the site's information security controls are reviewed, or evidence of an independent review is obtained, prior to the contract being awarded. Security reviews should be performed or obtained on a yearly basis, as required by FISMA. This requirement should be included in all applicable agency Statements of Work.

2. FEMA'S FINANCIAL SYSTEM FUNCTIONALITY NEEDS SIGNIFICANT IMPROVEMENT

Maintaining quality federal financial management system functionality is critical to increasing the accountability of financial and program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the federal government. FFMIA mandates that federal financial management be advanced by ensuring that federal financial management systems provide reliable, consistent disclosure of financial data. OMB Circular A-127, *Financial Management Systems,* sets forth policies for establishing and maintaining federal financial management systems in accordance with FFMIA. Specifically, OMB Circular A-127 requires that federal financial systems comply with requirements issued by the Joint Financial Management Improvement Program (JFMIP). JFMIP, in its *Core Financial Systems Requirements*, requires that proper and reliable financial management systems provide for:

- *Accountability*. Inform taxpayers, Congress, and agency personnel in terms they can readily understand, on how the Nation's tax dollars are spent, and how federal assets are protected.
- *Efficiency and Effectivenes*s. Provide efficient and effective service to the federal agency's internal and external customers (e.g., individuals, contractors, partnerships, state and local governments, other federal agencies/organizations, the military, and foreign governments).
- *Better Decision-Makin*g. Provide to Congress, agency heads and program managers, timely reports linking financial results and program data so that financial and program results of policy and program decisions can be identified, tracked, and forecasted more accurately.

During our FY2001 financial statement audit, we identified several weaknesses related to financial systems that led to a reported material weakness for the agency. During FY2002, FEMA took actions to improve financial systems capabilities, including addressing several issues identified during last year's financial statement audit. For example, FEMA contracted for services to begin addressing IFMIS vendor processing issues. In addition FEMA prepared a remediation plan that included steps to acquire and implement an ERP system, which was initially intended to better track agency property. Although the preparation of the remediation plan was a positive step, we noted issues with planned action steps. For example, FEMA capital planning requirements had not been fully met for the ERP project, and the purpose of the ERP had not been sufficiently communicated across the agency. However, the ERP acquisition was subsequently halted as a result of OMB's directive to stop IT improvement efforts for agencies moving to the Department of Homeland Security.

Financial system issues that remain outstanding from the FY2001 financial statement audit are:

- FEMA's personal property management system, the Logistics Information Management System (LIMS), is not interfaced with IFMIS, and requires numerous manual workarounds to ensure accounting information is accurately recorded.
- The posting of payroll transactions to IFMIS takes approximately two weeks from the end of the pay cycle because of processing inefficiencies.
- FEMA does not have a managerial cost accounting system. FEMA's implementation of IFMIS does not currently capture data at a detailed enough level to serve in this capacity.
- FEMA currently operates two accounts receivable systems. IFMIS has an embedded accounts receivable sub-system, but because this sub-system does not provide detail sufficient to meet agency disaster management needs, a separate commercial-off-the-shelf product, ACCPAC, is also maintained to manage disaster related debtor accounts.

- The interface between IFMIS and the Department of Health and Human Services (HHS) Smart Link system requires significant manual processing to correct interface errors which are caused, in part, by FEMA's inconsistent management of processing codes. In addition, an automated interface no longer exists to transmit payment data from Smart Link to IFMIS. Smart Link is used to process several types of FEMA obligations, including grant obligations.

- Although FEMA has engaged a contractor to clean up the IFMIS vendor table, these efforts have not been completed.

- FEMA continues to lack a contingency plan for IFMIS.

During the FY2002 financial statement audit, we identified two additional issues impacting FEMA's financial processing efficiency and effectiveness:

- Since 1989, when FEMA originally began using the NFC for payroll processing, FEMA's Management Account Structure Codes System (MASC) database information at NFC has not been updated. As a result, FEMA has had to pay NFC to correct unnecessary payroll processing errors. FEMA's payroll processing costs for FY2000, FY2001, and FY2002 have been $691,079, $728,744; and $750,606, respectively, and costs for correcting payroll-processing errors is estimated at 20% annually. In addition, FEMA has one of the highest number of payroll processing errors of all agencies using NFC.

- During FY2002, FEMA upgraded IFMIS to version 5.1.6. While we found that the upgrade was generally managed in an effective manner, we also found that a FEMA required document, the Requirements Traceability Matrix (RTM), was not completed. The RTM helps ensure that a system is designed and maintained in such a manner to meet applicable functional and user requirements. Information Technology Services Directorate (ITSD) personnel attributed the lack of a completed RTM to insufficient agency personnel with the required knowledge to accurately complete the matrix. In January 2003 FEMA engaged a contractor to produce the RTM.

Recommendations:

We recommend that the Acting CFO:

2.a. Coordinate the performance of business process reviews for key financial processes, such as personal property management, payroll, cost accounting, and accounts receivable. These reviews should include assessments of how the existing financial systems processing cycles need to be improved to better meet mission needs, FFMIA requirements, and OMB Circular A-127 policy guidance. Based on the results of the business process reviews, the Acting CFO, in coordination with other agency executives, should review all issues identified with the current financial systems environment and relevant interfaces, and update remediation plans as appropriate, with the goal of improving financial system functionality and efficiency.

2.b. Continue to improve the management of Smart Link-related processing codes and to consider the development of a full interface between IFMIS and Smart Link.

2.c. Continue efforts to clean up the IFMIS vendor table and related processes, including planned efforts to institute a quarterly review of the vendor file audit trail, work with the IFMIS development contractor to develop analytical tools to help maintain effective and efficient vendor table data, and close-out of old vendor data.

2.d. Ensure that the MASC table at the NFC is updated with current FEMA payroll processing data, and implement a policy whereby the MASC table is regularly updated.

In addition, we recommend that the Acting CFO, in coordination with the CIO:

2.e. Ensure that IFMIS contingency planning efforts be improved. This should include:

- Performing a business impact assessment to fully assess the impact an IFMIS outage would have on FEMA operations, and how long FEMA could operate given different outage scenarios.
- Developing a contingency plan focused on recovering critical operations within the necessary timeframes, or implementing workarounds as necessary. The contingency plan should consider the activities performed at general support facilities, such as data processing centers and telecommunications facilities, as well as the activities performed by users of specific applications.
- Periodically testing the IFMIS contingency plan to ensure the recovery planning steps will work as intended.

2.f. Ensure that the IFMIS 5.1.6 RTM is completed.

3. FEMA MUST IMPROVE ITS FINANCIAL REPORTING PROCESS

To meet the requirements of the CFO Act and the Government Management Reform Act, FEMA prepares annual consolidated financial statements. The preparation of financial statements should be a routine process that is a by-product of already existing mission-driven policies and procedures and financial internal controls.

As directed by the *Federal Managers Financial Integrity Act* (FMFIA), the United States General Accounting Office (GAO), in November 1999, issued the *Standards for Internal Control in the Federal Government* (Standards). The Standards "define the minimum level of quality acceptable for internal control in government and provide the basis against which internal control is to be evaluated." The Standards segregate internal control into five areas, i.e., control environment, risk assessment, control activities, information and communications, and monitoring.

The Standards define control activities as "the policies, procedures, techniques, and mechanisms that enforce management's directives." As stated in the Standards, control activities "include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation."

During our FY2001 financial statement audit, we identified several weaknesses related to FEMA's financial reporting process that led to a reported material weakness for the agency. During FY2002, FEMA included these weaknesses in its remediation plan and took corrective actions to partially address several identified issues, including the drafting of a standard operating procedure (SOP) for financial statement preparation, issuing an SOP entitled *Processing Mission Assignments*, beginning efforts to identify obligations that should be de-obligated, and improving the timeliness of recording certain corrections to grant-related balances.

Despite these corrective actions, the following FY2001 weaknesses have not been fully addressed:

- The financial statements were prepared late, as compared to FEMA's 2002 Year-End Closing Instructions, and required significant revisions. On December 24, 2002, we received the first draft of FEMA's FY2002 consolidated financial statements. This draft did not include notes to the consolidated financial statements or any of the required supplementary information. Furthermore, the first draft excluded several material adjustments, and the statements were not in the required format. On January 9, 2003, we received the second draft of FEMA's consolidated financial statements. Although the second draft included all required components, numerous adjustments and follow-up questions were necessary. Final statements and notes were not received until late January. As a result of these delays, final audit procedures were significantly compressed so that FEMA could meet the accelerated OMB reporting deadline of January 31, 2003. Beginning with FY2003, interim unaudited financial statements are required on a quarterly basis, and due to OMB within 45 days after the end of the quarter.

- The Required Supplementary Stewardship Information does not include outcome measures for each stewardship investment disclosed, as required.

- Although FEMA drafted an SOP for financial statement preparation, the SOP has not been finalized. The adjustments and revisions made to the first and second drafts of the consolidated financial statements appear to demonstrate that the SOP was not implemented during the FY2002 preparation process, and is reflective of a lack of control to ensure that the financial statements are accurate.

- FEMA does not have an integrated financial reporting process that can generate financial statements as a by-product of already existing processes. For example, FEMA manually enters financial data from IFMIS into personal computer spreadsheets in order to prepare the consolidated financial statements.

- FEMA took several measures to address the timely close-out of mission assignments. However, of a sample of 15 mission assignments that were closed during FY2002, we identified 12 mission assignments that were not financially closed within one year of the project completion date. The closure of a mission assignment requires the cooperation of the other federal agency.

- As noted above, FEMA began efforts to identify obligations that should be de-obligated. However, obligations at May 31, 2002, and September 30, 2002, totaling $2.3 billion and $127 million, respectively, were tested by us during the audit. Of these amounts, we identified, and FEMA agreed, that $28 million should have been de-obligated prior to September 30, 2002. FEMA adjusted the consolidated financial statements, accordingly. The obligations related primarily to grants, mission assignments, and interagency agreements.

- Although FEMA's process for accruing accounts payable includes the review of subsequent disbursements and bills received for a period of time after the end of the reporting period, it does not include techniques to accrue an estimate of bills not received prior to the cut-off dates. We identified several disbursements before and after these cut-off dates that related to FY2002, but were not accrued for. FEMA agreed that $8 million should have been included in the FY2002 accounts payable accrual, and adjusted the consolidated financial statements accordingly.

During the FY2002 financial statement audit, we identified the following additional issues impacting the financial reporting process:

- FEMA FY2001 consolidated financial statements were issued with an error that resulted from a lack of version control. FEMA identified the error and re-issued the financial statements; however, this demonstrates a significant lack of control in the financial statement issuance process.

- At our request, FEMA reviewed its mission assignment disbursements to the United States Department of Labor and the National Institute of Mental Health. Upon FEMA's review, an adjustment of $43 million was made to the FY2002 consolidated financial statements to properly record these disbursements as advances to others. Similarly, FEMA recorded a $16 million adjustment to properly record disbursements under interagency agreements as advances to others.

- Public Law 107-206, Title I, Chapter 13 granted FEMA three emergency, contingent appropriations, totaling $306 million. These amounts were contingent on the President informing the Congress that the amounts were designated as an emergency requirement. However, the President did not make such a designation within the required time period. FEMA accounted for the transactions in different ways in its draft FY2002 consolidated financial statements. Therefore, we recommended and FEMA posted adjustments for all of these appropriations.

- FEMA does not perform close out procedures for its interagency agreements timely upon expiration of the performance period or receipt of the final invoice, resulting in the untimely de-obligation of remaining funds. In addition, interagency agreement close out policies and procedures are not documented.

The above conditions significantly increase the risk that the consolidated financial statements and required disclosures could be inaccurately presented. In addition, significant resources are required to review and validate the financial statement presentation due to the intensive, and not fully documented, manual processes that are used to prepare FEMA's consolidated financial statements.

Recommendations:

We recommend that the Acting CFO:

3.a. Continue to evaluate existing resources, automated systems, and processes to identify improvements to ensure the accuracy of the financial statements and that the financial statements are in conformity with generally accepted accounting principles, as outlined in applicable OMB Bulletins.

3.b. Require the completion of the GAO *Checklist for Reports Prepared Under the CFO Act* and the documentation of senior management review and approval of the financial statements prior to issuance.

3.c. Finalize and implement the policies and procedures surrounding the financial reporting process in light of the requirements of OMB Bulletin 01-09.

3.d. Continue to implement procedures to ensure the timely financial close out of mission assignments.

3.e. Continue efforts to periodically review obligations based on aged amounts to ensure de-obligations are performed timely.

3.f. Develop and implement improved accounts payable accrual policies and procedures that include estimation of payables for bills not received prior to the cut-off dates. Such procedures become increasingly important as OMB continues to require financial statement submission deadlines closer to the end of the reporting period.

3.g. Develop and implement a version control process to ensure that the issued consolidated financial statements are the correct and final version.

3.h. Develop and implement procedures to ensure that advance payments for services are appropriately classified.

3.i. Develop and implement procedures to ensure consistent and appropriate accounting treatment of unusual transactions and events.

3.j. Develop, document, and implement procedures to ensure the timely close out of interagency agreements.

4. FEMA Must Improve Its Real and Personal Property System Processes

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, defines PP&E as tangible assets that have estimated useful lives of two years or more, are not intended to be sold in the ordinary course of operations, and have been acquired with the intention of being used by the entity.

SFFAS No. 6 requires that the cost of property be recorded as an asset. The cost may be recorded at acquisition cost, estimated fair value, or other specified methods, depending upon how the asset was acquired. This cost is to be depreciated over the life of the PP&E, with the exception of land, which is non-depreciable. SFFAS No. 10, *Accounting for Internal Use Software*, requires federal agencies to capitalize certain internal use software costs.

The proper accounting for PP&E requires that systems and processes be in place and operating effectively to ensure all property above the entity's established capitalization threshold is properly recorded, accurately depreciated, and tracked for safeguarding purposes.

During our FY2001 audit, we identified several weaknesses related to FEMA's property systems and processes. In particular, FEMA did not have a property management system that adequately met FEMA's accounting needs or JFMIP requirements. In FY2002, FEMA placed on hold plans to acquire a JFMIP compliant system because of an OMB moratorium on system purchases, as mentioned earlier. In addition, FEMA did not have policies and procedures in place to ensure the accuracy of data recorded in LIMS, its personal property management system. During the past year, FEMA has taken steps to improve its property accounting. In particular, FEMA conducted an agency-wide inventory of personal property valued at $25,000 or greater (i.e., property meeting the capitalization threshold) to ensure the correct reporting of equipment and related depreciation. As a result of its agency-wide inventory, FEMA recorded a prior period adjustment to increase equipment acquisition cost and accumulated depreciation as of September 30, 2001 by $74.5 million and $71.7 million respectively. Also, FEMA developed processes for tracking construction-in-process (CIP) and deferred maintenance amounts, improved processes for the calculation of depreciation, and developed procedures for valuing internal use software.

However, we noted that certain weaknesses identified during FY2001 have not yet been addressed. FEMA attributes the inability to address these issues to the lack of sufficient resources and the moratorium on system purchases. These issues include:

- FEMA does not have a property management system that meets its accounting needs and JFMIP requirements. LIMS is used primarily to track the location and availability of equipment. LIMS does not track other types of property and cannot perform the accounting functions required by JFMIP. As stated above, FEMA has not been able to acquire a new system due to the systems purchase moratorium.

- LIMS continues to change acquisition dates for equipment when items are transferred within FEMA, and it does not contain data fields, such as purchase order or invoice numbers, that link equipment to the accounting records. Acquisition dates are important for depreciation calculations. Equipment needs to be linked to the accounting records so that equipment can be substantiated as to acquisition date and valuation. In general, property items should track to its supporting procurement information, and accounting records should correlate to any FEMA property located at either FEMA sites or in the custody of others.

- Although FEMA conducted an agency-wide inventory of equipment, it has not entered all of the results into LIMS. As a result, baseline inventory information is scattered between LIMS, contractor reports, spreadsheets, and other non-LIMS ("cuff") records. Unless LIMS is fully and completely updated and maintained, FEMA is at high risk of losing the ability to substantiate the baseline numbers it has worked so hard to obtain. To ensure accurate accounting records going forward, FEMA also will need to perform reconciliations and use workarounds to compensate for LIMS' inability to interface with the accounting records and maintain acquisition dates, and to adjust for property acquisitions, disposals, and impairments.

- FEMA has not fully implemented a centralized facilities management system because of the systems purchase moratorium.

- Although FEMA has developed processes for identifying, valuing, and tracking CIP and deferred maintenance, these processes have not been fully implemented. Reports related to CIP and deferred maintenance are to be submitted by accountable property officers (APOs) and facilities managers on a quarterly basis. FEMA, however, has not implemented procedures to ensure timely submission and proper follow-up on delinquent or inadequate reports. For its FY2002 financial statements, FEMA developed the deferred maintenance information through a one-time engineering assessment provided by a contractor on a selected number of FEMA locations.

During the FY2002 financial statement audit, we identified the following additional issues impacting FEMA's property:

- FEMA does not have procedures to ensure that equipment is consistently recorded on either a system or a component basis. For example, we found that some regions recorded servers as a single unit in LIMS, while other regions entered the components of the server as individual items in LIMS. Therefore, servers might be recognized as a capitalizable item in one region but not in another because the individual components were under the capitalization threshold. Also, we found that equipment sometimes was recorded twice – once as part of a system, and once as a component. Specifically, we found equipment in FEMA's mobile response vehicles that was sometimes double-counted in LIMS – once as part of the vehicle, and once as a component. This situation made it more difficult to obtain an accurate inventory valuation.

- FEMA does not have procedures to ensure that property inventories are performed properly. To establish a baseline inventory, as mentioned earlier, FEMA required its 6 APOs to perform equipment inventories. A FEMA contractor then validated these inventories. During our review, we found that some regional inventories were not performed properly, a finding consistent with the validation contractor's findings. For example, some APOs did not check property onsite against LIMS records; i.e., they did not do a "floor to book" test. We also identified several locations that did not provide a current or complete certified inventory as part of the baseline inventory effort. These omissions indicate that the required annual inventories that APOs are to perform might also be incomplete.

- FEMA does not have procedures to ensure that all equipment is entered into LIMS. Based on our inquiries of the APOs and FEMA management, we verified that two significant equipment items had never been entered into LIMS, although this equipment was monitored by various FEMA programmatic offices. As a result, their related acquisition cost, accumulated depreciation, and net book value, had never been reflected in FEMA's financial statements. Specifically, radio communication equipment located throughout the United States, as part of FEMA's National Radio System (FNARS) and government-furnished equipment (GFE) located at a contractor site, had never been entered into LIMS. The acquisition cost of the FNARS and GFE property items were valued at $27,876,000 and $882,000, respectively.

Recommendations:

We recommend that the Acting CFO, the Assistant Director for the Administration and Resource Planning Directorate, in coordination with the CIO:

4.a. Continue seeking to implement a JFMIP-compliant property management system that supports accounting for all types of property; is integrated with the accounting system; addresses the tracking of the addition, disposal and internal transfer of property; and provides the required accounting functionality.

4.b. Ensure that all baseline inventory information is entered into LIMS and is maintained. We suggest that a single FEMA unit, such as the Automated Inventory Control Group, be given the responsibility for ensuring the entry of the baseline data into LIMS in order to maintain control over this process.

4.c. Continue to implement FEMA's centralized facilities management program.

4.d. Until the JFMIP-compliant property management system is implemented, policies and procedures should be implemented to ensure that:

- CIP and deferred maintenance amounts continue to be identified, valued and tracked.
- Property additions, either by purchase, transfer-in, or construction, are all recorded and reconciled on a timely basis with the relevant property additions recorded in IFMIS.
- Property deletions, either by sale, transfer-out or excess disposal, are all recorded and reconciled on a timely basis with the relevant property disposals recorded in IFMIS.
- Personal property additions are correctly and consistently entered as either a system (i.e., modified, network, or end unit items) or as individual components in LIMS.
- Personal property inventories are conducted on a periodic basis and the results of those inventories are certified by the appropriate APO or other property manager and that the Administration and Resource Planning Directorate provide oversight over those inventories to verify their accuracy and completeness.

5. FEMA MUST IMPROVE ITS ACCOUNT RECONCILIATION PROCESSES

As required by the FMFIA, federal agencies must establish controls that reasonably ensure that (a) obligations and costs comply with applicable laws; (b) assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and (c) revenues and expenditures are properly recorded and accounted for. A typical control used for these purposes is the reconciliation of the agency's financial accounts on a periodic basis.

During our FY2001 financial statement audit, we noted that many of FEMA's accounts had not been fully reconciled during the year. During FY2002, FEMA included this weakness in its remediation plan and took corrective actions to partially address several identified examples, including contracting for the performance of accounts payable and unliquidated obligations reconciliations at year-end, implementing procedures to reconcile each of FEMA's reimbursable agreements, and improving the timeliness of TFS 6652, *Statement of Differences*, reconciliations.

Despite these corrective actions, we concluded from our FY2002 audit procedures that the following FY2001 weaknesses have not been fully addressed:

- In FY2001, we noted that reconciliations between subsidiary records and the general ledger had not been performed for accounts payable and unliquidated obligations. As noted above, FEMA contracted for the performance of these reconciliations at the end of FY2002. However, when these reconciliations were requested for the six months ended June 30, 2002, only the reconciliations for one fund were provided. Reconciliations should be performed periodically throughout the course of the fiscal year and not only at year end.

- We noted that differences identified during the TFS-6653, *Undisbursed Appropriations Account Ledgers,* reconciliation process were not reconciled and resolved timely. Further, the manner in which the TFS-6653 reconciliation is documented does not easily permit the identification of unreconciled amounts between the U.S. Treasury's and FEMA's records.

- FEMA's suspense fund, which is used to hold transactions until FEMA program officers approve them, was not reconciled with the amount reflected in the U.S. Treasury's records (i.e., Treasury account 58-F-3875). In addition, the amount recorded in the general ledger was not reconciled with the subsidiary ledger. Because the accuracy of the amount in the suspense fund recorded in the general ledger was uncertain, FEMA relied solely on the U.S. Treasury's records in determining the suspense balance, which is allocated at year end to FEMA's various programs based on an analysis of costs. Further, transactions posted to the suspense fund are not being cleared in a timely manner. As of September 30, 2002, the U.S. Treasury's records indicated a balance in the suspense fund of $68 million, which is an increase of $46 million from September 30, 2001. FEMA management was able to clear and properly record $24 million of the $68 million. Therefore, $22 million of the $46 million increase was allocated in the FY2002 consolidated financial statements.

- In FY2001, we noted that account balances (i.e., advances from others and accounts receivable) related to FEMA's reimbursable activity were not reconciled between the general ledger and the reimbursable agreement files and other supporting documentation. As noted above, FEMA began efforts to perform reconciliations of each of FEMA's reimbursable agreements during FY2002. Based on our understanding of the reconciliation procedures performed near year-end, the procedures did not include verifying the accuracy of the amounts recorded in the general ledger against the documentation underlying the transactions. In addition, the related SOP does not designate a supervisor to review the prepared reconciliations. At our request, FEMA performed detailed reconciliations for a sample of 11 of its reimbursable agreements as of September 30, 2002. Although we requested performance of the reconciliations on December 2, 2002, we did not receive acceptable reconciliations for all requested agreements until January 22, 2003. Our review of these reconciliations resulted in a downward adjustment of $12 million to advances from others that FEMA posted to the consolidated financial statements.

- FEMA did not complete the intragovernmental balance reconciliations with its trading partners semi-annually, as required by OMB Bulletin No. 01-09. FEMA attempted to perform these reconciliations by providing FEMA's revenue-related data to its trading partners in December 2002. As of the date of this report, no responses have been received by FEMA nor has FEMA made any follow-up inquiries. Furthermore, the methodology for this entire reconciliation process has not been developed and documented.

During the FY2002 financial statement audit, we identified the following additional issues impacting the reconciliation process:

- FEMA was unable to provide sufficient documentation to support certain adjustments made as part of the TFS-6653 reconciliation process in a timely manner. Although we received most documentation requested before the end of fieldwork, net reconciliation adjustments of $10 million related to the primary reimbursable agreement fund remained unsupported. As this amount represents less than 1% of fund balance with Treasury at September 30, 2002, we did not propose a related audit adjustment.

- FEMA provided three different sets of year-end balances for advances from others and accounts receivable related to its reimbursable agreements. On October 31, 2002, FEMA provided a detailed listing of these advances from others and accounts receivable with total balances of $163 million and $12 million, respectively. On January 21, 2003, FEMA provided a revised detailed listing of these advances from others and accounts receivable with total balances of $130 million and $11 million, respectively. However, FEMA did not provide an explanation of the changes that occurred between the two versions. In addition, the draft FY2002 consolidated financial statements reported theses advances from others and accounts receivable balances as $122 million and $14 million, respectively, and FEMA did not initially provide an explanation of the difference between the revised detailed listing and these reported amounts. FEMA resolved these issues on January 24, 2003 and adjusted the consolidated financial statements, accordingly.

The effect of not performing timely reconciliations is that material errors in the financial records could exist and remain undetected by FEMA management.

Recommendations:

We recommend that the Acting CFO:

5.a. Prepare monthly reconciliations of all transaction accounts from the subsidiary ledger and/or external information to the general ledger, such as Fund Balance with Treasury (including the suspense fund), accounts payable, and unliquidated obligations.

5.b. Ensure that differences identified as a result of the monthly reconciliations are resolved timely.

5.c. Simplify the documentation for each fund's monthly TFS-6653 reconciliation, including the removal of reconciled and cleared discrepancies from earlier months and the display of the true unreconciled difference between the U.S. Treasury's and FEMA's records.

5.d. Resolve and properly record all remaining transactions included in the suspense fund at September 30, 2002. Develop and implement procedures to ensure transactions posted to the suspense fund are investigated and resolved in a timely manner.

5.e. Improve the reconciliation procedures implemented in FY2002 related to reimbursable agreements, to ensure (1) the procedures are comprehensive, (2) that appropriate supervisory personnel review the prepared reconciliations in a timely manner, and (3) that related balances are appropriately and timely recorded in the general ledger and the financial statements.

5.f. Develop and implement policy and procedures for the periodic reconciliation of intragovernmental balances with its trading partners.

5.g. Improve record retention policy and procedures related to adjustments made as part of the TFS-6653 reconciliation process.

6. FEMA MUST IMPROVE ITS ACCOUNTS RECEIVABLE PROCESSES

OMB Circular A-50, *Audit Follow-up*, requires federal agencies to set up receivable accounts for any audit-related debt agreed to by auditors and management audit resolution. FEMA Instruction 1270.1, dated September 7, 1995, states that the audit follow-up official is responsible for ensuring that action plans resulting from resolution of audit reports are implemented as rapidly as possible.

FEMA Manual 2200.8 states that "regardless of their source, the objectives in accounting for receivables are to ensure that all receivables are identified, classified uniformly, accounted for, recorded timely in the accounting system, aggressively collected, and supported by sufficient documentation."

During our FY2001 financial statement audit, we noted several weaknesses in FEMA's accounts receivable processes. During FY2002, FEMA included these weaknesses in its remediation plan and took corrective actions to address identified issues, including the review and write-off of $28 million of unbilled receivables considered invalid.

Despite these corrective actions, we concluded from our FY2002 audit procedures that the following FY2001 weaknesses have not been fully addressed:

- Although FEMA reviewed and wrote off $28 million of invalid receivables, a receivable account for one grantee totaling $14 million remains recorded in the general ledger for which no formal bill for collection has been issued. FEMA recorded a $14 million allowance for doubtful accounts to offset the unbilled receivable until the final amount of the receivable is fully documented.

- Certain audit report action plans agreed to by auditors and FEMA management were not implemented timely or properly, including making the final management determination of disallowed costs. We reviewed seven OIG audit reports issued between 1997 and 2001. In these reports, $41 million of the claimed costs was questioned. Of the seven audit reports, a final determination of the questioned costs had been made by FEMA management and appropriate accounting treatment (i.e., establishment and billing of a receivable or partial deobligation of a current obligation) had occurred for four reports.

During the FY2002 financial statement audit, we identified the following additional issue impacting the accounts receivable process:

- FEMA does not process the billings related to the state share of certain mission assignments in a timely manner. For example, we noted several instances where FEMA had been billed by the other federal agency for mission assignment expenses in the first or second quarter of FY2002, but FEMA did not bill the state for its share until September 26, 2002. FEMA does not record a receivable until the state share has been billed.

As a result of these issues, FEMA may not be pursuing the collection of all valid accounts receivable balances.

Recommendations:

We recommend that the Acting CFO:

6.a. Complete final close-out procedures related to the grantee noted above and issue a formal bill for collection in the appropriate receivable amount.

6.b. Strengthen procedures to ensure that audit resolution and all audit-related action plans requiring the recoupment of grant funds are properly and timely implemented. These procedures should ensure that final amounts owed to FEMA as a result of audit resolution are (a) determined timely, (b) properly and timely communicated for billing and recording as accounts receivable or as a partial reduction of a current obligation, and (c) billed and collected timely.

6.c. Develop and implement procedures to ensure the timely billing of the state share of mission assignment expenses and to ensure the proper recording of such receivables.

REPORTABLE CONDITION

7. FEMA MUST IMPROVE ITS CERRO GRANDE ESTIMATION PROCESSES

OMB Circular A-123, *Management Accountability and Control*, requires that Federal agencies implement management controls that reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

During our FY2002 financial statement audit, we noted certain weaknesses in FEMA's process for estimating the remaining liability for the Cerro Grande program including:

- FEMA adopted a new methodology to calculate the claims liability estimate in FY2002. While the FY2002 and FY2001 approaches differ significantly, FEMA did not prepare an analysis of the impact of the change in estimation methodology and did not document how the change in methodology impacted the liability estimate. An analysis to determine the source of differences in the claims liability estimate, in particular, an analysis to determine the dollar impact to the liability estimate of changing the methodology between FY2002 and FY2001, would provide a more detailed understanding of the redefinition of categories of claims liabilities in the FY2002 estimate as compared to the FY2001 estimate.

- FEMA did not maintain certain elements of the source documentation to support the factors and assumptions used in the FY2002 estimate process. We requested this information and FEMA was able to recreate the information for our review purposes.

As a result of the first issue, FEMA is currently unable to determine the sources of error in estimating the claims liability. As a result, FEMA cannot evaluate how well the estimation methodology is able to predict the liability estimate from one year to the next for the Cerro Grande program. While the second issue was resolved by FEMA's re-creation of the data, supporting documentation for accounting estimates must be maintained on file.

Recommendations:

We recommend that the Cerro Grande program officials:

7.a. Perform a decomposition of changes analysis to determine the dollar impact on the liability estimate due to changes in methodology, assumptions, systems, data, or other factors, between FY2002 and FY2001. This Analysis would enable the identification of the components of the FY2002 calculation that are driving the overall change in the liability estimates between FY2002 and FY2001. The Analysis should include a discussion of management assumptions and note any differences from year to year in such assumptions and the influence of each assumption change in the liability estimate.

7.b. Ensure that supporting documentation for program estimates that are used for financial reporting purposes be maintained as part of the estimate documentation on file.

We have considered management's response in preparing our final report. We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by FEMA personnel during the course of our audit.

Federal Emergency Management Agency

Washington, D.C. 20472

JAN 29 2003

MEMORANDUM FOR: Nancy L. Hendricks
Assistant Inspector General for Audits

FROM: Matt Jadacki
Acting Chief Financial Officer

SUBJECT: Auditors' Report on FEMA's
Fiscal Year 2002 Financial Statements

Thank you for the opportunity to respond to the draft auditors' report on FEMA's FY 2002 financial statements. We generally agree with the report's findings, conclusions, and recommendations, and are pleased that the report recognizes the improvements made during the last fiscal year. We also recognize that there are long-standing problems that will require additional time and resources to correct.

As a result of September 11, 2001, terrorist events, FEMA's budget grew to record levels in FY 2002. This created an unprecedented workload for the financial management staff. Even with the significant workload increase, we were on track to produce the statements to allow sufficient time for the audit to be completed. However, we lost three accountants at the end of the fiscal year. Since they handled FEMA's most critical accounts, the loss was devastating and the financial statement preparation schedule slipped. Despite these impediments, we were able to produce auditable statements through the hard work and efforts of the Financial and Acquisition Management Division (FAMD) staff. We also appreciate the flexibility, patience, and cooperation extended by the Office of Inspector General (OIG) and its contractor, KPMG, LLP. We plan to address all the concerns identified in the report and revise our remediation plan accordingly. We will also continue to impress upon senior management the importance of sound financial management and request adequate resources commensurate with the workload, especially as FEMA transitions into the Department of Homeland Security.

The following provides brief comments on the material weaknesses identified in the report:

1. **INFORMATION SECURITY CONTROLS FOR FEMA'S FINANCIAL SYSTEMS ENVIRONMENT NEED IMPROVEMENT**

We generally agree with the findings and recommendations and will continue to work closely with FEMA's Chief Information Officer to develop a strategy to resolve the weakness.

The Human Resources Division (HR) agrees that we need to improve upon our QuickTime Security controls in an effort to come into compliance with the Federal information security control guidelines and FEMA requirements, and that we need to ensure that system accesses are quickly removed from employees who terminate from the Agency. As a corrective measure, HR will be working in partnership with the appropriate organizational entities to develop and implement policies and procedures to ensure these issues are addressed.

2. FEMA's Financial System Functionality Needs Significant Improvement

We agree that the financial system functionality needs improvement. Several important steps were taken during FY 2002 to improve the system. First, a new JFMIP compliant version of IFMIS was implemented in August 2002. Unfortunately, since the implementation occurred so late in the fiscal year, only limited benefits of the new system were realized. We fully expect significant improvements in financial system functionality during FY 2003.

During FY 2002, the financial systems operation and administration functions were transferred to the Information Technology Services Directorate (ITSD). The purpose of the transfer was to allow the financial staff to define the system requirements and ITSD staff to implement and execute the technical systems aspects. We believe that these are important steps to address the system functionality issues.

3. FEMA Must Improve Its Financial Reporting Process

We generally agree with the findings and recommendations. As mentioned above, a new version of IFMIS was implemented late in FY 2002, but its full capability was not realized. As a result, we continued to prepare the financial statements using the manual process from previous years. As the FY 2001 audit report indicated, that process is labor intensive and prone to errors. Our goal is to fully utilize IFMIS to prepare both quarterly and year-end financial statements during FY 2003.

4. FEMA Must Improve Its Real and Personal Property System Processes

We concur with the overall findings and the recommendations issued in this report. We agree that overall property management in FEMA, including accounting for property, needs improvement. The Facilities Management Division independently identified the issues outlined in this report and corrective action plans have been developed. Implementation of these plans have been delayed due to the reallocation of directorate resources required to satisfactorily support the Agency's transition to the Department of Homeland Security, and the personnel constraints resulting from the unavailability of new or additional property management resources.

In any event, we continue to reprioritize resources from other priorities to address these and other program concerns, and are evaluating staff realignments to better leverage human resources in support of property management. While FEMA will continue to pursue the recommendations outlined in this report, underlying all of the efforts to address these findings is the fact that the Agency is migrating into the Department of Homeland Security. All accountability and responsibility for property management are being evaluated and best practices are being determined for implementation in the new Department.

5. FEMA Must Improve its Account Reconciliation Processes

We agree with the findings and recommendations. As a result of the FY 2001 audit report, FAMD took steps to correct this weakness. During FY 2002, FAMD purchased a commercial software package, Checkfree, to automate the reconciliation process. Because of competing priorities, including the FY 2002 financial statement preparation, the implementation was temporarily put on hold. We plan to implement the software during the second quarter of FY 2003.

6. FEMA Must Improve its Accounts RECEIVABLE PROCESSES

We generally agree with the findings and recommendations. Some improvements were made during FY 2002, including billing States for their share of disaster costs. We will continue to improve the close-out process and develop procedures to identify and bill states and other debtors in a timely manner.

In conclusion, we appreciate the opportunity to comment on this draft report. We are committed to improving the financial management operations in FEMA that are soon to be part of the Department of Homeland Security, and will work with the OIG to correct the conditions disclosed in this report.

Federal Emergency Management Agency

Washington, D.C. 20472

JAN 31 2003

MEMORANDUM FOR: Nancy Hendricks
Assistant Inspector General
Office of Inspector General

FROM: Laurence W. Zensinger Mike Hersch (for)
Recovery Division Director
Response and Recovery Directorate

SUBJECT: Decomposition of Change Analysis

You asked that the Response and Recovery Directorate (RR) respond to the recommendation contained in FEMA's Fiscal Year 2002 Financial Statement Audit relating to the activities of our Office of Cerro Grande Fire Claims ("the Office"). The Audit suggested that RR should "perform a decomposition of change analysis to determine the dollar impact on the liability estimate (for the Cerro Grande program) due to changes in methodology, assumptions, systems, data, or other factors, between FY 2002 and FY 2001." I am writing to confirm that RR intends to perform such an analysis. We will provide you with our analysis once it has been completed.

Please contact me at extension 3685 if you have any questions about this memorandum.

cc: Mark Masczak

Federal Emergency Management Agency

Washington, D.C. 20472

January 29, 2003

MEMORANDUM FOR: Nancy L. Hendricks
Assistant Inspector General for Audit
Office of the Inspector General

FROM: FOR Rosita O. Parkes
Assistant Director
Information Technology Services Directorate

SUBJECT: Draft Auditor's Report on FEMA's Fiscal Year 2002 Financial Statements - Appendix I – Material Weaknesses

The Information Technology Services Directorate (ITSD) appreciates the opportunity to review and comment on Appendix I of the subject draft report and agrees in principal with the ten recommendations 1.a through 1.j. Each of the recommendations is consistent with a previously known condition.

Addressing the recommendations requires a significant commitment of FEMA resources to adequately implement the agency-wide IT Security Pogram, and concurrently to ensure that program officials adequately implement security for the IT systems that support their programs. The requirements for this are explained in the draft report, further specified in public laws, Executive Branch directives, Federal standards, and FEMA policies.

Recommendations 1.a. through 1.d, and 1.j. are the responsibility of the Chief Information Officer and need to be addressed as part of the agency-wide IT Security Program. The implementation of the agency-wide IT security program is the responsibility of the Chief Information Systems Security Officer. The Chief Information Officer has reported to the Office of Management and Budget (OMB) that successful implementation of this program and addressing the noted recommendations is directly dependent upon receiving adequate resources.

In accordance with the Federal Information Security Management Act and OMB Circular A-130, Recommendations 1.e. through 1.i. appear to be primarily the responsibility of the relevant program officials. ITSD suggests that these recommendations be re-phrased to reflect that it is the responsibility of the relevant program official to resolve these issues, and to do so in coordination with the Chief Information Officer. In their present forms, the recommendations could incorrectly imply that it is the Chief Information Officer's responsibility to resolve these issues.

ITSD understands the importance of FEMA working quickly to address the weaknesses identified in this draft report, particularly as FEMA transitions to the new Department of Homeland Security (DHS).

Progress Toward Meeting the FY 2002 Program and Management Challenges Identified by the Inspector General

Following are Program and Management Challenges to FEMA that were identified by the Inspector General in the *FY 2001 Annual Performance & Accountability Report* to be addressed in 2002. These are paraphrased in italics, followed by a description of the activities FEMA management and staff are taking to address and meet these challenges.

PROGRAM CHALLENGES

Homeland Security Support. *The President established the Department of Homeland Security and Homeland Security Council. The mission of the Department is to develop, coordinate, and implement a comprehensive national strategy to secure the United States from terrorist threats or attacks. The Department, in consultation with the Homeland Security Council, is responsible for coordinating efforts to detect, prepare for, prevent, protect against, respond to, and recover from terrorist attacks within the United States. FEMA expects to have a major role as part of the Department of Homeland Security.*

FEMA representatives have been actively involved in working with the Department of Homeland Security to develop and implement the new organization as roles and responsibilities are further defined. The Office of National Preparedness will continue to carry out its mission of assisting state, local, and tribal emergency management organizations to build and sustain effective capabilities to respond to all emergencies and disasters during the time of transition to the new Department.

Disaster Response and Recovery. *As the number of federally declared disasters continues to increase, it is critical that FEMA reduce disaster response and recovery costs, better manage its disaster workforce, ensure the integrity of its many financial assistance programs, and improve program service delivery.*

FEMA's Human Resources Division (HR), as part of the Disaster Workforce Initiative Project announced by the Director in March 2002, is developing templates for recommended staffing in various sized disasters. HR staff are analyzing substantial historical data to determine previous patterns by job title in all disaster cadres and all types and sizes of disasters as a basis for developing resource models or templates as management tools for future events. However, the historical data has limitations. A companion goal of the Disaster Workforce Initiative is to conduct a competency based analysis for each of the disaster cadres with a goal of consolidating job titles and refining competencies required to meet operational needs.

This consolidation will result in the development of generalists who will be able, in smaller and sustained disaster operations, to fulfill multiple roles rather than requiring a larger number of specialists. When the templates are established, they will be used in the Automated Deployment Database to define frameworks for Disaster Field Office staffing as part of the centralized deployment system. A demonstration of the competency-based analysis for the Information and Planning cadre is underway with a projected completion date of February 28, 2003. If successful, this process will be applied to the remaining cadres with a target completion date of July 31, 2003.

We continue to work with the regions and states to assess and develop their capabilities to manage small disasters. Arizona and North Dakota are managing disasters in their states.

Another area where FEMA has made improvements, but problems remain, is debris removal. FEMA needs to continue improving its control over the debris removal program to prevent serious fraud, waste, and abuse.

FEMA is committed to improving debris operations and has developed a robust training program for debris operations and management, published several guidance documents, and developed a computer-based training course on debris operations for federal, state and local officials. FEMA is developing English and Spanish versions of a debris brochure, which contains pertinent information on eligibility and contracting. This provides another way of informing the public about debris operations. FEMA plans to convene a task force consisting of federal and state partners to explore ways to better manage debris operations.

State and Local Preparedness. *FEMA awards approximately $140 million each year to state emergency management offices to encourage the development of comprehensive emergency management, including terrorism consequence management, at the state and local level, and to improve emergency planning, preparedness, mitigation, response, and recovery capabilities.*

While it is true that as recently as FY 2000, FEMA awarded approximately $140 million in grants to state emergency management offices, it should be noted that the amount requested for this purpose for FY 2003 is $118 million. In the FY 2003 proposed budget, a large part of the $16.6 million reduction is designated for terrorism consequence management preparedness as part of the first responder grants initiative.

The FY 2002 *Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks on the United States (Public Law 107-206)*, was signed into law on August 16, 2002. Of the $225 million, funds totaling $100 million will be provided for updating plans and procedures to respond to all hazards, with a focus on weapons of mass destruction. The updated plans will address a common incident command system, mutual aid agreements, resource typing and standards, interoperability protocols, critical infrastructure protection, and continuity of operations for state and local governments. Administered by FEMA's Office of National Preparedness (ONP), the funds will flow through the states, with at least 75% going to local governments, and will assist local governments in developing comprehensive plans that are linked through mutual aid agreements and that outline the specific roles for all first responders (fire service, law enforcement, emergency medical service, public works, etc.) in responding to terrorist incidents and other disasters.

FEMA also will provide $56 million in FY 2002 funds to upgrade state Emergency Operations Centers (EOCs). States and territories will receive a base allocation and then must submit grant proposals for additional funding. A total of $25 million is available for Citizen Corps activities, including Citizen Corps Councils and expanded training for FEMA's Community Emergency Response Teams (CERTs) across the country.

FEMA Director Joe Allbaugh notified Governors of the grant program by letter on August 23, 2002. State grant applications were due November 8, 2002 to FEMA regional offices, and grant awards for all except Phase II of the EOC grants are scheduled for early December 2002.

Additional FY 2002 funds include $7 million for secure communications, $5 million to begin laying the groundwork for a National Mutual Aid System, and $32.4 million for weapons of mass destruction (WMD) training for FEMA's Urban Search and Rescue task forces.

States will receive supplemental FY 2002 funding to modify and enhance their Emergency Operations Plans (EOP), as needed, so that they address all hazards, to include WMD terrorism. In addition, planning funds may be used on the following activities in support of their EOPs:

- Interstate and intrastate mutual aid agreements;
- Facilitate communication and interoperability protocols, including the development of a communications plan so that networks and communications lines are established prior to an event, thereby minimizing the interoperability problem;
- Establish a common incident command system;
- Identification and plans to protect critical infrastructure;
- Address state and local continuity of operations and continuity of government;
- State and local hazard and risk assessments to determine emergency management planning priorities;
- Coordination of citizen and family preparedness plans and programs, including Citizen Corps, donations programs, and other volunteer initiatives to ensure an effective response to an all hazard events.

The FY 2002 supplemental funds provided to FEMA for Citizen Corps will be used to support the formation of Citizen Corps Councils and the oversight and outreach responsibilities of these Councils, and to expand CERT training across the country. CERT training puts in place a volunteer response force that can supplement the emergency and disaster response capabilities within a community. FEMA's goal is to have 400,000 community members trained in the CERT program over the next two years.

The FY 2002 supplemental appropriation includes $56 million to help state governments make improvements to EOCs in their states. There will be two phases in the awarding of EOC funding. The first phase consists of a $50,000 allocation for an assessment of the existing EOC. Phase II involves a national grant application process to address the most immediate EOC deficiencies nationwide, including physical modifications to accommodate secure communications equipment.

FEMA has made considerable progress in streamlining and making the preparedness grant process more meaningful. Despite the progress, two major management challenges remain: (1) developing a reliable method of assessing state and local capability; and (2) developing a reliable basis to implement risk-based funding allocations to states.

These grants were expected to help state and local governments lay the groundwork for the $3.5 billion First Responder Grants program proposed in the President's FY 2003 Budget. That proposal would consolidate state and local terrorism preparedness grants for planning, training, equipping, and exercising first responders currently administered in FEMA and the Department of Justice. As of November 18, 2002, neither the House of Representatives, nor the United States Senate had agreed to act on the First Responder Grants program as proposed by the President.

In addition, FEMA's ONP updated state and local government terrorism preparedness planning guidance in conjunction with the FY 2002 Supplemental Grants program guidance, and worked with the Emergency Management Institute to surge train-the-trainer course delivery for the new course, "Terrorism Planning."

ONP issued an updated and expanded edition of *Are You Ready? A Guide to Citizen Preparedness (FEMA H-34)*, which provides practical information on preparedness for all hazards, including suggested actions under the Homeland Security Advisory System.

Finally, ONP launched efforts: (1) to create a National Mutual Aid System for response teams and equipment; (2) enhance first responder equipment interoperability; and (3) establish emergency management and first responder performance standards.

The local Capability Assessment for Readiness (CAR) was distributed in June 2002, to states for their use with the local jurisdictions. The Tribal CAR was completed and sent to the National Congress of American Indians (NCAI) in October 2002.

There are currently no plans to update the state CAR. However, FEMA is placing heavy emphasis on establishing baselines and developing the means to assess state and local capabilities though its sponsorship of the Emergency Management Accreditation Program (EMAP). We will begin the state component of the National Emergency Management Baseline–Capability Assessment Program (NEMB–CAP) in January 2003, and will use the EMAP process and assessors to identify a baseline for the 56 states and territories by the end of FY 2004.

FEMA is working on a risk assessment initiative. This initiative is called HAZUS (Hazards U.S.). HAZUS is designed to produce loss estimates for use by state, regional, and local governments in planning for natural hazard loss mitigation, emergency preparedness, and response and recovery. HAZUS could provide the basis for developing a risk-based funding methodology. We believe FEMA needs to explore the potential of HAZUS in future funding allocations to states.

FEMA is nearing completion of the multi-hazard version of HAZUS that incorporates earthquake, flood and hurricane wind loss estimation capabilities. Expansion to other hazards including man-made hazards and terrorism is being planned. It needs to be noted that the Federal Insurance and Mitigation Administration (FIMA), which is leading HAZUS development, does not oversee the decisions related to state funding allocations. HAZUS is being developed for use by state and local agencies and other entities to support their mitigation, preparedness and response planning and which may also be used to support their resource allocation processes.

Mitigation Programs. *Mitigation at the state and local level continues to present FEMA with significant opportunities as well as challenges. It can complement as well as bring an enhanced focus to preparedness at all levels of government. However, the challenges are great. The overarching challenge is how to effectively coordinate the various property acquisition programs, including those of the Corp of Engineers to address national mitigation strategies. Also, it is important that FEMA have regulations and guidance as to how its buyout program is implemented. In February 2002, the OIG issued a report that addressed: (1) the need for reliable cost effectiveness determinations; (2) the need for additional guidance for buyouts; (3) improved mitigation planning by states; and (4) improved coordination with the National Flood Insurance Program (NFIP).*

FEMA agrees that effective coordination and planning at the local, tribal, state and federal government levels, as well as the coordination of pre- and post-disaster mitigation funding opportunities, is essential to achieving mitigation goals and the prevention of disaster losses. This precept applies regardless of the mitigation activities or the funding source for those activities undertaken by states, tribes and local communities.

FEMA's new planning regulation, *44 CFR Part 201, Hazard Mitigation Planning*, which was published as an Interim Final Rule in the Federal Register on February 26, 2002, and replaces *44 CFR 206 Subpart M, Hazard Mitigation Planning*, establishes new criteria for state and local hazard mitigation planning. With this emphasis on mitigation planning, many communities will be better positioned to develop proposals for cost-effective mitigation "brick and mortar" projects and activities, including buyouts, and to link pre- and post-disaster mitigation planning and initiatives with public and private interests to ensure a comprehensive, community-based approach to disaster loss reduction. The deadline for approval of state and local mitigation plans as a condition of receiving Hazard Mitigation Grant Program (HMGP) grants will be November 1, 2004. A November 1, 2003 deadline for plans has been set as a condition for local governments to receive Pre-Disaster Mitigation (PDM) grants for "brick and mortar" mitigation projects.

The Interim Final Rule:

- Continues the requirement for state mitigation planning as a condition of disaster assistance;
- Provides incentive for strengthening mitigation programs by establishing criteria for states to receive increased (20%) HMGP funding if, at the time of the declaration of a major disaster, they have an enhanced mitigation plan in place;
- Establishes a new requirement for local mitigation plans as part of the HMGP, which will be phased in; and
- Allows states to use up to 7% of HMGP funds for the development of state, tribal, and local mitigation plans (this provision has been in effect for all disasters declared after October 30, 2000).

In the spring of FY 2002, FEMA conducted mitigation planning workshops for regional and state mitigation staff in all 10 FEMA regional offices, to provide a detailed orientation on the planning provisions of the Disaster Mitigation Act of 2000 (DMA) and requirements of the Interim Final Rule. These workshops also provided the opportunity to introduce states to the local mitigation planning workshop that we have developed to help local governments undertake a mitigation planning process that will meet the requirements of the DMA.

In FY 2002, FEMA awarded PDM grants to every state as well as the District of Columbia, the U.S. Virgin Islands, the Commonwealth of Puerto Rico, American Samoa, and the Commonwealth of the Northern Mariana Islands. FEMA placed an emphasis on mitigation planning in FY 2002 in order to position states and local governments to meet the new criteria for state and local hazard mitigation plans. Most states have chosen to use FY 2002 PDM funds to support planning and risk assessment for local governments. In addition, we awarded 18 PDM grants directly to Indian tribal governments for hazard identification and risk assessment, comprehensive multi-hazard mitigation planning, and public education and outreach.

The new planning provides a framework for linking pre- and post-disaster mitigation planning and initiatives with public and private interests to ensure a comprehensive approach to disaster loss reduction. Such decision-making, based on sound understanding of vulnerability to hazards and appropriate mitigation measures, is the best indicator of a successful mitigation strategy that can be sustained over the long-term.

The FY 2003 Budget dedicates $300 million to a new competitive grant for pre-disaster mitigation. This new program will replace the formula-based Hazard Mitigation Grant Program, currently funded through the Disaster Relief Fund. The new program will operate independently of the Disaster Relief programs, assuring that funding remains stable from year to year and is not subject to spikes in disaster activity. Awarding grants on a competitive basis will ensure that the most worthwhile, cost-beneficial projects will receive funding.

FEMA staff and managers work internally to coordinate mitigation opportunities afforded through a variety of programs, e.g., HMGP, PDM, the Flood Mitigation Assistance Program, and the NFIP, toward the goals of targeting repetitive loss properties, reducing loss of life and property, and reducing disaster costs. We believe the disaster recovery process will be streamlined through implementation of planned, pre-identified, cost-effective mitigation measures, and we are working across programs to ensure that program requirements are complementary in order to facilitate mitigation efforts at the community and state levels. FEMA also works with its other federal partners to strengthen coordination and collaboration on common activities, and on resolving competing priorities. For example, FEMA and the U.S. Army Corps of Engineers (USACE) have executed a memorandum of understanding to facilitate coordination of flood mitigation programs between the two agencies.

FEMA also continues to evaluate the implementation of buyouts in order to strengthen our on-going program. During FY 2002, FEMA entered into a cooperative agreement with the University of North Carolina to conduct a study on the Impact of Property Acquisition Programs on Participating Communities. The purpose of this research is to conduct a national study that focuses on the process of conducting buyout programs as well as an evaluation of outcomes of these programs. The research focuses on examining the structure of buyout programs and their impact on individual decision-making. The guiding questions include:

- Why do buyout programs work so well in some communities but not in others?
- What is the relationship between a program's structure and individual decision-making?
- What are the reasons why some people participate in a buyout program while others do not?
- Where do people go after their property is purchased; do they stay within the community or move somewhere else?
- What mechanisms are in place to evaluate the economic benefits of conducting local buyout programs?

In order to examine these issues, a sample of four communities that have participated in buyout programs are being studied, including: (1) Kinston, NC; (2) Greenville, NC; (3) Grand Forks, ND; and (4) San Antonio, TX. This study is being conducted in concert with a related study funded by the National Science Foundation, which examines the key factors that influence the decision-making of homeowners who are eligible to participate in a buyout program. The reports will provide FEMA with useful information to evaluate existing practices in the property acquisition program, and to identify steps to strengthen coordination and collaboration with other federal programs, such as the NFIP, Small Business Administration, and the USACE mitigation programs in order to better assist households, communities, tribes, and states that have been affected by disaster events.

There are several challenging issues that need to be addressed with respect to modernization of Flood Insurance Rate Maps. First, secure sufficient funds necessary to modernize maps; second, utilize the best available technology that could provide data on elevation of structures; third, prioritize areas to be mapped that will yield the maximum benefits to the National Flood Insurance Program, including areas of coastal erosion.

Both the Administration and Congress recognize the benefits of providing updated flood hazard data to the nation. The

President's FY 2003 budget included $300 million for map modernization. Both the Senate and House subcommittees have provided favorable funding recommendations, and although the final amount for FY 2003 has not been determined, we are optimistic that a significant amount of funding will be made available for this effort. Toward this end, FEMA continues to expand innovative state, local, and federal partnerships, and to implement advanced technologies for determining and depicting flood hazards.

The map modernization program relies on partnering and technology in map production and product delivery. FEMA will use base maps supplied by others, the best available technology, including GIS based hydrology and hydraulic modeling, and LiDAR and IFSAR remote sensing to the maximum extent practicable. FEMA's modernized flood data will be provided via the Internet. Leading edge Internet mapping technologies developed through FEMA's Multi-hazard Mapping project and the Geospatial One-Stop Initiative will enable the dynamic combination of FEMA's data with state and local data sets to provide instant online access to FEMA's flood and other hazard information. Collecting elevation data on individual structures will continue to be a challenge given the current state of technology. FEMA has initiated a study of technological advances and other approaches to acquiring these data and making them available for NFIP purposes.

Although certain types of coastal erosion losses are not covered under the NFIP, it appears that because most coastal erosion occurs in conjunction with flooding, that the program, in fact, reimburses much of these losses sustained by policyholders. FEMA estimates that mapping erosion-prone areas would cost approximately $48 million (if map modernization is funded), to $112 million (if map modernization is not funded). However, congressional authorization is required to include this hazard on the flood maps and to explicitly factor that risk in setting flood insurance rates. In the FY 2003 budget, the Administration proposed that the program address the increasing risk from flooding brought about by the erosion hazard and that flood premiums explicitly start to reflect this for properties at risk. In the absence of the authorization FEMA has begun and will continue adjusting rates more generally in V-Zones (the coastal high hazard areas) to account for these losses.

One of the major successes for FEMA's Flood Hazard Mapping program, since the development of the map modernization plan, is the Cooperating Technical Partner (CTP) program. The key objectives are to leverage resources, share data and information, avoid duplication of efforts, and increase local involvement and ownership in their flood maps. Since 1999, the CTP program has grown to include 109 state, local, and regional entities.

National Flood Insurance Program. *The NFIP, the largest single line property insurer in the nation with coverage totaling approximately $628 billion, presents a formidable management challenge for FEMA. When Congress originally enacted the NFIP in the early 1970s, the flood program was expected to reduce the financial burden of flood disasters on the American taxpayer and reduce the number of homes and businesses residing in the floodplain. The at-risk structures, which receive a subsidy for their risk from the NFIP, were expected to be gradually replaced over the years. By 1990, it was projected that only 10% of homes would be subsidized.*

In FY 2002, in keeping with the President's Budget blueprint, FIMA provided analyses for various alternative legislative proposals for reduction in the NFIP premium subsidy for pre-Flood Insurance Rate Map (pre-FIRM) buildings. Work also began on a study with the Department of Housing and Urban Development to obtain additional information on the impacts of subsidy reduction to assist public policy decision makers.

Regarding the nature of the subsidy, however, OIG points out that original projections were that by FY 1990 only 10% of the homes that were insured would be subsidized and that 40% of these buildings still remain in the policy base in FY 2002. It then states that these "at risk structures are flooded repetitively." This discussion is somewhat misleading in that it appears that all of these pre-FIRM properties are the problem when this is not the case.

We agree that the attrition of the subsidized buildings has occurred at a slower rate than originally projected. These early projections did not fully take into account the improved quality of construction and the increased property values that have resulted in older buildings being periodically rehabilitated to extend their useful life. As a result, the attrition of the pre-FIRM buildings is occurring, but at a slower rate than originally projected. This makes it all the more important to focus mitigation programs on the properties that are at greatest risk of flooding.

We are a little unclear as to the OIG's percentages. Today, 29% of NFIP policies are subsidized and 1% of the policies are for repetitive loss properties (45,000 insured repetitive loss properties out of 4.4 million policies). The report *Study of the Economic Effects of Charging Actuarially Based Premium Rates for Pre-FIRM Structures* done for FEMA by PriceWaterhouse-Coopers identified significant variations of risk among the remaining pre-FIRM buildings. Around 46% of these structures were estimated to be at or above the Base Flood Elevation (BFE). Many of these structures have voluntarily chosen to be rated actuarially or could reduce their flood insurance premiums by choosing to do so and are not subsidized. A much smaller number of the pre-FIRM buildings are substantially below the BFE or subject to repetitive flooding. By focusing our mitigation resources on these properties we can significantly reduce flood damages and the pre-FIRM subsidy even if large numbers of the lesser risk pre-FIRM continue to be insured. The problem is not all of the policy base that are pre-FIRM properties, but the smaller subset of these buildings that are at the greatest risk of flooding including the repetitive loss properties.

The increased cost of compliance terms in flood insurance policies can and should be used more frequently to reduce repetitive loss claims and further mitigation objectives. The increased cost of compliance terms in flood insurance policies provides funds to homeowners who have sustained substantial damage to make repairs that would mitigate future flood damages.

During FY 2002, to promote utilization of the NFIP's Increased Cost of Compliance (ICC) coverage, FIMA developed and published marketing, education, and instruction materials. We are encouraging policyholders to assign the benefits of their ICC claims in a buyout situation, to the community. The community is then able to use those funds as a part of their contribution to project funding. In FY 2002, work was started on raising the ICC limit of liability to $30,000 from the current $20,000. This increase will be effective upon completion of rulemaking. Further, a revised ICC Manual for communities is being prepared and FEMA regional offices as well as the adjusters have been requested to pay particular attention to Substantial Damage claims.

The OIG noted that there is an estimated 7 million structures located in special flood hazard areas throughout the country. Only approximately 2.4 million of those structures have flood insurance coverage. FEMA needs to maintain a sustained campaign to provide insurance coverage for the millions of uninsured properties that are still at risk.

As of September 30, 2002, there were approximately 3 million special flood hazard area policies. This is considerably less than the number of those at risk. We agree that FEMA must maintain a sustained campaign to insure more Americans. We are working to reinvigorate the NFIP marketing and advertising campaign with a paramount objective of increasing the number of NFIP policyholders. This new national marketing and advertising campaign will be grounded in effective risk communication principles and practice. In this way the campaign will address one of the major obstacles to flood insurance purchase, the lack of perception of risk. It is expected that the campaign will effectively convince consumers of their vulnerability to flood damage and the value of buying and retaining flood insurance protection.

In last year's management challenges, the OIG noted several areas where the Federal Insurance Administration and the Mitigation Directorate could work together to achieve common objectives and further the mission of the NFIP.

How effectively is compliance with floodplain management criteria being enforced as a condition of maintaining eligibility in the NFIP?

We agree that compliance is a continual challenge for the NFIP since local elected and appointed officials continually change. There is an on-going need to provide technical assistance and monitoring for these communities so that they can properly enforce their floodplain management regulations. Our primary tools for technical assistance and monitoring are Community Assistance Visits (CAVs) and Community Assistance Contacts (CACs) conducted by FEMA or by states on behalf of FEMA. We currently have over 14,000 CAVs and 12,000 CACs entered into our Community Information System that OIG can access. We also view workshops and other training and guidance documents as critical to this effort.

As indicated by the OIG, FEMA believes that most communities have effective floodplain management programs and that most new buildings are being built in accordance with program requirements, although there is room for improvement. We will be evaluating community compliance as part of our ongoing Evaluation of the National Flood Insurance Program. The compliance portion of this evaluation will be in two parts. The first part of the compliance portion of the evaluation will focus on the effectiveness of the current compliance process itself. The second part will try to assess the overall level of compliance with NFIP's floodplain management requirements across the nation. The combined results of both parts of the evaluation will allow us to assess the overall effectiveness of the compliance program and determine if changes are warranted. The compliance portion of the evaluation has been initiated and is in its early stages.

The OIG noted that a question that needs to be addressed is if insurance premium discounts provided for under the Community Rating System (CRS) are warranted based on conditions and mitigation actions taken by a community?

FIMA commented on this issue in detail in our October 1, 2002 reply to the recent OIG draft report *I-03-02, Community Rating System: Effectiveness and Other Issues*. In those comments we explained that CRS is revenue neutral and outlined the process that was used in developing those discounts and determining which activities were credited and for how much. The process involves "control point" activities that could be easily measured and using expert opinion to weight other activities in relation to these "control point" activities. We have also conducted periodic evaluations of the CRS to address this issue. The results of these evaluations to date are that CRS is working and that the credited activities do reduce flood losses beyond NFIP minimum requirements. There is not enough loss experience in CRS communities at this time to measure actual reductions in damages, but we will attempt to do so as this experience becomes available.

How effectively are mandatory flood insurance purchase requirements for homeowners being monitored?

FIMA recognizes that lender compliance with mandatory flood insurance purchase requirements is a major concern. FEMA does not, however, have oversight authority for lending institutions. Nevertheless, we foster lender compliance with mandatory purchase provisions by conducting lender training seminars across the country, developing guidance materials for lenders both in hard copy and electronically via our Web site, and by maintaining regular communication with federal lending regulators, Government Sponsored Enterprises (GSEs), and the lending community.

In FY 2001, through the work of our stakeholders, new business increased by about 14% with the addition of 598,411 new policies to the NFIP's books. These gains in flood insurance policies, however, were offset by attrition (556,183 policies) from the previous year's total number of policies in force.

While a certain degree of policyholder non-renewal has to be expected, we recognize that to improve overall NFIP participation we must not only continue to attract new business, but also boost the retention of current policyholders. Therefore, we have initiated a number of strategies and tactics to improve policy retention.

Recent analyses indicate that lenders may be correctly requiring the purchase of flood insurance as a condition of mortgage loan origination. We believe, based on policy attrition rates for the past several years and other data, that enough borrowers may not be maintaining flood insurance throughout the term of the loan, as required by law, to have a significant impact on our policy retention. GAO issued a June 2002 report on this issue, *Flood Insurance: Extent of Noncompliance with Purchase Requirements Is Unknown*.

We plan to work with federal lending regulators and GSEs to identify actions we can take to ensure borrowers are required to renew flood insurance policies annually. Although we do not have oversight authority, we can help identify whether there are any means by which we can prevent renewals of mandatory purchased policies from "falling through the cracks."

Also, we plan to assess state escrow laws and systems to determine whether any obstacles to flood insurance escrow may exist and, where necessary, work with the states on amendments. It bears further research and consideration because monthly-automated payments have been shown to improve the persistency of flood and other lines of insurance.

MANAGEMENT CHALLENGES

Information Technology Management. *Information technology (IT) is vital to FEMA's ability to accomplish its mission, but it presents several management challenges. Increasing connectivity between systems, especially through the Internet, and constantly changing and evolving technology and communications, while creating new opportunities for enhancing existing processes, also dramatically increase technology and security risks. As a result, FEMA must remain ever vigilant in guarding its systems and data.*

The Office of Cyber Security has instituted a plan for performing security reviews of the Agency's IT systems, beginning with the most critical operations. The office is also reviewing the *Exhibits 300: Capital Asset Plans* to ascertain that each system or activity has or plans to undertake security procedures appropriate to the perceived risks. The objective is to attain security accreditation and certification for critical IT systems.

FEMA is providing a mix of e-government applications and systems to improve access to Agency information and services via the Internet. At present, FEMA has e-government services for five government-to-government programs, one government-to-citizen program, and three that serve citizens, government, and businesses. In the next year, FEMA expects to provide access to ten more programs via the Internet. The goal is to implement a common standard for electronic exchange of Agency information and transactions to citizens, businesses, and other government offices. Project SAFECOM and DisasterHelp.gov will become the leaders in the effort to make the common standard a reality within FEMA and across the federal spectrum.

The OIG identified weaknesses in FEMA's IT capital planning and investment control process. FEMA revised the process to help ensure that it is making technology investment decisions that are cost effective and contribute to accomplishing the Agency's mission. FEMA also faces several upcoming technology decisions making implementation of a good IT capital planning process critical.

The Chief Information Officer (CIO) reorganized the Information Resources Management Board to strengthen the oversight and management of major IT investments. The Chief of Staff serves as chair, and the membership consists of assistant directors, administrators, and office chiefs, who have the authority to decide on IT operations or to recommend approval by the FEMA Director. The CIO serves as the secretariat and records the evaluations and recommendations for inclusion into reports to OMB, Congress, FEMA budget justifications, et al., and the proceedings are coordinated with the Agency's Budget and Planning Council. To facilitate the evaluations of IT projects, the CIO developed a *Capital Planning and Investment Control Guide* to direct the management of IT investments and to facilitate their evaluation by the board. The guide will serve as a template for program managers to track IT projects as they are conceived, developed, and implemented.

Other challenges FEMA faces, according to the OIG, include executing its Homeland Security responsibilities while also *managing its existing systems and programs; pursuing an e-government agenda; implementing significant system and program changes to address the requirements of the Disaster Mitigation Act of 2000; ensuring privacy of sensitive data; managing systems effectively in a rapidly changing IT environment with limited resources; and planning for potential IT human capital issues.*

The Director approved the realignment of Information Technology Services Directorate (ITSD) into two distinct functions: (1) strategic and external issues; and (2) day-to-day operations. The executive officer for ITSD will oversee appropriate coordination between the two functions. The Office of the CIO will focus on strategic issues, including but not restricted to cyber security, e-government, enterprise transition management, technology insertions, and homeland security liaison. The three divisions will oversee the planning, development, and operations of daily and special operations.

In concert with OMB, an e-government program manager and two project managers were appointed to oversee both SAFECOM and DisasterHelp.gov, two major IT investments in support of Homeland Security (HS). Other IT managers will continue to coordinate the provision and maintenance of operational support services as requested. These managers will oversee the outreach and coordination of HS activities across the federal structure and with state and local units. This reorganization can respond to new and critical demands for HS and other emergency management responsibilities that have arisen since September 11th.

Financial Management. *FEMA faces a significant challenge in addressing long-standing financial management problems and garnering resources to correct them. FEMA does not have a functioning integrated financial management system and its system of internal controls has material weaknesses. For years, these deficiencies have adversely affected the Agency's ability to record, process, summarize, and report accurate, reliable, and timely financial data, and have increased the risk that material errors or irregularities could occur without detection.*

In response to the OIG report, the Agency put together a remediation plan that addresses every single one of the concerns. Currently, Agency financial management personnel are tracking each problem area on a week by week basis to ensure FEMA's compliance. The Agency contracted with the consulting firm, Grant Thornton, to revamp its financial management system, and launched a new version in August. Meanwhile, the facilities management office is doing a thorough top-to-bottom, "floor-to-book, book-to-floor inventory" of Agency property. OMB recently noted the Agency had made progress on the White House financial management evaluation scale.

Human Capital Management. *Maximizing the value of FEMA employees and increasing organizational performance are significant challenges for FEMA. FEMA's most valuable asset is its human capital. How FEMA acquires, develops, and deploys its human capital will determine how effectively its mission will be accomplished.*

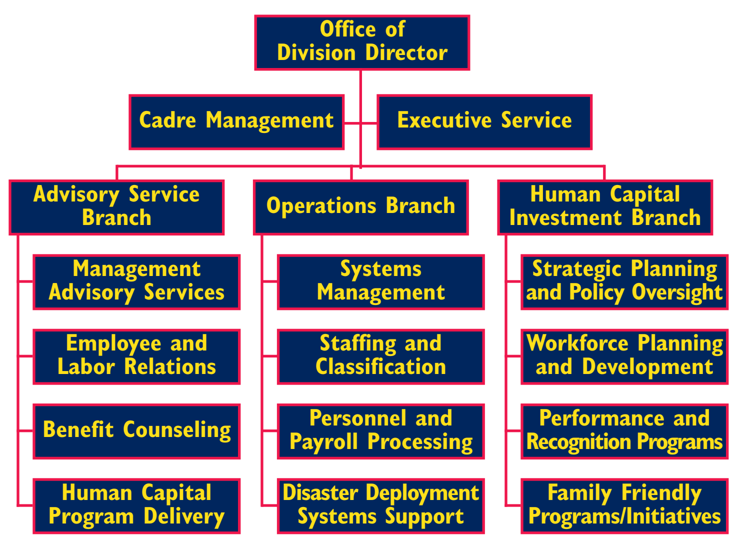
As a first step in meeting FEMA's Office of the Inspector General's Management Challenges, as well as the Administration's and General Accounting Office (GAO) human capital initiatives and the emerging requirements of its strategic planning initiatives, FEMA restructured its Human Resources Division (HRD).

Under the leadership of its management team, FEMA's HRD staff spent six months assessing its mission, structure, and services to establish a base line for change. FEMA's new HRD structure contains three branches:an advisory service branch, a reconfigured operations branch, and a human capital investment branch.

FEMA's 'New' Human Resources Division Plan of Organization

The advisory service branch provides onsite management advisory service and support to FEMA directorates, regional offices, divisions, and branches. The operations branch handles all staffing and selection, classification systems, employee self-service operations, and records processing. The human capital investment branch is designed to take the lead in FEMA's strategic human capital planning, workforce development, organizational development and policy oversight.

In partnership with NAPA, GAO, and OPM, FEMA worked to ensure that the division's restructuring achieved the goals of FEMA's new strategic plan and targeted the needs of employees and management while maintaining day-to-day responsibilities. HRD management also developed a one-year transformation plan to ensure a successful transition for staff in meeting the Agency challenges identified in the FEMA Strategic Plan 2003-3008, and in the FEMA Strategic Human Capital Plan (SHCP).



Source: FEMA

Over the past year, the Agency has also been engaged in charting a clear vision and mission to support this leadership spirit. There is a renewed focus on executing FEMA's vision… A Nation Prepared, with a strong, well trained, competent, motivated, challenged and committed workforce. The current environment has made it imperative that FEMA develop—and execute—an integrated, systematic, Agency-wide approach to Human Capital Management that will enable the Agency to perform the work it is charged to do safely and effectively, ensuring that the resources entrusted are well managed.

"Continuing to attract and sustain a high-performing workforce —and recognizing and rewarding the talents of all our people— is crucial to our success". —Director Allbaugh

Just as the FEMA Strategic Human Capital Plan was approaching completion, the Department of Homeland Security began taking shape. The transition to the new Department makes FEMA's Strategic Plan, and the new Strategic Human Capital Plan more important than ever. The goals described in the Strategic Plan fully support the mission of the new Department. The Strategic Human Capital Plan highlights the unique capabilities and important strengths FEMA brings with it, underscoring FEMA's role as a cornerstone of the Department.

FEMA has undertaken in the past ten months, a number of actions to respond to workforce issues. The Human Resources Division has been proactive in addressing these concerns, initiating over thirty significant projects, targeting Human Capital improvements aligned to the Agency's Strategic Plan, the President's Management Agenda, and performance accountability. With the migration to the Department of Homeland Security, HRD has identified a new set of 17 'matrix/virtual' teams to prepare for the transition scheduled for March 1, 2003.

The improvement initiatives include: the Stafford Act Workforce Review/Improvement

Program, which will provide for central cadre management, uniform compensation bands determined by staff competencies, and workforce development; implementation of the People Capability Maturity Model (PCMM) 'workplace assessment process' which will improve unit performance, accountability, communications and continuous improvement (the PCMM process has been implemented in FIMA and the Administration and Resource Planning Directorate); mandatory annual management development training and an Employee Awareness program; as well as a series of initiatives focused on improving Human Resources services throughout the Agency.

The action plans include the assignment of accountability for successful implementation, both near-term and long-term timelines and specific milestones, and metrics. Among the measures of success identified by the HRD management team are: tracking positive responses of workforce satisfaction in the annual OPM Government-wide Human Capital Survey; and in planned quarterly FEMA management surveys, which will begin with the close of the 2nd quarter of FY 2003.

Major change/improvement initiatives were also introduced through 'matrix teams' efforts in all HRD branches/sections to improve customer services, introducing continuous improvement strategies in all functions of the new HRD, establishing HRD specialists as 'catalysts of change' by shifting their role to become internal human capital management consultants, while also involving Agency management in 'virtual teams' in the transformations underway as we prepare to migrate to the Department of Homeland Security on March 1, 2003.

The FEMA SHCP's Management Action Plans, and the HRD Projects/Initiatives are all focused on one or more of the identified (7) Agency Human Capital Management Challenges: Strategic Alignment; Workforce Planning and Development; Leadership Continuity; Knowledge Management; Performance Culture; Strategic Competencies; and Accountability. Specific Metrics are identified, along with timelines and benchmarks, for all change (improvement) initiatives, with senior managers held accountable for their 'matrix (or virtual) teams' success with the project/initiative for improvement. The teams identify definitions of success, as well as outcomes/results expected, for each project plan.

A dedicated Program Manager oversees the progress of all HRD projects, as well as the 'performance culture transformation' process. Nine of the projects have been completed within the agreed timelines and with expected outcomes/results and are now in the process of being institutionalized within division/branch functions. Efforts are underway to assure a smooth transition to the Department of Homeland Security with another '17 new virtual teams' formed the first week of January 2003, while ten current teams move forward with their project plan completions in the next 4-6 weeks.

Grants Management. *FEMA awards billions of dollars in grants each year to state and local governments to administer a myriad of preparedness, mitigation, and response and recovery projects. Grants are the primary tool used by FEMA to administer its emergency management responsibilities. Although grant funds are spent at the state or local level, it is ultimately FEMA's responsibility to ensure that these funds are spent according to prescribed federal laws and regulations. Therefore, it is imperative that FEMA has an effective grants management system in place to fulfill both its program and fiduciary responsibilities.*

FEMA has made notable progress in recent years in relation to its management of federal grant funding. In FY 2002, FEMA continued to realize improvements.

Coordination with the Office of Inspector General

The Grants Office has an effective working relationship with the OIG and, consistent with FEMA's responsibility under *OMB Circular A-133*, we are focused on ensuring that grant recipient audits are completed and that their reports are received in a timely manner. We plan to continue our work with the OIG to verify that this is taking place. The need for this added control surfaced during a recent Single Audit survey by the General Accounting Office.

Each year, the Grants Office and the OIG coordinate on an annual update of the Audit Compliance Supplement, which identifies important compliance requirements that the federal government expects to be part of an audit required by the Single Audit Act.

In FY 2002, the OIG assisted the Grants Office in presenting audit related training to regional grants staff. The training explained what non-federal auditors look for and provided instruction on using the Federal Audit Clearinghouse as a means of monitoring federal grant recipients. Grants management staff in the regions and at headquarters now regularly utilize the Clearinghouse as a tool when evaluating grant awards and compliance with the Single Audit Act.

Improved Policy and Guidance

A *FEMA Grants Handbook* containing important information on FEMA's grant programs for disaster and non-disaster assistance was approved and distributed to headquarters and regional offices. The grants handbook has served as an internal resource document for FEMA's grants management specialists and is now available more widely throughout the Agency.

We've also written and distributed various guidance documents to regional offices to help clarify and standardize grant policies and procedures. The guidance is being reviewed regularly to determine what needs to be revised, eliminated or remain in effect. Both the *Handbook* and the guidance documents are designed to ensure consistent application of grant-related policy by all FEMA staff.

We again issued guidance in FY 2002 to help program offices issue guidance on the award of grants as early in the fiscal year as possible. We plan to issue these procedures annually to encourage a consistent approach to formulating the award requirements of FEMA's grant programs. We are continuing to build a cooperative working relationship between the grants staff and program staff so that other procedures which might improve the timeliness of grantee and sub-grantee reporting can be implemented as opportunities arise.

Basic grants management training is being developed to provide a consistent baseline level of knowledge and skills for grants and program staff as well. While development is beginning on the basic grants administration training, we also recognize the need to provide advanced training for some staff and training to both FEMA staff and the states we support. Given that, advanced grants training and training that meets the needs of states will also be developed.

The Public Assistance (PA) Program developed and pilot tested a grants administration class that is specific to the requirements of that program. The course, offered to regional PA staff as well as grants management staff in FY 2002, will be updated and offered again in FY 2003. The HMGP offered its grant administration course to regional HMGP program staff several times in FY 2002 and also plans to continue the course. More FEMA grant programs, including Cooperating Technical Partners and Flood Mitigation Assistance are offering program-specific training in grants administration and the Grants Office continues to encourage and support these efforts.

Grant Closeout

Grant closeout teams continue to facilitate the timely closeout of grants by providing technical assistance to regional offices in their closeout efforts. One area being emphasized is the timely deobligation of unliquidated grant funds. A headquarters Field Support Team visits FEMA regions regularly to assist grants specialists and program staff in monitoring unliquidated funds.

In another effort to help expedite grant closeout, we plan to revise FEMA's adoption of *OMB Circular A-102, Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* to include expanded guidance on FEMA's requirements for grantee time extensions. The guidance will be published for public comment to ascertain if any deviations in proposed policy are warranted.

FEMA's policy on granting time extensions is being enforced to ensure consistent adherence to grant management requirements by grantees. We are examining requests for time extensions and providing recommended instructions to regions on achieving closure on each grant. In addition, the HMGP recently issued policy guidance that sets a 3-year period of performance on its grants and underscores the Agency's adherence to its time extension policy.

Grant Monitoring

We're increasing our monitoring of grant recipients in their use of federal funds to prevent past problems cited in audit reports from recurring.

A National Grants Management Conference was held in FY 2002 to provide regional grants staff and a limited number of program staff with hands-on training on grants monitoring. The conference initiated the development of grant monitoring plans by each region. The monitoring plans will focus regional efforts on the common theme of grant monitoring while, at the same time, allow each region to undertake improvements it determines necessary in its own administration of grants, both programmatically and administratively.

One focus of our monitoring is on financial reporting. We recently issued procedural guidance to help clarify for FEMA staff the information that is required from grantees to accurately report on the financial status of federal grants. We expect this to result in more accurate and consistent financial reporting by grantees. As part of the regions' grant monitoring, we asked for information on some key areas such as numbers and timeliness of financial and progress reports, numbers of requests for time extension and disaster closeouts. Monitoring reports from regions indicate that the regions are working with grantees to help them improve their own programmatic and administrative performance and that of their sub-grantees. In addition to financial reporting, other areas being monitored include the timeliness of payments, record retention and cost share requirements.

For the first time this year, the Grants Office will develop a report on regional grant monitoring to document our efforts and to keep our top management apprised of progress being made. We are hopeful that documentation provided by reports such as this will help to identify additional resources that are needed for the grants management function.

Electronic Grants Management

We're automating the grants process to increase our capability to process and monitor grants. FEMA launched the first life-cycle grants management system in FY 2002 to process grant awards from the $360 million Assistance to Firefighters Program. Over 19,000 awards were received by the system from fire departments across the country. Over 5,000 grants will be awarded by December 30, 2002.

A newly established E-Grants Task Force is working to streamline and ensure consistency in the grants process throughout the Agency as we expand our own electronic grants initiative. The task force has as one of its primary goals ensuring compliance and compatibility with the HHS E-Grants system that will be delivered in October 2003 and will accept grantee applications and transfer data to federal grant-making agencies. We are aligning ourselves not only with the E-Grants system effort, but also with the related efforts such as the Business Partner Network (BPN), and FedBizops for our grant announcements.

We're working cooperatively with other government-wide grants streamlining efforts.

FEMA staff served on the Cost Principles subgroup that reviewed the three OMB Circulars containing Cost Principles. The mission of the subgroup was to determine if individual cost categories could be revised to be more consistent in description. FEMA will follow OMB's response to public comment on the recommendations.

FEMA recently supplied information for the Federal Grant Streamlining Program Inventory of Grant and Cooperative Agreement Forms and Formats. The inventory now includes a listing of FEMA's grant programs with the application and reporting forms required by each program.

An Intranet Web site has been established to share communication internally among the grants staff at FEMA headquarters and its regional offices. This internal portal for grants information will help to ensure the consistent delivery of appropriate information about grants within the Agency. Links can be found there to Agency-specific and standard grant forms such as the Application for Federal Assistance, Direct Deposit form, and Request for Advance and Reimbursement.

Government Performance and Results Act Implementation. *Measuring and reporting on performance, as required by the Government Performance and Results Act continues to be a critical challenge for FEMA. FEMA complied with the GPRA requirements that call for Annual Performance Plans and Report. However, according to FEMA and GAO, only some performance goals related to its three strategic goals.*

FEMA issued a new strategic plan in July 2002 to provide a clear path into the future. The vision and mission will be achieved through a series of goals focused around FEMA's lines of business that build a strong internal foundation based on human capital development and performance-based management. There is greater synergy between FEMA's FY 2003 and 2004 Annual Performance Plans and the new Strategic Plan.

Federal Emergency Management Agency
Office of Inspector General
Washington, D.C. 20472

December 31, 2002

MEMORANDUM FOR: Joe M. Allbaugh
Director

FROM: Richard L. Skinner
Richard L. Skinner
Acting Inspector General

SUBJECT: Management Challenges

The Office of Inspector General has identified the most serious management and performance challenges we believe FEMA is facing and the progress FEMA is making in addressing those challenges. We are required to provide this statement to you under the Reports Consolidation Act of 2000. This statement is to be included in the consolidated report described by the Act.

We believe, based on our work and our general knowledge of FEMA operations and programs, that FEMA must continue to focus attention on the following management and program initiatives to ensure public accountability and improve program effectiveness. Although FEMA managers acknowledge most of these issues and are addressing them to varying degrees, much work is left to be done to ensure that business is conducted economically and efficiently, and that appropriate program results are achieved.

Program Challenges

Homeland Security Transition. The President established the Department of Homeland Security on November 25, 2002. The mission of the Department is to develop, coordinate, and implement a comprehensive national strategy to secure the United States from terrorist threats or attacks. The Department is responsible for coordinating efforts to detect, prepare for, prevent, protect against, respond to, and recover from terrorist attacks within the United States. FEMA will transfer into the Department on March 1, 2003, as part of the Emergency Preparedness and Response Directorate. FEMA will continue to lead and support the nation in responding to and recovering from any destructive event, whether natural or man-made. FEMA will also continue its preparedness and mitigation programs for non-terrorist-related disasters. These programs will be coordinated with similar programs from the components of the Departments of Health and Human Services and Energy that are also transferring into the Emergency Preparedness and Response Directorate. FEMA will cooperate closely with the new Office for Domestic Preparedness in preparing for and mitigating terrorist activities. The challenges facing FEMA are many. There are concerns of FEMA losing its identity as an agency that is quick to respond to all hazards and disasters. Members of Congress and the general public have expressed concern that FEMA's disaster response and recovery and mitigation missions will be diluted as it is absorbed into a much larger organization and that funding issues will limit FEMA's ability to respond to disasters as it had in the past. Further, the integration of FEMA's many management and financial information systems with those of other entities that will be brought into the Department will be a daunting task. This is of particular concern because of problems plaguing FEMA's systems—lack of integration, security issues, and non-compliance with the Federal Financial Management Integrity Act. There are also concerns relating to the work force—FEMA's most important asset. As with all entities being transferred to the Department, employees are concerned about their role and how the transfer will affect their job. FEMA is well aware of these issues and is addressing them as they arise through active communication with staff. FEMA's experience in coordinating the Federal Response Plan will contribute to the success of the Department's transition and integration efforts.

Disaster Response and Recovery. FEMA's largest spending category is disaster relief. According to the President's fiscal year 2003 budget proposal, $3.5 billion was obligated in that category in fiscal year 2001 and, due largely to the World Trade Center attack, $8.7 billion was estimated to be obligated in fiscal year 2002. Managing disaster response and recovery continues to be one of FEMA's largest challenges. FEMA faces difficulties establishing disaster declaration criteria, reducing disaster response and recovery costs, managing its disaster workforce, ensuring the integrity of its many financial assistance programs, and improving program services. FEMA has begun to address all of these problems. FEMA recently centralized deployment of the Disaster Assistance Employee cadre, for example, to improve the efficiency of disaster staffing; but much remains to be done.

Recent amendments to the Stafford Act increased FEMA's challenges in managing disaster recovery. The amendments change estimating and payment procedures under the Public Assistance Grant Program, FEMA's largest grant program. Disaster grant applicants will be paid based on damage estimates rather than actual damage repair costs. FEMA tested a similar approach, called the Grant Acceleration Program, after the Northridge Earthquake in Southern California. The test results reflected inflated estimates, extreme overpayments, and ineligible work performed at taxpayer expense. Finding solutions to these problems and instituting other changes required by the amendments, such as establishing fixed management cost rates for grantees and subgrantees, will confront managers of FEMA's disaster assistance grants in fiscal year 2003.

Managing disaster response is a major challenge, particularly when the Federal Response Plan is activated and FEMA must coordinate the activities of dozens of Federal, State, and local organizations. FEMA also manages its own response assets to increase its ability to respond quickly, and its disaster response capabilities have improved substantially in recent years. Less than three hours after the World Trade Center attack the first Urban Search and Rescue Teams were at the site. FEMA also has warehouses around and outside the country in which commodities and equipment are stocked to support disaster field offices. Commodities such as water, meals, generators, tents and blankets that victims need immediately after a disaster also are stocked at the warehouses. These facilities contain thousands of items valued at more than $40 million. Maintaining the warehouses, accounting for property, and the logistics of deploying, recovering, and refurbishing reusable items are continuing challenges for FEMA.

State and Local Preparedness. The Director announced in November 2002 that FEMA will provide $225 million in grants to help State and local responders and emergency managers to become better prepared to respond to acts of terrorism and other emergencies and disasters. The funds are available through the fiscal year 2002 supplemental appropriation, a part of President Bush's First Responder Initiative. The funds will serve as down payments on resources for States and local communities to modernize plans and strengthen their preparedness for disasters of all kinds. The funds will flow through the States, with at least 75 percent going to local governments.

Roughly $100 million of the $225 million in supplemental funds will be used for updating plans and procedures to respond to all hazards, with a focus on weapons of mass destruction. Updated plans will address a common incident command system, mutual aid agreements, resource typing and standards, interoperability protocols, critical infrastructure protection, and continuity of operations for State and local governments. FEMA intends that the comprehensive plans will be linked through mutual aid agreements and that they will outline the specific roles of all first responders (fire service, law enforcement, emergency medical services, public works, etc.) to terrorist incidents and other disasters.

FEMA also will provide $56 million in 2002 supplemental funds to upgrade State emergency operations centers. States and territories will receive a base allocation but must submit grant proposals for additional funding. A total of $25 million is available for Citizen Corps activities, including Citizen Corps Councils, and expanded training for FEMA's Community Emergency Response Teams (CERTs) across the country. Other fiscal year 2002 supplemental fund allocations will include $7 million for secure communications, $5 million to begin laying the groundwork for a national mutual aid system, and $32.4 million for weapons-of-mass-destruction training for FEMA's urban search and rescue task forces.

Although funds have been set aside to address State and local preparedness issues, FEMA still faces the following challenges:

- Building and sustaining a national preparedness and response capability; and
- Coordinating national terrorism preparedness programs.

FEMA must continue to place a high priority on developing State and local capabilities to respond to acts of terrorism as well as natural disasters. FEMA must develop State and local capacity to respond to and manage small-to-medium-sized disasters, particularly fairly predictable ones such as repeated flooding in flood-prone areas.

FEMA also must continue expanding the development of the National Hazard Loss Estimation Methodology for all hazards. Models for estimating potential losses from hurricane wind and riverine flooding are to be introduced in February 2003, but additional development is required with regard to thunderstorms, tornadoes, tropical cyclones, hail, and coastal flooding. The mounting dollar losses cannot be adequately addressed by a fragmented approach to natural hazards. Instead, estimated losses for other hazards are needed to support FEMA's risk-based approach to mitigation and emergency preparedness, and for comprehensive mitigation programs by local communities.

The increased threat of acts of terrorism spurred by the attacks of September 11, 2001, also indicates a need for FEMA to consider developing a terrorism-response methodology. Those attacks highlighted the need to fully equip and train fire departments so they will be better prepared to respond to terrorist events. FEMA is addressing this matter through the U.S. Fire Administration's (USFA) Assistance to Firefighters Grant Program (AFGP). FEMA and USFA also had awarded more than $170 million to 2,756 fire departments throughout the United States at the end of fiscal year 2002 under the AFGP. An additional $190 million is predicted to be awarded in the first quarter of fiscal year 2003. To date, nearly 5,500 fire stations have received funds for training or equipment upgrades and purchases since the inception of this program. It is likely that this program will continue indefinitely and probable that the amount of grant funds will be increased. It is imperative, therefore, that FEMA administer the program effectively and efficiently to ensure that funds are directed to those most in need and those most likely to be required to respond to a terrorist attack or natural disaster.

Mitigation Programs. The President's fiscal year 2003 budget proposal includes $300 million under the National Pre-Disaster Mitigation Fund to initiate a competitive grant program for pre-disaster mitigation. FEMA is preparing to implement the program, which would replace the current formula-based Hazard Mitigation Grant Program, if enacted by Congress. FEMA is challenged with designing a program that ensures fair evaluation of all applicants and their proposed mitigation projects. Eligible activities include risk assessments; State and local planning; the reinforcement of structures against seismic, wind, and other hazards; elevation, acquisition, or relocation of flood-prone structures; and minor flood-control or drainage-management projects. Program success will depend on the quality and effectiveness of FEMA's evaluation process and criteria. FEMA is taking into account stakeholder input to create the new program. Considerable work remains to be done, specifically the development of eligibility and evaluation criteria.

The OIG issued a report, "Status of Funds Awarded under the Hazard Mitigation Grant Program and Other Project Management Issues," in July 2001. In response, FEMA is strengthening its management of the HMGP by monitoring unliquidated obligations and deobligating unspent funds. The agency also is planning to publish new regulations that will address problems cited in our report, such as co-mingling of funds, the quality of applicant progress reports, and inadequate project timeframes. Challenges remain for FEMA to ensure that States and local governments are making the best use of Federal funds and carrying out their mitigation projects timely and in accordance with grant agreements.

Multi-Hazard Flood-Map Modernization. Flooding stands out as the single most pervasive hazard facing the nation, causing an estimated $6 billion in property damage annually. Much of the recovery spending could be avoided by efficient, up-front planning using accurate, up-to-date flood maps. Before flood maps can be used effectively, however, they must reflect current hydrological conditions. An aggressive program to update, modernize, and maintain the inventory of flood maps is essential.

Multi-hazard flood-map modernization, a presidential initiative, is based on the need for FEMA to update its aging inventory of flood maps in such a way that they can accommodate other hazards. A recent assessment revealed that 67 percent of FEMA's flood maps are more than 10 years old and that the average age of a FEMA flood map is 14.1 years. Many of these maps do not reflect past development and, as a result, do not show changes in flood hazards. Reliance on these outdated flood maps in making decisions about new development harms commercial and residential property owners and the taxpayers who ultimately pay for flood damages. Accurate and useable flood maps are the foundation of good local planning and natural-disaster mitigation. New and updated flood maps will enable lenders, insurance agents, and many others to make critical decisions on where to build, where and when insurance is required, and what is an appropriate insurance premium.

FEMA is seeking $300 million in new discretionary appropriations in the President's budget for fiscal year 2003 for the multi-hazard flood-map modernization program. FEMA is also seeking roughly $300 million per year in its fiscal year 2004 and 2005 budgets. Approximately $1 billion may be spent over the next three fiscal years. With more than 19,000 communities in the National Flood Insurance Program (NFIP), FEMA faces a daunting challenge in setting priorities for areas to be mapped, keeping maps current, and creating new maps for participating, unmapped communities.

Another significant challenge for FEMA is effective collaboration with States and local entities through the Cooperating Technical Partners (CTP) Program. The CTP program gives States and local entities the opportunity to interject a tailored, local focus into the national map-modernization program. The partnership mechanism also provides for pooling resources, extending the productivity of public funds, and sharing successes among partners. FEMA must also continue to seek input from the Map Modernization Coalition, members of which are substantial users of flood maps.

National Flood Insurance Program. The NFIP continues to be the largest single-line property insurer in the nation with coverage in excess of $580 billion. Aside from the fiscal enormity of this program, FEMA faces an array of formidable management challenges that include:

- Increasing numbers of repetitively flooded structures that are subsidized by the NFIP,
- Continued development and uninsured property in special flood-hazard areas,

- Insufficient funds to mitigate repetitive-loss properties, and

- Lack of exposure to mitigation opportunities.

Subsidized and low-cost flood insurance, available to residents of NFIP-participating communities, helps to manage the risk of financial loss due to flooding. Much more of the risk could be alleviated if homeowners would take responsibility for mitigation on their own property. Many property owners, however, fail to do so because (1) of the availability of subsidized insurance, premiums for which are typically a fraction of those for full risk-based policies; and (2) they know that, if flooded, their property will be repaired or rebuilt without penalty. Continuing to subsidize NFIP premiums fails to encourage owners of flood-prone real estate to move out of high-risk areas. This is no small problem, as the NFIP pays claims from floods in the same high-risk areas again and again, yet the policyholders are not required to pay risk-based premiums or to mitigate repetitive risks. This situation undermines the financial stability of the insurance program. On the other hand, if FEMA charged actuarially sound rates, owners could cancel their policies, pay nothing to the government, and rely on Federal disaster assistance after a flood, placing the recovery burden back on the American taxpayer.

Mitigation is rarely a priority of property owners before a disaster occurs but owners typically rush to have their property restored to its pre-disaster condition after an event. One of FEMA's main objectives in the response and recovery period is to get assistance to flood victims quickly so they can rebuild and get their lives back to normal. The opportunity to encourage mitigation at this time is usually lost. FEMA must improve its outreach programs.

About 7 million structures are estimated to be located in special flood-hazard areas. Less than 35 percent are covered by flood insurance. FEMA needs to maintain a sustained campaign to provide insurance coverage for the millions of uninsured properties still at-risk.

FEMA believes that most communities participating in the NFIP have effective floodplain-management programs and that new construction is in accordance with the minimum requirements of the NFIP. FEMA officials told us that communities participating in the Community Rating System are closely monitored and subject to periodic inspections.

The OIG issued reports in 2002 that discussed most of the issues noted thus far, and FEMA is addressing them or planning to do so. Solutions to these matters, however, will not prevent FEMA's need to address the following difficult future challenges:

- Effective enforcement of compliance with floodplain management criteria as a condition for maintaining NFIP eligibility,

- Effective monitoring of enforcement of mandatory flood insurance purchase requirements for property owners,

- Effective and reliable performance measurement criteria and information systems used to assess accomplishment of insurance goals and objectives, and

- Appropriate Community Rating System insurance premium discounts based on conditions in and mitigation actions taken by a community.

Public Building Insurance. The Stafford Act requires State and local governments, as a condition of receiving Federal assistance, to obtain and maintain insurance coverage on insurable facilities for the life of the facilities. FEMA reviews insurance coverage during the project approval process to ensure that applicants' satisfy the requirements.

We noted in a January 2001 OIG report that neither FEMA nor the States consistently maintain sufficient information to support their conclusions about applicants' insurance status. At the time the report was issued, only 39 percent of the project files in our sample contained acceptable evidence of insurance. In fact, insurance was not maintained in 34 percent of projects reviewed. We also determined that insurance reviews are not always timely or complete, and neither FEMA nor the States regularly monitors public entities that have received previous assistance to ensure that they are maintaining the required insurance. Keeping abreast of insurance status presents a significant challenge for FEMA.

Determining what constitutes the required "insurance" is another key issue confronting FEMA. The amount of assistance a public entity may receive depends on FEMA's definition of insurance. Several public entities seeking disaster assistance recently challenged successfully FEMA's interpretations that various reserve or contingency funds did not constitute "insurance." As a result, a higher percentage of the repair, restoration, or replacement costs of their damaged facilities became eligible for reimbursement by FEMA. FEMA faces significant hurdles in addressing the issues of (1) the absence in current regulations of an adequate definition of "insurance," and (2) incentives for entities to purchase insurance.

Underinsured applicants and regular monitoring of the insurance status of public entities also present challenges. Some FEMA applicants purchase less insurance than required or may reduce coverage after an insurance review. The fact of under-insurance may not be known for long periods to FEMA and/or States because they do not regularly monitor public entities to ensure the maintenance of insurance on public buildings.

Management Challenges

Information Technology Management. FEMA is heavily dependent on information technology (IT) to accomplish its mission. The agency relies on technology for performing tasks ranging from emergency communications to remote data entry to automated processing of disaster assistance. Because of IT's importance, the agency must maintain secure systems that help to ensure the integrity, confidentiality, and availability of information FEMA needs to do its job. IT can be expensive and complex, however, so FEMA needs to have in place good capital planning and investment control procedures for managing IT projects. The e-gov initiative under the President's Management Agenda encompasses these challenges. Although the Office of Management and Budget (OMB) scored FEMA's e-gov status as unsatisfactory, it also indicated that improvements are underway.

FEMA made progress during fiscal year 2002 toward improving information security, primarily through establishing the Office of Cyber Security, designing an information security program plan, and developing a security certification and accreditation methodology. Much more work lies ahead. Like many other Federal agencies, FEMA did not receive a passing grade for computer security from the House Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations. FEMA has struggled to ensure that the agency's information security plan is practiced throughout the agency and applied to individual systems. As of the end of fiscal year 2002, however, no systems had received formal authorization, required by OMB, to process information, although FEMA's planned security certification and accreditation methodology will facilitate the approval process. FEMA is struggling to build security into its system business plans, also required by OMB. FEMA must begin to assess the system security controls in place at critical service-provider points.

FEMA management has acknowledged weaknesses in IT capital planning and investment controls. Improving procedures in these areas were key initiatives of the reorganization of FEMA's IT Services Directorate in fiscal year 2002. Improvement efforts have just begun. In a recent audit report, we recommended that FEMA consistently prepare current benefit-cost and alternative analyses, identify and maintain a current inventory of systems, provide more effective oversight of IT projects, conduct post-implementation system reviews to identify "lessons learned," and complete an Information Resources Management Strategic Plan and IT Capital Plan as required by OMB.

FEMA is working to address the weaknesses in IT management, security, and other areas. OMB's most recent scorecard rates other challenges that FEMA faces, including integrating itself smoothly into the new Department of Homeland Security; implementing its e-government agenda; managing its systems effectively in a rapidly changing IT environment; and meeting its human capital needs.

Financial Management. FEMA continues to face significant financial management challenges but, over the past year, has been working very to overcome them. FEMA developed a detailed remediation plan, for example, that it uses regularly to monitor progress in addressing weaknesses we identified in the financial audit of fiscal year 2001. Although FEMA has not been able to achieve all of its goals, it has been making progress. FEMA still needs more time and resources and a continued commitment by management to achieve an appropriate level of financial management.

Major factors motivating to FEMA's progress were the qualification of the auditors' opinion on FEMA's fiscal year 2001 financial statements, and the auditors' identification of six material internal control weaknesses. Although the qualified opinion was disappointing, it helped to focus management's attention on long-standing problems. We had noted in previous audit reports that FEMA's financial reporting process was unstable and, in fiscal year 2001, after three years of unqualified opinions, the auditors could no longer attest to the accuracy of all balances presented in the statements. Specifically, the auditors could not verify (1) the reported obligations incurred and unobligated balances (because of an unsupported $77 million reduction to unliquidated obligations), or (2) the reported equipment balance.

The six material internal weaknesses described in our audit report, on which FEMA's remediation plan is based, related to information system security, real and personal property, financial system functionality, financial statement reporting, account reconciliation, and accounts receivable.

- *Information System Security*: FEMA has been able to address some of its more critical system security problems but other weaknesses remain. We again found vulnerabilities in FEMA's internal network environment during our audit of fiscal year 2002 financial statements. FEMA's core financial system, the Integrated Financial Management Information System (IFMIS), still needs a back-up administrator, a contingency plan, policies and procedures for audit trail reviews, and a review of user access rights (currently underway). Although these issues have not been entirely addressed, FEMA has reported progress.

- *Real and Personal Property Accounting*: FEMA simply does not have a property management system that supports property accounting requirements. A system acquisition moratorium due to FEMA's move to the new Department of Homeland Security has prevented FEMA from acquiring an acceptable system. As a result, FEMA has had to rely on inefficient, difficult, manually based processes to account for its property in fiscal year 2002.

- *Financial System Functionality*: FEMA recently upgraded IFMIS and expects significant improvements in financial statement preparation and intragovernmental reconciliations, although the upgrade remains to be tested as part of the fiscal year 2002 financial statement audit. FEMA reports that it is working on vendor files and specific system-interface issues, although the interface issues are sometimes dependent on external business partners. FEMA also does not have a cost-accounting system that would allow FEMA managers to more effectively link performance measures and budget execution.

- *Financial Statement Reporting*: FEMA has made progress in financial reporting by developing standard operating procedures for the preparation of financial statements. FEMA historically has not had routine procedures to guide production of the financial statements that link to other policies, procedures, and internal controls. Statements typically were prepared late in the audit process and required several revisions. We will test during the fiscal year 2002 financial statement audit whether the process has improved.

- *Account Reconciliation and Accounts Receivable*: FEMA continued to have problems during the year with timely reconciliation of many accounts and has obtained assistance from a contractor. FEMA has also made improvements in accounts receivable.

Grants Management. FEMA awards billions of dollars in grants each year to State and local governments and may become responsible for additional grants under the Department of Homeland Security. FEMA grants are used for a myriad of State and local preparedness, mitigation, and response and recovery projects. Although grant funds are spent at the State or local level, it is ultimately FEMA's responsibility to ensure that these funds are spent in accordance with Federal laws and regulations. To do this, FEMA must have an effective grants management system that fulfills both its program and fiduciary responsibilities and, particularly important, satisfies Government Performance and Results Act (GPRA) requirements. Not only must FEMA adhere to the procedural and compliance aspects of grants management, it must also focus on what grantees actually accomplish using FEMA grant funds. To demonstrate its own program efficiency and effectiveness, FEMA must require grantees to do the same.

FEMA's grants management system, prior to fiscal year 1998, did not ensure that grantees met programmatic and fiduciary responsibilities. We documented waste and mismanagement at grantee and subgrantee agencies throughout the country that resulted in the misuse of millions of dollars in Federal funds. FEMA acknowledged that major improvements were needed in its grants management system and began several initiatives to correct long-standing problems. FEMA created a Grants Management Office; issued improved policy guidance and standardized procedures; implemented training and credentialing for grant managers; and formed grant closeout teams to facilitate the timely closeout of grants and to provide technical assistance to regional office personnel in their closeout efforts.

Significant problems still need to be addressed. Our audits of States' management of FEMA disaster grants found an alarming number of recurring problems. For example, States often do not (1) monitor and accurately report on subgrantee performance and financial activities, (2) make payments or close out projects in a timely manner, (3) file accurate or timely financial status reports with FEMA, and (4) maintain adequate documentation to support their share of disaster costs and other financial transactions. These problems indicate that FEMA needs to continue to take the initiative to provide technical assistance and guidance to States to ensure that they have reliable disaster grants management systems to safeguard FEMA funds.

Improvements in FEMA's grants management system also will require resolution of issues of staffing and automation. FEMA must persist in efforts to ensure that implementation of its recent initiatives does not lose momentum when the next catastrophic disaster strikes and staff resources are stretched. FEMA recently began to develop an agency-wide Strategic and Tactical Plan for coordinating the automation of its grant programs to comply with OMB's E-Grants initiative. FEMA plans to automate many processes by creating a comprehensive grants management system. Successful implementation, however, will require resources and will ultimately depend on top management's continued support of the system's development.

Property Management. FEMA does not have a property management system that supports property accounting requirements. FEMA's primary property management system is the Logistics Information Management System (LIMS), that is used to track the location of personal property. LIMS cannot perform accounting functions and it cannot provide reliable accounting information, such as property values and acquisition dates. These deficiencies have required FEMA to conduct labor-intensive inventories and use manual procedures to support personal property accounting balances. FEMA also lacks an automated system to support accounting for real property and deferred maintenance. FEMA recognizes these problems but the systems moratorium during the transition to the new Department of Homeland Security has prevented FEMA from acquiring an acceptable system. Instead, FEMA is articulating requirements and options for an Enterprise Resource Planning (ERP) system that would support FEMA's property accounting and management needs.

Human Capital Management. FEMA's most valuable asset is its human capital. Maximizing the value of that asset and increasing organizational performance are significant challenges for FEMA. How FEMA acquires, develops, and deploys its human capital will determine how effectively its mission will be accomplished.

Through its strategic planning process, FEMA is developing a five-year, comprehensive, enterprise-wide human capital strategy that can be integrated with FEMA's mission, goals, operational requirements, and financial resources. The strategy will include workforce planning and initiatives to address imbalances between staff talents and skills and agency needs. It will address the anticipated surge of voluntary retirements over the next three-to-five years (FEMA estimates that 70 percent of its workforce is from 40 to 59 years old) and the attrition factors that normally affect the stability of the workforce. FEMA also analyzed its workforce for OMB. The results will support decisions about future management reform, budget planning, and performance goals. According to the GAO, FEMA's fiscal year 2003 performance plan does not contain performance measures that quantify progress toward achieving human-capital-related goals.

The President has determined that nearly half of all Federal employees perform tasks that are readily available in the commercial marketplace, and that those tasks should be subject to competition. Public-private competition will generate savings and improve performance government-wide. In fiscal year 2003, agencies will conduct public-private or direct conversion competitions involving 10 percent of the FTE listed on their Federal Activities Inventory Reform Act inventories above the number needed to meet fiscal year 2002 competition goals. The sweeping personnel changes accompanying FEMA's entry into the Department of Homeland Security will increase the challenges associated with this increase and with the overall management of FEMA's human capital.

Glossaries and Acronyms

AICPA	American Institute of Certified Public Accountants
APP	Annual Performance Plan
APR	Annual Performance Report
AR	Administration and Resource Planning Directorate
ARC	American Red Cross
ASAP	Automated Standard Application for Payment
BA	Budget Authority
BPN	Business Partner Network
CAC	Community Assistance Contacts
CAMEO	Computer Aided Management of Emergency Operations
CAR	Capability Assessment for Readiness
CAV	Community Assistance Visits
CGF	Cerro Grande Fund
CGFAA	Cerro Grande Fire Assistance Act
CERT	Community Emergency Response Team
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CIP	Critical Infrastructure Protection
COG	Continuity of Government
COOP	Continuity of Operations
CPIC	Capital Planning and Investment Control
CRS	Community Rating System
CSRS	Civil Service Retirement System
CTC	Conference and Training Center
CTP	Cooperating Technical Partners
DADLP	Disaster Assistance Direct Loan Program
DAE	Disaster Assistance Employee
DFO	Disaster Field Office
DHS	Department of Homeland Security
DISC	Disaster Information Systems Clearinghouse
DMA	Disaster Mitigation Act
DOJ	Department of Justice
DRF	Disaster Relief Fund
EAS	Emergency Alert System
EFS	Emergency Food and Shelter
EMF	Emergency Management Functions
EMI	Emergency Management Institute
EMPA	Emergency Management Planning and Assistance
EMPG	Emergency Management Performance Grant
EOC	Emergency Operations Center
EOP	Emergency Operations Plan
EPR	Emergency Preparedness and Response
ERP	Enterprise Resource Planning
EST	Emergency Support Team
ERT	Emergency Response Team
ETO	Emergency Training Officers
FAIR	Federal Activity Inventory Reform
FASAB	Federal Accounting Standards Advisory Board
FCC	Federal Communications Commission
FCIP	Federal Crime Insurance program
FCO	Federal Coordinating Officer
FCP	Financial Control Plan
FECA	Federal Employees Compensation Act
FEDBIZOPS	Federal Business Opportunities
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FIMA	Federal Insurance and Mitigation Administration
FIRM	Flood Insurance Rate Map
FIRMPD	FEMA Information Resource Management Policy and Procedures Directive
FMA	Flood Mitigation Assistance
FNARS	FEMA National Radio System
FRC	Federal Records Center
FRP	Federal Response Plan
FSN	FEMA Switched Network
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GIS	Geographic Information System
GMRA	Government Management Reform Act of 1994
GPRA	Government Performance and Results Act
GPS	Global Positioning System
GSA	General Services Administration
GSE	Government Sponsored Enterprises
HAZUS	Hazards United States

HF	High Frequency
HMGP	Hazard Mitigation Grant Program
HR	Human Resources Division
HS	Homeland Security
IAEM	International Association of Emergency Managers
ICC	Increased Cost of Compliance
IEMC	Integrated Emergency Management Center
IFMIS	Integrated Financial Management Information System
IFSAR	Interferometric Synthetic Aperture Radar
IHB	Individual Households Program
IRM	Information Resource Management
IT	Information Technology Services Directorate
LIDAR	Light Detection and Ranging
LME	Logistics Management Facility
MAC	Mapping and Analysis Center
MERS	Mobile Emergency Response Support
MOA	Memorandum of Agreement
MOU	Memorandum of Understanding
MRA	Mortgage and Rental Assistance
NACO	National Association of Counties
NAWAS	National Warning System
NCAI	National Congress of American Indians
NDPO	FBI's National Domestic Preparedness Office
NEMA	National Emergency Management Association
NEMIS	National Emergency Management Information System
NETC	National Emergency Training Center
NFA	National Fire Academy
NFIF	National Flood Insurance Fund
NFIC	National Fire Information Council
NFIC	National Fire Information Center
NFIP	National Flood Insurance Program
NFIRS	National Fire Incident Reporting System
NIEOC	National Interagency Operations Center
NIRT	Nuclear Incident Response Team
NGB	National Guard Bureau
NOAA	National Oceanic Atmospheric Administration
NS	National Security Division
NSC	National Security Council
OGC	Office of General Counsel
OMB	Office of Management and Budget
ONP	Office of National Preparedness
OST	Optimal Solution Technology
OSHA	Occupational Safety and Health Administration
PA	Public Assistance
PART	Program Assessment Rating Tool
PDM	Pre-Disaster Mitigation Grant
PDMF	Pre-Disaster Mitigation Fund
PRISM	Personnel Resources Information Systems Mart
PBSC	Performance Based Service Contracting
PSWN	Public Safety Wireless Network
Results Act	Government Performance and Results Act
ROC	Regional Operations Center
RR	Response and Recovery Directorate
RST	Regional Support Team
SEMO	State Emergency Management Office
SFFAC	Statements of Federal Financial Accounting Concepts
SFFAS	Statements of Federal Financial Accounting Standards
SFHA	Special Flood Hazard Area
S&E	Salaries and Expenses
SOP	Standard Operating Procedure
SRAS	Statements of Recommended Accounting Standards
STO	State Training Officers
TLC	Territorial Logistics Center
TRADE	Training Resource and Data Exchange
UHF	Ultra High Frequency
USAR	Urban Search and Rescue
USDA	United States Department of Agriculture
USFA	United States Fire Administration
VPN	Virtual Private Network
WMD	Weapons of Mass Destruction
WTC	World Trade Center
WWW	World Wide Web
WYO	Write Your Own

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