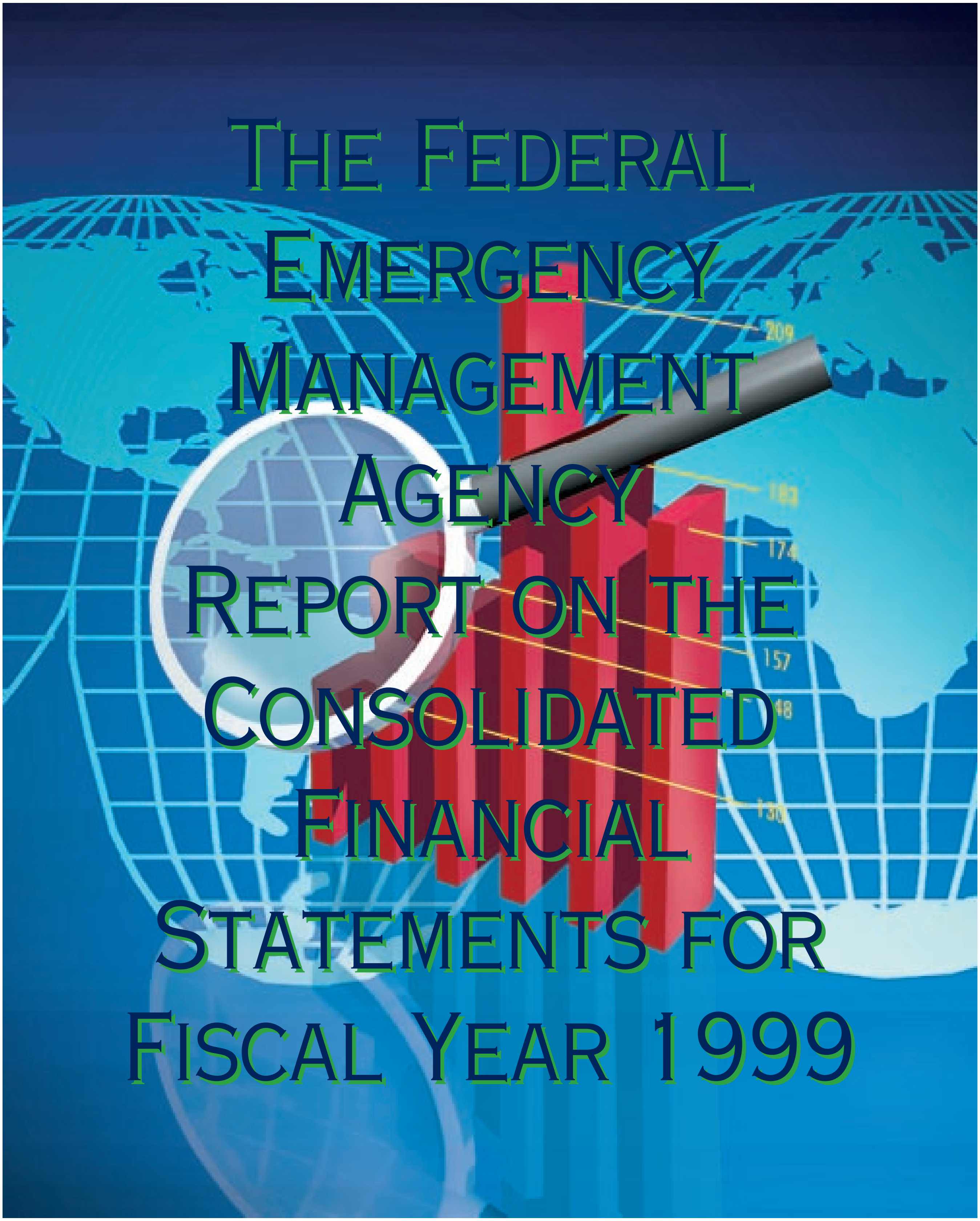
The Federal Emergency Management Agency Report on the Consolidated Financial Statements for Fiscal Year 1999



The Federal Emergency Management Agency

Introduction to the Consolidated Financial Statements

for the year ended September 30, 1999

The financial statements included in this report have been prepared in accordance with the requirements of the Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended by OMB Memorandum No. 99-03, *Technical Amendments to OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements*, which superceded OMB Bulletin No. 94-01, *Form and Content of Agency Financial Statements*, for FY 1998. The responsibility for the integrity of the financial information included in these statements rests with management of the Federal Emergency Management Agency (FEMA).

The following accounting pronouncements were issued by the Federal Accounting Standards Advisory Board (FASAB) with effective dates in FY 1999:

- SFFAS No. 11: *Amendments to Accounting for PP&E—Definitions*;
- SFFAS No. 13: *Deferral of Paragraph 65.2—Material Revenue-Related Transactions*;
- SRAS No. 14: *Amendments to Deferred Maintenance Reporting*; and
- SFFAS No. 15: *Management's Discussion & Analysis*.

OMB Bulletin No. 97-01, as amended by OMB Memorandum No. 99-03, incorporates the concepts and standards contained in the Statements of Federal Financial Accounting Concepts (SFFAC), the Statements of Federal Financial Accounting Standards (SFFAS), and the Statements of Recommended Accounting Standards (SRAS) issued by the FASAB.

The audit of these financial statements was performed by Deloitte & Touche LLP under the direction of the Office of Inspector General. The auditors' report accompanies these financial statements.

PRINCIPAL STATEMENTS INCLUDED IN THIS REPORT

The principal financial statements of FEMA Consolidated, its combined Directorates and Administrations, and the Disaster Relief Fund (DRF) for FY 1999 consist of the following (collectively referred to as the financial statements):

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Consolidated Statement of Budgetary Resources
- Consolidated Statement of Financing

FEMA's consolidated financial statements include all activities within FEMA:

1. Disaster Relief Fund (DRF)
2. Response and Recovery Directorate (R&R)
3. Mitigation Directorate (MIT)
4. Preparedness, Training and Exercises Directorate (PT&E)
5. Federal Insurance Administration (FIA)
6. U.S. Fire Administration (USFA)
7. Support Organizations (SO)

These principal financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of FEMA Consolidated, its combined Directorates and Administrations, and the DRF to meet the requirements of the Chief Financial Officers Act of 1990 (CFO Act) and the Government Management Reform Act of 1994 (GMRA).

LIMITATIONS OF THE FINANCIAL STATEMENTS

- The financial statements have been prepared to report the financial activity of FEMA, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of FEMA in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Combining statements of the Directorates and Administrations are presented outside of the principal statements, and are not a required part of the principal financial statements presented in conformity with OMB Bulletin No. 97-01, as amended by OMB Memorandum No. 99-03, and FEMA accounting policies. This information is presented for purposes of additional analysis of the consolidated financial statements

The Federal Emergency Management Agency

Consolidated Balance Sheet

As of September 30, 1999

(Dollars in Thousands)

	Directorates and Administrations	DRF	CONSOLIDATED
ASSETS			
Intragovernmental			
Fund Balance with Treasury (Note 2)	$ 820,690	$ 7,248,870	$ 8,069,560
Investments, net (Note 4)	1,533	-	1,533
Accounts receivable, net (Note 5)	4,552	80	4,632
Advances and prepayments (Note 7)	20	-	20
Intragovernmental	826,795	7,248,950	8,075,745
Accounts receivable, net (Note 5)	13,677	53,355	67,032
Advances and prepayments (Note 7)	273,770	48,359	322,129
Credit program receivables, net (Note 6)	19,210	-	19,210
Cash and other monetary assets (Note 3)	12,570	-	12,570
Inventory and other related property, net (Note 8)	3,920	-	3,920
General property, plant and equipment, net (Note 9)	8,178	21,369	29,547
Total Assets	**$ 1,158,120**	**$ 7,372,033**	**$ 8,530,153**
LIABILITIES			
Intragovernmental			
Accounts payable	$ 11,616	$ 163,041	$ 174,657
Debt (Note 10)	617,667	-	617,667
Other intragovernmental liabilities (Note 15)	135	3,648	3,783
Total Intragovernmental	629,418	166,689	796,107
Accounts Payable	48,815	215,181	263,996
Claims and claims settlement expenses (Note 11)	514,531	-	514,531
Deferred revenue (Note 12)	905,322	-	905,322
Federal employee and veterans' benefits payable (Note 14)	6,313	5,463	11,776
Other governmental liabilities (Note 13, 15)	101,374	17,181	118,555
Total Liabilities	**2,205,773**	**404,514**	**2,610,287**
NET POSITION			
Unexpended Appropriations (Note 16)	528,002	6,975,425	7,503,427
Cumulative Results of Operations	(1,590,027)	(8,811)	(1,598,838)
Current Year	14,372	905	15,277
Total Net Position	**(1,047,653)**	**6,967,519**	**5,919,866**
Total Liabilities and Net Position	**$ 1,158,120**	**$ 7,372,033**	**$ 8,530,153**

The accompanying Notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	DRF	CONSOLIDATED
COSTS:			
Production	$ 1,995,608	$ 3,903,770	$ 5,899,378
Non-production	2,083	2,457	4,540
Total Program Costs	1,997,691	3,906,227	5,903,918
Less Earned Revenues	(1,479,131)	(861)	(1,479,992)
Net Program Costs	518,560	3,905,366	4,423,926
NET PROGRAM COSTS BEFORE ALLOCATIONS	**518,560**	**3,905,366**	**4,423,926**
Net Cost Allocations of Support Organizations and Prior Years' Appropriations (Note 17)	(136,843)	136,843	-
NET COST OF OPERATIONS AFTER ALLOCATIONS	**$ 381,717**	**$ 4,042,209**	**$ 4,423,926**

The accompanying Notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

for the year ended September 30, 1999

(Dollars in Thousands)

	Directorates and Administrations	DRF	CONSOLIDATED
Net Cost of Operations	$ (381,717)	$ (4,042,209)	$ (4,423,926)
Financing Sources (Other than exchange revenues):			
Appropriations Used	525,692	3,911,233	4,436,925
Imputed Financing	10,562	1,632	12,194
Transfers-in	20,000	-	20,000
Transfers-out	(20,000)	-	(20,000)
Net Cost Allocations of Support Organizations and Prior Years' Appropriations (Note 17)	(136,843)	136,843	-
Net Results of Operations	17,694	7,499	25,193
Prior Period Adjustments	(3,322)	(6,594)	(9,916)
Net Change in Cumulative Results of Operations	14,372	905	15,277
Increase (Decrease) in Unexpended Appropriations	256,242	(1,798,227)	(1,541,985)
Change in Net Position	**270,614**	**(1,797,322)**	**(1,526,708)**
Net Position - Beginning of the Period	(1,303,868)	8,764,841	7,460,973
Cancelled Authority from BFY 1993 (Note 1.Y.)	(14,399)	-	(14,399)
Net Position-End of Period	**$ (1,047,653)**	**$ 6,967,519**	**$ 5,919,866**

The accompanying Notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	DRF	CONSOLIDATED
Budgetary Resources:			
Budget Authority	$ 1,186,836	$ 2,113,745	$ 3,300,581
Unobligated Balance - Beginning of Period	651,916	2,400,404	3,052,320
Net Transfers Prior-Year Balance, Actual (+ or -)	7,843	(739)	7,104
Spending Authority from Offsetting Collections	1,538,644	13,662	1,552,306
Adjustments	(393,976)	828,588	434,612
Total Budgetary Resources	**$ 2,991,263**	**$ 5,355,660**	**$ 8,346,923**
Status of Budgetary Resources:			
Obligations Incurred	$ 2,107,114	$ 4,401,284	$ 6,508,398
Unobligated Balances - Available	842,924	940,830	1,783,754
Unobligated Balances - Not Available	41,225	13,546	54,771
Total, Status of Budgetary Resources	**$ 2,991,263**	**$ 5,355,660**	**$ 8,346,923**
Outlays:			
Obligations Incurred	$ 2,107,114	$ 4,401,284	$ 6,508,398
Less: Spending Authority From Offsetting Collections and Adjustments	1,544,454	838,873	2,383,327
Subtotal	562,660	3,562,411	4,125,071
Obligated Balance, Net - Beginning of the Period	807,603	6,427,751	7,235,354
Less: Obligated Balance, Net - End of the Period	990,197	6,277,937	7,268,134
Total Outlays	**$ 380,066**	**$ 3,712,225**	**$ 4,092,291**

The accompanying Notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF FINANCING

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	DRF	CONSOLIDATED
Obligations and Non-budgetary Resources			
Obligations incurred	$ 2,107,114	$ 4,401,284	$ 6,508,398
Less: Spending authority for offsetting collections and adjustments	1,544,454	838,873	2,383,327
Financing imputed for cost subsidies	10,562	1,632	12,194
Exchange revenue not in the budget	(47,006)	3,285	(43,721)
Total obligations, as adjusted, and non-budgetary resources	**526,216**	**3,567,328**	**4,093,544**
Resources That Do Not Fund Net Cost of Operations			
Change in amount of goods, services, and benefits ordered but not yet received or provided	(66,543)	341,275	274,732
Costs capitalized on the balance sheet	110	(8,175)	(8,065)
Financing sources that fund costs of prior periods	(274)	-	(274)
Other	(3,321)	(6,594)	(9,915)
Total resources that do not fund net cost of operations	**(70,028)**	**326,506**	**256,478**
Costs That Do Not Require Resources			
Depreciation and amortization	2,083	2,457	4,540
Other	7,114	-	7,114
Total costs that do not require resources	**9,197**	**2,457**	**11,654**
Financing Sources Yet to Be Provided	53,175	9,075	62,250
Net Cost of Operations	**$ 518,560**	**$ 3,905,366**	**$ 4,423,926**

The accompanying Notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(DOLLARS IN THOUSANDS)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Federal Emergency Management Agency's (FEMA) agency-wide financial statements report all of the activities of the Agency, including the Disaster Relief Fund (DRF), and the Agency's combined Directorates and Administrations. The Directorates and Administrations are:

- Response & Recovery Directorate (R&R)
- Mitigation Directorate (MIT)
- Preparedness, Training, & Exercises Directorate (PT&E)
- Federal Insurance Administration (FIA)
- U.S. Fire Administration (USFA)
- Support Organizations (SO)

The financial statements were prepared to meet the requirements of the Chief Financial Officers Act of 1990 (CFO Act) and the Government Management Reform Act of 1994 (GMRA). While the statements have been prepared from the books and records of FEMA in accordance with the form and content prescribed by the Office of Management and Budget (OMB), the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the understanding that they are for 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.

The Agency's FY 1999 financial statements are presented in conformity with OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended by OMB Memorandums No. 99-03 and No. M-00-05, *Technical Amendments to OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements*. As encouraged in the technical amendment, FEMA has elected early implementation of changes to the balance sheet presentation that will be required for FY 2001. This represents a change in presentation from the prior year, and in conformance with the provisions of the *Technical Amendments to OMB Bulletin No. 97-01*, comparative data will not be presented until FY 2000.

Differences include format and content changes to the following statement:

- Consolidated Balance Sheet

Activity resulting from FY 1994 through FY 1996 appropriations for Salaries and Expenses, Emergency Management and Planning Assistance, Emergency Planning and Assistance–Earthquake Program, Salaries and Expenses–Earthquake Program, and the Inspector General is presented in a separate column on the supplemental combining statements of the Directorates and Administrations, and is allocated to the Directorates, Administrations, and the DRF.

B. Reporting Entity

The accompanying consolidated financial statements of FEMA include activities of the following organizational components of the Agency:

1. Disaster Relief Fund

   The Disaster Relief Fund (DRF) was established to provide assistance to supplement state and local governments' disaster response, recovery, preparedness, and mitigation efforts. The Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law (P.L.) 93-288, as amended) authorized the President to provide such assistance, and Executive Order 12148 delegated the responsibility for administering the federal government's efforts to the Director of FEMA. The Stafford Act authorizes five types of declarations or actions: (1) Major disasters for which the President declares a major disaster upon the request of the Governor of the affected State; (2) Emergency declaration which authorizes only emergency type assistance; (3) Fire Suppression to provide assistance to supplement the resources of communities; (4) Defense Emergency where the Department of Defense performs for a short period to preserve life and property; and (5) Incident Deployment when a disaster situation threatens human health and safety, and the disaster is imminent but not yet declared. It is the policy of FEMA to provide an orderly and continuing means of assistance by the federal government to state and local governments in carrying out their responsibilities to alleviate the suffering and damage resulting from major disasters and emergencies. The DRF is funded by no-year appropriations.

2. Response and Recovery Directorate

   The Response and Recovery (R&R) Directorate is responsible for the planning, coordination and execution of the federal government's response in providing assistance to state and local governments, in the event of major disasters and emergencies. In addition, R&R is responsible for the Individual and Public Assistance Grant Programs, which are authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288, as amended). The expenses of carrying out this disaster assistance under the Act are funded under a separate appropriation, the Disaster Relief Fund (DRF), previously described in this note.

   R&R has responsibility for the Disaster Assistance Direct Loan Program (DADLP) which makes four types of loans: Community Disaster Loans; Individual and Family Grant State Share Loans; Public Assistance State Share Loans; and Hazard Mitigation State Share Loans. The DADLP for the non-federal share of program costs was created under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, P.L. 93-288, as amended by P.L. 100-707. Community Disaster Loans were available under P.L. 93-288 prior to the Stafford Act.

   The Bequests and Gifts, Cora Brown Fund, a trust fund, administered by the Human Services Division of the R&R Directorate provides for disaster-related needs that have not been and will not be met by governmental agencies or any other organizations. The fund contains the remainder of the initial endowment plus interest earned as well as other gifts.

3. Mitigation Directorate

   The Mitigation (MIT) Directorate provides for the development, coordination, and implementation of policies, plans, and programs to eliminate or reduce the long-term risk to human life and property from natural hazards, such as floods, earthquakes, hurricanes, and dam failures. The Directorate's programs identify and address the nature and extent of risk for all hazards. This information is developed into mitigation strategies and delivered through the FEMA regional offices or other appropriate mechanisms to the end user, whether it is state and local governments, engineers, architects, planners, code officials, or community leaders. Emphasis is given to the integration and efficient implementation of existing mitigation authorities; identification of gaps between these authorities and proposed remedies; and developing, implementing, and supporting innovations that encourage and foster a multi-hazard approach to mitigation activities at the federal, state, and local level in a partnership between government and private sector entities.

4. Preparedness, Training & Exercises Directorate

   The Preparedness, Training & Exercises (PT&E) Directorate provides resources for an array of all-hazard emergency management programs that assure that an integrated partnership of people, plans, systems, and facilities stand ready to provide assistance and relief in any emergency condition or situation. The Cooperative Agreement grants funded by this activity under the auspices of the Performance Partnership Agreement are being provided to states to address the specific risks they have identified. The technical assistance, training curriculum, and exercises funded by this activity are designed to foster and improve the knowledge and experience that a prepared, competent emergency management community must possess in order to save lives and mitigate the economic impact of disasters.

5. Federal Insurance Administration

   The Federal Insurance Administration (FIA) is the entity of FEMA that administers the National Flood Insurance Program (NFIP), the Unified National Program for Floodplain Management, and the National Insurance Development Fund, the vehicle used for funding the Federal Crime Insurance Program (FCIP). Computer Sciences Corporation (CSC), acts as the Bureau and Statistical Agent and produces financial statements with information for the Direct and Write Your Own (WYO) Insurance Underwriting Operations. The financial presentation for FIA in the supplemental combining statements includes information from these financial statements.

   The FCIP authorization expired September 30, 1995, and the program is in the closeout process. P.L. 106-74 for the fiscal year (FY) ending September 30, 2000 forgives the FCIP's debt to the Treasury. FIA uses a servicing agent, National Con-Serv, Inc. (NCSI), to carry out the processing for the program.

6. U.S. Fire Administration

   The United States Fire Administration (USFA) is the federal fire focus within FEMA and has ultimate responsibility for all fire and emergency medical services programs and training activities. Fire prevention and hazard mitigation activities are developed and delivered through the USFA, utilizing programs designed to build capacity at the state and local level; to enhance the nation's fire prevention, arson control, and Emergency Management Support (EMS) activities and, thereby, significantly reduce the nation's loss of life from fire; to achieve a reduction in property loss and non-fatal injuries to firefighters and citizens due to fires; and to improve emergency preparedness capability. Education and training programs are provided through the National Fire Academy in Emmitsburg, Maryland.

7. Support Organizations

The Support Organizations provide services to the Directorates, Administrations, and the DRF so that FEMA can effectively and efficiently meet its agency-wide objectives. FEMA's Support Organizations are comprised of the Inspector General's Office, Operations Support, Executive Direction, Information Technology Services, and Policy and Regional Operations. These organizations provide services such as oversight of Agency programs and operations, coordination among agency programs, management of information technology resources, logistics management, financial management, and agency-wide planning, policy development, and strategic initiatives.

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. Basis of Accounting

Under the authority of the CFO Act, the Federal Accounting Standards Advisory Board (FASAB) was established to recommend federal accounting standards to the Secretary of the Treasury, the Director of the OMB, and the Comptroller General. Fourteen Statements of Federal Financial Accounting Standards (SFFAS) and three Statements of Recommended Accounting Statements (SRAS) have been issued by the Director of OMB and the Comptroller General, some with deferred effective dates.

The accompanying financial statements have been prepared in accordance with SFFAS and related concepts. On October 19, 1999, the American Institute of Certified Public Accountants (AICPA) designated the FASAB as the accounting standards-setting body for federal government entities. As a result, accounting principles promulgated by FASAB are now considered Generally Accepted Accounting Principles (GAAP) for federal government entities. In the event the SFFASs do not address all transactions, the following hierarchy provides sources of accounting principles for the Federal Government: (1) Individual standards agreed to by the Director of OMB, the Comptroller General, and the Secretary of Treasury, and published by OMB and the General Accounting Office (GAO); (2) Interpretations related to the SFFASs issued by OMB in accordance with the procedures outlined in OMB Circular No. A-134, *Financial Accounting Principles and Standards*; (3) Requirements contained in OMB's *Form and Content* Bulletin in effect for the period covered by the financial statements; and (4) Accounting principles published by other authoritative standard-setting bodies and other authoritative sources.

E. Revenues and Financing Sources

FEMA receives the majority of the funding needed to support the 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 FIA's flood insurance program which are recognized as income ratably over policy coverage periods, and (2) user fees for PT&E's 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.V.

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

F. Fund Balance with Treasury and Cash and Other Monetary Assets

FEMA does not, except for minimal balances maintained by FIA's WYO companies, maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. 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.

G. Investments, Net

Investments in U.S. Government securities 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, in the majority of cases, they are held to maturity.

H. Accounts Receivable, Net

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

Accounts Receivable, Net consists primarily of premiums and restitution due from WYO companies participating in FIA's flood insurance program, amounts due from insurance customers and agents' commissions from cancelled policies, and amounts due from overpayments to grant recipients.

I. Credit Program Receivables, Net

Loans are accounted for as receivables after funds have been 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.

For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

J. Advances and Prepayments

Advances for DRF consist of disaster assistance grants to states and to other federal agencies tasked with mission assignments. Advances for other directorates consist primarily of grants to states of which the largest category is State and Local Assistance, a consolidation of grant programs, that supports state and local emergency management staffs and operations. Upon receipt of goods and services, the advances are expensed.

FIA payments made 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 deferred and amortized over the period in which the related premiums are earned, generally one to three years.

K. Inventory and Related Property, Net

Inventory and 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. 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 as purchased.

L. General Property, Plant, and Equipment, Net

General Property, Plant, and Equipment is capitalized at cost if the initial acquisition cost is $15,000 or more. Property, Plant, and Equipment is depreciated using a 1/2-year convention and the straight-line method over the asset's useful life. Property, Plant, and Equipment with an acquisition cost of less than $15,000 is expensed when purchased.

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

- 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; qualified internally and contractor developed software; office machinery and equipment; office furniture and fixtures; capital leasehold improvements; and any additional personal property that is not otherwise classified.
- 20-Year Property: Buildings and structures and their elevators and escalators; additions, betterments and replacements to buildings and structures; and land improvements.

M. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by FEMA as the result of a transaction or event that has already occurred. However, no liability can be paid by FEMA absent 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.

N. Accounts Payable

Accounts Payable—Intragovernmental consists of amounts owed to other federal agencies.

Accounts Payable consists of trade accounts payable, commissions payable, and bank overdraft liability.

O. Debt

Debt results from loans from the Treasury to fund FIA and DADLP operations described in Note 10. These programs are required to make periodic principal payments to the Treasury based on the terms of the notes.

FEMA's FIA and DADLP have interest payable to Treasury. They are required to make periodic interest payments to the Treasury Department based on the loans outstanding less the unexpended cash in the account at Treasury.

Additional funding for FIA's NFIP may be obtained through a Treasury Department borrowing authority of $500 million (up to $1 billion with the approval of the President). Approval from the President was granted on March 19, 1996, to borrow in excess of $500 million. P.L. 104-208, making omnibus consolidated appropriations for the FY ended September 30, 1998 and for other purposes, increased borrowing authority from $1 billion to $1.5 billion. P.L. 105-65, making omnibus consolidated appropriations for the FY ended September 30, 1999 and for other purposes, maintained borrowing authority at $1.5 billion.

As of September 30, 1999, FCIP had borrowed $3.4 million from the Treasury Department. FCIP's debt to the Treasury was forgiven subsequent to the fiscal year-end as part of the FY 2000 appropriation. (See Note 20.)

DADLP's debt as of September 30, 1999 was $58.8 million. The borrowed funds were used to make loans to states and local governments in need of assistance in time of disaster.

P. Claims and Claims Settlement Expenses

Provision for NFIP losses 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 year ended September 30, 1999 were derived using loss development data available through November 1999.

Q. Deferred Revenue

NFIP premium revenues are recognized ratably over the life of the policies. Unearned premiums are reserved to provide for the unexpired period of insurance coverage.

R. Net Cost of Operations

Net Cost of Operations includes all direct expenses for the Directorates, Administrations, and DRF, as well as the indirect and overhead expenses allocated from FEMA's Support services and Prior Years' Appropriations FY 1994–FY 1996.

S. 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).

The loss potential of catastrophic flooding cannot be meaningfully quantified as it relates to insurance policies in effect as of September 30, 1999. Accordingly, the financial statements do not include any provision for this contingent liability.

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 expensed as taken.

U. Workers' Compensation Liability

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

V. Pensions, Other Retirement Benefits, and Other Post-Employment Benefits

Each employing federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees, effective with fiscal years beginning after September 30, 1996, as required by SFFAS No. 5. Factors used in the calculation of these pension and post-retirement health and life insurance benefits expenses were provided by the Office of Personnel Management (OPM) Financial Management Letter F-99-08, *1999 Cost Factors for Pension and other Retirement Benefits Expenses*, to each agency to meet this requirement.

FEMA's employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which FEMA makes contributions according to plan requirements. CSRS and FERS are multi-employer plans. FEMA does not maintain or report information about the assets of the plans, nor does it report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM, but the pension expense of the Agency's employees is reported in accordance with SFFAS No. 5. A corresponding amount of imputed revenue is recorded to offset the expense.

W. Estimation Process

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.

X. Litigation

FEMA is a party in various administrative proceedings, legal actions, and claims brought against it. 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, FIA 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. FIA 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.

Y. Expired Accounts and Cancelled 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 cancelled. These amounts are reported on the Statement of Net Position to adjust the beginning Net Position balances.

NOTE 2. FUND BALANCES WITH TREASURY (IN THOUSANDS)

Directorates and Administrations	
Trust Funds	$ 111
Revolving Funds	172,248
Appropriated Funds	602,147
Other Fund Types	46,184
Subtotal	820,690
Disaster Relief Fund	
Appropriated Funds	7,248,870
Subtotal	7,248,870
Total	$ 8,069,560

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

Directorates and Administrations		
Cash	$	8
Other Cash - Agency		2
Other Cash - Contractor		12,560
Subtotal		12,570
Disaster Relief Fund		-
Total	$	12,570

In FIA, minimal cash balances are maintained at commercial banks by the Write Your Own companies and the servicing agent to fund claim payments and other cash needs.

NOTE 4. INVESTMENTS, NET (IN THOUSANDS)

Intragovernmental Securities:

	Cost	Amortization Method	Unamortized (Premium) Discount	Investments, Net	Other Adjustments	Required Market Value Disclosure
Directorates and Administrations						
Marketable	$ 1,535	Straight Line	$ (2)	$ 1,533	$ -	$ 1,533
Non-Marketable:						
Par Value			-	-	-	-
Non-Marketable:						
Market-Based	-		-	-	-	-
Subtotal	1,535		(2)	1,533	-	1,533
Accrued Interest	-		-	-	-	-
Subtotal	1,535		(2)	1,533	-	1,533
Disaster Relief Fund	-		-	-	-	-
Total	$ 1,535		$ (2)	$ 1,533	$ -	$ 1,533

NOTE 5. ACCOUNTS RECEIVABLE, NET (IN THOUSANDS)

	Intra-governmental	Other	Total
Directorates and Administrations			
Accounts Receivable - Intragovernmental	$ 4,552	$ -	$ 4,552
Accounts Receivable		14,107	14,107
Allowance for Loss		(430)	(430)
Subtotal	4,552	13,677	18,229
Disaster Relief Fund			
Accounts Receivable - Intragovernmental	80	-	80
Accounts Receivable		87,541	87,541
Allowance for Loss		(34,186)	(34,186)
Subtotal	80	53,355	53,435
Total	$ 4,632	$ 67,032	$ 71,664

NOTE 6. DISASTER ASSISTANCE DIRECT LOAN PROGRAM (IN THOUSANDS)

A. FEMA operates the following direct loan programs for non-federal borrowers:

(1) Community Disaster Loans
(2) Individual & Family Grant Loans
(3) Public Assistance Loans
(4) Miscellaneous (State of NY) - Prior to FY 1992
(5) Hazard Mitigation Loans - After FY 1991

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.

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):

Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Direct Loans
(1) Community Disaster Loans	$ 29,273	$ 12,344	$ -	$ 31,036	$ 10,581
(2) Individual & Family Grant Loans	-	-	-	-	-
(3) Public Assistance Loans	-	-	-	-	-
(4) Miscellaneous (State of NY)	7,482	19,376	-	26,858	-
Total	$ 36,755	$ 31,720	$ -	$ 57,894	$ 10,581

C. Direct Loans Obligated After FY 1991:

Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Direct Loans
(1) Community Disaster Loans	$ 138,203	$ 24,353	$ -	$ 157,293	$ 5,263
(2) Individual & Family Grant Loans	1,997	76	-	1,036	1,037
(3) Public Assistance Loans	2,866	110	-	1,488	1,488
(5) Hazard Mitigation Loans	1,621	62	-	842	841
Total	$ 144,687	$ 24,601	$ -	$ 160,659	$ 8,629

D. Subsidy Expenses for Post-1991 Direct Loans:

1. Current Year's Direct Loans

Loans Programs	Interest Differential	Defaults	Fees	Other	Total
(1) Community Disaster Loans	$ -	$ -	$ -	$ -	$ -
(2) Individual & Family Grant Loans	-	-	-	-	-
(3) Public Assistance Loans	-	-	-	-	-
(5) Hazard Mitigation Loans	-	3	-	3	6
Total	$ -	$ 3	$ -	$ 3	$ 6

NOTE 6. DISASTER ASSISTANCE DIRECT LOAN PROGRAM (IN THOUSANDS)

continued

2. Total Direct Loan Subsidy Expenses

Loans Programs	
(1) Community Disaster Loans	$ -
(2) Individual & Family Grant Loans	-
(3) Public Assistance Loans	-
(5) Hazard Mitigation Loans	7
Total	$ 7

NOTE 7. ADVANCES AND PREPAYMENTS (IN THOUSANDS)

Directorates and Administrations	
Intragovernmental	$ 20
Other	273,770
Subtotal	273,790
Disaster Relief Fund	
Intragovernmental	-
Other	48,359
Subtotal	48,359
Total	$ 322,149

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

	Valuation Method	Held for Current Sale	Held for Distribution	Excess, Obsolete and Unserviceable	Total
Directorates and Administrations					
Floodplain Maps and Studies	Average Cost	$ 2,190	$ 1,730	$ -	$ 3,920
Disaster Relief Fund	Average Cost	-	-	-	-
Subtotal		2,190	1,730	-	-
Total		$ 2,190	$ 1,730	$ -	$ 3,920

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

Classes of Fixed Assets:

	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
Directorates and Administrations					
Land & Land Rights			$ -	$ -	$ -
Improvements to Land			-	-	-
Construction in Progress			1,058	-	1,058
Bldgs, Imprvmnts, & Renovations	Straight Line	20/5 Years	1,362	(150)	1,212
Other Structures and Facilities	Straight Line	20/5 Years	840	(30)	810
Equipment	Straight Line	5 Years	6,580	(3,436)	3,144
Leasehold Improvements	Straight Line	5 Years	175	(46)	129
ADP Software	Straight Line	5 Years	3,442	(1,617)	1,825
Other	Straight Line	5 Years	-	-	-
Subtotal			13,457	(5,279)	8,178
Disaster Relief Fund					
Bldgs, Imprvmnts, & Renovations	Straight Line	20/5 Years	132	-	132
Equipment	Straight Line	5 Years	28,106	(7,839)	20,267
Leasehold Improvements	Straight Line	5 Years	1,447	(477)	970
Subtotal			29,685	(8,316)	21,369
Total			$ 43,142	$ (13,595)	$ 29,547

NOTE 10. DEBT (IN THOUSANDS)

A. Other Debt:

	Beginning Balance	Net Borrowings	Ending Balance
Directorates and Administrations			
Debt to the Treasury - Principal	$ 574,922	$ 28,295	$ 603,217
Debt to the Treasury - Interest Payable	12,563	1,887	14,450
Subtotal	587,485	30,182	617,667
Disaster Relief Fund	-	-	-
Total	$ 587,485	$ 30,182	$ 617,667

B. Classification of Debt:

Intragovernmental	$ 617,667
Total	$ 617,667

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

Federal Insurance Administration

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 FIA 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.

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

continued

Although the Insurance Underwriting Operations believes the liability for unpaid losses and loss adjustment expenses is reasonable and adequate in the circumstances, it is possible that the Insurance Underwriting Operations' actual incurred losses and loss adjustment expenses (LAE) 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:

Balance at October 1, 1998:	
Loss & LAE Reserve	$ 469,411
Incurred Related To:	
Current Year	824,616
Prior Year	3,295
Total Incurred	827,911
Paid Related To:	
Current Year	324,904
Prior Year	457,887
Total Paid	782,791
Balance at September 30, 1999:	
Loss & LAE Reserve Related to:	
Current Year	499,712
Prior Year	14,819
Total Reserves	$ 514,531

NOTE 12. DEFERRED REVENUE (IN THOUSANDS)

Directorates and Administrations	
Prepaid Flood Insurance Premiums	$ 905,322
Subtotal	905,322
Disaster Relief Fund	-
Total	$ 905,322

NOTE 13. OPERATING LEASES (IN THOUSANDS)

Description of Lease Arrangements: Includes Agency payments for rented/leased office and non-office space and land.

Future Payments Due:	<<---- Asset Category ---->>		
Fiscal Year	(1)	(2)	Total
2000	$ 19,326	$ 4,277	$ 23,603
2001	20,787	4,275	25,062
2002	30,406	4,446	34,852
2003	31,622	4,624	36,246
2004	32,887	4,809	37,696
After 5 Years **	34,202	5,001	39,203
Total	$ 169,230	$ 27,432	$ 196,662

(1) General Services Administration (GSA)-controlled leases

(2) Other than GSA-controlled leases

* Does not include disaster field offices

** Estimate for 6th Year based on 4% annual increase

NOTE 14. FEDERAL EMPLOYEE AND VETERANS' 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 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 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 Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

- 5.50% in year 1,
- 5.50% in year 2,
- 5.55% in year 3,
- 5.60% in year 4,

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 projected number of years benefits payments is 37 years.

NOTE 14. FEDERAL EMPLOYEE AND VETERANS' BENEFITS (IN THOUSANDS)

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 Department of Labor, FEMA's recorded expense and the related increase in the estimated liability for future worker's compensation benefits as of September 30, 1999 were:

		<<------------------ Liability	------------------->>	
	FY 1999 Expense	FY 1999 Liability	Beginning of Year Liability	Total Liability
Directorates and Administrations	$ 2,991	$ 2,991	$ 3,322	$ 6,313
Disaster Relief Fund	2,489	2,489	2,974	5,463
Total	$ 5,480	$ 5,480	$ 6,296	$ 11,776

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 FY 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 accrued FECA liability.

See Note 19 for prior period adjustment to record the FECA actuarial liability and expense and FECA accrued liability and expense as of September 30, 1998.

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 Financial Management Letter F-99-08 dated September 30, 1999 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.

NOTE 14. FEDERAL EMPLOYEE AND VETERANS' BENEFITS (IN THOUSANDS)

continued

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 cost for Pensions and Other Retirement Benefits for the year ended September 30, 1999 were:

	Pensions	Health Insurance	Life Insurance	Total
Directorates and Administrations	$ 5,663	$ 4,876	$ 22	$ 10,561
Disaster Relief Fund	132	1,494	6	1,632
Total	$ 5,795	$ 6,370	$ 28	$ 12,193

NOTE 15. OTHER LIABILITIES (IN THOUSANDS)

A. Other Liabilities Covered by Budgetary Resources:

	Current	Non-Current	Total
Directorates and Administrations			
Other	$ 703	$ -	$ 703
Advances from Others	53,729	-	53,729
Accrued Annual Leave	1,407	-	1,407
Accrued Payroll and Benefits	9,811	-	9,811
Subtotal	65,650	-	65,650
Disaster Relief Fund			
Other	-	-	-
Accrued Payroll and Benefits	10,784	-	10,784
Subtotal	10,784	-	10,784
Total	$ 76,434	$ -	$ 76,434

B. Other Liabilities Not Covered by Budgetary Resources:

	Current	Non-Current	Total
Directorates and Administrations			
Other	$ 24,063	$ -	$ 24,063
Accrued Annual Leave	11,796	-	11,796
Subtotal	35,859	-	35,859
Disaster Relief Fund			
Other	8,395	-	8,395
Accrued Annual Leave	1,650	-	1,650
Subtotal	10,045	-	10,045
Total	$ 45,904	$ -	$ 45,904

NOTE 16. UNEXPENDED APPROPRIATIONS (IN THOUSANDS)

Directorates and Administrations		
Unobligated		
Available	$	258,202
Unavailable		24,326
Unexpended Obligations		245,474
Subtotal		528,002
Disaster Relief Fund		
Unobligated		
Available	$	940,830
Unavailable		94,579
Unexpended Obligations		5,940,016
Subtotal		6,975,425
Total	$	7,503,427

NOTE 17. ALLOCATION OF SUPPORT ORGANIZATION COSTS AND PRIOR YEARS' APPROPRIATIONS FY 1994–FY 1996 (FUNDS 3, 9, 10, 17, AND 20) (IN THOUSANDS)

FEMA allocated Support Organizations and Prior Years' Appropriations FY 1994-FY 1996 (for funds 3, 9, 10, 17, and 20) FY 1999 program costs to the Directorates, Administrations, and the DRF to reflect the costs of operating these organizational components. FEMA allocated costs based on FY 1999 program costs. The program costs of the Support Organizations and Prior Years' Appropriations FY 1994-FY 1996 were allocated as follows:

	1999 Expenses	Allocation %	SO Allocation	Prior Years' Appropriations FY94-FY96	Net Costs
R&R	$ 68,618	1.52	$ 1,946	$ 455	$ 2,401
MIT	41,058	0.91	1,165	272	1,437
PT&E	306,520	6.80	8,706	2,036	10,742
FIA	154,923	3.44	4,404	1,030	5,434
USFA	31,915	0.70	896	210	1,106
DRF	3,906,228	86.63	110,911	25,932	136,843
Total	$ 4,509,262	100.00	$ 128,028	$ 29,935	$ 157,963

NOTE 18. ESTIMATED DISASTER COSTS (IN THOUSANDS)

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.

NOTE 18. ESTIMATED DISASTER COSTS (IN THOUSANDS)

continued

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 cost 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 $28.6 billion as of September 30, 1999, of which approximately $26.8 billion has been obligated and $20.5 billion paid or accrued. Should all projected remaining costs and obligations be funded by the government and paid or accrued by FEMA, an additional $8.1 billion in expenses would be recorded.

NOTE 18. ESTIMATED DISASTER COSTS (IN THOUSANDS)

continued

Information regarding the disaster cost projections and their effect on DRF as of September 30, 1999, is summarized below:

Unfunded Cost:	
Cost Projections	$ 28,634,334
Obligations	(26,802,343)
Total Unfunded Costs	1,831,991
Unliquidated Obligations:	
Obligations	26,802,343
Expenditures Incurred	(20,524,961)
Total Unliquidated Obligations	6,277,382
Remaining Project Cost:	
Unfunded Cost	1,831,991
Unliquidated Obligations	6,277,382
Remaining Cost	$ 8,109,373

NOTE 19. PRIOR PERIOD ADJUSTMENTS—FECA ESTIMATED ACTUARIAL LIABILITY (IN THOUSANDS)

In FY 1997, the estimated actuarial liability of $6.4 million for future workers' compensation benefits adjustment from the Department of Labor was not properly recorded. In FY 1998, the increase in actuarial liability of $380 thousand was not recorded. The additional FECA liability that FEMA should have recorded for FY 1997 and FY 1998 was:

Estimated Actuarial Liability:

	Prior Year Liability
Directorates and Administrations	$ 3,322
Disaster Relief Fund	2,974
Total	$ 6,296

Accrued Liability:

	Prior Year Liability
Directorates and Administrations	$ -
Disaster Relief Fund	3,620
Total	$ 3,620

NOTE 20. SUBSEQUENT EVENT—NATIONAL INSURANCE DEVELOPMENT FUND DEBT FORGIVENESS (IN THOUSANDS)

P.L. 106-74, appropriating for the Departments of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions, corporations, and offices for the FY ended September 30, 2000, and for other purposes, contained a debt forgiveness provision for any indebtedness of the Director of the Federal Emergency Management Agency resulting from the Director borrowing sums before the date of this Act to carry out Title XII of the National Housing Act, and the Director shall not be obligated to repay such sums or any interest thereon, and no further interest shall accrue on such sums.

NOTE 20. SUBSEQUENT EVENT—NATIONAL INSURANCE DEVELOPMENT FUND DEBT FORGIVENESS (IN THOUSANDS)

continued

The National Insurance Development Fund, the vehicle used for funding the Federal Crime Insurance Program (FCIP), as of September 30, 1999, had borrowed $3.4 million from Treasury, and $500 thousand of interest had accrued on that debt. FCIP's debt to Treasury, including the accrued interest, was forgiven subsequent to year-end as part of the FY 2000 appropriation.

NOTE 21. UNDERSTATEMENT IN UNEXPENDED OBLIGATIONS IN THE DISASTER RELIEF FUND FOR FY 1998

In FY 1999, FEMA determined that the Statement of Budgetary Resources was incorrect for the Disaster Relief Fund for FY 1998. The Unexpended Obligations—Unpaid and Total Actual Resources—Collected were understated by $285 million. The Obligated Balance, Net—Beginning of the Period in the Statement of Budgetary Resources has been adjusted to reflect the $285 million adjustment. This adjustment in FY 1999 does not impact any of the proprietary statements.

SUPPLEMENTAL COMBINING FINANCIAL STATEMENTS FOR THE DIRECTORATES AND ADMINISTRATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 1999

- Response And Recovery Directorate (R&R)
- Mitigation Directorate (MIT)
- Preparedness, Training and Exercises Directorate (PT&E)
- Federal Insurance Administration (FIA)
- U.S. Fire Administration (USFA)
- Support Organizations (SO)
- Prior Years' Appropriations FY 1994–FY 1996

Combining Balance Sheet for the Directorates and Administrations

As of September 30, 1999

(Dollars in Thousands)

	R&R	MIT	PT&E
ASSETS			
Intragovernmental			
Fund Balance with Treasury (Note 2)	$ 41,271	$ 314,257	$ 141,043
Investments, net (Note 4)	1,533	-	-
Accounts receivable, net (Note 5)	3	1,059	-
Advances and prepayments (Note 7)	-	-	-
Intragovernmental	42,807	315,316	141,043
Accounts receivable, net (Note 5)	-	-	2,387
Advances and prepayments (Note 7)	-	2,260	11,599
Credit program receivables, net (Note 6)	19,210	-	-
Cash and other monetary assets (Note 3)	-	-	-
Inventory and other related property, net (Note 8)	-	-	-
General property, plant and equipment, net (Note 9)	1,355	-	2,816
Total Assets	**$ 63,372**	**$ 317,576**	**$ 157,845**
LIABILITIES			
Intragovernmental			
Accounts payable	$ 57	$ -	$ 18
Debt (Note 10)	58,817	-	-
Other intragovernmental liabilities (Note 15)	-	-	-
Total Intragovernmental	58,874	-	18
Accounts Payable	1,181	2,162	1,575
Claims and claims settlement expenses (Note 11)	-	-	-
Deferred revenue (Note 12)	-	-	-
Federal employee and veterans' benefits payable (Note 14)	1,527	238	1,322
Other governmental liabilities (Note 13, 15)	5,798	2,206	58,308
Total Liabilities	**67,380**	**4,606**	**61,223**
NET POSITION			
Unexpended Appropriations (Note 16)	31,269	313,098	77,189
Cumulative Results of Operations	(32,055)	196	3,899
Current Year	(3,222)	(324)	15,534
Total Net Position	**(4,008)**	**312,970**	**96,622**
Total Liabilities and Net Position	**$ 63,372**	**$ 317,576**	**$ 157,845**

Combining Balance Sheet for the Directorates and Administrations

As of September 30, 1999

(Dollars in Thousands)

FIA	USFA	Support	Prior-Year Appropriations FY1994-FY1996	Directorates and Administrations
$ 196,318	$ 22,237	$ 42,467	$ 63,097	$ 820,690
-	-	-	-	1,533
54	298	18	3,120	4,552
20	-	-	-	20
196,392	22,535	42,485	66,217	826,795
11,240	-	50	-	13,677
259,758	93	59	1	273,770
-	-	-	-	19,210
12,562	-	8	-	12,570
3,920	-	-	-	3,920
139	930	2,675	263	8,178
$ 484,011	**$ 23,558**	**$ 45,277**	**$ 66,481**	**$ 1,158,120**
$ 2,130	$ -	$ 103	$ 9,308	$ 11,616
558,850	-	-	-	617,667
135	-	-	-	135
561,115	-	103	9,308	629,418
35,706	3,165	5,026	-	48,815
514,531	-	-	-	514,531
905,322	-	-	-	905,322
639	233	2,354	-	6,313
24,214	1,760	8,841	247	101,374
2,041,527	**5,158**	**16,324**	**9,555**	**2,205,773**
-	17,922	33,446	55,078	528,002
(1,563,265)	829	(1,479)	1,848	(1,590,027)
5,749	(351)	(3,014)	-	14,372
(1,557,516)	**18,400**	**28,953**	**56,926**	**(1,047,653)**
$ 484,011	**$ 23,558**	**$ 45,277**	**$ 66,481**	**$ 1,158,120**

The Federal Emergency Management Agency

Combining Statement of Net Cost for the Directorates and Administrations

for the year ended September 30, 1999

(Dollars in Thousands)

	R&R	MIT	PT&E
COSTS:			
Production	$ 68,309	$ 41,058	$ 306,071
Non-production	309	-	449
Total Program Costs	68,618	41,058	306,520
Less Earned Revenues	(5,432)	(780)	(75,974)
Net Program Costs	63,186	40,278	230,546
NET PROGRAM COSTS BEFORE ALLOCATIONS	**63,186**	**40,278**	**230,546**
Net Cost Allocations of Support Organizations and Prior Years' Appropriations (Note 17)	2,401	1,437	10,742
NET COST OF OPERATIONS AFTER ALLOCATIONS	**$ 65,587**	**$ 41,715**	**$ 241,288**

Combining Statement of Net Cost for the Directorates and Administrations

for the year ended September 30, 1999

(Dollars in Thousands)

FIA	USFA	Support	Prior-Year Appropriations FY1994-FY1996	Directorates and Administrations
$ 1,391,115	$ 31,693	$ 127,427	$ 29,935	$ 1,995,608
309	222	794	-	2,083
1,391,424	31,915	128,221	29,935	1,997,691
(1,396,387)	(540)	(18)	-	(1,479,131)
(4,963)	31,375	128,203	29,935	518,560
(4,963)	**31,375**	**128,203**	**29,935**	**518,560**
5,434	1,106	(128,028)	(29,935)	(136,843)
$ 471	**$ 32,481**	**$ 175**	**$ -**	**$ 381,717**

Combining Statement of Changes in Net Position for the Directorates and Administrations

for the year ended September 30, 1999

(Dollars in Thousands)

	R&R	MIT	PT&E
Net Cost of Operations	$ (65,587)	$ (41,715)	$ (241,288)
Financing Sources (Other than exchange revenues):			
Appropriations Used	58,745	39,664	244,306
Imputed Financing	2,049	419	2,379
Transfers-in	-	-	-
Transfers-out	-	-	-
Net Cost Allocations of Support Organizations and Prior Years' Appropriations (Note 17)	2,401	1,437	10,742
Net Results of Operations	(2,392)	(195)	16,139
Prior Period Adjustments	(830)	(129)	(605)
Net Change in Cumulative Results of Operations	(3,222)	(324)	15,534
Increase (Decrease) in Unexpended Appropriations	1,225	247,390	22,321
Change in Net Position	**(1,997)**	**247,066**	**37,855**
Net Position - Beginning of the Period	(988)	65,904	58,767
Cancelled Authority from BFY 1993 (Note 1.Y.)	(1,023)	-	-
Net Position-End of Period	**$ (4,008)**	**$ 312,970**	**$ 96,622**

Combining Statement of Changes in Net Position for the Directorates and Administrations

for the year ended September 30, 1999

(Dollars in Thousands)

FIA	USFA	Support	Prior-Year Appropriations FY1994-FY1996	Directorates and Administrations
$ (471)	$ (32,481)	$ (175)	$ -	$ (381,717)
-	30,736	122,306	29,935	525,692
1,134	416	4,165	-	10,562
20,000	-	-	-	20,000
(20,000)	-	-	-	(20,000)
5,434	1,106	(128,028)	(29,935)	(136,843)
6,097	(223)	(1,732)	-	17,694
(348)	(128)	(1,282)	-	(3,322)
5,749	(351)	(3,014)	-	14,372
-	1,921	13,320	(29,935)	256,242
5,749	**1,570**	**10,306**	**(29,935)**	**270,614**
(1,563,265)	16,830	18,647	100,237	(1,303,868)
-	-	-	(13,376)	(14,399)
$ (1,557,516)	**$ 18,400**	**$ 28,953**	**$ 56,926**	**$ (1,047,653)**

THE FEDERAL EMERGENCY MANAGEMENT AGENCY

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 1999

- Consolidated Schedule of Intragovernmental Activity

Consolidated Schedule of Intragovernmental Activity

as of September 30, 1999

(Dollars in Thousands)

(unaudited)

INTRAGOVERNMENTAL ASSETS:

	Fund Balance with Treasury (Note 2)	Investments, net (Note 4)	Accounts receivable, net (Note 5)	Advances and prepayments (Note 7)
Department of Agriculture	$ -	$ -	$ 268	$ -
Department of Commerce	-	-	456	-
Department of the Navy	-	-	543	-
Department of State	-	-	169	-
Department of Treasury	8,069,560	1,533	-	-
Department of the Army	-	-	502	-
General Services Administration	-	-	58	-
Central Intelligence Agency	-	-	46	-
Environmental Protection Agency	-	-	443	-
Department of Transportation	-	-	996	-
U.S. Agency for International Development	-	-	129	-
National Aeronautics and Space Administration	-	-	128	-
U.S. Army Corps of Engineers	-	-	46	-
Other	-	-	848	20
TOTAL INTRAGOVERNMENTAL ASSETS	$ 8,069,560	$ 1,533	$ 4,632	$ 20

INTRAGOVERNMENTAL LIABILITIES:

	Accounts payable	Debt (Note 10)	Other (Note 15)
Department of Labor	$ 37,341	$ -	$ 3,648
Department of Treasury	9,063	617,667	135
U.S. Army Corps of Engineers	94,682	-	-
Department of Defense/Defense Agencies	8,345	-	-
Other	25,226	-	-
TOTAL INTRAGOVERNMENTAL LIABILITIES	$ 174,657	$ 617,667	$ 3,783

Deloitte & Touche

Deloitte & Touche LLP
1750 Tysons Boulevard
McLean, Virginia 22102-4219

INDEPENDENT AUDITORS' REPORT

To the Director and Inspector General of the
Federal Emergency Management Agency

We have audited the accompanying consolidated balance sheet of the Federal Emergency Management Agency (FEMA), the combined balance sheet of its Directorates and Administrations, and the balance sheet of the Disaster Relief Fund (DRF), each as of September 30, 1999, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended, collectively referred to as the financial statements. These financial statements are the responsibility of the management of FEMA. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements appearing on pages 95 through 121 of this report present fairly, in all material respects, the financial position of FEMA, its Directorates and Administrations and the DRF as of September 30, 1999, and their net costs, changes in net position, budgetary resources and reconciliation of net cost to budgetary obligations for the year then ended, in conformity with generally accepted accounting principles.

The supplemental combining balance sheets and related statements of net costs and changes in net position of the FEMA Directorates and Administrations appearing on pages 123 through 129 of this report are presented for the purpose of additional analysis of the combined financial statements of the Directorates and Administrations rather than to present the financial position, net cost and changes in net position of the individual Directorates and Administrations, and are not a required part of the basic combined financial statements. These supplemental combining statements have been subjected to the auditing procedures applied in our audit of the basic 1999 combined financial statements of the Directorates and Administrations and, in our opinion, are

Deloitte Touche
Tohmatsu

fairly stated in all material respects when considered in relation to the combined financial statements taken as a whole.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 98-08 as amended, we have also issued our report dated February 18, 2000, on our consideration of FEMA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

February 18, 2000

Deloitte & Touche

Deloitte & Touche

Deloitte & Touche LLP
1750 Tysons Boulevard
McLean, Virginia 22102-4219

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Director and the Inspector General of the
Federal Emergency Management Agency

We have audited the financial statements of the Federal Emergency Management Agency (FEMA), its Directorates and Administrations and the Disaster Relief Fund (DRF), as of and for the year ended September 30, 1999, and have issued our report thereon dated February 18, 2000. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

Internal Control over Financial Reporting

In planning and performing our audit, we considered FEMA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations 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 of management in the financial statements.

A material weakness is a condition 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Reportable conditions noted are described in the following paragraphs and include significant departures from certain requirements of OMB Circular A – 127, *Financial Management Systems*, which incorporates by reference Circulars A – 123, *Management Accountability and Control*, and A – 130, *Management of Federal Information Resources*, among other requirements. We believe that the following reportable conditions are also material weaknesses.

1. As defined in OMB Circular A – 127, "a financial management system encompasses automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions." Such financial management systems shall be designed to provide for effective and efficient interrelationship between software, hardware, personnel, procedures, controls, and data contained within the systems. These integrated systems shall have the following characteristics: (1) common data elements; (2) common transaction processing; (3) consistent internal control over data entry, transaction processing and reporting; and (4) efficient transaction entry.

   With respect to system requirements in the area of financial reporting, OMB Circular A – 127 requires that an "agency financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support the legal, regulatory and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making; (5) comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and (6) monitor the financial management system to ensure integrity of financial data."

   Also, OMB Circular A – 123 requires that management controls be in place to ensure that "laws and regulations are followed" and "reliable and timely information is obtained, maintained, reported and used for decision – making."

   During our audit of FEMA's financial statements, we identified deficiencies related to the internal control over the preparation, analysis, and monitoring of financial information to support the efficient and effective preparation of agency wide financial statements. Because of the deficiencies noted, we believe that FEMA's financial management system does not yet share the third characteristic of an integrated system as noted above, with respect to "consistent internal control over data entry, transaction processing and reporting." We also believe that FEMA is not in full compliance with the system design requirements identified at numbers 5 and 6 above, sufficient "in a timely and useful fashion," to "comply with internal and external reporting requirements, including ... the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury" and to "monitor the financial management system to ensure integrity of financial data."

   We recognize that FEMA continues to undertake significant efforts to fully implement the reporting requirements of OMB Bulletin No. 97 – 01, *Form and Content of Agency Financial Statements*. In 1999 a new layer of one-year appropriations and new reporting elements have placed substantial new reporting demands on existing resources. While we believe FEMA has made significant progress toward meeting its planned reporting objectives, significant improvements are still required as the processes and infrastructure that support the preparation of the agency's consolidated financial statements are not yet stable nor subject to appropriate levels of supervision and review. For example, we noted that:

Deloitte & Touche

◊ Overall, FEMA did not perform timely cash reconciliations on all Fund Balance with Treasury accounts throughout 1999. Furthermore, FEMA did not provide a timely year – end reconciliation that was complete and accurate and that tied to the financial statements.

  - FEMA did not resolve differences found during the cash reconciliations in a timely manner. For example, the Statement of Differences for November 1998 still had an unresolved difference of $8.9 million as of June 30, 1999 – seven months later.
  - FEMA's year-end cash reconciliation showed unresolved differences of $4.2 million. FEMA estimated that $3 million of this amount represented carryover from prior fiscal years.
  - FEMA made several corrections to the Department of Treasury's cash records for the Disaster Relief Fund in error.

◊ FEMA reported a $285 million adjustment in the Disaster Relief Fund without fully researching the accounting and reporting issues surrounding it. FEMA did not notify or seek concurrence for the accounting treatment from the Office of Inspector General before reporting this large adjustment. As a result, the resolution of this issue was delayed.

◊ FEMA was not able to provide a logical and specific timetable for publishing the financial statements and accompanying information with sufficient time built - in to allow proper review by management and the Office of Inspector General, nor for the completion of substantive audit procedures.

◊ The number of separate funds that are included in the financial statements increased from 47 in 1998 to 60 in 1999. Reporting of the additional funds required additional efforts and management reviews that FEMA's manual processes had difficulty accommodating in a timely manner. Specifically, the closing of the general ledger was delayed compared with prior years, causing FEMA to miss important milestone dates for the preparation of the year - end financial reporting information, including the trial balances and draft financial statements. Furthermore, additional adjustments had to be posted to the trial balances to correct or add data, which further delayed the production of accurate trial balances and demonstrated the increased risk of error.

◊ During 1999, FEMA began conducting interim closings of the general ledger and preparing "trial balances and other supporting information needed for external reports and financial statements" consistent with the core financial system requirements for federal agencies. Specifically, FEMA performed a close of the general ledger through six months, but reported limited success in producing financial statements. FEMA's close of the general ledger through nine months produced incomplete statements. For these statements, FEMA decided not to include any balances from the prior year appropriations, and it did not allocate expenses associated with support organizations and prior year appropriations. Property, plant and equipment purchases and depreciation were not recorded.

Deloitte &
Touche

As discussed in the "Framework for Federal Financial Management Systems" issued by the Joint Financial Management Improvement Program (JFMIP), an agency's financial management system should include "the ability to ... facilitate the preparation of financial statements, and other financial reports in accordance with federal accounting and reporting standards." The responsibilities of agency level data stewardship exist at each level within the agency to insure that "the information contained within the systems is accurate, timely, consistent and useful." In the reporting level architecture "reporting needs to be of proper scope, level of detail, timing, content, and presentation format to provide information of real value to users. The transaction classification structure of the event level architecture and summary information classification structure and reporting structure of the reporting level architecture work together to provide the necessary description of financial events to ensure the integrity of financial and related information collected and reported."

While FEMA's initial steps in implementing interim closings were important, the interim reporting process needs to mature into a routine and controlled process in order to be fully functional. In order to provide the timely and useful information to assess FEMA's data stewardship at the agency level and to facilitate reliable year – end reporting, we believe that the interim closing process should include the preparation of consolidated financial statements.

◊ Changes in the year – end financial statements resulting from errors or omissions required significant effort to correct because of the software used to produce the statements. This software is not integrated with FEMA's accounting system and requires significant manual data entry. As a result, the statement preparation process requires extensive review efforts, especially given the 60 funds that were inputted in 1999. While using an integrated software package for statement preparation is not required, non-integrated software significantly limits flexibility and turnaround times for statement production and increases the risk of errors. In 1999, the slower turnaround time impacted the timely production of corrected financial statements for our audit purposes.

Many of the observations noted above, especially those associated with the cash reconciliation process, resulted from the lack of sufficient staff and the need for more management oversight and review. Procedures for appropriate and timely account reconciliations and management reviews should be formalized to achieve proper internal control. Also, management needs to ensure better planning and follow - through for the financial statement preparation process in order for this process to be smoother and more timely.

2. We noted internal control deficiencies in certain aspects of FEMA's automated Integrated Financial Management Information System (IFMIS), particularly in the areas of access controls and program change controls. These deficiencies, in our view, indicate that computer – based controls do not contribute to the reliability of the accounting systems, taken as a whole.

Deloitte &
Touche

We believe that FEMA continues to lack a fully implemented and documented system of management controls that meets the requirements of OMB Circular A – 123 and that supports the management structures that help ensure that "transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports.

We believe that management should finalize its draft information security policy for the automated system application and processing environment (scheduled for April 1, 2000). We also recommend that management complete its plan to establish roles and responsibilities for the development contractors of IFMIS and complete its plan for establishing FEMA's in – house capabilities to ensure appropriate approval, reporting and documentation of system modifications (in process).

Finally, with respect to the internal control related to performance measures reported in Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 98-08, as amended. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such control.

Compliance

As part of obtaining reasonable assurance about whether FEMA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin 98-08, and are described below.

1. The material weaknesses in internal control over financial reporting discussed above indicate that FEMA is not in full compliance with the requirements of OMB Circulars A – 123 and A – 127.
2. We believe that FEMA does not substantially comply with the requirements of the FFMIA. Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with Federal financial management systems requirements, Federal accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance and evaluative criteria issued by OMB. As noted in FFMIA, "compliance with the financial management systems requirements of FFMIA applies to all financial management systems essential to meeting financial statement preparation and budgetary reporting requirements."

Deloitte & Touche

We found weaknesses in the design and operation of internal controls over financial reporting as discussed above, particularly with respect to the lack of a routine, fully matured process in support of the preparation, analysis, and review of the agency – wide financial statements.

We believe these weaknesses, in the aggregate, result in significant departures from certain of the requirements of OMB Circulars A – 123 and A – 127, and are therefore instances of substantial noncompliance with the Federal financial management systems requirements under FFMIA.

Distribution

This report is intended solely for the information and use of the management of the Federal Emergency Management Agency, the Inspector General for FEMA, the Office of Management and Budget, the U. S. General Accounting Office, and the U. S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

February 18, 2000

Deloitte &
Touche

Federal Emergency Management Agency

Washington, D.C. 20472

FEB 28 2000

MEMORANDUM FOR: George J. Opfer
Inspector General

FROM: Gary D. Johnson
Chief Financial Officer

SUBJECT: Response to the Inspector General's Report

We are responding to the Inspector General's report on internal controls and compliance in conjunction with the FY 1999 financial statement audit, consistent with guidance from the Office of Management and Budget. FEMA agrees that there are deficiencies related to the internal control over the preparation, analysis, and monitoring of financial information to support the efficient and effective preparation of agencywide financial statements. However, we do not agree that these findings constitute substantial noncompliance with FFMIA.

As the auditor's report indicates, FEMA has made progress in correcting the conditions reported in this area. We believe we have reached a level to be in substantial compliance. We will continue to work with the Office of Inspector General to resolve identified deficiencies.