Federal Emergency Management Agency

Accountability Report for Fiscal Year 1998

March 1999

Every American needs to know
that when their safety, their property
or their livelihoods
are threatened by disaster,
that the full resources of this nation
will be utilized to protect them
and to help place them
on the road to recovery.

— President Clinton

Table of Contents

Message from the Director

As Director of FEMA, maintaining the public's trust and providing stewardship of their tax dollars is a vital goal to me, to senior management, and to employees of this Agency. Therefore, I am pleased to issue FEMA's first Accountability Report describing the Agency's mission and goals, and demonstrating the way in which our financial performance is tied to the Agency's broader objectives.

We are an organization dedicated to "serving our customers." This is demonstrated by FEMA employees who display the highest standard of dedication, the willingness to put the customer first, to find new and innovative ways to solve old problems, and to work closely with old and new partners. These beliefs are the true keys to our success.

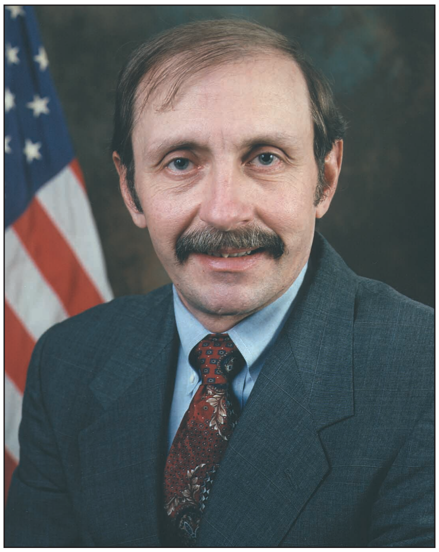
This comprehensive report articulates the significant progress FEMA has made in our program areas and demonstrates effectiveness, economies and efficiencies in the way we conduct business, while providing the highest quality service delivery to the American people. This Accountability Report signifies FEMA's issuance of complete agency-wide financial statements for fiscal year 1998 and acknowledges that we are meeting the requirements of the Government Management Reform Act of 1994. FEMA has come a long way in improving financial management and accountability in the last several years.

FEMA's Accountability Report should be useful to our customers, partners, and the public as it consolidates in one place an overview of the Agency's activities and tells the world who we are and what we do. The report also provides a discussion and analysis of key performance standards and measures, the Agency financial statements, and other relevant supplementary information.

The future will be demanding for FEMA, given the potential increase in number and severity of disasters. I have great confidence in FEMA's strong management team and our dedicated, talented and caring employees who have demonstrated continued commitment to exceeding customer satisfaction. With a commitment to the American people, to customer service, and operational excellence, FEMA will be well positioned to address the challenges and opportunities of the future.

James L. Witt

James L. Witt



I am proud to present the Federal Emergency Management Agency's fiscal year 1998 Accountability Report. The Accountability Report is issued under a pilot program authorized by the Government Management Reform Act of 1994. The independent audit conducted of the financial statements included in this report has resulted in an unqualified opinion. The audit included, for the first time, consolidated reporting of all the agency's activities, the on-schedule realization of a goal established three years ago. For each of the intervening years, FEMA also received an unqualified opinion on the statements prepared.

As Chief Financial Officer for FEMA, my vision for financial management has as its centerpiece providing program managers, and those involved in overseeing the agency's activities, accurate and timely financial information. It is my responsibility to ensure that FEMA is fully accountable for how we spend taxpayers dollars. We will do this by maintaining accountability and integrity in all of our financial and accounting processes.

FEMA will continue to prepare combined financial statements for all organization components within FEMA to comply with the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The implementation of performance measures consistent with the expectations of the Government Performance and Results Act of 1993, and the reengineering of the way FEMA conducts business by streamlining the procurement process, in compliance with the Federal Acquisition and Streamlining Act of 1994, are initiatives towards achieving full accountability.

The Accountability Report provides useful information for those interested in FEMA's audited financial statements and its organizational elements (Response and Recovery Directorate; Mitigation Directorate; Preparedness, Training and Exercises Directorate; Federal Insurance Administration; and the US Fire Administration). Through sound financial management, FEMA will continue to improve its operations and program performance to better serve those in need.

Gary D. Johnson

ABOUT THE
FEDERAL EMERGENCY MANAGEMENT AGENCY

DISASTER

It strikes anytime, anywhere. It takes many forms—a hurricane, an earthquake, a tornado ... a flood, a fire or a hazardous spill ... an act of nature or an act of terrorism. It builds over days or weeks, or hits suddenly, without warning. Every year, millions of Americans face disaster, and its terrifying consequences. FEMA helps.

THE FEDERAL EMERGENCY MANAGEMENT AGENCY

FEMA is an independent agency of the federal government, reporting to the President. Since its founding 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. Before, during and after major disaster occurs, FEMA is there, ready to help.

VISION

- An informed public protecting their families, homes, workplaces, communities, and livelihoods from the impact of disasters.
- Communities built to withstand the natural hazards which threaten them.
- Governmental and private organizations with plans, resources, and rigorous training and exercising for disaster response.
- Community plans, prepared in advance, for recovery and reconstruction after a disaster.

THE PEOPLE OF FEMA

FEMA has more than 2,300 full-time employees working at FEMA headquarters in Washington, DC, at regional and area offices across the country, at the Mount Weather Emergency Assistance Center in Virginia, and at the National Emergency Training Center in Maryland. In a major disaster, as many as 4,000 temporary and reserve employees, other Federal agency personnel, and volunteers may join the response and recovery team.

RESPONSE AND RECOVERY

When it becomes clear that a hurricane or other potentially catastrophic disaster is about to occur, FEMA moves quickly. Equipment, supplies and people are pre-positioned in areas likely to

FEMA PHOTO BY WILLIAM E. RECKERT

Tornado damage in Gainesville, Georgia, produces significant damage to residential properties.

FEMA PHOTO BY WILLIAM E. RECKERT

FEMA Director James L. Witt tests the strength of hurricane shutters at a display in Lowe's hardware in Wilmington, North Carolina, a Project Impact pilot community.

be affected. That way, response can begin without delay. Whenever a disaster strikes with such force that local and state resources are overwhelmed, a state may ask the President for federal assistance. This help is available from a special fund set up by Congress under the Robert T. Stafford Act. In a Presidentially declared disaster, FEMA helps by:

- Assessing the damage and deciding what assistance is needed.
- Making disaster aid available and managing the application, approval, and disbursement process.
- Creating and staffing Federal/State disaster field offices and coordinating other Federal agencies' involvement under the Federal Response Plan.
- Keeping the public informed through a FEMA-published newspaper, *The Recovery Times*, through internet postings and through up to 24-hour-a-day broadcasts on The Recovery Channel and the FEMA Radio Network.
- Identifying opportunities to mitigate future disasters.

Mitigation

Perhaps the most important element of emergency management, mitigation is the day-in, day-out effort to reduce disasters' long-term risk to people and property. FEMA's mitigation teams work with government and professional groups and the public to reduce the effects of floods, earthquakes, hurricanes and other hazards. FEMA helps by:

- Supporting communities to become disaster resistant.
- Promoting sound building design and construction practices.
- Providing grants for activities that reduce the impact of earthquakes, floods, hurricanes and other natural disasters.
- Educating the public on what to do through training programs, publications, and seminars.
- Helping local communities adopt floodplain management ordinances.
- Relocating homes and businesses away from high risk areas, and encouraging property owners to elevate buildings above flood level.
- Creating risk assessment maps to assist local planners with effective community planning.

Preparedness, Training and Exercises

Survival and quick recovery from disaster depend on pre-planning. FEMA helps the nation prepare for disaster by:

- Co-funding emergency management offices in all 50 States and the U.S. territories.
- Helping States and localities to plan and prepare for a wide range of hazards.
- Training emergency management professionals and State and local officials at FEMA's Emergency Management Institute.

FEMA PHOTO BY WILLIAM E. RECKERT

Barrier Island structural damage due to tidal surge from hurricane.

Teenagers can help fight disasters by filling sandbags to repel flood waters.

- Developing courses for State and local delivery and offering training by satellite through the Emergency Education Network (EENET).
- Sponsoring exercises that let people work together under conditions similar to a real disaster.
- Coordinating emergency plans and exercises for nuclear power plants.
- Helping to minimize the risks posed by hazardous materials transport and storage.

Federal Insurance Administration (FIA)

The FIA administers the National Flood Insurance Program, which offers federally backed flood insurance coverage to citizens in more than 19,000 participating communities. FEMA helps reduce the impacts of flooding and helps flood victims by:

- Providing insurance incentives to reinforce measures to mitigate flood damage.
- Increasing awareness about flood insurance and its benefits and promoting policy sales.
- Working in partnership with the insurance industry to sell and service flood insurance policies.
- Making claims payments to assist individuals, businesses, and communities to facilitate recovery from flooding.

United States Fire Administration (USFA)

In the U.S. each year, fire kills about 5,300 people and injures 29,000 people. Direct property losses due to fire exceed $9 billion a year and the overall fire cost to the American public is $139 billion annually. Through the USFA, 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.
- Educating the public on how to lower fire risk.
- Working with 32,000 fire departments to collect and analyze national fire statistics.

Performance Standards

FEMA, in this report, is reporting performance against Performance Standards that were established for program and project component activities. These standards serve as criteria for measuring quality and quantity of performance in terms of effectiveness, efficiency, and economy in delivery of services and carrying out operations.

Management Discussion and Analysis

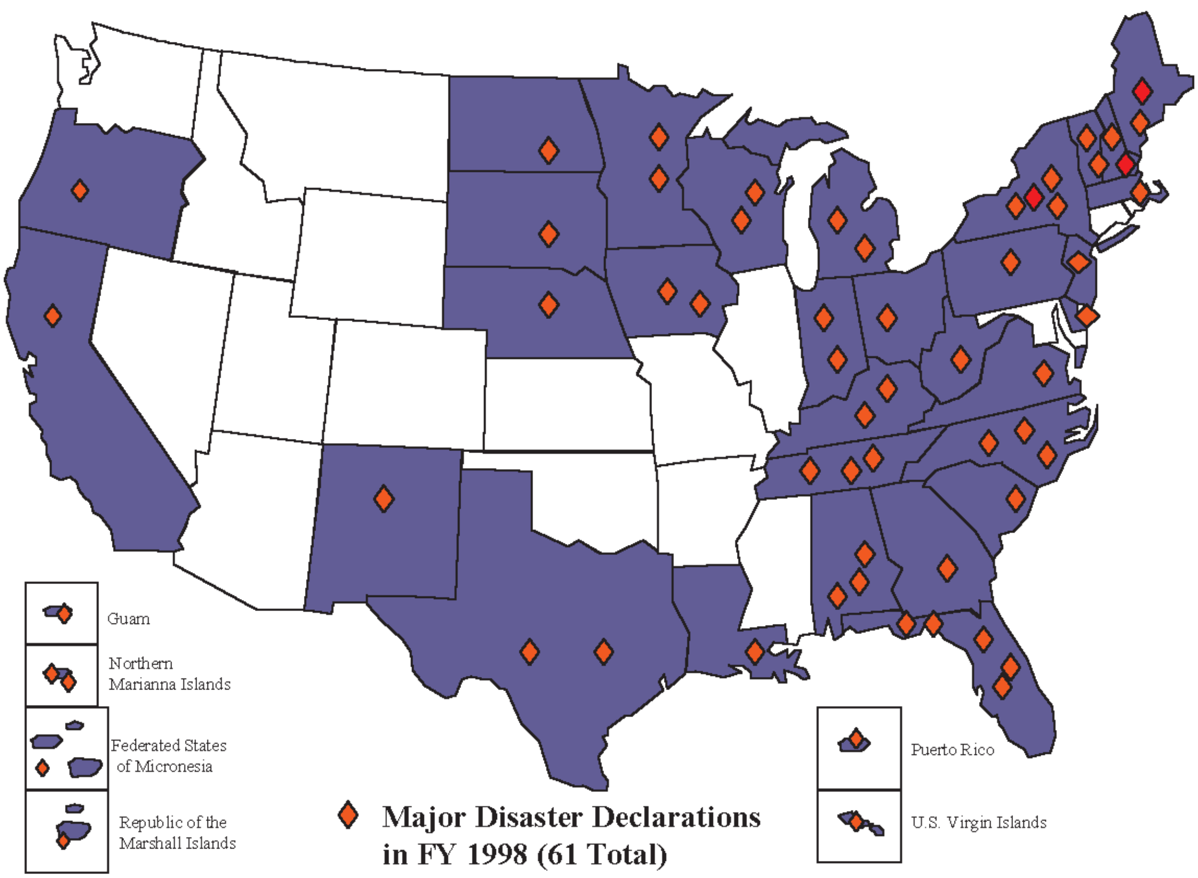
Part I

Response and Recovery Directorate

Hurricane damage devastates a community.

The Response and Recovery Directorate plans, coordinates, and executes the Federal government's response to major disasters and emergencies, and manages and administers the Individual and Public Assistance Programs. During FY 1998, the President declared 61 major disasters that represent projected costs of $3.7 billion dollars of which $2.0 billion dollars was obligated in FY 1998 for response and recovery efforts. The Major Disaster Declaration map shows the distribution of disasters nationwide. For 1998, most major disasters were centered in the northeast, southeastern and mid-west regions.

FEMA coordinates and provides emergency assistance to individual disaster victims during and immediately after declared disasters. This assistance generally includes mass feeding, shelter, and medical care.



Individual Assistance

General Goal: *Provide prompt individual assistance to eligible disaster victims through an application process which offers clear, accurate information and caring personal support.*

After the initial disaster response, FEMA's Disaster Housing Program provides minimal repair for homes that can quickly be restored to a habitable condition, rental assistance for owners and renters whose primary residences are rendered uninhabitable as a result of a disaster, and mortgage and rental assistance for those who have received a written notice of foreclosure or eviction as a result of disaster related financial hardship. In partnership with FEMA, the States award funds for the repair and replacement of real and personal property and vehicles, as well as for medical, dental, and funeral expenses.

FEMA also coordinates an array of assistance services for individual disaster victims through other Federal, State, local and voluntary agencies. This includes disaster loans by the Small Business Administration, tax assistance through the IRS, disaster unemployment assistance through the Department of Labor, veteran's benefits through the VA, social security benefits by the Social Security Administration, food coupons through the Department of Agriculture, insurance assistance through the State Insurance Commissioner, legal services through the American Bar Association and consumer protection and crisis counseling through State and local entities.

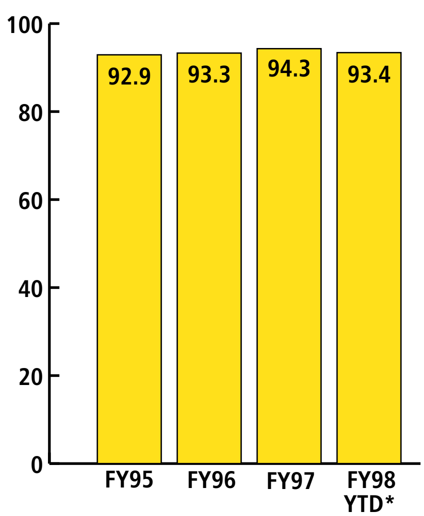
FEMA serves as a clearinghouse and information dissemination contact point for these services for disaster victims. The vehicle for providing disaster housing assistance is the application process and associated services provided by FEMA.

* The performance results for all of the Performance Standards that follow under Individual Assistance are based on survey results for recipients of disaster assistance in all disasters declared for Individual Assistance in FY 1995–1997, and the first 15 Individual Assistance disasters in FY 1998.

Performance Standard: *To provide applicants access to disaster assistance.*

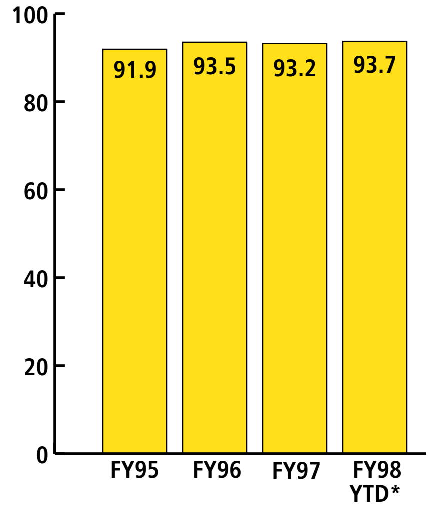
Disaster victims are often traumatized. Many find their homes destroyed or severely damaged. Property accumulated through years of hard work is lost. A lifetime of memories can be obliterated. This standard addresses the issue of ease of applying for disaster assistance in a time of trouble and turmoil.

Performance: Performance for this standard was consistent for the last four years with approximately 93% of recipients reporting that they had easy and prompt access to disaster assistance.



Approximately 95% of those who received assistance told us the time they waited before talking with a FEMA representative was very short or reasonable. Approximately 92% of recipients reported that applying for assistance was easy. This indicates we are responsive and that we minimize red tape.

Performance Standard: *To provide clear, accurate information about available assistance and how to apply for it.*



This standard addresses the need for clarity and accuracy of information provided to disaster applicants on how they can apply for assistance provided both by FEMA and other Federal agencies. We are mindful of the fact that many applicants are bewildered by the events surrounding the disaster and have little experience dealing directly with government agencies. Clear accurate information minimizes the applicants' burden and helps to reduce the stress and frustration level.

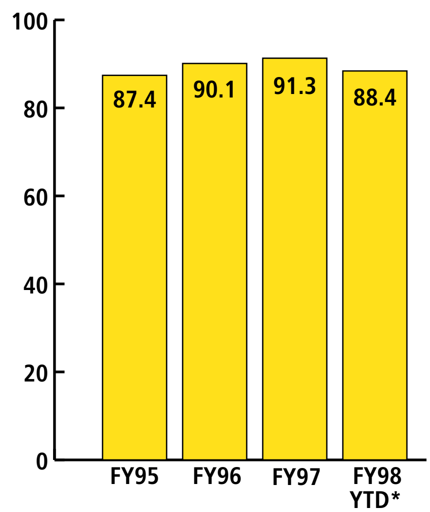
Performance: From FY 1995 to FY 1998, approximately 93% of recipients reported receipt of clear and accurate information about available assistance and how to apply for it. Performance for this standard was nearly constant across these four years.

Approximately 93% of recipients surveyed believed FEMA staff clearly explained the different types of assistance available to them. Approximately 93% of recipients surveyed during these years thought their understanding of the different types of assistance they could get was somewhat to very clear. Approximately 94% acknowledged that the information they received from the FEMA Helpline was accurate, while approximately 92% reported that the estimate given to them of when an inspector would come to their house was accurate.

Clearly, FEMA is meeting the expectations of customers for accurate, timely, and understandable information.

Performance Standard: *To provide eligible applicants with disaster housing assistance as promptly as possible, and give them an estimate of when assistance will be received.*

This standard focuses on the need for fast and timely processing of applications so that those who need housing assistance receive it as soon as possible. We realize that the provision of accurate estimates and prompt assistance allows disaster victims to take comfort in a sense of orderliness in rebuilding their lives.

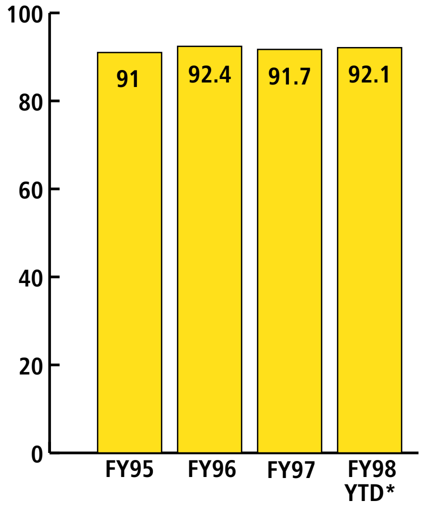


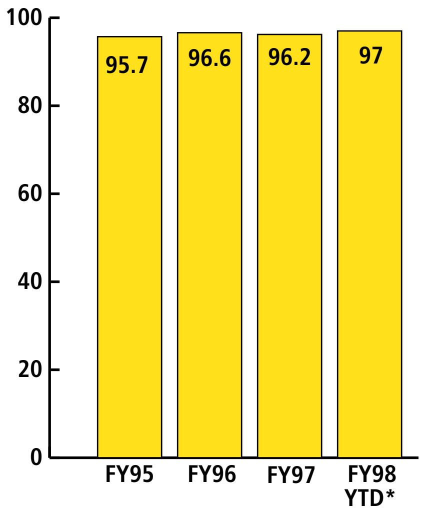
Performance: The standard average shows that approximately 89% of recipients report prompt receipt of disaster housing assistance and an accurate estimate of when that assistance would be received. Performance for this standard was lower in FY 1995 and FY 1998.

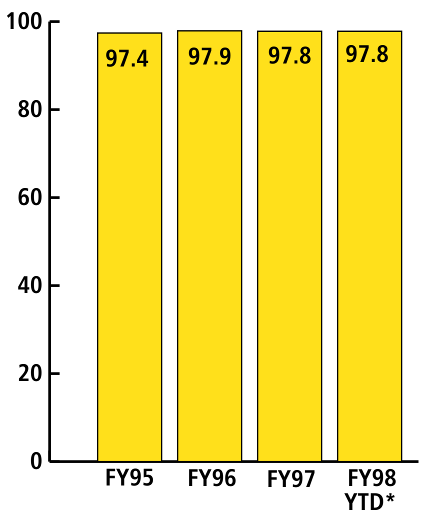
Approximately 90% of recipients tell us the estimate of when the Government would issue them a check was accurate. Approximately 88% affirmed the length of time they waited for a check from FEMA was what they expected or shorter than they expected. FEMA is providing assistance in a manner that is atypical for governmental entities. This is recognized by our customers, whose expectations are exceeded in most instances.

Performance Standard: *To explain clearly what eligible applicants need to do after registration, what they can expect from Government agencies, and how long the process should take.*

This standard is designed to ensure that applicants are aware of any follow-up steps they may need to take after an application is







completed, and understand exactly what to expect in the way of assistance and timelines.

Performance: Approximately 92% of recipients reported that FEMA clearly explained what to do after registration. There was little change in averages for this standard from FY 1995 to FY 1998.

Our survey data confirm our belief that managing disaster victims' expectations is important to their sense of well being and ability to reestablish control over their lives. These responses indicate that FEMA is doing a good job in providing the necessary structure to allow them to bring their lives back into balance.

Performance Standard: *To provide disaster victims with an opportunity to tell their stories to responsive FEMA representatives.*

This standard addresses the need of disaster victims to tell their stories to responsive individuals who understand the range of feelings they are experiencing. Both Teleregistration and Helpline contacts provide opportunities for victims to describe their situations and clarify options for assistance.

Performance: Performance for this standard remained basically the same from FY 1995 to FY 1998 with approximately 96% of recipients reporting that FEMA staff gave them an opportunity to tell their story.

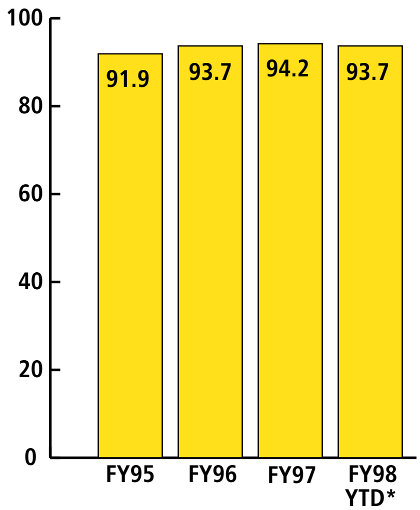
These responses tell us that FEMA staff provide applicants an avenue to express their feelings, which run the gamut from sadness, to bewilderment, to resentfulness, to rage, in a professional and understanding way. FEMA staff understand that it is important to allow disaster victims to vent their frustrations and to grieve for their losses.

Performance Standard: *To treat applicants with respect and caring.*

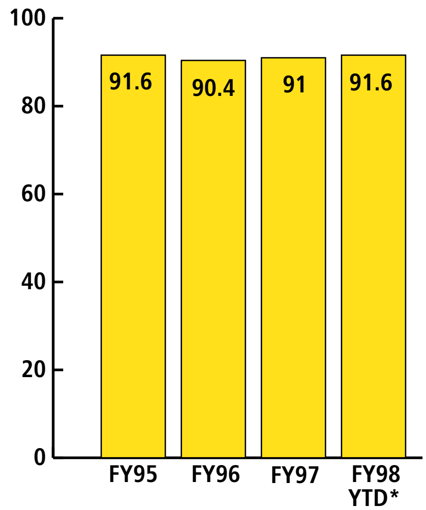
This standard concerns the issue of customer human relations and how we as service providers interact with and treat our customers. Our customers contact us at a time of vulnerability. It is very important that we treat them with care and consideration in a warm, helpful and respectful manner.

Performance: Most recipients, approximately 98%, reported that FEMA staff treated them with respect and caring. Performance for this standard was virtually unchanged from FY 1995 to FY 1998.

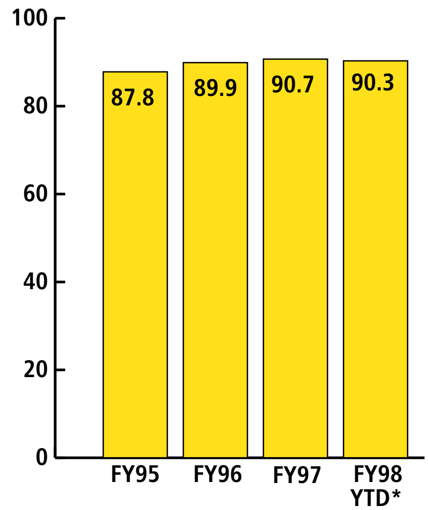
Approximately 99% of recipients rated FEMA application takers as respectful, while 96% of recipients felt that FEMA staff were genuinely interested in their situation. FEMA staff are trained to consider the applicants' situation, needs, and feelings in every interaction. Our processes and performance reflect this emphasis. We have shifted the view of the government official from that of an officious bureaucrat to that of a caring, concerned, and helpful professional. When we ask recipients of our services questions about FEMA's performance overall, they tell us that FEMA has performed admirably. Approximately 90% of respondents tell us they feel they have been able to begin to rebuild their lives since the disaster.



An average of 93% of recipients reported that, overall, the service they received while applying was good to excellent.



An average of 91% of recipients reported that, overall, the service they received from the FEMA Helpline was good to excellent.



An average of 90% of recipients reported that, overall, the service they got from FEMA was good to excellent.

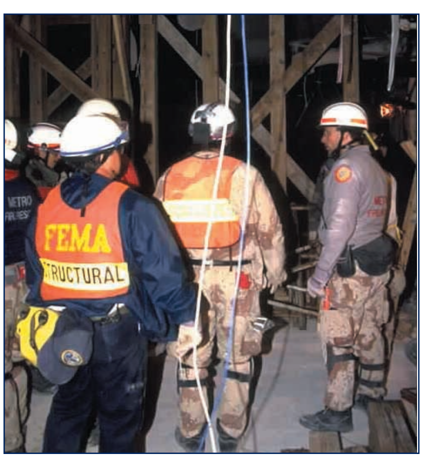
FEMA employees are proud of the record they have achieved during the last few years as a result of business process reengineering of the Disaster Housing Program. FEMA plans to develop even more sophisticated surveys to capture greater detail about assistance programs. The results of those surveys will be included in the next Accountability Report.

Infrastructure Support—Public Assistance

General Goal: *By transforming public assistance into a customer driven and performance based program, improve the quality and delivery of service to our State and local applicants.*

Public Assistance provides supplementary aid to State and local governments and certain private nonprofit organizations to enable the community to recover from the devastating effects of major disasters and emergencies. Public Assistance supports the community's efforts to restore critical lifelines necessary for the reestablishment of normal daily activities and commercial relations.

FEMA assists jurisdictions in removing debris from public roads and in repairing or restoring roads and bridges so that vehicular traffic can resume. FEMA assists the community in restoring critical lifelines — utility distribution systems such as electric power, water and waste treatment plants, and sanitary sewer lines which permit communities to reestablish communication and public health. FEMA assists in repairing public buildings and facilities so that

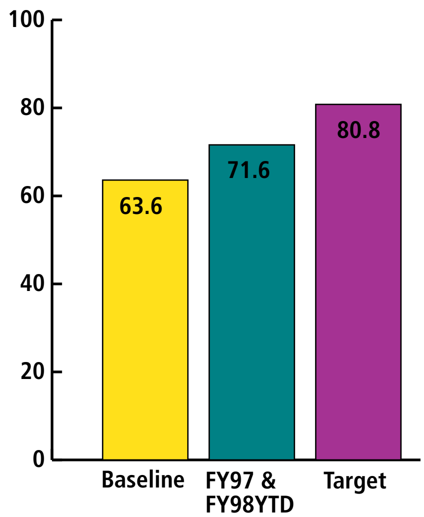


FEMA structural engineer assesses damage to a public facility.

governmental operations can resume. FEMA assists in repairing educational, medical, and other facilities providing health and safety services that are necessary for the general well being of the population.

Performance Standard: *Customers will be issued policy that is consistent, appropriate, and flexible.*

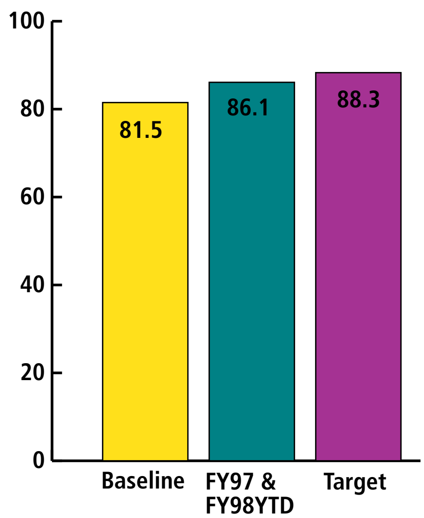
In past disaster operations, FEMA has been criticized for its policies that lack flexibility as applied to different types of disasters and for its misinterpretation in the field during disaster recovery activities. Confusion has abounded in these situations. FEMA has recently undertaken a new policy initiative to ensure that, in future disasters, policies will be flexible to accommodate all types of disasters and that these policies will be applied consistently. This standard will help to measure our success in streamlining and clarifying FEMA policy for the handling of public assistance to better serve our applicants' needs.



Performance: Preliminary results of our surveys taken during 1998 suggest that FEMA is making progress towards streamlining its policies and consistently applying these policies to Presidentially declared disasters nationwide. The streamlining process is a long one. FEMA hopes that as this initiative develops, resulting in the appropriate policy application and interpretation in the field, the confusion previously experienced will be replaced with increased applicant satisfaction.

Performance Standard: *Customers will be satisfied with the overall Public Assistance Program and process.*

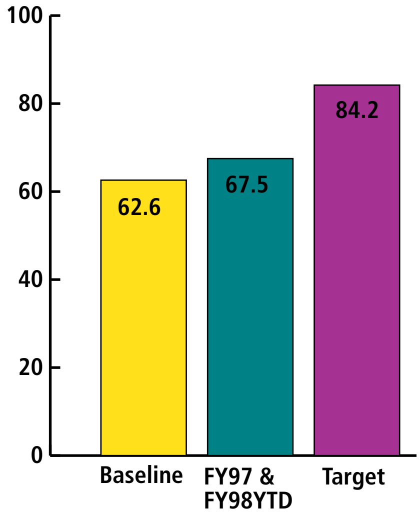
Before the implementation of the New Public Assistance Program, FEMA was not fully cognizant of how our policies, programs, and procedures affected our customers — State and local governments. Since implementation, the New Public Assistance Program has experienced a fundamental shift in thinking. The developmental aspects of the new program were crafted with our customers/ partners. The measure of success for the program now focuses on the applicants' satisfaction with the new program and its processes.

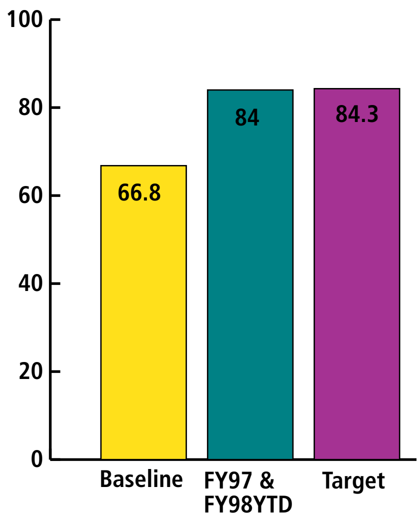


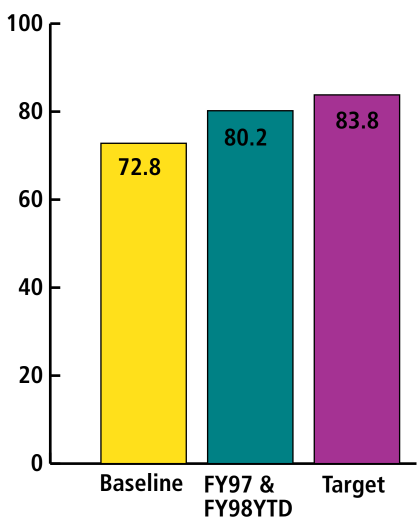
Performance: It appears improvement has been made by utilizing some of the key components of the new process. Although the New Public Assistance Program had not been fully implemented for those surveyed in fiscal year 1998, initial post-disaster survey results show that satisfaction with the overall program increased five percentage points above the baseline figure, bringing FEMA to within two percentage points of meeting this target.

Performance Standard: *Customers will be satisfied with the overall Damage Survey Report (DSR) process.*

Oftentimes, changes occurred during the DSR review stage that reduced the amount eligible for the repair. Applicants were made aware of this reduction only upon final notification of their DSR(s).







This led to applicant dissatisfaction with the DSR process, and with the operation of the Public Assistance Program itself. This standard will chart the progress, or lack thereof, made in the New Public Assistance Program to establish close communication, coordination, and cooperation during the application process. The New Public Assistance Program keeps applicants informed at all stages and junctures of the application process.

Performance: FEMA's performance during fiscal year 1998 stayed within the range of the baseline survey, showing a slight improvement over past practice. None of the post-disaster surveys to date, however, reflect the implementation of the New Public Assistance Program. FEMA hopes to move closer to its performance target based upon the implementation of several new components of the new program, including, but not limited to, expedited immediate needs funding, small project validation, and case management system. The first test of this standard under the new program will be reflected in the survey reports published during fiscal year 1999.

Performance Standard: *Customers will be satisfied with the information received about the Public Assistance Program.*

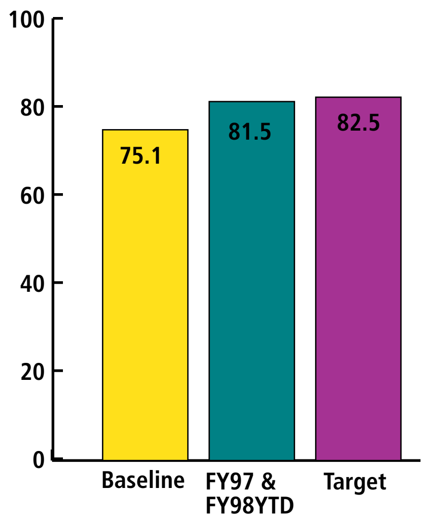
FEMA has not always devoted adequate resources to ensure applicants' understanding of funding processes, policies, and procedures governing the Public Assistance Program. FEMA is now strongly committed to providing better policy and guidance, and an experienced and knowledgeable staff to further facilitate comprehensive and complete information dissemination to our applicants. This standard is the stimulus for FEMA to continue to improve in this regard.

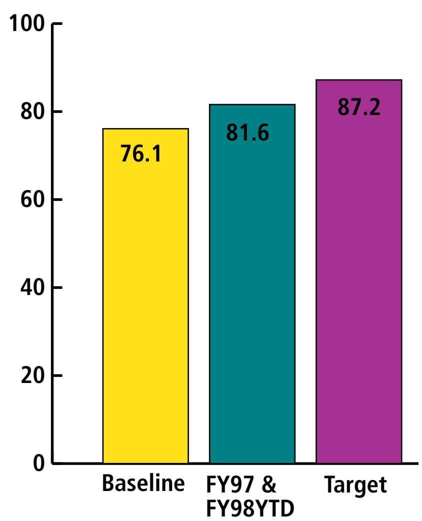
Performance: Survey results indicate that FEMA's Public Assistance Program staff made significant progress in informing applicants about the program. As a direct result of this interaction, FEMA has met this standard for fiscal year 1998. We hope to maintain this level of customer satisfaction over the next several years and will be evaluating this target as necessary so that we can continue to meet our applicants' needs.

Performance Standard: *Customers will have minimal administrative burdens.*

FEMA requires documentation to support applicants' DSRs and to obligate funding. Many applicants have contended that FEMA asks for too much documentation and that the Agency has created an overly difficult and bureaucratic process out of simple information gathering. As part of an overall Agency effort, FEMA is currently working on streamlining the administrative processes required of applicants to eliminate any duplicative, redundant, and unnecessary information to assess applicant needs and requirements expeditiously.

Performance: Results from the first several disasters of 1998 indicate that FEMA has been successful in its effort to reduce the administrative burden of our applicants, coming within three





percentage points of our set target. It is anticipated that the application processes of the New Public Assistance Program, once implemented, will further reduce this burden to the point where all parties — Federal, State, and local — will experience increased satisfaction with the administrative processes and requirements of the program.

Performance Standard: *Customers will be served in a timely manner.*

A large part of providing customer service to our applicants is in processing funding quickly so that projects are not delayed. Keeping this in mind, FEMA is committed to expediting funding to our applicants as quickly as possible without compromising the quality or integrity of the review process. Speedy distribution of assistance permits the State and local governmental organizations and entities to rebuild infrastructure so that the community can return to normal as soon as is practical. It also enables FEMA to close disasters faster. This standard addresses the timeliness of FEMA's DSR and funding processes.

Performance: Initial responses suggest the damage review process has been successfully expedited. With the implementation of the new program, the timeliness in the release of disaster assistance funding should continue to improve, increasing applicant satisfaction with this particular component of the program.

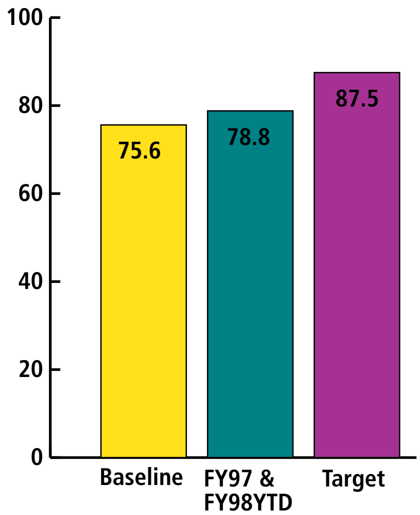
Performance Standard: *Customers will be served with minimal turnover by staff who are responsive, competent, accountable, and customer friendly.*

This standard represents one of the major initiatives undertaken in the New Public Assistance Program. Policy interpretation, DSR process, and information dissemination are all impacted by the quality of staff implementing the new program. Customer satisfaction rests largely on the people implementing the program. FEMA staff will be responsive to customer needs by increasing their availability, will be knowledgeable about general operations, will be responsible and accountable for quality of work, and will conduct business in a pleasant, respectful, and professional manner.

Performance: We appear to have made good progress in improving overall applicant relations with FEMA during the disaster recovery process. To further facilitate this relationship, FEMA is developing guidance for its Cadre 2000 staff initiative. This initiative is a means of ensuring that our customers will be served by a competent and responsive staff throughout all stages of the application and recovery process. Slated for implementation on October 1, 2000, this initiative should help FEMA to achieve its projected target.

Performance Standard: *Customers will be treated as partners.*

As well as being our customers, State governments are also FEMA's partners in the disaster recovery process. Frequently, however, during recovery activities, FEMA has not recognized the full



importance of the State's role and its participation in the overall process. Under the new program, this has changed. In addition to being considered FEMA's full and equal partner in disaster recovery, FEMA has broadened State responsibilities, enabling States to administer the Public Assistance Program for the Federal government, in conjunction with FEMA. This standard was developed to acknowledge States nationwide as being both FEMA's customers as well as our partners, and to ensure they remain as such in theory and in practice.

Performance: Survey data show there has been some movement in a positive direction beyond the baseline level. As the roles of the State and Federal government are more clearly defined and responsibilities are assumed under the new program, the inter-working relationship between these two entities should improve dramatically and further facilitate the disaster assistance recovery process.

Conclusion

The resources assigned to FEMA's Response and Recovery efforts are devoted primarily to assisting individual families and communities devastated by disasters. These dollars work for the American people in the way the President, the Congress, and the taxpayers would most hope to see. Not only do they rebuild lives and communities, but they also serve as an economic stimulus for the communities, and provide a direct infusion of capital to rebuild local economies, making them productive and adding value to the economic well being of the nation. Equally important, our disaster assistance customers and communities are telling us that, in the short term as well, FEMA's service is of high quality and provides genuine assistance in time of need. We are performing at a very high level.

Mitigation Directorate

A home in Project Impact community Freeport, New York is being retrofitted with hurricane-resistant measures.

Mitigation is sustained action taken to reduce or eliminate long-term risk to people and their property from hazards and their effects. FEMA developed a National Mitigation Strategy to guide the Agency's efforts into the future. The ultimate goal of the strategy has two components. By the year 2010:

1. To substantially increase public awareness of natural hazard risk so that the public demands safer communities in which to live and work; and
2. To significantly reduce the risk of loss of life, injuries, economic costs, and destruction of natural and cultural resources that result from natural hazards.

The fundamental premise of the Strategy is that current dollars spent on mitigation will save a significantly greater amount of future dollars by loss reduction. The Strategy supports moving toward a new approach by government: building new Federal-State-local partnerships and public-private partnerships as the most effective means of implementing measures to eliminate or reduce the impacts of hazards.

Mitigation resources identify, assess, and reduce the nature and extent of risk for hazards such as floods, earthquakes, hurricanes, and dam failures. Of the total budget of almost $130 million for mitigation, $73 million is charged directly to the National Flood Insurance Fund to support floodplain management activities. An additional $30 million is used to support Project Impact sites, the centerpiece of the mitigation programs.

Project Impact: Building a Disaster Resistant Community

General Goal: *Help communities protect themselves from the devastating effects of natural disasters by taking preventative actions that dramatically reduce disruption and loss.*

In the past 10 years (FY 1989–FY 1998), FEMA has spent $25 billion dollars from the Disaster Relief Fund to help people repair and rebuild their communities after natural disasters. That is not the total cost. Insurance companies spent additional billions in claims payments; businesses lost revenues; employees lost jobs; other government agencies spent millions more. Worst of all is the loss that can never be recovered: human life.

FEMA PHOTO BY JOCELYN AUGUSTINO

Volunteers gave up some of their time during 1998 "Spring Break" to install hurricane shutters in Deerfield Beach, Florida, a Project Impact pilot community.

With Project Impact serving as the centerpiece of FEMA's mitigation program, FEMA is changing the way America deals with disasters.

This nationwide initiative, Project Impact, operates on this common-sense, damage-reduction approach, basing its work and planning on three simple principles: preventive actions must be decided at the local level; private sector participation is vital; and long-term efforts and investments in prevention measures are essential. FEMA has used all the available mechanisms to get the latest technology and mitigation practices into the hands of local communities. The incentive is clear: a disaster resistant community is able to bounce back from a natural disaster with far less loss of property and consequently much less cost of repairs. Indeed, FEMA estimates that for every dollar spent in damage prevention, two are saved in repairs. It worked for the Anheuser Busch brewery in earthquake-prone Northern California. In the early 1980s, the company invested $15 million to protect its facilities from a quake. The retrofitting was put to a severe test in 1994 when a quake whose epicenter was only 12 miles from the brewery rumbled through the area. Anheuser Busch estimates it saved $300 million in damages and lost production: Operations never stopped, and repair costs were minimal.

FEMA established two targets goals for Project Impact for 1998. To invite a least one community in each of the 50 states to become a disaster resistant community and recruit businesses to be Project Impact partners. FEMA recognizes that federal resources must be leveraged with those of the private sector as well as State and local resources to build disaster resistant communities. FEMA realized from the outset that public/private and intergovernmental partnerships were the only sensible approach to building disaster resistant communities.

With this thought in mind, FEMA enlisted the support of the US Conference of Mayors who pledged to support:

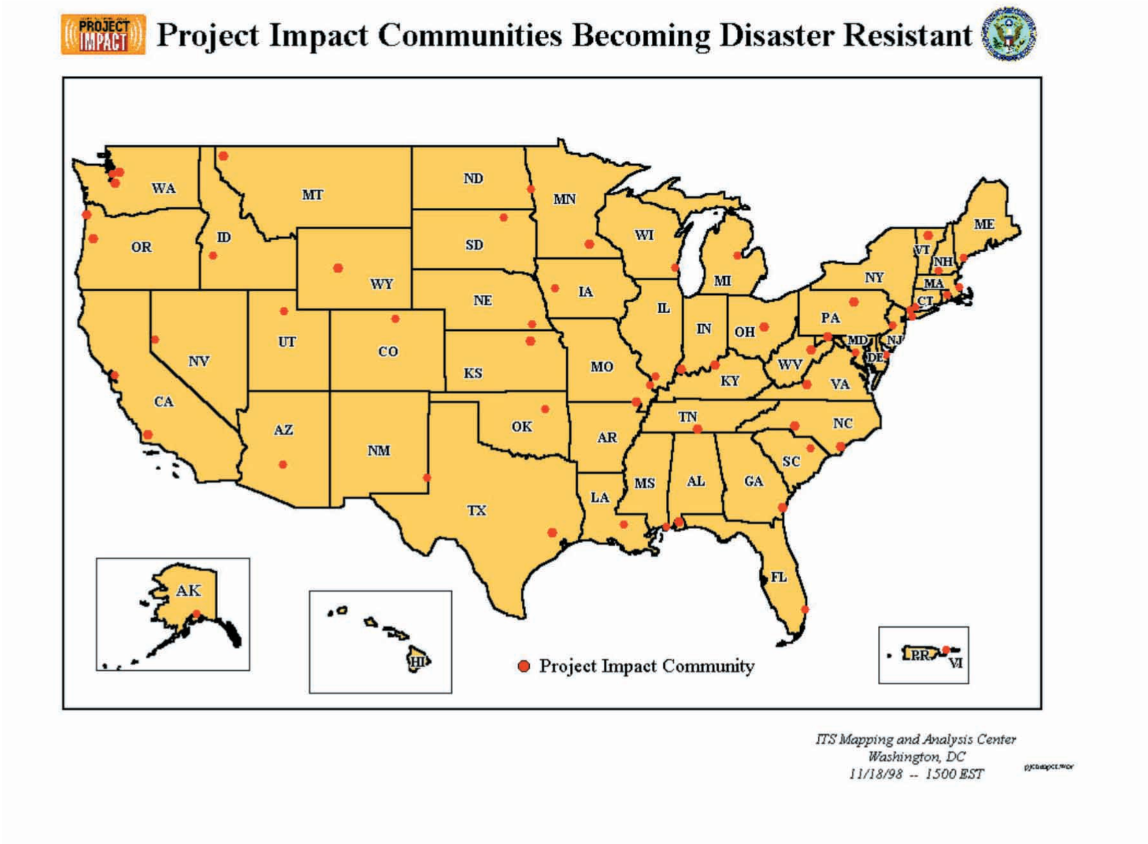
- Participation in Project Impact and other mitigation efforts;
- Incorporation of disaster prevention and preparedness measures into community planning initiatives; and
- Development of educational and peer-to-peer programs to help communities plan for pre-and post disaster recovery activities.

Performance Standard: *Invite at least one community in each of the 50 States to become a disaster resistant community.*

Performance: Fifty-seven disaster resistant communities were active in 49 States plus the District of Columbia and Puerto Rico by end FY 1998.

Performance Standard: *Recruit National Business Partners to be Project Impact partners.*

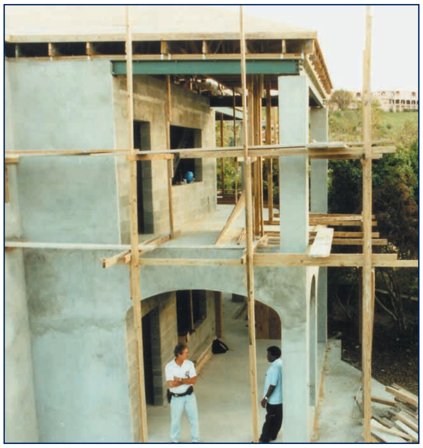
Performance: The National Association of Broadcasters (NAB) agreed to develop a disaster relief and damage prevention resource guide in support of Project Impact. NAB's disaster resource guide, to be developed in partnership with FEMA, the American Red Cross



and the Salvation Army, will offer radio and television stations ideas on how to develop coverage and provide education about disaster prevention and post-disaster relief in local communities. The guide will include news and other programming ideas, script public service announcements and community outreach suggestions.

FEMA and Wall Street's financial community announced a public/private partnership to change the way businesses deal with natural disasters. Director Witt asked the Contingency Planning Exchange (CPE) to challenge its members to donate 12,000 hours of technical assistance to help small businesses learn how to prepare for disasters. Director Witt also asked the contingency planners to go back to their communities and develop and implement $20 million in financial incentives that will encourage small businesses and communities to begin taking action to protect their communities and businesses.

Bell Atlantic created an internal organization, CommGuard to focus on minimizing the impact of a disaster on its communities and customers. As a Project Impact partner, one of Bell Atlantic's first contributions is to share its own preparation and prevention experience with FEMA. That information will help FEMA help other businesses avoid problems and recover quickly when disaster strikes. With customers in 13 States and the District of Columbia, Bell Atlantic also will play a significant role in Project Impact's education initiative.



The Buccaneer Hotel in St. Croix, U.S. Virgin Islands, is constructing new condominiums to exceed current building codes for hurricane standards.

Recently, Fannie Mae, our Nation's leading provider of home mortgage money, and the Association of Builders and Contractors, one of the nation's largest construction associations representing more than 20,000 member firms who employ more than 1 million workers, agreed to become Project Impact partners. They fill two of the biggest pieces of the disaster prevention puzzle. The Builders and Contractors bring the science, experience, and knowledge to build disaster resistant communities and Fannie Mae provides the accessible and affordable financing that American families need to become disaster resistant.

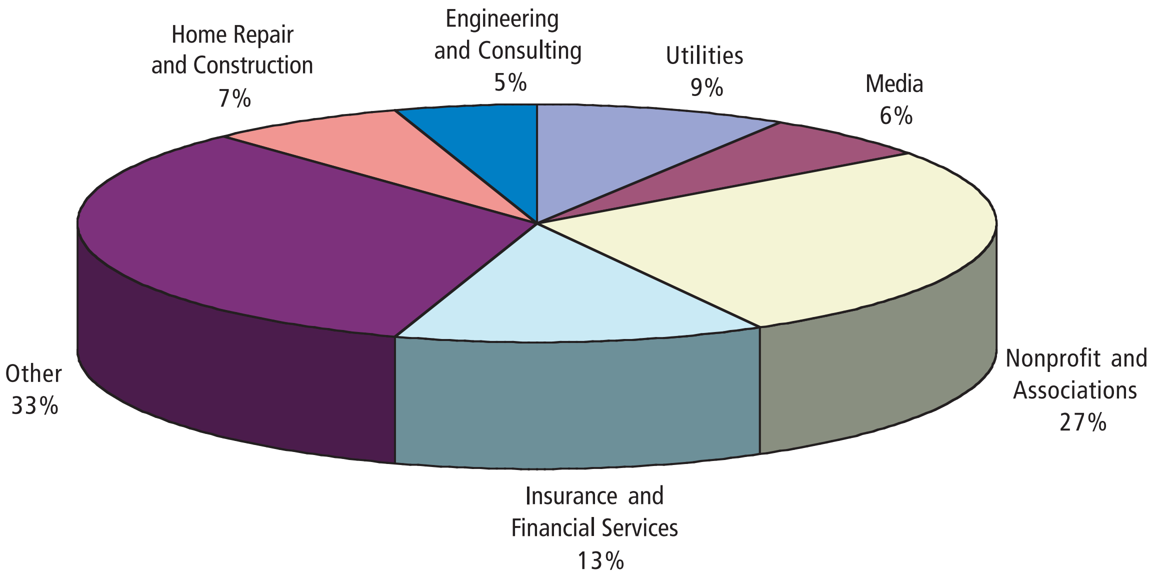
Fannie Mae developed a loan program to help homeowners finance disaster-prevention improvements. The program goes beyond just lending money. When a homeowner applies for a disaster prevention loan, he is given a list of certified contractors who have attended training classes provided by Fannie Mae to ensure the right work is done the right way. Fannie Mae and the Builders and Contractors join the more than 250 other local Project Impact business partners.

Performance Standard: *Recruit local businesses to be Project Impact partners.*

Project Impact's local business partners represent the segments of the business community that we would expect to be interested in building disaster resistant communities. Many non-profit organizations and associations are active supporters of the initiative such as local Chambers of Commerce, remodelers, builders, and real estate associations representing many business interests within the community. Insurance and financial services are actively involved as partners given their direct participation in financial aspects of protection of the community's and individual's assets.

Home repair and construction provide expertise and experience in dealing with the affects and aftermath of disasters but can provide expertise in fortifying structures to withstand the affects of disasters. Engineering and technical consulting companies provide a unique expertise that is usually called upon after disaster strikes but can be even more valuable if used in a preventive sense. Public utilities are the community's lifeline and their participation can add immeasurably to educating the public in how to protect themselves and their property. Media partners are instrumental in public information and education. Collectively, the multiplicity of business partners can strengthen a community's resistance and lessen the impact of disasters.

Performance: FEMA was able to recruit more than 500 businesses at the national and local levels to be partners in building disaster resistant communities by the end of FY 1998. We expect this number to swell as new Project Impact sites get underway.



Project Impact Local Business Partners

Local Business Partners

Initial results are very encouraging. When Hurricane Bonnie hit Wilmington, N. C., the city and Hanover County's initial efforts to start becoming more disaster-resistant were tested. As part of Project Impact, the Wilmington Public Safety Communications Tower, which collapsed during Hurricane Fran, was made flood and wind resistant. Due to pre-planning, this vital communications tower easily made the switch to emergency generator operations, all systems stayed on line, and the tower withstood Hurricane Bonnie's winds. As a result, the Wilmington area public safety communications system remained online with no interruptions during Hurricane Bonnie.

Taking a lesson learned from Hurricane Fran, nearby Wrightsville Beach initiated an LP Gas Tank Ordinance, requiring all tanks be dropped and secured to eliminate potential floating problems. By eliminating the danger of floating tanks, Wrightsville Beach eliminated possible explosions and fire damage when Hurricane Bonnie hit.

One of the best mitigation success stories resulting from Hurricane Georges was in the Virgin Islands. Although the work began before Project Impact was born, damage to property caused by Georges was minimal compared to the devastation suffered during Hurricane Marilyn in 1995. In fact, the Islands' Insurance Commissioner estimates that insured losses from Georges will not exceed $5 million compared to insured losses of more than $750 million from Marilyn. Why the dramatic loss reduction? After Marilyn, FEMA

Flooding affects every state in the country and costs millions of dollars a year.

worked closely with the Islands' government to develop and implement a stringent building code that ensured that all rebuilt structures would be hurricane resistant.

Repetitive Loss Initiative

In addition to reducing the disaster relief expenditures to communities that are mired in a damage-repair, damage-repair cycle, a critical goal of FEMA is to reduce the flood insurance subsidy to the owners of structures that have experienced repetitive flood losses. Repetitive loss structures are estimated to be about 35,000 buildings that have had two or more losses under the National Flood Insurance Program (NFIP) in any ten-year period, and which are currently insured by the NFIP. Over a three-year period, FEMA will target for mitigation 8,300 repetitive loss structures that have had four or more losses or otherwise offer the greatest cost-benefit, by acquiring, relocating, elevating, or flood-proofing those structures.

Because repetitive loss structures have the most severe risk of flooding, mitigation for them is highly cost-effective — these 8,300 buildings are responsible for almost $70 million of the $200 million in NFIP claims estimated to be paid annually for repetitive loss buildings. Since these buildings were generally built prior to the inception of the NFIP, the policyholders pay premiums that, by law, are substantially less than full risk premiums.

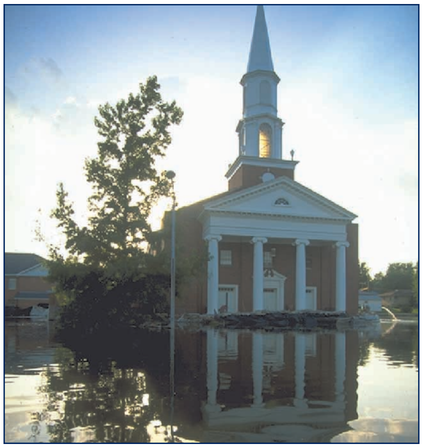
FEMA's strategy to reduce repetitive losses also includes other proposals:

- That flood insurance not be available to homeowners who have filed two or more claims that total more than the value of their home and refuse to accept offers of assistance to elevate, relocate, or acquire their home;
- That all public buildings be insured to 80 percent of their replacement value within the next two years.
- To enlist the active participation of local elected officials and floodplain managers and encourage them to take some responsibility to cut repetitive losses.

FEMA also will increase the use of its Hazard Mitigation Grant Program (HMGP) to mitigate damages to repetitive loss buildings. Data on repetitive loss buildings will be provided to State Hazard Mitigation Officers and other State and local agencies. States will be challenged to address repetitive losses through HMGP, and alternatives for requiring States to address repetitive losses with a portion of HMGP funds will be reviewed.

Performance Standard: *Convene a task force to examine the issue of repetitive losses in the National Flood Insurance Program. Develop a multi-year strategy for addressing and reducing repetitive losses.*

Performance: A task force was convened and produced an initial paper which provides:



External sand-bagging efforts can sometimes save the most important buildings in the community.

1. Information gathered by the task force with regard to the historical perspective on the repetitive loss issue for the NFIP;
2. Data that characterize the extent of the problem and likely target areas for addressing priority properties; and
3. Descriptions of activities that have occurred or are currently underway that address at least some aspects of the repetitive loss issue.

A strategy for addressing repetitive losses with mitigation funding, potential insurance coverage changes, information and outreach, and community incentives, was drafted. This draft "National Repetitive Loss Strategy" was presented in early 1999 to the National Emergency Management Association (NEMA) and the Association of State Floodplain Managers (ASFPM) for discussion and feedback.

Performance Standard: *Report to Congress on flood mitigation assistance.*

Performance: The first Flood Mitigation Assistance Program Biennial Report was sent to Congress in May 1998. The Flood Mitigation Assistance Program (FMA), a new grant program authorized in the National Flood Insurance Reform Act of 1994, provides funding for project planning, and technical assistance grants.

Performance Standard: *Develop a strategy for targeting Flood Mitigation Assistance Program grants to reduce the number of NFIP-insured repetitive loss structures through acquisition, relocation, and elevation.*

Performance: FMA funding is provided based in part on the number of repetitive loss properties in each State. In 1998, funding options to give more weight to States with more repetitive loss structures were presented to NEMA and ASFPM. Special appropriations were awarded for acquisition and relocation projects in Louisiana and Alaska.

Conclusion

As a major effort to re-invent the way we protect ourselves against disasters, FEMA initiated Project Impact. Rather than the traditional reaction to disasters via response and recovery action, FEMA proposed to aggressively attack disasters' damage potential by reducing communities' vulnerabilities, i.e., to establish disaster resistant communities. This is done in a consensus based, community driven manner.

Working in partnership with state and local governments, citizen groups, and private sector businesses, FEMA provided initial management impetus and funds in the form of grants for the predisaster mitigation of natural hazard risks to communities, including homes, public works and infrastructure. Along with initial management leadership, these funds served as the basis of Federal, State and private business partnerships for contributions of funds and efforts for community mitigation priorities.

Beginning at the end of FY 1997, seven communities were identified to participate in Project Impact. Since that time, with advertising, public education, community coalition building, and management attention, great growth has occurred. At year-end FY 1998, there are now 57 communities participating with 60 scheduled to join the effort in FY 1999.

Congress recognized that dollars invested in these communities for pre-disaster mitigation programs will ultimately and greatly help citizens from becoming disaster victims plus reduce the escalating cost of disaster response and recovery at all levels of government. In FY 1998, Congress established a base amount of $30 million for pre-disaster mitigation. These funds enabled FEMA to expand from 7 communities and launch an additional 50 Project Impact communities nationwide.

For FY 1999, FEMA has proposed to establish a Pre-Disaster Mitigation Program to formalize and provide for permanent, continued expansion of this type of support. Such mitigation funding to reduce this exposure to disaster losses and reduce future costs amounted to $25 million. This will enable FEMA's Project Impact initiative to add the 60 new communities in FY 1999. As measured in terms of reduced disaster costs, success will fuel additional expansion of the Project in the future.

Preparedness, Training and Exercises Directorate

Preparing for disaster response.

An integrated partnership of trained people, well exercised plans, and fully-capable systems, procedures and facilities at all levels of government and the private sector are essential for survival and quick recovery from disasters and other emergency situations. The programs included under this category provided $156 million dollars of emergency planning, salary, and administrative resources to achieve this, and strongly support FEMA's first two Strategic Goals:

1. Protecting lives and preventing or reducing loss of property from the impact of all hazards; and
2. Reducing human suffering while enhancing the recovery of communities after a disaster strikes.

FEMA provided almost $108 million in emergency planning assistance funds as grants to all 50 States to improve crucial State emergency management capabilities in the areas of emergency planning and operations, education of emergency personnel and the public, implementation of emergency operations centers, and exercises to test and evaluate capabilities. FEMA conducts other key activities such as providing training to Federal, State and local emergency responders at FEMA's Emergency Management Institute as well as through extensive independent study courses. FEMA staff also extend technical assistance to all levels of the emergency management community to include other hazards such as Radiological Preparedness and Hazardous Materials, and sponsor and coordinate a number of comprehensive exercises. All of these activities help create a knowledgeable and prepared emergency management community, ready to respond to all hazards emergencies.

State and Local Assistance and Support

General Goal: *Support and improve State and local risk-based emergency management capability by providing Cooperative Agreement (CA) grants to the States under the auspices of the Performance Partnership Agreements.*

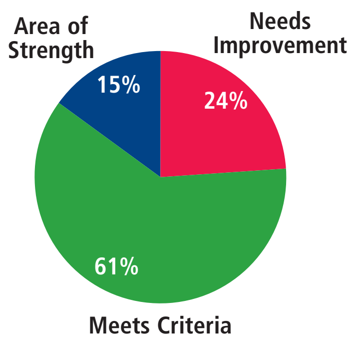
State and local emergency management personnel need to identify, prepare for, and have the capability to handle disasters and emergency situations which can occur in their jurisdictions. Since the needs of these State and local responders can vary widely, this program has evolved into a generalized approach in which States determine their primary needs and negotiate annual Cooperative Agreement grants which provide salaries and operating expenses to improve State and local organization's emergency readiness.

FEMA program staff provide planning guidance and technical assistance to States and localities, and foster emergency management information exchange among all levels of the emergency management partnership through a variety of means.

A comprehensive assessment mechanism, the Capability Assessment for Readiness (CAR) process, is used to help determine emergency management needs as well as strengths at the State level. The process is also helpful in identifying national trends among numerous critical areas of emergency management. The CAR not only serves as the basis for the annual negotiation of CA grants, but also is the only process FEMA has to comprehensively measure in outcome, rather than specific outputs, the progress of States and Territories in improving emergency management readiness. The CAR was successfully implemented for the first time in FY 1997, and will be conducted again in FY 2000 with significant enhancements.

In the CAR process, States ranked themselves on a wide variety of attributes and characteristics contained in 13 Emergency Management Functions (EMFs), using a three-choice scale that ranged from a: "1" — need additional work to meet the attribute or characteristic; to a "2" — normally meet the attribute or characteristic; or a "3" — always or consistently meet the attribute or characteristic. The rankings for each State were then totaled by characteristic, within attribute, within EMF. A score of less than 1.5, represented in red on the charts below, indicates that improvement in the attribute or EMF is needed; a score between 1.5 and 2.5, shown in green, reflects a basic capability; and a 2.5 to 3.0, shown in blue, means that the State considers the attribute or characteristic a strength.

Hazard Identification & Risk Assessment EMF Breakout By States

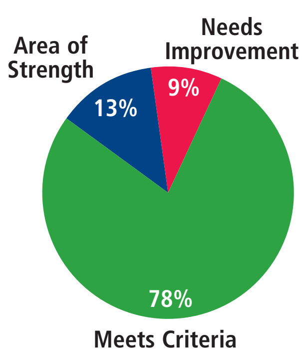


Note: Reflects percentage of States.

Performance Standard: ***To improve State and local hazard identification, risk assessment, and hazard management.***

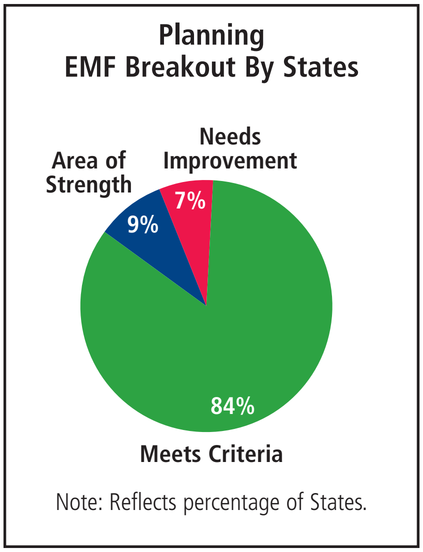
Identification of the potential hazards and risks that States and localities face, and the likelihood that these hazards will occur, is essential so that emergency personnel can manage hazards to the extent possible by developing adequate and cost-effective plans and procedures for mitigation, preparedness, response and recovery efforts.

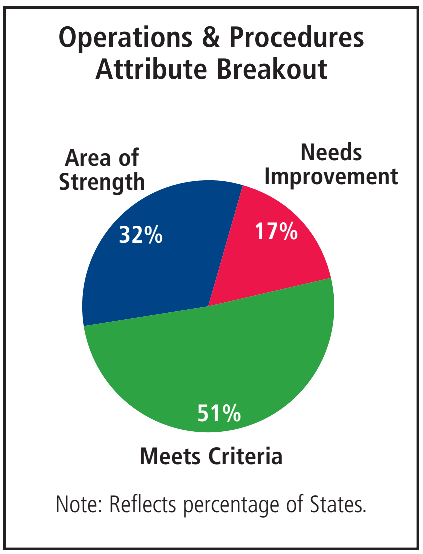
Hazard Management EMF Breakout By States



Note: Reflects percentage of States.

▲ **Performance:** States need to conduct a comprehensive requirements analysis, and a hazard vulnerability assessment as a foundation for their emergency management planning and preparedness. The first graph shows that through the CAR process, 76% of the States reported a basic capability or better in this EMF. Once hazards have been identified and risks assessed, the next step is to eliminate these hazards where possible or to reduce their effects. The second graph shows that 91% of the States report a basic capability or better in this function. The States report a strength in consistently using one or more of the mitigation grants and programs available, but also identify several areas that need improvement, namely in developing and maintaining plans for a building and fire inspection program.





Performance Standard: *To improve State and local planning, operations, and procedures.*

Development, coordination, and implementation of operational plans, policies, and procedures between Federal, State, local and private emergency organizations are fundamental to successfully mitigating against, preparing for, responding to, and recovering from disasters. Experience in emergencies and disasters has shown repeatedly that when emergency plans and procedures are known, exercised, and used by response forces, reaction times are reduced, coordination is improved, and the overall response and recovery measures are more effective.

Performance: The States ranked 38 different attributes in the CAR process that assessed their capability within the Planning EMF. Most of the States have had long experience in the development of a wide variety of plans to handle emergencies, and they update them regularly by folding in the results of exercise critiques and lessons learned following major disasters. The first graph from the CAR report shows that 93% of the States report a basic capability or better in this function. As a result of assessing themselves over the 43 attributes within the Operations and Procedures EMF, the States show that they have a basic or better capability in 83% of the attributes ranked, as shown in the second graph. Thus, the States indicate having many strong attributes in their disaster operations and procedures.

Performance Standard: *To improve State and local communications and warning capability.*

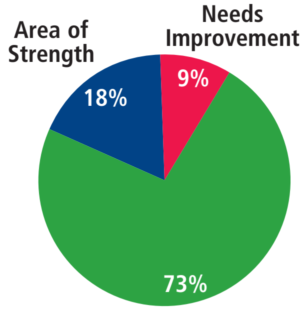
It is imperative that State and local governments develop and maintain a reliable communications capability to alert public officials and emergency response personnel, warn the public, and effectively manage response to an actual or impending emergency.

Performance: Of all data assessed within the 56 States and Territories within the CAR, the overall rating for this EMF is 2.09, indicating that this capability is currently at the acceptable level, and that the vast majority of the nation has an effective warning system in place to protect its system. With the clear need to identify threats to the population, along with the need to properly use limited first responder resources, this is a critical area of emergency management that must remain a priority item. While no strengths were identified at the attribute level, numerous strengths exist at the characteristic level.

Performance Standard: *To improve State and local emergency direction, control and coordination.*

Direction, Control, and Coordination (DCC) is critical during the three phases of an emergency response effort to allow officials to:

1. Analyze the emergency situation and decide how to respond quickly, appropriately, and effectively;



Note: Reflects percentage of States.

2. Direct and coordinate the efforts of the jurisdiction's various response forces;
3. Coordinate with the response efforts of other jurisdictions; and
4. Use available resources efficiently and effectively.

Performance: The scores reflected in the CAR process for most of the attributes in the DCC functional area, indicate that most of the States have at least a basic capability in this functional area, as shown in the graph. The strongest attribute is the ability to activate the State's Emergency Operations Center. Most States have extensive experience in this function. Additionally, most States have solid experience in requesting implementation of the Individual and Family Grant, Public Assistance, and Hazard Mitigation Grant Programs.

Performance Standard: *To improve State and local efforts in public education and information dissemination.*

It is vital for jurisdictions to have an effective public information program to provide the public with accurate, timely, and useful information prior to and throughout an emergency response and recovery period, as well as an effective public education program regarding hazards affecting the jurisdiction and ways to mitigate and prepare against them.

Performance: The CAR process indicates that the vast majority of the nation has a very strong public awareness education program, along with those critical procedures in place for accurate and timely dissemination of public information. Eighty-five percent of the States reported that they possessed a basic or better capability in this area. Those close ties to the general population, along with proven processes, are of paramount importance during crisis periods.

Hazard-Specific and Other Programs

General Goal: *Provide the guidance, technical assistance, coordination, and sharing of information to help State and local emergency managers prepare for hazardous materials, radiological emergencies, and for FEMA Headquarters to support the Emergency Food and Shelter Program.*

In addition to general, all-hazard emergency preparedness, FEMA provides support directed at specific hazards such as hazardous materials that can affect all jurisdictions, and radiological emergency preparedness for the emergency planning zones of 68 currently-licensed nuclear power facilities in 31 States. FEMA also acts as the program coordinator for the Emergency Food and Shelter (EFS) Program which provides funds to local jurisdictions in over 2,500 cities and counties to relieve the problems associated with hunger and homelessness.

Performance Standard: *Continue to implement joint coordination and planning activities to deliver assistance for Hazardous Materials (HAZMAT) Emergency Preparedness in a*

FEMA PHOTO BY WILLIAM E. RECKERT

Hazardous materials team member testing for hazardous air from contaminants.

more efficient manner, streamline grant funding, and print HAZMAT information.

The HAZMAT program uses several funding sources to provide the following: Superfund Amendments and Reauthorization Act (SARA) Title III training grants to States; HAZMAT information, in print and through support to DOT's Hazardous Materials Information Exchange (HMIX); delivery of HAZMAT training; support to State and local planning, exercise, and training projects; and coordination of interagency HAZMAT training efforts. FEMA needs to deliver these vital activities and information in the most efficient manner possible so as to simplify the program and funding streams whose multiplicity currently poses an administrative burden on State and local customers.

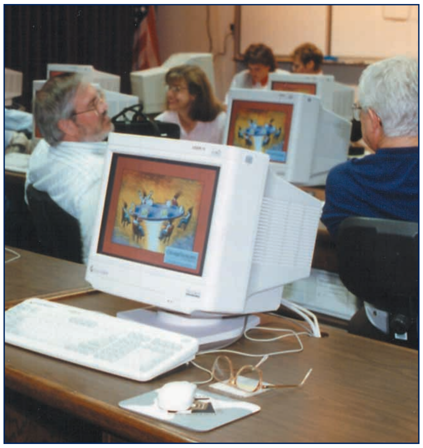
Performance: FEMA continued to implement joint coordination and planning activities to deliver assistance for HAZMAT emergency preparedness in a more efficient manner, and provided over $4 million dollars in grant funding to States under SARA Title III. We also continued to provide the emergency management community with support in developing and sharing HAZMAT information using such tools as the Internet, and expanded the HAZMAT information available through the Preparedness Outreach Center.

Performance Standard: *Assist State and local governments in the development of off-site radiological emergency plans and capabilities within the emergency planning zones of commercial nuclear power facilities.*

State and local jurisdictions that fall within identified exposure planning zones near commercial nuclear power plants, need to develop plans and procedures to protect the off-site civilian population within those areas in the event of a nuclear accidental release of radioactive materials, and participate in joint exercises with licensees to test their capabilities.

Performance: FEMA's Radiological Emergency Preparedness (REP) Program assisted the affected State and local jurisdictions with technical assistance by: providing standards, guidance, regulations, and policy; helping in the development of training and guidance materials; in reviewing jurisdiction's and licensee's emergency plans; in scheduling, conducting, evaluating, and reporting on exercises; and in developing, managing, and conducting training programs in both resident and field formats. This has had a positive effect on other areas of emergency management within these jurisdictions. As a result, States participating in the REP Program score higher overall above the national average in all functional areas as reported in the CAR process.

Performance Standard: *Support the Emergency Food and Shelter (EFS) Program to efficiently and effectively deliver funds to local jurisdictions to assist local efforts to relieve the problems associated with hunger and homelessness.*



FEMA PHOTO BY WILLIAM E. RECKERT

FEMA/NETC conducts ongoing skills training classes through the Emergency Management Institute.

This program supports over 11,000 local nonprofit organizations and government agencies throughout the country which advertise the availability of funds, assess community needs, make allocation choices, and assure the coordination of efforts and systems to prevent duplication of benefits. FEMA passes funds appropriated for this Program through in their entirety to the Program's National Board which is composed of heads of national charitable organizations, which then works with the local boards to distribute the funds rapidly and equitably to local jurisdictions to supplement community efforts to provide emergency food and shelter.

Performance: FEMA supported the National Board, performed oversight of program operations through development and administration of monitoring guidelines, and conducted special studies for the National Board on the impact of welfare reform, along with changes in immigration, food stamps, Aid to Families with Dependent Children, and Supplemental Security Income policies. This program is generally recognized for its success as a catalyst for national and local coalition building, and for delivering needed support at an extremely low administrative cost.

Training

General Goal: *Increase the knowledge and expertise of local, State and Federal emergency management workforces and the public through an extensive curriculum of training courses and materials.*

In the last decade, our country has experienced many different types of disasters having greater impact, affecting a larger number of our citizens, costing dramatically increased dollars, and requiring more sophisticated and timely response than ever before. A primary key for building a nationwide, inter- and intra-Governmental cadre of professional emergency managers and an informed public is training.

Performance Standard: *Conduct 140 EMI resident training activities to train 4,500 students, including 21 Integrated Emergency Management Courses (IEMCs).*

Students from throughout the country attend EMI for traditional classroom training in a wide variety of emergency management topics. EMI staff provide the most current information and teaching methods, and the EMI classrooms and facilities significantly enhance the learning experience. In addition to courses designed for individual education, EMI trains State instructors to provide State and local emergency management training back in their own localities, and conducts the extremely popular IEMCs, which are custom-tailored either to a locality or to a hazard.

Performance: EMI conducted 184 training activities which trained 4,600 students. This included 21 IEMCs: of these, 8 were designed and delivered for specific communities; 2 were for the States of Wisconsin and Arkansas, 3 addressed consequences of terrorism; and

FEMA PHOTO BY WILLIAM E. RECKERT

Public preparedness training helps minimize loss of life from tornados such as the one that destroyed the horitcultural building at Gainesville, Georgia High School.

the remaining 8 addressed hurricanes, hazardous materials, earthquake, and all-hazard/generic scenarios.

The results of follow-on surveys (sent to each EMI student three months after completion of the class) are excellent. Only one percent (1%) of the students report that the instruction was not applicable and is not being used. Seventy-six percent (76%) report they are using the instruction either in their day-to-day jobs or on emergency assignments. Twenty-three percent (23%) report they have not had the opportunity to use the instruction. This last figure is to be expected given the nature of the work being done by emergency managers at all levels of government

Performance Standard: *Introduce new Emergency Management Institute (EMI) independent study training materials, and process 42,000 independent study course enrollments.*

Independent study courses are an efficient method to deliver training to a large number of emergency responders who otherwise could not afford the cost or time to attend an on-site course. Such courses allow an individual to proceed at his or her own pace while providing essential information at a minimum cost.

Performance: FEMA's Independent Study (IS) Program was expanded considerably during FY 1998, both in terms of courseware and in terms of delivery formats. During FY 1998, 5 new courses were added to the IS program dealing with issues ranging from Incident Command to Mitigation and Animals in Disasters. Additionally, development on a sixth new course, dealing with Donations Management, was initiated. One course, considered out-of-date, was retired.

Further, efforts to offer IS materials through alternate training delivery mechanisms have resulted in 11 of the 17 existing courses being available through the Internet. Moreover, a student may now enroll in the course, complete the course, and test for a Certificate of Completion totally through the Internet.

During FY 1998, the IS Program processed 37,360 enrollments, and reported 30,000 completions. Since its inception, the IS Program has served nearly 175,000 citizens who have completed over 427,000 courses.

Performance Standard: *Conduct public preparedness training, and develop materials for nation-wide dissemination.*

In addition to emergency management responders, the general public needs to be aware of the actions they can take prior to an emergency so as to mitigate its effects, as well as actions to take both during and following an emergency. Federal, State and local organizations can use a wide variety of media to accomplish this such as World-Wide Web pages, nationwide or local interactive teleconferencing programs, organizational programs such as conducted at schools, businesses and institutions, and through wide-spread distribution of written materials.

FEMA PHOTO BY WILLIAM E. RECKERT

Preparedness, training and exercises directorate table top simulation training exercise.

Performance: In 1998, the Community and Family Preparedness (CFP) program distributed 5,000 CD's containing FEMA's Disaster Preparedness & Mitigation Library for State and local reproduction of hazard awareness and disaster preparedness information for the public; and 2,600 hard copy versions of camera-ready disaster preparedness materials were distributed to users requesting them. The same preparedness materials were also made available for downloading and reproduction via the Internet. CFP also developed its 2nd CD ROM in the Disaster Preparedness & Mitigation Library for distribution in FY 1999, and furnished a master of the FEMA video, "Adventures of the Disaster Dudes," to the Alabama Emergency Management Agency for general reproduction by a private donor to place one in schools throughout the State. Although numbers of publications to individual requesters are controlled to reduce Federal printing costs, approximately 1 million CFP disaster preparedness publications were sent out in response to requests, and more than 5 million copies were reproduced and distributed by CFP partners such as the American Red Cross, Salvation Army, National Society of St. Vincent de Paul and others—in addition to those reproduced and distributed by State and local emergency management agencies. FEMA's disaster preparedness public information materials are used by all 57 States and state-like jurisdictions as well as over 9,000 local jurisdictions (counties, cities, towns and townships). FEMA Disaster Field Offices received 470,000 publications for use following 17 declared major disasters, as well as camera-ready materials, via CD, Internet or hard copy, for further reproduction in the impacted area. The CFP program also conducted a national program conference for 74 members of the disaster education community, and training for 37 disaster education program organizers, in 1998. CFP also developed an Internet-connected network of over 1,000 disaster educators providing public disaster awareness and education in schools, neighborhoods, community-wide events, and for contingency planners conducting disaster education activities for employees in the communities' private sector.

Exercises

General Goal: *Provide all levels of emergency management personnel the opportunity to develop and test plans, policies, procedures, and crisis management decision-making through a comprehensive program of tabletop exercises, simulations, and full-scale exercises.*

The ability of Federal, State, and local governments to respond quickly and effectively to disasters and emergencies is greatly enhanced by testing and evaluating their emergency operating plans, procedures and personnel through a variety of exercises. By experiencing simulated disaster operations when lives and property are not at stake, emergency management staff can maintain the desired level of capabilities and identify and correct shortcomings.

Preparedness enables Search and Rescue teams to effectively perform after the Oklahoma City bombing.

To best provide this setting, FEMA provides policy, guidance and activities through the Comprehensive Exercise Program (CEP) that addresses the entire threat spectrum in partnership with emergency managers at all levels of Government and the private sector.

Performance Standard: *Conduct, support, and evaluate tabletop, functional, or full-scale exercises.*

Functional and full-scale exercises are the largest and most complex types of emergency management exercises. Accordingly, they present the greatest challenge to participating jurisdictions, organizations, and individuals, and yield the most significant evaluation information regarding emergency management capabilities.

Performance: FEMA conducted RESPONSE 98, a major exercise to assess Federal, State, and local emergency plans, policies, procedures, support systems, training program, and facilities for dealing with a catastrophic hurricane impacting the Northeast United States. Key objectives of the exercise were to create private, public, and international partnerships for disaster response, and to test complex issues such as plans for the evacuation of Manhattan.

Exercise RESPONSE 98 was the largest U.S. civilian disaster response exercise ever conducted. It involved the States of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New Jersey, and New York; FEMA Regions I and II; FEMA Headquarters; 12 Federal Agencies; 30 counties; 351 cities and towns; 4 Canadian Provinces and Canadian Federal governments; and thousands of individual participants. It established methods of communicating across multiple organizational elements, which will be critical in a disaster response.

Exercise RESPONSE 98 included the largest mix of customer base ever attempted. In addition to Federal, State and local government personnel, volunteer organizations from the Salvation Army to local fire departments and private industry from Wall Street bankers to telephone companies were actively engaged. This established partnership among diverse organizations and served as a training experience for all participants.

Exercise RESPONSE 98 was conducted at less than half the cost of its predecessor exercises, and represents savings of more than $500,000. In addition, States and Regions involved with the 1998 Ice Storms were able to use plans, contacts, and procedures that had been created for RESPONSE 98 in preparation for the actual response. According to the participants, this was a decisive factor in the speed and success of their response to the Ice Storm crisis.

Participants estimate that the planning, training, and contacts that they made during RESPONSE 98 will make a significant difference to their response in the event of any type of large disaster, and in a similar scenario, could translate into thousands of lives and hundreds of millions saved.

Human relations training permits hurricane response efforts with a human touch.

FEMA's Exercise Division staff, in partnership with the Response and Recovery Directorate, the Office of Emergency Information and Media Affairs, and the Federal Bureau of Investigation, conducted terrorism consequence management orientation/seminars in all 10 FEMA Regional Offices early in the fiscal year in order to improve terrorism preparedness. Key topics were:

1. A concept of operations for the response to a weapons of mass destruction incident;
2. The Federal Response Plan Terrorism Incident Annex and how it relates to terrorism operations; and
3. Emergency public information in response to a terrorist incident.

Varying numbers of other Federal agencies, States and local governments, and private volunteer organizations participated, based on Regional preferences. A significant success of the Seminars was the dialogue between the FEMA Regional Offices and the attendant FBI Field Offices, and the identification of key Regional issues that helped prioritize and guide continuing development of national level policy and guidance.

FEMA provided a table top exercise for use by the Colorado Office of Emergency Management and the emergency management community of Vail, CO, as part of their preparations for the 1999 World Alpine Ski Championships. State and local participants indicated that the exercise was extremely valuable. The exercise scenario focused on the opening ceremony and contained six scenes that each required decision-makers to discuss procedures for that simulated event. The six scenes progressed through three levels of threat beginning with local events and moving through bomb threat to a terrorist incident requiring Federal involvement.

FEMA led NATO Civil Emergency Planning for Crisis Management Exercise 1998 (CMX 98) and coordinated the planning, conduct, and evaluation of CMX 98, which was conducted in February, 1998. This activity included:

1. Representing the U.S. civil government at planning meetings, and assisting both the national and international community in the preparation phase of the exercise;
2. Developing and publishing the U.S. Civil Exercise Plan (EXPLAN) for use by players and controllers during the course of the exercise;
3. Configuring the exercise control team (consisting of representatives at FEMA Headquarters, the Pentagon, and NATO Headquarters), and overseeing and coordinating the U.S. civil play; and
4. Inputting and compiling information for the U.S. Civil Evaluation Report (EVALREPT).

Performance Standard: *Continue to implement the CEP at the regional, State, and local level.*

The CEP is a comprehensive, all-hazards, multi-scenario, risk-based approach exercising many FEMA programs in a manner that reduces

Well-trained Public Assistance inspector examines earthquake structural damage to Oakland overpass.

the burden on emergency management personnel at the Federal, State, and local levels, and which combines and coordinates exercises by hazard type, by geographical area, and by participant level.

Performance: The Comprehensive Exercise Program Working Group (CEPWG) has become the keystone for mutual Headquarters, Regional and State discussions and decision making for exercise policy, strategic planning and resolution of customer concerns. Through the CEPWG, an implementation plan has been developed to reflect the latest priorities of FEMA's exercise organization. The CEPWG is collaboratively setting the priorities of where the Readiness Division will focus its resources for development of information technology support requirements, and it's ADP Subcommittee has embarked on an expanded requirement analysis for the Emergency Management Report System (EMERS) that will project current and future needs, and provide cost benefit analysis to support priorities identified by the committee.

Regional and State Training and Exercise Officers attend an annual Exercises and Training Officer's Conference at EMI. This high-profile event sets the stage for exercises strategy, priorities, and activities during the rest of the year due to the tremendous customer interactions that occur during the conference. Topics discussed at the 1998 Conference included:

1. Creating disaster resistant communities through State involvement in FEMA's Project Impact;
2. Improving State exercise programs by sharing exemplary practices;
3. Recommending topics for CEPWG consideration; and
4. Using the revised EMERS.

Performance Standard: *Provide technical support for the Emergency Management Exercise Reporting System (EMERS)*

EMERS is a FEMA-developed software package that allows State and local governments to enter, store, analyze, document, and compile statistical information regarding all types of emergency management exercises. The software provides an efficient methodology to document areas that need improvement, as well as those areas that performed as planned. It provides methodologies to schedule future exercises and to ensure that all emergency support elements are tested. The software can be easily customized by our customers to meet their unique needs, while still maintaining standard reporting structures to allow national-level statistical analysis. This software is available on the Internet at ftp.fema.gov and has been provided to all FEMA Regions and State emergency planners.

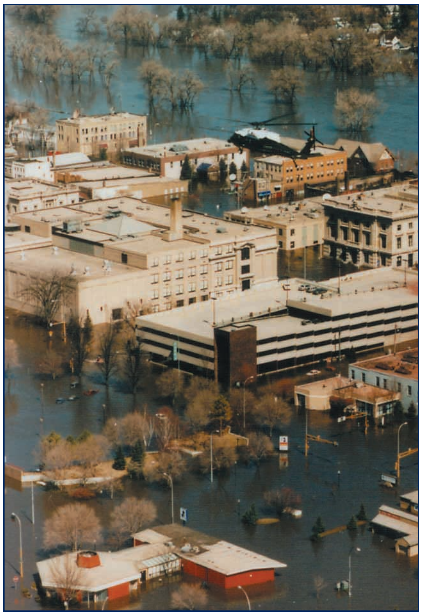
Performance: FEMA made significant improvements in EMERS functionality, enabling greater sharing of exercise data, which will also be used for reporting and tracking purposes across Federal, State and local levels of government. The system was available to State and local governments in mid-July who will also use EMERS data to present requirements and accomplishments to their State legislators in the development of State Readiness budgets.

Since EMERS now utilizes standard FEMA software, FEMA saved over $200,000 in contractor development and system enhancement costs, as well as having the system operational well over a year earlier. Additionally, now that FEMA personnel will be able to maintain EMERS, we will save $50,000 per year in contractor-provided maintenance costs. The improved EMERS was a major demonstration of FEMA, State and local partnership in jointly defining, developing and testing the application.

Conclusion

The overwhelming portion of program dollars are spent to build and enhance State and local capability to prepare for, prevent, respond to, and recover from the affects of all hazards and emergencies. These dollars are directed primarily to build capability across a spectrum of planning, management, and administrative functions. These developmental resources are augmented by the dollars spent to support the training of thousands of State and local emergency management professionals at FEMA's Emergency Management Institute, and the exercising of the enhanced capabilities through application in "real life" exercise scenarios. This is what we are getting for our dollars — the continued upgrade of the capabilities, and thereby the capacity of the emergency management community to protect our citizens.

Federal Insurance Administration
The National Flood Insurance Program



Grand Forks, North Dakota flooding, 1998.

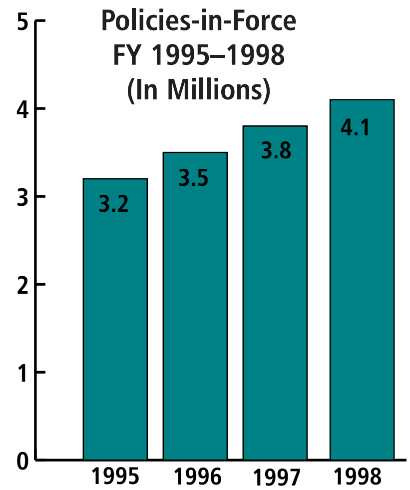
The National Flood Insurance Program (NFIP), enacted by Congress in 1968, was created to reduce the burden of flood disasters on the American taxpayer, and to reduce the exposure of homes and businesses in the flood plain to flood risks. The Program was designed to help reduce flood losses through sound and safer building standards and mitigation and to help pay for flood losses through insurance rather than Federal disaster assistance. The NFIP is a partnership of Federal, State, local governments, and the private insurance industry working together to reduce flood risks. The NFIP is self-supporting for the average historical loss year, which means that operating expenses and flood insurance claims are not paid for by the taxpayer, but through premiums collected for flood insurance policies.

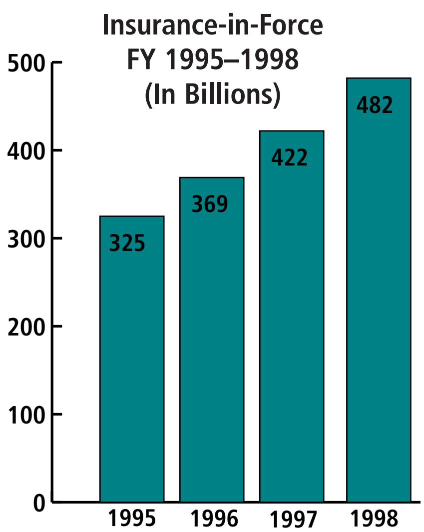
The NFIP legislation recognized the absence of delineated flood hazard areas, standards for building such areas, as well as a large inventory of flood-prone structures. The legislation made provision for the mapping of flood risk areas and, as an incentive for communities to adopt floodplain management measures, it offered reduced insurance rates for structures built prior to completion of the hazard identification. Currently, approximately 35% of the structures in the NFIP policy base are insured at these lower rates. Many of these at-risk buildings are flooded again and again, resulting in repetitive claim payments. Of the estimated $200 million in repetitive losses in the NFIP during an average year, about 96% are from these subsidized structures. In FY 1999, recommendations may be made for reducing the flood insurance subsidy for repetitively flooded homes.

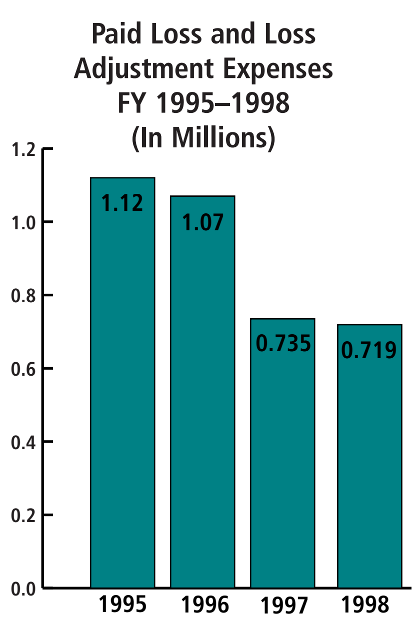
General Goal: *Through NFIP insurance and floodplain management activities, reduce expected annual flood costs to FEMA and losses to taxpayers by an estimated $750 million or more.*

Performance Standard: *Develop measurement systems to confirm estimated savings.*

Insurance rules and rating mechanisms, e.g., coverage and premium rates, will be used as economic incentives and disincentives to reinforce mitigation through building requirements that reflect sound floodplain management. Incentives/disincentives will be administered at the individual and community levels and include operation of the Community Rating System. Insurance marketing activities will include promotion of flood mitigation, including support of Project Impact. All of these activities will result in better management and decision making.







The performance indicator is the total reduction in losses and costs for the estimated population of buildings constructed to meet program standards.

Performance: In FY 1998, the NFIP helped Americans avoid an estimated $750 million in flood losses and costs. This statistically derived savings estimate results from the savings realized by enforcement of flood mitigation measures by more than 19,000 NFIP participating communities.

Buildings that are constructed in compliance with NFIP building standards suffer 77% less damage annually than those not built in compliance. The NFIP will continue to work with government partners — states and communities — to propose ways that accelerate the pace at which homes and communities become flood resistant. The NFIP spent almost $17.5 million in the form of Flood Mitigation Assistance Grants to help mitigate additional flood losses in the flood prone areas of the nation.

General Goal: *Enhance the recovery of individuals, business, and communities after flood events by increasing the number of NFIP policies-in-force by an average of 5 percent per year.*

Performance Standard: *Increase the number of NFIP policies-in-force by 5 percent.*

Increasing NFIP awareness, promoting policy sales, and coordinating mandatory flood insurance purchase requirements will help ensure that the recovery of individuals suffering flood losses is made possible by insurance as opposed to disaster relief funds.

The increases in the number of flood insurance policies is determined by comparing annual increases as shown in current year-end NFIP policies in force reports, compared to the prior year's year end policy count.

Performance: The NFIP has made flood insurance available in more than 19,000 communities across the United States and its territories. At the end of fiscal year 1997, insurance polices in force totaled 3,811,253; and at the end of fiscal year 1998, a total of 4,117,936 policies were in force. This represents a 7% increase in the number of NFIP policies in force.

The number of flood insurance policies-in-force for the period 1995 through 1998 has steadily increased.

The increases in policies and insurance in force mean that more property owners are in a better position to recover quickly from flood losses. Fewer uninsured losses mean there will be less pressure for disaster relief measures that rely on general taxpayer funds of Federal, State and local government, rather than policyholder premiums.

General Goal: *Complete activities for the revision of the NFIP to enhance the financial soundness and equity of the National Flood Insurance Program.*

Hurricane winds and storm surge catapult boats ashore.

Performance Standard: *Complete development of required studies, analyses, legislative and regulatory proposals and processes required for implementation of the program, e.g., studies of alternative coverage and rates, and approval/acceptance of key products needed for implementation to pursue measures designed to enhance the financial solvency of the program.*

The performance indicator is the approval/acceptance of key products, e.g., the economic impact of subsidy reduction, coverage, and pricing alternatives.

Performance: The FIA is conducting a series of studies directed at improving the long term financial position of the NFIP and a better balance of Program fund sources between policyholders and other beneficiaries. Among these studies is an investigation into the economic impacts of reduced subsidies that is being performed by Price Waterhouse. This study is due for completion in early 1999. An Annual Rate Review of NFIP underwriting experience was completed in 1998 (and will again be performed in 1999). The accounting firm of Deloitte and Touche is conducting a study of Claims and Underwriting Processes to determine potential improvements to these aspects of the Program. Also, a Proposed Rule to Examine (Changes to) Expenses Allowed to Write-Your-Own (WYO) companies is underway.

The graph (page 47) represents some of the financial highlights for fiscal years 1997 and 1998. Through the U. S. Treasury, the NFIP is authorized to borrow up to $500 million (up to $1 billion with approval from the President). In FY 1998, $1.5 billion was authorized for borrowing. Periodic interest payments are made to Treasury to pay for the accrued interest on borrowings. In FY 1998, $395 million was repaid to the Treasury reducing the cumulative borrowing at year's end to $522 million. The growth in earned premiums is the result of the growth in the policy base as well as a series of rate adjustments.

General Goal: *Work with industry partners and the Chief Financial Officer (CFO), confirm NFIP integrity, and ensure that program delivery efficiently meets or exceeds required customer-service and other standards.*

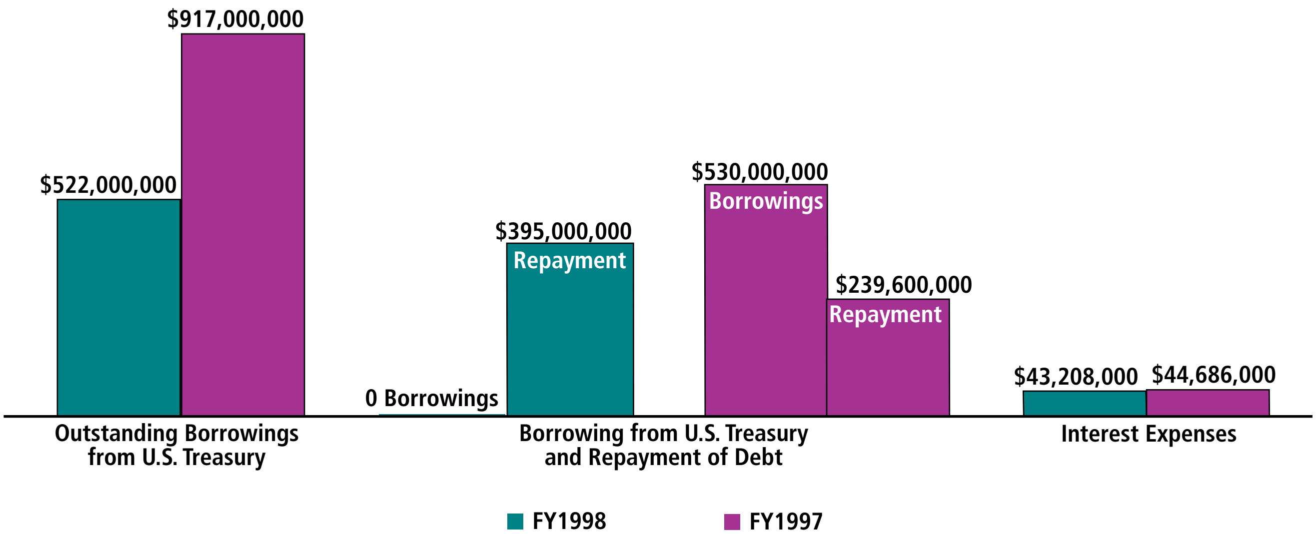
Performance Standard: *Positive financial, customer-service, and other evaluation reports, including unqualified audit reports to help ensure the continued, efficient, effective operation of the Program. Enhancing the strategic public/private partnership is in the interest of both parties, the public, those at risk, and potential and actual policyholders.*

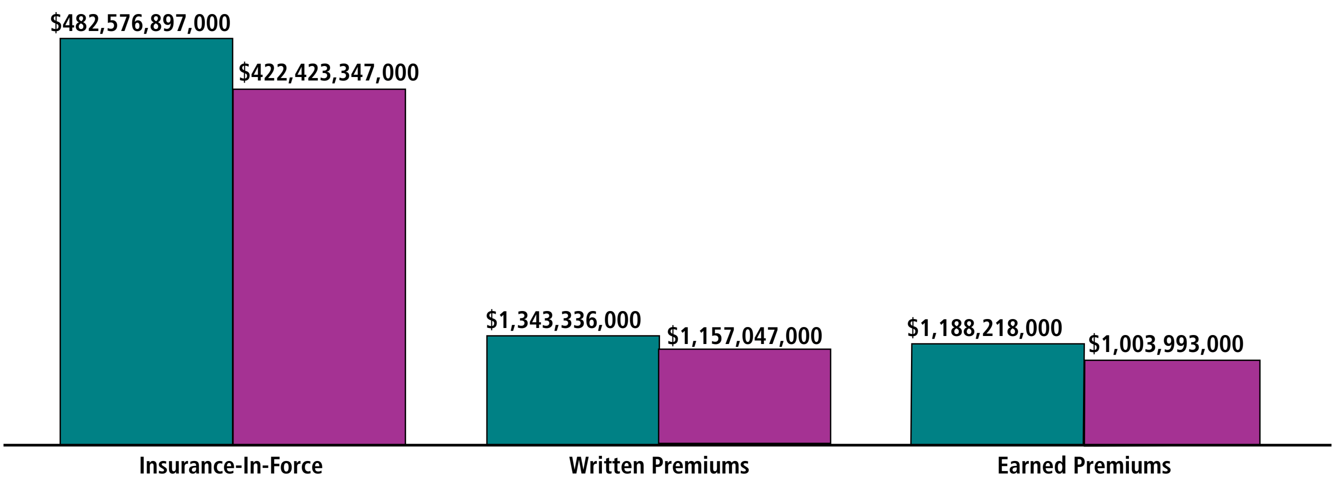
Accurate and timely financial reports, that are in conformance with Federal standards, will help to ensure the integrity of the Program.

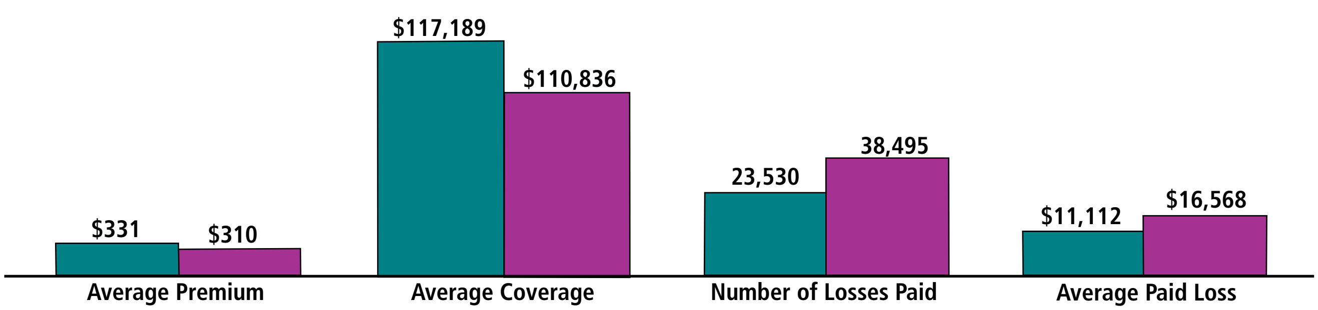
Performance:

- Inspector General audits of NFIP financial statements are performed annually. This includes selecting a representative sample of insurance companies.

FY 1998 vs FY 1997 Financial Highlights







FEMA PHOTO BY WILLIAM E. RECKERT

Atlantic coast hurricane causes significant damage to Barrier Island coastal highway.

- An outside independent auditor audits each WYO insurance company every two years.
- Claims and underwriting operational reviews will be started during FY 1999. FEMA claims examiners and underwriters will review operations and quality assurance procedures of companies.
- The NFIP will develop ways to survey its customers about the quality of NFIP's customer service. The NFIP will also analyze correspondence (Congressional and others) and complaints in an effort to really find out how well the Program works for its customers.

General Goal: *Create and reinforce existing partnerships, implement an outreach, information, and coordination program that assures regular, effective communication with those concerned about the NFIP.*

Performance Standard: *Positive responses to NFIP assessment instruments and constructive support in pursuing insurance sales and other goals.*

It is important that insurance companies and agents, lenders, realtors, states and local officials are aware of the NFIP so that they can inform citizens and communities of the importance of buying flood insurance.

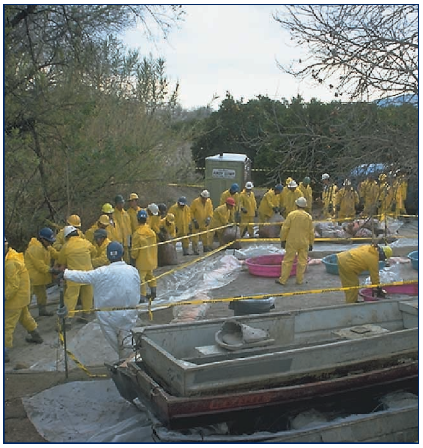
Using a call for issues and through meetings and publications, e.g., Annual Flood Conference, insurance agent and lender workshops held through out the year across the country, the semi-annual *Watermark* newsletter, and the *NFIP Annual Stakeholders Report*, the FIA targets and maintains effective communication with key constituencies, including insurance producers, WYO insurance companies, the Federal Financial Institutions Examination Council, and its constituent members.

Performance: To further assure regular and effective communication with NFIP customers, the FIA began conducting surveys of selected constituencies, developing baseline indices of awareness and support, and set objectives for percentage increases to increase awareness and promote policy sales.

FEMA conducted a comprehensive marketing and advertising campaign — Cover America — that is designed to increase NFIP awareness and promote policy sales. Paid advertising and public relations activities are used to reach consumers, insurance agents, and other NFIP stakeholders.

In its continuing efforts to better serve the public, FEMA is offering an opportunity to partners and customers of the NFIP to recommend how the program may be made more effective.

From October 1995 through June 1998, Cover America's advertising and public relations activities generated more than 300,000 phone calls directly to the NFIP from people inquiring about flood



Communities mobilize to fight disasters.

insurance and countless additional calls to insurance agents and companies. In addition, the campaign has generated close to 62,000 leads to insurance agents, with 23,374 referred to NFIP Leads Program agents and 38,623 referred to callers' own agents. Additionally, the campaign generated more than 55,000 print ad responses as of December 1997. Since the initiation of the NFIP Co-op Advertising Program in January 1996, hundreds of insurance companies and agents have participated in the program, placing more than 4,000 flood insurance ads.

The Cover America campaign is improving awareness of and attitudes about the NFIP and flood insurance, stimulating demand for flood insurance, and providing opportunities for insurance, Write Your Own companies, and other NFIP stakeholders to participate in and build on the messages delivered. The Cover America campaign contributed to the higher than average historical growth rates in FY 1997 and 1998.

Conclusion

In summary, the National Flood Insurance Program helped Americans avoid some 3/4 of a billion dollars in flood losses and disaster costs in fiscal year 1998. The Cover America advertising campaign has increased awareness of the program through regular advertisements in various media, and the number of flood insurance policies increased 7% in fiscal year 1998, thereby increasing premium income to the NFIP fund and contributing to the financial soundness of the Program. Studies and analyses are underway to help enhance the financial soundness and equity of the program, the Inspector General performs audits annually, and outside independent audits are performed of WYO insurance companies every two years. All of these activities are designed by the NFIP to help reduce the likelihood and impact of uninsured flood losses and reduce the costs of disasters.

United States Fire Administration

Firefighters respond to California wildfires.

America's fire death rate is one of the highest per capita in the industrialized world. During the period of 1986–1996, the United States averaged over 5,000 fire deaths and almost 29,000 injuries per year. Firefighters pay a high price for this terrible fire record; approximately 100 firefighters die in the line of duty each year. Direct property losses due to fire exceed $9 billion a year and the overall fire cost to the American public is estimated at $139 billion annually. Most of these deaths and losses can be prevented.

In fact, America's fire losses today represent a dramatic improvement from more than 20 years ago. In 1971, it was reported that this Nation lost more than 12,000 citizens and 250 firefighters to fire. Acting to decrease these tragic losses, Congress established the United States Fire Administration. Since that time, through public education and awareness, training, technology and data collection efforts, the USFA has helped reduce the fire deaths by at least half—making our communities and our citizens safer.

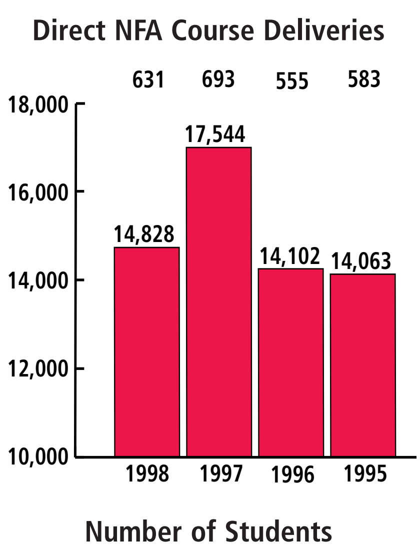
The mission of USFA, supported by resources of almost $29 million dollars in FY 1998, is to provide leadership, coordination, and support for the Nation's fire prevention and control, fire training and education, and emergency medical services (EMS) activities. USFA is committed to the Agency's goal of protecting lives and preventing the loss of property from all hazards. It is USFA's 5-year objective to reduce, by 5 percent, the rate of loss of life and property from fire and fire-related hazards.

General Goal: *Provide training and education opportunities for the Nation's fire protection community.*

Performance Standard: *In keeping with the National Fire Academy's (NFA) long-term training target of reaching 300,000 fire service personnel, increase the traditional direct deliveries as well as through new technology-based approaches.*

Performance: In FY 1998 the USFA's NFA provided 631 course offerings, reaching 14,828 students, through traditional direct deliveries. Additionally, 25,646 students were reached by nontraditional indirect deliveries that included handoff courses to States, independent study and Internet courses.

In FY 1997, NFA began a systematic survey of its students several months following NFA training to determine the effectiveness of that training on the Nation's fire service. Ninety-six percent of students



Firefighters fight home fires ... the greatest cause of loss of life and property.

responding to the survey at intervals of two to four months following training indicated that they used NFA training on the job. Of those surveyed, ninety-five percent responded that NFA training helped them do their jobs better. Preliminary data being compiled from students who attended classes in FY 1998 and who are responding to surveys sent them six months after completing their training indicated that FY 1998 respondents rate the effectiveness of NFA training equally highly.

In FY 1996, 1997, and 1998, eighty-seven percent of all National Fire Academy students surveyed after completing their training strongly agreed the training they received contributed to their knowledge and helped them do their job better.

The NFA routinely surveys supervisors of students who have completed NFA courses to obtain information on the impact of the training. Feedback from supervisors of employees who attended a number of the resident courses indicate their employees are better able to plan their work, and have a better understanding of management principles; exhibit better leadership and cooperation in looking at the overall operation; have increased confidence and professionalism; exhibit greater creativity in ideas/performance; now look at what the long-range impacts of their decision may be before starting any action; and are better able to broadly and objectively analyze service levels and community needs.

In addition to teaching courses, NFA instructors and staff developed or revised 48 resident, field, regional and alternative delivery format courses; evaluated the impact of 41 offerings of 22 different courses in the curriculum and continued a national needs assessment for curriculum planning; and provided materials to the American Council on Education (ACE) for course accreditation. Thirty-seven NFA courses were recommended for accreditation in FY 1998.

The NFA continued the management of an interagency agreement to print, stock and disseminate training materials to the nation's fire and emergency service personnel. They delivered four joint simulation and training programs and exercises and provided training to enhance the capability of fire departments to respond to terrorist attacks. In FY 1998 USFA conducted 519 offerings in emergency response to terrorism, both direct and indirect deliveries, reaching 34,139 students.

In an effort to inform the fire service community of the full range of training available, the NFA published and distributed NFA's course catalogue to approximately 43,000 fire departments and allied organizations and utilized the national network of fire organizations and the Internet to distribute NFA course information. NFA anticipates increased participation in the direct and indirect course offerings as a result of these efforts.

General Goal: *Educate the public on fire prevention, targeting groups most vulnerable to fire.*

Firefighters struggle to reduce spread of damage as a result of a major structural fire.

Performance Standard: *Increase the usage of public education materials in the general public. Increase hotel/motel master listings.*

Performance: The USFA's Fire Management and Technical Programs Division (FMTP) continued to promote fire suppression/detection and notification technology through research, demonstrations, and information dissemination; and fostered public awareness of fire dangers through a national public education dissemination program, distributing over 1.8 million publications in FY 1998.

In addition to technology development, the USFA managed a comprehensive program to comply with the Hotel/Motel Fire Safety Act. USFA identified 20,000 properties on the Hotel/Motel master listing that comply with the requirements of the Act. This information was provided to Federal agencies and the general public for their use in selecting hotels and motels that offer the most comprehensive fire protection.

General Goal: *Identify the national fire problem and analyze, publish and disseminate related data and information.*

Performance Standard: *Transition contributing States to National Fire Information Reporting System (NFIRS) 5.0 and bring in or return to NFIRS, non-contributing States. Also, increase access to USFA program information including publications via the World Wide Web (WWW), and research and publish analytical reports annually as well as an annual firefighter fatality study.*

Performance: The USFA's FMTP maintained the National Fire Data Center with associated computer programs and support functions, improved data collection and analysis through the National Fire Information Council, and revised and updated NFIRS in response to new developments. They provided technical assistance to the NFIRS and participating entities. In FY 1998 there were 41 NFIRS contributing States.

The USFA also facilitated the enhanced use of Federal fire data through cooperative efforts with State authorities having jurisdiction, and through the USFA section of FEMA's WWW page on the Internet, which experienced 6,200,000 hits during FY 1998. They provided improved support of fire analysis projects for dissemination to "first responders," special interest groups, and the general public, and gathered, analyzed, and disseminated information on causes of deaths and injuries arising from fire, firefighting activities, and related incidents.

General Goal: *Conduct a continuing program of development, testing, and evaluation of equipment, practices, and technology for use by the Nation's fire and emergency services.*

Performance Standard: *Increase the use of USFA's fire mitigation materials at the Federal, State and local levels. Increase the fire community knowledge of fire and technological hazards and their application of mitigation technologies through the improved targeted distribution of research reports.*

Performance: The USFA's FMTP enhanced acceptance and use of the integrated emergency management planning and implementation concepts through the range of course deliveries and materials disseminated to the fire community. USFA's FMTP supported research and development of fire technology systems and applications specifically focused on mitigating the incidence of fire and loss of life and property in the Nation. In FY 1998, 117,325 publications were distributed in support of these efforts.

In addition, the USFA supported research and development of new technologies and local level response enhancement for emergency operations. They also provided technical assistance in arson, data collection, fire prevention, operational effectiveness, and management excellence; and, continued support through programmatic efforts in occupational health and safety for firefighters, EMS providers and allied "first responders."

In order to identify critical research needed to effectively mitigate the incidence of fire in the United States, the USFA distributed the Fire Research Agenda Meeting (FRAM) report to participants and other stakeholders with interests in crafting a research agenda for the future. This report was developed with stakeholder input and provides a direction for fire research needs that will protect the citizens of this country.

Conclusion

The USFA's resources are focused in support of key efforts to address America's unacceptable fire problem. Primary program elements include collection and analysis of national fire data, training of the fire service community, developing and delivering effective public fire safety education messages, and research and technology transfer to improve public and fire fighter survivability in the fire environment. However, USFA's success continues to be magnified through effective leveraging of limited resources by entering into partnerships, joint ventures, and alliances with the private sector and other Federal agencies. This has been a customary feature of the USFA for the last decade. We will report in greater detail on these efforts in the FY 1999 Accountability Report.

Management Discussion & Analysis

Part II

Financial and Other Reporting Requirements

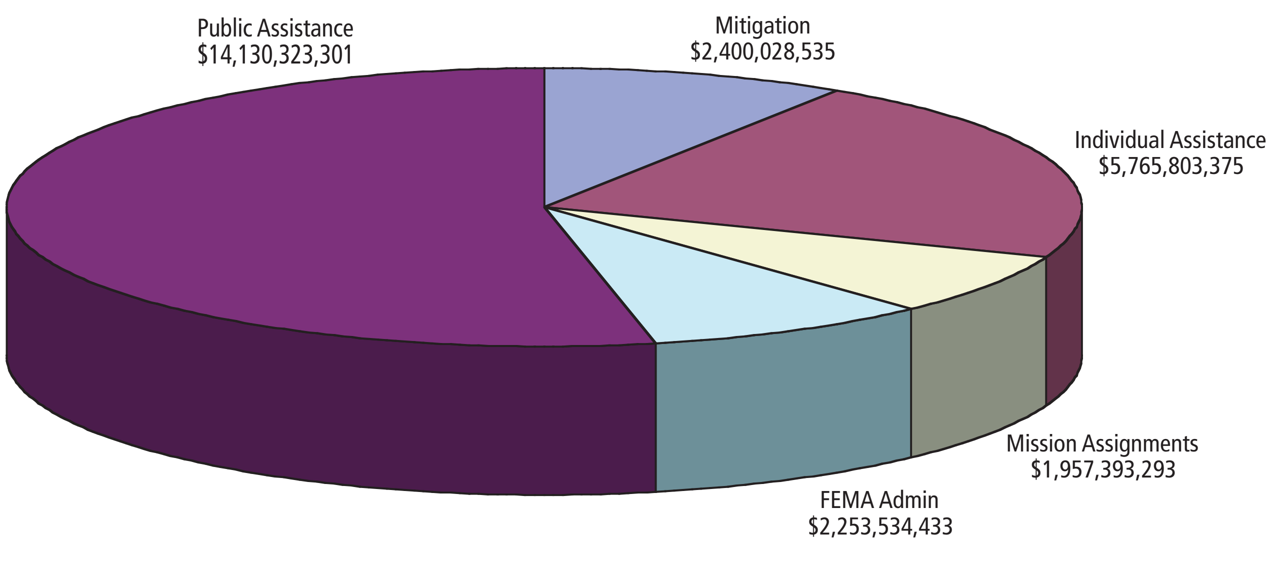
This section of the Management Discussion and Analysis consists of a consolidation of several financial and program management reports that were previously reported separately to the President and the Congress. These will now become a recurring part of FEMA's Accountability Report.

Disaster Financial Information

The financial costs of disasters have escalated and have a direct relationship to the busiest period of disaster events in recent memory. Not only have the number of disasters increased, but the severity as well. From our most expensive disaster, the Northridge earthquake of 1994, to record flooding in the Pacific Northwest in 1996 and the Red River Valley in 1997, to the unprecedented ice storms and tragic tornadoes of 1998, disaster relief costs reflect this historic trend of severe weather events over the past 10 years.

Prior to 1989, only one disaster, Hurricane Agnes in 1972, cost more than $500 million in FEMA funds. Since 1989, every year except 1991 has had at least one big disaster costing more than $500 million. Another major factor in increased expenditures for disaster relief is the types of

Total FEMA Cost Projections for Disasters Declared in FY 89–98 by Program (as of 9-30-98)



Total Projections $26,507,082,937

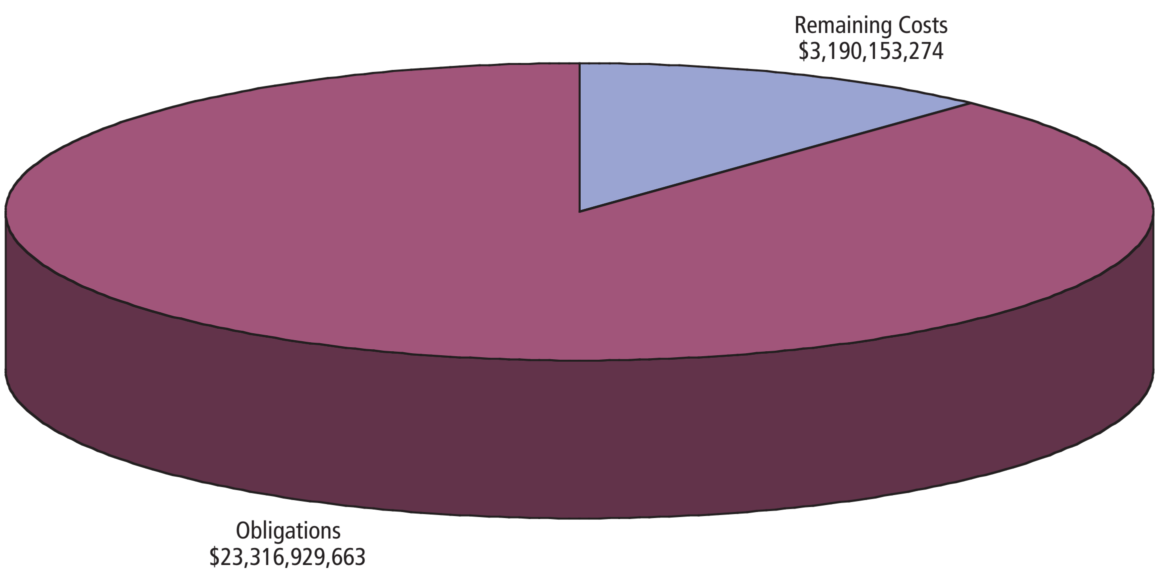
disasters that have been occurring. Only six major disaster declarations since 1989 were for earthquakes (one percent of the total); however, these six declarations account for one-third of FEMA's obligations from the Disaster Relief Fund (DRF). Projected assistance resulting from the January 1994 Northridge earthquake alone is equal to 27 percent of all projected costs from the DRF during the last ten years. FEMA's cost projections for disasters declared in FY 1989–1998 total more than $26 billion.

As the above graph indicates, more than half of the projected disaster costs are in Public Assistance. Most of these projected costs are the result of the aforementioned earthquake disasters. Earthquakes generally require more costly infrastructure rebuilding, while hurricanes and floods affect greater numbers of people and require more Individual Assistance. As indicated in the graph, approximately $2.50 is projected to be spent for Public Assistance for every $1 spent for Individual Assistance.

More than $2.4 billion of the projected costs are to mitigate the effects of disasters and protect communities and the environment. Just under $2 billion is for mission assignments to other Federal agencies to provide assistance in the immediate aftermath of disasters, while just over $2 billion is to administer disaster response and recovery activities.

Disaster costs typically were incurred during a period of years following the disaster declaration because Public Assistance projects took many years to complete. FEMA has streamlined the Public Assistance process and accelerated final cost determinations at the State and local levels so that funds are obligated to specific projects. FEMA also established a two year deadline for project approval and obligation of funds for post-disaster Hazard Mitigation grants. As the graph below shows, FEMA has obligated $23 billion of the projected $26 billion for all disasters for the ten year period, or 88% of all projected costs. Forty-eight percent of the remaining costs are for Public Assistance (PA) programs, and 26% for Hazardous Mitigation (HM) programs. FEMA has made a priority of closing out, i.e., fully funding, all disasters declared prior to FY 1998 by the end of FY 1999. This would eliminate over $1.5 billion in remaining costs by the end of FY 1999.

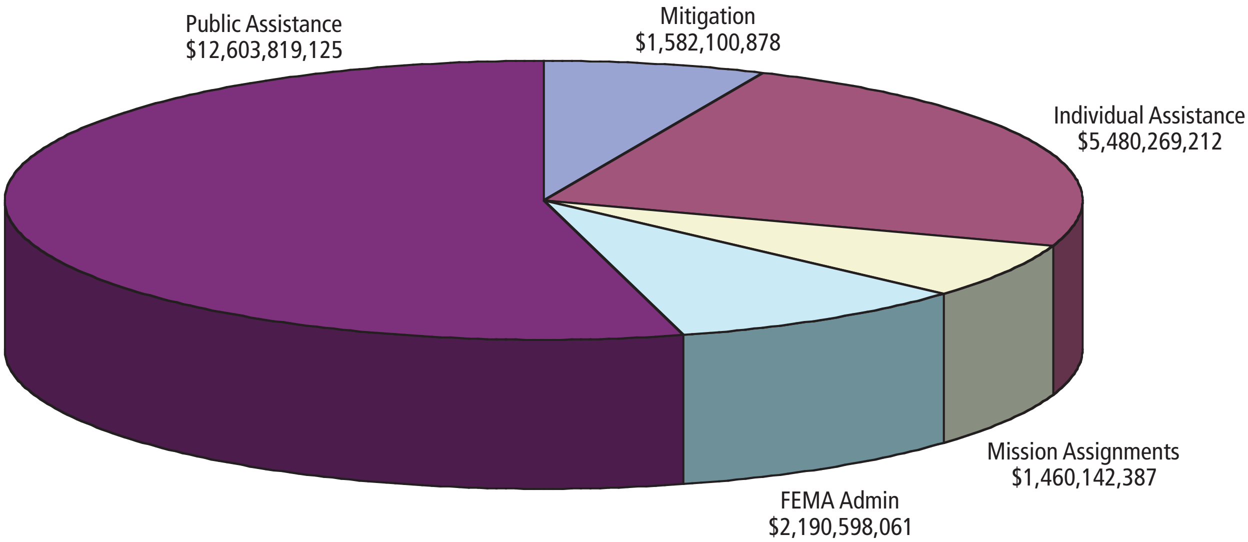
Total FEMA Projections for Disasters Declared in FY 89–98 (as of 9-30-98)



Total Projections $26,507,082,937

The graph Total FEMA Obligations shows the total cumulative amount obligated for each program and activity for the ten year period. Public Assistance, at 54% accounts for the majority of DRF funds obligated since FY 1989. Individual Assistance obligations account for 23.5% of costs to date, while Mitigation programs are 6.8% of the total. The percentage of Hazard Mitigation obligations will increase over time because the Hazard Mitigation grants usually take longer (up to two years from the declaration) to obligate.

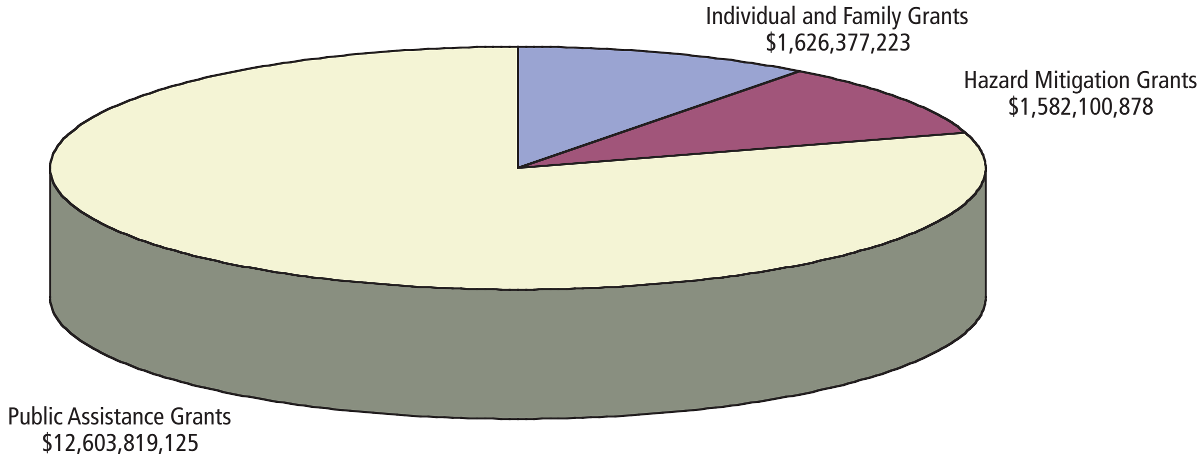
Total FEMA Obligations for Disasters Declared in FY 89–98 by Program (as of 9-30-98)



Total Obligations $23,316,929,663

The primary vehicle FEMA uses for distributing disaster relief funds is through grants to States (and through States to local governments). These grants are for Public Assistance projects; for individuals through the Individual and Family Grant Program administered by the State to replace lost essential property, for home repair, and medical dental and funeral expenses caused by the disaster; and for Hazard Mitigation grants, to assist the State and local communities in implementing long-term hazard mitigation measures following a major disaster declaration.

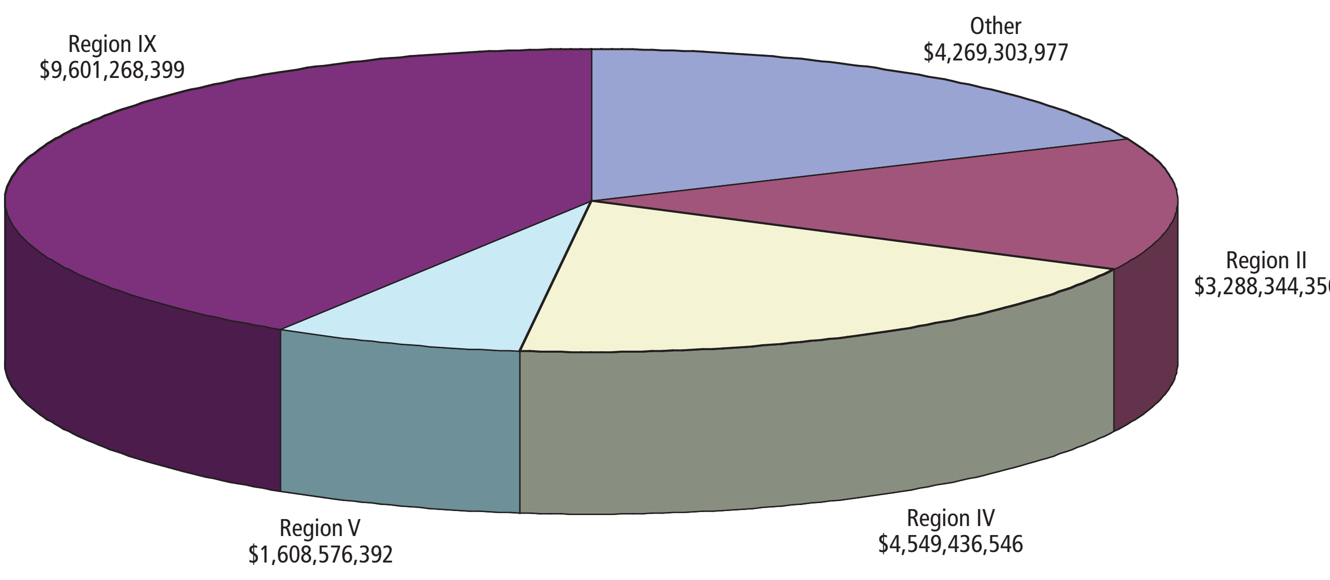
Total Grant Obligations for Disasters Declared in FY 89–98 (as of 9-30-98)



Total FY 98 Grants $15,812,297,226

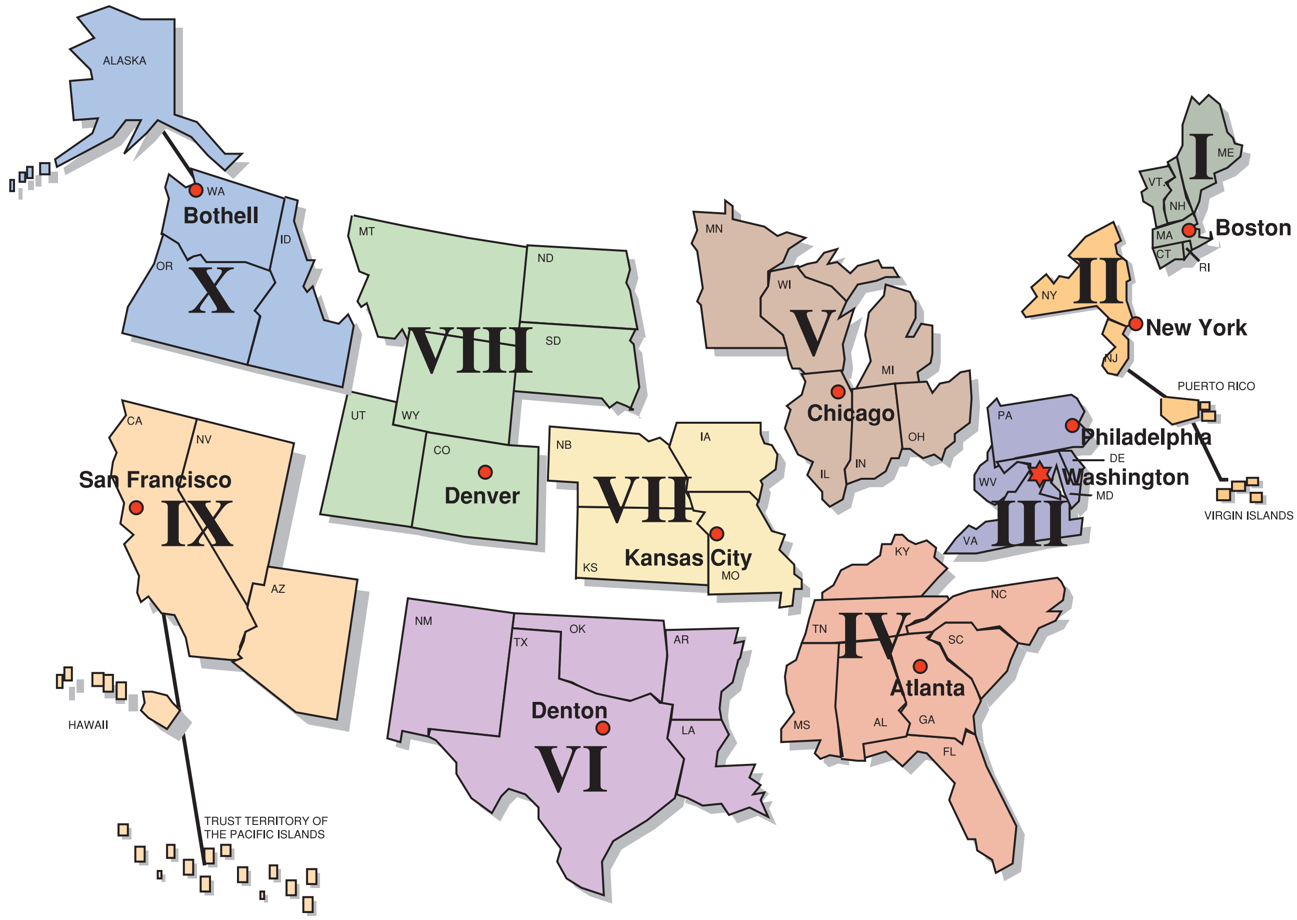
Region IX accounted for 41% of all obligations for disasters declared during the ten-year period. This was primarily the result of the Loma Prieta and Northridge earthquakes, hurricanes in Hawaii and Pacific Islands, flooding, and numerous wildfires. Region IV accounted for 19.5% of obligations primarily resulting from hurricanes, especially Hurricanes Hugo and Andrew. Region II obligated 14.1% of disaster dollars during the period, principally because of hurricanes in the Caribbean, while Region V accounted for 6.9% owing to severe flooding in the Midwest in 1993 and 1998. The balance, or 18.3% of the obligated dollars, was distributed in the other regions of the country.

Total FEMA Obligations for Disasters Declared in FY 89–98 by Region (as of 9-30-98)



Total All Regions $23,316,929,663

Federal Emergency Management Agency Regional Map



Natural disasters are a fact of life. They are inescapable and they are costly. FEMA initiated many program and administrative changes during the last half dozen years to reign in and control the costs of disasters and at the same time continue to provide better service for the people most in need—the disaster victims and communities who have been devastated by disasters. We have indicated many of the program performance factors in Part I of the Management Discussion and Analysis, especially pre-disaster mitigation highlighted by Project Impact.

Management Integrity and Accountability FMFIA

STATUS OF MANAGEMENT CONTROL

FEMA's Office of Financial Management has given priority to integrating and streamlining budget and management reports to provide more useful information to decision makers; and to implementing an approach to management controls that integrates management controls with other management improvement initiatives.

Status:

- FY 1998 represented the culmination of our three-year plan to provide comprehensive and consolidated statements for FEMA to bring FEMA into compliance with the GMRA of 1994.
- This past year, the Office of Financial Management (OFM) performed more financial management reviews than in any previous year. Survey reviews were performed of cash transactions, accounts receivable, advances, fixed assets, vendor payments, travel payments, mission assignments, individual assistance payments, and payroll. These reviews included data verification or reconciliation work that required bringing the transaction cycle up to requirements or meeting standards and systems reviews. Other periodic random audits of financial transactions were performed by OFM where all aspects of the transaction cycle were reviewed in detail and system entries checked for accuracy. Several reviews also were conducted at Disaster Field Offices and reviews were conducted of the disbursement function. The reviews, as appropriate, resulted in strengthening financial operations, and, where warranted, controls.
- The Chief Financial Officer successfully established a Comptroller position at Disaster Field Offices to ensure integrity and control over financial management functions. A cadre of financial professionals were selected and trained for deployment in January 1998. In addition, FEMA staff likely to be deployed in a field operation began receiving training in financial management and management controls.
- A Quality Assurance Team was established within the Accounting Services Division. The Assurance Team will conduct periodic reviews of system controls and financial and data transactions. They also will provide reports on financial data and/or procedures defined as reportable conditions, and/or material weaknesses to top management, and will write standard operating procedures for all of the functions within the Accounting Services Division.
- The Chief Financial Officer issued a memorandum implementing Quarterly Financial Reporting Requirements for Disaster Grants, which is expected to improve the Agency's ability to reconcile and closeout disaster grant expenditures for all new obligations.
- FEMA formed three territorial disaster closeout teams reporting to the Director through the CFO. These teams are charged with expediting the closing out of over 400 open disaster events by obligating funds for approved projects and coordinating the financial reconciliation of unliquidated obligations.

FEMA's Federal Insurance Administration (FIA) implemented the following initiatives to help strengthen management controls especially for the NFIP:

- Claims re-inspection efforts with Write Your Own (WYO) companies continue which still result in the NFIP being reimbursed for overpayments.
- Intensified claims operations reviews, conducted by FIA staff, continue to result in reimbursements to the NFIP for claim overpayments by WYO Companies.
- The NFIP continues its cooperative efforts with the Commission of Insurance Fraud Investigators, an arm of the American Insurance Services Group, to investigate claims overpayments.
- FIA contracted with several CPA's to assist in adjusting and re-inspection of NFIP claims in order to prevent and detect claim fraud.

- FIA contracted out an analysis of the WYO Companies Expense Allowance. The study determined and FIA is in the process of altering the formula that is currently used to calculate the WYO Expense Allowance. This new formula should result in a decrease in the WYO Expense Allowance for next fiscal year resulting in program savings.

FEMA is continuing to approach management control by building appropriate controls into Agency operations. This has been our *modus operandi* for the last seven years. Long before reengineering became fashionable in government, FEMA began seriously examining work processes and flows to redesign and rationalize them. We concluded that stressing controls with regard to processes that were out of kilter, obsolete, or dysfunctional was not good management practice and would not yield useable or even practical results. We concentrated instead on operational process improvements and continuous process improvement. To the extent we could benchmark practices, we did so. We borrowed ideas, concepts, approaches, and practices from the public and private sectors. Our rationale was that good sound management practices also would include strengthened and improved management controls.

FEMA is implementing revised OMB Circular A-123 through reengineered processes and continuous improvement process efforts. We have overhauled FEMA's Public Assistance program. A majority (55%) of our disaster costs is in public assistance. The goal of this business process reengineering was, and is to improve customer service to State and local governments, to help communities expeditiously recover from disasters, and reduce administrative costs. Through this effort, we expect to improve consistency in program decision-making and operations nationwide; enhance fiscal responsibility for funds approved, obligated, and disbursed; and improve tracking of project status and eligibility of scope of work. FEMA is making a considerable investment in this process because we believe it will result, in the long term, in a reduction of disaster costs and enhanced accountability for the expenditure of disaster dollars.

FEMA completed a thorough assessment of the grant management process for all disaster and non-disaster grant programs with the assistance of Logistics Management Institute. The Director endorsed a report summarizing the reengineering process and recommending solutions covering the grants management process. In general, the recommendations included instituting procedures that will enable FEMA to more effectively comply with Federal grant administration and financial tracking. Implementation of those recommendations specific to the disaster grant programs also are expected to result in increased financial management control as well as more effective disaster grant program management.

The following tables show the progress made over the last few years in correcting and closing FEMA's few material weaknesses and non-conformances.

Number of Material Weaknesses by Fiscal Year

Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected	Number Remaining at End of Fiscal Year
1995	5	2	3
1996	3	1	2
1997	2	0	2
1998	2	1	1*

* Material weakness remaining: Disaster Closeout.

Number of Non-Comformances by Fiscal Year

Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected	Number Remaining at End of Fiscal Year
1995	5	1	4
1996	4	0	4
1997	4	0	4
1998	4	1	3*

* System non-comformances remaining: Data Accessibility; Financial System Documentation; Insurance Accounting.

PROMPT PAYMENT ACT

Description of agency payment practices: FEMA payment practices are conducted in accordance with the Prompt Payment Act. Obligations are established and posted in our Integrated Financial Management Information System (IFMIS) at the time contracts, purchase orders or other obligating documents are executed. The IFMIS system schedules payments on a daily basis in accordance with the provisions of the Prompt Payment Act and the conditions of the contract or other obligating documents as appropriate.

Progress made: During FY 1998 FEMA implemented several new systems to more effectively and efficiently implement the Prompt Payment Act.

- FEMA disbursement offices continued to work with project officers and their supervisors to expedite review and approval of invoices.
- The headquarters disbursements office continued to perform quality assurance reviews on all payment files to insure that all invoices are paid on the scheduled due date and are paid in accordance with the Act.
- FEMA disbursements office continued to encourage payments by EFT and continued to collect bank information from vendors converting their payments to ACH.

FEMA's Disaster Finance Center (DFC) vendor payment unit has implemented the following procedures:

Prompt Pay Table

Fiscal Year	Number of Payments	Number of Late Payments	Percent of Payments Late	Penalty Interest
1995	34,608	1,724	4.98	$90,248
1996	30,806	2,518	8.17	$111,581
1997	20,702	968	4.6	$85,617
1998	27,280	1,487	5.45	$17,476*

*Note: At no time during the last four years did penalty interest exceed 1/2 of 1% of dollar value of payments. FEMA will continue to conduct quality assurance and supervisory reviews to reduce late payments and penalty interest even further.

- Invoices not meeting the proper invoice criteria established by the Prompt Payment Act are immediately identified and returned within seven days after receipt.
- All invoices under $2,500 are paid immediately upon the receipt of proper approval and supporting documentation.
- A suspense file is maintained to ensure that every invoice is monitored according to the date the invoice is due, under the guidelines set forth in the Prompt Payment Act.
- Written and verbal requests, are made within five days of receipt of an invoice to expedite approval.

Quality Control Reviews: FEMA DFC has initiated a regular Quality Assurance Program for vendor payments.

Management Follow-up To OIG Recommendations

FEMA's follow-up to actions on audit report findings and recommendations are essential to recover those funds that have been found to be owed to FEMA, and to provide direction for improving the effectiveness and efficiency of our program operations.

FEMA began FY 1998 with 58 audit reports carried over from FY 1997. These contained approximately $45.4 million dollars in costs that management determined should not be charged to the Agency's programs (disallowed costs). Another 17 audit reports represent almost $68 million dollars which could be used more efficiently (funds put to better use).

During the year, 40 new audit reports containing over $20 million dollars of disallowed costs were agreed to between FEMA's Inspector General and FEMA management, and we completed action on 37 of the total 98 open audit reports while recovering almost $22 million dollars. Four new audit reports representing over $7 million dollars in recommended funds to be put to better use were agreed to, and five of the total 21 audit reports of that type were closed, resulting in the release of over $2 million dollars in funds that could be better utilized elsewhere. The table below depicts these activities.

The inevitable long-term nature of disaster recovery and some other grant programs often dictates that projects (and subsequently, audit reports conducted on those projects) must stay open for protracted periods of time before they can be closed, and funds owed to the Agency can be recovered. This is especially true when recipients are permitted to spread the pay-back of large sums over time (often several years), or are allowed to offset repayments against payments owed them in other current or future disasters. But the Agency is working diligently to accelerate the process of closing audit reports, with special emphasis on audits that have been open for more than a year.

	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 1998	58	$45,394,590	17	$67,928,883
New Audits During FY 1998	40	$20,595,882	4	$7,239,373
Actions Implemented	(37)	$(21,857,920)	(5)	$(2,167,250)
End of FY 1998	61	$44,132,552	16	$73,001,006

Debt Collection Improvement Act (DCIA) of 1996

The DCIA has made it possible for FEMA to more effectively and efficiently collect payments owed from debtors by utilizing various resources and methods that are now available to Federal entities.

Collection tools implemented in the Agency to assist in debt collection activities include: Treasury's Financial Management Service (FMS) Cross-Servicing Program, Treasury Offset Program (TOP), the use of administrative offsets to collect debts owed by States and local governments, centralized computer matching, and taxpayer identification numbers (TINs). At fiscal year end, FEMA's net accounts receivables totaled $69 million. Seventy-five percent or $52 million of this amount represents receivables for the Disaster Relief Fund. Approximately $5 million of FEMA's eligible debt was referred to FMS for collection through cross servicing, and debts totaling $9 million were referred to the Treasury Offset Program. Debts over 180 days totaling $126,000 were referred to PAYCO, a private collection agency, and approximately $209,000 was referred to the Department of Justice for legal collection remedies.

Civil Monetary Penalties

The Federal Civil Penalties Inflation Adjustment Act established annual reporting requirements for civil monetary penalties assessed and collected by Federal agencies. Civil penalties are defined as any non-criminal penalty, fine, or other sanction for which a given dollar amount or maximum amount is specified by Federal law, and which is assessed or enforced by an agency as a result of an administrative proceeding or civil action in Federal Courts. As indicated by the following table, FEMA has miniscule civil monetary penalties to collect.

Fiscal Year	# Cases	Amount	Collections	Balance
1995	1	$10,745	$932	$9,813
1996	1	$9,813	$982	$8,831
1997	2	$18,831	$10,492	$8,339
1998	1	$8,339	$ –0–	$8,339

Year 2000 Compliance

The Federal Emergency Management Agency (FEMA) has made progress in addressing Year 2000 (Y2K) problems. The Agency developed a Program Management Plan that provided direction in reviewing compliance of the Agency's systems and software. The plan established centralized inventories for systems, data exchanges, and network servers. There is also a process for reviewing building infrastructure equipment in FEMA-owned buildings. The Office of the Inspector General conducted an independent audit of the Y2K process, releasing its report in January 1999. The audit found that "while FEMA has made progress in its year 2000 compliance efforts, action needs to be taken if critical year 2000 issues are to be addressed adequately and timely."

FEMA continues to make progress in bringing its systems into compliance with Y2K requirements. Forty-one of the 46 Mission Critical systems in FEMA are compliant; of the five that are not compliant, four are to be replaced and one is being repaired. All mission critical systems are to be compliant or replaced by March 31, 1999. The Information Technology Services Directorate established an IV&V team to validate mission critical systems, in coordination with the responsible program office's testing efforts.

FEMA is progressing on its non-mission critical systems. Sixteen of the 32 systems being reported were compliant. One is to be repaired, 12 are being replaced, and three are to be retired. FEMA is reviewing the infrastructure equipment involved with the maintenance/management of FEMA-occupied facilities. Any found to be non-compliant are undergoing compliance remediation.

FEMA has material dealings with several other federal entities for delivery of funds and services. FEMA is working with its partners to ensure their readiness to deal with Y2K issues. Specifically, FEMA has identified data exchanges of six major systems with external entities. FEMA is evaluating the readiness of those entities as well, to determine potential impact on FEMA's business, in the event they are not prepared.

FEMA is developing its Y2K Business Continuity and Contingency Plan. These plans are being developed for all mission-critical systems and infrastructure systems for FEMA- owned facilities. Over the upcoming months, FEMA will validate emergency cadres and test proposed backup procedures. FEMA has had a Continuity of Operations Plan for quite some time, and the Y2K Plan will become an extension of that planning effort.

FEMA has evaluated its worst case scenarios. For many IT systems, business continuity planning must include the possibility of structural degradation of the utility grids and the ability to operate from a different building or geographic location. Fortunately, a number of FEMA locations have emergency generating facilities, which reduce the demands for relocation. An example would be FEMA's primary computing center at the Mt. Weather Emergency Assistance Center. This facility can operate independently for an extended period of time.

Beginning in fiscal year 1996 and continuing into the Year 2000, FEMA anticipates spending close to $13 million in preparing for the Year 2000. This includes potential requirements for systems that are certified as being repaired, but further testing does not substantiate that claim.

FEMA is playing a major leadership role in working with State and local emergency management and fire service officials to raise awareness of Y2K technology problems, increase preparedness for dealing with any disruptions, and provide assistance to State and local governments in responding to Y2K consequences. A key component of FEMA's activities will be a series of Y2K consequence management workshops to be held in each Region beginning in mid-February. These workshops will provide a forum where the emergency management and fire services communities can discuss results of initial Y2K compliance assessments, potential consequences of Y2K failures, and requirements for local-State-Federal response.

Through its planning, FEMA believes it will be able to address its own unforeseen operational problems in 2000, and that the Agency will be prepared to assist and support other governmental units through any large emergency or disaster precipitated by Y2K or other contingencies.

The Federal Emergency Management Agency Report on the Consolidated Financial Statements for Fiscal Year 1998

Deloitte &
Touche LLP

1900 M Street NW
Washington, DC 20036-3564
Telephone: (202) 955-4000
Facsimile: (202) 955-4294

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, 1998, 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 by OMB Memorandum 99-08. 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.

As described in Note 1 to the financial statements, FEMA prepares its financial statements in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

As described in Note 1 to the financial statements, the basis of presentation of the accompanying 1998 financial statements is substantially different than that used in FY 1997.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of FEMA, its Directorates and Administrations and the DRF as of September 30, 1998, and their net costs, changes in net position, budgetary resources and reconciliation of net costs to budgetary obligations for the year then ended, in conformity with the basis of accounting described in Note 1 to the financial statements.

Deloitte Touche
Tohmatsu
International

The supplemental combining balance sheets and related statements of net costs and changes in net position of the FEMA Directorates and Administrations 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 costs 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 1998 combined financial statements of the Directorates and Administration and, in our opinion, are 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 by OMB Memorandum 99-08, we have also issued our report dated February 18, 1999, 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.

Deloitte & Touche LLP

February 18, 1999

Deloitte &
Touche LLP

1900 M Street NW
Washington, DC 20036-3564
Telephone: (202) 955-4000
Facsimile: (202) 955-4294

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON 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, 1998, and have issued our report thereon dated February 18, 1999. 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 by OMB Memorandum 99-08.

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."

   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 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 monitor the financial management system to ensure integrity of financial data."

   We recognize that FEMA undertook a significant challenge in its three – year plan to achieve the preparation of agency – wide financial statements by FY 1998. Additionally, the full implementation of the reporting requirements of OMB Bulletin No. 97 – 01, Form and Content of Agency Financial Statements, in FY 1998 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 neither stable nor subject to the necessary levels of supervision and review. For example, we noted that:

Deloitte & Touche LLP

- ◊ There was no procedure for monthly or quarterly closes of the accounting records in order to generate interim trial balances and to prepare interim financial statements as required by core financial system requirements for federal agencies.
- ◊ In the effort to produce FY 1998 financial statements and footnotes in compliance with the OMB's form and content requirements, FEMA utilized a non – integrated financial reporting application that had not been thoroughly reviewed for accuracy and completeness prior to its initial use in the preparation of individual financial reporting packages for the 48 fund – level entities within FEMA that were provided to us for our audit. Amounts were in error or inconsistent with related balances or disclosures; numerous tabulation and cross – tabulation errors existed; and some cross – walks between the trial balance amounts and the financial statement line items were erroneous or incomplete.
- ◊ The roll – ups of individual financial reporting packages into the aggregate presentation of FEMA's Directorates and Administrations and for both the combining and consolidated financial statement presentation were not tested or reviewed prior to being provided for audit purposes.
- ◊ The year – end balance of accounts receivable in the general ledger could not be supported with a detailed listing and, thus, was written down by approximately $5.0 million.
- ◊ Significant outstanding balances of advances on the draft financial statements could not be supported by appropriate documentation and, thus, were expensed.
- ◊ No adequate review of the draft financial statements and footnotes for reasonableness, including a comparison against prior year amounts and an explanation of unusual variances, was performed prior to submitting them for audit.
- ◊ There was no timely reconciliation of Fund Balances with Treasury for the fund – level entities to the financial statement presentation. Significant differences requiring reclassification and/or adjustment were noted.

Appropriate controls and processes for the financial statement preparation process should be designed, tested and implemented as soon as possible. Periodic closings during the year should be scheduled to ensure timely analyses and reconciliations of financial data and to facilitate a more timely year – end closing and audit. Procedures for appropriate and timely management reviews and account reconciliations should be formalized and implemented to achieve compliant internal control.

2. We noted internal control deficiencies in certain aspects of FEMA's automated integrated financial management information system, particularly in the areas of information security and access controls; application controls related to financial report generation; application system implementation and maintenance controls related to modifications and system documentation; and database standards related to data entry standards. 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 LLP

The FY 1998 trial balances were produced initially after year – end for the 48 fund – level entities within FEMA. The subsequent aggregation of the balances into financial statements at the fund, directorate or administration level relied upon extensive manual efforts to record, accumulate, and adjust accounting data. As noted above, in this initial period of implementation, this process did not appear to be adequately developed and controlled to ensure completeness and accuracy.

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. Additionally, appropriate manual controls over the financial statement preparation process, including management reviews and account reconciliations, should be developed and instituted on a periodic basis to ensure that errors and omissions in accounting records do not go undetected throughout the year and to facilitate the year – end closing 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 by OMB Memorandum 99-08. 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

The management of FEMA is responsible for complying with laws and regulations applicable to the agency. 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 by OMB Memorandum 99-08, 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.

Deloitte & Touche LLP

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."

   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 stable and mature 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, 1999

Deloitte & Touche LLP

Federal Emergency Management Agency
Washington, D.C. 20472

MAR 1 1999

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 1998 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. FEMA also agrees that there are internal control deficiencies in certain aspects of our automated integrated financial management information system. However, we do not agree that these findings constitute substantial noncompliance with FFMIA.

As the auditor's report indicates, FEMA has made significant progress in correcting the conditions reported in these two areas. 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.

THE FEDERAL EMERGENCY MANAGEMENT AGENCY

INTRODUCTION TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

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, which superceded OMB Bulletin No. 94-01, *Form and Content of Agency Financial Statements*, for FY1998. 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 FY1998. These pronouncements are:

- SFFAS No. 4: *Managerial Cost Accounting Concepts and Standards*;
- SFFAS No. 6: *Accounting for Property, Plant, and Equipment*;
- SFFAS No. 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*; and
- SFFAS No. 8: *Supplementary Stewardship Reporting*.

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 and the Statements of Federal Financial Accounting Standards 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 FY1998 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

Effective FY1998, the third and final year of FEMA's implementation of the Government Management Reform Act of 1994 (GMRA), the consolidated financial statements include all activities within FEMA:

1. Response and Recovery Directorate
2. Mitigation Directorate
3. Preparedness, Training and Exercise Directorate
4. Federal Insurance Administration
5. U.S. Fire Administration
6. Support Organizations
7. Disaster Relief Fund (DRF)

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 Directorates and Administrations, and the DRF to meet the requirements of the Chief Financial Officers Act of 1990 (CFO Act) and 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, 1998
(Dollars in Thousands)

	Administrations	DRF	CONSOLIDATED
ASSETS			
Entity			
Intragovernmental			
Fund Balance with Treasury (Note 2)	$ 339,797	$ 8,848,091	$ 9,187,888
Accounts receivable, net (Note 4)	96,288	-	96,288
Advances and prepayments (Note 7)	2,804	46,133	48,937
Total Intragovernmental	438,889	8,894,224	9,333,113
Accounts receivable, net (Note 4)	16,747	51,890	68,637
Credit program receivables, net (Note 6)	24,423	-	24,423
Advances and prepayments (Note 7)	284,107	40,631	324,738
Cash and other monetary assets (Note 3)	5,810	-	5,810
Inventory and related property, net (Note 8)	4,293	-	4,293
General property, plant, and equipment, net (Note 9)	8,925	15,651	24,576
Other (Note 5)	1,056	-	1,056
Total Assets	**$ 784,250**	**$ 9,002,396**	**$ 9,786,646**
LIABILITIES			
Liabilities Covered by Budgetary Resources:			
Intragovernmental			
Accounts payable	$ 32,305	$ 67,199	$ 99,504
Debt (Note 10)	592,549	-	592,549
Other (Note 14)	8	-	8
Total Intragovernmental	624,862	67,199	692,061
Accounts payable	87,658	160,584	248,242
Claims and claims settlement expenses (Note 11)	469,411	-	469,411
Deferred revenue (Note 12)	882,915	-	882,915
Other liabilities (Note 14)	11,536	8,086	19,622
Total Liabilities Covered by Budgetary Resources	2,076,382	235,869	2,312,251
Liabilities Not Covered by Budgetary Resources:			
Other (Note 14)	11,736	1,686	13,422
Total Liabilities Not Covered by Budgetary Resources	11,736	1,686	13,422
Total Liabilities	**2,088,118**	**237,555**	**2,325,673**
NET POSITION			
Unexpended appropriations (Note 15)	280,013	8,773,652	9,053,665
Cumulative results of operations	(1,560,569)	13,567	(1,547,002)
Current	(23,312)	(22,378)	(45,690)
Total Net Position	**(1,303,868)**	**8,764,841**	**7,460,973**
Total Liabilities and Net Position	**$ 784,250**	**$ 9,002,396**	**$ 9,786,646**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

FOR THE YEAR ENDED SEPTEMBER 30, 1998
(Dollars in Thousands)

	Directorates and Administrations	DRF	CONSOLIDATED
Costs			
Intragovernmental			
Production	$ -	$ -	$ -
Non-production	-	-	-
Public			
Production	1,839,597	2,054,407	3,894,004
Non-production	18,089	27,095	45,184
Total Program Costs	1,857,686	2,081,502	3,939,188
Less: Earned revenue not attributed to programs	1,335,796	-	1,335,796
NET COST OF OPERATIONS BEFORE ALLOCATIONS	**521,890**	**2,081,502**	**2,603,392**
Net Cost Allocations of Support Organizations and Prior Years' Appropriations	(108,698)	108,698	-
NET COST OF OPERATIONS AFTER ALLOCATIONS	**$ 413,192**	**$ 2,190,200**	**$ 2,603,392**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 1998
(Dollars in Thousands)

	Directorates and Administrations	DRF	CONSOLIDATED
Net Cost of Operations	$ (413,192)	$ (2,190,200)	$ (2,603,392)
Financing Sources (other than exchange revenue):			
Appropriations used	489,819	2,057,859	2,547,678
Imputed financing	6,508	1,266	7,774
Transfers-in	19,753	-	19,753
Transfers-out	(17,502)	-	(17,502)
Net Cost Allocations of Support Organizations and Prior Years' Appropriations	(108,698)	108,698	-
Net Results of Operations	(23,312)	(22,377)	(45,689)
Prior Period Adjustments	-	-	-
Net Change in Cumulative Results of Operations	(23,312)	(22,377)	(45,689)
Increase (Decrease) in Unexpended Appropriations	8,783	(143,361)	(134,578)
Change in Net Position	**(14,529)**	**(165,738)**	**(180,267)**
Net Position - Beginning of Period	(1,289,339)	8,930,579	7,641,240
Net Position - End of Period	**$ (1,303,868)**	**$ 8,764,841**	**$ 7,460,973**

The accompanying notes are an integral part of these statements.

The Federal Emergency Management Agency

Consolidated Statement of Budgetary Resources

For the Year Ended September 30, 1998

(Dollars in Thousands)

	Directorates and Administrations	DRF	CONSOLIDATED
Budgetary Resources:			
Budget authority	$ 946,879	$ 1,920,000	$ 2,866,879
Unobligated balances - beginning of period	719,527	3,876,374	4,595,901
Net transfers prior-year balance, actual	12,422	5,505	17,927
Spending authority from offsetting collections	1,393,154	18,674	1,411,828
Adjustments	(441,847)	715,045	273,198
Total budgetary resources	**$ 2,630,135**	**$ 6,535,598**	**$ 9,165,733**
Status of Budgetary Resources:			
Obligations incurred	$ 1,936,203	$ 4,087,759	$ 6,023,962
Unobligated balances - available	213,767	2,447,839	2,661,606
Unobligated balances - not available	480,165	-	480,165
Total status of budgetary resources	**$ 2,630,135**	**$ 6,535,598**	**$ 9,165,733**
Outlays:			
Obligations incurred	$ 1,936,203	$ 4,087,759	$ 6,023,962
Less: Spending authority from offsetting collections and adjustments	1,402,603	686,165	2,088,768
Subtotal	533,600	3,401,594	3,935,194
Obligated balance, net - beginning of period	383,298	4,803,446	5,186,744
Obligated balance transferred, net	-	-	-
Less: Obligated balance, net - end of period	744,509	6,142,292	6,886,801
Total outlays	**$ 172,389**	**$ 2,062,748**	**$ 2,235,137**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Financing

For the Year Ended September 30, 1998
(Dollars in Thousands)

	Directorates and Administrations	DRF	CONSOLIDATED
Obligations and Non-budgetary Resources			
Obligations incurred	$ 1,936,203	$ 4,087,759	$ 6,023,962
Less: Spending authority for offsetting collections and adjustments	1,339,119	686,327	2,025,446
Financing imputed for cost subsidies	8,763	-	8,763
Transfers-in (out)	(2)	-	(2)
Exchange revenue not in the budget	(5,072)	(67,788)	(72,860)
Other	(866)	1,265	399
Total obligations, as adjusted, and non-budgetary resources	**599,907**	**3,334,909**	**3,934,816**
Resources That Do Not Fund Net Cost of Operations			
Change in amount of goods, services, and benefits ordered but not yet received or provided	(163,055)	(1,170,665)	(1,333,720)
Costs capitalized on the balance sheet	(40,126)	(2,113)	(42,239)
Financing sources that fund costs of prior periods	(127)	-	(127)
Total resources that do not fund net cost of operations	**(203,308)**	**(1,172,778)**	**(1,376,086)**
Costs That Do Not Require Resources			
Depreciation and amortization	1,563	741	2,304
Revaluation of assets and liabilities	11,973	26,354	38,327
Total costs that do not require resources	**13,536**	**27,095**	**40,631**
Financing Sources Yet to Be Provided	3,057	974	4,031
Net Cost of Operations	**$ 413,192**	**$ 2,190,200**	**$ 2,603,392**

The accompanying notes are an integral part of these statements.

THE FEDERAL EMERGENCY MANAGEMENT AGENCY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998
(Dollars in Thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Effective in FY1998, the Federal Emergency Management Agency (FEMA) executed the third and final year of its implementation plan to produce agency-wide financial statements by reporting all of the activities of the Agency, including the Disaster Relief Fund (DRF) and its 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 FY1998 financial statements are presented in conformity with OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended by OMB Memorandum No. 99-03. This represents a fundamental change in presentation from the prior year. In FY1997, financial statements were prepared in accordance with the requirements of the OMB Bulletin No. 94-01 and the effective provisions of OMB Bulletin No. 97-01. Because FY1998 is the initial year of full implementation of OMB Bulletin No. 97-01, as amended by OMB Memorandum No. 99-03, and the inclusion of all Agency activities, comparative data are not presented. In conformance with the provisions of OMB Bulletin No. 97-01, as amended by OMB Memorandum No. 99-03, comparative data will be presented in

FY1999. Differences in the basis of presentation include the following new statements:

- Consolidated Statement of Net Cost
- Consolidated Statement of Budgetary Resources
- Consolidated Statement of Financing

Differences also include format and content changes to the following statements:

- Consolidated Balance Sheet
- Consolidated Statement of Changes in Net Position

Activity resulting from FY1993-1996 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. 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 (Public Law 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), described later 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, Public Law (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.

2. 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.

3. 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.

4. 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). The FCIP authorization expired September 30, 1995, and the program is in the close-out process. FIA uses a servicing agent, National Con-Serv, Inc. (NCSI), to carry out the processing for the program. 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.

5. 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 at Emmitsburg, Maryland.

6. 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.

7. 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 (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.

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 of 1990, the Federal Accounting Standards Advisory Board (FASAB) was established to recommend Federal accounting standards to the Secretary of the Treasury, the Director of the Office of Management and Budget and the Comptroller General, co-principals of the Joint Financial Management Improvement Program (JFMIP). Eight Statements of Federal Financial Accounting Standards (SFFAS) have been issued by the Director of OMB and the Comptroller General, some with deferred effective dates. 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; (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. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

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 footnote 1.T.

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 Funds with Treasury and Cash and Other Monetary Assets are primarily appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchase commitments.

G. 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 canceled policies, and amounts due from overpayments to grant recipients.

H. 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.

I. 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 or three years.

J. Inventory and Related Property, Net

Inventory and Related Property, Net are comprised of floodplain maps and studies. Inventory and operating materials and supplies on hand at year-end are 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 and operating materials and supplies are sold or consumed.

K. 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.

L. 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 and 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.

M. 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.

N. 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 DADLP and FIA 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 fiscal year ended September 30, 1998 and for other purposes, increased borrowing authority from $1 billion to $1.5 billion.

Additional funding for FCIP may be obtained through a Treasury Department borrowing authority of $250 million. As of September 30, 1998, FCIP had borrowed $3.4 million from the Treasury Department.

DADLP's debt as of September 30, 1998 was $55 million. The borrowed funds were used to make loans to states and local governments in need of assistance in time of disaster.

O. 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, 1998 were derived using loss development data available through November 30, 1998. The method of determining loss reserves utilized in FY1997 considered loss development data available through November 30, 1997.

P. 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.

Q. 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.

R. 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, 1998. Accordingly, the financial statements do not include any provision for this contingent liability.

S. 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.

T. 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 Number 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-98-07, *1998 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 Number 5. A corresponding amount of imputed revenue is recorded to offset the expense.

U. 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.

V. 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. The 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.

NOTE 2. FUND BALANCES WITH TREASURY (in thousands)

Directorates and Administrations	Entity	Non-Entity	Total
Trust Funds	$ 1,606	$ -	$ 1,606
Revolving Funds	99,861	-	99,861
Appropriated Funds	204,551	-	204,551
Other Fund Types	33,779	-	33,779
Subtotal	339,797	-	339,797
Disaster Relief Fund			
Appropriated Funds	8,848,091	-	8,848,091
Subtotal	8,848,091	-	8,848,091
Total	$ 9,187,888	$ -	$ 9,187,888

NOTE 3. CASH AND OTHER MONETARY ASSETS (in thousands)

Directorates and Administrations	Entity	Non-Entity	Total
Cash	$ 8	$ -	$ 8
Other Cash - Agency	2	-	2
Other Cash - Contractor	5,800	-	5,800
Subtotal	5,810	-	5,810
Disaster Relief Fund	-	-	-
Total	$ 5,810	$ -	$ 5,810

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. ACCOUNTS RECEIVABLE, NET (in thousands)

Directorates and Administrations	Entity	Non-Entity	Total
Accounts Receivable - Intragovernmental	$ 96,288	$ -	$ 96,288
Accounts Receivable	17,177	-	17,177
Allowance for Loss	(430)	-	(430)
Net	16,747	-	16,747
Subtotal	113,035	-	113,035
Disaster Relief Fund			
Accounts Receivable - Intragovernmental	-	-	-
Accounts Receivable	90,397	-	90,397
Allowance for Loss	(38,507)	-	(38,507)
Subtotal	51,890	-	51,890
Total	$ 164,925	$ -	$ 164,925

NOTE 5. OTHER ENTITY ASSETS (in thousands)

Directorates and Administrations	
Clearing	$ 1,056
Subtotal	1,056
Disaster Relief Fund	-
Total	$ 1,056

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) Hazard Mitigation Loans
5) Miscellaneous

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	$ 29,398	$ 13,059	$ -	$ 31,566	$ 10,891
2) Individual/Family Grant Loans	-	-	-	-	-
3) Public Assistance Loans	-	-	-	-	-
5) Miscellaneous	7,482	17,631	-	25,113	-
Total	$ 36,880	$ 30,690	$ -	$ 56,679	$ 10,891

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	$ 153,253	$ 19,141	$ -	$ 162,788	$ 9,606
2) Individual/Family Grant Loans	2,411	20	-	1,205	1,226
3) Public Assistance Loans	3,465	28	-	1,730	1,763
4) Hazard Mitigation Loans	1,861	13	-	937	937
Total	$ 160,990	$ 19,202	$ -	$ 166,660	$ 13,532
Total Credit Program Receivables, net					$ 24,423

NOTE 6. DISASTER ASSISTANCE DIRECT LOAN PROGRAM (in thousands) (continued)

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	$ (31)	$ 2,343	$ -	$ -	$ 2,312
2) Individual/Family Grant Loans	-	-	-	-	-
3) Public Assistance Loans	-	-	-	-	-
4) Hazard Mitigation Loans	(10)	51	-	-	41
Total	$ (41)	$ 2,394	$ -	$ -	$ 2,353

2. Direct Loan Modification and Reestimates

Loans Programs	Modifications	Reestimates
1) Community Disaster Loans	$ -	$ -
2) Individual/Family Grant Loans	-	-
3) Public Assistance Loans	-	-
4) Hazard Mitigation Loans	-	-
Total	$ -	$ -

3. Total Direct Loan Subsidy Expenses

Loans Programs	
1) Community Disaster Loans	$ 32,199
2) Individual/Family Grant Loans	-
3) Public Assistance Loans	-
4) Hazard Mitigation Loans	138
Total	$ 32,337

NOTE 7. ADVANCES AND PREPAYMENTS (in thousands)

Disaster Relief Fund	
Intragovernmental	46,133
Other	40,631
Subtotal	86,764
Total	$ 373,675

NOTE 8. INVENTORY AND RELATED PROPERTY, NET (in thousands)

NOTE 8. Inventory and Related Property, Net (in thousands)

A. Inventories

Directorates and Administrations	Valuation Method	Held for Current Sale	Held in Reserve for Future Sale	Excess Obsolete and Unserviceable	Held for Repair
Floodplain Maps and Studies	Average Cost	$ 2,185	$ -	$ -	$ -
Disaster Relief Fund	Average Cost	-	-	-	-
Subtotal		$ 2,185	$ -	$ -	$ -

B. Operating Materials and Supplies

Directorates and Administrations	Held for Use	Held in Reserve for Future Sale	Excess Obsolete and Unserviceable	
Floodplain Maps and Studies	$ 2,108	$ -	$ -	
Disaster Relief Fund	-	-	-	
Subtotal	2,108	-	-	
Total	$ 4,293	$ -	$ -	$ -

NOTE 9. GENERAL PROPERTY PLANT, AND EQUIPMENT (in thousands)

NOTE 8. Inventory and Related Property, Net (in thousands)

A. Inventories

Directorates and Administrations	Valuation Method	Held for Current Sale	Held in Reserve for Future Sale	Excess Obsolete and Unserviceable	Held for Repair
Floodplain Maps and Studies	Average Cost	$ 2,185	$ -	$ -	$ -
Disaster Relief Fund	Average Cost	-	-	-	-
Subtotal		$ 2,185	$ -	$ -	$ -

B. Operating Materials and Supplies

Directorates and Administrations	Held for Use	Held in Reserve for Future Sale	Excess Obsolete and Unserviceable	
Floodplain Maps and Studies	$ 2,108	$ -	$ -	
Disaster Relief Fund	-	-	-	
Subtotal	2,108	-	-	
Total	$ 4,293	$ -	$ -	$ -

NOTE 10. DEBT (in thousands)

A. Other Debt:

Directorates and Administrations	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Treasury - Principal	$ 982,839	$ (402,847)	$ 579,992
Debt to the Treasury - Interest Payable	25,030	(12,473)	12,557
Disaster Relief Fund	-	-	-
Total	$ 1,007,869	$ (415,320)	$ 592,549

B. Classification of Debt:

Intragovernmental	$ 592,549
Governmental	-
Total	$ 592,549

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.

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 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:

	1998
Balance At October 1, 1997:	$ 58,281
Incurred Related To:	
Current Year	763,140
Prior Year	3,551
Total Incurred	766,691
Paid Related To:	
Loss & LAE Reserve Related to:	
Current Year	297,876
Prior Year	57,685
Total Paid	355,561
Balance At September 30, 1998:	$ 469,411

NOTE 12. DEFERRED REVENUE (in thousands)

Directorates and Administrations		
Prepaid Flood Insurance Premiums	$	882,915
Subtotal		882,915
Disaster Relief Fund		-
Total	$	882,915

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
1999	$ 18,013	$ 3,440	$ 21,453
2000	18,734	3,545	22,279
2001	19,483	3,687	23,170
2002	20,262	3,834	24,096
2003	21,073	3,987	25,060
After 5 Years **	21,915	4,147	26,062
Total	$ 119,480	$ 22,640	$ 142,120

1) General Services Administration (GSA)-Controlled
2) Other than GSA-Controlled
** Estimate for 6th Year based on 4% annual increase

NOTE 14. OTHER LIABILITIES (in thousands)

Directorates and Administrations	Current	Non-Current	Total
Other	$ 4,418	$ -	$ 4,418
Accrued Annual Leave	1,239	-	1,239
Accrued Payroll and Benefits	5,887	-	5,887
Subtotal	11,544	-	11,544
Disaster Relief Fund			
Accrued Payroll and Benefits	8,086	-	8,086
Total	$ 19,630	$ -	$ 19,630

B. Other Liabilities Not Covered by Budgetary Resources

Directorates and Administrations	Current	Non-Current	Total
Accrued Annual Leave	11,736	-	11,736
Disaster Relief Fund			
Accrued Annual Leave	1,686	-	1,686
Total	$ 13,422	$ -	$ 13,422

NOTE 15. UNEXPENDED APPROPRIATIONS (in thousands)

Directorates and Administrations	
Unobligated	
Available	$ 52,791
Unavailable	-
Undelivered Orders	227,222
Subtotal	280,013
Disaster Relief Fund	
Unobligated	
Available	2,499,729
Unavailable	-
Undelivered Orders	6,273,923
Subtotal	8,773,652
Total	$ 9,053,665

NOTE 16. ALLOCATION OF SUPPORT ORGANIZATION COSTS AND PRIOR YEARS' APPROPRIATIONS FY1993-1996 (FUNDS 3, 9, 10, 17, AND 20) (in thousands)

FEMA allocated Support Organizations and Prior Years' Appropriations FY1993-96 (for funds 3, 9, 10, 17, and 20) net costs to the Directorates, Administrations, and the DRF to reflect the costs of operating these organizational components. FEMA allocated costs based on FY1997 operating expenses. The net costs of the Support Organizations and Prior Years' Appropriations FY1993-96 was allocated as follows:

			<<-------------	1998 Activity	-------------->>
	1997 Expenses	Allocation %	SO Allocation	Prior Years' Appropriations FY1993-96	Net Allocation
FIA	$ 134,926	2.79	$ 3,193	$ 176	$ 3,369
R&R	54,651	1.13	1,293	71	1,364
PT&E	228,804	4.74	5,425	300	5,725
MIT	34,904	0.72	824	46	870
USFA	29,541	0.62	710	39	749
DRF	4,344,924	90.00	103,008	5,690	108,698
Total	$ 4,827,750	100.00	$ 114,453	$ 6,322	$ 120,775

NOTE 17. 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 Statement of Federal Financial Accounting Concepts 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 transactions 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 FY1989 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 $26.5 billion as of September 30, 1998, of which approximately $23.3 billion has been obligated and $17.0 billion paid or accrued. Should all projected remaining costs and obligations be funded by the government and paid or accrued by FEMA, an additional $9.5 billion in expenses would be recorded.

Information regarding the disaster cost projections and their effect on DRF as of September 30, 1998, is summarized below:

Unfunded Cost:	
Cost Projections	$ 26,507,083
Obligations	(23,316,930)
Total Unfunded Costs	3,190,153
Unliquidated Obligations:	
Obligations	23,316,929
Expenditures Incurred	(16,964,905)
Total Unliquidated Obligations	6,352,024
Remaining Project Cost:	
Unfunded Cost	3,190,153
Unliquidated Obligations	6,352,024
Remaining Cost	$ 9,542,177

The Federal Emergency Management Agency

Supplemental Combining Financial Statements for the Directorates and Administrations

For the Year Ended September 30, 1998

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

Combining Balance Sheet for the Directorates and Administrations

As of September 30, 1998
(Dollars in Thousands)

	R&R	MIT
ASSETS		
Entity		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 36,618	$ 64,306
Accounts receivable, net (Note 4)	2,660	640
Advances and prepayments (Note 7)	-	2,171
Total Intragovernmental	39,278	67,117
Accounts receivable, net (Note 4)	-	-
Credit program receivables, net (Note 6)	24,422	-
Advances and prepayments (Note 7)	-	1
Cash and other monetary assets (Note 3)	-	-
Inventory and related property, net (Note 8)	-	-
General property, plant, and equipment, net (Note 9)	1,130	-
Other (Note 5)	-	-
Total Assets	**$ 64,830**	**$ 67,118**
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Intragovernmental		
Accounts payable	$ 5,475	$ 57
Debt (Note 10)	54,586	-
Other (Note 14)	8	-
Total Intragovernmental	60,069	57
Accounts payable	356	618
Claims and claims settlement expenses (Note 11)	-	-
Deferred revenue (Note 12)	-	-
Other liabilities (Note 14)	2,414	90
Total Liabilities Covered by Budgetary Resources	62,839	765
Liabilities Not Covered by Budgetary Resources:		
Other (Note 14)	2,979	449
Total Liabilities Not Covered by Budgetary Resources	2,979	449
Total Liabilities	**65,818**	**1,214**
NET POSITION		
Unexpended appropriations (Note 15)	31,067	65,708
Cumulative results of operations	(26,271)	(530)
Current	(5,784)	726
Total Net Position	**(988)**	**65,904**
Total Liabilities and Net Position	**$ 64,830**	**$ 67,118**

The Federal Emergency Management Agency

Combining Balance Sheet for the Directorates and Administrations

As of September 30, 1998
(Dollars in Thousands)

PTE	FIA	USFA	Support	Prior-Year Appropriations FY1993-96	Directorates and Administrations
$ 24,544	$ 116,824	$ 17,801	$ 27,350	$ 52,354	$ 339,797
30,636	54	46	-	62,252	96,288
-	561	-	72	-	2,804
55,180	117,439	17,847	27,422	114,606	438,889
2,388	14,318	-	41	-	16,747
-	1	-	-	-	24,423
23,407	252,306	345	79	7,969	284,107
-	5,802	-	8	-	5,810
-	4,293	-	-	-	4,293
3,195	416	1,024	3,160	-	8,925
-	1,056	-	-	-	1,056
$ 84,170	**$ 395,631**	**$ 19,216**	**$ 30,710**	**$ 122,575**	**$ 784,250**
$ 995	$ 2,208	$ 230	$ 1,662	$ 21,678	$ 32,305
-	537,963	-	-	-	592,549
-	-	-	-	-	8
995	540,171	230	1,662	21,678	624,862
16,660	64,968	1,185	3,458	413	87,658
-	469,411	-	-	-	469,411
-	882,915	-	-	-	882,915
4,792	1,431	516	2,046	247	11,536
22,447	1,958,896	1,931	7,166	22,338	2,076,382
2,956	-	455	4,897	-	11,736
2,956	-	455	4,897	-	11,736
25,403	**1,958,896**	**2,386**	**12,063**	**22,338**	**2,088,118**
54,868	-	16,001	20,126	92,243	280,013
(1,118)	(1,539,960)	398	(1,089)	8,001	(1,560,569)
5,017	(23,305)	431	(390)	(7)	(23,312)
58,767	**(1,563,265)**	**16,830**	**18,647**	**100,237**	**(1,303,868)**
$ 84,170	**$ 395,631**	**$ 19,216**	**$ 30,710**	**$ 122,575**	**$ 784,250**

Combining Statement of Net Cost for the Directorates and Administrations

For the Year Ended September 30, 1998
(Dollars in Thousands)

	R&R	MIT
Costs		
Intragovernmental		
Production	$ -	$ -
Non-production	-	-
Public		
Production	84,487	12,964
Non-production	11,177	6,912
Total Program Costs	95,664	19,876
Less: Earned revenue not attributed to programs	4,521	626
NET COST OF OPERATIONS BEFORE ALLOCATIONS	**91,143**	**19,250**
Allocations:		
Net Cost Allocations of Support Organizations and Prior Years' Appropriations	1,364	870
NET COST OF OPERATIONS AFTER ALLOCATIONS	**$ 92,507**	**$ 20,120**

COMBINING STATEMENT OF NET COST FOR THE DIRECTORATES AND ADMINISTRATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 1998
(Dollars in Thousands)

PTE	FIA	USFA	Support	Prior-Year Appropriations FY1993-96	Directorates and Administrations
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
288,476	1,308,137	24,361	114,843	6,329	1,839,597
-	-	-	-	-	18,089
				-	
288,476	1,308,137	24,361	114,843	6,329	1,857,686
46,308	1,283,701	633	-	7	1,335,796
242,168	**24,436**	**23,728**	**114,843**	**6,322**	**521,890**
5,725	3,369	749	(114,453)	(6,322)	(108,698)
$ 247,893	**$ 27,805**	**$ 24,477**	**$ 390**	**$ -**	**$ 413,192**

The Federal Emergency Management Agency

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

For the Year Ended September 30, 1998
(Dollars in Thousands)

	R&R	MIT
Net Cost of Operations	$ (92,507)	$ (20,120)
Financing Sources (other than exchange revenue):		
Appropriations used	83,106	19,595
Imputed financing	-	381
Transfers-in	2,253	-
Transfers-out	-	-
SO and FY1993-96 Net Cost Allocations	1,364	870
Net Results of Operations	(5,784)	726
Prior Period Adjustments	-	-
Net Change in Cumulative Results of Operations	(5,784)	726
Increase (Decrease) in Unexpended Appropriations	(19,723)	44,553
Change in Net Position	**(25,507)**	**45,279**
Net Position - Beginning of Period	24,519	20,625
Net Position - End of Period	**$ (988)**	**$ 65,904**

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

For the Year Ended September 30, 1998

(Dollars in Thousands)

PTE	FIA	USFA	Support	Prior-Year Appropriations FY1993-96	Directorates and Administrations
$ (247,893)	$ (27,805)	$ (24,477)	$ (390)	$ -	$ (413,192)
245,336	-	23,699	111,767	6,315	489,818
1,849	1,133	460	2,686	-	6,509
-	17,500	-	-	-	19,753
-	(17,502)	-	-	-	(17,502)
5,725	3,369	749	(114,453)	(6,322)	(108,698)
5,017	(23,305)	431	(390)	(7)	(23,312)
-	-	-	-	-	-
	-				
5,017	(23,305)	431	(390)	(7)	(23,312)
10,513	-	5,219	9,367	(41,146)	8,783
15,530	**(23,305)**	**5,650**	**8,977**	**(41,153)**	**(14,529)**
43,237	(1,539,960)	11,180	9,670	141,390	(1,289,339)
$ 58,767	**$ (1,563,265)**	**$ 16,830**	**$ 18,647**	**$ 100,237**	**$ (1,303,868)**