Management Discussion & Analysis

Part II

Financial and Other Reporting Requirements

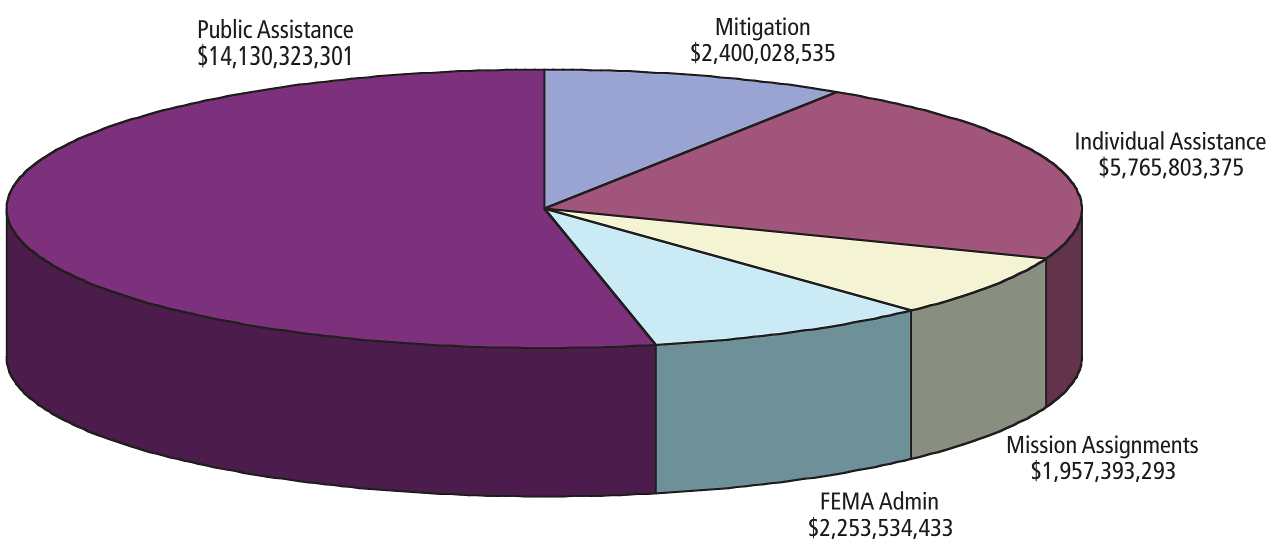
This section of the Management Discussion and Analysis consists of a consolidation of several financial and program management reports that were previously reported separately to the President and the Congress. These will now become a recurring part of FEMA's Accountability Report.

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

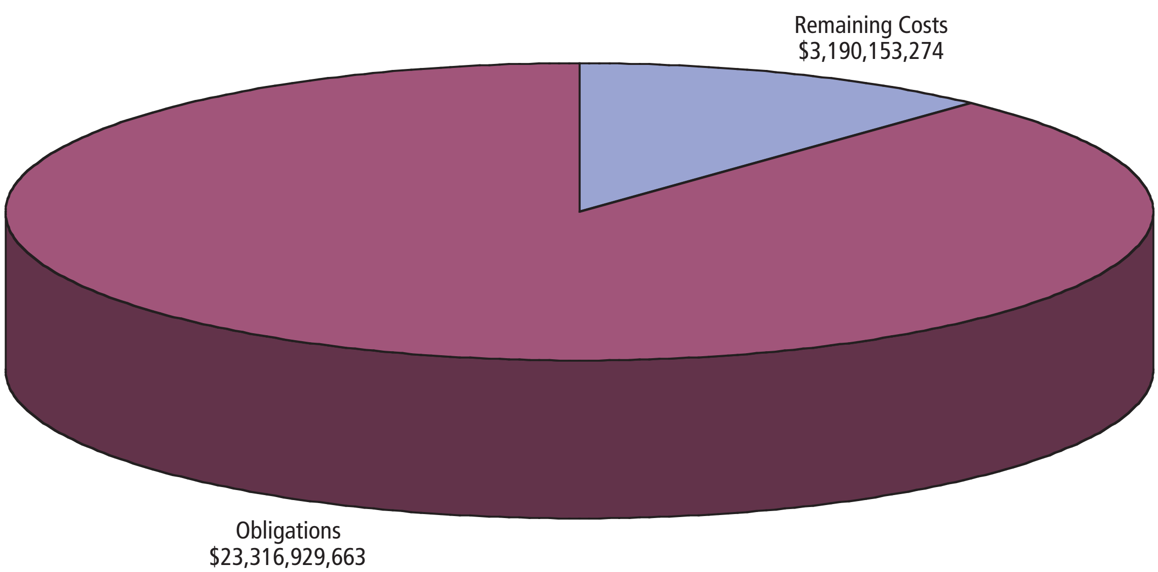
disasters that have been occurring. Only six major disaster declarations since 1989 were for earthquakes (one percent of the total); however, these six declarations account for one-third of FEMA's obligations from the Disaster Relief Fund (DRF). Projected assistance resulting from the January 1994 Northridge 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.

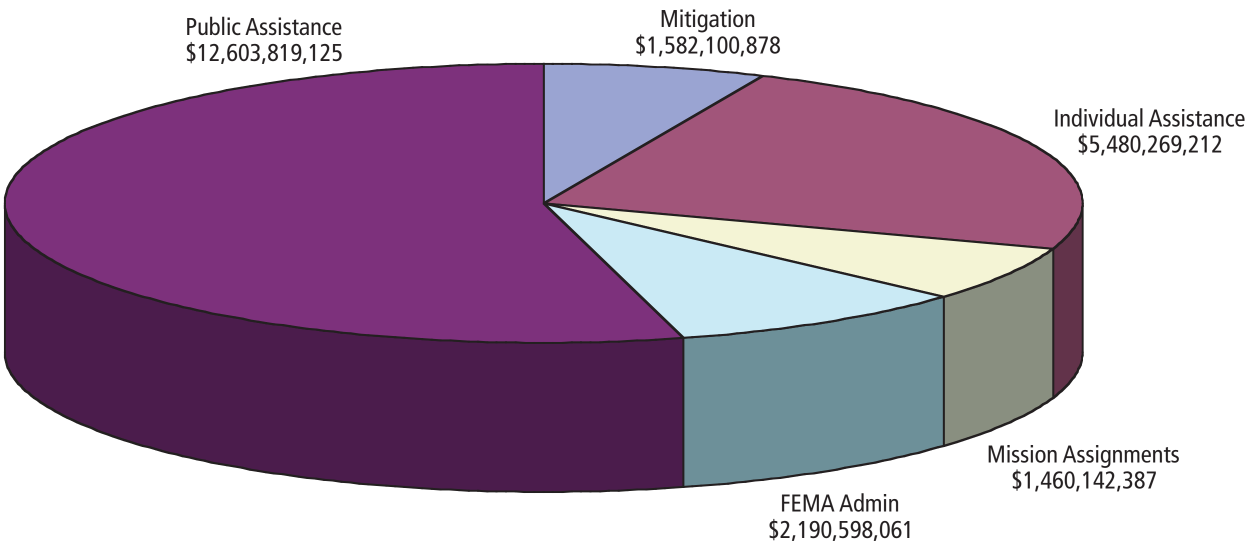
Total FEMA Projections for Disasters Declared in FY 89–98 (as of 9-30-98)



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.

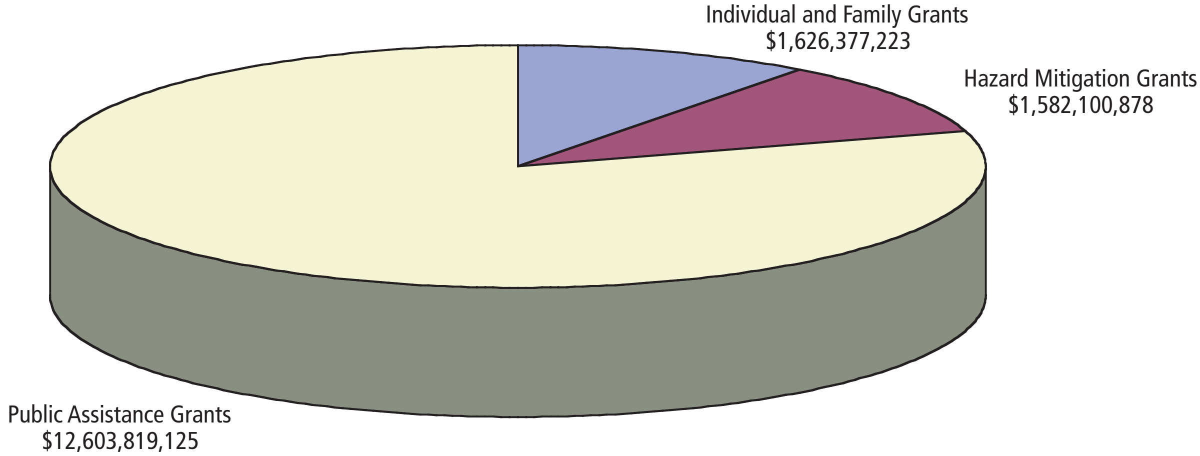
Total FEMA Obligations for Disasters Declared in FY 89–98 by Program (as of 9-30-98)



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.

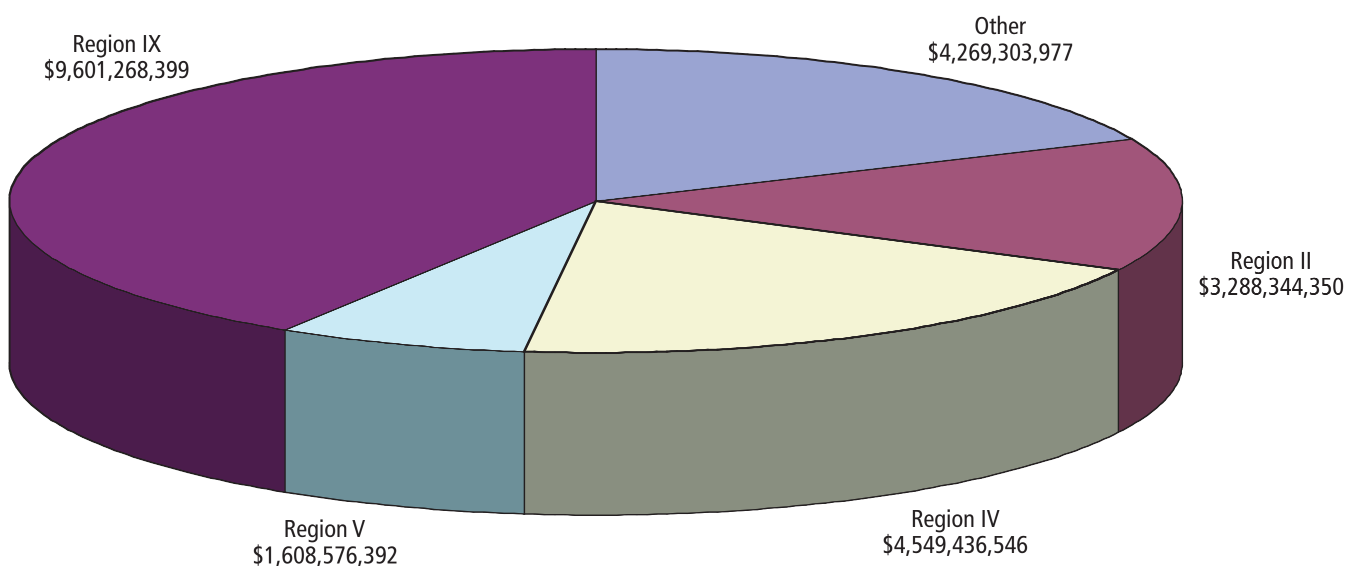
Total Grant Obligations for Disasters Declared in FY 89–98 (as of 9-30-98)



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

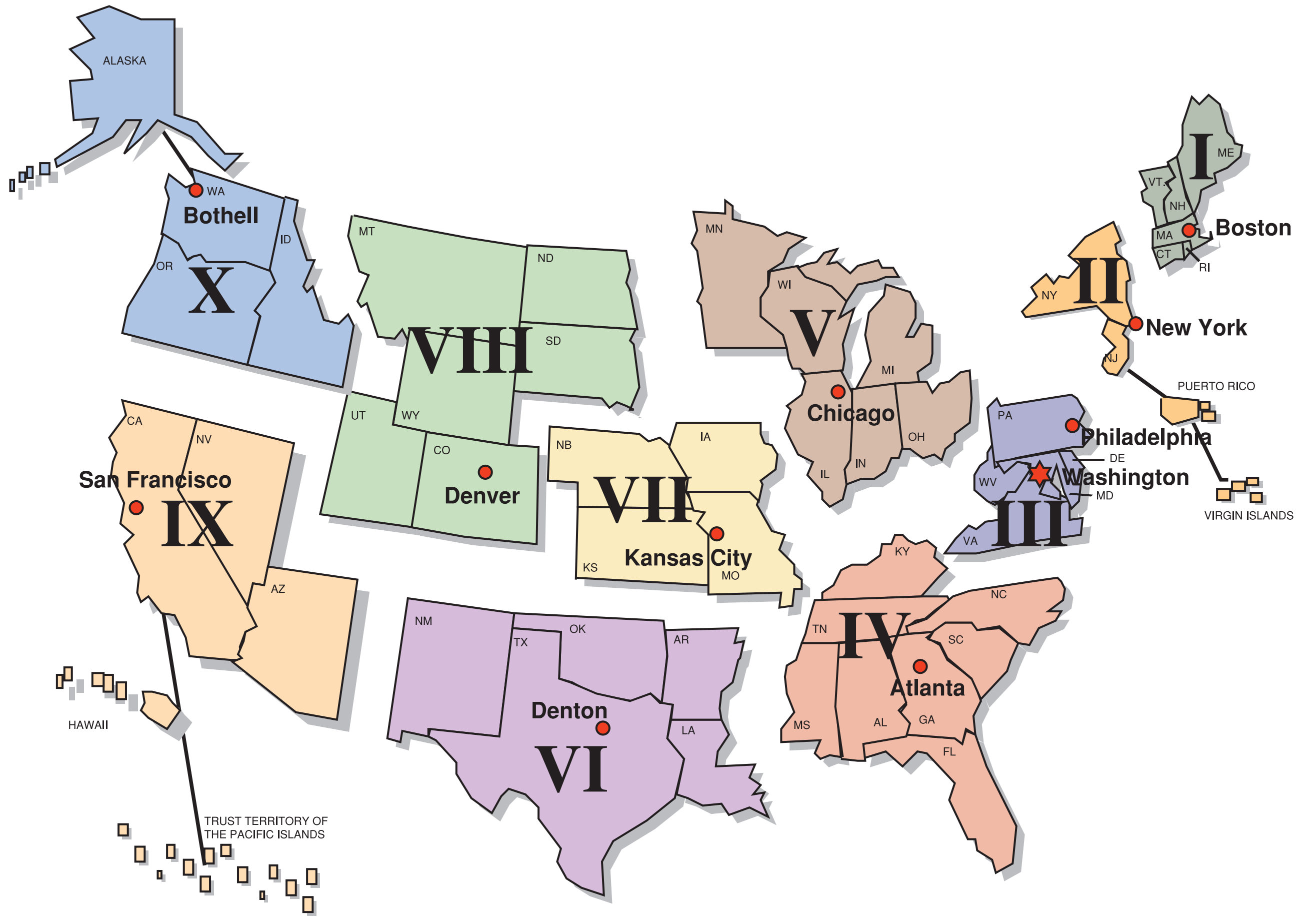
Region IX accounted for 41% of all obligations for disasters declared during the ten-year period. This was primarily the result of the Loma Prieta and Northridge earthquakes, hurricanes in Hawaii and Pacific Islands, flooding, and numerous wildfires. Region IV accounted for 19.5% of obligations primarily 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.