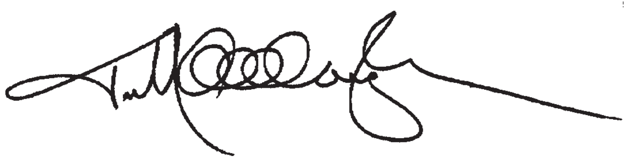
The Federal Managers' Financial Integrity Act Assurance Statement

On the basis of available evidence, plans underway, and the assurance statements submitted by Agency senior managers, I am able to certify with reasonable assurance that, with the exception of the items identified in this section and the Independent Auditor's Report on the FY 2001 financial statements, the Agency is in compliance with the provisions of the Federal Managers' Financial Integrity Act (FMFIA).



Joe M. Allbaugh
Director

Federal Emergency Management Agency Remediation Plan

Financial Management Systems and the Remediation Plan (the Plan)

Fully complying with the Federal Financial Management Improvement Act of 1996 (FFMIA) and OMB Circular A-11 requires continual financial process improvement and systems modifications. While the Agency received unqualified opinions on the FY 1998-2000 consolidated financial statements, FEMA's FY 2000 financial statement audit report noted FFMIA non-compliance. The Inspector General's (OIG) Management Letter for FY 2000 noted delays in meeting annual financial statement preparation schedules, lack of capability to generate certain internal reports, and undocumented processes and procedures for FEMA's accounting system, the Integrated Financial Management Information System (IFMIS).

In the fall of FY 2001, FEMA developed a three-phase remediation plan to address these issues and others identified by FEMA personnel. In some cases the Plan will document current procedures. This multi-year Plan will initially use existing staff and funding resources.

Phase I will satisfy the requirements for substantial compliance with FFMIA. This Phase will:

- Integrate the main accounting system by implementing standard financial statement preparation;
- Implement system and data security elements;
- Formalize standard IFMIS and other financial system procedures and controls; and
- Develop the next, financial management system, including improvements to the hardware and IFMIS system interfaces.

Phase II efforts will result in an enhanced compliance with A-123, A-127, and A-130 requirements.

Phase III will address FEMA cost accounting requirements to give managers timely access to program costing reports.

FEMA's workforce disaster mobilization priority, current personnel resources, and available funding may affect timely accomplishment of Phases 1 and II of the Plan. Phase III (FY 2004) will require additional resources to implement the controls and the acquisition of additional hardware and software to improve the security and reporting capabilities of FEMA's financial system database.

Status Of Management Controls

Integrating and streamlining budget and management reports to provide more useful information to decision makers and to integrating management controls with other management improvement initiatives, remains a high priority for financial management.

Status:

- During FY 2001, 30 members of the Comptroller Cadre received financial training to meet the CFO Core Competency Guide requirements. These correspond with the Core Competencies adopted by the CFO Council and the Joint Financial Management Improvement program.
- To improve internal and management control structures, the following activities were performed:

quarterly analyses and reconciliations of general ledger account balances, weekly status meetings with management and accounting staff, and monthly reconciliation of fund balances with Treasury.

Number of Sub-system Non-Conformances by Fiscal Year

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

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

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

- Contracted with Booz Allen Hamilton to conduct a comprehensive business processing review and to make recommendations on necessary policies, procedures, and systems to best serve the program in the future;
- Implemented a tracking system for project resources;
- Continued Write-Your-Own (WYO) companies claims re-inspection efforts to assure that NFIP is reimbursed for overpayments;
- Completed its first full year of claims and underwriting operational reviews of the WYO companies;
- Continued cooperative efforts with the Commission of Insurance Fraud Investigators, an arm of the American Insurance Services Group, to investigate claims overpayments;
- Chaired a Fraud Task Force with the Offices of General Counsel and the OIG to review program vulnerability to fraud and recommend mitigation;
- Provided support to OIG investigations of WYO companies' investment of NFIP funds;
- Contracted with CPAs to examine NFIP claims to prevent claim fraud;
- Completed revising the Financial Control Plan that WYO companies use as regulations and NFIP guidelines;
- Implemented Treasury's Automated Standard Application for Payment 1031 disbursement system. This system will eliminate FEMA's loss of interest on funds held by WYO companies now waiting for claim checks to clear; and
- Worked with the NFIP Bureau and Statistical Agent to tighten control and oversight of the WYO company's statistical reporting errors.

Management Follow-Up To OIG Recommendations

FEMA began FY 2001 with 32 audit reports carried over from FY 2000. These contained approximately $43.3 million in costs (adjusted up slightly from the FY 2000 Accountability Report) that should not be charged to the Agency's programs (disallowed costs). Another 9 audit reports represented almost $20 million that could be used more efficiently.

During the year, 60 new audit reports were identified containing over $19 million of disallowed costs. FEMA

	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 2001	32	$43,361,792	9	$19,728,524
New Audits During FY 2001	60	$19,105,466	8	$872,291
Audits Closed During FY 2001	(67)	$(26,463,836)	(9)	$(16,420,763)*
End of FY 2001	25	$36,003,422	8	$1,003,526

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

completed action on 67 of the total 92 open audit reports, recovering over $26.4 million. Eight new audit reports identified almost $1 million in funds to be re-allocated. Nine of the total 17 audit reports of that type were closed, resulting in the release of over $16 million in funds for more effective reallocation. The table below depicts these activities.

The Agency continues to accelerate audit report closing, especially audits that have been open for more than a year. In FY 2001, it reduced the number of open audits by almost 20% and reduced the amount of outstanding disallowed costs by over $7 million. Despite this, long-term disaster recovery and grant programs will remain open, but monitored.

Management and Performance Challenges Identified by the Inspector General Under The Reports Consolidation Act

Following are Management and Performance Challenges to FEMA that were identified by the Inspector General in the FY 2000 Accountability Report. These are paraphrased in italics, followed by a description of the activities FEMA management and staff are taking to address and meet these challenges.

Management Challenges

Financial Management. *Although FEMA has made major financial management strides over the past six years, more must be done to ensure that FEMA's financial management systems and operations can produce, in a timely manner, accurate and relevant financial information.*

Please see page 45.

Information Technology Management. *FEMA must meet the requirements of Presidential Decision Directive 63 (PDD-63), which calls for federal agencies to protect their critical infrastructure, especially their cyber-based systems, by May 2003.*

A GSA approved contractor has conducted vulnerability assessments of all of FEMA's PDD-63 critical systems. Security plans were developed for each of these systems. The Chief Information Officer (CIO) supports program manager's actions to correct these vulnerabilities. FEMA is presently working with the Critical Infrastructure Assurance Office to identify our critical assets.

Management of the entity wide system security program and planning needed improvement.

Within the next few months, the Information Technology Services Directorate (IT) should have a comprehensive draft of the system security program plan for both classified and unclassified systems and draft guidelines for system owners to assess, mitigate, and certify their systems.

The newly organized Configuration Management (CM) Branch of the Management Division, reporting directly to the CIO, will develop and enforce security policy, conduct internal information systems security reviews and audits, and monitor the security program. This functional assignment complies with OIG recommendations and the requirements of the FY 2001 Defense Authorization Act.

FEMA has signed a Letter of Agreement with GSA's Federal Computer Incident Response Capability. The agreement is to provide the means for FEMA to comply with the provision of the FY 2001 Defense Authorization Act that all agency programs include procedures for detecting, reporting, and responding to security incidents, including notifying and consulting with law enforcement officials, other offices and authorities.

System security related personnel policies had not been fully implemented.

IT will work with the Financial and Acquisition Management Division (FAMD) to resolve the issues associated with background investigations for job applicants and employees requiring access to our systems. IT will also require, as part of the system security program plan, that all FEMA contracts involving access to the Agency's systems include formal security agreements. Employees leaving FEMA are required to work with IT to ensure that their system and network access is removed.

FEMA's FY 2000 financial statements noted repeated concerns regarding access controls and application program change controls over FEMA's automated financial management system.

Controls identified to reduce or eliminate vulnerabilities reported by the Inspector General or result from risk assessments are being tracked by the Configuration Management (CM) and Information Assurance (IA) branches to verify that control remediation is undertaken.

The Agency's approved CM system standard is being used by the FAMD to control and track changes to the

Integrated Financial Management System (IFMIS). An updated IFMIS will become the system baseline.

Although FEMA continues to make improvements to the National Emergency Management Information System (NEMIS) to ensure that it can meet processing workloads during a catastrophic disaster, the improvements remain untested.

FEMA continues to direct the remaining NEMIS development activities and monitor operations and maintenance of Version 2. The Information Technology Services Directorate (IT) works to refine the system and design corrective actions in response to both simulated and live disaster needs and program office assessments. During FY 2001, Tropical Storm Alison, the Nisqually earthquake, and the September 11 events gave NEMIS unusual live testing situations and data on which to continue to refine the system. For example, the Human Services auto determination processing software was measured at 907 applications per hour per service center server, short of IT's 1200-1500 design goal.

Working from such information, FEMA is in the process of upgrading the Consolidated Master and three National Processing Service Center servers, doubling the RAM memory of each server to eight GB, and consolidating its database servers. FEMA plans to Web-enable major portions of NEMIS to further increase its capability and reliability. Therefore, while FEMA has not live-tested the performance of the latest configurations, it is confident that NEMIS can better meet the requirements of future catastrophic disasters.

For a discussion of the NEMIS achievements please see the Annual Performance Report section.

FEMA has not completed an analysis of its requirements for an improved flood insurance processing system. Consequently, FEMA continues to rely on outdated technology to process and maintain flood insurance policies.

Federal Insurance and Mitigation Administration (IM) is implementing its structured business process improvement initiative program, Blueprint for the Future. With respect to information technology, this has led to a concept of operations (CONOPS), an analysis of technology alternatives and detailed plans for modernization. CONOPS will focus on the NFIP Actuarial Information System and the Write Your Own System. On this topic, IM has engaged in extensive consultations with the Write Your Own insurance companies, other key stakeholders, and FEMA staff. Detailed analyses, including cost and return on investment analyses, have been prepared. These make it possible to select the best NFIP-systems modernization strategy to incorporate new cyber technologies.

It should be noted, however, that the systems do not "process and maintain flood insurance policies" as implied by the OIG. The NFIP Bureau and Statistical Agent operate the two referenced systems. Gathering and processing statistical and financial information, these systems are required for the exercise of control over the entire program. The vast majority of flood insurance policies are processed and maintained by the participating Write Your Own companies. A small fraction of the business is written directly with the federal government, i.e., with the NFIP Servicing Agent Contractor. In this case, the systems are contractor rather than FEMA-owned and as long as performance requirements, e.g., turn around times, security, etc., are met, the responsibility for the technology employed resides with the contractor.

While there is a need to modernize and improve the two above cited legacy systems, they continue to perform their core requirements and to function well. They have been incrementally upgraded, as appropriate, and are subject to close review and testing. They have repeatedly been a basis for successful program audits.

GPRA Implementation. *Measuring and reporting on performance, as required by GPRA, is a challenge for FEMA, as for most federal agencies. The OIG stressed that FEMA needed to adopt a performance-based or results-oriented culture and to continue to stress the significance of GPRA.*

In the FY 2000 Annual Performance Report, FEMA stated its intent to revise its FY 2001 Annual Performance Plan goals to continue to move steadily toward outcome goals that reflect the Agency's mission. From an original 65 goals in FY 1999, FEMA dropped to 20 goals in FY 2001, and 12 mission goals in FY 2003. In FY 2001, the FEMA Director established the Office of Strategic Planning and Evaluation, which is leading the Agency in the review of FEMA's mission and the development of a new Strategic Plan. This Plan is expected to be completed by March of 2002 and will affect annual performance plans for FY 2002 and 2003. Part of the intent of this review is to stimulate senior staff commitment to performance based management and the GPRA requirements.

Grants Management. *While FEMA has made progress in improving grant management and administration, the Hazard Mitigation Grant Program (HMGP) and others continue to have serious problems in such areas as unliquidated obligations.*

The Office of Inspector General does note, however, that the CFO is taking action to solve audit problems. A constructive plan is in place to make further improvements.

Unliquidated HMGP obligations are a problem. However, a significant number of these dollars are from two extremely large disaster events, the 1994 Northridge Earthquake and Hurricane Georges that devastated Puerto Rico in 1998. Catastrophic disasters such as these are not representative of events or funding levels generally associated with HMGP. Catastrophic disasters involve highly complex, technical issues that require significant coordination between the Public Assistance Program and the HMGP. Obligations made to the states within the past three years, represent a larger number of the unliquidated funding. It should be noted, however, that the OIG's assumption that funds should be spent in the year of award is inaccurate. States reasonably spend funds for performance over the period of the grant, which may span multiple years and is partly dependent on state legislatures and governors providing timely matching funds.

Nonetheless, FIMA has developed a detailed action plan to address HMGP unliquidated balances recommendations and is working aggressively on grant closeout. It is also using the Disaster Mitigation Act of 2000 (the Act) authority to revise 44 CFR Part 206. This will more clearly define project performance periods and the conditions under which project extensions will be granted. The Act also supports state incentives to accomplish mitigation goals.

Activities in continued support of grant administration:

- Refine the administration of the EMPG program that consolidated various funding streams into one grant program and continue Readiness, Response, and Recovery Directorate, national-level program office responsibility for non-disaster grants.
- Continue regional office oversight of the grant closeout effort that has resulted in more than five hundred prior year grants being closed out.
- Implement a FEMA policy on extending grant agreements to directly address the issue of overlapping awards.

While the OIG states that grant funds "should have been spent in the year they were awarded," this is not possible for all grants, especially those for catastrophic recovery efforts. The funds need to be spent over the period of performance of the grant. The CFO's new policy on extensions and careful monitoring by grants staff should ensure that FEMA enforces the performance period.

The CFO assisted in the development of the audit guide for state grants. Good audits provide FEMA with information on the state's management of its disaster grants. While some financial status reports have been late by a matter of days, FEMA is working with regional staff to improve state reporting capability. Continued collaboration with the OIG's audit office and support for grant managers will increase the effectiveness of FEMA's grant management.

Performance Challenges

Disaster Response and Recovery Program. *Another area where FEMA has made improvements, but problems remain, is in debris removal.*

FEMA acknowledges that the control and monitoring of large debris operations expenditures is an issue. A debris management course for state and local officials has been revised to be more performance based. In FY 2002, two sessions will create a group of state trainers familiar with the debris management material. Additionally, trained FEMA staff are able to provide technical assistance as needed to state and local governments. Short but comprehensive debris-contracting fact sheets will be sent to local governments as disaster check lists. Further, FEMA regions are working with their respective states to develop debris response strategies that will help ensure better controls. The existing publications, Debris Management Guide and Debris Operations Job Aid, are being revised in FY 2002 to incorporate new information and guidance requested by FEMA, state, and local field personnel.

National Security Support Program. *FEMA has been assigned a key role in developing and maintaining a national strategy to support terrorism-related emergencies.*

Numerous federal agencies have roles in federal action plans to respond to terrorism, but the Federal Bureau of Investigation and FEMA are the lead federal agencies for domestic operations. Presidential Decision Directive 39 designates FEMA the lead federal agency for consequence management in domestic terrorist events.

Following the September 11, 2001, national event, the administration established the Homeland Security Office within the Executive Branch. At the time of this report, this Office is reviewing agencies' roles and responsibilities.

State and Local Preparedness Program. *FEMA still does not have the ability to measure, and a standard method for measuring, state disaster risks and performance capability.*

In collaboration with state partners, FEMA revised the Sate Capability Assessment for Readiness (CAR), and in FY 2000, 56 states and territories completed this self-assessment. It covers in detail 13 areas of emergency management and preparedness, called Emergency Management Functions (EMFs). Each EMF is scored on a scale of 1 to 5, with 5 indicating full capability. Ninety-nine percent of the states reported that they were generally capable (35%), very capable (61%), and fully capable (3%). FEMA and the states agreed in September to develop and accept Recommended Practices based on the prioritization of the EMFs and the CAR results. Local and Tribal CAR instruments are being developed.

Flood Insurance Program. *In addition to improving the financial soundness of the NFIP, FEMA needs to do a better job of coordinating and integrating the NFIP with FEMA's relatively new national mitigation strategy.*

OIG audits raised several issues that are listed below with appropriate responses.

How effectively is the Federal Insurance and Mitigation Administration (IM) enforcing compliance with floodplain management criteria as a condition for maintaining eligibility in the NFIP?

In June 2001, the FIA and the Mitigation Directorate were joined together as a single functional organization, the Federal Insurance and Mitigation Administration (IM). Through the regional offices, IM monitors community compliance and provides technical assistance. Based on Community Assistance Visits (CAV), conducted by FEMA regional offices and or the states, and other available information, IM believes that most communities participating in the NFIP have effective floodplain management programs. Through such programs new construction is permitted in accordance with the minimum requirements of the NFIP.

When FEMA identifies violations, communities are required to take steps to correct them. Failure to do so could result in communities being placed on probation or suspended from the NFIP. Flood insurance can be denied where violations are identified under the authority of Section 1316 of the National Flood Insurance Act. When a region determines that a community is not adequately administering its floodplain management responsibilities, it and the state NFIP coordinator work closely to assist the community in becoming compliant.

Moreover, IM uses the insurance mechanism to support effective floodplain management enforcement. Examples of this include: the incentives provided by the Community Rating System (CRS) for communities that go beyond threshold participation requirements; the shared review with mitigation staff during the process of underwriting "submit-to-rate" applications for policies where buildings are significantly below elevation standards; and rate-setting designed to discourage improper construction. In their enforcement activities, the mitigation staff and the regional offices utilize the underwriting and loss data collected by the insurance operations.

Further, most of the NFIP insurance policies are in communities participating in the CRS. The popularity of CRS, availability of training opportunities, and the increased experience individual communities have with the NFIP is thought to be producing a trend of greater compliance in current years.

How effectively is Federal Insurance and Mitigation Administration (IM) monitoring the enforcement of mandatory purchase requirements for homeowners?

The responsibility for enforcement of the mandatory flood insurance requirements rests with the federal agencies, federal lending regulators, the federal agency lenders, and the government sponsored enterprises (Fannie Mae and Freddie Mac) rather than FEMA. IM continues to work with these entities as well as the appropriate trade organizations to promote compliance. IM also plans to continue its extensive compliance-related activities, e.g., education and publication in support of compliance.

Does the Federal Insurance and Mitigation Administration (IM) effectively oversee the Community Rating System (CRS) to ascertain whether discounts given on flood insurance are warranted based on conditions and actions taken by a community?

Individual CRS communities are closely monitored by FIMA and are subject to rigorous, periodic, on-the-ground inspection. This is in addition to the reviews conducted by regional office staff.

FIMA has chartered the CRS Task Force, which maintains a well-established process of evaluating the effectiveness of the CRS. This process includes evaluation of the discounts given on flood insurance rates. FEMA completed its third Biennial Report to Congress dated October 2000. The Report outlined a plan of goals for the future. As a result of this and other evaluation efforts, program revisions are being made and will be contained in a new manual being prepared for publication in FY 2002. Previously, the October 1998 Biennial Report to Congress contained a detailed evaluation of the CRS, including the accuracy of the grading schedule and evaluation of the seventeen individual CRS activities.

How does the IM monitor community enforcement of the substantial damage rule—critical to achieving mitigation objectives in a post-disaster environment?

FEMA regional offices monitor community enforcement of the substantial damage rule through technical assistance provided during the post-disaster period and during routine community monitoring work including CAVs. When substantially damaged structures are identified, communities seek property owner cooperation to address the problem. This may involve the use of mitigation grants and the NFIP Increased Cost of Compliance benefit. If compliance is not achieved, flood insurance availability can be denied to the structure under Section 1316 of the National Flood Insurance Act.

In recent years, IM has greatly increased its support of community officials who are responsible for making substantial damage determinations. For example, at –Disaster Field Offices, mitigation staff provide communities with technical evaluation assistance. A new computer software tool, The Substantial Damage Estimator is available to local officials making substantial damage determinations. Local officials, however, are reluctant to make determinations unless there are sufficient funds available to pay for mitigation efforts. This otherwise might financially burden the property owner. Of course, even when such funds are available, property owners may still refuse the assistance.

How can IM increase insurance rates for home-owners identified through claim data that have sustained substantial damage and have not taken mitigation action?

Insurance rates can be increased for properties determined by a local official to be substantially damaged if mitigation actions are not taken. In order to increase the rates, the community must inform IM that the structure has been substantially damaged. IM works with communities after a disaster to assure such information is obtained. IM then checks its database to determine if the buildings are covered by NFIP insurance. If they are, they will, thereafter, be charged full risk premiums.

Insurance claim data can only be used as a screening tool to identify potential, substantially damaged structures. When used alone, insurance claim data are not sufficient to re-rate a structure.

How effective and reliable are FEMA' s performance measurement criteria and information systems in assessing whether insurance goals and objectives are being accomplished?

The performance measurement criteria and information used to determine if insurance goals and objectives are being accomplished are generally organic to the program, for example, the number of policies in force (PIF). The PIF count occurs naturally as policies are written, renewed, cancelled, or lapsed. NFIP operations call for the reporting, reconciliation and, ultimately the audit of PIF. Other criteria, e.g., operating ratios, when appropriate and meaningful, are drawn, from financial statement and other data. Here again, data are subject to reconciliation and audit. The measures are reported on regularly and at least quarterly to Agency management. Hence, the performance measurement criteria and information systems are thought to be generally effective and reliable.

FEMA has recognized the need for a review of the NFIP to determine how effective this program is functioning and a study is underway. The OIG will monitor progress and results of efforts to improve the NFIP.

IM has initiated a comprehensive program evaluation of the NFIP. Currently under contract for the design phase, FEMA expects to have a framework developed for accomplishing the evaluation through research and other specifically contracted efforts. The evaluation efforts, to be undertaken over the next few years, will provide IM with data, analyses, and recommendations for NFIP improvement actions. FEMA encourages the OIG to monitor progress.

Mitigation Program. *The OIG recommendations are listed separately below with responses.*

FEMA faces a significant challenge in effectively focusing resources that address national mitigation strategies as well as ensuring that mitigation continues to be a long-term sustained effort especially in developing disaster resistant communities.

With limited federal resources for disaster resistant community activities, non-federal contributions are critical to the success of the initiative. FEMA provided technical assistance to help communities leverage the seed money supplied by FEMA. These communities seek greater financial and technical support from the private sector, nonprofit organizations, and other appropriate sources. While FEMA monitored its spending and community activities, it did not require a detailed accounting of the non-FEMA contributions benefiting a community. To assure long-term success in educating local government officials and community partners on how to make their community disaster resistant, FEMA will apply its "lessons learned." This is particularly important in the implementation of the Disaster Mitigation Act of 2000.

Another major challenge is to ensure that Hazard Mitigation Grant Program (HMGP) funds are effectively spent and address mitigation priorities.

In its criticism of the Hazard Mitigation Grant Program (HMGP), the OIG cited the 1999 Hurricane Floyd buyout program report. The OIG had concerns about problems resulting from insufficient guidance and delays in conforming to the special eligibility criteria for the buyout program. FEMA agrees that this special program encountered difficulties in implementation and convened a task force to address many of the concerns raised by the Inspector General.

The same above issues do not apply to the HMGP, an ongoing authorized program. In fact, many of the Hurricane Floyd problems arose from the difficulty states, communities, and FEMA staff had administering in the same areas two programs with sharply different eligibility criteria. States had difficulty explaining to communities and residents the eligibility and application differences in the programs. FEMA believes that, had the special funding authority been administered under HMGP rules rather than separate, narrower eligibility criteria, the program would have operated more efficiently.

The HMGP operates successfully as a flexible tool for states and communities to accomplish mitigation priorities following a disaster while, at the same time, assisting affected residents. Nonetheless, FEMA has developed a detailed action plan to address the various HMPG issues and recommendations. For example, FEMA currently is updating its Property Acquisition Handbook for Local Communities and has piloted its Property Acquisition state training. FEMA also is developing concise guidance in properly assessing all project benefits when conducting benefit-cost analyses and determining projects cost-effectiveness.

In addition, regulations to implement the new planning and state administration requirements of the Disaster Mitigation Act of 2000 call for improved pre-disaster mitigation planning at both the state and local level. Provisions and changes to program requirements provide a significant opportunity to reduce the nation's disaster losses and streamline the disaster recovery process. Implementing planned, pre-identified, cost-effective mitigation measures, using both pre- and post-disaster mitigation funding, will do this.

Finally, FEMA needs to ensure that the modernization of Flood Insurance Rate Maps continues to move ahead in a timely and effective manner.

There are two components of the Map Modernization plan: (1) developing new products and processes, i.e., developing new ways to make and deliver better flood maps, and (2) securing funding and actually making the new maps. FEMA has completed most of the work in developing new products and processes. (See the Map Modernization Web site at http://www.fema.gov/mit/tsd/mm_main.htm for a summary of completed work.) Funding has precluded significant progress in the second component, making new products to replace the aging inventory of approximately 100,000 flood maps.

The OIG had concerns about FEMA's use of cost assumptions because they were not based on empirical or replicable data. However, as acknowledged in the OIG Report, the map modernization plan is complex and dependent on factors that are difficult to predict. Quite often, data needed to make precise cost projections were not available. For example, we do not have reliable FEMA cost data for new mapping technologies. This is because the contracts under which the prototype studies are being conducted are not yet completed. Similarly, we do not have historic FEMA cost information for newly created map products such as the new generation digital Flood Insurance Rate Map. Thus, FEMA has relied on the professional judgment of experts to develop the assumptions. We feel that this is an appropriate approach for developing a sound, defensible cost estimate. As we develop field-verified cost information, it will be incorporated into the Map Modernization cost model.

In one of several efforts aimed at constraining costs, FEMA is vigorously pursuing its Cooperating Technical Partner initiative. In FY 2001, FEMA entered into 42 additional partnership agreements with local, state, and regional agencies to fully integrate them into FEMA's flood hazard mapping process. This will make more resources available for flood hazard data collection and mapping efforts.

Debt Collection Improvement Act (DCIA) Of 1996

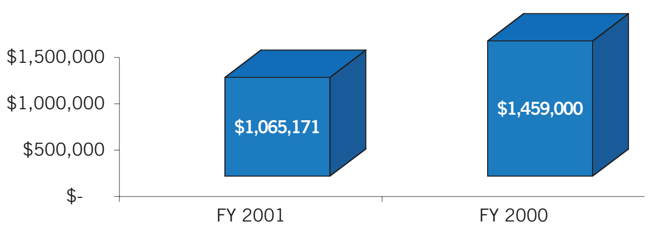
DCIA increases the effective and efficient collection of debt. FEMA uses several debt collection approaches including:

- Treasury's Financial Management Service Cross-Servicing Program;

- Treasury Offset Program;
- The use of administrative offsets to collect debts owed by states and local governments; and
- Centralized computer matching, and taxpayer identification numbers (TINs).

In FY 2001, FEMA collected $1 million through the Department of Treasury's Cross Servicing Program alone.

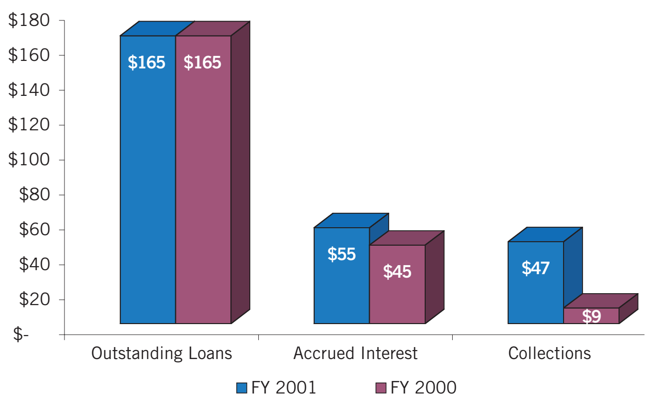
Collections—FMS Cross-Servicing Program



Direct Loan Program

FEMA is authorized to provide loan assistance to individuals and families through the Disaster Relief Fund. It also provides loans for public assistance and hazard mitigation to disaster victims and communities. The outstanding balance in the loan account at September 30, 2001 was $165 million, the accrued interest on those loans was $55 million and collections totaled $47 million.

Direct Loan Program—In Millions

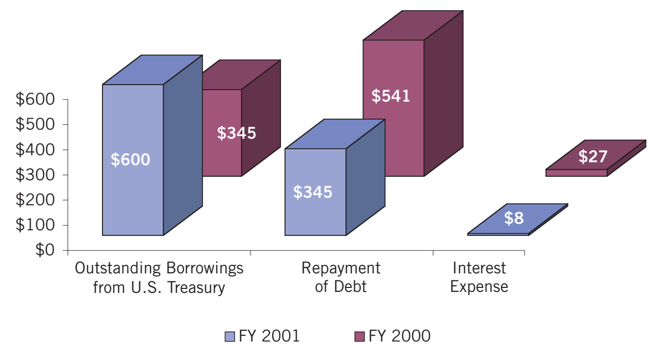


Borrowings From The U.S. Treasury

To support its programs, NFIP is authorized by Congress to borrow from the U.S. Treasury up to $500 million or up to $1.5 billion with approval from the President.

In response to Tropical Storm Alison, the costliest single flood event in NFIP history, FEMA borrowed $600 million. Prior to that event, the $345 million outstanding at the beginning of the fiscal year, along with the accrued interest of $27 million, were repaid in full to the Treasury resulting in a zero balance in these accounts. Accrued interest at fiscal year end amounts to $8.1 million.

Borrowings from the U. S. Treasury

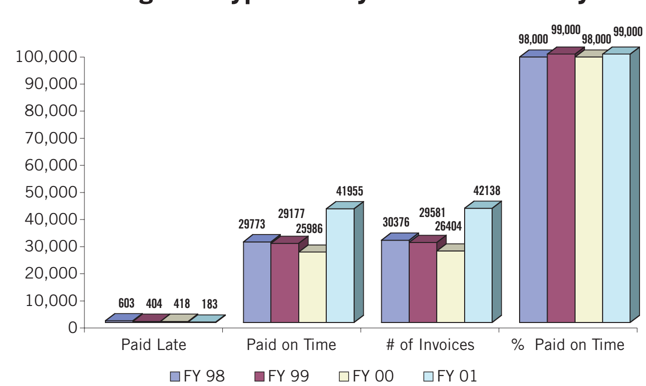


Payment Performance

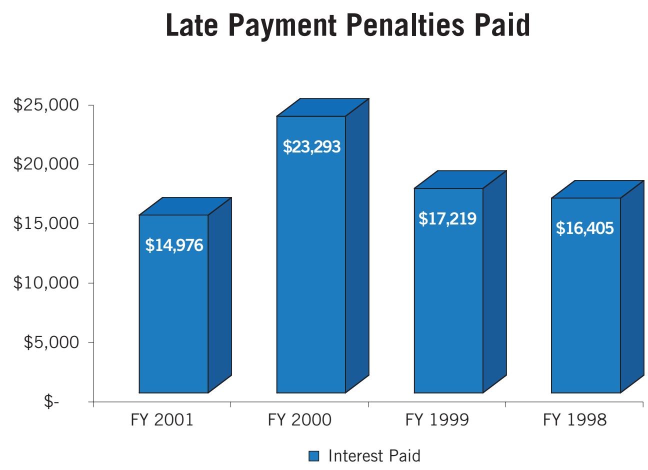
FEMA payment practices are conducted in compliance with the Prompt Payment Act and the Debt Collection Improvement Act. In FY 2001, FEMA continued to effectively and efficiently use the Automated Clearinghouse/Electronic Funds Transfer (ACH/EFT) system to make payments. At FEMA, vendor payments are made within 30 days upon receipt of a proper invoice; travel vouchers are paid within 5 days upon receipt; temporary housing payments are made to disaster recipients within 24 hours; and grants are made available within 24 hours notification.

This year, a total of 42,138 invoices were paid compared to 25,986 in FY 2000. A total of 183 invoices were paid late, compared to 418 late payments last year.

Percentages & Types of Payments ACH/EFT System



FEMA paid interest penalties totaling $14,976 in FY 2001, a significant decrease from the $23,293 paid in FY 2000. Overall, 96% of the invoices processed were paid on time.



Purchase Charge Card

The Government purchase charge card program simplifies purchases of less than $2,500 and improves cash management. It is an alternative to the use of purchase orders, blanket purchase agreements, and impressed funds; streamlines the acquisition process by reducing paperwork, thus improving lead times and expediting contractor payments; and reduces administrative costs.

In support of the Administration's initiative, FEMA continues to increase its use of charge cards for purchases totaling $2,500 or less. In FY 2001, FEMA used the card to make purchases totaling $21 million.