FEMA

FEDERAL EMERGENCY MANAGEMENT AGENCY

Accountability Report for Fiscal Year 2000

March 2001

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ACTING CHIEF FINANCIAL OFFICER'S MESSAGE

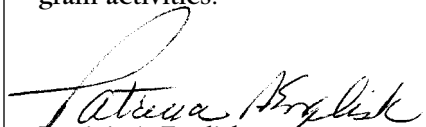
I am pleased to present the Federal Emergency Management Agency's (FEMA) Fiscal Year 2000 Accountability Report. This report contains a summary of FEMA's major programs and performance information, a consolidation of financial management reports required by various statutes, and the FY 2000 financial statements and notes.

We are proud to have received an unqualified opinion, for the third consecutive year, from independent auditors on our financial statements. The auditors found that FEMA is in compliance with Office of Management and Budget (OMB) and Federal Accounting Standards Advisory Board (FASAB) accounting and internal control standards. Achieving an unqualified opinion on our financial statements validates our efforts to ensure that the Agency's financial and management information systems produce timely, accurate, and useful information for FEMA Directorates and programs.

During Fiscal Year 2000, financial reporting and accountability improvements were a priority within the Office of Financial Management. We focused our efforts on providing more timely and relevant reports for Agency management throughout the fiscal year. Monthly and quarterly financial status reports and other financial management reports have been enhanced providing our internal and external customers with up-to-date financial information to assist them in managing and monitoring the Agency's resources and programs.

Recently, several new laws were enacted that will create new challenges for the Agency and its resources. The passage of the Disaster Mitigation Act (DMA) of 2000 provides the first substantive changes to the Stafford Act in 12 years. It authorizes predisaster hazard mitigation, expands post-disaster hazard mitigation, and makes extensive changes to disaster response and recovery programs. The DMA also directs FEMA to establish management cost rates for disaster grant management and administration that will streamline the multiple methods currently used. In July 2000, Congress passed the Cerro Grande Fire Assistance Act, which provides FEMA with $450 million to provide assistance to the victims of the Cerro Grande fire. Finally, FEMA was provided $100 million under the Federal Fire Prevention and Control Act for grants to local fire departments and organizations nationwide. The Office of Financial Management is working in partnership with FEMA program managers to implement these legislative initiatives.

You will find FEMA's FY 2000 Accountability Report to be informative and useful, and that it provides a true snapshot of how FEMA helps people in need of disaster assistance. The report effectively highlights how FEMA manages its financial resources as well as its performance in major program activities.



Patricia A. English

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 was established as an independent agency reporting to the President as a result of the consolidation of the emergency management functions formerly administered by five different federal agencies. 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 a major disaster occurs, FEMA is there, ready to help. FEMA continues it's vision, mission, and goals that it has maintained for the last several years.

Who We Report To

In addition to the President, given FEMA's unique creation, the Agency reports to sixteen committees and subcommittees within each chamber of the Congress. The main disaster work of the Agency comes under the authority of the Transportation Committee in the House and the Environment and Public Works Committee in the Senate. Authority for the Flood Insurance Administration (FIA) is through the House and Senate Banking Committees. The U.S. Fire Administration (USFA) comes under the jurisdiction of the House Science Committee and Senate Commerce Committee. Interest in FEMA matters also comes from the House Government Reform Committee. Some of the most diligent and consistent oversight of FEMA programs comes annually from the House and Senate Appropriations Committees.

Vision

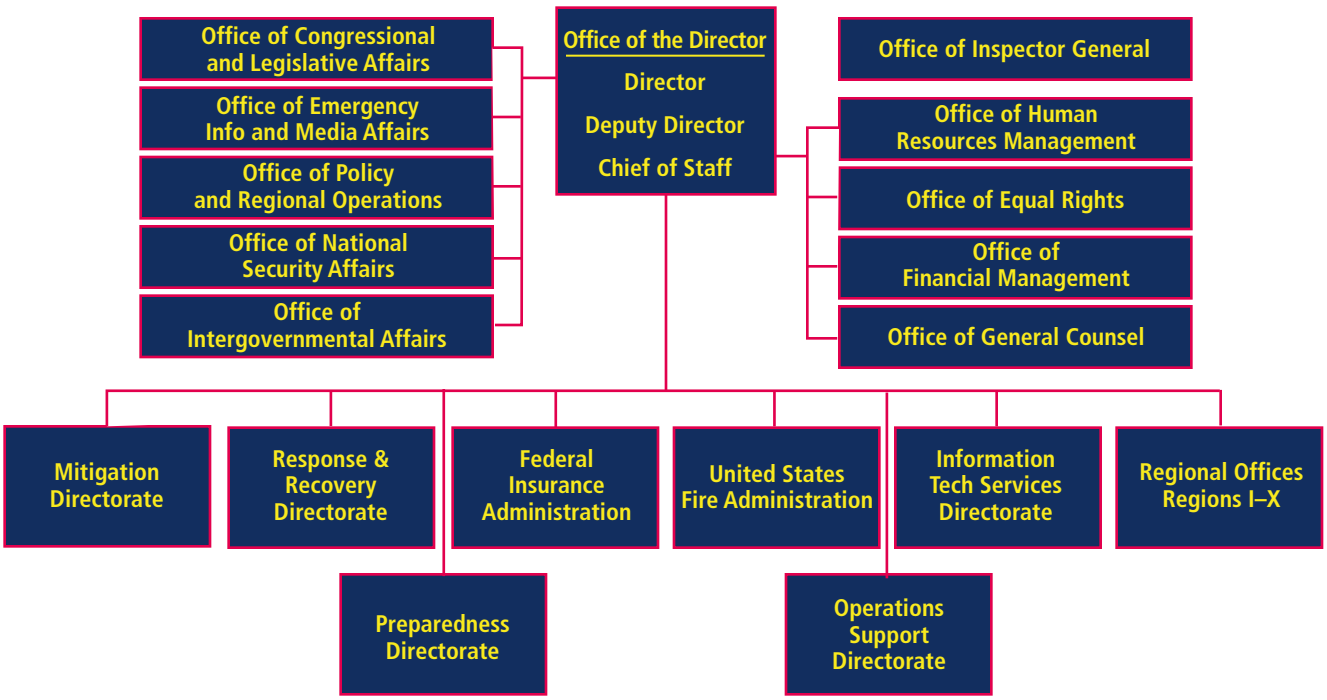
- An informed public protecting their families, homes, workplaces, communities, and livelihoods from the impact of disasters.
- Communities built to withstand the natural hazards which threaten them.
- Governmental and private organizations with plans, resources, and rigorous training and exercising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

Mission Related Goals

- Emergency management partnerships.
- An emergency management risk-based system firmly established on an all-hazards approach.
- Hazard mitigation as the foundation of the national emergency management system.
- Rapid and effective response to disasters.
- A strengthening of state and local emergency management.

Strategic Plan Goals

- Protect lives and prevent the loss of property from all natural and technological hazards.
- Reduce human suffering and enhance the recovery of communities after disaster strikes.
- Ensure that the public is served in a timely and efficient manner.



The People of FEMA

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

How We Are Organized

FEMA's organizational structure mirrors the functions that take place in the life cycle of emergency management: mitigation, preparedness, and response and recovery. FEMA also contains the U.S. Fire Administration which supports the nation's fire service, and the Federal Insurance Administration which provides flood insurance to property owners nationwide.

Resources to Accomplish the Mission

FEMA's appropriations support many activities that are vital to both national security and the nation's ability to cope with various disasters or emergencies. FEMA is committed to demonstrating compassion for disaster victims, and at the same time helping state and local governments and individuals repair and rebuild their homes and communities. In FY 2000, FEMA continued to support programs that reflected an integrated, all-hazards approach to developing capabilities at all levels of government, and in the private sector, for planning, preparedness, mitigation, response and recovery relative to a wide range of emergencies. Our appropriations allow the Agency to continue to provide flexibility for states to target grant funds to meet their specific emergency management priorities, and to improve and maintain state and local capabilities and programs.

FEMA's Disaster Relief Fund includes an annual appropriation of $300 million and emergency contingency funds in excess of $2 billion for disaster response and recovery. These funds are used to carry out efficient and effective disaster response and recovery actions.

FEMA's appropriation of approximately $270 million for Emergency Management Planning and Assistance provides resources for the following activities:

- Development and maintenance of an integrated operational capability, in partnership with other federal agencies, state and local governments, volunteer organizations and the private sector, to respond to and recover from the consequences of a disaster;
- Policy guidance, technical assistance, training, and exercise support required to establish or enhance the emergency management capabilities of federal, state and local governments;

- Enhancing the nation's fire prevention and arson control capabilities, supporting fire and emergency medical service personnel through research and information dissemination, and providing training programs through the National Fire Academy;
- Supporting Agency logistics, security, and health and safety requirements;
- Information technology resources such as, automated data processing, telecommunications, and information services and systems necessary to accomplish the Agency's mission;
- Development, coordination, and implementation of policies, plans, and programs to mitigate the long-term risk to life and property from hazards such as floods, earthquakes, hurricanes, and dam failures; and
- Support for FEMA's national security program, public information program, and financial management system.

FEMA's salaries and expenses appropriation of approximately $182 million encompasses the salaries and related expenses required to accomplish the Agency mission, vision, and goals.

Response and Recovery

FEMA's OPS Center gears up during times of major disasters.

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 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*; and
- Identifying opportunities to mitigate future disasters.

Mitigation

Contractors raising a house to lessen chances of flood damage.

With the goal of reducing the effect of natural disasters on our families, homes, communities, and economy, mitigation is the cornerstone of emergency management. FEMA works with state and local governments, professional groups, and the public to reduce or eliminate the risk to people and property from floods, earthquakes, hurricanes, and other hazards. **FEMA helps by:**

- Building a Disaster Resistant Community through ***Project Impact***, a collaborative, grass-roots initiative involving risk assessment, planning, and implementing prevention measures;
- Promoting the adoption and enforcement of sound building codes and construction practices;
- Providing grants for activities that reduce the impact of earthquakes, floods, hurricanes and other natural disasters, such as seismic retrofitting, building elevation or acquisition/demolition, and hurricane shutters;
- Preparing risk assessment maps to assist local planners with effective community planning and to inform property owners of the degree of risk associated with their property's location;
- Helping local communities adopt floodplain management ordinances; and
- Educating the public on what they can do to reduce damages from natural hazards through training programs, publications, the FEMA Web site, and seminars.

Preparedness, Training and Exercises

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

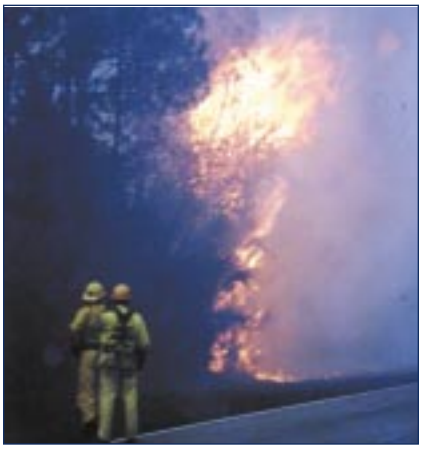
- Helping states and localities to plan and prepare for a wide range of hazards;
- Training emergency management professionals and state and local officials at FEMA's Emergency Management Institute;
- Developing courses for state and local delivery and offering training by satellite through the Emergency 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; and
- Creation of K-12 curriculum for schools on disaster/emergency preparedness.

Federal Insurance Administration (FIA)

The FIA, without appropriations, 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;

Advanced planning, preparation and training are essential to being able to best respond to disasters.



Firefighters faced tremendous challenges in containing wildfires in FY 2000.

Flood waters sweep through this North Carolina town.

- Working in partnership with the insurance industry to sell and service flood insurance policies; and
- Making claims payments to assist individuals, businesses, and communities to facilitate recovery from flooding.

United States Fire Administration (USFA)

During the last 10 years, fire has killed more than 4,500 people and injured nearly 26,400 people annually. Direct property losses due to fire exceed $9 billion a year and the overall fire cost to the American public is $159 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; and
- Working with 30,000 fire departments to collect and analyze national fire statistics.

Management Discussion & Analysis

DISASTER RELIEF FUND

The Robert T. Stafford Disaster Relief and Emergency Assistance Act authorizes the President to provide federal assistance to supplement state and local governments' disaster response, recovery, preparedness, and mitigation efforts. FEMA provides this assistance through the President's Disaster Relief Fund (DRF). The President can declare a major disaster upon the request of the Governor of the affected state. A declaration authorizes FEMA to provide federal disaster assistance. Each declaration specifies the type of incident covered, the time period covered, the types of disaster assistance available, the counties affected by the declaration, and also identifies the Federal Coordinating Officer who manages the response and recovery efforts.

The President also can declare emergencies. Under such a declaration, only emergency response activities, debris removal, and disaster housing programs may be initiated. DRF expenditures for an emergency are limited to $5 million per declaration, unless Congress is notified otherwise. In addition, the FEMA Director is authorized to provide fire suppression assistance to supplement the resources of communities when fires threaten such destruction as would warrant a major disaster declaration.

The Stafford Act directs FEMA to address the short, medium, and long-term consequences of a disaster on both individuals and communities. Following a Presidential declaration, FEMA's immediate priorities are to protect a community's health and safety, address victims' needs, and restore the functioning of civil government. Next, the Agency focuses on aiding communities and individuals to rebuild damaged property and facilities. The long-range objective is to reduce the impact of future events through mitigation and strengthened community preparedness. Careful management is required to ensure that short-term actions do not counteract FEMA's long-term goals.

Residents, friends and neighbors pitch in to save the belongings from a condominium complex that was heavily damaged by a landslide in California.

Disaster Assistance Programs

FEMA disaster employee provides assistance in aftermath of a disaster.

Disaster assistance is provided primarily through Individual Assistance, Public Assistance, and the Hazard Mitigation Grant programs. Individual Assistance Programs (also known as Human Services) provide direct support such as housing assistance to families and individuals recovering from disasters; Individual and Family Grants to cover the loss of uninsured personal property; and unemployment, crisis counseling and legal service assistance to individuals.

The Public Assistance Program (also known as Infrastructure) provides grants to states, and in some cases, Indian Tribal Governments, that supplement the efforts of state, county, municipal governments and eligible private non-profit organizations in rebuilding after disasters. These programs pay for the repair of damaged facilities and emergency measures to save lives and protect public health, safety, and property. Repair and rebuilding is performed in accordance with applicable local and state codes, after taking into

consideration reasonable costs, to mitigate against future damage. Public Assistance provides assistance to remove debris, reinstitute protective measures, and repair roads, bridges, water control facilities, public buildings, public utilities, hospitals, parks and recreational facilities.

The Hazard Mitigation Grant Program (HMGP) provides grants to states to implement long-term hazard mitigation measures after a major disaster declaration. The HMGP is designed to ultimately reduce the future needs for federal disaster assistance by encouraging the building of an environment increasingly resistant to the effects of natural hazards. Examples of projects include elevation of flood-prone buildings, acquisition or relocation of buildings at risk, and the seismic strengthening of structures.

In FY 2000, FEMA obligated a total of $2.4 billion from the DRF for all ongoing disaster activities. Included in that total is $507 million for 40 major declarations in FY 2000, another $10.9 million for 5 emergency declarations in FY 2000, and $26.2 million for 13 fire suppression assistance approvals.

Disaster Assistance Support

When disaster strikes, FEMA assesses the damage, decides what assistance is needed, and makes disaster aid available. This assistance is provided through a disaster operations support infrastructure, called the Disaster Support Activity (DSA). In FY 2000, FEMA obligated $126.4 million for DSA operations. The DSA provides for fundamental ongoing capabilities that are not readily attributable to any one specific declared disaster. Although many operational functions contribute to delivery of disaster assistance, disaster assistance is only as good as the support that is provided by effective logistics and information systems. FEMA's Operations Support Directorate provides logistics support, while information systems are supplied through the Information Technology Services Directorate.

Logistics Support

Re-engineering FEMA's Disaster Logistics Management

FEMA is measured by its ability to meet the needs of the American public, Congress, and the President in times of disaster. In order to fulfill this responsibility FEMA completely re-engineered its disaster logistics management program. Property accountability, operational readiness, process streamlining, and equipment recycling became significant themes. Major initiatives included: centralizing the management, storage and deployment of critical disaster-response property; using information technology to support key resource-management processes, including property management, tracking and accountability; and ensuring quality and consistency in logistics management practices. Since then, these efforts have combined to create a significantly improved logistics management environment for FEMA's disaster operations and avoid millions of dollars in annual costs to the taxpayer.

Centralized Property Management

Centralizing the management, storage and deployment of critical disaster-response property focused on consolidating agency disaster equipment and supplies. The Disaster Information Systems Clearinghouse (DISC), now the Agency's principal source of information technology and telecommunications equipment for disaster operations, was the first of these efforts. It was followed by the creation of three Territory Logistics Centers (TLC), now the Agency's principal source of disaster field office equipment and supplies as well as victim support commodities like food, water, shelter, and mobile power. More recently, Urban Search and Rescue packages, Global Positioning Systems, and over 175 Agency Go-Kits designed to support specific disaster programs have been added to the inventory, further leveraging the benefits of centralized property management.

FEMA PHOTO BY WILLIAM R. RECKERT

These generators bring power to communities hit by a hurricane.

These efforts enhanced strategic asset visibility and management, improved accountability and increased the speed at which personal property could be deployed to disaster sites. Standardized, pre-packaged equipment and supply suites could now be strategically allocated and rapidly deployed to disaster field locations. As locations close, the equip-

ment recycles back for centralized control and accountability, refurbishment, quality assurance, and repackaging for use again. Since June 1995, over 95% of all shipments have consisted entirely of recycled equipment. This fact, combined with lower costs due to centralized competitive purchasing contracts, and streamlining of the contents of each suite have resulted in decreasing average value of support required at each DFO over the past several years.

FEMA PHOTO BY WILLIAM R. RECKERT

FEMA's Territory Logistics Centers store and warehouse tons of vital materials for disaster response.

At the same time, equipment reliability has dramatically increased because trained technicians thoroughly inspect and test each item before it is shipped. Recycling dramatically reduces FEMA's need to repeatedly purchase new equipment when disasters are declared, thereby avoiding costs. Cost avoidance figures increased by $32.8 million in FY 1998 over FY 1997, $23.2 million in FY 1999, and over $11.8 million in FY 2000. The cumulative total for cost avoidance since the DISC and TLC began operations in FY 1996 and FY 1997 respectively is over $92 million.

Leveraging Information Technology

Using information technology to support key resource management processes has greatly enhanced FEMA response capabilities. FEMA has developed two significant tools to aid in managing disaster logistics efforts. These include an automated property accountability system and a system to track resource deployments to, within and from a disaster area. The Logistics Information Management System (LIMS) serves as the agency's single automated property management system and plays a major role in providing a productive property management program for FEMA. LIMS contains over a quarter of a million master items for an inventory value of approximately $300 million. The property is constantly being accounted for as it moves to the disaster location where it is most needed.

FEMA PHOTO BY WILLIAM R. RECKERT

FEMA refurbishes and recycles equipment at the DISC.

Ensuring Quality Logistics Management Practices

Proactive technical assistance has contributed greatly to the improvement of disaster logistics. An Automated Inventory Control (AIC) group provides the field with LIMS and property management field training; the group has supported more than 200 disaster locations and has trained well over 100 staff since its inception in March 1996. AIC, DISC and TLC staff also support field set-up and closeout and have reduced the cost of outstanding inventory at closed disaster sites by more than $2 million this past year alone.

Efforts to improve logistics management operations in FEMA have resulted in cost avoidance and savings that will soon approach $100 million. The DISC and TLC warehousing operations and maintenance programs provide for the reutilization of government assets on a daily basis. The AIC group has provided the means to track, analyze, and provide disposition of assets to property managers' agency-wide through effective use of a centralized automated system, LIMS. This system and support program encourages effective inventory management by including all aspects of the property management cycle, from acquisition to disposal.

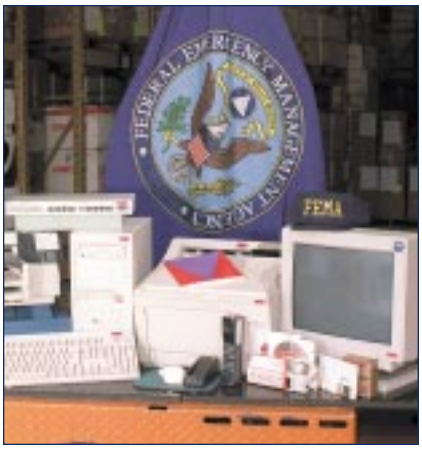
By centralizing and automating property and other logistics management systems and warehousing operations, FEMA can more effectively reutilize government assets. This multi-faceted re-engineering/ re-invention effort to streamline and coordinate logistics management activities strengthens FEMA's capacity to responsibly and rapidly provide the necessary resources while reducing the cost to the taxpayer.

National Emergency Management Information System

FEMA developed and implemented the National Emergency Management Information System (NEMIS)

to improve federal disaster response activities, to reduce operations costs, and to speed the delivery of disaster benefits. NEMIS is an integrated system that provides FEMA, states, and other federal agencies with automated services to perform disaster operations. NEMIS supports all phases of emergency management from state mitigation planning to situation assessments, providing disaster assistance, command and control, programmatic programming, emergency support, and mitigation operations. NEMIS provides users at regional, headquarters, state, and DFO locations with standard processes to support disaster management wherever a disaster occurs.

FEMA PHOTO BY WILLIAM R. RECKERT



Computer workstations packaged in pallets for rapid shipment to disaster field offices.

NEMIS is an information resource that enables FEMA to integrate preparedness, situation assessment, preliminary damage assessment (PDA), and information and planning operations with FEMA programs and disaster assistance. This integration enables rapid and coordinated transition from monitoring an incident to managing disaster declarations, setting up DFO's, and assisting communities and individuals affected by the disaster. In addition to providing automated support for a full range of emergency management processes, NEMIS interfaces with other systems, including the Agency's financial, acquisition, and personnel systems; National Flood Insurance Program database; Preparedness, Training, and Exercise systems; logistics databases; National Fire Incident Reporting System; and other agencies' systems. NEMIS provides automated support for joint FEMA/state functions such as managing public assistance projects and grants, processing individual and family grants and conducting preliminary damage assessments.

In addition, FEMA maintains close partnerships with federal agencies that provide disaster-related services. NEMIS automates aspects of these relationships, such as the process of issuing and tracking mission assignments to other federal agencies to provide disaster assistance, or for making Small Business Association loan determinations. NEMIS also works with several other federal agency systems to replace manual ad-hoc transmission of data. Coordinated exchange of information reduces duplication of effort in providing disaster assistance and improves customer service.

NEMIS has allowed the Individual Assistance Program to consolidate the eligibility review of disaster housing applications to one of three locations, and the certification and payment process to one location. In addition, the states have electronic access for reviewing and processing individual and family grant applications as well as the mitigation and infrastructure grant applications processes.

Consistency and timeliness of processing grant applications and disaster housing payments have improved as a result of the interface between NEMIS and the Agency's financial system. The single point of entry has eliminated the costs from redundant data entry into multiple systems and reduced keying errors. NEMIS has consolidated information within each database that is accessible and available to the appropriate users, wherever they are located: DFO's, regions, processing centers, or FEMA headquarters.

NEMIS allows FEMA to respond faster, more consistently, and at a lower cost. During FY 2000, NEMIS supported 40 major disaster declarations, five emergency, and 47 fire suppression assistance requests. Using electronic transfers with automated interface to the Agency's financial and acquisition systems, NEMIS processed Disaster Relief Fund allocations totaling $1,701,339,640 since implementation.

FEMA's NEMIS has been recognized by *Federal Computer Week*, which gave it a Federal Top 100 Award; by *Government Computer News* with its Agency Award; and by favorable reports in industry publications.

Direct Disaster Programs Financial Information

Disasters are a fact of life. FEMA has mitigated, prepared for, built robust response and recovery systems, and attempted to institutionalize, streamline, and infuse cost consciousness and efficiency at every level within the organization and at every level of government. Nevertheless, the financial costs of disasters have escalated and have a direct relationship to the busiest decade of disaster events in history. Despite a lower than normal disaster

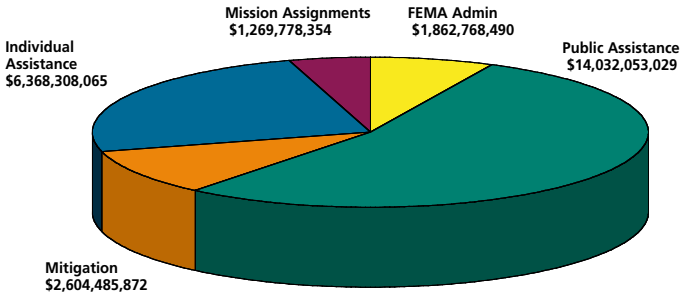
season in FY 2000, overall the number and severity of disasters increased dramatically this past decade.

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 and 1999, and devastating Hurricane Floyd in 1999, disaster relief costs reflect this historic trend of severe weather events over the past 10 years.

Every year except 1991 and 2000 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 disasters that have been occurring. Projected assistance resulting from the January 1994 Northridge earthquake alone is equal to 27 percent of all projected costs from the DRF since 1991. FEMA's cost projections for disasters declared in FY 1991-2000 total more than $26 billion.

As the graph below indicates, considerably more than half the projected disaster costs are in Public Assistance. A large portion of these projected costs are the result of the aforementioned Northridge earthquake. 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, more than $2 is projected to be spent for Public Assistance for every $1 spent for Individual Assistance.

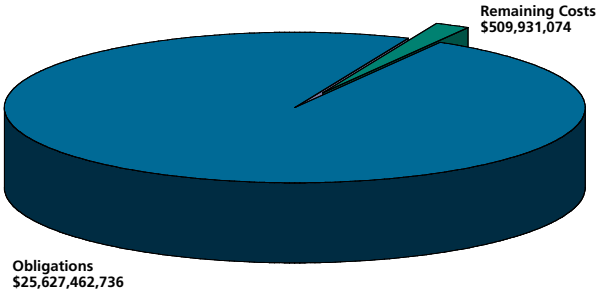
Total FEMA Cost Projections for Disasters Declared in FY 91-00 by Program (as of 9/30/00)



Total Projections $26,137,393,810

Approximately $2.6 billion (10%) of the projected costs are to mitigate the effects of disasters and protect communities and the environment. Just under $1.3 billion is for mission assignments to other federal agencies to provide assistance in the immediate aftermath of disasters, while a little less than $1.9 billion (7%) is to administer direct disaster response and recovery activities.

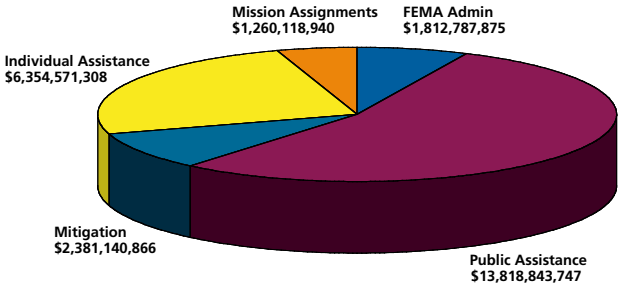
Total FEMA Obligations & Projected Remaining Cost for Disasters Declared in FY 91-00 (as of 9/30/00)



Total Projections $26,137,393,810

As the graph above shows, FEMA has obligated $25.6 billion of the projected $26.1 billion for all disasters for the ten-year period, or 98.1% of all projected costs. Disaster costs typically were incurred during a period of years following the disaster declaration because Public Assistance and Hazard Mitigation projects take 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. FEMA has made a priority of closing out, i.e., fully funding, all disasters declared prior to FY 1998, and as of the end of FY 2000 had reduced remaining costs to less than $132 million for that group of disasters. By the end of FY 2000, FEMA had remaining costs of just under $510 million for disasters declared during the period FY 1991–FY 2000.

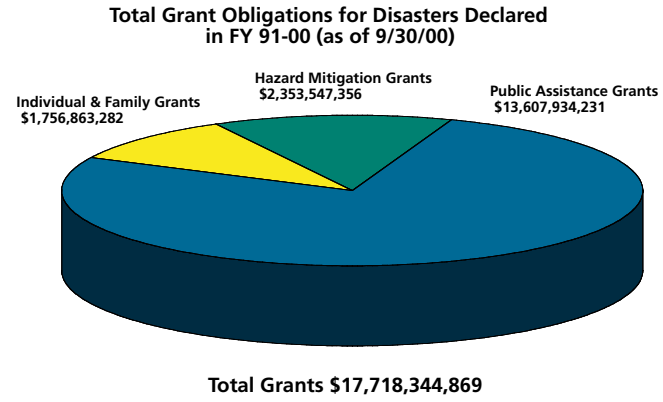
Total FEMA Obligations by Program for Disasters Declared in FY 91-00 (as of 9/30/00)



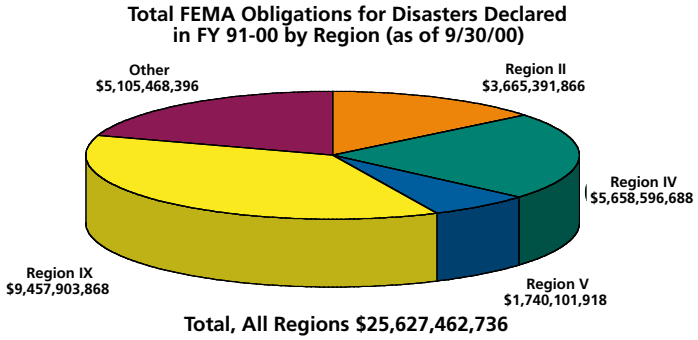
Total Obligations $25,627,462,736

The graph Total FEMA Obligations shows the total cumulative amount obligated for each program and activity for the 10-year period. Public Assistance, at 53.9% accounts for the majority of DRF funds obligated since FY 1991. Individual Assistance obligations

account for 24.8% of costs to date, while Mitigation programs are 9.3% of the total.



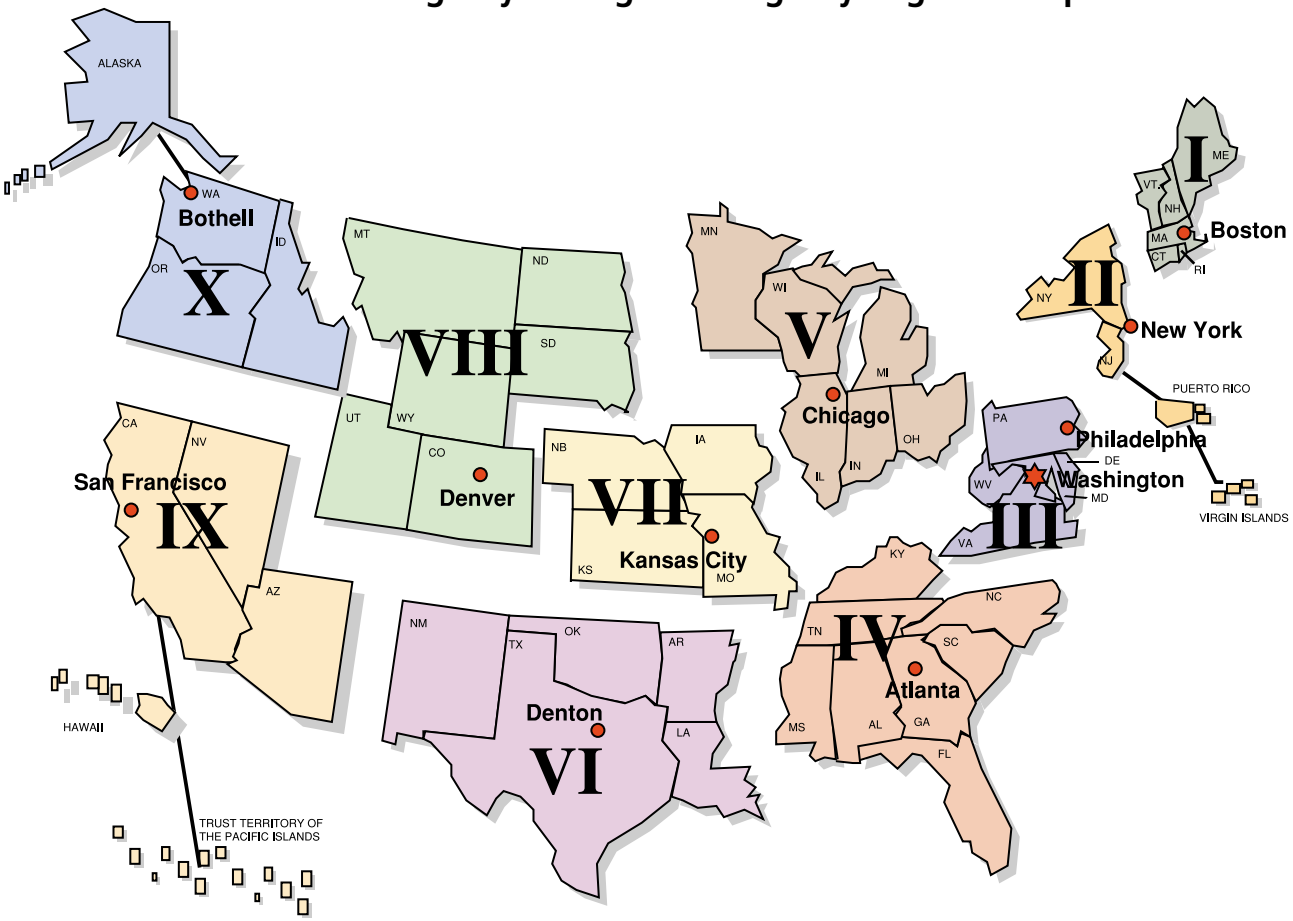
The graph Total Grant Obligations shows that of the $17.7 billion in grants awarded for disasters, 76.1% of the dollars were for Public Assistance grants, 9.9% for Individual and Family Grants, and 13.3% for Hazard Mitigation grants. The percentages of funds distributed through Public Assistance grants underscores the emphasis placed during the last several years on reengineering the Public Assistance process and the need for continuous process improvement. This graph does not include other FEMA Individual Assistance provided either through direct payment to individuals for temporary housing or minimal home repairs or through other federal/state agencies for crisis counseling, unemployment, and legal services.



Region IX accounted for 36.9% of all obligations for disasters declared since 1991. This was primarily the result of the Northridge earthquake, hurricanes in Hawaii and the Pacific Islands, flooding, and numerous wildfires. Region IV accounted for 22.1% of obligations primarily resulting from hurricanes, especially Hurricane Andrew. Region II obligated 14.3% of disaster dollars during the period, principally because of hurricanes in the Caribbean, while Region V accounted for 6.8% owing to severe flooding in the Midwest in 1993 and 1998. The balance, or 19.9% of the obligated dollars, was distributed in the other 6 regions of the country.

Disasters are costly both financially and emotionally. FEMA initiated many changes during the last seven 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 devastated communities. We have documented the program and administrative improvements in the Management Discussion and Analysis, especially pre-disaster mitigation highlighted by the phenomenal growth of *Project Impact*: Building Disaster Resistant Communities.

Federal Emergency Management Agency Regional Map



CERRO GRANDE FIRE

On May 4, 2000, a prescribed burn on federal land at Bandelier National Monument in New Mexico exceeded containment capabilities, was reclassified a wild land burn, and spread to other federal and non-federal land causing damages to private and public properties. The size and movement of the fire caused evacuations in and around Los Alamos and White Rock, New Mexico, including the Los Alamos National Laboratory, one of the leading national research laboratories in the United States and the birthplace of the atomic bomb.
On May 11, 2000, the President issued an emergency declaration that was followed on May 13, 2000, by a major disaster declaration.

New Mexico fires destroyed many homes and thousands of acres of forest land during FY 2000.

The fire resulted in the loss of federal, state, local, tribal, and private property. The United States agreed to compensate the victims of the Cerro Grande Fire for all losses associated with the fire.

On July 13, 2000, Congress passed the Cerro Grande Fire Assistance Act (CGFAA). This Act charged FEMA with establishing the Office of Cerro Grande Fire Claims (OCGFC) to investigate, consider, ascertain, adjust, determine, grant, deny, or settle any claim for monetary damages. The Office of Cerro Grande Fire Claims is responsible for compensating victims of the Cerro Grande Prescribed Fire for injuries and damages resulting from the fire.

Between August 28 and September 30, 2000, the OCGFC Program received 1,716 Notices Of Losses (1,289 from individuals, 369 from businesses, 9 from state/county agencies, 1 from the Pueblos—non individual, 9 from non-profit organizations and 39 waiting classification) and made 112 payments totaling $3,317,016. During this period 2,532 people visited the Customer Service Centers and more than 1,200 calls were received for program information on the toll-free number.

FEMA received an appropriation of $500 million. Of that, $455 million is for claims and $45 million, or 9%, is for administrative costs for the entire duration of the operation. An independent public accounting firm estimated claims liability of $440 million based on the August 28, 2000, Interim Final Rules entitled, *Disaster Assistance: Cerro Grande Fire Assistance, Interim Final Rule*, published in the Federal Register Part V at 44 CFR Chapter 1, Part 295. Total administrative costs should remain between 9–10%.

FEMA's Director reiterated the importance of meeting the statutory date August 28, 2000, for program operations to begin in New Mexico. The statutory date was met with the main administration office in Santa Fe and a total of seven satellite offices in the affected area, called Customer Service Centers (CSCs), opening and processing Notices of Loss from fire victims on August 28, 2000.

Our program goals correspond to the major components of this program—claims processing (policy, procedures and information management) and the resources (funds, facilities, personnel and equipment) required for the execution of all program activities.

The primary goal for claims processing is to try and provide fair compensation as quickly as possible to all victims of the fire. The Act created an objective for claims processing that will define success in meeting our first goal. This objective is for the OCGFC to make an initial decision on all Notices of Loss submitted by victims of the fire within 180 days. A strategy to help us achieve this goal and to expedite the claims process, until final program regulations are published, is to quickly publish an interim policy manual that will contain claims processing

guidelines. Additionally, we will solicit comments from community leaders and victims on all interim policy decisions to help minimize misconceptions and assist in the quality of our interim decisions. Finally, there will be a team of qualified authorizing officials to speed up the initial decision on payments.

A second goal is to keep the elected officials and the community informed with current and accurate information. To help victims in filing a claim and getting current program information in circulation, the following aids were established:

1. FEMA Web site—www.fema.gov/cerrogrande.
2. A toll-free information line.
3. A local post box in Los Alamos.
4. A community liaison person that maintains daily contact with community organizations.
5. A congressional liaison to work with all the applicable congressional offices, state, and elected officials.
6. An OCGFC bulletin, published periodically, that announces key policy and procedures decisions.
7. A tribal liaison team to help the two affected Pueblos through the entire process.
8. Periodic news releases and constant liaison with applicable newspapers and TV/radio stations.
9. Director's visits to the community and community comments solicited on all major policy decisions.

Our third goal is to determine an estimated OCGFC total program cost during the first quarter of FY 2001. This can be accomplished by estimating the total amount of claims and projecting the administrative costs per year for the expected duration of this program.

Cerro Grande workers provide information and answer questions from prospective claimants.

"We're trying to minimize misconceptions. Our goal is to try to get fair compensation as quickly as possible."
Director, OCGFC

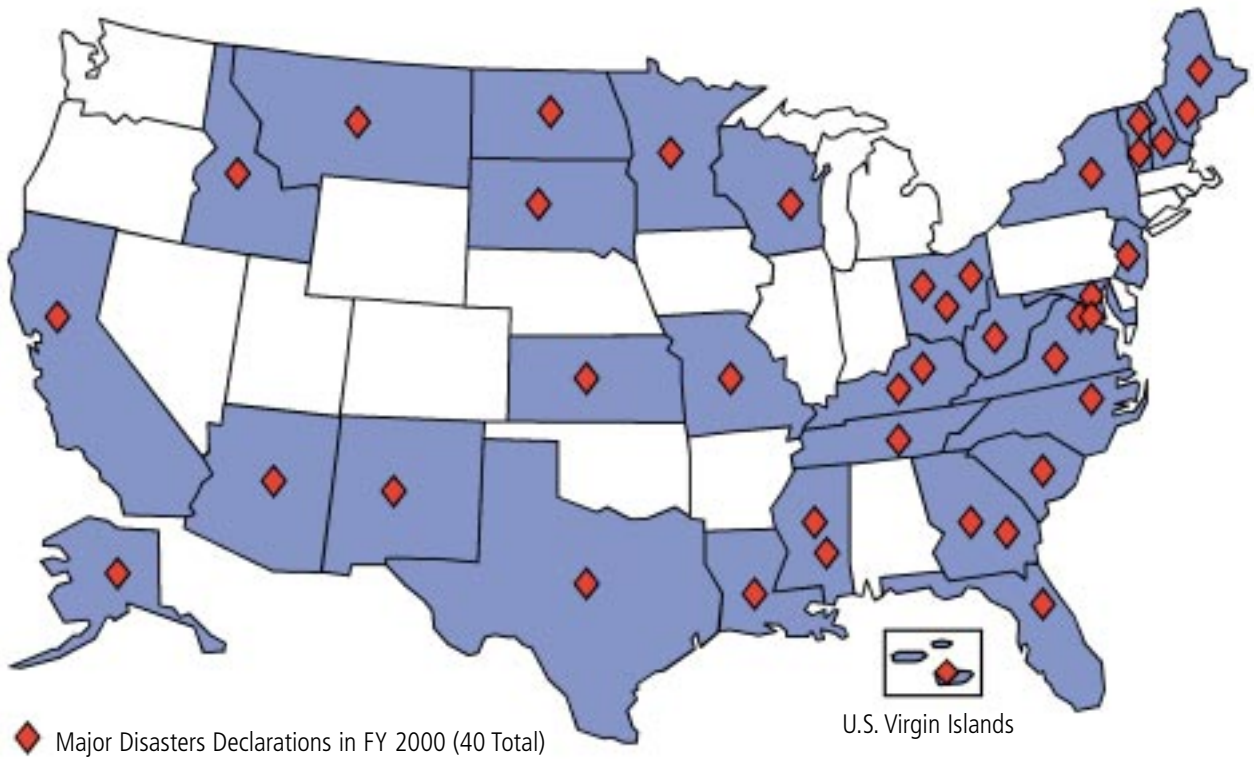
Firefighters worked to extinguish wildfires in New Mexico.

RESPONSE AND RECOVERY DIRECTORATE

FEMA and its emergency management partners develop and maintain an integrated operational capability to respond to and recover from the devastation of disasters. When disaster strikes, this partnership works to provide the essential goods and services needed immediately by disaster victims and to ensure that communities are able to begin the process of rebuilding and returning to normal as soon as possible. The combined response efforts ensure the provision of safe water, food, and shelter to disaster victims, and assist in the restoration of basic community services, from sewage treatment to accessible roads. The recovery effort aids the long-term restoration of eligible facilities including public roads, bridges, and hospitals. Such efforts support the restoration of economic and community stability. All of these efforts are coordinated by FEMA's regional and headquarters staff and managed by a presidentially-appointed Federal Coordinating Officer.

In the last 50 years, more than 4,500 people in the U.S. have been killed by tornadoes.

Through means such as standby resources, community outreach programs, teleregistration, information centers, and town meetings, FEMA



signifies its commitment to provide support to the fullest extent that it can. This is accomplished by response and recovery actions to:

- Collect and provide information to the President in determining the need for a disaster declaration;
- Conduct emergency operations to save lives and property by timely positioning of appropriate emergency equipment, supplies, and personnel;
- Provide accurate, timely public information;
- Gather, analyze, and use data for the determination of applicant eligibility;
- Provide for the immediate essential needs and basic long-term recovery of individuals and public institutions in collaboration with FEMA partners;
- Manage loan and grant application, approval, and disbursement;
- Assist in the restoration of communities so that individuals, businesses, and governments can function on their own;
- Provide efficient and effective service;
- Manage response and recovery operations to assure compliance with laws and regulations; and,
- Provide technical assistance to states.

During FY 2000, the President declared 40 major disasters that represent a projected cost of $670 million. Thus far a total of $507 million was obligated in FY 2000 for these 40 major disasters for response and recovery efforts. The major disaster declaration map shows the distribution of disasters nationwide.

FEMA disaster workers help provide aid to disaster victims.

Disaster Assistance

Individual Assistance

After the initial disaster response, FEMA's Individual Assistance (IA) 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.

FEMA also coordinates an array of assistance services for individual disaster victims through other federal agencies. This includes disaster loans from the Small Business Administration, tax assistance through the Internal Revenue Service, disaster unemployment assistance through the Department of Labor, veteran's benefits through the Veterans Administration, social security benefits from the Social Security Administration, food stamps 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 individual assistance is the application process and associated services provided by FEMA.

FEMA's continuing goal is to provide individual disaster victims with prompt, caring service which helps them to understand what assistance is available to them, and the process by which to apply for it. FEMA is committed to ensuring that eligible individuals have safe, habitable housing as soon as possible after the disaster, through either repair of their own homes or provision of temporary quarters. FEMA also guides victims to the network of assistance available through other federal, state, local, and voluntary agencies.

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

Program Emphasis: *To improve Individual Assistance program delivery over FY 1995 baselines.*

The performance results for the Individual Assistance performance standards discussed below are based on survey results for recipients of disaster assistance in all disasters declared for Individual Assistance in FY 1999, the most recent fiscal year for which complete results are available.

The margin of error for each of the fiscal years is shown below.

Fiscal Year	Margin of Error	No. of Responders
FY95	±2%	3,859
FY96	±1%	8,641
FY97	±1%	6,717
FY98	±1%	6,671
FY99	±1%	5,134

In FY 1999, FEMA continued to maintain high levels of satisfaction among recipients of Individual Assistance. In all cases, **satisfaction** levels for Individual Assistance were at or above levels set in the baseline year, FY 1995. The standard "provide eligible applicants with disaster housing assistance as promptly as possible, and give them an estimate of when assistance will be received" showed the most notable increase, increasing 1.6 percentage points over FY 1998 and 2.9 points over the baseline year. Change in the remaining standards was within the statistical margin of error of (± 1%), and therefore of little statistical significance.

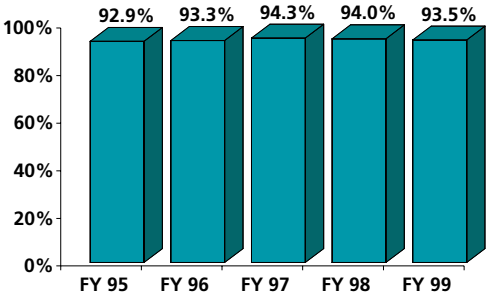
FEMA works to provide shelter during the initial stages of a disaster.

Program Performance: The Individual Assistance performance information is organized according to customer service standards, as follows:

To provide applicants access to disaster assistance.

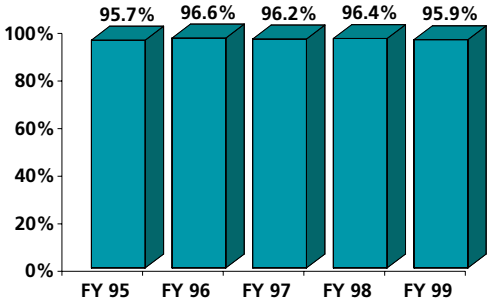
Disaster victims are often traumatized. Many find their homes destroyed or severely damaged. Property accumulated through years of hard work is lost. A lifetime of memories can be obliterated. This standard addresses the issue of ease of applying for disaster assistance in a time of trouble and turmoil. Customers who have to wait for completion of their registration phone calls are likely to be less satisfied with this dimension of service. FEMA has taken steps over the years to increase the number of lines and operators available to take teleregistrations. In addition, FEMA has greatly improved training to assure that questions will be answered correctly by the person who first takes the call. FEMA also sped up the processing of applications by using document imaging to create an electronic image of any letter or other document an applicant sends us that is placed in the applicant's electronic file.

Satisfaction With Access To Assistance



To provide disaster victims with an opportunity to tell their stories to responsive FEMA representatives.

Satisfaction With Time To Tell Story

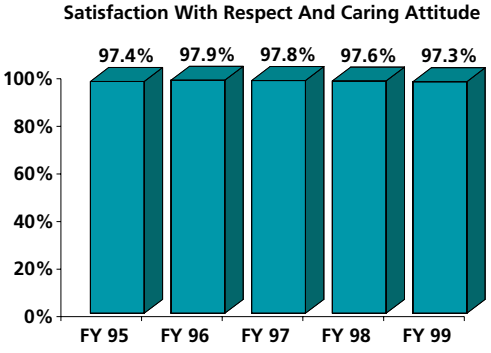


This standard addresses the need of disaster victims to tell their stories to responsive individuals who understand the range of feelings they are experiencing. Both Teleregistration and Helpline contacts provide opportunities for victims to describe their situations and clarify options for assistance. FEMA teleregistrars and helpline operators are trained to be aware of and sensitive to the range of emotions of disaster victims and to be supportive when providing and describing available assistance.

To treat applicants with respect and caring.

This standard addresses how we as service providers interact with and treat our customers. Our customers contact us at a time of vulnerability. It is very

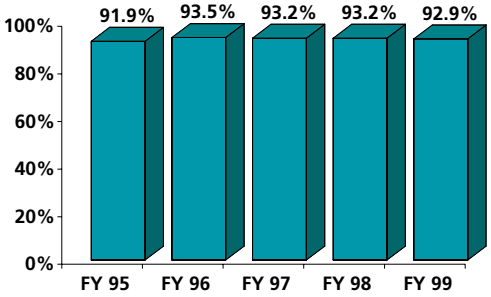
Satisfaction With Respect And Caring Attitude



important that we treat them with care and consideration in a warm, helpful, and respectful manner. FEMA staff are trained to attend to customer needs with respect and caring regardless of circumstances and service demand.

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

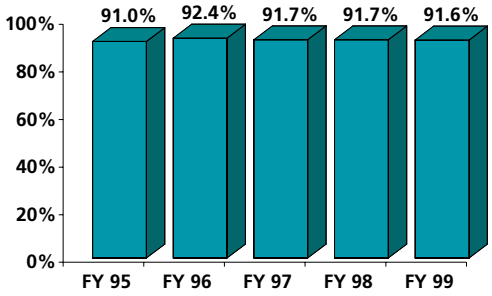
Satisfaction With Clear, Accurate Information



This standard addresses the need for clarity and accuracy of information on how victims can apply for assistance provided by both 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. It is critical that applicants understand not only the scope of possible assistance, but also the criteria for eligibility and interrelationships among assistance programs. The single most influential cause of customer dissatisfaction is inflated, unmet expectations.

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.

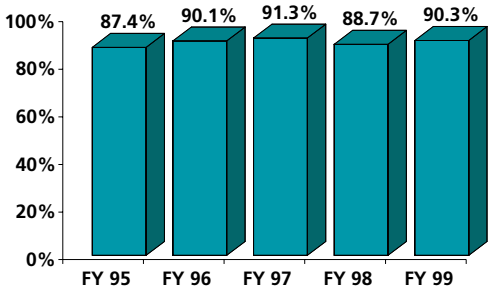
Satisfaction With Clearly Explaining The Process



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. FEMA has taken steps to simplify and clarify the complex assistance process by combining the Temporary Housing and the Individual and Family Grant Programs thus requiring only one application.

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

Satisfaction With Receiving A Payment Promptly



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. Customer responses indicate there was a 1.6% increase in satisfaction with performance for this standard in FY 1999 over FY 1998.

Public Assistance

FEMA's Public Assistance Program provides supplementary aid to state and local governments, and certain private nonprofit organizations to help communities recover from the devastating effects of major disasters and emergencies.

Disasters can produce tons of debris.

State and local governments, and certain private nonprofit organizations may be eligible for public assistance funding to clear debris; to implement emergency protective measures for the preservation of life and property; to repair or replace public infrastructure, such as streets, bridges, water control facilities; to repair or replace public buildings and related equipment; to repair or restore public utilities; and to repair or restore public recreational facilities and parks.

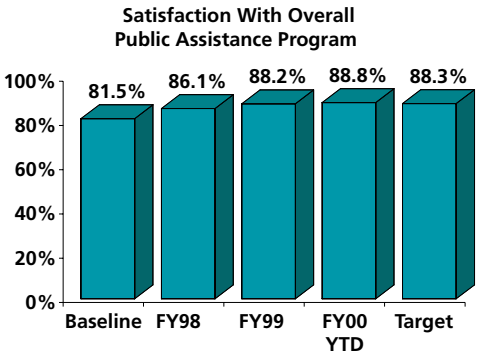
These Public Assistance projects are an extension of FEMA's mission to address the loss of life, human suffering, loss of income, and damage or destruction of property that occur during disasters and emergencies, by supporting community efforts to restore critical lifelines necessary for the reestablishment of normal daily activities and commercial relations after such events.

Program General Purpose: *To transform Public Assistance into a customer driven and performance based program, thereby improving the quality and delivery of service to our state and local applicants.*

Program Emphasis: *To assist communities in recovering from disaster and improve Public Assistance Program delivery over FY 1997 baselines.*

Program Performance: The Public Assistance performance information is organized according to customer service standards, as follows:

Customers will be satisfied with the overall Public Assistance Program and process.



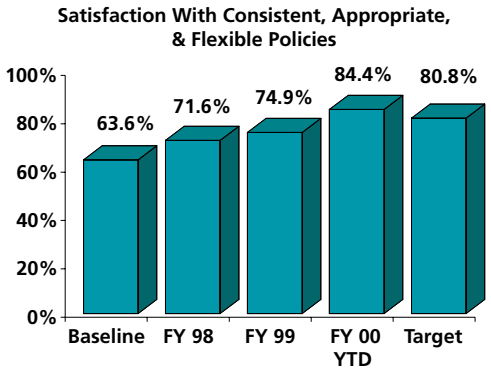
On October 1, 1998, FEMA implemented a redesign of the Public Assistance Program. Before the redesign, FEMA was not fully cognizant of how our policies, programs, and procedures affected our public assistance customers—state and local governments. However, during the developmental aspects of the redesign we received valuable insights from our state and local customers/partners which led us to fundamentally shift the direction of the program. The measure of success for the Public Assistance Program now focuses on the applicants' satisfaction with the redesigned program and its processes.

We surveyed 27 individual disasters in FY 2000. The results for this performance standard indicate a high level of customer satisfaction with the overall operation of the Public Assistance Program. Whereas last year we effectively met the target (within 0.1 percentage points), this year we exceeded the target by 0.5 percentage points. We hope to maintain this high level of satisfaction in the upcoming year and will continue to work on improving the program so that we may deliver the best quality of assistance to our applicants and increase their overall satisfaction with the Public Assistance Program.

Public Assistance helps rebuild damaged roads, like the one above.

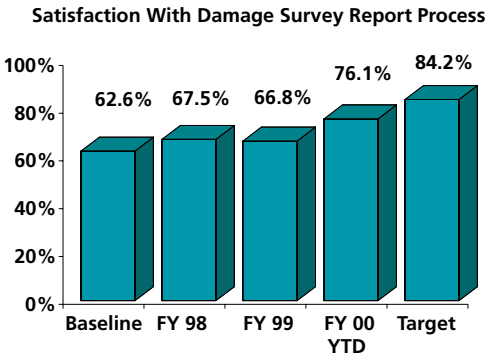
Customers will be issued policy that is consistent, appropriate, and flexible.

In the past, FEMA has been criticized for policies that lacked flexibility, as applied to different types of disasters, and for policy misinterpretation in the field during disaster recovery activities. Confusion abounded in these situations. Beginning with the redesign, FEMA undertook a new policy initiative to ensure that, in future disasters, policies will be flexible enough to accommodate all types of disasters and that these policies will be applied consistently. This standard helps us to measure our success in streamlining and clarifying FEMA policy for the handling of Public Assistance to better serve our applicants' needs.



The results for FY 2000 exceed the target for this performance standard by 3.6 percentage points. Customer satisfaction with this standard shows a marked increase of 9.5 percentage points over the rates recorded in FY 1999, but perhaps more notable, the FY 2000 results show an increase of 20.8 percentage points over the baseline survey conducted in FY 1997. While streamlining is a long and ever evolving process, we believe these results indicate we are moving in the right direction for both the program and our customers.

Customers will be satisfied with the overall Project Worksheet (PW) process.

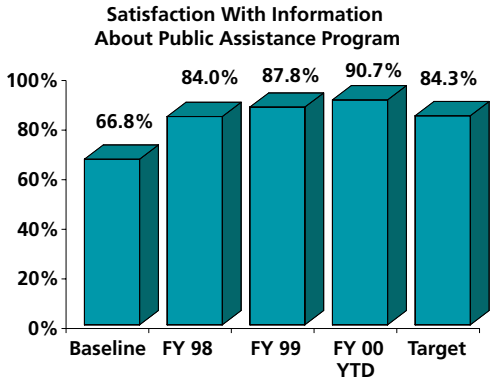


Oftentimes, changes occurred during the Damage Survey Report (DSR) process that reduced the amount eligible for repair. Applicants were made aware of this reduction only upon final notification of their DSR(s). This led to applicant dissatisfaction with the DSR process, and with the operation of the Public Assistance Program itself. This standard charts the progress, or lack thereof, made in the redesigned Public Assistance Program to establish close communication, coordination, and cooperation during the application process. The DSR process has been replaced with the Project Worksheet (PW) process which, under the redesigned Public Assistance Program, keeps applicants informed at all stages and junctures of the application process.

Unlike the FY 1999 survey results in which customer satisfaction decreased by approximately one percentage point, the FY 2000 results for this performance standard show a dramatic improvement with our customers' satisfaction. While the performance standard average still falls below the established target, the FY 2000 results have increased 9.3 percentage points over FY 1999 results, and 13.5 percentage points over the Baseline Survey. We feel we can attribute much of this increase in satisfaction to new elements of the PW process—expedited immediate needs funding, small project validation, and use of the case management system. In the upcoming year, we will be utilizing the survey as a tool to assist us in examining and possibly restructuring other areas of the PW process so that we may improve the effectiveness and efficiency of the program while continuing to increase our customers' satisfaction. In the meantime, we will continue to closely monitor our customers' reaction to the PW process.

Customers will be satisfied with the information received about the Public Assistance Program.

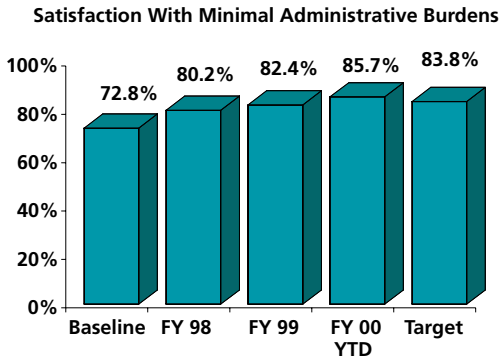
During the redesign process, we learned that our applicants did not feel FEMA had always devoted adequate resources to ensure applicants' understanding of funding processes, policies, and procedures governing the Public Assistance Program. With the redesigned program, we are now strongly committed to 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.



This performance standard recorded the highest level of satisfaction in FY 2000, exceeding its target by 6.4 percentage points. Since the redesign we have striven to provide sufficient, accurate, user-friendly information regarding the Public Assistance Program. To that end, we have continued with the publication and distribution of policies and guidance materials to the public. We also have concentrated much time and energy toward our training and accreditation initiative. One of the key components to successful information dissemination is having a knowledgeable well-trained staff working with applicants and available to answer their questions. According to the FY 2000 results, we have met with success in this program area. We hope to maintain this high level of customer satisfaction over the next several years and will do our best whenever possible to increase our applicants' satisfaction.

Customers will have minimal administrative burdens.

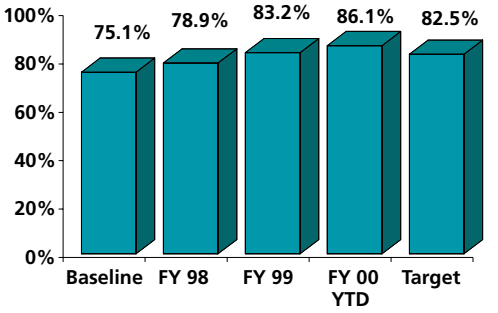
Prior to the redesign, many applicants contended that FEMA asked for too much documentation during the DSR process and that the



Agency had created an overly difficult and bureaucratic process out of simple information gathering. For the past two years, FEMA has been working on streamlining the administrative processes required of applicants to eliminate any duplicative, redundant, and unnecessary information to assess applicant needs and requirements expeditiously.

Results for FY 2000 show that FEMA has had continued success in its effort to reduce the administrative burden of our applicants, exceeding the target by 1.9 percentage points. To maintain this level of satisfaction, and in an effort to improve upon it in FY 2001, we will continue to examine new ways to keep the administrative processes and requirements of the program to a minimum.

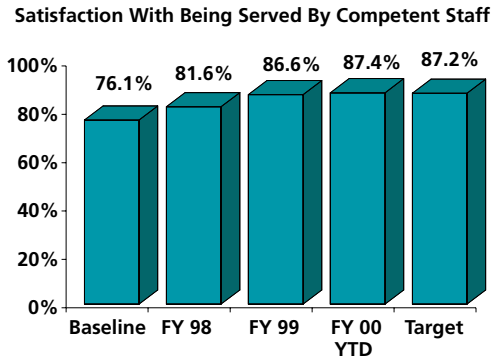
Customers will be served in a timely manner.



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 PW and funding processes.

According to results for FY 2000, our customers were highly satisfied with FEMA's timeliness. Satisfaction rates for this performance standard exceed the target by 3.6 percentage points. With the implementation of the redesigned program, the application process has been expedited and the timeliness in the release of disaster assistance funding has improved. We believe these improvements have contributed to the increased satisfaction with this particular area of the program. We will continue to work to maintain this high level of satisfaction and to expedite the application and PW processes.

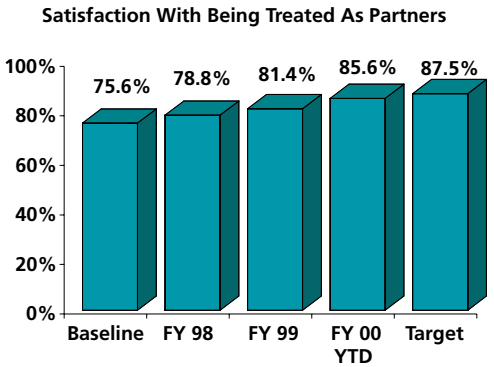
Customers will be served with minimal turnover by staff who are responsive, competent, accountable, and customer friendly.



This standard represents one of the major initiatives undertaken in the redesigned Public Assistance Program. Policy interpretation, information dissemination, and the PW process are all impacted by the quality of staff implementing the Public Assistance Program. Since customer satisfaction is largely based on the people implementing the program, many of the components in the redesign were centered around a FEMA staff that would be responsive to customer needs, knowledgeable about general operations, responsible and accountable for quality of work, and able to conduct business in a pleasant, respectful, and professional manner.

In FY 2000, we continued to improve overall applicant relations with FEMA during the disaster recovery process. We attribute this success to our training and accreditation initiative which has been implemented nationwide. This initiative is a means of ensuring that our customers will be served by a competent, experienced, and responsive staff throughout all stages of the application and recovery process. A part of an overall Agency initiative, we feel this increased level of training and experience requirements has increased our applicants' satisfaction and the overall operation of the program.

Customers will be treated as partners.



As well as being our customers, state governments also are 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 redesigned program, this has changed. In addition to considering states as full and equal partners 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 and our partners, and to ensure they remain as such in theory and in practice.

Survey results show continued movement toward our target satisfaction rate in FY 2000. Satisfaction rates increased 4.2 percentage points over FY 1999 and 10 percentage points over the baseline survey for this performance standard. As the roles of the state and federal government have been more clearly defined and responsibilities have been assumed under the redesigned program, the inter-working relationship between these two entities has seen improvement, further facilitating the disaster assistance recovery process.

Conclusion

The resources assigned to FEMA's response and recovery efforts help to rebuild lives and communities and cement the compact between citizens and their government. FEMA's disaster assistance customers tell us that over the five-year period of surveying we consistently are providing high quality service in a time of need. FEMA's new Public Assistance Program continues to evolve and mature and increasingly is meeting the needs of our state and local partners. These constituents identified what is of importance to them and how they view FEMA's performance against these factors. In several instances expectations have been surpassed and standards will be revised in FY 2001.

MITIGATION DIRECTORATE

Mitigation actions protect life and property and reduce long-term risks from hazards. Typical federal mitigation actions involve supporting local government officials' efforts to promote the construction or siting of structures so that they have reduced chances of being impacted by disasters; develop, adopt, and enforce appropriate building codes and land use planning standards; and take action to correct inappropriate building designs.

These utility boxes are raised as a mitigation effort to prevent future damage.

Mitigation is achieved primarily through community actions, which are greatly enhanced by the support of individuals, public-private partnerships, and federal and state assistance. FEMA's strategy for mitigation focuses on making it as easy as possible for communities and their citizens to take informed and effective mitigation actions. FEMA will do this by leading a national effort to:

- Identify and improve the understanding of the nation's hazards and their risks, by community;
- Develop or improve techniques that mitigate those risks;
- Provide an environment conducive to applying those techniques;
- Provide financial and technical assistance, both pre- and post-disaster, to facilitate application of those techniques; and
- Support the development of incentives and disincentives which make application of those techniques a social, political and/or economic priority.

MITIGATION STRATEGY

FEMA's mitigation strategy focuses on partnerships in the development of disaster-resistant communities and institutions in four areas:

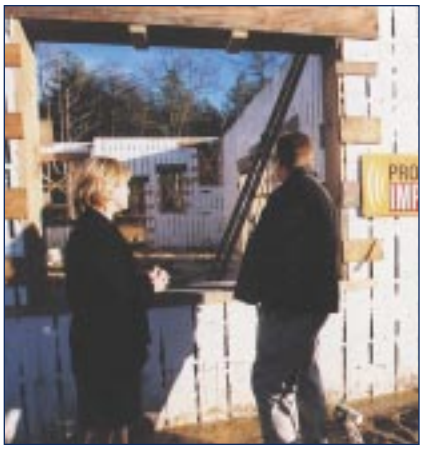
1. *Federal Mitigation.* FEMA leads an effort to ensure that federal authorities and resources that affect the built environment, undeveloped land, waterways etc. also support, to the greatest feasible extent, community-based mitigation.
2. *State Mitigation.* FEMA collaborates with the states to develop criteria and incentives for comprehensive state initiatives that marshal their resources and authorities to support community-based mitigation.
3. *Community Mitigation.* FEMA collaborates with community-level stakeholders to reduce risk through voluntary, community-based, incentive-driven decisions and action.
4. *Private/Public Mitigation.* FEMA leads an effort to identify and leverage the national mitigation effort that results from mitigation-appropriate construction and land-use decisions made by business and to encourage the availability of incentives for mitigation through insurance and financial market instruments.

In the aftermath of disasters FEMA state workers demonstrate how to rebuild disaster resistant homes.

Through technical assistance and networking opportunities, FEMA supports partners who strive to enhance disaster resistance within communities and institutions by taking sustained actions to reduce or eliminate long-term risk to people and property from hazards and their effects.

Through use of mitigation resources FEMA identifies, assesses, and reduces the nature and extent of risk for hazards such as floods, earthquakes, hurricanes, and dam failures. Of the total budget of almost $123

million for mitigation, $73 million is charged directly to the National Flood Insurance Fund to support floodplain management activities. An additional $20 million is used to support *Project Impact* communities, the centerpiece of the community based mitigation effort.



New construction adopts *Project Impact* bracing concepts to prevent future loss.

Project Impact: Building a Disaster Resistant Community

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

Since 1990, FEMA has spent $27 billion 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. With *Project Impact* serving as the centerpiece of FEMA's community-based mitigation effort, FEMA is changing the way America deals with disasters.

A nationwide initiative, *Project Impact* operates on a 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 is using 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. This past year, increases of community involvement in the areas of peer mentoring, partnering, public outreach, technical assistance, training, media/public awareness, mitigation activities, and risk assessment are setting the stage for building long-term commitment and permanent change towards disaster prevention. Indeed, FEMA estimates that for every dollar spent in damage prevention, **two** are saved in repairs.

Project Impact principles at work. Hurricane straps and other roof reinforcements can reduce damage from high winds and hurricanes.

FEMA established two goals for *Project Impact* for FY 2000. To increase the overall FY 2000 *Project Impact* communities by at least 50 beyond the 117 identified in FY 1999, and to build disaster resistance in each of these communities.

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 national and local partnerships, as well as intergovernmental partnerships, were the only sensible approach to building disaster resistant communities.

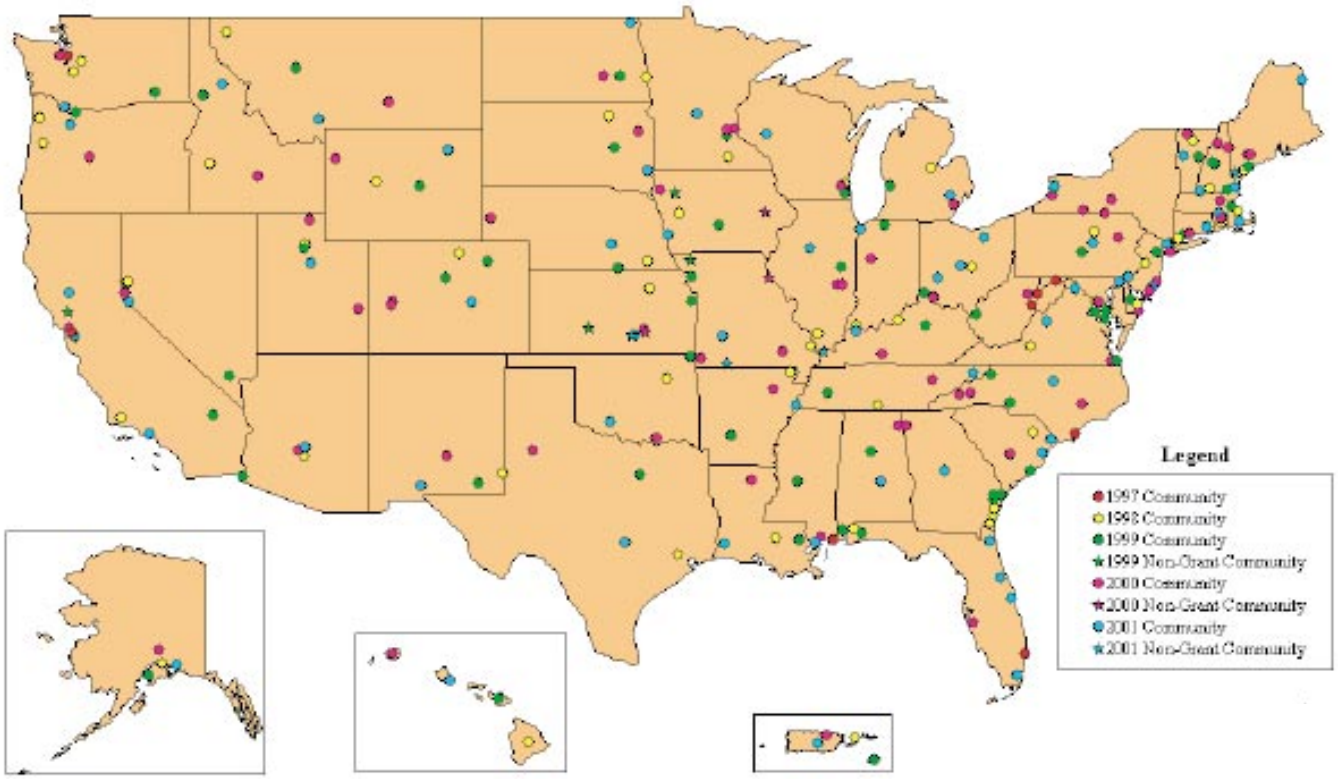
Program Emphasis: *Increase the overall FY 2000* Project Impact *communities by at least 50 beyond the 117 identified in FY 1999.*

Program Performance: Sixty-eight additional jurisdictions signed agreements to become *Project Impact* disaster resistant communities in FY 2000 increasing the total number to 185 communities.

Program Emphasis: *Build disaster resistance in each of these communities.*

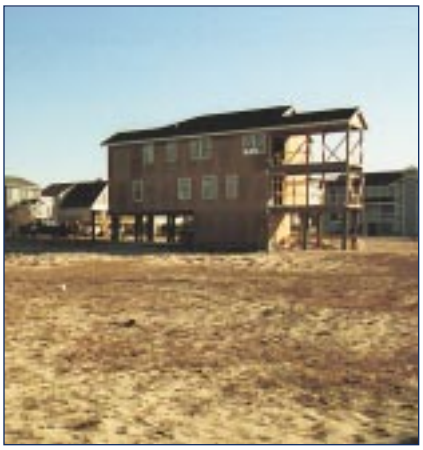
Program Performance: FEMA sought to build disaster resistance by increasing guidance, training, and technical assistance for *Project Impact* communities. More than a 100 individuals from *Project Impact* communities and their state governments attended *Project Impact* building consensus courses designed to equip *Project Impact* communities with tools and technical guidance. More than 1,200 individuals from local, state, and federal organizations and businesses attended the *Project Impact* Summit that featured workshops and peer focus groups as well as community representatives presenting successful concepts and principles and practices from their communities. Sixty *Project Impact* communities were provided free contingency planning software donated by Strohls Systems. This

Project Impact
Building Disaster Resistance



software can be used by local government to assess the vulnerability of the community's public facilities.

The Disaster Research Center of the University of Delaware reported that the original seven *Project Impact* pilot communities realized a 15% increase in the types of mitigation actions that had been adopted across all seven communities above the baseline established in year one. The University of Delaware report also noted that the number of active partners participating in these pilot communities increased by approximately 48%. The University of Delaware report suggests that building disaster resistance requires a period of time for community building and the translation of plans into action. The future looks bright for the other *Project Impact* communities reporting similar results.



Elevating homes can help prevent damage from floods.

Program Performance: National business partners are instrumental in communicating and focusing attention on *Project Impact* and in building disaster resistance in these communities. FEMA continues to work with national partners whose logos are displayed in the collage below.

FEMA's national business partners are important, valued contributors to the success of *Project Impact*. They are the most active generous contributors of time and money to support initiatives to promote *Project Impact*. National business partners promote prevention and community education and awareness through conferences, seminars, and workshops and other programs to disseminate information to make communities disaster resistant and to encourage states and communities to adopt and enforce building codes. These national business partners also share their own mitigation experience and expertise with governments and communities.

Program Performance: Recruiting local businesses to be *Project Impact* partners is vital to success in building disaster resistance in communities. *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 and individual's assets.

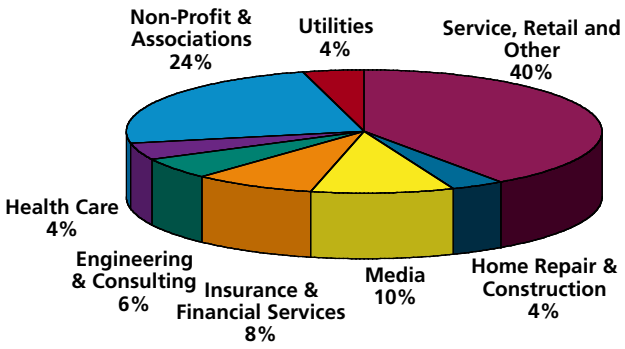
Home repair and construction industries provide expertise and experience in dealing with the affects and aftermath of disasters but also can provide expertise in fortifying structures to withstand the affects of disasters before they happen. Engineering and technical consulting companies provide a unique 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. Health care organizations minister to those who are injured or suffer illness as a result of the disaster. Collectively, the multiplicity of business partners can strengthen a community's resistance and lessen the impact of disasters.

FEMA's safe room project has helped people in tornado-prone areas to build rooms that can save lives.

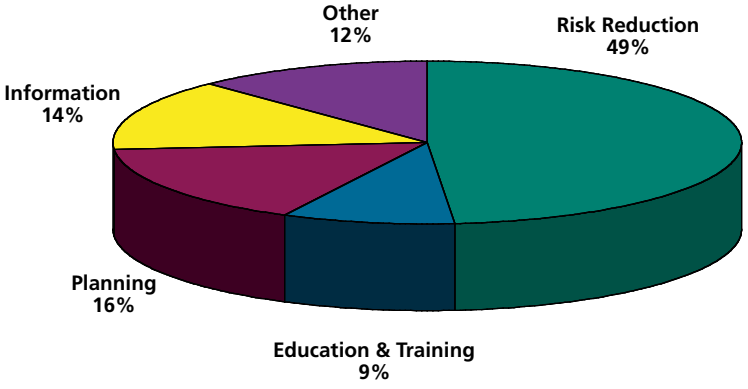
FEMA has recruited close to 2,600 businesses at the national and local levels to be partners in building disaster resistant communities by the end of FY 2000.

LOCAL BUSINESS PARTNERS

Project Impact **Local Business Partners**



Project Impact **Projects**



Project Impact projects supported by local communities can be organized in four project types, information, education and training, planning, and specific risk reduction measures. In the initial implementation stages, there is a great need to provide information to the public and private sector business partners about mitigation and prevention activities and the benefits of these activities to the community. This is a consciousness raising stage that is necessary to change the current mindset and establish support (both in terms of authority and resources) for mitigation and prevention. It should be recognized that the private sector is not usually involved with local jurisdictions in establishing or running governmental programs, hence the need for information, education and training, to establish a partnership for comprehensive community planning.

Project Impact partner demonstrates building techniques to help protect against disaster damage.

This emphasis on public communication also is necessary in order to develop widespread community understanding of the principles of *Project Impact*, to explain the concept of mitigation to a public that is more familiar with disaster preparedness, to recruit partners for the communities' activities, and to promote participation in local mitigation programs. In fact, public communication is necessary on a continuous basis to sustain the momentum of the initiative.

Education and training is a key component for fostering individual mitigation actions. It also is a good way to involve private sector organizations. As a consequence, the private sector and non-profit organizations typically participate in the development of, and provision of resources for educational videos, information pamphlets, materials on how to retrofit residential structures, display booths at fairs, and additional disaster-related training for their employees.

Steering and Planning Committees need to be formed to put programs in place and to maintain early enthusiasm. Planning is required to identify actions of the greatest benefit to the community that should be taken, as well as to develop long-term community-wide mitigation plans and to outline new building code and land use regulations that will reduce future disaster impacts and losses.

The result of the aforementioned efforts is specific risk reduction projects that retrofit many public buildings and residences in the affected communities and to shore up public infrastructure to withstand the ravages of disasters.

REPETITIVE LOSS INITIATIVE

Program General Purpose: *To reduce 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 45,000 buildings that have had 2 or more losses under the National Flood Insurance Program (NFIP) in any 10-year period, and that are currently insured by the NFIP. FEMA will target for mitigation approximately 11,000 of these repetitive loss structures that have had 4 or more losses, or 2 or 3 losses which cumulatively exceed building value, and which offer the greatest cost-benefit, by acquiring, relocating, elevating, or flood-proofing those structures.

Sometimes elevating homes is not enough.

Because repetitive loss structures have the most severe risk of flooding, mitigation for them is highly cost-effective. These 11,000 buildings are responsible for almost $80 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 encouraging the active participation of state and local elected officials and floodplain managers and encourages them to take some responsibility to cut repetitive losses.

FEMA has directed states to first use their Flood Mitigation Assistance Program (FMAP) funding to mitigate damages to repetitive loss buildings. FEMA also has been encouraging states to use Hazard Mitigation Grant Program (HMGP) funds to mitigate these damages. However, HMGP funding priorities are established by the state that may have competing priorities for use of this funding. Data on repetitive loss buildings has been provided to State Hazard Mitigation Officers and other state and local agencies so they can identify these and determine risk to these properties and include them in their mitigation plans and projects.

Program Emphasis: *Complete the development of the multi-year repetitive loss strategy for the National Flood Insurance Program and begin implementation of the strategy using existing program authorities.*

Program Performance: The repetitive loss strategy was completed and implementation has begun.

- The addresses and claims history of the repetitive loss buildings have been provided to state floodplain and emergency managers for their use in mitigation planning so they can locate the properties and verify the status of the property.
- State emergency management agencies have been encouraged to direct HMGP funding toward mitigating losses to target buildings.
- States have been directed to spend Flood Mitigation Assistance Program funding first on mitigation projects for targetbuildings and then on other cost effective buildings.
- Target buildings have been ranked, based on the number and severity of losses, and that information has been made available to states.
- A Special Direct Facility (SDF) has been established to manage flood insurance policies and claims for the target buildings. The policies are in the process of being transferred over to the SDF. This process will be completed in FY 2001. This will allow FEMA greater control in providing insurance, adjusting losses, and gathering risk information. Each property in the SDF will be inspected and elevation data obtained.

Although progress can be made in reducing repetitive losses by redirecting existing programs, current funding levels are not adequate to mitigate the target buildings in the four-year period envisioned by the strategy. Efforts have been made and are underway to seek additional sources of funding.

Program Emphasis: *Develop a ranking system for the target repetitive loss properties to identify the highest risk structures.*

Program Performance: The 11,000 target repetitive loss properties have been ranked through a ranking system developed in cooperation between the Mitigation Directorate and the Federal Insurance Administration. The ranking is now on the FEMA Intranet and is being updated monthly. FEMA regions are providing the data to the states so they can begin to focus existing mitigation program funds to acquire, relocate, or elevate the structures. The ranking is based on the projected average annual damages as a percent of building value. Additional data will be gathered on the target repetitive loss properties and the ranking will be refined as this data is compiled.

States With The Most Target Repetitive Loss Properties		
	Number	Percent
Louisiana	2,993	29%
Texas	1,237	12%
New Jersey	1,061	10%
North Carolina	650	6%
Florida	602	6%
New York	537	5%

Hazard Mitigation Grant Program

Program General Purpose: *To reduce disaster assistance costs through hazard mitigation.*

To reduce disaster assistance costs, one of FEMA's primary approaches is to emphasize hazard mitigation through various incentives. Mitigation consists of taking measures to prevent future losses or to reduce the losses that might otherwise occur from disasters. Authorized by Section 404 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, the Hazard Mitigation Grant Program (HMGP) provides grants to states and local governments to implement long-term hazard mitigation measures after a major disaster declaration. The purpose of the program is to reduce the loss of life and property due to natural disasters and to enable mitigation measures to be implemented during the immediate recovery from a disaster. FEMA can fund up to 75% of the eligible costs of each project. Eligible applicants are state and local governments, native american tribes, and certain non-profit organizations. The state or local government pays the remaining portion of the costs.

In the past, the process has taken considerable time, sometimes several years from the date of disaster declaration to approval and completion of projects. The process is complex, involving determination of scope of work, environmental review, and cost effectiveness determination. Both the Congress and FEMA recently agreed that the program needed to be streamlined and funding needed to be expedited to complete projects in a timely manner to protect communities from future disaster losses.

FEMA has made considerable progress in streamlining the program. These streamlining efforts have included the Agency's introduction of the Managing State Concept, which was pilot tested in Florida, Ohio, and North Dakota, and was recently expanded to include an additional 10 states based on positive evaluations of the three pilot states. Under this concept, states with both the interest and the capability are given greater autonomy in assuming responsibility through a Memorandum of Understanding with FEMA for conducting benefit-cost analyses, coordinating environmental reviews, preparing certain environmental documents for FEMA review, and making eligibility determinations. These changes in roles and responsibilities are intended to promote faster approval of projects and thus make it easier to meet the programmatic goal of obligating funds within 24 months of the disaster declaration.

The three pilots demonstrated that states and FEMA could improve the effectiveness of their partnership through the Managing State arrangement. The Managing States experienced quicker project approvals and fewer appeals of eligibility decisions than other states. One state leveraged the Managing State status to secure state and local funds to pay 67% of project costs, requiring only 33% in federal funds.

To further streamline the program and expedite project approvals, FEMA and Managing States have taken several actions to significantly reduce the overall time required for environmental reviews. We delegated authority to approve environmental assessments from FEMA headquarters to Regional Environmental Officers, removing duplicative and time-consuming documentation review. States that have assumed the Managing States status complete most environmental documentation and reviews. FEMA also expanded the list of projects that can be categorically excluded under the requirements of the National Environmental Policy Act.

To assist states and communities in more effectively implementing and managing the HMGP, FEMA published the Property Acquisition Handbook for Local Communities, the Property Acquisition Toolkit and the HMGP Desk Reference, and is in the process of finalizing the Applicant's Handbook and Project Implementation Handbook. A new training course, Managing the HMGP for States, emphasizes programmatic issues and was developed to provide states with detailed instruction on the complete project cycle—from project inception, at the local level, to project review, and, if approved, actual

implementation. This course is designed to complement the grants management, cost-effectiveness, and environmental courses that are already available.

Program Emphasis: *Streamline the delivery of Hazard Mitigation Grant Program funds to states and territories.*

Program Performance: Considerable progress was made during the last three years in obligating funds to states to spend on mitigation projects. Table 1 shows the number of projects and federal dollar share obligated by project type. By far the largest number of projects have been acquisition and relocation of real property to move structures out of harms way.

In FY 1998 and FY 1999, the three most commonly implemented measures were as follows:

- Acquisition and relocation of real property.
- Major, minor and localized flood control.
- Retrofitting structures against seismic and wind hazards.

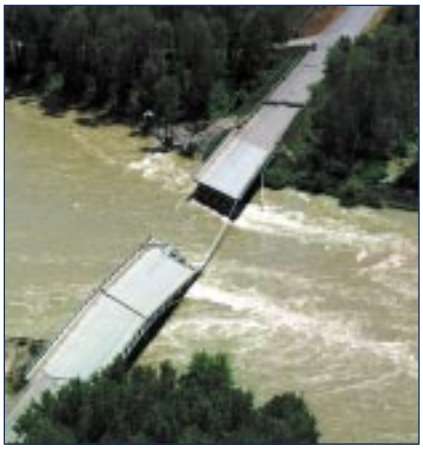
Table 1 Hazard Mitigation Projects

Project Type	FY1998 Number of Projects	Federal Share Obligated	FY1999 Number of Projects	Federal Share Obligated	Total Number of Projects	Total Federal Share Obligated
Acquistion and Relocation of Real Property	255	$106,295,940	275	$137,166,833	530	$243,462,773
Developing, Implementing and Enfoircing Codes Standards, Ordinances and Regulations	12	$5,866,581	2	$535,172	14	$6,401,753
Elevation of Floodprone Structures	40	$13,471,612	28	$7,290,414	68	$20,762,026
Major, Minor and Localized Flood Control	175	$77,129,185	161	$230,397,290	336	$307,526,475
Infrastructure Protective Measures (roads and bridges)	23	$6,312,890	41	$7,606,115	64	$13,919,005
Mitigation Plans	28	$5,765,727	27	$4,206,945	55	$9,972,672
Other Equipment Purchase & Installation	44	$3,464,318	65	$7,312,217	109	$10,776,535
Professional Education & Public Awareness	24	$3,085,828	18	$2,089,364	42	$5,175,192
Retrofitting—seismic and wind	188	$185,342,421	91	$133,268,013	279	$318,610,434
Utility Protective Measures (Electric, Gas, etc.)	29	$15,850,302	22	$5,492,802	51	$21,343,104
Vegetation Management	28	$6,295,214	27	$2,412,072	55	$8,707,286
Warning Systems	68	$8,337,801	81	$9,012,122	149	$17,349,923
Water And Sanitary Sewer System Protective Measures	35	$10,152,691	51	$15,957,543	86	$26,110,234
Total	949	$447,370,510	889	$562,746,902	1838	$1,010,117,412

*The above list of project types is not an exhaustive list of eligible measures but represent those measures most commonly implemented by states and local governments under the HMGP during the selected fiscal years.

In response to flood hazards, the HMGP primarily emphasizes nonstructural measures such as the acquisition, relocation, and elevation of flood-prone structures. For FY 1998 and FY 1999, 530 acquisition and relocation projects were implemented at a total federal expenditure of $243,462,773 million in HMGP funds. This demonstrates a strong interest from states and local governments in permanently eliminating future flood losses. While the risk-reduction efforts of a large number of communities center on nonstructural measures, many other communities choose the construction or upgrade of structural flood control measures often due to factors—such as topographic, geographic, or economic factors, or even a commitment to maintain the existing social fabric of the community—which may preclude consideration of nonstructural measures. Within these same fiscal years, 336 major, minor and localized flood control projects were implemented at a total federal expenditure of $307,526,475 million.

A hurricane destroyed this coastal home. Retrofitting might have prevented it.



Raging waters destroyed this bridge in a matter of minutes. FEMA's Hazard Mitigation Grant Program could have helped protect and strengthen the bridge to prevent collapse.

In addition to flood hazards, states and local jurisdictions have aggressively sought to protect their communities against seismic or wind hazards through retrofitting projects. In FY 1998, 188 retrofitting projects were implemented at a total federal expenditure of $185,342,421 million. In FY 1999, 91 retrofitting projects were funded at a federal share totaling $133,268,013 million. The decline in the number of retrofit projects from FY 1998 to FY 1999 represents the completion of an ambitious program in the State of California to fund seismic retrofit projects in the aftermath of the Northridge earthquake by the end of FY 1998.

Flood Hazard Mapping

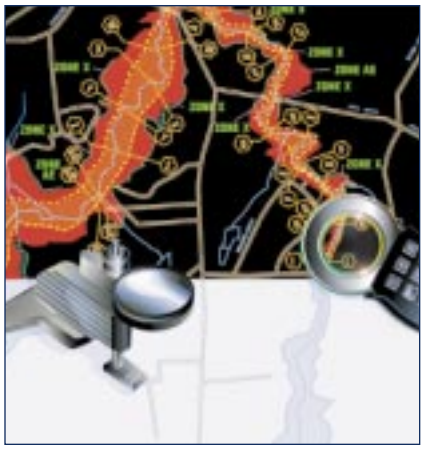
Program General Purpose:
Reinvent the floodplain mapping program and increase the use and effectiveness of mitigation information and tools provided to communities so that they may become more disaster resistant.

Prior to the creation of the National Flood Insurance Program (NFIP), the public could not purchase flood coverage from insurance companies because of the uncertain risk. There was no national flood mapping program, and there were no federal minimum standards for floodplain management designed to reduce long-term flood losses. Thus, Congress created the NFIP with the National Flood Insurance Act of 1968. The NFIP, administered by FEMA's Federal Insurance Administration, is a partnership between the federal government and local communities. The federal government provides insurance against property losses from flood damages in communities that agree to adopt and enforce minimum federal floodplain management criteria. The criteria are designed to minimize future flood damages to existing and new structures.

Structures built to minimum NFIP standards sustain 77% fewer losses than those not built to such standards. It is estimated that $770 million in damage to structures and contents is prevented each year in communities that enforce the minimum floodplain management ordinances. The local floodplain management ordinances are based on the flood maps produced by FEMA. The maps identify the areas having a one-percent or greater chance of flooding in any given year. The flood maps are intended primarily to support the NFIP for insurance rating and claims information, floodplain management and repetitive loss use, and flood hazard identification purposes. However, these maps are also the foundation for many other FEMA programs: Public Assistance, to identify appropriate flood mitigation measures to pursue when providing federal grants to repair infrastructure; the Hazard Mitigation Grant Program, to ensure an accurate benefit/cost analysis for these investments; Project Impact, because the first step in becoming disaster resistant is knowledge of a community's risks; and the Dam Safety and Hurricane Programs, for use in evacuation studies and dam-break analyses. All of

the aforementioned programs rely on the flood maps in their development of comprehensive, effective flood loss reduction measures.

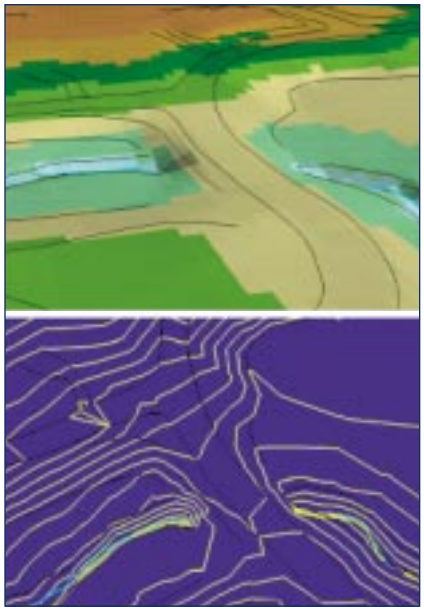
To better support these programs, FEMA developed a 7-year plan to upgrade the 100,000-panel flood map inventory and to enhance its products and services. To advance this plan, FEMA has contacted all of the approximately 19,000 mapped NFIP communities to request information about local mapping needs. FEMA also is promoting the Cooperating Technical Partnership program to transfer the responsibilities for flood plain mapping to local government entities that possess the technical capability for mapping. While FEMA is pleased to have been authorized to use up to $15 million from the Disaster Relief Fund in FY 2001 to support flood map modernization activities, FEMA continues to aggressively seek alternative funding sources to complete this critical mission.



FEMA's Map Modernization Initiative emphasizes modern digital production techniques (right) over old manual methods (left).

Program Emphasis: *Continue the congressionally mandated review of community flood map needs and utilize the data obtained from the first completed review cycle to improve floodplain mapping based on the availability of funds.*

Program Performance: As a pilot project, the Region III State NFIP coordinators (Delaware, Maryland, Pennsylvania, Virginia, West Virginia, and the District of Columbia), the Lower Colorado River Authority, and the Harris County, TX Flood Control District began entering mapping needs into the Mapping Needs Update Support System (MNUSS). Additional discussions were held with these entities to provide clarification regarding the collection of mapping needs and the data entry procedures. Discussions were held with the Association of State Floodplain Managers regarding the benefit-cost calculations used in MNUSS. In addition, mapping needs data obtained from MNUSS was provided to the State of North Carolina for its statewide mapping effort, and assistance was provided to local officials regarding assessment and update of their flood hazard maps.



State-of-the-art remote sensing technologies allow more cost effective and accurate imaging.

Program Emphasis: *Implementation of criteria for digital mapping standards.*

Program Performance: Development of the new digital Flood Insurance Rate Map (FIRM) product involves converting the existing inventory of manually produced FIRMs to a digital format. The new digital product will be able to address maintenance needs as well as restudy needs. The digital FIRM (DFIRM) product has been designed to allow for the creation of interactive, digital flood hazard maps. Linkages are built into a database to allow users options to access the engineering materials used to develop the map (e.g., hydrologic and hydraulic models, flood profiles, floodway data tables, digital elevation models, and structure-specific data such as digital elevation certificates and digital photographs of bridges and culverts). FY 2000 accomplishments toward these goals include:

- Completion of graphic specifications and standard database design for the DFIRM product.
- The first DFIRM to use the new graphic specifications was completed for Pike County, PA.
- The second DFIRM produced using the new graphic specifications, for Dade County, MO, is currently in the community review process.

Program Emphasis: *Completion of the congressionally mandated coastal erosion study.*

Program Performance: The 1994 Flood Insurance Reform Act specified that an Evaluation of Erosion Hazards Study be conducted. This study is a comprehensive analysis of how erosion affects the NFIP. It includes the mapping of erosion hazard areas, an analysis of the economic impacts of erosion on communities and properties, losses to the

National Flood Insurance Fund caused by erosion, potential impact on insurance pricing and availability, and an assessment of erosion control activities undertaken by state and local government agencies. The report was completed and delivered to the Office of Management and Budget and to the Congress during the third quarter of FY 2000.

Program Emphasis: *Development of a portfolio of products and processes promoting appropriate mitigation planning and activities.*

Digital spatial data are powerful tools for planning and design.

Program Performance: FEMA's Flood Hazard Mapping Web site has been on-line since October 1998. It is regularly updated with developments in the flood hazard mapping arena and a subscription service is available to those who wish to be notified of updates to the Web site. The address is www.fema.gov/mit/tsd.

Conclusion

FEMA's mitigation efforts have captured the imagination of state and local governments to work to break the cycle of damage-repair-damage-repair that has for too long characterized response to disasters. FEMA and partners are making communities more disaster resistant, especially through *Project Impact*. FEMA continues to take steps to identify and remove repetitive loss structures from harms way. Hazard Mitigation Program projects are assisting states and localities to strengthen sites through multiple measures which will decrease damage from natural and man made disasters. FEMA's Map Modernization program contributes to sound zoning and building decisions. FEMA's mitigation efforts are contributing to building safer communities and to reducing costs and heartache from future disasters.

FEMA's new flood maps use economical public domain digital orthophoto imagery produced by the United States Geological Survey.

PREPAREDNESS, TRAINING AND EXERCISES DIRECTORATE

Preparedness is a vital element to mitigating and responding to a disaster. The focus of FEMA's preparedness strategy is on risk identification; emergency management professional development; establishment of capability performance measurements and assessment through tests, exercises and real world experiences; planning and public education; and partnerships with the private sector and other nations. This results in 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. And the strategy fosters a decentralized capability for state and local preparedness and response for all but the most catastrophic disasters.

FEMA provided almost $142 million in Emergency Management Performance Grants (EMPG) 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, as well as mitigation and anti-terrorism activities.

The programs included directly under this Directorate were allocated $33.4 million of emergency planning, salary, and administrative resources to support the above activities, as well as other key activities such as providing training to federal, state, and local emergency responders at FEMA's Emergency Management Institute (EMI), and through extensive independent study courses. FEMA staff also extend technical assistance to all levels of the emergency management community to include other programs such as Radiological Preparedness and Hazardous Materials, and sponsor and coordinate a number of comprehensive exercises.

The CAR allows state and local emergency planners to identify their communities' risks and capabilities and thereby better plan for response.

Capability Assessment for Readiness

General Program Purpose: *Improve state emergency management capability.*

State and local emergency management personnel need to mitigate against, prepare for, respond to, and recover from disasters and emergency situations which can occur in their jurisdictions.

Program Emphasis: *Continue to enhance the process by which states can identify the most critical strengths and weaknesses in their emergency management readiness and capabilities.*

FEMA and the National Emergency Management Association, an organization composed of all state emergency directors, have developed the Capability Assessment for Readiness (CAR) process for state emergency managers, which is designed to identify strengths and deficiencies in emergency management. The results assist federal, state, and local emergency officials in establishing emergency management priorities and analyzing program performance.

Program Performance: The CAR is a self-assessment process focusing on 13 Emergency Management Functions (EMFs) that address the full range of critical emergency management areas required to ensure effective mitigation, preparedness, response, and recovery from disasters. Each EMF is subdivided into attributes and these attributes are further divided into characteristics. Attributes are composed of broad criteria by which the EMF can be assessed. Characteristics are more detailed criteria that clarify each of the attributes, and together they define the function in fine enough detail to specify a measurable capability that enables the State CAR to serve as a strategic planning and budgeting

tool. Attributes and characteristics under each EMF are scored on a scale of 1 to 5 and "NA" for Not Applicable, to provide a quantitative rating. The rating for each EMF is derived by averaging the respective attribute scores.

The State CAR is a dynamic process coordinated by the states' office of emergency management and involving state officials from key offices and departments throughout the state government (e.g., highways, health, welfare, police and fire). Successful completion of the State CAR process is dependent on state emergency managers having conducted a threat/hazard and vulnerability analysis so that they can more accurately define the threats and hazards they face, their approximate chance of occurrence, and their state's vulnerability to them. This enables states to effectively target their program resources to areas in their emergency management program having the greatest need. In addition, states have the information they need for strategic planning and for justifying program and resource requirements or new initiatives.

Often the State CAR process is conducted with FEMA regional staff in attendance to ensure the close coordination and cooperation of state and federal government emergency assets and personnel. Together, the participants in the State CAR process develop and refine their shared vision of emergency management in the state, and the steps required to ensure rapid, effective federal assistance should this become necessary.

A National Summary Report (NSR) was prepared in 1997 based on the data obtained from the first CAR process completed in 1996. The State CAR allowed state emergency managers to quickly and flexibly use the data from their State CAR to set priorities, plan strategically, and explain the state's emergency management capabilities and needs to their governor, state legislatures and the public. Since then, the State CAR has undergone significant revision. The revised and improved State CAR instrument and process was issued in May 2000 and was again well received and completed by all states, territories and insular areas. One of the results of the revision was reducing the number of attributes and characteristics, as shown above, to make the CAR easier to use.

In conjunction with the year 2000 issuance, new computer features made the State CAR easier to use, more powerful, and helped to ensure that different responders will interpret the same attributes and characteristics the same way.

The results of the NSR 2000 are not yet completed and will be issued in FY 2001. But preliminary compilations show the following summary of attribute scores by capability rating:

Capability Rating	Percent Fully
Capable (5)	3%
Very Capable (4)	61%
Generally Capable (3)	35%
Marginally Capable (2)	1%
Not Capable (1)	0%
Total	100%

An important recent development is the drafting of a Local CAR instrument and process for use by cities and counties throughout the United States. Once completed, this Local CAR will complement the State CAR, and will enable jurisdictions throughout the states to conduct emergency management self-assessments. For standardization purposes, the Local CAR uses the common software of the State CAR along with the same 13 EMFs and the same scoring system. However, the Local CAR allows for some customization of the instrument within these 13 EMFs to suit the needs and requirements of specific local jurisdictions. The development of the Local CAR is of particular importance in that many localities have substantial emergency management assets and capabilities that state emergency managers can take into account to determine what are the

Changes to National Summary Report (NSR) 2000 Assessment Elements From NSR 1997

	NSR 1997	NSR 2000	Percent Reduction
Total Number of EMFs	13	13	0%
Total Number of Attributes	210	104	50%
Total Number of Characteristics	1,688	454	73%

state-wide emergency management resources, capabilities and needs.

FEMA is also working with the National Congress of American Indians and a tribal working group to develop a Tribal CAR. This initiative will be an integral part of, and complement to the state and local emergency management capability assessments.

Hazardous materials safety is a serious concern for state and local emergency managers.

Hazard-Specific Programs

General Program Purpose: *Provide the guidance, technical assistance, coordination, and sharing of information to help state and local emergency managers prepare for hazardous materials (HAZMAT) and radiological emergencies.*

FEMA provides support directed toward technological hazards, including hazardous materials and radiological hazards through its Preparedness, Training and Exercises (PT&E) Directorate as well as through the United States Fire Administration (USFA). Hazardous materials emergency preparedness is of concern to communities in the United States because of the presence of these materials and because of the large role chemical manufacturing, transportation, storage and disposal industries play in the U.S. economy. Radiological emergency preparedness is of particular concern to those communities surrounding the licensed nuclear power facilities in 31 states. FEMA's technological hazards mission predominantly focuses on providing assistance to communities and states in their planning, training, and general preparedness efforts for these risks.

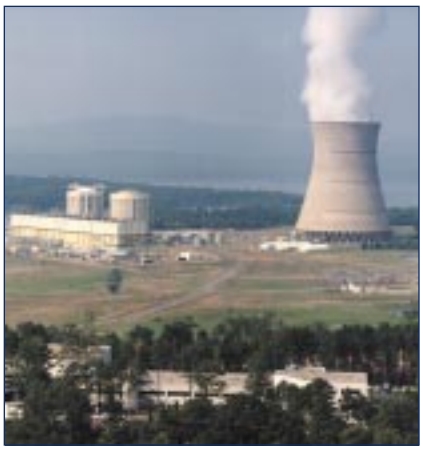
Program Emphasis: *Provide reasonable assurance that the health and safety of the public living in the vicinity of operating commercial nuclear power plants can be protected.*

FEMA assists the state, tribal nation, and local jurisdictions that fall within the Radiological Emergency Preparedness (REP) emergency planning zones to plan and prepare for a timely and appropriate response to a radiological incident at an operating plant, and to educate the public on these measures. FEMA is also charged with providing reasonable assurance findings with respect to offsite preparedness for the 67 commercial nuclear power plants that the Nuclear Regulatory Commission (NRC) licenses.

Program Performance: FEMA's REP Program assisted jurisdictions within the emergency planning zones of operating commercial nuclear power plants to document and maintain reasonable assurance by reviewing REP plans; providing guidance, policy, and regulations; conducting REP training; and conducting, evaluating, and reporting on REP exercises. In addition, as a result of the discipline of the REP Program, participating jurisdictions were better prepared to perform emergency functions in responding to non-REP emergencies.

Program Emphasis: *Ensure that the health and safety of the public living in the vicinity of permanently shut down and decommissioning commercial nuclear power plants can be protected.*

When commercial nuclear power plants have permanently shut down and are in the process of decommissioning, the potential hazard for the offsite population is a loss of coolant from the pools containing the spent nuclear fuel removed from the reactors. This hazard and its consequences differ from the hazard posed by an operational plant. Therefore, emergency preparedness measures, including the phasing out of offsite emergency preparedness as the radionuclides decay and the hazard decreases, need to be specific to the situation where a plant is in the process of decommissioning.



The REP Program helps nuclear power managers and communities prepare for potential emergencies.

Program Performance: In FY 2000, the NRC undertook a rulemaking that will amend the NRC's existing regulations in order to address emergency preparedness requirements for plants that have permanently shut down and are in the process of decommissioning.

FEMA is assisting the NRC in developing appropriate offsite emergency preparedness requirements and guidance for decommissioning plants.

Program Emphasis: *Implement the REP Program streamlining recommendations that resulted from a reexamination of all aspects of the Program and the identification of specific areas where administration of the Program can be made more efficient, while still maintaining public health and safety.*

For a number of years, REP Program stakeholders have asked FEMA to streamline its Program. These stakeholders cited the Program's maturity and the overly-prescriptive administration of the Program as the bases for their requests.

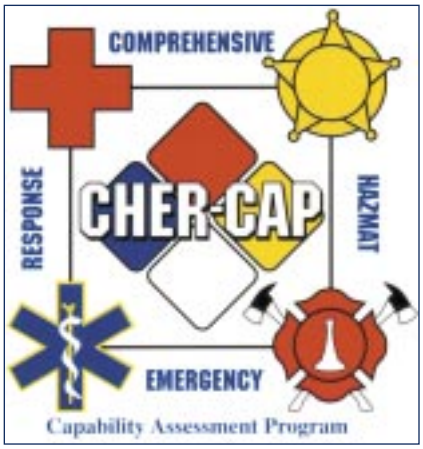
Program Performance: In 1996, FEMA initiated a strategic review of the REP Program and established a Steering Committee to guide the review and formulate recommendations for streamlining. The Steering Committee forwarded 33 Recommended Initiatives in March 1999, to the REP Program office for implementation, and an Oversight Working Group then developed the details of implementation. After review and revision of their recommended products and input from the REP community, FEMA posted the final products on the Web. By the conclusion of FY 2000, FEMA had implemented 21 of the 33 recommendations and had scheduled pilot tests, to be held from October–December 2000, of the initiative pertaining to REP exercise evaluation. Of the 11 remaining Recommended Initiatives, 2 are ongoing in nature, 8 are well on their way to implementation, and 1 requires a rulemaking, which is in process.

Program Emphasis: *Identify the problems and challenges facing the state and local emergency response/first responder communities in HAZMAT prevention, preparedness and response, and provide technical assistance to state and local HAZMAT communities to enhance their HAZMAT capabilities and address their needs.*

The risks to public safety, public health, and property damage presented by potential accidental or intentional HAZMAT releases exist in every community in the nation. It is the single most pervasive risk in the comprehensive emergency management spectrum. There is a continuing need for communities to achieve and maintain HAZMAT emergency response preparedness, and there are numerous applicable federal and state laws and regulations, including those requiring community preparedness and first responder training for such incidents.

Program Performance: *The Comprehensive HAZMAT Emergency Response-Capability Assessment Program (CHER-CAP)* is a focused methodology for the Local Emergency Planning Committees (LEPC), or Tribal Emergency Response Commissions (TERC), to assess and upgrade their community's ability to respond to a serious HAZMAT incident. This program is a voluntary, community-based, coordinated sequence of activities designed to review and upgrade capabilities through risk assessment, emergency operation plan review, training needs assessment, training delivery, drills, a full-scale peer evaluated mass casualty exercise, and a no-fault post exercise report.

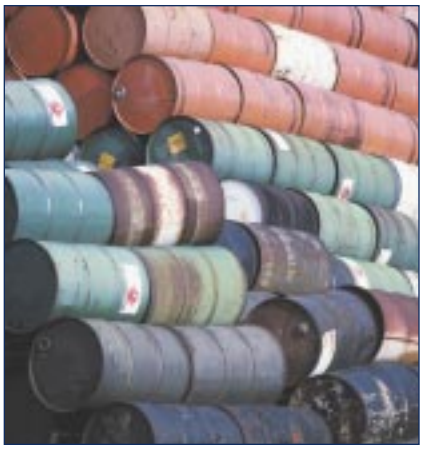
The CHER-CAP process is conducted in phases spanning a total of four to six months, and fosters cooperation and builds operational capabilities among firefighters, emergency medical service, law enforcement, emergency management, public works departments, hospitals, industry, and volunteer agencies—all members of the emergency management partnership. FEMA serves as the overall coordinator, catalyst, and resource gateway for CHER-CAP. The Environmental Protection Agency, and the Departments of Transportation, and Health and Human Services, are our key federal partners.



FEMA offers CHER-CAP to assist local communities in improving their HAZMAT emergency response capabilities.

In FY 2000, CHER-CAPs were completed in Rhode Island (LEPC VIII including Cranston, East Greenwich, and North Kingstown); New Mexico (San Juan, Curry, and Roosevelt Counties); Pennsylvania (Lehigh County); and Louisiana (Caddo and Bossier Parishes). Five additional jurisdictions are active in the CHER-CAP process and 17 have been selected for participation, including 3 tribal nations (St. Regis Mohawk in New York; Pueblo of Acoma in New Mexico; and Umatilla in Oregon), for a total of 27 jurisdictions in 20 states, territories, and tribal nations.

Regarding the Rhode Island experience, the CHER-CAP exercise was conducted on June 21, 2000 with Cranston, Warwick, East Greenwich, and North Kingstown. One month later, that jurisdiction experienced a real HAZMAT incident when a tanker truck spilled 11,000 gallons of jet fuel on a highway underpass, down a ramp, and into a drainage ditch and the Pawtuxet River. The fuel ignited, creating a 3,000 degree inferno. Robert Warren, one of the two responding fire chiefs, credited the CHER-CAP with directly contributing to an effective response.



Hazardous waste poses a real threat to communities' safety.

On July 22nd, FEMA Region VI coordinated a CHER-CAP exercise in Farmington, NM, with over 400 participants from 64 organizations, including the Navajo Nation, and 50 emergency vehicles, for the largest exercise in San Juan County's history.

The first CHER-CAP in FEMA Region III was completed with an exercise in Lehigh County, PA on September 16th. The scenario involved a criminal act inside an industrial plant resulting in the simulated release of methyl-ethyl-ketone. Lehigh County Emergency Coordinator John Conklyn commented that the greatest benefit to the community was improved emergency medical capability as four area hospitals updated their decontamination training and procedures, then practiced them during the exercise.

The largest-ever CHER-CAP exercise was conducted at the Louisiana State Fair Grounds on September 20th with Caddo and Bossier Parishes. The scenario simulated a school bus crashing into a tanker truck carrying isobutyric acid. The crash resulted in the acid leaking in a steady stream over the accident scene and contaminating 30 passengers on the bus. Over 240 additional moulaged victims (not involved in the bus-tanker incident) were processed to 10 area hospitals. Approximately 100 organizations, agencies, and facilities participated in the exercise. Chuck Mazziotti, Director of the Caddo-Bossier Office of Emergency Preparedness, said it was the best community disaster drill he had ever seen in the 18 years of holding them.

In partnership with the National Fire Academy of the United States Fire Administration, PT&E staff have established a CHER-CAP Technical Assistance Team of accomplished practitioners who are available to advise and assist local jurisdictions, states, tribal nations, and regions in conducting the entire CHER-CAP process. An initial group of 16 individuals completed the pilot training course conducted in August at the Academy.

Program Emphasis: *Provide maximum protection to the communities surrounding the eight Army chemical stockpile sites.*

FEMA's Chemical Stockpile Emergency Preparedness Program (CSEPP) works closely with the U.S. Army and affected state and local governments to provide maximum protection for the environment, the general public and the personnel at the 8 chemical stockpile installations located in the continental United States.

Forty counties in 10 states participate in the Program. The Army stockpile sites and participating states are:

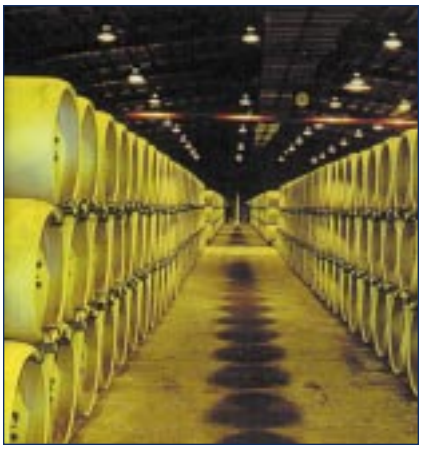
- Anniston Chemical Activity, located on Anniston Army Depot in Alabama;
- Blue Grass Chemical Activity, located on Blue Grass Army Depot in Kentucky;
- Deseret Chemical Depot in Utah;
- Edgewood Chemical Activity, located in the Edgewood Area of Aberdeen Proving Ground in Maryland;
- Newport Chemical Depot in Indiana and Illinois;
- Pine Bluff Chemical Activity, located on Pine Bluff Arsenal in Arkansas;
- Pueblo Chemical Depot in Colorado; and
- Umatilla Chemical Depot in Oregon and Washington.

Program Performance: Essential systems designed to protect the public are largely in place and operational. Where they are incomplete, CSEPP is taking aggressive action to bring them into full compliance with the Program National Benchmarks and performance measures.

FEMA and each of the CSEPP communities conducted a joint on-post/off-post emergency exercise during FY 2000. FEMA formally evaluated these exercises,

prepared written reports and worked with the communities to develop action plans to address the identified issues.

Since its inception in FY 1999, the CSEPP Training Web site at www.emc.ornl.gov has recorded over 27,000 down-loads of CSEPP training materials. This information has been utilized by both the CSEPP and Domestic Preparedness communities for the protection of their populations against the release of chemical weapons.



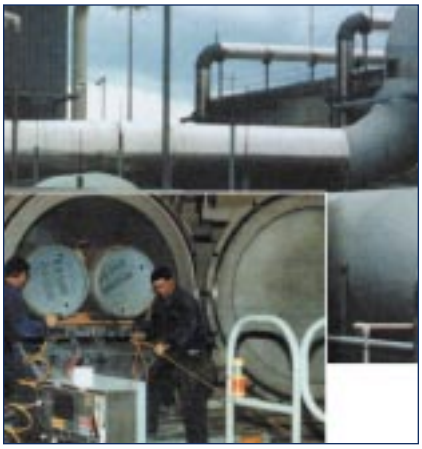
Cannisters of gas await destruction.

Each of the communities in the CSEPP accomplished a number of significant activities that directly improved their capability to protect against, and respond to a chemical stockpile incident. Among the many highlights were:

- Medical training was provided to over 500 personnel; and another 14,800 received a variety of specialized training;
- Over 67,000 tone-alert radios were delivered;
- Four sites received a total of 12,000 Mark-1 Auto Injectors;
- The Kentucky CSEPP community procured 10,000 Shelter-In-Place kits and 583 Power Air-purifying Respirators; and
- Several communities purchased protective garments for their emergency responders.

The annual CSEPP Medical Conference was held November 17-18, 1999, in San Antonio, TX. The goals of the conference were to improve medical preparedness at each of the CSEPP sites, to share the medical preparedness best practices developed at each CSEPP site, and to share the CSEPP lessons learned among preparedness programs to foster improved medical preparedness in the United States.

FEMA headquarters and the U.S. Army co-hosted the FY 2000 CSEPP National Conference in Little Rock, AR, July 18-20, 2000. The conference was attended by approximately 450 CSEPP participants representing the U.S. Army, FEMA headquarters and regions, other federal agencies, state and local governments, contractors, and other organizations involved in the Program.



One of the eight sites where chemical stockpile supplies are destroyed.

Training

General Program Purpose: *Increase the knowledge and expertise of federal, state, and local emergency management workforces and the public through an extensive curriculum of training courses and materials.*

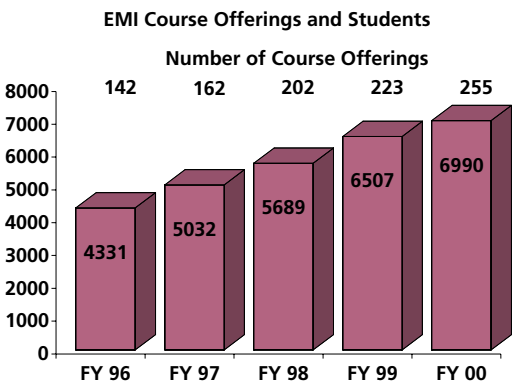
A primary factor in building a nationwide, inter- and intra-governmental cadre of professional emergency managers and an informed public is the availability of a wide variety of training modules that are focused on many individual needs, and which are provided through readily available sources.

Program Emphasis: *Conduct 255 EMI resident training course activities to train 7,000 students, including 31 Integrated Emergency Management Courses (IEMCs), and host training conferences and workshops.*

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 Integrated Emergency Management Courses (IEMCs) which are custom-tailored to a locality or to a hazard, and hosts numerous conferences and workshops.

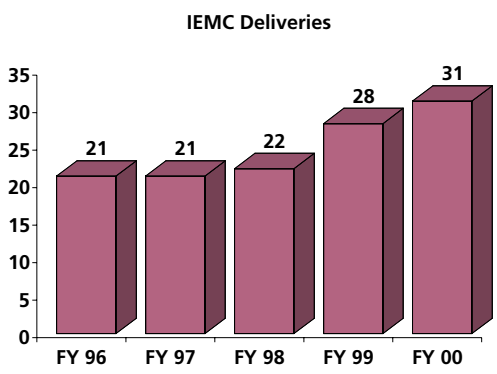
Program Performance: The EMI course delivery has steadily increased over the past four years as is shown in the chart below.

The results of follow-on surveys sent to each EMI student three months after completion of the class are excellent. During FY 2000, only three percent (3%) of the students reported that the instruction



was not applicable and was not being used. Seventy-one percent (71%) reported that they are using the instruction either in their day-to-day jobs or on emergency assignments. Twenty-nine percent (29%) reported they had no opportunity to use the instruction. This last figure is expected given the nature of the work by emergency managers at all levels of government. In some cases, no opportunity means that the community has not experienced an emergency/disaster for which the participants could apply the EMI training.

The number of IEMC's delivered continued to increase. One of the FY 2000 IEMCs was a special event offering to help Los Angeles officials prepare for the Democratic National Convention. EMI staff developed an exercise that simulated 3 days of the convention, and 80 people participated.



Two State IEMCs were conducted; one for Nevada state officials with 100 participants, and one for North Dakota state officials with 138 participants. Also, during FY 2000, 230 local officials from throughout the nation attended the six offerings of the IEMC Recovery & Mitigation. And the first IEMC for an Indian community was conducted for the Gila River Indian community in Casa Grande, AZ with 66 participants.

EMI also hosts a wide variety of conferences and workshops at our Conference and Training Center (CTC). In all, EMI hosted 28,328 student days at the CTC in FY 2000.

Program Emphasis: *Provide a wide variety of EMI non-resident training activities through diverse media such as the Internet, FEMA's Emergency Education NETwork (EENET), independent study course, and institutions of higher education.*

An IEMC in progress.

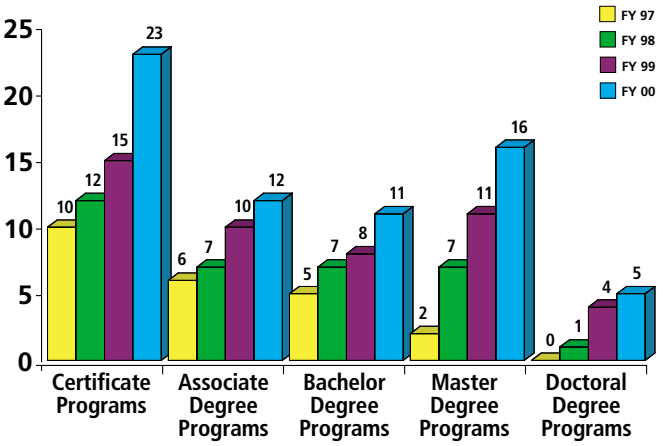
Program Performance: Selected Public Assistance Program training is being converted to computer based training (CBT) format. One course was converted in FY 2000 and two more will be converted to CBT in FY 2001. The "FEMA Orientation" was developed as an independent study course for disaster employees, and the National Emergency Management Information System (NEMIS) training CDs were developed for disaster workers for use as an orientation to the software system.

The Community Emergency Response Team (CERT) program trains civilians in preparedness and response skills to care for themselves, family members, and neighbors following a disaster. CERT continues to grow, with communities in 28 states conducting the training. Notably, Florida has hired a CERT coordinator and has CERT programs in 22 of their 67 counties. EMI, 6 states, and the Department of State offered CERT Train-the-Trainers (TtTs) during FY 2000. The Department of State trained embassy medical personnel who, in turn, will implement the program at their embassies. There is also a growing interest in the use of CERT to train school system staff to handle immediate needs following a major event. FEMA maintains a CERT Web site at www.fema.gov/emi/CERT, conducts TtT offerings, and provides training materials to communities. There is an electronic newsletter entitled the "Connection" located at http://www.naem.com/connection.html. It features articles written by CERT program managers from around the country.

One of EMI's Higher Education Project goals is to see an emergency management-related degree program in every state by the year 2001. When the project began in FY 1995, the University of North Texas, Thomas Edison State College, and the Rochester

Institute of Technology were the only schools offering degrees in emergency management. Since FY 1995, the Higher Education Project has been working with a variety of colleges and universities to develop classroom-based, upper division (junior/senior), baccalaureate-level courses to support emergency management and related undergraduate and graduate programs. To date, there are 11 completed courses and 9 currently under development. The Higher Education Project also developed a prototype curriculum for associate degrees in emergency management based on existing EMI training courses.

Emergency Management-Related Degree Programs



In addition to the number of higher education programs implemented in each fiscal year shown above, 27 colleges and universities were investigating/proposing the development of an emergency management program in FY 2000. At the end of FY 2000, colleges/universities in 48 states and Puerto Rico either had an in-place emergency management or related program or were investigating such.

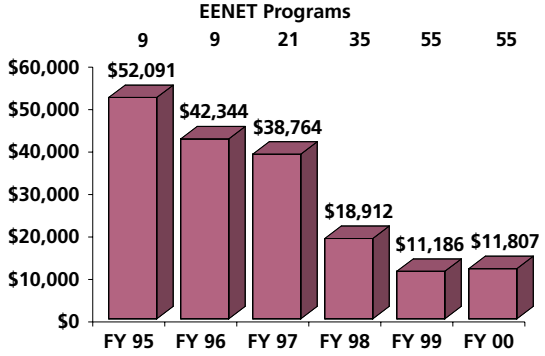
EMI and the National Weather Service (NWS) continue to work in partnership to provide basic meteorological information to emergency managers via two courses, Community Hurricane Preparedness (IS 324) and Anticipating Hazardous Weather and Community Risk (IS 271). IS 324 covers hurricane meteorology and evacuation decision-making. It is available to the emergency management community on CD-ROM and to the general public on the Internet. Since May of 1999, 1,939 students have enrolled with 1,380 completing the course. By the end of December, EMI and NWS will make IS 271 available. It covers basic meteorology, weather hazards, forecast products, and anticipating severe weather. It includes a case study of weather events that led to the flooding that occurred in Fort Collins, CO in July 1997.

Since 1986, over 2,629 men and women in emergency management have completed all course requirements and received a Professional Development Series (PDS) Certificate. They have worked to develop or refine emergency management skills in a minimum of seven areas: fundamental principles; operations planning for all-hazards; leadership; communications; decision-making; management of volunteers; and exercises. Almost 1,750 certificates (more than half of the total) have been issued in the last five years. Since inception, approximately 8,000 students complete PDS courses each year. The impact of these courses on the profession of emergency management has been enormous, with over 100,000 course completions.

The Emergency Education NETwork (EENET) has made great strides since calendar year 1995, not only in the cost per program, but also in the varied number and kind of programs. In calendar year 1995, EENET aired 9 broadcasts at an average cost of $52,091 each. In FY 2000, 55 programs were aired at an average cost of $11,807 each.

The yearly breakdowns by year and cost per program are:

EENET Programs and Cost/Program



Until 1997, EENET programs were produced and broadcast entirely by contract staff/crew and were usually 4-1/2 hours in length. Starting in early 1997, the programs became shorter in length, making them more classroom friendly. EENET also began to produce some programs with in-house FEMA staff functioning as crew. Accordingly, not only was the cost per program reduced, but the quality and quantity improved dramatically, resulting in a number of awards presented to EENET over the years including 20 major national awards for 1999 programs.

During 1998 and 1999, EENET programs not only increased in number, but also decreased in cost. The expansion of EENET programs to a weekly schedule at a reduced cost per program would not have been possible without the help of many outside partnerships. Through these partnerships during FY 2000, EENET was not only able to save program costs, but was also able to produce many stand-alone videotapes for use in FEMA training programs.

Emergency Education NETwork programs help train thousands of emergency management professionals annually.

EMI continues to assist local communities in their mitigation efforts by providing training in accessing and interpreting FEMA's Geographic Information System (GIS) and digital hazard maps and software. In support of the Map Modernization Program, EMI provided several new courses designed to enable local jurisdictions designated as Cooperative Technical Communities to use and update FEMA's digitized flood insurance rate maps. This included courses on FEMA Mapping Software, Coastal Theory and Mapping, GIS Advanced Mapping Technology, National Flood Insurance Program Map Revisions and Amendments, and the Cooperative Technical Community hands-on GIS Workshop. These new courses augmented the existing GIS-based courses, Digital Hazard Data and the Basic Hazards U.S. (HAZUS) Training.

To assist engineers, architects, and local building officials in mitigating the impact of floods and coastal storms, EMI developed and pilot tested the Residential Coastal Construction course, providing training in use and interpretation of FEMA's new engineering manual on coastal construction. This course is a companion to the existing Retrofitting Flood-Prone Residential Structures course. To assure that information is available when needed, an independent study prerequisite is under development, as well as a two-day, abbreviated version of the course for delivery in states and communities during the post-disaster rebuilding surge. The two-day course will be pilot tested in a coastal community during early FY 2001.

In FY 1999, EMI, in conjunction with FEMA regions and the states, developed the Master Exercise Practitioner (MEP) program to be administered by the state emergency management agencies and our local government partners. Nine courses are available for state and local governments to train personnel how to design, develop, deliver, and evaluate disaster exercises. To successfully complete the MEP, all nine courses must be completed. During FY 2000, Texas and Michigan began program implementation, and anticipate that, during the next two years, 40 emergency management personnel will have completed the MEP requirements. EMI will work to have all states begin implementing and support the MEP program during the next two years.

In 1995, EMI created the Master Trainer Program to train state, local, and federal trainers on how to conduct needs assessments, design training, develop training materials, and conduct and evaluate training. The program consists of 6 courses that parallel the Instructional Systems Design process and a practicum that requires development of 16 hours of performance-based training. Students complete work assignments using real projects from their work environment. For many participants, it is their only training on how to design and conduct training. During FY 2000, 20 people were accepted into the program, bringing the total to 138. There were 198 course completions in the program's 6 courses, and 6 people completed the practicum and all 6 courses.

During FY 2000, the Training Division developed a Web-based version of Course Evaluation to be delivered in FY 2000. This course will still use an instructor to interact with students, but students will not need to travel to EMI to complete the course. The course is only available using the Internet and is the second course of this type to be offered. It provides program participants an opportunity to see how the methodology could be used to deliver some of their training.

Emergency Food and Shelter Program

Program Emphasis: *Continue to support and fund the National Emergency Food and Shelter Board in the effective provision of grants to providers of emergency food and shelter services.*

The Emergency Food and Shelter (EFS) Program was created by Congress in 1983 to help meet the needs

of hungry and homeless people throughout the United States and its territories by allocating funds for the provision of food and shelter. This program supports more than 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. This add-on approach allows the program to keep a low administrative overhead of less than three percent (3%) of the total allocation.

Program Performance: The EFS National Board has continued to rapidly distribute funds to areas in the nation that have higher than average levels of unemployment and poverty. During its first 13 years of operation, the program disbursed over $1.4 billion in vital non-disaster related financial assistance to these communities.

Conclusion

It is imperative that the emergency management community plan for, and be prepared to respond to emergencies and disasters in their communities. The programs and funds described above (other than the Emergency Food and Shelter Program which is unique), significantly increase their preparedness by helping them focus on identifying risks to their communities; put plans in place to manage their response; train so they have the skills and capabilities needed; and exercise those skills so they have more experience when disasters or emergencies occur.

FEDERAL INSURANCE ADMINISTRATION

THE NATIONAL FLOOD INSURANCE PROGRAM

In 1968, the Congress of the United States created the National Flood Insurance Program (NFIP), in response to mounting losses and the escalating costs of natural disasters to the American taxpayer. The NFIP is 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.

There are three components to the NFIP: Hazard Identification and Risk Assessment, Mitigation (both discussed in detail in separate sections of this report), and the Insurance component (discussed below).

The NFIP, the largest single line property insurer in the nation, has approximately 4.3 million policies in force in over 19,000 participating communities with coverage totaling approximately $548 billion. The NFIP works in partnership with local communities, and the insurance and lending industries. Federal-backed flood insurance is made available in those communities that adopt and enforce floodplain management ordinances designed to reduce future flood damage. The Program protects property owners by providing an insurance mechanism that helps individuals and businesses recover financially from floods. It protects lenders from uninsured flood losses and taxpayers from having to provide disaster assistance to uninsured flood victims. For participating communities whose floodplain management ordinances promote better and safer construction, flood damage is lessened and recovery is accelerated.

Program General Purpose: *Coordinate the insurance and flood-plain management components of the National Flood Insurance Program.*

Floods cause more damage than any other natural disaster.

Program Emphasis: *Through NFIP insurance and floodplain management activities reduce expected annual flood disaster costs to FEMA and losses to taxpayers by more than $1 billion.*

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

Program Performance: A successful refined methodology (developed in FY 1999) was applied during the FY 2000 Annual NFIP Rate Review. Using insurance experience to project reductions in losses for the population of buildings constructed to NFIP standards shows estimated savings of over $1 billion in FY 2000.

Program General Purpose: *The development and implementation of an Agency repetitive loss strategy to significantly reduce NFIP repetitive losses.*

Program Emphasis: *Development of the mechanism and systems for dealing with NFIP repetitive loss properties.*

Program Performance: Repetitive loss properties have a major, adverse financial impact on the NFIP. To address this problem, NFIP efforts were focused on the identification of properties and the transfer of insurance policies on these properties to a central, special servicing facility designed to effect-

ively oversee claims and to coordinate and facilitate insurance and mitigation actions, e.g., Increased Cost of Compliance claims and Hazard Mitigation Assistance Grant Programs (HMGP) and Flood Hazard Mitigation Assistance (FHMA) grants. Systems were completed that identify Repetitive Loss (RL) properties and information is now available to state and local governments to assist them in targeting properties for mitigation actions. The servicing facility, policy transfer and other insurance mechanisms were developed in cooperation with the Write-Your-Own insurance companies.

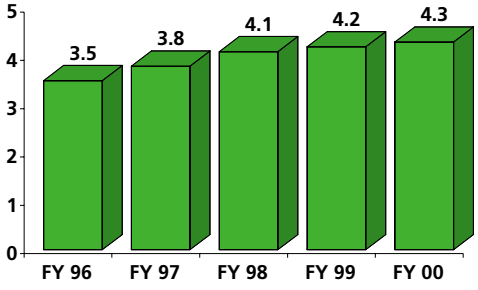
Program General Purpose: *Enhance the recovery of individuals, businesses, and communities after flooding events by increasing the number of NFIP policies-in-force.*

Program Emphasis: *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.

Policies-In-Force From FY 1996–2000 (In Millions)

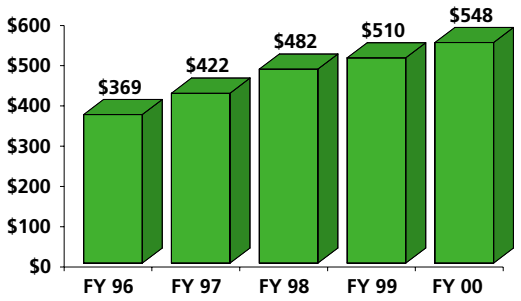


Program Performance: At the end of FY 2000, the NFIP policy count increased by 81,965 from 4,187,729 to 4,269,694 policies, an increase of 1.96% over FY 1999, and 39% of the annual growth goal. However, this year's growth was achieved during a period of minimal flooding activity and other special conditions.

Insurance-in-force in FY 2000 totals $548,091,056,900.

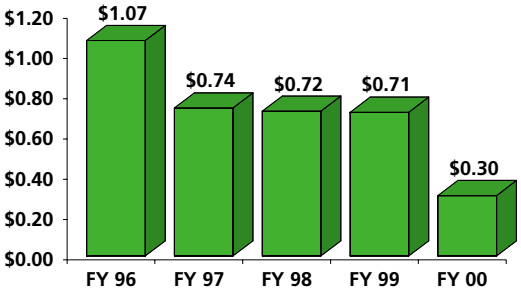
The increases in policies-in-force and insurance-in-force mean that more property owners are in a better position to recover from flood losses. These increases also reduce the amount of funds required from taxpayer-funded disaster relief for uninsured flood losses.

Insurance-In-Force From FY 1996–2000 (In Billions)



Fewer uninsured losses mean less pressure for disaster relief measures that rely on taxpayer funds (from federal, state, and local governments), rather than policyholder premiums. Loss and adjustment expenses in FY 2000 total $302 million.

Paid Loss and Loss Adjustment Expenses
FY 1996–2000 (In Billions)



FEMA will continue its Cover America II advertising and public awareness campaign which heightens awareness of floods and informs people about flood insurance coverage.

Section 1313 of the National Flood Insurance Act of 1968 states that the Federal Insurance Administration (FIA) is to make information and data available to the public about the flood insurance program and its coverage and objectives. The Cover America II campaign is helping to accomplish this: between October 1995 and April 1999, awareness of the NFIP increased to 65%, which is a 17% increase.

During FY 2000, the FIA established a logo for the NFIP to help meet the Cover America II campaign goals to increase awareness of flood insurance and the NFIP by 4% a year; improve attitudes about flood insurance and the NFIP; and help FIA meet the annual flood insurance sales goals. This logo has also helped establish a foundation for the campaign, and integrate the campaign components of paid advertising, co-op advertising, and public relations.

National Flood Insurance Program advertising efforts include: commercials on national television; print ads

targeting consumers, insurance agents, and lenders; direct mail targeting consumers and insurance agents; and the Yellow Pages. The current television spots and media strategy were designed to help increase awareness of the NFIP and flood insurance. The print ads, specifically those targeting consumers, are geared to generate responses, and take advantage of television commercials by using the same messages and images. A new Web address: www.floodalert.fema.gov is appearing on ads and other campaign efforts. The Web site was developed to reinforce the "Be Flood Alert" message. This address takes people to an animated version of the logo and a link to the existing NFIP Web site.

Raging waters innundated businesses in a small North Carolina town.

Additionally, participation by insurance companies and agents in the NFIP Co-op Advertising Program continues to grow. This program gives NFIP insurance industry partners a way to tie into the national campaign and bring the national message to local areas. Further, television and radio public service announcements were produced, distributed, and aired by nearly 90 television and radio stations across the country.

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

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

Program Performance: As part of its ongoing efforts to achieve higher levels of Program effectiveness, the NFIP activities included the following:

It will take a long time for these homes to recover from flooding.

Elevating these homes could have helped to reduce or prevent damage.

- A nationwide "Call for Issues Report" was finalized and placed on the FEMA Web site on May 31, 2000, and provides the status of FEMA's response to all 739 issues received from 173 respondents. Printed copies were sent to all respondents as thanks for their efforts and were made available for other interested parties in August 2000. In June 2000, the FIA completed its review of the insurance related issues and published a status report. The report is available at http://www.fema.gov/nfip/calliss.pdf.
- The re-writing of the Standard Flood Insurance Policies (SFIP) was completed in FY 2000 and OMB approved the final rule for publication. The policies, developed in "plain language," have an effective date of December 31, 2000. The rewritten policies respond to the need to furnish four million policyholders with an easy-to-read policy as well as a policy that is organized like the more familiar homeowners policy.

Program General Purpose: *Make revisions to enhance the financial soundness and equity of the NFIP Program.*

Program Emphasis: *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.*

Program Performance: The FIA developed a discussion document with a set of recommended alternatives for reducing the subsidy enjoyed by pre-Flood Insurance Rate Map (FIRM) policyholders. To help refine the recommendations, FIA conducted a series of meetings with interested internal

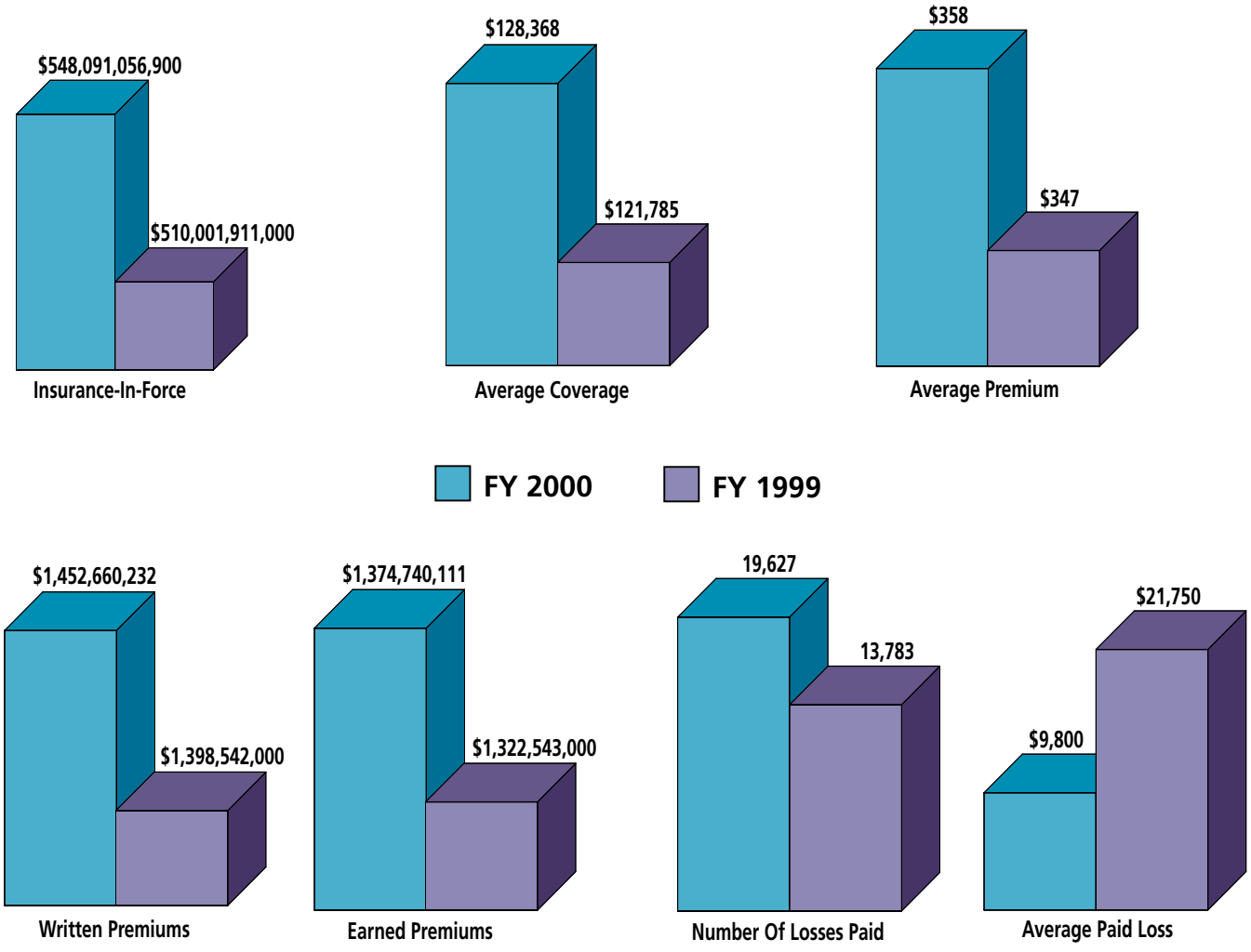
and external groups, including FEMA's Response and Recovery Directorate, the Association of State Floodplain Managers (ASFPM), National Emergency Management Association (NEMA), realtors, lenders, Department of Housing and Urban Development (HUD), Small Business Administration (SBA), and Congressional staff. Concerns regarding low-income property owners prompted the initiation by FIA of further research into how this segment of the population is served by the NFIP.

In FY 2000, the Heinz Center and FEMA released the congressionally mandated study of how erosion affects the NFIP. FIA and Mitigation assigned a work group to develop recommendations for courses of action, with or without additional legislative authorities.

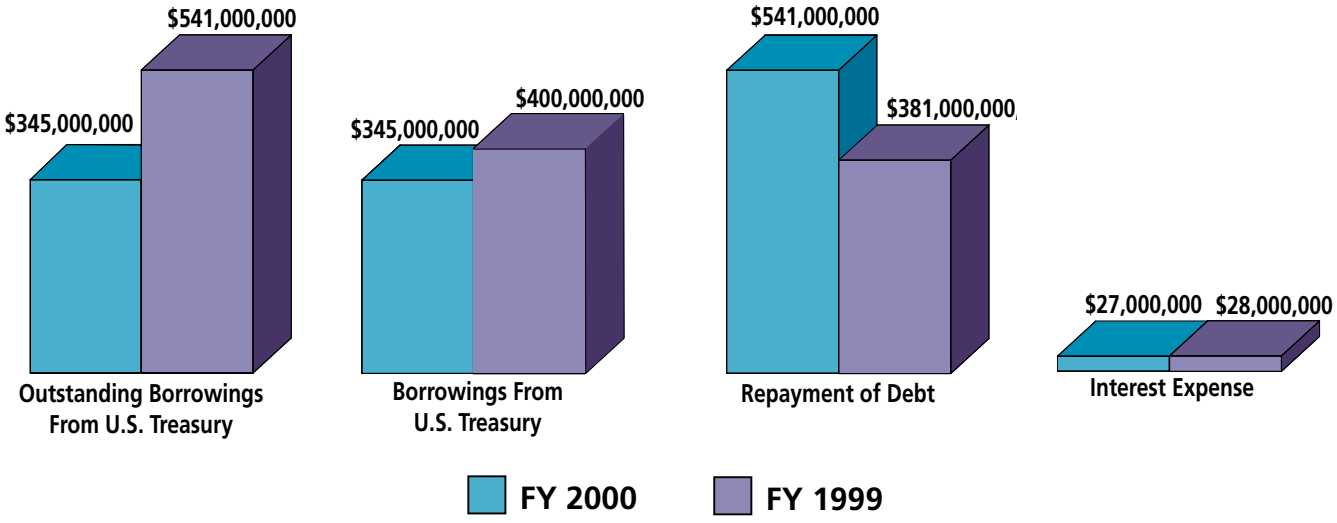
In FY 2000, the financial statement audit of the NFIP for FY 1999 was completed and an unqualified opinion was rendered. The audit for FY 2000 begins the first quarter of FY 2001 and will be completed in the second quarter.

The NFIP is authorized to borrow from the U.S. Treasury up to $500 million (up to $1.5 billion with approval from the President). The NFIP borrowed $345 million during the year and paid back $541 million to the Treasury. Periodic interest payments are made to the Treasury to pay the accrued interest on borrowings; $27 million was paid this year. At the end of the fiscal year, outstanding borrowings from the U.S.Treasury total $345 million—the lowest since December 1995. Financial highlights for FY 2000 are presented in the following graphs.

FY 2000 vs FY 1999 Financial Highlights



FY 2000 vs FY 1999 Financial Highlights



Conclusion

In FY 2000, the Program's outstanding borrowings from the U.S. Treasury is the lowest since December 1995—$345 million. Through the Cover America II campaign, a new logo "Be Flood Alert" was prominently displayed across the American landscape. The brand builds on the yellow diamond street sign used to warn of upcoming danger. Also, during the year the NFIP policy count increased to 4,269,694. Work continues with NFIP partners, including community officials, insurance companies and agents, lenders, and others to encourage more people to buy and keep flood insurance. All of these program activities are designed by the NFIP to help reduce the likelihood and impact of uninsured flood losses, and reduce the cost of disasters.

UNITED STATES FIRE ADMINISTRATION

America's fire death rate is one of the highest per capita in the industrialized world. With rates of 6.5 fires per thousand, and 85 injuries and 14.9 fatalities per million Americans, far too many citizens continue to be killed and injured each year. Ten-year averages for fire loss in the United States are about 1.9 million fires, 4,500 deaths, and 26,400 injuries per year. Additionally, America's fire loss has an extremely high fiscal impact on the economy. Annually, direct property loss from fire is estimated at more than $9 billion and the total cost of fire to the American economy is estimated to be more than $159 billion.

FEMA will award $100 million in grants to fire departments across the U.S. to help fight fires such as this.

America's fire record of the early seventies was dismal. Acting to decrease these tragic losses, Congress established the United States Fire Administration (USFA). Since that time, through public education and awareness, training, research, technology development, data collection and analysis, and partnering with other fire safety interests, the USFA has helped to reduce the fire and death rate of this nation. Ten-year trends of fires, deaths, and injuries all indicate considerable improvements and steady decline in the fire record of this nation. This is shown in the table on the next page. Fires have declined by 13.1%, injuries by 20.2%, deaths by 19.7%, and dollar loss by 18.6%. These improvements are related to providing better public fire safety education, improved fire detection and suppression technologies, increased code enforcement, better public fire protection by the fire service, and improved fire data collection and analysis.

The mission of the USFA, supported by resources of almost $43 million in FY 2000, is to reduce life and economic losses due to fire and related emergencies through leadership, advocacy, coordination, and support. USFA serves the nation independently, in coordination with other federal agencies, and in partnership with fire protection and emergency service communities. With a commitment to excellence, USFA provides public education, training, technology, and data initiatives.

Public Education

Program Emphasis: *Educate the public about fire prevention, targeting groups most vulnerable to fire by increasing the use of public education materials by 4% in the general public, and increase by 20% the number of hotels/motels providing public fire prevention and mitigation information to guests.*

Program Performance: In addition to providing fire safety messages for the general public, USFA partnered with both public and private organizations to develop and provide public education programs for targeted at-risk audiences (children, minorities, the elderly and the physically challenged), in a format that would best get the fire safety messages delivered. Over 2,468,320 fire safety education publications were disseminated, a 15.4% increase over FY 1999.

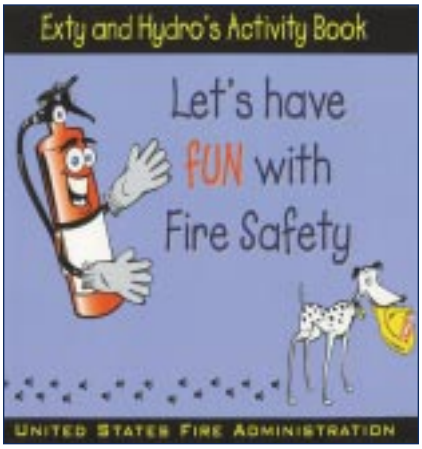
In cooperation with the General Services Administration and hospitality industry groups, USFA worked to enhance the National Master List of Fire-Safe Hotels and Motels. Currently, there are 27,394 properties on the Master List, an increase of 4,394 or 19.1% over FY 1999. An extensive outreach effort to hotels, motels, and hotel chains was conducted. USFA developed new software to identify unlisted hotels and motels in the U.S. and to keep track of those facilities requesting to be added to the Master List. The National Master List, located on the USFA Web site, receives over 30,000 hits per month from 7,000 visitors, and is available to the general public so that they can stay in fire safe accommodations while traveling with their families.

The National Fire Problem

Year	Fires	Deaths	Injuries	Direct Dollar Loss In Millions
1990	2,019,000	5,195	28,600	$9,385
1991	2,041,500	4,465	29,375	$10,906
1992	1,964,500	4,730	28,700	$9,276
1993	1,952,500	4,635	30,475	$9,279
1994	2,054,500	4,275	27,250	$8,630
1995	1,965,500	4,585	25,775	$9,182
1996	1,975,000	4,990	25,550	$9,406
1997	1,795,000	4,050	23,750	$8,525
1998	1,755,500	4,035	23,100	$8,629
1999	1,823,000	3,570	21,875	$10,024

The National Fire Safety Campaign Grant Program provided funding to grass roots groups, fire departments, and to other established organizations to assist them in their current fire prevention/reduction educational initiatives for high-risk groups. Grants in the amount of $25,000 were awarded to 11 organizations. Examples include the Delaware Children's Fire Safety Foundation, Wilmington, DE, for teaching fire safety in elementary schools and providing a fire safety curriculum for teachers; and the Spokane, WA, Fire Department, for expanding Target Fire Safe, an interagency partnership to reduce fire loss and burn injuries among low-income families, the elderly and high risk youth.

USFA continued to provide technical assistance to the For A Safer America Coalition and it's fire safety program for children *Be Cool About Fire Safety*. This year's accomplishment is a fire safety video aimed at children ages 8-12. The video is in rap format, and has received rave reviews from educators and children in this age group. It was shown on TV networks starting in October 2000. Public Service Announcements (PSAs) will be made from the video, stressing such ideas as careful cooking, smoke detectors, and home fire escape plans. The PSAs will be distributed to TV networks, children's shows, fire departments, and educators.



One of the many campaigns aimed at children to promote fire safety.

USFA continued to support the National SAFE KIDS Campaign (NSKC) with technical advice and funding. NSKC works through nearly 300 state and local coalitions. These coalitions, made up of fire service, public, health, police and other public agencies, and civic-minded businesses, decide what child safety problems need attention in their communities, and go to work on them. Ninety-three of the coalitions have fire safety programs. In one year, these coalitions distributed and installed almost 20,000 smoke alarms. Six months later, a follow-up

survey showed 91.5 % of these detectors were still working. They were credited with saving 19 lives! NSKC also gave out 24 small grants to state and local coalitions to help fund their own local fire safety programs.

USFA worked with the Indian Health Service (IHS) and Head Start to bring fire safety education to various reservations. The project, called *Sleep Safe* was operating on seven reservations. The project brings smoke alarms to families with young children, and goes into the home to make sure the alarm is installed and maintained properly. The Head Start workers also look for various hazards in the homes, and teach fire safety to parents and caregivers. When fully developed, this program also will be replicated with other Native American groups.

Programs aimed at children to promote fire safety are produced in multiple languages.

USFA joined in a partnership with the National Fire Protection Association (NFPA) in FY 2000 to help sponsor Fire Prevention Week 2000. Through this partnership, that also included Lowe's Home Safety Council, the United States Automobile Association Educational Foundation, and KIDDE Safety, a consolidated message on fire safety was delivered through Lifetime Learning Systems' *Weekly Reader* to millions of elementary school children, their teachers and parents. In addition, Web site links among all of the above organizations were made available for children and their caretakers to learn more about fire safety.

USFA released the Fire Risk Series reports on special populations. The reports titled, *Fire Risks for the Older Adult; Fire Risks for the Blind or Visually Impaired*; *Fire Risks for the Mobility Impaired*; and *Fire Risks for the Deaf or Hard-Of-Hearing* resulted from the "Solutions 2000" symposium held in the spring of 1999. Over 7000 copies of these reports were distributed through USFA Publications.

Since the early 1990's, USFA has been given the opportunity to participate as a major partner in the National Wildland Coordinating Group (NWCG), an organization by which a wide variety of public education, mitigation and response initiatives are coordinated by various federal and state agencies who's efforts contribute to the reduction of the impact of wildfire on the American public. As part of this partnership, USFA participates in NWCG's Wildland/Urban Interface Working Team, which is tasked with the development and implementation of education and awareness programs. These programs are designed to provide the general public and local officials with a basic understanding of appropriate wildland/urban interface fire prevention and mitigation initiatives for the home and community at large. These efforts have evolved into the program know as *Firewise*, a concerted effort to bring property owners, developers, city planners, and other local officials together to discuss the issue of preparing communities in the prevention and mitigation of potentially catastrophic wildfires that continue to plague our nation.

Beginning in 1998, USFA began to revise its current master-planning model. This has included a review of the model, its process and scope, and supporting methodology in partnership with the Insurance Services Office (ISO), American Planning Association, International City/County Managers Association, and International Association of Fire Chiefs (IAFC).

As part of its revision of the fire defense master planning model, USFA has partnered with the IAFC to develop a community fire risk assessment software tool. Known as Risk, Hazard and Value Evaluation, the program is designed to serve as a stand-alone program or may be used in conjunction with USFA's revised master planning program or IAFC's accreditation program.

The year 2000 saw many wildfires in the Western states.

As part of its role in community fire risk management, USFA participates with others on the Committee on the Organization and Deployment of Career Fire Departments to develop the proposed NFPA 1710 standard. The Committee was tasked with the development of a national standard that identifies acceptable

organizational and deployment resources for communities served by substantially career fire departments.

USFA continued to support FEMA's comprehensive hazards mitigation program, *Project Impact*. This role has expanded to include an "in-house" USFA *Project Impact* Team. The Team's role is to further instill the principles of hazard mitigation into much of its curriculum and related fire mitigation and prevention programs. In addition, a primary role for the Team is to insure local fire services are given the opportunity to play a role in the development of *Project Impact* initiatives within their respective communities.

As part of its continual assessment of its programs, USFA has recently undertaken an initiative which will measure the effectiveness of public fire safety education programs. The initiative is an in-depth and comprehensive review of various public education programs and their effect in reducing losses including deaths and injuries due to fire through the measurement of behavioral changes of specific target audiences.

For the past 2 years, USFA, in conjunction with the Institution of Fire Engineers, U.S. Branch, and John Jay College of Criminal Justice, Department of Public Management, has sponsored an annual fire service conference at the Fire Department Instructors Conference (FDIC). The theme of the annual event has included a wide variety of public fire service related topics including community fire defense planning.

Due to similar missions and goals, USFA and the National Association of State Fire Marshals (NASFM) continue to partner in a wide variety of fire protection related initiatives. In recent years, this has included providing technical assistance and educating NASFM's membership and others in topics such as the Hotel and Motel Fire Safety Act, College Campus Fire Safety Program, Fire Fighter Safety Study Act, Performance Based Codes Seminars, and the National Fire Incident Reporting System (NFIRS).

On June 19, 1996, President Clinton announced the National Arson Prevention Initiative (NAPI), in response to a series of arson fires in our nation's houses of worship. FEMA, in partnership with the U.S. Department of Housing and Urban Development, the U.S. Department of Justice, and the U.S. Department of the Treasury, is focusing on raising public awareness about how arson fires can be prevented, providing resources to assist these efforts, and on the coordination of public and private sector resources to support the development of community-based arson awareness and prevention activities across the nation.

NAPI continues to create coalitions and provide communities with the tools and technical assistance to battle arson. Six communities received $16,000 in FY 2000 to build community-based coalitions and combat arson at the grassroots level. They were Marshalltown, IA; Worcester, MA; Page, AZ; Bridgeport, CT; Ann Arbor, MI; and Harrisburg, PA. Each community targets a specific issue. Other challenges include initiating church watch programs, the boarding-up or demolition of vacant and abandoned buildings, developing stricter code enforcement, and arson awareness programs.

The National Arson Prevention Clearinghouse was established to provide public education materials and coordinate technical assistance requests from communities. Accessible by a toll-free number 1-888-603-3100, the Clearinghouse has reached over 3.5 million individuals, organizations, and communities with arson awareness and prevention materials since its inception in 1996. Working through the National Council of Churches, the Congress of National Black Churches and others in the faith community, thousands of houses of worship have been reached with arson prevention pamphlets and brochures. Materials distributed through the Clearinghouse include church and other structure threat assessment and fire safety documents, juvenile firesetter intervention brochures, public education materials including bumper stickers, and community organizing and coalition building guidance. The Clearinghouse sends out more than 500,000 packets annually.

USFA delivered the pilot offering of the *Extinguishing Youth Firesetting* class from September 25-29. The charter class was comprised of twenty-nine students and an instructor representing fourteen states. The 5-day class provides general basic information about juvenile fire setters and intervention strategies. The course develops skills in interviewing and assessment, program development, implementation and evaluation. The target audience for the class includes practitioners who interact with children who are involved in firesetting and/or arson behavior and their families. Professionals from a myriad of fields including mental health, law enforcement, education, counseling services and social services can benefit from the training.

During the first week of May, NAPI sponsored National Arson Awareness Week for the third consecutive year in cooperation with other partners such as the International Association of Arson Investigators. *Target Arson*, the national public education campaign that has surrounded each week, encourages communities to become involved in the solutions to their arson problems. FEMA created an umbrella public education effort that targeted television, radio, and print media nationwide with the week's message.

During Arson Awareness Week, NAPI sponsored a seminar called *Community Awareness: Child Firesetting and Juvenile Arson*. Nationwide, the seminar highlights best practices and teaches participants how to replicate these programs. This seminar was designed to create an awareness to the community's fire service, law enforcement and education personnel of the seriousness and magnitude of the child fire setting and juvenile arson problem that exists nationally, and in their local area. The program informed the community-at-large to better understand children's perception, use and misuse of fire. It focused on motivating the community to form a community based effort, involving all necessary services, organizations, agencies and individuals that, in working together can make a difference. The audience for this successful presentation included fire service officers, law enforcement officials, childcare agencies and USFA staff.

NAPI, working the National Volunteer Fire Council, sponsored three *Arson Detection and Prevention in Rural Communities* seminars, intended for members of volunteer fire departments responsible for arson prevention and investigation.

USFA, through the NAPI office, is an active member of the National Church Arson Task Force (NCATF). NCATF is comprised of members of various agencies including: Treasury's Bureau of Alcohol, Tobacco and Firearms (ATF); Federal Bureau of Investigation (FBI); Department of Housing and Urban Development (HUD); and the Department of Justice. The NCATF assists communities where a bombing or arson fire has taken place at a place of worship.

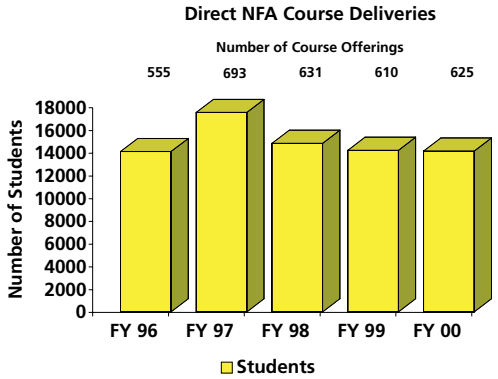
TRAINING

Program Emphasis: *Provide training and education opportunities for the nation's fire protection community.*

In keeping with the National Fire Academy's long-term training target of reaching 300,000 specialized or high-ranking fire service personnel (25% of approximately 1.2 million firefighters), performance will be indicated by the delivery of approximately 676 traditional courses, reaching 16,750 students in 76,419 student days; and increasing numbers of students reached through new, technology-based approaches.

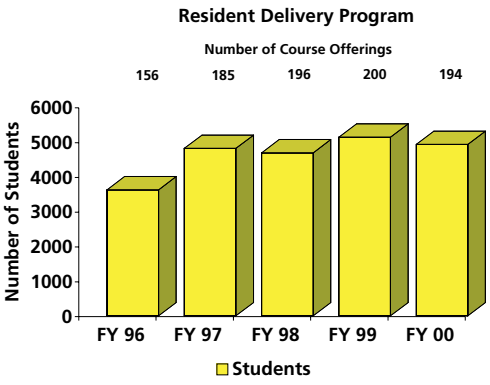
Program Performance: NFA provided a grand total, through all delivery methods, of 1,163 course offerings reaching 39,273 students, a decrease of 19 offerings and 13,327 students from FY 1999. The significant differences resulting in this decrease are addressed in the specific delivery areas. We maximized participation through three different delivery modes.

The first is the traditional method where NFA provides the instruction directly to the students and is responsible for all the costs associated with the delivery. This includes resident deliveries, the Volunteer Incentive Program, and regional deliveries. This method accounted for 254 course offerings to 6,234 students. The second method of delivery is done in conjunction with state and local sponsors who share cost of delivery. This includes the State Weekend Program and direct field deliveries, which accounted for 371 course offerings to 7,913 students. The total of both methods is shown just below, and specific categories follow.

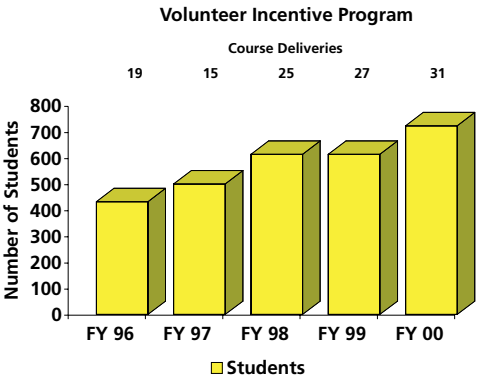


Resident delivery refers to training using courses in the resident curriculum delivered at the National Emergency Training Center campus in Emmitsburg, MD. NFA resident courses are typically two weeks in length, although course lengths may vary.

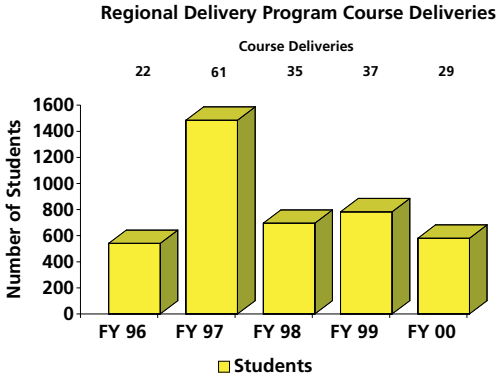
NFA's resident courses offer educational opportunities for the advanced professional development of mid-level and senior fire and emergency medical services officers and allied professionals involved in fire prevention and life safety activities. These



resident courses often contain a variety of hands-on labs, require research papers or presentations using materials from the Learning Resource Center or the Internet, and provide a wide range of student networking capabilities both within and outside of class. In FY 2000, 194 course offerings were conducted, with 4,927 students trained, resulting in 41,503 student days, close to the capacity point.

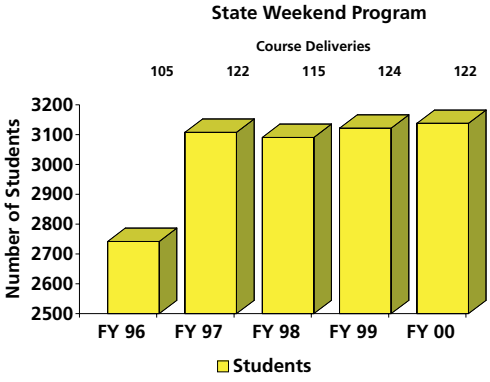


Another aspect of the resident program is the Volunteer Incentive Program (VIP). The VIP is an intensive six-day educational opportunity designed specifically for the volunteer fire service officer and conducted on the Emmitsburg campus. The Academy has compressed two weeks worth of course work into six days, tailoring it to the special needs of the volunteer fire officer, while maintaining content, quality, and integrity. In FY 2000, 31 courses were conducted with 726 students trained producing 4,356 student days of instruction.



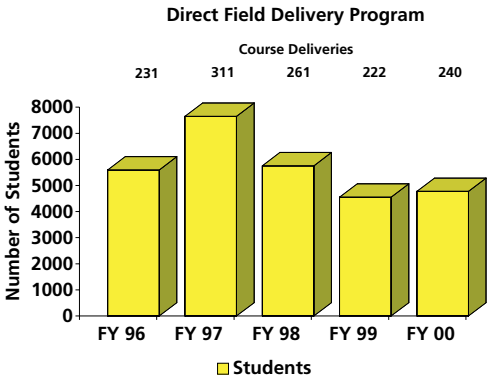
The Regional Delivery Program offers the same one- and two-week courses normally taught at the NFA facility. The NFA's Training Resources and Data Exchange (TRADE) network, which operates within the 10 FEMA regions, provides the structure through which regional deliveries are offered. Students who participate in Regional Deliveries have the opportunity to meet and exchange ideas and information with colleagues from throughout their region in an informal setting outside the classroom. In FY 2000, 29 courses were conducted and 581 students trained, resulting in 3,528 student days. The fluctuation in the number of course deliveries was due to the arson prevention grant funding.

As stated previously, the second method of delivery is done in conjunction with state and local sponsors who share the cost of delivery. This includes the State Weekend Program and direct field deliveries, which accounted for 371 course offerings to 7,913 students.



The State Weekend Program offers the same two-day courses that are delivered in the field during designated weekends at the NFA. By offering these courses on weekends, students have additional opportunities to visit the campus to participate in Academy courses. In FY 2000, 122 courses were conducted and 3,138 students trained resulting in 6,276 student days of instruction.

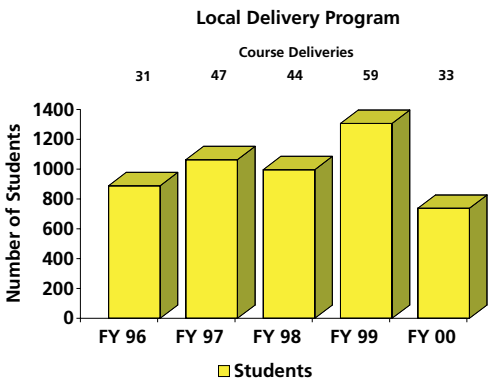
NFA's Direct Field Delivery Program is based on the concept of a strong program delivery linkage, shared cost implementation, and extensive leverage for maximum impact at the local level. Direct delivery courses are short-term, intensive training experiences, designed to provide



maximum opportunity for student participation near their home departments. The courses are 16 hours in duration, and usually offered on weekends to accommodate volunteer, career, and allied professionals who may find weekday attendance difficult to schedule. In FY 2000, 249 courses were conducted with 4,775 students trained in 9,585 student days of instruction.

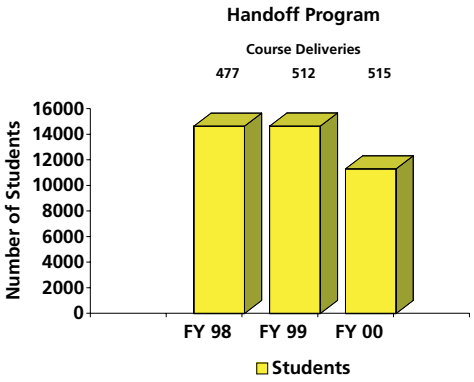
The third method of delivery is the indirect method where the NFA develops the course materials, and they are delivered by state and local fire and rescue training agencies or used independently. This method includes local deliveries, hand-off deliveries, independent self-study, and college deliveries. This method accounted for 538 course offerings to 25,126 students, and produced 42,159 days of instruction. The following provides specific results.

Local delivery refers to the delivery of selected courses through state and local training systems. The one- and two-week courses being delivered were, or are, part of the resident program and are delivered in conjunction with state and local fire training agencies to reach more individuals. These courses have not been handed off and delivery is controlled by the Academy.



In FY 2000, 33 courses were conducted, with 738 students trained and 6,443 student days of instruction. This is a decrease of 26 offerings, 569 students, and 4,082 student days from FY 1999. Most of these decreases were in the number of hazardous materials courses being delivered by the local delivery systems. The three hazardous materials courses have been available for several years and are in need of updating and revising, thus the decline in offerings. *The Chemistry of Hazardous Materials* course is currently under development.

Handoff delivery refers to dissemination of course materials to state and local training systems, and is the culmination of the Academy's State Delivery outreach effort to provide supplemental curriculum support to existing state and local fire training and education programs. In FY 2000, 505 course offerings were conducted, with 11,328 students trained, producing 22,656 student days of instruction. This is a net decrease of 7 offerings, 3,329 students, and 6,157 student days. In FY 2000, there were 109 offerings of new courses, producing 2,138 students and 4,276 student days. This is offset by a significant reduction in the number of offerings of the *Emergency Response to Terrorism: Basic Concepts* course. The need for a basic concepts course has shifted to the need for an operational level course package. NFA released the *Emergency Response to Terrorism: Tactical Operations* series in late FY 2000. Based on the late release date, we anticipate an increase in delivery activity again in FY 2001.



Independent study refers to self-paced learning. The NFA offers several independent study courses in a variety of topical areas. In FY 2000, 13,060 students were trained, resulting in 13,060 student days. This is a decrease of 9,346 students and 8,886 student days from FY 1999. Although the interest in the *Emergency Response to Terrorism: Self-Study* course seems to have declined, NFA will continue to work with the FEMA Home Study Program to ensure that all interested persons receive their course materials and certificates.

NFA piloted and launched an Internet-based home study software application that allows students to register for home study courses, download course materials, and take the final test online. The first course, *Fire Service Supervision: Self-Study*, was opened to students on September 1. During the first month, 180 students passed the course and received an NFA Certificate of Completion.

A one-day *Performance-Based Fire Safety Design Workshop* was conducted at NETC on August 23, 2000. Over 100 fire and building code enforcement officials attended from the mid-Atlantic region of the country. A total of nine workshops were conducted. The workshops were developed and will be present-

ed by the Society of Fire Protection Engineers through a grant from USFA. The Society of Fire Protection Engineers formed a partnership with the International Code Council and the International Fire Marshals Association to promote the workshops.

The *Comprehensive Haz Mat Emergency Response-Capability Assessment Program (CHER-CAP)* pilot workshop was held at NETC on August 23-24, 2000. A group of 30 federal and non-federal emergency responders attended. The attendees were primarily NFA contract instructors who are being trained to assist FEMA regions in conducting the CHER-CAP process.

Supporting the resident delivery system at the NFA is the Simulation Laboratory, which provides simulation training in command and control and tactical incident operations, as set forth by the incident command system. The laboratory is configured to afford candidates "real-world" training in a variety of emergency situations, encompassing incidents such as dwelling fires, commercial and large structure fires, catastrophic disasters and major emergency events, such as hazardous materials releases and mass casualty incidents. Computer generated three-dimensional and two-dimensional models provide the candidate with a variety of visual and auditory cues, which will enhance the decision making process in practical situations.

At present, nineteen computer-enhanced simulations used to support NFA Command and Control courses have been completed. Several more are under development at this time. Also, several computer based training (CBT) scenarios are under development. The tutorial compact disk for the CBT's and the Incident Command Self-Study compact disk have been completed. Future plans call for joint transmission of NFA and Emergency Management Institute training to remote sites. Personnel who have attended this NFA training have reported how beneficial it was in the successful management of significant events in their local jurisdictions.

The NFA Training Evaluation Center continued its systematic study of resident course students and their supervisors to determine training effectiveness. During the program year, 603 students and 573 supervisors returned completed surveys that were mailed to them 4 months after students completed a resident course at the Academy. Their responses indicated that students were able to transfer their training skills and learning to the job. Ninety-five percent of students surveyed were able to apply NFA training when they returned to the job, and 90% say that NFA training improved their job performance. Also, 93% of students shared their NFA training with their peers, with about 20% actually holding formal training sessions in their departments.

Some 71% of students surveyed left NFA with plans to establish new policies or procedures when they returned to the job. Of that group, 78% actually did so, with most of them (84%) indicating that the new policy or procedure improved the way the department did business. The conclusion is that students who leave NFA with a clear, well-thought out plan to develop a new policy or procedure have about a 4 in 5 chance of getting it developed and implemented.

Supervisors of the surveyed students in FY 1999 were positive about the effects of NFA training on their employee and on the department. Over 88% of responding supervisors indicated that NFA training had improved the employee's job performance, while 87% thought that the training would improve the department's performance as well. Nearly 98% of supervisors would recommend NFA training for others, and 93% said that the benefits of NFA training outweighed the costs. Supervisors indicate that students return from NFA training with a heightened sense of commitment, a clearer perspective on local problems and a network of peers who support their efforts to improve service delivery.

Beginning in January of 1999, NFA began to collect end-of-course data on the resident training experience using a new survey instrument that captured enhanced demographic data along with data on how students access information about NFA training courses. Over the past 2 years, the data clearly show that more than half (50.8%) of students applying for resident courses access such information via the World Wide Web.

A new section was added to the USFA Web site for NFA contract instructors and those interested in becoming an instructor. The NFA Contract Instructor Web site contains information on all instructors eligible to teach NFA courses and provides those instructors with access to bid packages and award information. The Web page also contains information on how to become an NFA contract instructor.

A project began in FY 2000 to scan and convert Executive Fire Officer Program applied research projects submitted by students to electronic format for fire researchers to access on the USFA Web site and through the Learning Resource Center Online Card

Catalog. Two hundred thirty-two papers were initially scanned for the FY 1998-1999 academic year.

NFA has improved the way that it provides services to State Fire Training Systems (SFTS). SFTS identified their needs as: 1) increase the amount of NFA training delivered locally, and 2) increase the number of NFA courses available. The changes are described below:

- Enfranchisement—States are viewed as partners with the NFA, and as such, may deliver two-week and six-day NFA residential courses in addition to the current deliveries available to them. Enfranchisement establishes that SFTS are extension of the NFA in their state. As such, SFTS are enfranchised to deliver most NFA courses using NFA instructors. The release of two-week residential courses to states is proposed to be three courses per year, because of duplication costs and course development timelines. States will report student participation in all courses for inclusion in the NFA database. Students will receive NFA residential course certificates.

- Endorsement—States have a need for courses that the NFA cannot develop because of time constraints, the number of courses they say they need, and subject matter or resource constraints. Endorsement recognizes that some state-developed courses are the equivalent of an NFA course in both quality and content. The NFA and SFTS have agreed upon a set of criteria and a process to have a state course endorsed as an NFA course. Once a course meets the established criteria, it becomes an NFA "endorsed" course, which are NFA courses delivered locally by local instructors. Students in NFA endorsed courses are registered in the NFA student database, and may receive a NFA certificate. Endorsed courses will be available for distribution to other states that may not have adequate resources to develop a course.

- Two-Day Course Delivery—After two-day courses are developed, they may be delivered as Train-the-Trainer (TtT) courses without the traditional two-year field delivery assessment phase. TtT participants will receive a CD-ROM with the Instructor Manual, Student Guide, test bank, handout materials for on-site printing, and appropriate audiovisuals. The CD will also include a program that will allow instructors to upload the student data via the Internet to the NFA student database. Once in the database, the new admissions system can immediately download the NFA certificates to the instructor for distribution to students. Newly developed two-day courses will be reviewed after approximately 18 months of delivery.

FY 2000 marked the initial start-up of the USFA's Critical Infrastructure Protection Initiative. Based on Presidential Decision Directive 63, FEMA was tasked to work with the fire and emergency services sector to provide information to help them protect their critical infrastructure systems. Specifically, USFA has taken the lead in creating a clearinghouse activity to research, collect and disseminate critical physical and cyber protection information that will help the fire and emergency service community assess their vulnerabilities and readiness capabilities.

NFA offered direct grant assistance to each of the 50 SFTS for the purpose of delivering additional NFA courses and collecting the enrollment data from the training deliveries. Eligible categories of NFA courses included: hand-off courses, revised incident command system (ICS) courses, and select resident (ten day), regional (six day) and direct delivery (two day) courses. The response from the SFTS was overwhelming, and should continue through FY 2001.

In August 2000, NFA staff developed a minority instructor recruitment program with specific strategies designed to increase the representation of women and people of color as NFA instructors. Among the strategies was a recommendation for the Superintendent to visit large fire departments (with higher numbers of minority people represented in the fire department staff) to meet with their staff to encourage minorities to apply for teaching opportunities.

Technology

Program Emphasis: *Conduct a continuing program of development, testing, and evaluation of equipment, practices, and technology for use by the nation's fire and emergency services by increasing by 4% the use of USFA's fire mitigation materials at the federal, state and local levels; and increased fire community knowledge of fire and technological hazards and the application of mitigation technologies by increasing distribution of research reports.*

Program Performance: USFA, along with the National Institute of Standards and Technology (NIST), conducted a series of separate workshops to provide USFA input and recommendations from the fire service and emergency response community;

non-fire service constituent organizations such as trade associations, building code organizations, the fire protection engineering profession, private sector fire researchers, etc.; and federal partners in fire research to develop research priorities to address those needs in response to the Congressional mandate that USFA develop a fire research agenda. Reports from these workshops have been distributed to stakeholders and partners for confirmation and support of national-level fire research needs.

This publication will assist emergency service managers to establish clear, effective standard operating procedures.

USFA and NIST continued the project effort initiated in FY 1999 to conduct research on performance enhancement of PASS devices that could enhance firefighter safety in operational situations. These include enhancements in elimination of false activations, accuracy, tie in with Global Positioning Systems, thermal exposure, exposure to liquids, and ease of use. Numerous firefighter deaths have occurred from being lost or trapped in structure fires.

USFA initiated a project to revise and update its 1992 USFA document *Guide to Developing and Managing an Emergency Services Infection Control Program*. Since then, there have been changes in the field of emergency services infection control such as the development of better technology (i.e. ambulance air filtering systems, protective clothing, and self-capping needles), OSHA regulations, increased acts of intentional infection (i.e. hiding needles where responders may be intentionally stuck), and exposure to biological agents. This update and revision would provide support to USFA efforts in firefighter health and safety.

USFA and NIST performed research into structural collapse prediction technology on the fire ground. Tests examining older style construction were conducted, and a number of computer-based models for predicting the impact of fire on buildings, occupants and firefighters were developed. Typically, the models predict the spread of the fire and its products of combustion. NIST has been investigating the use of new measurement technologies in the fire environment for the prediction of structural collapse including the use of thermal imaging technology to measure temperature, lasers and sonar to measure displacement, and ultrasonic devices to predict the onset of collapse. This project will develop information and technology for use by firefighters to predict structural collapse during fire ground operations. Every year firefighters are killed as a result of unexpected structural failure.

In FY 2000, USFA released several new publications that were part of a targeted distribution to requesting local-level fire departments and emergency response agencies, including:

- *Developing Effective Standard Operating Procedures for Fire & EMS Departments* is designed to assist emergency service managers in establishing effective standard operating procedures within their organization. It serves as a valuable resource for personnel seeking a clear understanding of operational issues, and will facilitate compliance with current laws, regulations, and standards related to the emergency services.
- *Hazardous Materials Response Technology Assessment* is designed to familiarize readers with various technologies that are available (and in development) that a fire and/or rescue department could use to control and mitigate a hazardous materials incident. It also provides concepts, terminology, and key considerations that may help in the management of incidents of hazardous material contamination.
- *Personnel Accountability System Technology Assessment* is designed to focus attention on the issue of personnel accountability. Personnel accountability is an effort to improve the safety of emergency responders by keeping track of their locations and assignments when operating at the scene of an incident.
- A revision to *Funding Alternatives for Fire and Emergency Services* providing updated information to fire and EMS departments on locating and implementing both traditional and nontraditional local, state, and federal government funding sources or methods.

In FY 2000, 155,838 publications were distributed, a 43.1% increase over FY 1999.

As a result of Congressional directives, USFA initiated the National Smoke Detector Pilot Project which focused on the installation of a total of 100,000 smoke detectors in 20 communities at high risk for

residential fires. Representatives of these communities were trained by the NFA in proper smoke detector installation. Guidance was provided on the data that needs to be obtained locally, and other administrative requirements. These local representatives were also provided with fire prevention materials, including materials in Spanish and English focusing on this project. This material is intended for occupants of the homes in which the smoke detectors are installed. The final report to Congress is due during the 1st quarter of FY 2001.

Through its role in administering and chairing the Federal Interagency Committee on Emergency Medical Services (FICEMS), USFA has supported a continuing exchange of information among agencies with EMS responsibilities and interest. Such dialogue promotes interagency cooperation and helps avoid duplication of effort.

USFA and the National Aeronautics and Space Administration are jointly developing the "Earth Alert" personal warning system, part of which includes a hand-held communication device that allows receipt of information such as map overlays from various sources at the scene, to determine whether it can meet the needs of the fire and rescue community. The object is to define in detail how the "Earth Alert" system can be used to support the requirements of the firefighter community—ranging from a broad variety of fires, a range of scenarios, and a range of hazardous materials response scenarios. A final report is expected in FY 2001.

USFA and NIST continued a cooperative effort to develop measurement equipment and techniques for the evaluation of the thermal environments experienced by firefighters and to examine the thermal protective performance of the firefighter's protective clothing.

The Residential Fire Safety Institute (Operation Life Safety) is a consortium of USFA staff, NASFM, and the private sector. The shared mission is to mitigate the impact of fire on residential occupancies through the advocacy of built-in protection (protection and sprinkler systems) and public education.

FEMA Region VII joined with the U.S. Department of Education in mailing 9,200 of USFA's *Fire Safety Checklists* to every superintendent and principal in the region. This brochure is designed to hang on a door handle. It provides many useful tips to making homes safer from fire. One school district has requested 2000 brochures—one for every student!

DATA

Program Emphasis: *Identify the national fire problem and analyze, publish and disseminate related data and information by 30% of participating states (12) that convert to the new National Fire Information Reporting System (NFIRS) 5.0; get 20% of non-participating states (2) join the NFIRS; post all new publications on the World Wide Web (WWW); publish 4 analytical reports on topics suggested by NFIRS data and the fire service community; and publish an annual firefighter fatality study.*

Program Performance: The National Fire Incident Reporting System Version 5.0 (NFIRS 5.0) was implemented for state use in January 1999. By FY 2000, 26 of the 41 states reporting in FY 1998 under the former version, began reporting data in the new format (21 in FY 1999 and 5 in FY 2000). Two formerly non-participating states, Oregon and Mississippi, joined the NFIRS system during this period, increasing the total number of states reporting to 45.

USFA issued the *Eleventh Edition of Fire in the United States, 1987-1996,* a comprehensive analysis of the nation's fire problem heavily based on NFIRS data. In addition, five in-depth special topic reports were produced including a *Profile of the Urban Fire Problem* and analyses of the following at risk groups: older adults, the mobility impaired, the deaf and hard of hearing, and the blind and visually impaired. Publications by the National Fire Data Center address the Congressional mandate for USFA to identify the national fire problem. For 20 years, USFA data has identified the national fire problem as one of individual fire deaths, occurring in private dwellings, and caused primarily by the misuse of smoking materials.

A total of three analytical reports were published: *Establishing a Relationship between Alcohol and Casualties; Multiple Fatality Fire Reported to NFIRS 1994-1996;* and *Children and Fire in the United States*. And the 1998-*1999 Firefighter Fatality Report* was printed, distributed, and posted on the Web site, as was the 1999 final list of firefighter fatalities.

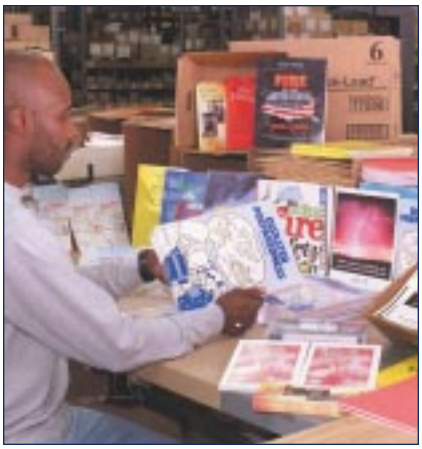
The USFA Publications Center received 68,386 orders for 2.6 million publications, a 194% increase in orders over FY 1999. A total of 87% of publications orders were received through the Web site.

Ninety-nine publications were added to the Web site in FY 2000 bringing the total to 200 on line, almost

double the 1998 baseline. Over 90% of all USFA publications available through the Publications Center are available on line. Many are downloaded and reproduced for local use.

The USFA Web site received an estimated 22.4 million hits in FY 2000 from 1.6 million visitors, almost double the previous year. Two new sections were added to the Web site to describe USFA resources available in the areas of EMS and Wildfire. These resources include training, publications, data, and financial assistance.

FEMA PHOTO BY WILLIAM R. RECKERT



FEMA's publications warehouse sends materials to users throughout the country.

Conclusion

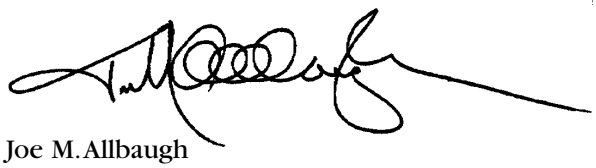
The USFA's resources are focused in support of key efforts to address America's unacceptable fire problem. Primary program elements include collection and analysis of national fire data, training of the fire service community, developing and delivering effective public fire safety education messages, 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.

FINANCIAL MANAGEMENT PERFORMANCE

MANAGEMENT INTEGRITY AND ACCOUNTABILITY

FMFIA ASSURANCE STATEMENT

With this unqualified opinion, and 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 2000 financial statements, the Agency is in compliance with the provisions of the Federal Managers' Financial Integrity Act (FMFIA).



Joe M. Allbaugh
Director

In the Independent Auditor's report for FY 2000, the Office of Inspector General cited system deficiencies that they believe resulted in material weaknesses in internal controls over financial reporting, and the report concluded that FEMA's financial management system does not meet Federal financial management system requirements. As a result, the Inspector General has reported to the FEMA Director that in their opinion, FEMA's financial management system does not fully comply with Federal Financial Management Improvement Act of 1996 (FFMIA) requirements. FEMA will report this as a new material weakness under Section 4 of FMFIA, and will work with the Inspector General to develop and implement corrective actions.

STATUS OF MANAGEMENT CONTROL

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

Status:

- For the third consecutive year, OFM prepared consolidated financial statements for FY 2000 for all of its activities in compliance with the Chief Financial Officer's (CFO) Act of 1990 and the Government Management Reform Act of 1994.
- The Agency's consolidated financial statements received an unqualified opinion from an independent public accounting firm.
- Improvements made to the internal and management control structures within FEMA include: quarterly analyses and reconciliations of general ledger account balances; weekly status meetings with management and accounting staff; and monthly reconciliations of fund balances with Treasury.
- Comptroller positions are established at Disaster Field Offices (DFOs) and filled with qualified employees to help ensure the integrity of financial processes and internal and management controls. Comptrollers are required to attend training sessions before being deployed to various DFO sites. A new contingent of comptrollers was recruited and trained during the year. The comptroller cadre totals 17 certified comptrollers.
- Two financial management reviews were underway during FY 2000. A review of On-Line Payment and Collection System (OPAC) payments is in process to determine whether OPAC payments were posted correctly; and a vendor payment review is underway to determine whether there are any duplicate payments and the frequency of such payments.
- The Office of Financial Management developed a credentialing program designed to correspond with the Core Competencies adopted by the CFO Council and the Joint Financial Management Improvement Program. Credentialing and training requirements were developed for financial disaster response positions. Training and certification of these financial management employees will commence in FY 2001.

Number of Non-Conformance by Fiscal Year

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

*System non-conformance remaining: Financial System Documentation

FEMA's Federal Insurance Administration (FIA) implemented the following initiatives to help strengthen management controls for the National Flood Insurance Program (NFIP).

- All of the Write Your Own (WYO) companies that submitted a Biennial Audit in 2000 received unqualified opinions from their auditors.
- FIA 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.
- FIA implemented a planning system to track projects and associated resources.
- Claims reinspection efforts with WYO companies continue which will result in the NFIP being reimbursed for overpayments.
- FIA is in its first full year of restoring claims and underwriting operational reviews of the 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 is chairing a Fraud Task Force comprising of staff from FIA, Office of the General Counsel and the Inspector Generals Office to conduct a review of the vulnerability of various program areas to fraud and make recommendations on reducing vulnerability.
- FIA staff provides extensive support to the OIG in their investigations of WYO companies investing NFIP funds. This effort has resulted in millions of dollars being reimbursed to the NFIP.
- OFM, FIA and contractors debt collection efforts resulted in millions of dollars in recoveries for the NFIP.
- FIA contracted with several CPAs to assist in the adjusting and examination of NFIP claims in order to prevent and detect fraudulent claims.
- FIA completed updating and revising the Financial Control Plan (FCP). WYO companies use the FCP as a guideline to the regulations and procedures on the NFIP.

MANAGEMENT FOLLOW-UP TO OIG RECOMMENDATIONS

FEMA makes an aggressive effort to follow-up on findings and recommendations contained in audit reports. It is essential to recover those funds that have been found to be owed to FEMA, and to implement procedures for improving the effectiveness and efficiency of our program operations.

FEMA began FY 2000 with 72 audit reports carried over from FY 1999. These contained approximately $43.3 million (adjusted down slightly from the FY 1999 Accountability Report) in costs that management determined should not be charged to the Agency's programs (disallowed costs). Another 18 audit reports represented over $30 million, which could be used more efficiently (funds put to better use).

During the year, 60 new audit reports containing over $32 million of disallowed costs were agreed to between FEMA's Inspector General and FEMA management, and we completed action on 101 of the total 132 open audit reports while recovering over $32 million. Seventeen new audit reports representing over $16 million in recommended funds to be put to better use were agreed to, and 27 of the total 35 audit reports of that type were closed, resulting in the release of over $27 million in funds that could be better utilized elsewhere. The table below depicts these activities.

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. In FY 2000, for example, we implemented the audit recommendations and closed almost twice as many audits as in FY 1999. Despite this, the inevitable long-term nature of disaster recovery and other grant programs often dictates

	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 2000	72	$43,258,450	18	$30,366,394
New Audits During FY 2000	60	$32,563,699	17	$16,262,782
Audits Closed During FY 2000	(101)	$(32,561,231)	(27)	$(27,070,202)
End of FY 2000	31	$43,260,918	8	$19,558,974

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. For all others, FEMA is aggressively pursuing closing those audits.

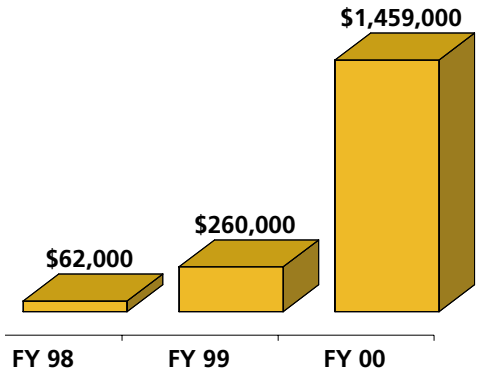
DEBT COLLECTION IMPROVEMENT ACT (DCIA) OF 1996

Under the provisions of the DCIA, FEMA collects its debts through the Department of the Treasury, Financial Management Services (FMS), Cross Servicing Program and the Treasury Offset Program.

As of September 30, 2000, collections through Treasury's Cross Servicing Program increased significantly compared to the previous two years. In FY 2000, $1.5 million, in FY 1999, $260,000, and in FY 98, $62,000 was collected through the Treasury's program.

The Office of Financial Management (FM) referred 80% of its eligible debt (6,458 debtors) totaling $16 million to the FMS for collection through the Cross Servicing Program. The remaining 20% of eligible debt will be transferred to FMS during FY 2001. We also transferred 34 debts totaling $282,000 to the Department of Justice for legal remedies during the year.

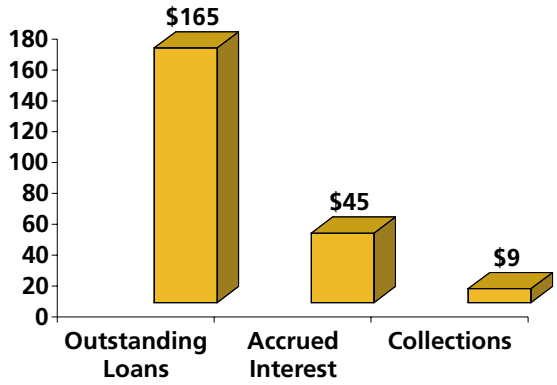
Collections—FMS Cross-Servicing Program



DIRECT LOAN PROGRAM

Through the Disaster Relief Fund, FEMA provides assistance in the form of loans to communities, individuals, and families. It also provides loans for public assistance and hazard mitigation to disaster victims and communities across the nation. As of September 30, 2000, the outstanding balance for direct loans total $165 million and the accrued interest on these loans total $45 million. Collections during the year, including accrued interest, total $9 million.

Direct Loan Program (In Millions)



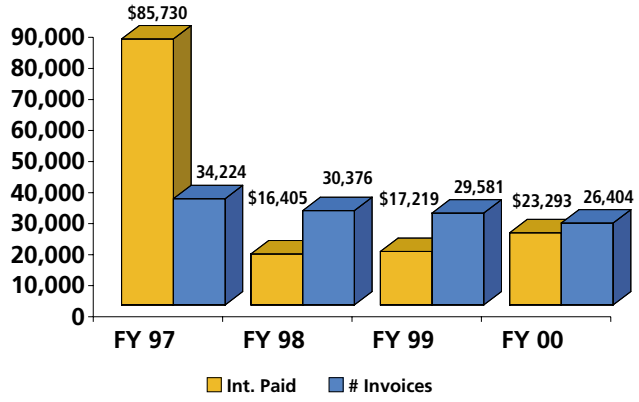
PAYMENT PERFORMANCE

FEMA payment practices are conducted in compliance with the Prompt Payment Act and the DCIA.

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 for draw down within 24 hours notification. FEMA uses the Automated Clearinghouse (ACH)/Electronic Funds Transfer (EFT) System to make its payment 93% of the time.

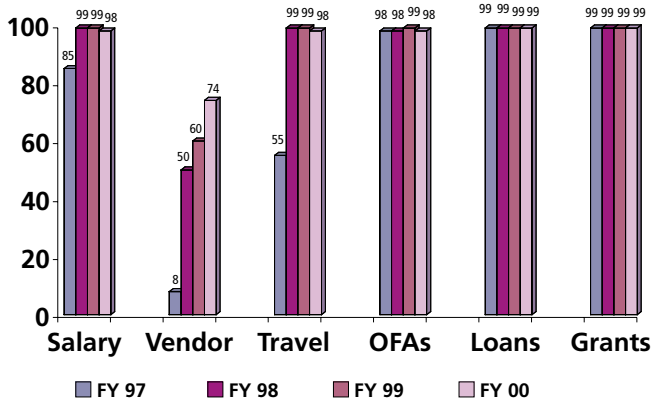
As of September 30, 2000, FEMA paid late payment interest penalties totaling $23,293 on invoices processed for payment. Late payment interest penalties from prior years are: $85,730 in FY 1997, $16,405 in FY 1998, and $17,219 in FY 1999. FM processed a total of 26,404 invoices in FY 2000, 34,224, 30,376, and 29,581 in fiscal years 1997-1999, respectively. See chart below.

Prompt Payment Statistics



In FY 2000, FEMA effectively and efficiently made payments using the ACH/EFT system as follows: 98% of salary payments, 74% of vendor payments, 98% of travel payments, 99% of loan and grant payments, and 98% of payments to other federal agencies (OFA). See the following chart.

Percentages & Types of Payments ACH/EFT System



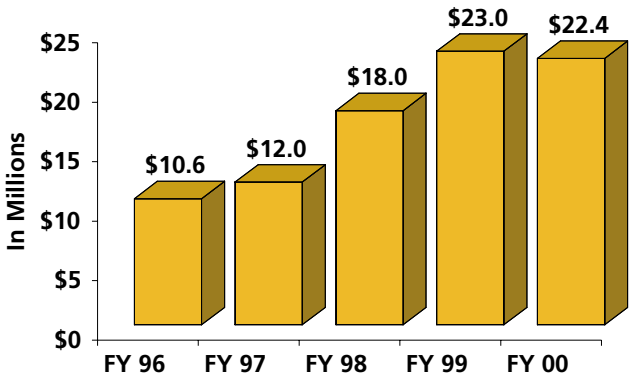
The Debt Collection Improvement Act (DCIA) of 1996, section 3100(x), requires that all federal payments (other than payments under the Internal Revenue Code of 1986) made after January 1, 1999, be made by electronic funds transfer (EFT). In addition, the Federal Acquisition Regulations (FAR) prescribes the use of EFT for federal contract payments. EFT payments to FEMA vendors are not increasing as rapidly as other types of payments due to systems limitations. Therefore, in August 2000, FEMA updated its electronic payments file format for vendor invoices to the Cash Concentration or Disbursement Plus Addendum (DDC+) ACH payment format. This system provides a separate payment for each invoice and transmits the contents of the user-defined invoice-ID data field with the payment to the destination bank. When CCD+ is implemented in FEMA, the growth in electronic payments to vendors should increase significantly.

PURCHASE CHARGE CARD

The government purchase charge card program provides FEMA with a means to simplify its small purchase procedures and improve cash management by: offering an alternative to the use of purchase orders, blanket purchase agreements and imprest funds; streamlining the acquisition process by reducing paperwork, improving lead times and expediting contractor payments; and reducing administrative costs associated with small purchases, blanket purchase agreements, and eliminates imprest fund transactions.

FEMA continues to increase its use of charge cards for purchases totaling $2,500 or less. In FY 1996, the card was used to purchase $10.6 million, $12 million in FY 1997, $18 million in FY 1998, $23 million in FY 1999, and $22.4 million in FY 2000. See the following chart.

Purchase Charge Cards



The Federal Emergency Management Agency

Report on the Consolidated Financial Statements for Fiscal Year 2000

INTRODUCTION TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2000

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. The responsibility for the integrity of the financial information included in these statements rests with management of the Federal Emergency Management Agency (FEMA).

The following accounting pronouncements were issued by the Federal Accounting Standards Advisory Board (FASAB) with effective dates in FY 2000:

- SFFAS No. 16: *Amendments to Accounting for PP&E—Multi-Use Heritage Assets*;
- SFFAS No. 17: *Accounting for Social Insurance*.

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

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

PRINCIPAL STATEMENTS INCLUDED IN THIS REPORT

The principal financial statements of FEMA Consolidated, its combined Directorates and Administrations, the Cerro Grande Fund (CGF) , and the Disaster Relief Fund (DRF), for FY 2000 consist of the following (collectively referred to as the financial statements):

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

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

- Directorates & Administrations
- Cerro Grande Fund (CGF)
- 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 combined Directorates and Administrations, the CGF, and the DRF to meet the requirements of the Chief Financial Officers Act of 1990 (CFO Act) and the Government Management Reform Act of 1994 (GMRA).

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEET

AS OF SEPTEMBER 30, 2000

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	CGF	DRF	Consolidated
ASSETS				
Intragovernmental				
Fund Balance with Treasury (Note 2)	$ 806,288	$ 495,673	$ 7,450,250	$ 8,752,211
Investments, Net (Note 4)	1,483	-	-	1,483
Accounts Receivable, Net (Note 5)	42,172	-	217	42,389
Advances and Prepayments (Note 7)	20	-	-	20
Total Intragovernmental	849,963	495,673	7,450,467	8,796,103
Accounts Receivable, Net (Note 5)	14,848	-	52,568	67,416
Advances and Prepayments (Note 7)	291,350	-	21,483	312,833
Credit Program Receivables, Net (Note 6)	17,304	-	-	17,304
Cash and Other Monetary Assets (Note 3)	10,491	-	-	10,491
Inventory and Other Related Property, Net (Note 8)	4,173	-	-	4,173
General Property, Plant, and Equipment, Net (Note 9)	7,685	-	19,887	27,572
Total Assets	**$ 1,195,814**	**$ 495,673**	**$ 7,544,405**	**$ 9,235,892**
LIABILITIES				
Intragovernmental				
Accounts Payable	$ 2,489	$ -	$ 90,781	$ 93,270
Debt (Note 10)	416,220	-	-	416,220
Other Intragovernmental Liabilities (Note 15)	151,529	-	110	151,639
Total Intragovernmental	570,238	-	90,891	661,129
Accounts Payable	62,379	182	194,515	257,076
Claims and Claims Settlement Expenses (Note 11)	36,309	436,695	-	473,004
Deferred Revenue (Note 12)	890,396	-	-	890,396
Federal Employee and Veterans' Benefits Payable (Note 14)	12,840	-	9,119	21,959
Other Governmental Liabilities (Note 15)	53,808	357	16,792	70,957
Total Liabilities	**1,625,970**	**437,234**	**311,317**	**2,374,521**
NET POSITION				
Unexpended Appropriations (Note 16)	490,133	58,449	7,248,497	7,797,079
Cumulative Results of Operations	(1,576,453)	-	(7,906)	(1,584,359)
Current Year	656,164	(10)	(7,503)	648,651
Total Net Position	**(430,156)**	**58,439**	**7,233,088**	**6,861,371**
TOTAL LIABILITIES AND NET POSITION	**$ 1,195,814**	**$ 495,673**	**$ 7,544,405**	**$ 9,235,892**

The accompanying Notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

FOR THE YEAR ENDED SEPTEMBER 30, 2000

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	CGF	DRF	Consolidated
COSTS				
Production	$ 1,552,623	$ 441,568	$ 2,503,031	$ 4,497,222
Non-production	26,400	-	-	26,400
Total Program Costs	1,579,023	441,568	2,503,031	4,523,622
Less Earned Revenues	(1,565,416)	-	(281)	(1,565,697)
NET PROGRAM COSTS BEFORE ALLOCATIONS	**13,607**	**441,568**	**2,502,750**	**2,957,925**
Net Cost Allocations of Support Organizations and Prior Years' Appropriations	(98,030)	-	98,030	-
NET COST OF OPERATIONS AFTER ALLOCATIONS	**$ (84,423)**	**$ 441,568**	**$ 2,600,780**	**$ 2,957,925**

The accompanying Notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2000

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	CGF	DRF	Consolidated
NET COST OF OPERATIONS	$ 84,423	$ (441,568)	$ (2,600,780)	$ (2,957,925)
Financing Sources (Other than Exchange Revenues):				
Appropriations Used	660,477	441,552	2,492,037	3,594,066
Imputed Financing	9,294	6	3,210	12,510
Transfers-in	20,517	-	-	20,517
Transfers-out	(20,517)	-	-	(20,517)
Net Cost Allocations of Support Organizations	(98,030)	-	98,030	-
Net Results of Operations	656,164	(10)	(7,503)	648,651
Increase (Decrease) in Unexpended Appropriations	(35,188)	58,449	273,072	296,333
CHANGE IN NET POSITION	**620,976**	**58,439**	**265,569**	**944,984**
Net Position-Beginning of Period	(1,047,653)	-	6,967,519	5,919,866
Cancelled Authority	(3,479)	-	-	(3,479)
NET POSITION—END OF PERIOD	**$ (430,156)**	**$ 58,439**	**$ 7,233,088**	**$ 6,861,371**

The accompanying Notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES

FOR THE YEAR ENDED SEPTEMBER 30, 2000

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	CGF	DRF	Consolidated
BUDGETARY RESOURCES				
Budget Authority	$ 1,234,986	$ 500,000	$ 2,765,109	$ 4,500,095
Unobligated Balance - Beginning of Period	859,288	-	950,849	1,810,137
Net Transfers Prior-Year Balance, Actual	1,324	-	-	1,324
Spending Authority from Offsetting Collections	1,609,928	-	369	1,610,297
Adjustments	(813,407)	-	(500,721)	(1,314,128)
Total Budgetary Resources	**$ 2,892,119**	**$ 500,000**	**$ 3,215,606**	**$ 6,607,725**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	$ 1,815,401	$ 451,048	$ 2,387,351	$ 4,653,800
Unobligated Balances - Available	931,822	18,952	686,290	1,637,064
Unobligated Balances - Not Available	144,896	30,000	141,965	316,861
Total Status of Budgetary Resources	**$ 2,892,119**	**$ 500,000**	**$ 3,215,606**	**$ 6,607,725**
OUTLAYS				
Obligations Incurred	$ 1,815,401	$ 451,048	$ 2,387,351	$ 4,653,800
Less: Spending Authority From Offsetting Collections and Adjustments	1,609,764	-	581,657	2,191,421
Subtotal	205,637	451,048	1,805,694	2,462,379
Obligated Balance, Net - Beginning of Period	981,738	-	6,278,086	7,259,824
Less: Obligated Balance, Net - End of Period	687,839	446,721	5,519,867	6,654,427
TOTAL OUTLAYS	**$ 499,536**	**$ 4,327**	**$ 2,563,913**	**$ 3,067,776**

The accompanying Notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF FINANCING

FOR THE YEAR ENDED SEPTEMBER 30, 2000

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	CGF	DRF	Consolidated
OBLIGATIONS AND NON-BUDGETARY RESOURCES				
Obligations Incurred	$ 1,815,401	$ 451,048	$ 2,387,351	$ 4,653,800
Less: Spending Authority from Offsetting Collections and Adjustments	1,609,764	-	581,657	2,191,421
Financing Imputed for Cost Subsidies	9,294	6	3,210	12,510
Exchange Revenue Not in the Budget	(18,306)	-	(1,040)	(19,346)
Other	35	-	-	35
Total Obligations, as Adjusted, and Non-budgetary Resources	**196,660**	**451,054**	**1,807,864**	**2,455,578**
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS				
Change in Amount of Goods, Services, and Benefits Ordered But Not Yet Received or Provided	(145,156)	(9,496)	687,382	532,730
Cost Capitalized on the Balance Sheet	5,615	-	(5,919)	(304)
Financing Sources that Fund Costs of Prior Periods	(59,510)	-	-	(59,510)
Total Resources that do not Fund Net Cost of Operations	**(199,051)**	**(9,496)**	**681,463**	**472,916**
COSTS THAT DO NOT REQUIRE RESOURCES				
Depreciation and Amortization	1,976	-	7,401	9,377
Other	16,097	-	-	16,097
TOTAL COSTS THAT DO NOT REQUIRE RESOURCES	**18,073**	**-**	**7,401**	**25,474**
Financing Sources Yet to be Provided	(2,075)	10	6,022	3,957
NET COST OF OPERATIONS	**$ 13,607**	**$ 441,568**	**$ 2,502,750**	**$ 2,957,925**

The accompanying Notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2000

(DOLLARS IN THOUSANDS)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

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 consolidated financial statements are presented in conformity with OMB Bulletin Number 97-01, *Form and Content of Agency Financial Statements*, as amended by OMB Memorandums Number 99-03 and Number M-00-05, *Technical Amendments to OMB Bulletin Number 97-01, Form and Content of Agency Financial Statements*. As encouraged in the technical amendment, FEMA has elected early implementation of changes to the balance sheet presentation that will be required for FY 2001.

B. Reporting Entity

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

1. Directorates and Administrations

   - 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 [P.L.] 93-288, as amended). The expenses of carrying out this disaster assistance under the Act are funded under a separate appropriation, the Disaster Relief Fund (DRF).

     R&R has responsibility for the Disaster Assistance Direct Loan Program (DADLP) which makes four types of loans: Community Disaster Loans; Individual and Family Grant State Share Loans; Public Assistance State Share Loans; and Hazard Mitigation State Share Loans. The DADLP for the non-Federal share of program costs was created under the

Robert T. Stafford Disaster Relief and Emergency Assistance Act, P.L. 93-288, as amended by P.L. 100-707. Community Disaster Loans were available under P.L. 93-288 prior to the Stafford Act.

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

- 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.

- 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 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.

- Federal Insurance Administration

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

  The FCIP authorization expired September 30, 1995, and the program is in the closeout process. P.L. 106-74 for the fiscal year (FY) ending September 30, 2000 forgives the FCIP's debt to the Treasury. (See Note 20.)

- U.S. Fire Administration

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

citizens due to fires; and to improve emergency preparedness capability. Education and training programs are provided through the National Fire Academy in Emmitsburg, MD.

- Support Organizations

  The Support Organizations provide services to the Directorates and Administrations, the CGF, and the DRF so that FEMA can effectively and efficiently meet its agency-wide objectives. FEMA's Support Organizations are comprised of the Office of Inspector General, 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.

2. Cerro Grande Fund

   The Cerro Grande Fund (CGF) was established under the Cerro Grande Fire Assistance Act (P.L. 106-246) to compensate victims of the Cerro Grande fire that occurred in May 2000 in several counties in New Mexico. The fire resulted in the loss of federal, state, local, tribal and private property. The Secretary of the Interior and the National Park Service have assumed responsibility for the fire and the subsequent losses of property. The Act established within FEMA the responsibility for receiving, processing and paying claims associated with the fire and reimbursing other federal agencies for claims related to processing support. Claimants have until no later than two years after the date on which regulations are first promulgated, to submit to FEMA a written claim for one or more injuries suffered by the injured person in accordance with requirements established by FEMA. The CGF is funded by a no-year appropriation.

3. Disaster Relief Fund

   The Disaster Relief Fund 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

Established under the authority of the CFO Act of 1990, the Federal Accounting Standards Advisory Board (FASAB) recommends federal accounting standards to the Secretary of the Treasury, the Director of OMB and the Comptroller General, co-principals of the FASAB. Specific standards agreed upon by the three principals are concurrently issued by the Director of OMB and the Comptroller General.

On October 19, 1999, the Council of the American Institute of Certified Public Accountants (AICPA) recognized the FASAB as the body designated to establish generally accepted accounting principles (GAAP) for federal governmental entities under Rule 203, "Accounting Principles," of the AICPA's *Code of Professional Conduct*.

FEMA prepared these principal financial statements in accordance with generally accepted accounting principles, under the following hierarchy:

- FASAB accounting principles, standards and requirements agreed to by the co-principals and published by GAO and OMB;
- interpretations related to the standards issued by OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards;"
- form and content requirements in OMB Bulletin 97-01 and its amendments; and
- accounting principles published by authoritative standard setting bodies and other authoritative sources, in the absence of other guidance in the first three parts of this hierarchy, and if the use of such accounting standards improves the meaningfulness of the financial statements.

E. Revenues and Financing Sources

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

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

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

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

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

G. Investments, Net

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

H. Accounts Receivable, Net

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

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

I. Credit Program Receivables, Net

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

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

J. Advances and Prepayments

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

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

K. Inventory and Related Property, Net

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

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

L. General Property, Plant, and Equipment, Net

General Property, Plant, and Equipment is capitalized at cost if the initial acquisition cost is $25,000 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 $25,000 is expensed when purchased.

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

- 5-Year Property: Cars, light and heavy general purpose trucks; qualified technological equipment, computer-based telephone switching equipment; radios and other voice/data communications equipment; computers and peripheral equipment; qualified internally and contractor developed software; office machinery and equipment; office furniture and fixtures; capital leasehold improvements; and any additional personal property that is not otherwise classified.
- 20-Year Property: Buildings and structures and their elevators and escalators; additions, betterments and replacements to buildings and structures; and land improvements.

M. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by FEMA as the result of a transaction or event that has already occurred. However, no liability can be paid by FEMA absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as unfunded liabilities since there is no certainty that the appropriations will be enacted. The Government, acting in its sovereign capacity, can abrogate liabilities of FEMA arising from other than contracts.

N. Accounts Payable

Accounts Payable—Intragovernmental consists of amounts owed to other federal agencies. Accounts Payable consists of trade accounts payable, commissions payable, and bank overdraft liability.

O. Debt

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

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

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

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

As of September 30, 2000 NFIP and DADLP had borrowed $345 and $59 million, respectively.

P. Claims and Claims Settlement Expenses

Provision for NFIP losses adjustment expenses, and estimates for incurred but not reported losses are based on reports of individual cases. Adjustments to estimated provisions are reflected in the financial statements as they occur. Loss adjustment expense includes direct costs of settlement and, for the WYO portion of Insurance Underwriting Operations, a provision for unallocated loss adjustment expenses. Loss reserves for the year ended September 30, 2000 were derived using loss development data available through November 2000.

Provision for Cerro Grande Fire claims settlement expenses are based on actuarial analysis as of September 30, 2000.

Q. Deferred Revenue

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

R. Net Cost of Operations

Net Cost of Operations includes all direct expenses for the Directorates and Administrations, CGF and the DRF as well as the indirect and overhead expenses allocated from FEMA's Support Services to the DRF.

S. Contingencies

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

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

The loss potential of catastrophic flooding cannot be meaningfully quantified as it relates to insurance policies in effect as of September 30, 2000. Accordingly, the financial statements do not include any provision for this contingent liability.

T. Annual, Sick, and Other Leave

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

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

U. Workers' Compensation Liability

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

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

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

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

Each employing federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees, effective with fiscal years beginning after September 30, 1996, as required by Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government. 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-00-07, *2000 Cost Factors for Pension and other Retirement Benefits Expenses*, to each agency to meet this requirement.

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

W. Estimation Process

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

X. Litigation

FEMA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of FEMA management and legal counsel, the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

In the course of settling insurance claims, FIA is a defendant in litigation filed by claimants disputing the amount of insurance coverage or the amount of loss. The estimated liability for any resulting settlements is considered when establishing reserves for losses and loss adjustment expense. 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.

Y. Expired Accounts and Canceled Authority

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

NOTE 2. FUND BALANCES WITH TREASURY (IN THOUSANDS)

Directorates and Administrations		
Trust Funds	$	199
Revolving Funds		85,283
Appropriated Funds		667,175
Other Fund Types		53,631
Subtotal		806,288
Cerro Grande Fund		
Appropriated Funds		495,673
Subtotal		495,673
Disaster Relief Fund		
Appropriated Funds		7,450,250
Subtotal		7,450,250
Total	$	8,752,211

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

Directorates and Administrations		
Cash	$	8
Other Cash - Agency		15
Other Cash - Contractor		10,468
Total	$	10,491

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

NOTE 4. INVESTMENTS, NET (IN THOUSANDS)

Intragovernmental Securities:

	Cost	Amortization Method	Unamortized (Premium) Discount	Investments, Net	Other Adjustments	Required Market Value Disclosure
Directorates and Administrations						
Marketable	$ 1,483	Straight Line	$ -	$ 1,483	$ -	$ 1,483
Total	$ 1,483		$ -	$ 1,483	$ -	$ 1,483

NOTE 5. ACCOUNTS RECEIVABLE, NET (IN THOUSANDS)

	Intra-governmental	Other	Total
Directorates and Administrations			
Accounts Receivable - Intragovernmental	$ 42,172	$ -	$ 42,172
Accounts Receivable	-	15,194	15,194
Allowance for Loss	-	(346)	(346)
Subtotal	42,172	14,848	57,020
Disaster Relief Fund			
Accounts Receivable - Intragovernmental	217	-	217
Accounts Receivable	-	86,312	86,312
Allowance for Loss	-	(33,744)	(33,744)
Subtotal	217	52,568	52,785
Total	$ 42,389	$ 67,416	$ 109,805

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

A. FEMA operates the following direct loan programs for Non-Federal borrowers:

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

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

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

Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Related to Direct Loans
(1) Community Disaster Loans	$ 29,262	$ 14,735	$ -	$ (32,810)	$ 11,187
(2) Individual & Family Grant Loans	-	-	-	-	-
(3) Public Assistance Loans	-	-	-	-	-
(4) Miscellaneous (State of NY)	-	-	-	-	-
Total	$ 29,262	$ 14,735	$ -	$ (32,810)	$ 11,187

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	$ 129,494	$ 29,690	$ -	$ (156,047)	$ 3,137
(2) Individual & Family Grant Loans	1,997	203	-	(1,283)	917
(3) Public Assistance Loans	2,867	292	-	(1,841)	1,318
(4) Miscellaneous (State of NY)	-	-	-	-	-
(5) Hazard Mitigation Loans	1,621	165	-	(1,041)	745
Total	$ 135,979	$ 30,350	$ -	$ (160,212)	$ 6,117

D. Administrative Expenses:

Total	$ 207

NOTE 7. ADVANCES AND PREPAYMENTS (IN THOUSANDS)

Directorates and Administrations	
Intragovernmental	$ 20
Other	291,350
Subtotal	291,370
Disaster Relief Fund	
Other	21,483
Subtotal	21,483
Total	$ 312,853

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

	Valuation Method	Held for Current Sale	Held for Distribution	Excess, Obsolete and Unserviceable	Total
Directorates and Administrations					
Floodplain Maps and Studies	Average Cost	$ 1,416	$ 2,757	$ -	$ 4,173
Total		$ 1,416	$ 2,757	$ -	$ 4,173

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

	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
Directorates and Administrations					
Construction in Progress			$ 1,725	$ -	$ 1,725
Bldgs, Improvements, & Renovations	Straight Line	20/5 Years	1,361	(202)	1,159
Other Structures & Facilities	Straight Line	20/5 Years	840	(127)	713
Equipment	Straight Line	5 Years	7,252	(4,356)	2,896
Leasehold Improvements	Straight Line	5 Years	172	(85)	87
ADP Software	Straight Line	5 Years	3,594	(2,489)	1,105
Subtotal			14,944	(7,259)	7,685
Disaster Relief Fund					
Bldgs, Improvements, & Renovations	Straight Line	20/5 Years	132	-	132
Equipment	Straight Line	5 Years	33,487	(14,843)	18,644
Leasehold Improvements	Straight Line	5 Years	1,985	(874)	1,111
Subtotal			35,604	(15,717)	19,887
Total			$ 50,548	$ (22,976)	$ 27,572

NOTE 10. DEBT (IN THOUSANDS)

A. Other Debt:

	Beginning Balance	Net Borrowings	Ending Balance
Directorates and Administrations			
Debt to the Treasury - Principal	$ 603,217	$ (199,400)	$ 403,817
Debt to the Treasury - Interest Payable	14,450	(2,047)	12,403
Total	$ 617,667	$ (201,447)	$ 416,220

B. Classification of Debt:

Intragovernmental	$ 416,220
Total	$ 416,220

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:

Balance at October 1, 1999:		
Loss & LAE Reserve	$	514,531
Incurred Related To:		
Current Year		244,937
Prior Year		42,852
Total Incurred		287,789
Paid Related To:		
Current Year		231,002
Prior Year		535,009
Total Paid		766,011
Balance at September 30, 2000:		
Loss & LAE Reserve Related to:		
Current Year		13,936
Prior Year		22,373
Total Reserves	$	36,309

Cerro Grande Fire Assistance Act

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

For the year ended September 30, 2000, the estimated claims liability for the CGFAA is $437 million. The liability for unpaid claims and claim adjustment expenses represents an estimate of the known probable and estimable losses that are unpaid as of the balance sheet date and is based on the August 28, 2000, Interim Final Rules entitled, the Disaster Assistance: Cerro Grande Fire Assistance, Interim Final Rules, published in the Federal Register Part V at 44 CFR Chapter I, Part 295.

As these are "Interim Final Rules", the $437 million estimate may change as a result of modified or Final Rules under the aforementioned Act. The factors used in the development of the estimate include case basis estimates, trend estimates for claim severity and frequency and the use of forensic accounting procedures. These estimates will be reviewed; and adjustments, reflected in current operations are made as deemed necessary.

In addition to the recognized claims liability of $437 million there is a reasonable possibility that additional liabilities may have been incurred. These liabilities consist of potential claims that may be submitted to FEMA under the CGFAA. Such claims are probable but are not currently estimable due to the fact that many of these potential claims are either unknown or have not been defined under the CGFAA "Interim Final Rules." These potential claims include devaluation issues related to both residential and commercial real estate and Pueblo lands.

NOTE 12. DEFERRED REVENUE (IN THOUSANDS)

Directorates and Administrations		
Prepaid Flood Insurance Premiums	$	890,396
Total	$	890,396

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
2001	$ 20,041	$ 5,884	$ 25,925
2002	25,588	5,248	30,836
2003	26,612	5,458	32,070
2004	27,676	5,676	33,352
2005	28,783	5,903	34,686
After 5 Years **	29,934	6,139	36,073
Total	$ 158,634	$ 34,308	$ 192,942

(1) General Services Administration (GSA) controlled leases
2001 and 2002 based on GSA estimates
2003 and beyond reflect planning estimates only

(2) Other than GSA-controlled leases
2003 and beyond relect planning estimates only

>> Does not include disaster field offices

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

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

Workers' Compensation

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

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

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

6.15% in year 1,
6.28% in year 2,
6.30% in year 3,
and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors that include cost of living adjustments and medical inflation factors are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars. The methodology also includes a discounting formula to recognize the timing of actual compensation payments as thirteen payments per year instead of one lump sum per year. The projected number of years of benefits payments is 37 years.

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

Based on the actuarial liability estimates provided by the Department of Labor, FEMA's recorded expense and the related increase in the estimated liability for future worker's compensation benefits as of September 30, 2000 were:

	FY 2000 Expense	<<---------- Liability ----------->> FY 2000 Liability	Beginning of Year Liability	Total Liability
Directorates and Administrations	$ 6,527	$ 6,527	$ 6,313	$ 12,840
Disaster Relief Fund	3,656	3,656	5,463	9,119
Total	$ 10,183	$ 10,183	$ 11,776	$ 21,959

Accrued FECA Liability

The accrued FECA liability is the difference between the FECA benefit paid by the FECA Special Benefits Fund and FEMA's actual cash payments to the Fund. For example, the Special Benefits Fund will pay benefits on behalf of FEMA through the current year. However, FEMA's actual cash payments to the FECA Special Benefit Fund for the current FY will reimburse the Fund for benefits paid through a prior fiscal year. The difference between these two amounts—benefits paid by the Fund and reimbursements made by FEMA—is the accrued FECA liability.

Pensions and Other Retirement Benefits:

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

Cost factors and imputed cost calculations provided by OPM Retirement and Insurance Service Financial Management Letter F-00-07 dated October 16, 2000 were used to calculate the amount of additional expense to be recorded by FEMA. The employer's contribution is subtracted from the pension expense since FEMA's contribution is expended with each pay period. Since the benefit for pensions is received after retirement, employee and employer contributions are attributed to the period after retirement and are subtracted from the service costs.

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

Based on the information provided by the OPM, FEMA determined that the imputed costs for Pensions and Other Retirement Benefits for the year ended September 30, 2000 were:

	Pensions	Health Insurance	Life Insurance	Total
Directorates and Administrations	$ 4,833	$ 4,440	$ 21	$ 9,294
Cerro Grande Fund	3	3	-	6
Disaster Relief Fund	907	2,293	10	3,210
Total	$ 5,743	$ 6,736	$ 31	$ 12,510

NOTE 15. OTHER LIABILITIES (IN THOUSANDS)

A. Other Liabilities Covered by Budgetary Resources:

	Current	Non-Current	Total
Directorates and Administrations			
Other	$ 29,178	$ -	$ 29,178
Advances from Others	151,529	-	151,529
Accrued Payroll and Benefits	13,704	-	13,704
Subtotal	194,411	-	194,411
Cerro Grande Fund			
Accrued Payroll and Benefits	347	-	347
Subtotal	347	-	347
Disaster Relief Fund			
Advances from Others	110	-	110
Accrued Payroll and Benefits	6,208	-	6,208
Subtotal	6,318	-	6,318
Total	$ 201,076	$ -	$ 201,076

B. Other Liabilities Not Covered by Budgetary Resources:

	Current	Non-Current	Total
Directorates and Administrations			
Accrued Annual Leave	$ 10,926	$ -	$ 10,926
Subtotal	10,926	-	10,926
Cerro Grande Fund			
Accrued Annual Leave	10	-	10
Subtotal	10	-	10
Disaster Relief Fund			
Other	2,920	-	2,920
Accrued Annual Leave	7,664	-	7,664
Subtotal	10,584	-	10,584
Total	$ 21,520	$ -	$ 21,520

NOTE 16. UNEXPENDED APPROPRIATIONS (IN THOUSANDS)

Directorates and Administrations		
Unobligated		
Available	$	75,434
Unavailable		41,001
Unexpended Obligations		373,698
Subtotal		490,133
Cerro Grande Fund		
Unobligated		
Available	$	18,952
Unavailable		33,305
Unexpended Obligations		6,192
Subtotal		58,449
Disaster Relief Fund		
Unobligated		
Available	$	686,290
Unavailable		1,311,980
Unexpended Obligations		5,250,227
Subtotal		7,248,497
Total	$	7,797,079

NOTE 17. ALLOCATION OF SUPPORT ORGANIZATION COSTS (IN THOUSANDS)

FEMA allocated Support Organizations' FY 2000 program costs to the Directorates and Administrations and the DRF to reflect the costs of operating these organizational components. Support Organizations' cost of $132.5 million was allocated to the Directorates and Administrations and the DRF. The DRF was allocated 74% of the support organization cost compared to 86% in the prior year.

NOTE 18. ESTIMATED DISASTER COSTS (IN THOUSANDS)

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

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

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

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

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

- Public Assistance
- Individual Assistance
- Mission Assignments
- Hazard Mitigation
- FEMA Administration

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

FEMA has projected the ultimate total costs of the declared disasters to be approximately $28.8 billion as of September 30, 2000, of which approximately $28.3 billion has been obligated and $22.8 billion paid or accrued. Should all projected remaining costs and obligations be funded by the government and paid or accrued by FEMA, an additional $6 billion in expenses would be recorded.

Information regarding the disaster cost projections and their effect on DRF as of September 30, 2000, is summarized below:

Unfunded Cost:		
Cost Projections	$	28,780,556
Obligations		(28,270,548)
Total Unfunded Costs		510,008
Unliquidated Obligations:		
Obligations		28,270,548
Expenditures Incurred		(22,750,681)
Total Unliquidated Obligations		5,519,867
Remaining Project Cost:		
Unfunded Cost		510,008
Unliquidated Obligations		5,519,867
Remaining Cost	$	6,029,875

NOTE 19. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION (IN THOUSANDS)

	Gross Cost	Earned Revenue	Net Cost
Directorates and Administrations			
050 National Defense	$ 480,002	$ (42,382)	$ 437,620
450 Community & Regional Development	967,572	(1,501,204)	(533,632)
600 Income Security	110,000	-	110,000
800 General Government	21,449	(21,830)	(381)
Subtotal	1,579,023	(1,565,416)	13,607
Cerro Grande Fund			
450 Community & Regional Development	441,568	-	441,568
Disaster Relief Fund			
450 Community & Regional Development	2,503,031	(281)	2,502,750
Total	$ 4,523,622	$ (1,565,697)	$ 2,957,925

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2000

▲ Consolidated Schedule of Intragovernmental Activity

CONSOLIDATED SCHEDULE OF INTRAGOVERNMENTAL ACTIVITY

FOR THE YEAR ENDED SEPTEMBER 30, 2000

(DOLLARS IN THOUSANDS)

INTRAGOVERNMENTAL ASSETS:

	Fund Balance with Treasury (Note 2)	Investments, Net (Note 4)	Accounts Receivable, Net (Note 5)	Advances and Prepayments (Note 7)
Department of Agriculture	$ -	$ -	$ 499	$ -
Department of Commerce	-	-	1,349	-
Department of Justice	-	-	1,047	-
Department of the Navy	-	-	381	-
Department of State	-	-	730	-
Department of Treasury	8,752,211	1,483	68	-
Department of the Army	-	-	30,451	-
Environmental Protection Agency	-	-	501	-
Department of Transportation	-	-	3,920	-
U.S. Agency for International Development	-	-	417	-
National Aeronautics and Space Administration	-	-	359	-
U.S. Army Corps of Engineers	-	-	968	-
Other	-	-	1,699	20
TOTAL INTRAGOVERNMENTAL ASSETS	**$ 8,752,211**	**$ 1,483**	**$ 42,389**	**$ 20**

INTRAGOVERNMENTAL LIABILITIES:

	Accounts Payable	Debt (Note 10)	Advances From Others (Note 15)
Department of Agriculture	$ 3,972	$ -	$ 493
Department of Commerce	-	-	750
Department of Justice	2,307	-	920
Department of State	-	-	557
Department of Treasury	4,120	416,220	58
Department of the Army	-	-	141,414
Department of Transportation	-	-	1,382
U.S. Agency for International Development	59	-	3,104
National Aeronautics and Space Administration	1,663	-	250
Department of Defense/Defense Agencies	33,735	-	-
Department of Interior	6,438	-	-
Environmental Protection Agency	2,881	-	-
General Services Administration	17,152	-	-
Department of Health and Human Services	8,580	-	-
Office of Personnel Management	4,852	-	-
Other	7,511	-	2,711
TOTAL INTRAGOVERNMENTAL LIABILITIES	**$ 93,270**	**$ 416,220**	**$ 151,639**

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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, the balance sheet of the Cerro Grande Fund (CGF) and the balance sheet of the Disaster Relief Fund (DRF), each as of September 30, 2000, 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 auditing standards generally accepted in the United States of America 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. 01-02, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements appearing on pages 71 through 94 present fairly, in all material respects, the financial position of FEMA, its Directorates and Administrations, the CGF and the DRF as of September 30, 2000, and their net cost, changes in net position, budgetary resources and reconciliation of budgetary obligations to net cost for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, FEMA has been designated by Congress to administer entitlement claims under the Cerro Grande Fire Assistance Act (CGFAA). Claims for certain real estate and Pueblo lands devaluation are probable but are not currently estimable.

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The required supplementary information on pages 95 - 97 is not a required part of the consolidated financial statements but is supplementary information required by the OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," as amended. This supplementary information is the responsibility of FEMA's management.

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Tohmatsu

This supplementary information has been subjected to the auditing procedures applied in our audit of the consolidated 2000 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2001, on our consideration of FEMA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

February 16, 2001

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

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

We have audited the financial statements of the Federal Emergency Management Agency (FEMA), its Directorates and Administrations, the Cerro Grande Fund (CGF) and the Disaster Relief Fund (DRF), as of and for the year ended September 30, 2000, and have issued our report thereon dated February 16, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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. 01-02, *Audit Requirements for Federal Financial Statements*.

Internal Control over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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

requirements. We believe that the following reportable conditions are also material weaknesses.

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

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

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

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

   We recognize that FEMA continues to expend significant efforts to fully implement the reporting requirements of OMB Bulletin No. 97 – 01, *Form and Content of Agency Financial Statements*. While we believe FEMA has made some progress toward meeting required reporting objectives, significant improvements are still required as the systems, processes

and infrastructure that support the preparation of the agency's consolidated financial statements are not yet stable nor subject to appropriate levels of supervision and review. For example, we noted that:

◊ FEMA did not provide a timely year – end cash reconciliation that was complete and accurate and that tied to the financial statements. FEMA's schedule called for the cash reconciliation to be completed by October 31, 2000. However, it was several months later that a fully supported reconciliation was provided. FEMA's year-end cash reconciliation showed an unresolved difference of $2.5 million. FEMA states that this amount represents a carryover from prior fiscal years of an unreconciled balance. As such, the amount should be written off. The inability to prepare timely and reliable reconciliations indicates that FEMA's financial management system does not adequately support system requirements related to the general ledger analysis and reconciliation process.

◊ FEMA was not able to provide or adhere to a logical and specific timetable for publishing the financial statements and accompanying information with sufficient time built - in to allow proper review by management and for the efficient completion of audit procedures. The Government Management Reform Act (GMRA) requires that an agency's audited financial statements (as of September 30 each year) be presented to the Director of OMB by March 1 of the following year. This means that financial statements must be produced in a timely manner that allows for an efficient audit to take place.

We consistently have requested that trial balances and draft financial statements be provided for audit by December 1 – two months after fiscal year-end – in order to have an orderly and economical audit. Although FEMA has made improvements in providing the requested information, we still received trial balances, financial statements of FEMA components, and the Management Discussion and Analysis (MD&A) related to the financial statements throughout December. We did not receive draft consolidated financial statements until late in December. We did not receive notes to those statements until January 2001. Final draft consolidated financial statements were presented to us for audit in mid-February. These delays limited the time available to complete the audit, prepare the auditors' reports, and obtain management's comments. They also significantly decreased audit efficiency, and increased the risk of not meeting the statutory deadline. The delays in providing timely financial statement information indicate that FEMA's financial management system has significant deficiencies. The inability to prepare timely, financial information indicates that FEMA's financial management system does not adequately support system requirements related to the financial reporting process.

◊ FEMA continues to produce its financial statements using software that is not integrated with the core financial management system. The non-integrated software requires significant manual data entry, increasing the cost and time required to prepare financial statements and increasing the likelihood of errors. The software

does not ensure that various financial statement line items and footnote disclosures are consistent, and it does not identify differences for resolution. As a result of this system deficiency, a significant number of errors, omissions, and inconsistencies were identified in the draft financial statements. The deficiencies also require FEMA to expend significant resources in extensive manual review efforts in order to produce accurate and consistent results. For the FY 2000 audit, the slower turnaround time impacted the timely production of accurate financial statements for our audit purposes. The delays in providing timely financial statement information indicate that FEMA's financial management system has significant deficiencies. The inability to prepare complete, reliable, timely, consistent and useful financial information, including information for financial statement preparation, indicates that FEMA's financial management system does not adequately support system requirements related to the financial reporting process.

◊ In FY 2000, FEMA eliminated its presentation of combining financial statements, which presented information by organizational component. Specifically, FEMA changed its consolidation process from a "Directorate and Administration by fiscal year basis" to a "fund by appropriation fund basis." The revisions to the consolidation process for FY 2000 were implemented in order to reduce the extensive manual efforts required to generate reliable information by component. The change allowed FEMA to reduce the number of separate funds included in the financial statements from 60 in FY 1999 to approximately 30 in FY 2000. Had FEMA presented its combining financial statements consistent with the prior year, the number of funds would have expanded to over 75 separate funds. As each fund included in the consolidation process requires extensive manual efforts to produce a separate trial balance, the increase in funds would have placed a significant strain on FEMA's ability to produce and to review effectively those trial balances and the resulting financial statements.

However, the change in presentation also reduced the usefulness of the financial statements to managers because the statements no longer provide information at a program level (i.e., by Directorate), which is needed to measure operational and financial performance by organizational component. Additionally, other impacts to the financial reporting process resulting from the revisions to the consolidation process were not adequately anticipated, such as the effects on comparability of disclosures, the cost allocation process, and the consistency and completeness of data extracts used in audit testing.

Although FEMA is not required to present its financial statements by component, financial management systems are required to be able to provide reliable and timely financial information by line of business for use by component level management to carry out their fiduciary responsibilities. The inability to prepare timely and reliable financial information at the component level indicates that FEMA's financial management system does not adequately support system requirements related to the financial reporting process.

◊ The General Accounting Office (GAO) in its report, Disaster Relief Fund: FEMA's Estimates of Funding Requirements Can Be Improved, dated August 2000, addressed an issue regarding the usability of financial information with respect to the estimated costs for past disasters. As reported by GAO, FEMA's Integrated Financial Management Information System (IFMIS) is FEMA's official record of the Disaster Relief Fund's budget, obligation, and expenditure transactions. IFMIS does not, however, have the capability to produce standard reports on obligations by disaster/individual programs, such as the Public Assistance and Hazard Mitigation Grant Programs. Thus, FEMA must use a special process to extract the obligation "to date" data from the IFMIS system for program managers.

Regional users of the data extraction report complained to GAO of large discrepancies with their own records. In order to answer GAO's questions, FEMA had to do extensive research, discovering in the process that there were flaws in the extraction program and that some transactions had not been properly handled during conversion to the IFMIS system. OFM responded to GAO that they were instituting a new extraction process that, in tests, appeared to eliminate most of the discrepancies and that they were in the process of identifying and correcting other reconciling differences. The inability to produce standard, formatted reports defined by management for specific requirements indicates that FEMA's financial management system does not adequately support system requirements related to the financial reporting process.

The observations noted above all indicate that FEMA lacks a financial management system that can routinely provide reliable, timely, and consistent financial information needed to manage operations and to generate timely and reliable financial statements. The problems created by the system deficiencies are compounded by a lack of sufficient staff and inadequate management oversight and review. In addition to necessary improvements to the financial management system, procedures for appropriate and timely account reconciliations and management reviews should be formalized to achieve proper internal control. Also, management needs to ensure better planning and execution of the financial statement preparation process in order for this process to become reliable and timely.

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

◊ *Access Controls.* Certain programmers have access to modify production data within FEMA's core financial application, IFMIS, which is an inappropriate segregation of duties. In addition, we noted that there is no formal process for documenting the authorization and level of access granted to the IFMIS production environment. FEMA has recently developed independent *Development*, *Accept*, and *Production* environments within the IFMIS application. Programmers should create modifications in the *Development* environment, then bring them to the *Accept*

environment for FEMA to test and approve. Approved changes should then be promoted into *Production* only by FEMA personnel. If programmers are permitted access, all such access should be logged and monitored to ensure that only approved changes are made. Also, IFMIS production environment access privileges should be formally documented.

◊ *Application Program Change Controls.* Our review noted deficiencies in the application program change controls relating to the IFMIS application. The weaknesses relates to a lack of an effective application change control process and inadequate application program change tracking procedures. The Office of Financial Management has recently implemented configuration management software that, if properly used, should facilitate the documentation and tracking of the authorization, testing and implementation of IFMIS program changes, prospectively.

◊ *Information Technology (IT) Security Controls.* The FEMA Office of Inspector General, in its report entitled *Audit of FEMA's Entitywide Information System Security Program Planning and Management* (report H-02-01), dated December 19, 2000, identified several recommendations to improve FEMA's entity wide IT security. The report acknowledges that FEMA has taken initiatives to strengthen system security, but indicated that:

- FEMA lacks an entity wide system security program plan that is sufficiently comprehensive;
- The system security management structure is not adequate;
- An entity wide risk assessment has not been performed;
- Application risk assessments have not been completely effective;
- System security program effectiveness is not sufficiently monitored from an entity wide perspective; and,
- Effective system security related personnel policies have not been fully implemented.

These weaknesses places sensitive information, including financial data and emergency management information, at increased risk of inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction. FEMA should address the weaknesses identified to improve its security controls.

Finally, with respect to the internal control related to performance measures reported in the Management Discussion and Analysis accompanying the consolidated financial statements, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 01-02. 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.

We plan to issue our separate report to you, also dated February 16, 2001, on our additional comments on FEMA's internal control.

Compliance

FEMA management 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 No. 01-02, 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.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U. S. 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.

The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin 01-02. We believe these instances of noncompliance described below, in the aggregate, result in significant departures from certain of the requirements of OMB Circulars A – 123, A – 127 and A - 130, and are indicative of substantial noncompliance with the Federal financial management systems requirements under FFMIA.

1. The material weaknesses in internal control over financial reporting discussed above indicate that FEMA's financial management system is not in full compliance with the requirements of OMB Circulars A – 123 and A – 127.

2. We found internal control deficiencies in certain aspects of FEMA's automated Integrated Financial Management Information System (IFMIS), particularly in the areas of access controls and program change controls, and in the effectiveness of the information technology security controls. These deficiencies indicate that FEMA is not in full compliance with the requirements of OMB Circulars A – 123, A – 127, and A - 130.

As stated in the implementation guidance and evaluative criteria issued by OMB, "what FFMIA compliance indicates is that systems routinely provide financial information consistently, accurately, and reported uniformly." We believe that the weaknesses identified in the design and operation of internal controls over financial reporting, particularly with regard to the effectiveness of the control, monitoring and reconciliation processes, indicate that FEMA's financial management systems do not produce reliable, timely, and consistent financial information in support of the preparation of FEMA's consolidated financial statements, or in

support of management oversight. In connection with our FY 1998 and FY 1999 audits, we reported similar deficiencies and concluded that substantial noncompliance with the Federal financial management systems requirements under FFMIA existed. We believe that the deficiencies noted in FY 2000 indicate that FEMA's financial management systems continue to be substantially noncompliant with the requirements of 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 16, 2001

APPENDIX A: OFFICE OF FINANCIAL MANAGEMENT COMMENTS

Federal Emergency Management Agency
Washington, D.C. 20472

FEB 28 2001

MEMORANDUM FOR: Nancy L. Hendricks
Assistant Inspector General for Audit

FROM: Patricia A. English
Acting Chief Financial Officer

SUBJECT: Auditors' Report on FEMA's Fiscal Year 2000 Financial Statements

We have reviewed the Auditor's Report on FEMA's Fiscal Year 2000 Financial Statements. We agree that there are internal control weaknesses over the preparation of the annual financial statements and changes are being made to correct these deficiencies. We were, however, surprised by the number and severity of the weaknesses contained in the audit report since they were not communicated to us at any point during the audit.

While we recognize that the Integrated Financial Management Information System (IFMIS) has its shortcomings, and are diligently working to correct the problems, the problems do not affect the integrity of the financial data. IFMIS generates thousands of financial reports on a daily, weekly, and monthly basis. These reports are used by FEMA officials to manage and monitor their respective programs and budgets throughout the year. We work closely with FEMA management to provide a variety of special purpose reports and financial queries. In addition, we routinely provide financial reports to external users including Congress, the Office of Management and Budget, and the Treasury Department. These reports provide agency management with consistent, reliable, and uniform financial information throughout the fiscal year and must be considered when determining compliance with the Federal Financial Management Improvement Act.

We are committed to improving financial management in FEMA and will work with the Office of Inspector General to correct the conditions disclosed in this report.

APPENDIX B: INFORMATION TECHNOLOGY SERVICES DIRECTORATE COMMENTS

Federal Emergency Management Agency
Washington, D.C. 20472

FEB 28 2001

MEMORANDUM FOR: Nancy L. Hendricks
Assistant Inspector General for Audit

FROM: Dennis R. DeWalt
Acting Executive Associate Director
Information Technology Services Directorate

SUBJECT: Auditors' Report on FEMA's Fiscal Year 2000 Financial Statements

In reviewing the subject report, I note that on page 6 the auditors noted internal control deficiencies in certain aspects of FEMA's automated Integrated Financial Management Information System. Among other items, the report notes the recommendations contained in the Office of Inspector General report entitled *Audit of FEMA's Entitywide Information System Security Program Planning and Management* (Report No. H-02-01), dated December 19, 2000. I recently provided you with a response to this audit and have attached a copy for your reference. I believe the Auditor's report should include or make reference to our response.

Page 6 also contains a discussion of Application Program Change Controls. While these comments are not specifically addressed to the Information Technology Services Directorate (IT), the Configuration Management Branch within IT has been working with the Office of Financial Management to implement and enhance that office's change control process and procedures. We will continue to pursue this project and to provide technical advice and assistance.

Attachment

APPENDIX B: INFORMATION TECHNOLOGY SERVICES DIRECTORATE COMMENTS, CONT'D

Federal Emergency Management Agency
Washington, D.C. 20472

MEMORANDUM FOR: George J. Opfer
Inspector General

FROM: Dennis DeWalt
Deputy Chief Information Officer

SUBJECT: Audit of FEMA's Entitywide Information System Security Program Planning and Management
Report No. H-02-01

In our efforts to reduce risk exposure of our information technology resources, we have carefully reviewed your Audit report, dated December 19, 2000. The Information Technology Services (ITS) Directorate plans to work aggressively to implement the report's recommendations. However, ITS's ability to accomplish this work is dependent on the availability of adequate resources, both staff and funding. ITS has raised this as an FY2002 budget issue. Without the resources requested in FY2002, our ability to implement these projects will be significantly reduced.

This memorandum describes the actions completed and planned that will deal with the recommendations listed in the Audit report. We are committed to doing all that we can to maintain an appropriate level of system security to protect FEMA's information resources. We are in the process of hiring 4 additional full time equivalents (FTE) to work in this area and, as stated above, have submitted an FY 2002 budget issue asking for an additional 6 FTE and $1M in funding. In addition, the Configuration Management Branch will temporarily divert half of its resources to support this area. However, implementation of some areas will not be possible without the additional resources we have requested and other activities will be completed at a much slower pace.

1. Strengthening FEMA's system security plan. We are currently working on revising and restructuring our system security program plan to address the items listed in the Audit. We are drafting an entity wide system security program plan to cover the major elements required by OMB Circular A-130, NIST Special Publication 800-18, and PDD-63. The program plan will include preliminary guidance documents to address all requirements and these guides will be expanded to cover all areas when additional resources are made available, as stated above. When we have the necessary resources, we will develop a comprehensive draft of the system security program plan, which will cover both classified and unclassified systems, and include draft guidelines that System Owners will use to perform the risk assessments, develop contingency plans, and certify their systems. The security certification and accreditation procedures will provide complete guidance as to who should initiate and perform certifications

APPENDIX B: INFORMATION TECHNOLOGY SERVICES DIRECTORATE COMMENTS, CONT'D

and accreditations, how certifications and accreditations should be performed, how often they should be performed, and who will maintain the certification and accreditation documentation. The program plan will be updated regularly, with all FEMA directorates, appropriate security managers, and system users given appropriate and timely access.

2. Establishing a central independent entity wide system security program office. An ITS reorganization occurred in December 2000. As part of that reorganization, we changed our security management structure to elevate the Enterprise Security Manager function to an independent Branch and provide for the independent monitoring of the system security program. Under this new structure, the Management Division, Configuration Management Branch, reporting directly to the Chief Information Officer (CIO), will develop and oversee enforcement of the security policy and monitor the security program. System security implementation will be the responsibility of the Engineering Division, Information Assurance Branch, which will also have direct reporting capability to the CIO. We have requested the resources that are necessary for these offices to effectively fulfill their assigned responsibilities.

   When fully staffed and funded the Configuration Management Branch will:

   - Facilitate risk assessments,
   - Coordinate the development and distribution of system security policies and procedures,
   - Prepare system accreditation packages for the CIO based on certifications prepared by the system owner with Information Assurance Branch assistance,
   - Maintain the system certification and accreditation library and alert system owners when new certifications are required,
   - Routinely monitor compliance with these policies,
   - Prompt system security awareness among systems users, and
   - Provide reports to senior management on policy and control evaluation results.

   We believe this restructuring will provide the independence needed to assure the CIO is knowledgeable of the status of the system security program to make informed risk management decisions.

3. Conducting independent and systematic risk assessments. The system security program plan will include requirements and specific procedures for performing

periodic independent entity wide risk assessments. The entity wide risk assessments will be performed in accordance with an IG approved methodology to ensure the proper depth, breadth, and objectivity. The countermeasures identified as necessary to reduce risk to an acceptable level will be tracked and their implementation monitored as part of the security oversight function performed by the Configuration Management Branch.

4. Better monitoring of the system security program. Under the new management structure, the Configuration Management Branch will be responsible for conducting annual audits of our systems, ensuring audit and assessment findings are corrected, and ensuring that security control measures are implemented and effective. The initial action we are taking to implement our security monitoring is to establish a tracking database to monitor and follow-up on findings and issues from audits, assessments, reviews, etc. Initially, we will follow-up on the weaknesses in the Integrated Financial Management Information System that were identified by the IG's audit reports. Thereafter, due to current staffing levels, we will perform limited follow-up activities on findings and issues from other reviews and audits.

   When additional resources become available, we will complete follow-up activities on all findings from reviews and audits. We will also begin participating in some security measure testing, tracking test failures for follow-up and appropriate resolution, and monitoring employee system security training.

   The process and procedures that will be followed to monitor the system security program's effectiveness and to assess the appropriateness of system security policies and compliance with them will be developed and included in the system security program plan.

5. Implementing better system security related personnel procedures. We will work with the Office of Human Resources Management, OS Directorate, and the Office of Financial Management, to resolve the issues associated with obtaining appropriate background investigations and reinvestigations for employees requiring access to our systems. In addition, we will develop guidance on the types of positions and investigations required for contractors who will require access to our mission critical systems and direct that these requirements be included in their contracts. We will also include in the system security program plan the requirement that all FEMA contractors with access to the agency's systems sign security agreements. We will require the inclusion of this clause in all future contracts. We will revise the in/out processing procedures to ensure we brief new employees on cyber security and have them sign a security agreement, and remove system access for departing employees.

We anticipate that we may need your office's support in some areas to help us meet our program goals and ensure an appropriate resolution to each of the issues addressed in your audit.

MANAGEMENT COMMENTS AND OFFICE OF INSPECTOR GENERAL ANALYSIS

FEMA's Office of Financial Management (OFM) and the Information Technology Service Directorate (ITS) provided comments on a draft of this report. The comments are reproduced in full in Appendix A and Appendix B, respectively.

OFM agreed that internal control weaknesses exist over the preparation of the annual financial statement and stated that changes are being made to correct the deficiencies. OFM said it is committed to improving financial management and will work with the Office of Inspector General to correct the problems. The response also asserted that the deficiencies do not affect the integrity of the financial data, citing both internal and external financial reports that routinely provide consistent, reliable, and uniform information throughout the year, and that this should be considered when determining compliance with Federal Financial Management Improvement Act requirements. Finally, the response indicated surprise at the number and severity of the deficiencies cited in the report and asserted that the deficiencies had not been communicated during the audit.

We believe OFM's commitment to address the deficiencies is positive. However, OFM's assertion that the deficiencies do not affect the reliability of the data indicates that OFM may not yet recognize the significance of the problems. To illustrate, because the auditors concluded that they could not rely on data provided by the system, they utilize costly efforts to audit around the system. We also disagree that the deficiencies had not been communicated during the audit. The deficiencies cited in this report were similar to those cited in previous financial statement audits, and we informed OFM during the audit that the deficiencies still existed.

ITS noted that the audit report cited deficiencies in FEMA's entity-wide security program that had been reported by the Office of Inspector General.[1] ITS requested that its response to the report's recommendations be included. We included the response in Appendix B. ITS also committed to continue working with OFM to implement enhanced change control processes.

[1] Audit of FEMA's Entity-Wide Information System Security Program Planning and Management, (H-02-01).

Federal Emergency Management Agency

Office of Inspector General
Washington, D.C. 20472

March 2, 2001

MEMORANDUM FOR: Joe M. Allbaugh
Director

FROM: George J. Opfer
Inspector General

This memorandum summarizes what I consider to be the most serious management and performance challenges facing FEMA and briefly assesses FEMA's progress in addressing those challenges. I am required to provide this statement to you under the Reports Consolidation Act of 2000. This statement is to be included in the consolidated report that is described by the Act.

Based on our work, as well as our general knowledge of FEMA operations and programs, the Office of Inspector General believes FEMA must continue to focus attention on the following management and program initiatives in its efforts to ensure public accountability and improve program effectiveness. Although FEMA managers acknowledge these issues and are addressing them to varying degrees, much work is left to be done to ensure that business is carried out in an economical and efficient manner and appropriate program results are achieved.

Management Challenges

- **Financial Management.** Although FEMA has made major financial management strides over the past six years, much 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. During our audit of FEMA's fiscal year 2000 financial statements, we identified system deficiencies that resulted in material weaknesses in the internal controls over financial reporting. We concluded that FEMA's financial management system did not substantially comply with requirements identified in the Federal Financial Management Improvement Act of 1996 (FFMIA).

  For example, FEMA's financial management system was unable to support timely preparation of reliable and consistent financial statement information and the presentation of detailed financial statement information by organizational component.

To overcome the system limitations, FEMA employees and contractors had to engage in intensive efforts requiring expensive and time-consuming manual procedures to develop reliable information. FEMA continues to produce its financial statements using software that is not integrated with its core financial system. The non-integrated software requires significant manual data entry, increasing the cost and time required to prepare financial statements and increasing the likelihood of error. The software also does not ensure that various statement line items and footnote disclosures are consistent and it does not identify differences for resolution. As a result, FEMA was not able to adhere to a logical and specific timetable to produce its statements, and draft financial statements contained a significant number of errors, omissions, and inconsistencies. In FY 2000, FEMA also eliminated its presentation of combining financial statements, which presents information by organizational component. This change was implemented in order to reduce the extensive manual efforts required to generate reliable information by organizational component. However, the change in presentation also reduced the usefulness of the financial statements to managers because the statements no longer provide information at a program level (i.e., by Directorate), which is useful to measure operational and financial performance by organizational component.

The primary reason these deficiencies exist is that FEMA has not recognized that the problems are significant. In both our FY 1998 and FY 1999 reports on FEMA's consolidated financial statements, we found similar problems and deficiencies and concluded that the system does not meet FFMIA requirements. However, in response to both reports, FEMA disagreed that the problems were significant. In its FY 1999 Accountability Report, FEMA stated that the system complied with Federal system requirements. We believe it is unlikely that significant improvements can occur until management recognizes that these system deficiencies (1) substantially hinder FEMA's ability to generate reliable, timely, and consistent financial information and (2) result in significant wasted resources to manually generate information that should be readily available. To overcome the problems, FEMA needs to identify the systems deficiencies as a material weakness, fully analyze the nature and extent of the problems, develop a remediation plan, and secure the funding and support needed to implement the plan.

- **Information Technology Management.** FEMA relies heavily on information technology (IT) resources to accomplish its mission and faces several challenges in this area. First, 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. During a recent audit, we found that FEMA had not completely identified all of its critical cyber-based assets; was significantly behind schedule in conducting vulnerability assessments of those assets; and did not have a funding plan that included the full estimated cost to protect these critical assets. Similarly, we recently reported that FEMA's management of the entitywide system security program and planning needed improvement. Specifically, we reported that: (i) FEMA lacked a comprehensive program plan, (ii) the system security management structure was not adequate, (iii) system security program

effectiveness was not sufficiently monitored from an entity-wide perspective, and (iv) certain system security related personnel policies had not been fully implemented. FEMA has responded positively to our recommendations and has committed to address these issues.

Our recent audit of FEMA's fiscal year 2000 financial statements noted repeated concerns regarding access controls and application program change controls over FEMA's automated financial management system. FEMA has taken some action to address these concerns but must complete their implementation of our recommendations. 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. Also, FEMA still 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. Other challenges include moving securely toward electronic commerce, objectively evaluating the performance of systems, and maintaining and operating systems in a rapidly changing IT environment while working with limited resources.

- **GPRA Implementation**. Measuring and reporting on performance, as required by the Government Performance and Results Act, continues to be a critical challenge for FEMA, as for most Federal agencies. FEMA complied with GPRA requirements that call for Annual Performance Plans and Reports. According to its March 2000 Annual Performance Report, FEMA met most of its performance goals. However, our ongoing audit of FEMA's administration of GPRA has identified shortcomings in FEMA's efforts. For example, FEMA managers may not be using the GPRA process as a management tool and the FEMA staff responsible for the execution of GPRA may not be receiving the support and direction they need from top management. We will issue our first report on GPRA implementation this year and begin additional audit work in our ongoing effort to evaluate GPRA compliance. We will also closely monitor FEMA's next GPRA challenge, linking its budget to its Annual Performance Plan. To date, FEMA has made little progress in explaining the relationship between budgetary outlays, performance activities and goals, and program results.

- **Grants Management.** FEMA has made some improvements in its grants management over the past three years. The OIG has conducted numerous audits and the CFO is taking action to solve the problems we identified. There are, however, remaining grant management problems that FEMA needs to address. For example, we have identified a serious problem with the management of Hazard Mitigation Grants. Between 1989 and 1998, FEMA obligated $2.1 billion in mitigation grants. As of November 2000, $1.2 billion (57 percent) remains unspent. It appears that grants are being awarded, but a significant number of the projects are not being completed. We are currently reviewing the impact this is having on FEMA's mitigation goals and objectives. Also, we reported in August 2000 that States were carrying a combined balance of about $19 million in funds that were awarded in prior years to help the States improve their emergency preparedness programs. These

funds should have been spent in the year they were awarded. The large remaining balances are an indication of ineffective financial oversight of this very important grant program. In addition, during the past three years, we completed audits in 17 States covering their management of FEMA disaster grants. There are a number of grant management problems that we see recurring among the States. For example, States often do not monitor and accurately report on subgrant financial and performance activities, States do not always make payments or closeout projects in a timely manner, and State financial status reports to FEMA are often incorrect or untimely. In addition, States do not always maintain adequate documentation supporting their share of disaster costs and other financial requirements. FEMA needs to take the initiative to provide technical assistance to States to help them develop reliable disaster grant management systems. Later this year, we will conduct an audit of FEMA's management of grants over their life cycle.

Program Challenges

- **Disaster Response and Recovery**. Managing the Disaster Response and Recovery Program continues to be one of FEMA's largest challenges. The number of Federally declared disasters continues to increase, making it critical that FEMA reduce disaster response and recovery costs, better manage its disaster workforce, ensure the integrity of its many financial assistance programs, and improve program service delivery. FEMA is also faced with implementing recent changes in the Stafford Act. FEMA has begun initiatives to address all of these problems, however, much remains to be done. One of FEMA's initiatives is to reduce disaster field office (DFO) costs by limiting the number of DFO staff to the minimum necessary based on a pre-determined template. Another, one that FEMA is currently testing, is to turn over management of small disasters to States. Florida managed FEMA's Public Assistance Grant program for a small disaster in October 2000. That effort appears to have been successful, although we have not yet evaluated the results.

  In an effort to improve the efficiency and effectiveness of disaster recovery operations, FEMA has redesigned its largest recovery program, Public Assistance Grants (PA). The redesign included new policy guidance to clarify program requirements, improved customer service through training and enhanced State involvement, simplified processes, and performance targets. We are auditing the redesigned PA program to determine if the objectives are being met. We have identified some problems with the redesign and will report on the results of our audit later this year.

  Another area where FEMA has made improvements, but problems remain, is debris removal. FEMA needs to continue improving its controls over the Debris Removal Program to prevent serious fraud, waste, and abuse. If left unchecked, the abuse within that program will detract from or overshadow the many improvements FEMA has made in its disaster response and recovery programs. Over the last 18 months, FEMA has focused on improving the management of debris removal activities by emphasizing disaster management oversight and improving its policies, procedures,

and training. We are reviewing FEMA's efforts to improve the program and will report on their effectiveness.

- **National Security Support Program.** FEMA was recently 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 establishes a management control structure for the Federal response to terrorist acts. It designates FEMA as the lead Federal agency for consequence management in domestic terrorist events. The Stafford Act empowers FEMA to direct other agencies to perform consequence management missions in support of State and local governments. In May 1999, GAO reported (GAO/NSIAD-99-135) that domestic consequence management exercises were not well developed. In more recent GAO reports and testimonies, GAO reported that terrorism-preparedness training programs are sometimes duplicative and not well coordinated among the various Federal agencies with terrorism-preparedness responsibilities. FEMA designated a Special Assistant for Terrorism Preparedness in early calendar year 2000. Since that time, FEMA has developed a strategic plan for terrorism-preparedness activities and has delineated responsibilities for terrorism-preparedness planning, training, and exercises. The OIG is monitoring FEMA's role in terrorism-related preparedness and consequence management.

- **State and Local Preparedness Program.** FEMA has made considerable progress in streamlining and making the preparedness grant process more meaningful. Despite the progress, two major management challenges remain: (1) developing a reliable method of assessing State and local capability, and (2) developing a reliable basis to implement risk-based funding allocations to States.

  In February 1998, FEMA submitted its first report to Congress on "Capability Assessment for Readiness." This effort is a step in the right direction, but more needs to be done. Local governments and other applicable State agencies need to be brought into the process. Currently, there are plans to query local governments. An initial Local CAR draft is being reviewed by State Emergency Management Agencies, local governments, and various Emergency Management Associations. The process also needs to identify State disaster assistance programs, determine how large a disaster a State/local government can handle with its own resources, and measure a State's financial capability to respond and recover from disasters without Federal assistance. While CAR was never initially intended to provide a basis to assess States' financial capabilities, we continue to believe that financial capability is critical to States' ability to respond to disasters. We further believe that since the development of CAR will continue to be a dynamic process, FEMA needs to explore how financial capability can be assessed.

  To date, FEMA has not developed a basis to implement risk-based funding to States. We recommended such a basis for funding in our first report issued on the

Comprehensive Cooperative Agreement process in March 1994. FEMA, however, is working on a risk assessment initiative. This initiative is called HAZUS (Hazards-US). HAZUS is designed to produce loss estimates for use by State, regional, and local governments in planning for natural hazard loss mitigation, emergency preparedness, and response and recovery. Currently, HAZUS has been developed for earthquakes and FEMA is working on expanding it into a multi-hazard methodology with models estimating potential losses from wind, floods, and tornadoes. HAZUS could provide the basis for developing a risk-based funding methodology. We believe FEMA needs to explore the potential of HAZUS in funding allocations to States.

- **Flood Insurance Program.** The National Flood Insurance Program (NFIP) presents a formidable management challenge for FEMA. On the basis of our audit work, we believe there are three key parts to the NFIP if it is to function effectively – insurance, mitigation, and compliance. In order for this program to effectively accomplish its objectives, each part must complement each other. For example, Increased Cost of Compliance terms in flood insurance policies can further mitigation objectives by providing additional funds for mitigation such as elevation. Additionally, compliance with the substantial damage rule would further mitigation objectives. In September 1999, the OIG issued a report that demonstrated weaknesses in communities' enforcement of the rule. FEMA needs to focus on how each of these parts can be coordinated to bring synergy to the NFIP. While FEMA is actively working on addressing the following difficult challenges, they will continue into the future:

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

  - ✓ How effectively is FIA monitoring the enforcement of mandatory flood insurance purchase requirements for homeowners?

  - ✓ Does the Mitigation Directorate (MT) effectively oversee the Community Rating System to ascertain whether discounts given on flood insurance are warranted based on conditions and actions taken by a community?

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

  - ✓ How can FIA increase insurance rates for homeowners identified by MT or through claim data who have sustained substantial damage and have not taken mitigation action?

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

- ✓ 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 the progress and results of efforts to improve the NFIP.

- **Mitigation Program.** 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. Project Impact offers the potential to make mitigation a sustained effort, but its success is dependent on the non-federal resources. In March 1999, the OIG issued a report that addressed the overstatement of non-federal contributions being reported by FEMA. The long-term success of Project Impact depends on FEMA's ability to continue public education as well as to ensure that these contributions are focused on mitigation priorities.

  Another major challenge is to ensure that Hazard Mitigation Grant Program (HMGP) funds are effectively spent and address mitigation priorities. A major component of the HMGP are buyouts. It is important that FEMA have regulations and guidance as to how the buyout program is implemented. In June 1999, the OIG issued an interim report to Senator Bond that highlighted significant problems with the manner that FEMA implemented the special Hurricane Floyd buyout program. The OIG recently issued a final report that also addresses issues relating to the HMGP. These are: (1) the need for reliable cost effectiveness determinations, (2) the need for additional guidance for buyouts, (3) improved mitigation planning by States, and (4) improved coordination with the NFIP. We also recommended that FEMA explore the idea of a National competitively based mitigation program. Given the significant role buyouts have within the HMGP, it is critical that FEMA ensure that they are effectively executed and address mitigation priorities.

  Finally, FEMA needs to ensure that the modernization of Flood Insurance Rate Maps continues to move ahead in a timely and effective manner. To date, FEMA has not made significant progress in implementing its Map Modernization Plan, primarily because of the lack of adequate funding. FEMA has estimated that the modernization program will cost approximately $750 million. In September 2000, the OIG issued a report that concluded FEMA's estimate is unreliable because of the difficulty of predicting several of the key components of cost as well as a high risk that some of the assumptions that underpin the estimate may be wrong. The OIG plans to continue to examine FEMA's initiative to modernize maps and the next phase will focus on the costs associated with technical contractor support for mapping.

Status of Management and Program Challenges Identified in Previous Years

In earlier statements on what we considered to be the most serious management challenges facing FEMA, we reported that implementation of management reforms at the United States Fire Administration, as recommended by a Blue Ribbon Panel, was extremely important. Although all reforms recommended have not been completed, FEMA has made considerable progress in addressing the Panel's recommendations. In

September 2000, a reorganization of the Administration was proposed that takes into account the Panel's recommendations of redefining working relationships in terms of empowerment, delegation of authority, and accountability. Accordingly, we no longer consider this to be one of FEMA's most significant management challenges.