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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.

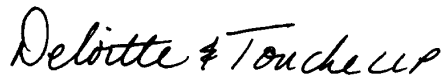
Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The required supplementary information on pages 95 - 97 is not a required part of the consolidated financial statements but is supplementary information required by the OMB Bulletin 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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To the Director and the Inspector General
of the Federal Emergency Management Agency
February 16, 2001
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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.

A handwritten signature in cursive script that reads "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

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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

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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*
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.

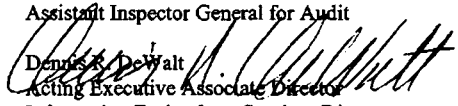
APPENDIX B: INFORMATION TECHNOLOGY SERVICES DIRECTORATE COMMENTS



Federal Emergency Management Agency
Washington, D.C. 20472

FEB 28 2001

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

FROM: 
Dennis A. 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

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

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).