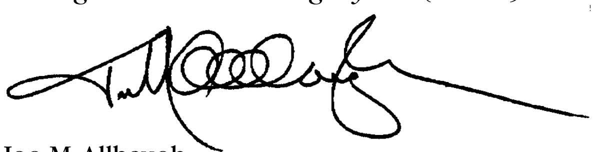
FINANCIAL MANAGEMENT PERFORMANCE

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.

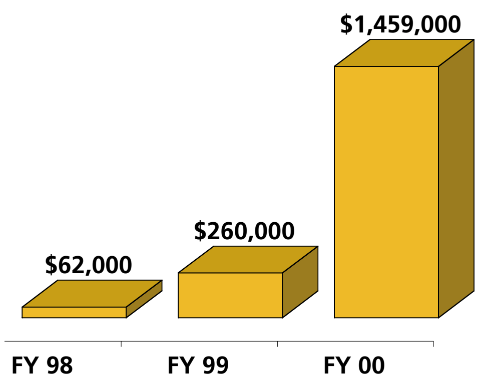
DEBT COLLECTION IMPROVEMENT ACT (DCIA) OF 1996

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

Collections—FMS Cross-Servicing Program

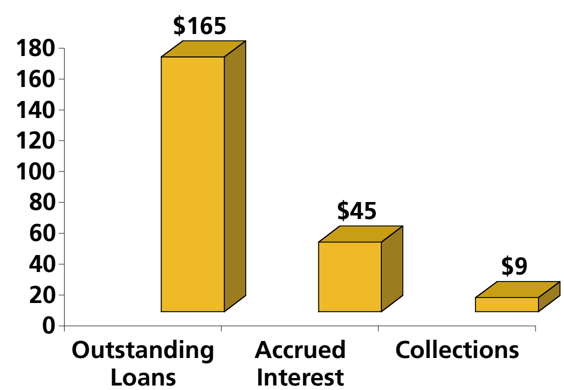


Servicing Program. The remaining 20% of eligible debt will be transferred to FMS during FY 2001. We also transferred 34 debts totaling $282,000 to the Department of Justice for legal remedies during the year.

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

Direct Loan Program (In Millions)



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.

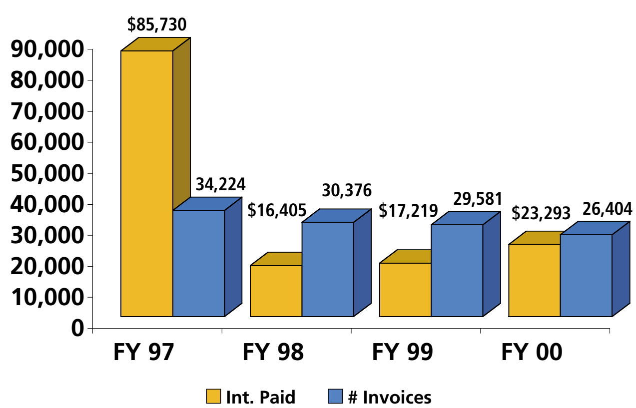
PAYMENT PERFORMANCE

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.

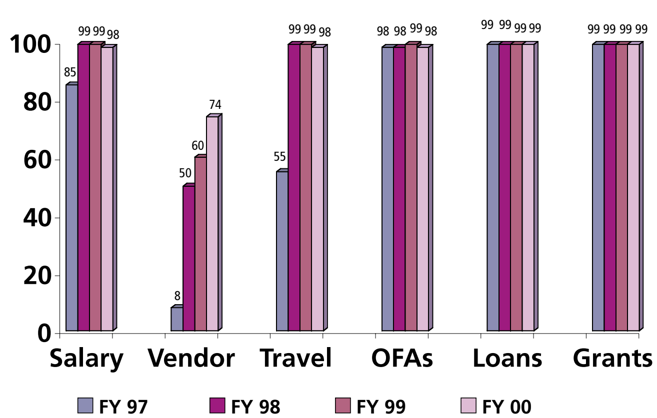
As of September 30, 2000, FEMA paid late payment interest penalties totaling $23,293 on invoices processed for payment. Late payment interest penalties from prior years are: $85,730 in FY 1997, $16,405 in FY 1998, and $17,219 in FY 1999. FM processed a total of 26,404 invoices in FY 2000, 34,224, 30,376,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