Federal Emergency Management Agency

Office of Inspector General
Washington, D.C. 20472

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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.