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Executive Summary

This is the 23rd semiannual report issued by the Office of Inspector General (OIG), Federal Emergency Management Agency (FEMA), since becoming a statutory Inspector General office in April 1989. It is issued pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452), as amended, and covers the period from April 1, 2000, through September 30, 2000. All activities and results reported fall within the reporting period unless otherwise noted.

During this reporting period, we performed several reviews that addressed issues identified in the list of 10 areas the OIG considered to be the most serious management challenges facing FEMA. We reviewed FEMA's cost estimate for implementing the Flood Map Modernization Plan. We also evaluated the implementation of the hazard mitigation grant program for structures damaged by Hurricane Floyd. In addition, we reviewed four States' disaster grants management processes and financial reporting to FEMA. We devoted significant resources to reviewing disaster costs and grant recipients' compliance with applicable laws and regulations. We investigated numerous allegations of fraud and abuse by disaster recipients. We continued to support Agency managers to improve the overall operations of the Agency through participation on task forces and working groups.

Our audits, inspections, and investigations were instrumental in FEMA management deobligating and recovering $39.7 million, and in making agreements to recover and deobligate an additional $2.9 million. During this reporting period, we questioned an additional $8.1 million and identified $144.9 million of funds that could be put to better use. We issued 58 audit and inspection reports; processed an additional 22 reports issued by non-FEMA auditors; closed 61 investigations; arrested and/or indicted 63 individuals/companies; convicted 22 individuals and closed 885 hotline complaints.

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Federal Emergency Management Agency

FEMA is the Federal agency charged with building and supporting the Nation's emergency management system. It works in partnership with groups such as State and local emergency management agencies, fire departments, other Federal agencies, the American Red Cross and other volunteer organizations. FEMA is authorized 2,547 full-time employees, who assist individuals, families, communities, and States throughout the disaster cycle. They help to plan for disasters, develop mitigation programs, and meet human and infrastructure needs when major disasters occur. They work at FEMA headquarters in Washington, D.C.; 10 regional offices and facilities around the country and in the Caribbean and Pacific; FEMA's National Emergency Training Center in Emmitsburg, Maryland; National Teleregistration and Processing Centers in Hyattsville, Maryland and Denton, Texas; and Mt. Weather Emergency Assistance Center in Berryville, Virginia. FEMA also maintains a cadre of temporary disaster employees ready to help when disasters occur.

The U.S. Fire Administration and the Federal Insurance Administration (FIA) also are under FEMA's jurisdiction. The Fire Administration supports the Nation's fire services and emergency medical services communities with training, public education, and research in fire protection technologies and emergency response procedures. The FIA makes flood insurance available to residents and businesses in communities that agree to enforce floodplain management practices. More than 19,000 communities participate in the National Flood Insurance Program (NFIP), which has more than 4.2 million home and business policies in effect.

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Office of Inspector General

Congress enacted the Inspector General Act in 1978 to ensure integrity and efficiency in Government. A 1988 amendment to the Act (Public Law 100-504) created the position of Inspector General in FEMA, subject to presidential appointment and senatorial confirmation. Before April 16, 1989, when the law became effective, the OIG was established administratively and the Director of FEMA appointed the Inspector General.

The statute conferred new authorities and responsibilities on the OIG, including the power to issue subpoenas; responsibility for various reports, such as this semiannual report; and authority to review relevant proposed laws and regulations to determine their potential impact on FEMA programs and operations. The law also mandates that the OIG audit and investigate FEMA programs.

Our office has four divisions —Audit, Inspections, Investigations, and Management Services — and was authorized 80 full-time equivalent positions during this semiannual period. We also engage disaster employees on temporary appointments to audit or investigate disaster-related activities.

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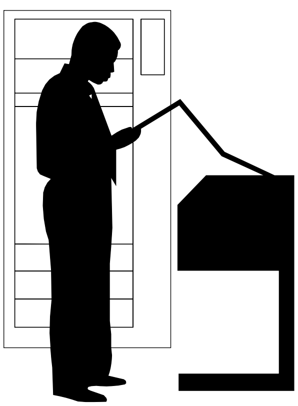
Summary of Significant OIG Activity

We completed several reviews that addressed issues identified in our Fiscal Year 2000 Annual Performance Plan. Particular emphasis was placed on issues identified as the 10 most serious management challenges facing FEMA. Those challenges included: (1) containing disaster costs; (2) clarifying disaster declaration criteria; (3) sustaining the national mitigation program; (4) assessing State and local preparedness; (5) enhancing the National Flood Insurance Program's financial soundness and equity; (6) updating flood maps; (7) developing reliable procedures for complying with the Government Performance and Results Act of 1993; (8) enhancing financial management operations; (9) developing a viable grants management program, and (10) implementing and maintaining information management systems.



We issued 9 internal management reports on FEMA operations. We also issued 49 external reports on Federal fund recipients and processed an additional 22 reports performed by non-FEMA auditors. These reports questioned $8.1 million in costs and identified an additional $144.9 million in funds that could be put to more effective use.

We dedicated significant resources to reviewing State management of disaster operations, evaluating FEMA's cost estimate for remapping initiatives, analyzing the new small project estimating process, and reviewing the hazard mitigation grant program for structures damaged by Hurricane Floyd. Particular emphasis was also placed on evaluating the Agency's integrated financial management information system.

The following are summaries of some significant audits, inspections, and investigations completed by the OIG during the reporting period relating to the administration of FEMA's programs and operations.

RESPONSE AND RECOVERY

State Management of the Disaster Assistance Program

When providing disaster assistance grants, FEMA usually awards a single grant to the State where the disaster occurred. The State office that handles emergencies is the grant recipient. The State emergency office subgrants the disaster assistance funds to other State agencies, local governments, and private-non-profit organizations. It also performs the programmatic duties of awarding, disbursing, and monitoring the disaster assistance funds. We audited the grant management practices of four States. The objectives of the audits were to determine whether the States administered the Disaster Assistance Grant programs according to Federal regulations and whether they properly accounted for and used FEMA program funds. Three of the major Federal disaster assistance programs are Public Assistance (PA), Individual and Family Grants (IFG), and Hazard Mitigation (HM).

Maryland

Our audit of the Maryland Emergency Management Office included four disasters declared from 1989 to 1996, totaling $14.1 million. We concluded that Maryland could improve certain program and financial management controls over its administration of FEMA disaster assistance funds. Specifically, Maryland did not (1) submit accurate financial reports to FEMA, (2) properly utilize its accounting system to record FEMA grant activities, (3) properly monitor subgrantee activities, (4) properly close out complete IFG and PA programs, (5) make timely payments to subgrantees, (6) maintain adequate support for cost claimed in the IFG program and State Management Grant, and (7) annually update the administrative plan for the PA and IFG programs. Further, we found that the HM program plan did not contain all required elements. We recommended that FEMA disallow $126,000 of questioned costs and require Maryland to establish certain policies and procedures to strengthen its program and financial controls over the administration of disaster assistance funds.

Mississippi

Our audit of the Mississippi Emergency Management Office included 11 disasters and 1 emergency declaration during the period 1990 to 1998, totaling $200 million. Our review found that Mississippi needed to improve its program and financial controls over the administration of FEMA disaster assistance funds. Specifically, Mississippi did not (1) obtain progress or financial status reports from subgrantees, (2) monitor subgrantees' progress toward project completion in a timely manner, (3) submit quarterly progress reports to FEMA, (4) complete its administrative plan for PA and IFG programs in a timely manner, (5) make timely payments to subgrantees for PA small projects and for State matching contributions, and (6) have adequate controls in place to prevent excessive payments to IFG recipients. We recommended that FEMA disallow $28,000 of questioned costs and require Mississippi to establish policies and procedures to strengthen its program and financial management controls of disaster assistance funds.

Nebraska

Our audit of the Nebraska Emergency Management Agency included 7 disasters during the period 1992 to 1999, totaling $116.5 million. Our review found that Nebraska needed to improve its program and financial management over the administration of FEMA disaster assistance funding. Specifically, the State (1) had administrative plans that contained language referring to outdated legislation, were not submitted annually as required, and were not complete, (2) had PA and HM project files that were not always completed timely and did not contain all necessary information to ensure compliance with regulations or to evaluate performance, (3) administrative procedures, including subgrantee monitoring, under the PA and HM grant programs needed improvement, (4) made incorrect calculations and payment of administrative allowances to subgrantees, (5) made reimbursement to a subgrantee for unallowable costs, and (6) did not correct differences in the quarterly financial reports to FEMA. We recommended that FEMA obtain additional information and provide additional comments on $4,689 in questioned costs and require the State to establish certain policies and procedure to strengthen its program and financial management controls over the administration of disaster assistance funding.

Washington

Our audit of the Washington State Emergency Management Office included 11 disasters during the period 1990 to 1998, totaling $198.4 million. Our review found that Washington needed to improve its program management over the administration of FEMA disaster assistance funding. Specifically, the State (1) did not follow regulations when requesting mission assignment funding, (2) did not timely closeout Individual and Family Grant (IFG) programs, (3) did not recoup and return invalid IFG payments to FEMA, (4) IFG internal control procedures did not provide for separation of duties, and (5) did not have adequate staff to manage the Public Assistance or the IFG program. Region X addressed these issues and took corrective action prior to the issuance of the Audit Report.

Los Angeles City Police Department, California

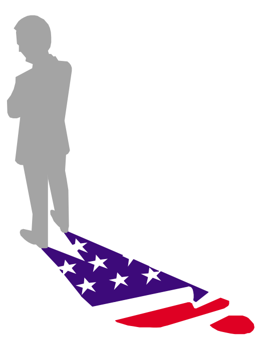
The California Office of Emergency Services awarded $41.8 million to the Los Angeles City Police Department to cover a variety of law enforcement activities during the civil unrest that started in April 1992. The Department claimed $41.8 million. The claim included $3,717,193 in questionable costs (Federal Share [FS] $2,787,895) resulting from unrelated force account labor with benefits and unsupported costs. We recommended that FEMA disallow the questionable costs.

Public Utility District Number 1 Washington State

The Washington Military Department, Emergency Management Division, awarded $5.1 million to Public Utility District Number 1 to restore electric power and repair the distribution system as a result of severe storm, high winds, and flooding in November and December 1995. The Public Utility District claimed $5 million. The claim included questionable costs of $594,098 and credits due FEMA of $28, 994, for a total of $623,092 (FS $467,319). The questioned costs resulted from overstated fringe benefits on overtime, ineligible labor costs, and overstated equipment hours. Not offsetting its claim for credits for joint ownership of transmission-poles and not reducing its claim for credits for scrap materials resulted in monies due FEMA. We recommended that FEMA disallow the questionable costs and offset the claim for the credits due.

Review of Billing and Payment Practices Under U.S. Army Corps of Engineers

FEMA obligated $425.9 million to the U.S. Army Corps of Engineers (Corps) for 28 mission assignments that provided for ice, water, emergency power, debris removal, and temporary roofing as a result of Hurricane Georges in September 1998. The Corps billed FEMA $281.7 million under the mission assignments. In a joint effort with the Corps, we reviewed the billings to determine whether they complied with FEMA's established policies and procedures for mission assignments. We found that the billings included $436,233 of improper labor and overhead charges, and that only a small portion of the remaining $144 million of obligated funds were needed to complete the mission assignments. We recommended that the Corps refund or credit the appropriate mission assignments for the improper charges, and that FEMA, in coordination with the Corps, determine the amount of funds needed to complete the assignments and deobligate the difference.



Metropolitan Government of Nashville-Davidson County, Tennessee

FEMA awarded $15.9 million to the Metropolitan Government of Nashville-Davidson County, Tennessee, for debris removal, emergency protective measures, and road repairs as a result of an April 1998 tornado. The County claimed $15.2 million. The claim included questioned costs of $519,976 (FS $389,982) resulting from excessive equipment and contract charges, unsupported costs, unauthorized activities, and duplicate charges. We recommended that FEMA disallow the questioned costs.

City of Oxnard, California

The California Office of Emergency Services awarded $1.7 million to the City of Oxnard to assist in the recovery from severe rainstorms, wind, flooding, and mudslides in February 1992. The City claimed $1.7 million. The claim included $376,550 in questionable costs (FS $282,413) resulting from non-disaster related costs, unsupported project costs, and amounts covered by FEMA's administrative allowance. We recommended that FEMA disallow the questionable costs.

City of Malibu, California

The California Office of Emergency Services awarded $10.4 million to the City of Malibu for debris removal, emergency protective measures, and repair of roads damaged by wildland fires, soil erosion, landslides, flooding, and mudslides from October 1993 to April 1994. The City claimed $11.8 million. The claim included $328,347 in questionable costs (FS $246,260) resulting from unsupported costs and unrelated project charges. We recommended that FEMA disallow the questionable costs.

City of Virginia Beach, Virginia

FEMA awarded the City of Virginia Beach, Virginia, $6.4 million for debris removal, emergency protective measures, and repair and restoration of facilities damaged as a result of Hurricane Bonnie in August 1998. The City claimed $6.2 million. The claim included questioned costs of $247,783 (FS $185,837) resulting from activities that were unrelated to the FEMA projects and charges that were unsupported and excessive. We recommended that FEMA disallow the questioned costs.

New Estimating Procedures for Small Projects Public Assistance Grants

We audited the impact of FEMA's new cost estimating procedures for small projects public assistance grants. Our objective was to determine whether the new procedures ensure accurate cost estimates and whether recipients were receiving excess funds as a result of inflated estimates. Based on a statistical sample of small project grants, we concluded that FEMA's new estimating procedures provided for reasonably accurate projections of actual costs. More projects in our sample were underestimated than overestimated; however, FEMA policy allows underestimated projects to be supplemented up to actual costs in some cases. If FEMA paid actual costs for all underestimated projects, recipients may have received excess funds of about 4.9 percent over their actual costs in total. Taken as a whole, we believe that small project estimates are relatively accurate, and overpayments to recipients were minimal.

Individual and Family Assistance Fraud

Multiple investigations continue of individual applicants who applied for Mortgage Rental Assistance (MRA) after freezing temperatures caused extensive damage to the citrus crops in the Central Valley of California. The freeze caused a disruption of employment for farm industry laborers. To date, three people have been convicted in Federal court for making false representations on their FEMA MRA applications claiming they were unable to make their lease/mortgage payments as a result of loosing employment in the aftermath of the freeze. Several additional indictments are imminent.

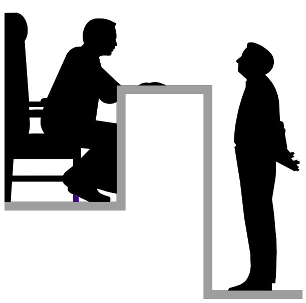
Public Assistance Fraud

A former cabinet member of the Virgin Islands government was convicted in a jury trial of two counts of filing false claims

(18 U.S Code 287) for disaster related expenses. The official hired a contractor without competitive bids to repair the roofs of two different buildings that had been damaged as a result of Hurricane Marilyn. The contractor did repair-work to neither roof, but submitted invoices totaling over $130,000 that the cabinet member certified and approved. The contractor was sentenced to 21 months in prison, 36 months supervised probation, fined $40,000, and ordered to make immediate restitution of $113,000. The former official was sentenced to 30 months in prison, 36 months supervised probation, fined $50,000, and ordered to make immediate restitution of $80,000.

Contractor Fraud

A contracting company pleaded guilty to one count of conspiracy (18 U.S. Code 371) to defraud FEMA. Specifically, the contractor was submitting, through his



company, fraudulent claims to a FEMA subgrantee for work following Hurricane Andrew. The fraudulent claims contained false time sheet entries for fictitious employees, false entries for equipment not used as reported and false time sheet entries verifying inflated work hours of employees. The Federal District Court ordered the company to pay FEMA $40,000 in restitution and assessed a $400 fine.

Debris Removal Fraud

A local county commissioner caused false claims to be filed for disaster recovery operations in a North Georgia county. The claims filed for certain debris removal projects showed equipment rental costs for several pieces of equipment. Because the costs appeared excessive, an investigation was conducted revealing that these were not rental costs, but rather purchase agreements with vendors. The case was ultimately resolved through an administrative resolution where FEMA recovered $100,000 in disaster funds that were applicable to the equipment rental costs overcharges.

MITIGATION

Implementation of the Hazard Mitigation Grant Program for Structures Damaged by Hurricane Floyd

At the request of the Senate Subcommittee on VA, HUD and Independent Agencies, Committee on Appropriations, we conducted a review of the actions taken by FEMA for buyouts authorized by the supplemental appropriation of $215 million dollars as a result of Hurricane Floyd. We focused on the process used to identify buyout structures, the method used to estimate the total cost of the buyout, consideration of insurance and other sources of disaster assistance, the process developed for allocating appropriated funds, and whether decisions made to buyout structures were supported by benefit-cost analyses. In June 2000, we presented a report to the Subcommittee of our findings and proposed recommendations.

The process used in identifying structures eligible for buyout was not defined, causing States to submit structures outside the scope of the appropriation eligibility criteria. We recommended that FEMA perform additional verification of structures to validate eligibility under the criteria specified in the appropriation language.

Cost estimates used for structures in the buyout included "additional" costs for demolition, debris and slab removal, "soft" administrative, dumping, asbestos analysis and abatement costs, and inflated estimates of Fair Market Value (FMV) for structures. We recommended that FEMA instruct States and local communities to follow HMGP guidance to determine FMV and that FEMA conduct physical examination of structures, on a sample basis, to verify the reliability of FMV determinations made by local communities.

Insurance proceeds, Small Business Administration (SBA) loans, and other sources of disaster assistance, which may duplicate buyout costs, were not considered in determining funding requirements. We recommended that FEMA follow-up on households that have received insurance, SBA home repair loans, and other forms of disaster assistance to determine whether they continue to be viable candidates for buyout.

According to the supplemental appropriation, no funds shall be allocated for buyout except according to regulations promulgated by the Director. FEMA did not promulgate regulations or guidance in a timely manner, causing confusion over eligibility. The process used to allocate interim funding to States was based on inaccurate State estimates of eligible structures for buyout and lead to an inequitable interim distribution of funds. We recommended that FEMA finalize regulations and guidance as stipulated by the language of the appropriation and carefully proceed with any subsequent and/or final allocation of funds to ensure the process is equitable and that eligibility requirements have been satisfied.

FEMA justified cost effectiveness for the buyouts in Hurricane Floyd affected States on the basis that structures are substantially damaged. Historically, FEMA has exempted substantially damaged structures from benefit-cost analysis. We recommended that FEMA develop a basis that will realistically define a project for aggregate benefit-cost analysis for structures substantially damaged in Hurricane Floyd. We also recommended that FEMA issue guidance for benefit-cost analysis for future buyouts under the Hazard Mitigation Grant Program. Such guidance should specifically address how structures should be aggregated for purpose of the analysis and a rational for prioritizing projects to be funded.

FEMA's Cost Estimate to Implement the Flood Map Modernization Plan

FEMA's seven-year Map Modernization Plan is estimated to cost $750 million. We determined whether FEMA's cost estimate (1) was based on reasonable mapping requirements, (2) included reasonable assumptions and accurate estimates and calculations, and (3) incorporated lower cost alternatives and cost-saving technologies, where feasible. However, the cost estimate is unreliable because some factors affecting costs are extremely difficult to predict, and there is a high risk that some of the assumptions on which the estimate was based may be wrong.

Although FEMA took into account some of the new cost-saving partnerships and technologies when preparing the estimate, it did not, in some instances, verify data, use reliable data, or establish a sound basis for some assumptions. Specifically, the cost estimate includes the cost of community-identified mapping needs that were not verified by FEMA and that may not be cost-beneficial to resolve. FEMA assumed that only half the identified flooding sources on a map would be updated, while an alternative assumption prepared by FEMA but not used in the estimate indicated that all flooding sources should be updated, which would double the cost. FEMA used outdated costs and allowed requirements and costs to be defined by an outside contractor rather than by FEMA accounting records. Additionally, FEMA did not fully factor in savings that could be realized from technology.

We recommended that FEMA: (1) update the plan's cost estimate using FEMA's historical cost data, and validate and determine the cost benefit of mapping community-identified needs; (2) for planning purposes, develop and present estimated costs as a range where there is a high degree of uncertainty, and explain the uncertainty and its impact on the overall cost estimate; (3) work with FEMA's Chief Financial Officer to ensure that FEMA's accounting system captures detailed cost data and use the data to prepare future cost estimates; (4) expedite the incorporation of automated hydrology and hydraulic modeling techniques and laser imagery systems into the mapping process, where feasible; and (5) include in the plan the cost impact of partnerships, new mapping techniques, and technological advancements.

FEDERAL INSURANCE ADMINISTRATION

National Flood Insurance Program (NFIP)

In response to several successfully prosecuted NFIP investigations, we recently undertook an initiative in selected flood-prone geographic areas throughout the country to explore possible vulnerabilities in the NFIP. Our goal is to identify residential and commercial policyholders that have incurred multiple losses within the past 5 years and determine if their subsequent claims were valid, or whether they were submitting claims for the same loss caused in prior flood events. We will also identify claimants with multiple losses who used the same adjuster. We will then determine if the adjuster inflated or misrepresented the damages so as to personally benefit financially. Finally, we will review the possibility that in addition to accepting assistance form the NFIP the insured received duplication of benefits by filing a claim with their homeowner's insurance policy.

Opportunities to Enhance Compliance With Homeowner Flood Insurance Purchase Requirements

We recently conducted an inspection to (1) obtain insights into the level of homeowner compliance with flood insurance purchase requirements, (2) identify measures that FIA can take to enhance compliance, and (3) determine whether disaster recipients, who were covered by a GFIP, purchased and maintained a standard flood insurance policy after the group policy expired.

Using a judgmental sample of 4,195 structures, we found 416, or 10 percent, were not covered by flood insurance even though they met the requirements for mandatory purchase. While 30 percent of structures in our sample were not covered, there were no purchase requirements for 20 percent due to Letter of Map Amendments (LOMA) and Letter of Map Revisions (LOMR), unregulated lenders, or no mortgage. We acknowledged that our sample was not representative of potential non-compliance and data available from FIA suggests that the rate of non-compliance could be as high as 38 percent overall. We encouraged FIA to determine whether flooding has occurred in areas or properties where LOMAs and LOMRs have been granted and, if so, consider requiring flood insurance in those areas. Also, we encouraged FIA to explore the feasibility of legislative changes that would address unregulated lenders as well as the requirement for a mortgage before flood insurance is required.

We identified several opportunities for FIA to enhance its ability to identify non-compliance. We recommended that FIA: (1) explore the feasibility of conducting compliance studies in post-disaster environments, (2) determine the extent to which lending institutions are using flood determination companies and the number of institutions that use life-of-loan with transferability services to assess whether follow-up of remapped structures is a problem and, if a problem exists, identify remapped structures in a Special Flood Hazard Area, identify the lending institutions and contact the appropriate regulatory agency, and follow-up to determine whether a flood insurance policy was purchased, (3) require that lender identification numbers be placed on all flood insurance policies and develop a process that routinely identifies cancelled policies, facilitates follow-up by regulatory agency with lending institutions, and provides for routine reporting of results of follow-up reviews, and (4) initiate a dialog with representatives of the flood zone determination industry to provide impetus for developing and adopting standards and establish a process that will provide for periodic quality control reviews of flood zone determinations.

We also reported that, of 495 households covered under two recently expired Group Flood Insurance Policies (GFIP), only 38 or 8 percent maintained the insurance. We recommended that FIA, in concert with the Response and Recovery Directorate, assess the impact that GFIPs have on the reduction of disaster costs, including those that were not renewed.

FINANCIAL MANAGEMENT

Management Letter on Fiscal Year 1999 Financial Statements

and Compliance with the Federal Financial Management Improvement Act of 1996

In June 2000, we issued a management letter that described material weaknesses in internal controls over FEMA's financial reporting, as well as instances of non-compliance with certain provisions of laws and regulations. The management letter was issued in conjunction with the Auditors Report on FEMA's Fiscal Year 1999 Financial Statements. The annual audit of FEMA's financial statements is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994. In addition, the Federal Financial Management Improvement Act of 1996 (FFMIA) requires us to report annually whether FEMA's financial management systems comply with federal system requirements. The management letter identified several instances of substantial non-compliance with federal financial management system requirements and concluded that FEMA's financial management system did not substantially comply with the requirements identified in the FFMIA.

FEMA did not have a fully integrated financial management system that met the requirements of Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems." The letter identified deficiencies related to internal control over the preparation, analysis, and monitoring of financial information that support the efficient and effective preparation of agency-wide financial statements. Specifically, FEMA (1) did not perform timely cash reconciliations on all "Fund Balance with Treasury" accounts throughout Fiscal Year 1999, (2) had difficulty producing timely reports that allowed sufficient time for the performance of audit procedures, and (3) did not have a routine and controlled process for producing complete interim financial statements. Further, because the software used to produce the financial statements is not integrated with FEMA's accounting system and requires significant data entry, significant effort was required to correct errors and omissions in the year-end financial statements.

We also identified other deficiencies in FEMA's automated Integrated Financial Management Information System (IFMIS), particularly in the areas of access controls and program change controls. These deficiencies indicated that computer-based controls did not contribute to the reliability of the accounting systems, taken as a whole. Specifically, FEMA:

(1) lacked an adequate tracking mechanism to record changes to the database;

(2) lacked an adequate authorization process for approving moves from the testing to the production environment;

(3) had not finalized its draft information security policy for IFMIS;

(4) had not completed its plan for establishing roles and responsibilities for the IFMIS development contractors, and

(5) had not completed its plan for establishing FEMA's in-house capabilities to ensure appropriate approval, reporting and documentation of system modifications.

Based on these deficiencies, we concluded that FEMA continued to lack a fully implemented and documented system of management controls that meet the requirements of OMB Circular A-123, "Management Accountability and Control."

The deficiencies cited above represent significant departures from certain requirements of OMB Circulars A-127 and A-123 and, therefore, represent substantial noncompliance with federal financial management system requirements. As a result, FEMA's financial management system did not substantially comply with the requirements of the FFMIA.

Actions that FEMA needs to take to comply with FFMIA include: (1) implementing procedures to ensure the timely preparation and review of "Fund Balance with Treasury" account reconciliations and the timely resolution of differences; (2) improving controls over the financial statement preparation process to ensure timeliness; (3) developing a routine and controlled process for producing complete interim financial statements; (4) implementing an adequate tracking mechanism to record changes to the IFMIS database and document control procedures; (5) establishing an adequate authorization process for approving moves from the testing to the production environment; (6) finalizing the draft IFMIS information security policy, (7) completing a plan to establish roles and responsibilities for the IFMIS development contractors, and (8) completing a plan to establish in-house capabilities to ensure appropriate approval, reporting, and documentation of system modifications.

The Act also requires the OIG to report in the Semi-Annual Report to the Congress information about the non-compliance, including instances when the agency has not met the intermediate target dates established in its remediation plan.[1] FEMA's Office of Financial Management (OFM) is responsible for addressing the deficiencies reported in the management letter. OFM agreed that deficiencies existed 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. However, OFM did not agree that the deficiencies constituted substantial non-compliance with FFMIA. Therefore, FEMA does not believe a remediation plan is necessary, and has not prepared a remediation plan to ensure compliance with FFMIA.

In June 2000, we also issued a separate management letter covering internal control, accounting and administrative matters specific to the National Flood Insurance Program (NFIP). Most of the findings dealt with problems identified at insurance companies that service flood insurance policies on behalf of the NFIP.

OTHER SUPPORT ACTIVITIES

Access Device and Mail Fraud

A FEMA employee reported that her Government-issued credit card number was stolen and used to make $11,490.52 in unauthorized purchases. The investigation identified a $365,000 fraud scheme involving theft and unauthorized use of 93 credit cards and the theft of moneys from an additional 15 individuals. Two suspects were interviewed, and confessed to the crime. One of the subjects, on probation from a previous drug conviction, was convicted on one count of Access Device Fraud (18 USC 1029) and sentenced to 10 months in prison, two years probation and $180,000 in restitution. She was returned to an Atlanta, Georgia prison to first serve the remainder of her original sentence. The second subject was convicted on one count of Mail Fraud (18 USC 1341) and sentenced to 24 months in prison, three years probation, and ordered to pay $200,000 in restitution.

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Prevention Activities

Hotline Complaints

We continue to promote and publish the number of the Fraud Hotline as a tool to prevent and deter crime. Hotline posters in both English and Spanish languages continue to be displayed in locations frequented by the general public to encourage the reporting of crimes.

During this reporting period we received 625 hotline complaints. The majority were associated with Hurricane Floyd. Allegations of fraud associated with Hurricane Irene and the flooding in Minnesota, North Dakota and Missouri also accounted for many of the complaints. We continue to receive allegations associated with Hurricanes Georges and Bret, the Oklahoma City tornadoes and the Northridge Earthquake. Allegations include:

- Applicants used false names and multiple and/or fictitious addresses.
- Applicants claimed losses that they did not incur, or were not entitled to claim.
- Applicants did not use FEMA funds for intended purposes.
- Contractor problems (repairs paid for in full, and work not completed).
- Township officials used FEMA money for other than disaster related repairs.
- Co-applicants did not properly share/divide the money received.
- Applicants are repeatedly applying for and making a profit from disasters.

Disaster Fraud Training

In 1998, we collaborated with the National White Collar Crime Center (NWCCC), the National Insurance Crime Bureau, and the Small Business Administration to develop a two-day training course that assists State and local law enforcement in combating disaster-related fraud. During this reporting period, we sponsored 3 courses in Oakland, California. Eighty-five professionals attended including investigators, prosecutors, emergency service personnel, and members of the insurance industry. Since June 21, 1999, 300 professionals have attended 12 training courses. Four courses will be offered this fiscal year.

Integrity Awareness

Fraud prevention presentations continue to be made regularly at FEMA regional and field offices in the effort to heighten employee awareness of fraud prevention. These briefings continue to provide an overview of the FEMA OIG and to reinforce the importance of the employees' responsibility to report allegations of wrongdoing. Additionally, we continue to participate in radio and television interviews to educate the public about potential fraud schemes. During this reporting period, we presented 22 fraud awareness briefings to more than 800 employees, investigators, prosecutors, inspectors and attorneys.

OIG Law Enforcement Task Force Activities

OIG special agents continue to work under the auspices of the United States Attorney's Office with the U.S. Department of Justice - Antitrust Division, Federal Bureau of Investigation, Internal Revenue Service - Criminal Investigation Division and OIGs from the Departments of Labor, Transportation, Interior; and the Small Business Administration and the Postal Inspection Service. The Guam Task Force continues to investigate seven FEMA-funded Public Assistance Programs valued at $1.8 million. The Disaster Fraud Task Force in Puerto Rico arrested, and the Commonwealth of Puerto Rico, Department of Justice successfully prosecuted nine individuals on charges of Illegal Appropriation of FEMA Disaster Funds valued at $53,000. The Disaster Fraud Task Force in the Virgin Islands continues to conduct several complex and highly sensitive investigations.

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Other OIG Activities

Oversight of Non-FEMA Audits

We processed 22 audit reports prepared by non-FEMA auditors on FEMA programs and activities in compliance with our responsibility to do so, and we continue to monitor actions taken to implement the recommendations. We processed 19 reports relating to OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and 3 contract reports. Four reports identified $ 1.7 million in questioned costs.

Audit Reports Unresolved Over Six Months

Timely resolution of outstanding audit recommendations continues to be a priority at FEMA. As of this report date, there were 27 audit reports containing recommendations that were unresolved for more than 6 months. Of the 27 audit reports, 10 are reports on recipients of FEMA disaster grants. We are working closely with FEMA management on the resolution of those reports and anticipate closure before the next reporting period.

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Legislative and Regulatory Reviews

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of FEMA and to make recommendations concerning their impact. In reviewing regulations and legislative proposals, the primary basis for our comments are audit, inspection, investigation, and legislative experiences of the OIG. We also participate in the President's Council on Integrity and Efficiency, which provides a mechanism by which to comment on existing and proposed legislation and regulations that have a government-wide impact.

During this reporting period, the OIG reviewed 50 proposed changes to legislation, regulations, and internal directives that could affect FEMA. Significant reviews included the proposed rule for the National Urban Search and Rescue Response System (US&R). The proposed rule was in response to our audit of the US&R issued in 1998 that recommended improvements in the review of claims by US&R Task Forces, clarification of the allowability of certain costs, and revision to policies to eliminate unreasonable costs. Our comments to the proposed rule were to clarify any misrepresentations as to positions taken in our audit report. We also reviewed and commented on the FEMA Guide for Managing Disaster Grants. The guide addresses grants management of disaster funds, an area that the OIG has addressed over the years.

We also commented on proposed legislation that affects the Office of Inspector General. Specifically, we reviewed and concurred with S.1707, that elevated the Tennessee Valley Authority Inspector General to a Presidential Appointment and Senate Confirmed position, and authorized the much needed Inspector General Criminal Investigator Academy and Forensic Laboratory. In addition, we fully supported the proposed changes to the Inspector General Act under S.2167, Inspector General Act Amendments of 1998.

Finally, we reviewed the final changes on the draft HR 1827, the Government Waste Corrections Act (Fraud Recovery Audits) to verify that our prior concerns were addressed. We concurred with the changes made to the proposed Act.

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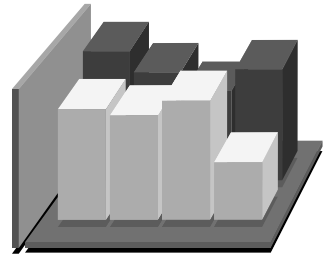

FY 2000 Annual Performance Report

Unlike the preceding sections of this report, this section discusses the OIG's performance for the entire year. We are including this annual performance report in our *Semiannual Report to Congress* because it complements the other sections of this report and provides important information on our overall accomplishments.

The OIG publishes an *Annual Performance Plan* describing the work we plan for the year and containing performance goals and indicators to measure our progress. The performance goals and indicators are in compliance with the Government Performance and Results Act and are linked to FEMA's Strategic Plan. They are designed to ensure that we deliver quality products and services and add value to FEMA's programs and operations. Our plan for fiscal year 2000 identified three performance goals:

Goal 1 - Provide timely, useful, documented analysis and recommendations that focus on critical issues of concern to both FEMA managers and Congress.

Goal 2 - Focus investigation resources on the areas of greatest FEMA vulnerability and identify management control deficiencies. Particular emphasis will be placed on allegations of fraud, waste, and abuse.

Goal 3 - Continue to provide technical advice and recommendations for improvement to FEMA reinvention efforts based on insights developed through OIG audits, investigations, and inspections.

This performance report assesses our performance against those three goals as measured by eleven performance indicators. We fell short on one of our performance measures. However, that did not prevent us from accomplishing our goals for fiscal year 2000. We believe that we have been very successful in adding value and integrity to FEMA's operations.

FY2000 Performance Goals and Indicators	**FY2000 Actual Performance**
GOAL #1. Provide timely, useful, documented analysis and recommendations that focus on critical issues of concern to both FEMA managers and Congress.	
1.1 Start 13 new OIG projects during fiscal year 2000 with at least 50 percent of new starts from planned projects in the performance plan.	1.1 We started 14 new OIG projects during fiscal year 2000. Nine (64%) were in our annual performance plan.
1.2 Issue reports on 14 OIG projects.	1.2 We issued 14 reports.
1.3 Issue 95 reports on disaster grants.	1.3 We issued 86 reports on disaster grants. We were nine percent short of our goal because we used some of our grant auditors to assist with Headquarters work and to conduct statewide audits that require more time to complete than routine grant audits.
1.4 Maintain quarterly contact with key Congressional representatives and staff, and FEMA management officials.	1.4 We met with numerous members of Congress and Congressional staff during the year, and conducted meetings, at least quarterly, with subcommittee staff of the Senate Appropriations Committee to discuss our ongoing and planned projects. The IG and Deputy IG met at least monthly with the Director and his management team, and OIG managers met at least monthly with FEMA program managers to discuss projects.

GOAL #2. Focus investigation resources on the areas of greatest FEMA vulnerability and identify management control deficiencies. Particular emphasis will be placed on allegations of fraud, waste, and abuse.

2.1 Adhere to the policies in the Inspector General Act of 1978, OIG Special Agent Manual, and Hotline standard operating procedures. Process all complaints within 90 days.

2.1 We complied with all policies governing investigative activities. We received 2,235 complaints and processed all within 90 days.

2.2 Adhere to the Memorandum of Understanding with the U.S. Department of Justice.

2.2 We adhered to all aspects of the MOU with Justice, including reporting investigations where we determined concurrent jurisdiction existed, search and seizure policy, and continuing legal education and use-of-force and firearms training.

2.3 Seventy-five percent of investigations referred for criminal, civil, or administrative action will be accepted for action.

2.3 We presented 64 cases for criminal, civil, or administrative action. Sixty (94%) were accepted.

2.4 Seventy-five percent of referred investigations result in indictments, convictions, civil filings, suspensions, debarments, recoveries, or administrative actions.

2.4 Ninety-seven percent of the cases accepted resulted in indictments, convictions, civil filings, suspensions, debarments, recoveries, or administrative actions.

GOAL #3. Continue to provide technical advice and recommendations for improvement to FEMA reinvention efforts based on insights developed through OIG audits, investigations, and inspections.

3.1 Achieve 100 percent concurrence with recommendations.

3.1 In FY 2000, we made more than 180 recommendations to FEMA management. FEMA managers either concurred with our recommendations or offered alternatives that were acceptable to the OIG.

3.2 As requested by FEMA management, participate in all task forces and special working groups as deemed appropriate by the Inspector General.	3.2 At FEMA's request, we participated in more than 20 special groups and task forces to help FEMA improve operations.
3.3 Provide thorough review and constructive comments on all proposed legislation, regulations, policies, and directives.	3.3 We provided comments, as appropriate, on all major changes to policies, procedures, regulations, and legislation.

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Appendices

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Index of Reporting Requirements

The specific reporting requirements prescribed in the Inspector General Act of 1978, as amended in 1988, are listed below with a reference to the pages on which they are addressed.

Requirements		Pages
Section 4(a)(2)	Review of Legislation and Regulations	19
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	5-15
Section 5(a)(2)	Recommendations with Significant Problems	5-15
Section 5(a)(3)	Prior Recommendations Not Yet Implemented	1/
Section 5(a)(4)	Prosecutive Referrals	None
Section 5(a)(5) & Section 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of Audit Reports	27-32
Section 5(a)(7)	Summary of Significant Audits	5-15
Section 5(a)(8)	Reports with Questioned Costs	24, 29-32
Section 5(a)(9)	Reports Recommending That Funds Be Put to Better Use	25, 27-28, 29-32
Section 5(a)(10)	Summary of Reports Where No Management Decision Was Made	24-26

Section 5(a)(11)	Revised Management Decisions	None
Section 5(a)(12)	Management Decision Disagreements	None

1/ In FEMA's audit follow-up process, the Office of Financial Management monitors and reports on corrective actions after a decision has been reached. Corrective action information is transmitted in the Director's Report to Congress.

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Customer Survey

The Office of Inspector General has a continuing interest in providing informative semi-annual reports to its customers. In this regard, we are soliciting your suggestions to improve the report. We ask that you complete and return this survey sheet to:

Federal Emergency Management Agency
Office of Inspector General
500 C Street, S. W., Room 506
Washington, D.C. 20472

Attention: James Daniels

Your name: ______________________________

Your daytime telephone number: ______________________________

Your suggestion(s) for improvement: (please include additional sheets if needed)

If you would like to discuss your suggestion(s) with a staff member of the Office of Inspector General or would like more information, please call Mr. Daniels at (202) 646-3221, or contact him on the Internet _james.daniels@fema.gov_**.**

Hotline

If you have knowledge of fraud, waste, or abuse involving FEMA contracts, programs, or personnel, call the Fraud Hotline at:

1-800-323-8603

or write:

Office of Inspector General, Room 502
Federal Emergency Management Agency
500 “C” Street, S.W.
Washington, DC 20472

or use Internet Electronic Mail

http://www.fema.gov/IG/hotline.htm

Hotline Complaints

The OIG continues to promote and publish the Fraud Hotline in furtherance of our efforts to prevent and deter crime. Hotline posters in both English and Spanish format are displayed in locations frequented by the general public to encourage their responsibility to report crime.