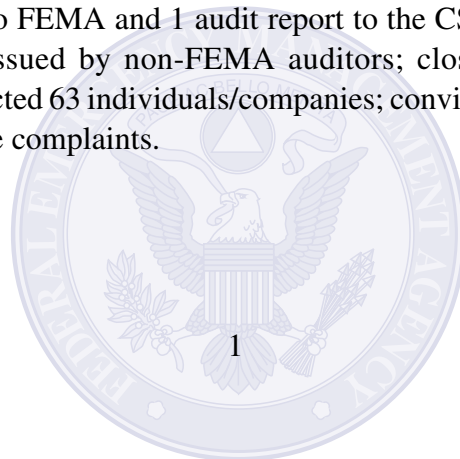


EXECUTIVE SUMMARY

This is the 25th 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, 2001, through September 30, 2001. 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 assessed the Hazard Mitigation Program and the conditions over the past decade that contributed to high balances of undistributed mitigation funds. We also conducted a review to assess the adequacy of internal controls to prevent the sale of flood insurance in prohibited areas. In addition, we reviewed three states' 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. In addition, we conducted information reviews of security programs as mandated by the Government Information Security Reform Act—one of FEMA's programs and one of the U.S. Chemical Safety and Hazard Investigation Board's (CSB) programs.

Our audits, inspections, and investigations were instrumental in FEMA management deobligating and recovering \$6.8 million, and in making agreements to recover and deobligate an additional \$7.3 million. We issued 56 audit and inspection reports to FEMA and 1 audit report to the CSB; processed an additional 42 reports issued by non-FEMA auditors; closed 88 investigations; arrested and/or indicted 63 individuals/companies; convicted 22 individuals and closed 1,066 hotline complaints.



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 and Mitigation Administration (FIMA) are under FEMA's jurisdiction. U.S. 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 FIMA 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, which has more than 4.2 million home and business policies in effect.



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 90 full-time equivalent positions during this semiannual period. We also engage disaster employees on temporary appointments to audit or investigate disaster-related matters.



SUMMARY OF SIGNIFICANT OIG ACTIVITY

We completed several reviews that addressed issues identified in our Fiscal Year 2001 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 18 internal management reports on FEMA operations. We also issued 38 external reports on Federal fund recipients and processed an additional 42 reports performed by non-FEMA auditors. These reports questioned \$39.7 million in costs and identified an additional \$2.3 million in funds that could be put to more effective use. In addition, 1 management report was issued to the U.S. Chemical Safety and Hazard Investigation Board.

We dedicated significant resources to reviewing states and their compliance with grants management regulations and financial reporting requirements, evaluating FEMA's Hazard Mitigation Grant Program funds management and assessing controls over the sale of flood insurance in prohibited areas. Particular emphasis was also placed on evaluating the Agency's information systems and information security.

The following are summaries of some significant audits, inspections, and investigations completed by the OIG during the reporting period.



READINESS, RESPONSE & RECOVERY

States' Management of the Disaster Assistance Program

Under its disaster assistance programs, FEMA awards funds to the States where the disasters occur for public assistance, individual and family assistance, and hazard mitigation. The States serve as grant recipients and are responsible for administering the funds under the program, including all subgrants made by States for disaster response and recovery operations.

We reviewed the disaster grants management systems and practices of three States covering 17 disasters and \$489.8 million: Nevada, New York, and Oklahoma. The objectives of the reviews were to determine whether the States administered the funds according to applicable Federal regulations and FEMA guidelines.

To varying degrees, there were a number of grant management problems that we saw recurring among all States. For example, States often do not monitor and accurately report on subgrant financial and performance activities, States do not always make or close out projects in a timely manner, and financial status reports provided to FEMA are often incorrect or untimely. In addition, States do not always maintain adequate documentation to support their share of disaster costs and other financial requirements. Finally, States do not always have adequate practices to account for equipment purchased with Federal funds. FEMA needs to take the initiative to assist the States in developing reliable grant management systems.

City and County of San Francisco, California

The California Office of Emergency Services awarded \$166 million to the City and County of San Francisco for debris removal, emergency protective services, and repair and restoration of facilities damaged by the Loma Prieta Earthquake. The City's claim included questioned costs of \$2,714,884 [Federal Share (FS) \$2,036,163] resulting from ineligible labor retirement benefit costs, labor not related to disaster or not within the scope of approved projects, unsupported labor costs, overstated costs for reassigned employees, costs covered by statutory administrative allowance, ineligible project costs, and unsupported project

costs, and overpayments due to accounting errors. We recommended that FEMA disallow the questioned costs.

Hurricane Marilyn – U.S. Virgin Islands

As a result of Hurricane Marilyn in 1995, FEMA awarded the U.S. Virgin Islands \$1.4 million for the management of a debris collection site and the disposal of debris. An investigation revealed that a contractor submitted false claims for labor and equipment hours for the entire ten-week project. The company and its owner were indicted for money laundering, filing a false claim, filing a false statement, and theft of government property. At the time of arrest, in excess of \$500,000 in assets were seized from the owner and 13 pieces of equipment were placed under the control of the U.S. Marshal Service. The owner eventually negotiated an agreement with the government and paid approximately \$450,000 for the return of the equipment. On June 1, 2001, the owner was sentenced to 90 days in jail, 60 days in a local halfway house, and 210 days of home confinement. In addition, the owner paid fines totaling \$119,900. The owner and all of his associated companies were placed on the Federal Debarred List as of August 2001.

San Francisco Airport Commission, California

The California Office of Emergency Services awarded \$13.8 million to the San Francisco Airport Commission for debris removal, emergency protective services, and repair and restoration of facilities damaged by the Loma Prieta Earthquake that occurred on October 17, 1989. The Commission's claim included questioned costs of \$366,044 (FS \$274,533) resulting from duplicate claims, costs not related to the disaster, and unsupported project costs. We recommended that FEMA disallow the questioned costs.

Debris Removal Contractor, Raleigh, North Carolina

As a result of Hurricane Fran in 1996, FEMA awarded the State of North Carolina Parks Department (NCPD) \$915,000 for debris removal around the shores of a large lake near Raleigh, North Carolina. There were seven different State parks along the shoreline. NCPD awarded one contract for the entire project. The contractor claimed more hours than actually worked, more employees than were on the job, and the use of more equipment than was actually utilized on the

project. Five individuals and the corporation have entered guilty pleas and three subjects are pending possible indictment on various charges. The corporation negotiated a global plea of all charges and has agreed to a total settlement of \$2.4 million, including \$1 million in restitution and \$1.4 million in criminal/civil fines.

Columbia Irrigation District, Washington

The Washington Military Department, Emergency Management Division awarded \$2.6 million to the Columbia Irrigation District for emergency and permanent repairs to irrigation system facilities due to flooding that occurred January 26, 1996 through February 23, 1996. The District's claim included questioned costs of \$1,058,674 (FS \$794,006) resulting from questionable ownership of facilities and undocumented deferred maintenance costs. We recommended that FEMA disallow the questioned costs and determine and disallow an appropriate amount for the poor condition of the facility due to lack of maintenance.

Covington County, Alabama

The Alabama Emergency Management Agency awarded Covington County \$6.1 million to repair and replace bridges and roads damaged by severe flooding in March 1998. The County's claim included questioned costs of \$102,651 (FS \$76,988) resulting from a mathematical error, duplicate funding, unapplied credits, and excessive administrative charges. We recommended that FEMA disallow the questioned costs.

Debris Removal Contractor, Utuado, Puerto Rico

As a result of Hurricane Georges in 1998, FEMA awarded approximately \$4.5 million of disaster funds to the Municipality of Utuado, Puerto Rico to fund 51 different disaster-related projects. A contractor offered a FEMA employee and a municipal employee bribes to assist his company in bidding for and receiving some of these projects. The FEMA employee provided confidential FEMA data to the contractor, but the municipal employee contacted the office of the Comptroller of the Commonwealth of Puerto Rico who contacted the FEMA OIG and the FBI. When confronted with the circumstances, the FEMA employee confessed to his part in this scheme and became a cooperative witness. He was

dismissed from his FEMA employment and subsequently entered a guilty plea to a federal charge and is awaiting sentencing on that matter. The municipal employee voluntarily participated in a sting operation where the contractor paid the employee about \$3,000 in cash. The pay off was recorded on both video and audio and the contractor was arrested. This was a joint investigation with the FBI. The contractor and two officers were indicted and two days before the scheduled trial, they entered guilty pleas and have agreed to pay \$100,000 in restitution and fines. Sentencing is pending.

City of Mobile, Alabama

The Alabama Emergency Management Agency awarded the City of Mobile, Alabama \$3.9 million for emergency protective measures, debris removal, road repair, and building restoration costs that resulted from Hurricane Georges in September 1998. The City's claim included questioned costs of \$126,535 (FS \$94,901) resulting from excessive labor and equipment charges. We recommended that FEMA disallow the questioned costs.

Individual Assistance Fraud, Juncos, Puerto Rico

As a result of Hurricane Georges in 1998, a subject filed a FEMA disaster assistance claim for a damaged house in the Municipality of Juncos, Puerto Rico. FEMA records show that the damaged house was inspected and the subject claimed this to be his primary residence at the time of the storm; however, the house was abandoned prior to the storm and did not have any utilities connected to it. In addition, the subject and his family were living in a public housing complex. The subject received \$30,690 in FEMA disaster assistance grants for the fraudulent claim. He was prosecuted under Commonwealth of Puerto Rico statutes covering illegal appropriations and an arrest warrant was issued. Hearing that he had an outstanding warrant issued for his arrest, the subject fled to the United States. Two weeks later he returned to Puerto Rico, was arrested without incident and is awaiting trial.

Loma Prieta Earthquake, Santa Cruz, California

FEMA awarded the Santa Cruz Metropolitan Transit District, Santa Cruz, California \$1,772,716 to repair leaking underground storage tanks, which were damaged as a result of the Loma Prieta Earthquake in October of 1989. However,

the underground storage tanks were leaking oil prior to the Loma Prieta Earthquake. Further, the claimed cost by the Santa Cruz Metropolitan Transit District associated with the environmental cleanup of the leaking oil was fraudulently filed. A civil false claim for violation of Title 31 USC-False Claim Act was filed against the Santa Cruz Metropolitan Transit District. A \$2,669,074 settlement was reached requiring the Santa Cruz Metropolitan Transit District to pay \$1,772,716 in damages, and \$896,358 in penalties.



McGraw, WV, August 8, 2001— Road crews burn debris as a part of a clean up effort after recent flooding. Photo by Leif Skoogfors/FEMA News Photo

Municipality of Loiza, Puerto Rico

The Puerto Rico Office of Management and Budget awarded the Municipality of Loiza, Puerto Rico \$6.3 million to remove debris, provide emergency protective measures, and repair roads and other public facilities damaged as a result of Hurricane Georges in September 1998. The Municipality's claim included questioned costs of \$143,856 (FS \$129,470) resulting from duplication of benefits, and unauthorized, unsupported, duplicate, and excessive charges. Moreover, \$23,345 (FS \$21,011) of approved funding for four small projects was not needed because the projects were not implemented. We recommended that FEMA disallow the questioned costs and deobligate the funding for the small projects not implemented.

Environmental Protection Agency, Guam

The Government of Guam awarded \$9.5 million to the Guam Environmental Protection Agency for removal and reduction of debris on the Island of Guam as a result of Typhoon Paka that occurred on December 16, 1997. The Agency was reimbursed \$1,980,165 in excess of the approved amount, and they also claimed \$29,309 in unsupported fringe benefit costs. We recommended that FEMA recover the \$1,980,165 and disallow the \$29,309 in questioned costs.

Tropical Storm Francis, Gilchrist, Texas

In September of 1998, a presidential disaster was declared along the North Texas Gulf Coast, due to heavy winds, rain, and flooding from Tropical Storm Francis. On June 20, 2001, as a result of a false FEMA claim for assistance, an applicant was arrested for violation of Title 18 USC 1001- false statement. We determined that the applicant was an escaped fugitive from Canada, where he was serving time for two manslaughter convictions. On August 21, 2001, a superseding indictment was filed against the claimant charging him with violation of Title 18 USC 3184 - fugitive from a foreign country. The applicant waived all his due process rights, and was remanded to Canada.

City of Pine Bluff, Arkansas

The City submitted a partial claim for \$9,000,716 to the Arkansas Department of Emergency Management for damages caused by severe winter ice storms in

December 2000. FEMA determined that \$2,768,882 of the claim for debris removal was ineligible. Of the remainder, we questioned \$3,593,539 because the rate charged by the contractor was unreasonably high. We recommended that FEMA disallow the questioned costs.

Kentucky National Guard

The Kentucky Department of Emergency Services awarded the Kentucky National Guard \$3.4 million for debris removal and emergency protective measures as a result of severe flooding in March 1997. The National Guard's claim included questioned costs of \$245,472 (FS \$184,104) resulting from questionable charges for aircraft usage and unsupported, excessive, and duplicative charges. We recommended that FEMA disallow the questioned costs.

Municipality of Gurabo, Puerto Rico

The Puerto Rico Office of Management and Budget awarded the Municipality of Gurabo, Puerto Rico \$4.1 million for debris removal, emergency protective measures, and repair of roads and other facilities damaged as a result of Hurricane Georges in September 1998. The Municipality's claim included questioned costs of \$245,967 (FS \$221,370) resulting from duplication of benefits, small projects not implemented, excessive administrative charges and ineligible and unsupported charges. We recommended that FEMA disallow the questioned costs.

Dekalb County, Georgia

The Georgia Emergency Management Agency awarded Dekalb County, Georgia, \$20 million for debris removal and repair of facilities damaged as a result of severe storms and flooding in April 1998. The County's claim included questioned costs of \$404,633 (FS \$303,475) resulting from unauthorized activities, unrelated project charges, uncredited insurance, and excess charges. We recommended that FEMA disallow the questioned costs.

Northridge Earthquake — City of Simi Valley's, Tapo Canyon Water Treatment Plant

The OIG played a major role in the review and subsequent adjustment of FEMA funding to the City of Simi Valley (City) for repairs to the Tapo Canyon Water

Treatment Plant (Plant) damaged in 1994 by the Northridge Earthquake. A Damage Survey Report, approved in September 1998, provided \$2.7 million to demolish and replace portions of the Plant.

Assisted by the OIG, officials from FEMA's Northridge Long Term Recovery Area Office reviewed documentation and revisited the eligibility determination and subsequent funding allowance for the Plant. The funding allowance was approved to demolish and reconstruct portions of the Plant so that it could produce 1,000,000 gallons of potable water per day. However, information provided to FEMA officials by the OIG indicated that the Plant was in emergency standby status and could not operate at full capacity at the time of the Earthquake. FEMA officials, including a water treatment specialist, confirmed that the Plant has been used for supplying non-potable water since 1984 and that only chlorination equipment was required to meet the City's short-term emergency needs for potable water production. FEMA officials deobligated \$2.7 million in funding provided to demolish and reconstruct portions of the Plant and obligated \$346,705 to restore the Plant to its pre-disaster condition, resulting in a savings of \$2.3 million.

Puerto Rico Public Housing Administration

The Puerto Rico Office of Management and Budget awarded the Puerto Rico Public Housing Administration \$8.4 million to renovate buildings for use as temporary emergency shelters, provide the shelters with basic necessities, and manage the shelters' operations. Although the award was limited to \$8.4 million, FEMA indicated that additional funding, if needed, would be provided pending completion of an audit. The Housing Administration claimed \$18,862,254. The Housing Administration's claim contained questioned costs of \$6,200,588 (FS \$5,580,529) resulting from charges that were excessive, unreasonable, unsupported, duplicative, and unrelated to the FEMA project. We recommended that FEMA (1) disallow the questioned costs, and (2) instruct the Housing Administration to comply with applicable procurement requirements when implementing FEMA projects in the future.

Texarkana, Texas Ice Storms

A presidential disaster was declared on December 20, 2000, involving the Texas ice storms. At a designated dumpsite in Texarkana, Texas, an argument con-

cerning quantity and quality of a debris load resulted in a contract debris hauler assaulting a FEMA disaster assistance employee. The contract debris hauler was arrested for violation of Title 18 USC 111- assault on a federal employee. Criminal checks determined that the contract debris hauler had an outstanding state felony warrant for assault from Tennessee. Law enforcement officials took custody of the contract debris hauler and returned him to Tennessee. He is awaiting trial on Federal charges in Texas and State charges in Tennessee.

FEDERAL INSURANCE & MITIGATION

Status of Funds Awarded Under the Hazard Mitigation Grant Program and Other Project Management Issues

The Hazard Mitigation Grant Program (HMGP) is a disaster driven program that allows Federal funding of measures that will reduce vulnerability to natural hazards. We (1) evaluated the status of HMGP awards and disbursements and (2) examined factors impacting the timely disbursement of funds and completion of mitigation projects. We also considered implications for the Disaster Mitigation Act of 2000 on program spending and potential alternatives for funding mitigation projects.

Since 1989, FEMA has awarded more than \$2.5 billion in support of this program. As of April 2001, \$1.2 billion, or 48 percent, was not disbursed. The bulk of the dollars are linked to disasters that are between 5 and 11 years old. We concluded that it is not fiscally prudent for FEMA to carry awarded, but undisbursed balances of this magnitude. The amount of HMGP funds generated by two disasters, DR 1008, the Northridge, California Earthquake and DR 1247, Hurricane Georges devastation of Puerto Rico, account for more than one-third of the total amount of HMGP awarded since the program's inception and nearly 75 percent of all undisbursed funds. The large balance of undisbursed funds is a direct outcome of FEMA, State, and local governments' ability to spend available funds and implement mitigation projects in a timely manner.

We assessed the HMGP and the conditions over the past decade that contributed to the high balance of undisbursed funds and processing delays. Unanticipated and substantial amounts of funds put FEMA, States, and locals at a disadvantage when attempting to disburse HMGP funds in reasonable timeframes. This

situation can be exacerbated when a State experiences multiple disasters in the same year and receives increased amounts of assistance. Other factors that influence project completion and spending include FEMA's failure to consider State and local capacity before providing mitigation grants and weaknesses in program design, as demonstrated by the absence of a regulatory requirement for subgrantees to complete projects within a specified timeframe, and FEMA's approval of States funding mitigation projects via multiple disasters.

Insufficient maintenance and oversight of pertinent financial and programmatic data by FEMA has also contributed to the current situation involving undisbursed funds. The State Grant Tool, prepared by FEMA's Disaster Finance Division, contains the best available summary of awards, disbursements and undisbursed funds regarding the HMGP. Prior to our review, program officials did not possess this report and were not using it to monitor HMGP awards and disbursements data. The focal point of our concern is that FEMA and States have not placed enough emphasis on the timeliness of HMGP disbursements.

The Disaster Mitigation Act of 2000 provides for States to receive an increased percentage of HMGP funds (from 15 to 20 percent) if, at the time of the declaration of a major disaster, they have in effect an approved State Hazard Mitigation Plan. We are concerned that (1) FEMA will not fully take advantage of the opportunity made possible by the Act to encourage States to commit to serious hazard mitigation planning, (2) States will complete the minimum amount of work necessary, in the short term, to qualify for increased funding, and (3) FEMA will provide that funding to States with minimal consideration of their capability and capacity to manage the grant program. These scenarios will compound problems with the administration of the HMGP, the large balance of undisbursed funds, and pace of mitigation projects.

Providing funds after a disaster is not an effective method for funding a mitigation program. FEMA expects States to proactively address mitigation issues, but its means of funding those activities places administrators at all levels of government at a tremendous disadvantage. FEMA should explore establishing a competitive process for funding hazard mitigation measures and that this funding not be tied to a specific disaster event but funded through a separate appropriation. We believe that that the program would better achieve its goals by implementing an annual funding mechanism.

FEMA is confronted with a significant challenge of reducing the high balance of undisbursed HMGP funds and ensuring that they are spent timely. We made numerous recommendations to FEMA to better manage awarded and available funds and to complete mitigation projects. In its response to our draft report, FEMA's Federal Insurance and Mitigation Administration (FIMA) discussed actions taken and planned to address our recommendations and we revised some of them accordingly. FEMA's Financial and Acquisition Management Division attested to the serious grants management challenges associated with monitoring the progress of HMGP projects and also described how it is collaborating with FIMA to improve financial reporting and provide useful management reports to the regions to monitor and manage the program. Several of our recommendations remain unresolved because we are not persuaded that FEMA is fully prepared to meet this challenge.

National Flood Insurance Program

An independent flood claims adjuster from Texas and a former condominium property manager were arrested without incident and charged with two counts each of violating State of Florida Statute 817.234 - Insurance Fraud and 812.014 - Grand Theft 2nd Degree. This was a joint case worked with the State of Florida Department of Insurance, Division of Insurance Fraud. The investigation confirmed that the subjects conspired to file a false flood insurance claim as a result of damages incurred by Hurricane Georges in 1998. The total amount of the fraud involved in this case was \$16,000. The adjuster was a resident at the condo complex at the time of the storm, but was working for an adjusting firm in Oklahoma. He completed the adjustment that included numerous instances of recording either exaggerated or pre-existing damage. Both subjects were released on bail and are awaiting trial.

Prohibiting the Sale of Flood Insurance in Coastal Barrier and Protected Areas

The Coastal Barrier Resources Act of 1982 and the Coastal Barrier Improvement Act of 1990 established the Coastal Barrier Resources System (CBRS) and "Otherwise Protected Areas" (OPAs) where most Federal expenditures and financial assistance, including flood insurance, are prohibited in order to discourage development. There are approximately 400 communities in 23 States that have CBRS/OPAs.



Cleveland, IL March 2001 — Even after flood waters recede, large chunks of ice still litter the lawns of homes in Cleveland, IL, one of three small communities that had to be evacuated when a seven-mile ice jam formed on the Rock River in early March 2001. Photo by Dave Saville/FEMA

FEMA's Federal Insurance and Mitigation Administration (FIMA) reviews insurance policies issued by its Direct Servicing Agent and by Write Your Own companies (WYOs) to identify structures that may be in the prohibited areas. FIMA then refers the structure addresses to the Direct Servicing Agent and WYOs for resolution, which includes policy cancellation if the addresses are proven to be within CBRS/OPAs.

We conducted a review to assess how adequately FIMA's systems and internal controls prevent the sale of flood insurance in CBRS/OPAs. We reported that:

- FIMA's systems for identifying insurance policies that are potentially in CBRS/OPAs bypassed a significant number of edits. Many policies were not fully processed through FIMA's Geographic Policy Edit System. In our opinion, FIMA has an obligation to take measures that provide maximum assurance that policies are not sold in those areas. We recommended that FIMA (1) process all policies issued in counties with CBRS/OPAs through the Geographic Policy Edit System; and (2) report to the Direct Servicing Agent and WYOs for resolution *all* policies that are potentially in the CBRS/OPAs.
- Although Federal law prohibits the sale of flood insurance in CBRS/OPAs, resolution of insurance issues in those areas was not timely or uniform. At the time of our report, 46 percent of the cases FIMA identified for WYO and

Direct Servicing Agent follow-up had no record of resolution on file. Additionally, although the U.S. Fish and Wildlife Service (USFWS) is officially responsible for validating CBRS/OPA locations, the WYOs did not routinely use the USFWS in case resolution. We recommended that FIMA (1) follow up on all policies that have not been resolved after six months; and (2) consider entering a working arrangement with USFWS to provide greater assistance in resolution of CBRS/OPA issues. We also suggested that FIMA encourage the WYOs to seek the assistance of USFWS.

- Systems appeared to be ineffective in ensuring that addresses determined to be in CBRS/OPAs are prevented from later re-obtaining flood insurance policies. We recommended that FIMA determine why addresses were not flagged as ineligible for insurance and develop procedures so that all such addresses are prevented from re-purchasing flood insurance.
- An up-front process that enables FIMA, in cooperation with WYOs and the Direct Servicing Agent, to resolve CBRS/OPA issues prior to writing policies would be a more prudent way of complying with the Coastal Barrier Resources and Coastal Barrier Improvement Acts.

ADMINISTRATION & RESOURCE PLANNING

Management Letter for FEMA's Fiscal Year 2000 Financial Statement Audit

The independent accounting firm of Deloitte & Touche (D&T) LLP, under our direction, audited the FY 2000 FEMA-wide financial statements as required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act (GMRA) of 1994. As part of this audit, we issued a management letter that described material weaknesses in internal controls over FEMA's financial reporting that led the OIG and D&T to conclude that FEMA's financial management system did not substantially comply with the requirements identified in the Federal Financial Management Improvement Act of 1996 (FFMIA). The management letter also included recommendations for addressing these deficiencies.

We found that 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” and that FEMA’s Integrated Financial Management Information System (IFMIS) had deficiencies in the areas of access controls and application program change controls. Specifically:

- FEMA continued to produce its financial statements using software that was not integrated with its core financial management system. The non-integrated software required significant manual data entry, increasing the cost and time required to prepare financial statements and increasing the likelihood of errors, and did not ensure that various financial statement line items and footnote disclosures were consistent. Draft financial statements contained a significant number of errors, omissions, and inconsistencies.
- FEMA’s financial management system was unable to support the presentation of detailed financial statement information by organizational component. FEMA eliminated the presentation of combining financial statements, which presented information by organizational component, in order to reduce the extensive manual efforts required to generate reliable information by such components. However, the change in presentation reduced the usefulness of the financial statements to managers because the statements no longer provided information at a program level (i.e., by Directorate), which is useful to measure operational and financial performance by organizational component.
- FEMA was not able to provide or adhere to a logical and specific timetable for publishing its financial statements and accompanying information with sufficient time built in to allow proper review by management and for efficient completion of audit procedures.
- FEMA did not provide a timely year-end cash reconciliation that was complete and accurate and that tied to the financial statements. FEMA’s year-end cash reconciliation showed an unreconciled difference of \$2.5 million.
- As reported by the General Accounting Office, FEMA’s financial management system did not have the capability to produce standard reports on obligations by disaster/individual programs, but had to use a special process to extract the obligation “to date” data from IFMIS for program managers.
- Certain programmers had access to modify IFMIS production data, which was an inappropriate segregation of duties, and there was no formal process for documenting the authorization and level of access granted to the IFMIS production environment.
- FEMA lacked an effective application change control process.

- FEMA's entitywide system security program needed improvement.

As a result of these weaknesses, FEMA was not in substantial compliance with the Federal financial management system requirements under FFMIA. 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 did not meet FFMIA requirements. However, in response to both reports and to a draft of this management letter, FEMA disagreed that the problems were significant. 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. FEMA's Financial and Acquisition Management Division has primary responsibility for addressing FEMA's non-compliance with FFMIA.

In June 2001, we also issued a separate management letter covering internal controls, 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.

Policies and Procedures Governing Travel on Government Aircraft

We reviewed FEMA's implementation of Federal regulations governing the use of government aircraft for travel. FEMA's policies and procedures governing the use of government aircraft are outdated and do not ensure that government aircraft are used according to Federal laws and regulations. In addition, FEMA does not have adequate instructions on when to use interagency support agreements for providing travel on government aircraft. We recommended that FEMA's instructions be updated, implemented, and monitored according to applicable Federal regulations and FEMA guidelines. We also recommended that the instructions be tailored to FEMA's mission, state when it is appropriate to use government aircraft, and include record keeping and reporting requirements.

Project Impact Summit 2000

We reviewed FEMA's expenditures regarding the Project Impact Summit 2000. We found that FEMA (1) solicited and accepted donations from private companies when they did not have the authority to do so; (2) used donations, registration, and trade booth fees for entertainment that was not authorized; and (3) charged FEMA employees registration and booth fees for an agency-sponsored conference, resulting in Federal funds being used for unauthorized purposes. Additionally, the contractor who coordinated the event deposited donations and fees into its general bank account and retained \$69,499 of unused donations and registration fees as General and Administrative expense and profit, in violation of the terms of their contract. We recommended that FEMA have its Office of General Counsel: (1) reassess FEMA's policies regarding the solicitation and acceptance of donations and publish guidance; (2) develop and implement conference policies and procedures; (3) ensure that all funds solicited for the conference have been accounted for; and, (4) recover the \$69,499 retained by the contractor.

FEMA Travel

At FEMA's request, we conducted a limited review of staff travel to determine compliance with Federal travel regulations and FEMA travel instructions. We reviewed travel vouchers totaling \$636,000. While we found that staff generally complied with both government and FEMA travel instructions for domestic and international travel, we also found that better controls are needed to ensure that (1) non-employees are not issued government travel charge cards; (2) contractors are not issued government travel charge cards without proper approval; (3) travel authorizations are approved prior to the travel; (4) individual travelers are not reimbursed for expenses they did not incur and for which they did not provide proper receipts; (5) cardholders comply with FEMA's policy concerning delinquent accounts; (6) travel charge cards are promptly canceled and collected when employees leave the agency; and (7) international travel is charged to the proper account.

While FEMA had internal control procedures in place to prevent most of the problems we identified, senior officials and staff sometimes disregarded the procedures. We recommended that action be taken to ensure that internal control standards and procedures regarding Federal travel be applied uniformly throughout FEMA.

FEMA's Use of Government Purchase Cards

At FEMA's request, we conducted a limited review of cardholder compliance with regulations and guidance governing their use of government purchase cards. We reviewed activity totaling \$946,371. The review disclosed that internal controls over the use of purchase cards were generally not effective. Documentation supporting purchases was missing. Prohibited items were purchased and property purchased with the cards was not accounted for in FEMA's property management system. Although the purchases reviewed did not represent a significant amount of FEMA purchase card activity, the results of the review indicate a FEMA-wide need for better managerial control over purchase card use.

We recommended that FEMA (1) ensure that all purchase cardholders receive annual training; (2) at least annually, remind all purchase cardholders of documentation requirements, restricted items, and penalties for misuse of the card; (3) review the management system for monitoring controls over purchase card use and identify and implement corrective actions; (4) if feasible, have the credit card company block purchases of restricted items; (5) assess the status of FEMA's property management system, LIMS, and take appropriate corrective action, including ensuring that property acquired with a purchase card is accounted for in the property system; and (6) remind cardholders that they must enter accountable property acquired with a purchase card into LIMS and periodically monitor cardholder compliance.

INFORMATION TECHNOLOGY SERVICES

Collection of Personal Information About Internet Web Site Visitors

We reviewed the FEMA Internet web site in accordance with the Consolidated Appropriations Act of 2001 (Public Law 106-554), to determine if FEMA, or an agreed to third party, collects personally identifiable information about individuals visiting FEMA's web site. Several methods exist to collect information about visitors to web sites. They are cookies, web bugs, and records of all user activities (called logs).

Our review disclosed that FEMA does not collect or use inappropriate personally identifiable information about visitors to its web site. However, we identified opportunities for FEMA to strengthen its policies and procedures to better

ensure that it implements the requirements effectively. We recommended that FEMA (1) finalize an Internet policy that meets the current OMB guidance and ensure that it is effectively implemented; (2) standardize FEMA's privacy policy and ensure it is posted on certain FEMA web sites; (3) determine whether private flood insurance company web sites that are linked to FEMA's web site are subject to the OMB policy on the use of persistent cookies; and (4) suggest to visitors leaving FEMA's web site that visitors review the privacy policy of private company web sites to which they may be connecting.

FEMA's Report to OMB—Government Information Security Reform Act

Pursuant to the Government Information Security Reform Act (GISRA), the Office of Management and Budget (OMB) required FEMA and the OIG to report on the status of FEMA's information security program by September 10, 2001. The independent accounting firm KPMG LLP, under our direction and with our assistance, evaluated FEMA's information security program and practices. We recommended that FEMA should:

- Update its entitywide system security policies.
- Update its Critical Infrastructure Protection Plan to ensure that information security efforts continue to be focused on key agency programs.
- Develop security performance measures for each system to enhance accountability.
- Incorporate the need to provide employee security training and a budgetary proposal for such training in its October 2001 report to OMB.
- Implement a process to enforce confidentiality agreements for all of its employees and contractors, plan funding for this project, and state the timeline and budget requirements in its October 2001 report to OMB.
- Place additional oversight on the security of its network "demilitarized zone".

We also found that the goal to conduct background investigations on users of FEMA systems was hampered by limited financial resources. Currently, 1,041 Stafford Act employee investigations are on hold due to an estimated cost of \$500,000.

OTHER SUPPORT ACTIVITIES

Cerro Grande Fire Assistance Act Program

On May 4, 2000, the National Park Service initiated a prescribed burn, known as Cerro Grande Prescribed Fire, which exceeded the containment capabilities. As previously reported, one individual was indicted on December 14, 2000, on three counts of mail fraud, one count of wire fraud, one count of filing a fictitious and fraudulent claim against the United States, one count of impersonating a United States employee, one count of making false statements and representations, and one count of making a false representation of her social security number. On April 12, 2001, this same individual was indicted by the State of New Mexico for two counts of forgery, one count of fraud and one count of burglary. Working with the SBA-OIG, U.S. Secret Service, the Albuquerque and Los Alamos Police Departments, a fourteen count federal superseding indictment was filed on July 11, 2001 against this individual, charging her with five counts of wire fraud, four counts of mail fraud, two counts false impersonation of a government employee, one count of false claims, one count false statement, and one count of false representation of a social security number. All motions have been ruled in the governments favor. This individual remains in custody and no trial date has been set.

Los Alamos County, New Mexico

FEMA awarded the County of Los Alamos, New Mexico \$6,767,750 for debris removal, as a result of the Cerro Grande Fire in May of 2000. The County of Los Alamos awarded a debris removal contract to a debris contractor. Once the contractor claimed to have completed all of the debris removal, the contractor requested the full award amount. The County of Los Alamos claimed that the calculated value of debris removed by the debris contractor totaled \$4,243,876. The contractor sued the County of Los Alamos for the full award. The County of Los Alamos then counter sued. FEMA-OIG monitored the work being done and conducted photographic surveillances throughout the debris removal process. Information obtained from our surveillances was supplied to the County of Los Alamos to support their counter suit. Based on this information, the contractor dismissed its lawsuit. As a result of this initiative, a savings of \$2,545,677 in FEMA funds was realized.

PREVENTION ACTIVITIES

Hotline Complaints

The Fraud Hotline's audio response service has recently undergone several changes that have enhanced the system's efficiency. Hotline response prompts are now given for both English and Spanish speaking callers. The new system has also been expanded to incorporate reporting capabilities for the U.S. Chemical Safety and Hazard Investigation Board.

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 772 hotline complaints. The majority of the calls were associated with the June flooding in Texas, Louisiana and West Virginia. Allegations of fraud associated with the September 2000 flooding of Michigan and the March 2001 earthquake in Washington also accounted for many of the complaints. Examples of allegations include:

- Applicants claimed losses that they did not incur, or were not entitled to claim.
- Co-applicants did not properly share/divide the funds received.
- Applicants did not use FEMA funds for intended purposes.
- State/local public officials used FEMA funds for other than intended purposes.
- Applicants' checks were diverted or stolen.
- Contractors and businesses price-gouged to profit from the disaster.



Disaster Fraud Management Training

In 1998, the OIG collaborated with the National White Collar Crime Center, the National Insurance Crime Bureau, and the Small Business Administration to develop a two-day training course to assist state and local law enforcement in combating disaster related fraud. Disaster Fraud Management Training is designed to increase fraud awareness, educate in methods of fraud prevention and deterrence, and provide strategies to maximize resources. During this reporting period two courses were presented in Oakland, California to 75 professionals including prosecutors, investigators, emergency service personnel, and members of the insurance industry. Abridgements of the course were also presented at law enforcement seminars and conferences such as the International Association of Special Investigations Units. To date, FEMA OIG sponsored training that was presented to more than 500 professionals nationwide. In FY 2002, four sessions will be held to accommodate another 145 attendees.

OIG Law Enforcement Task Force Activities

The OIG continues to work under the auspices of the United States Attorneys Office with the United States Department of Justice – Antitrust Division, Federal Bureau of Investigation, Internal Revenue Service – Criminal Investigations Division, and OIGs from the Department of Labor, Transportation, Interior, Small Business Administration, and the Postal Inspection Service.

During this reporting period, the Guam Task Force identified 2 additional highly sensitive conspiracy cases related to the Public Assistance programs. The Guam Task Force is responsible for 2 indictments, 2 arrests, 1 conviction, and \$825 in fines. The Puerto Rico Task Force arrested and prosecuted 2 individuals under a local Commonwealth fraud statute resulting in the recovery of \$10,000 in FEMA disaster funds. The Virgin Islands Task Force, the Puerto Rico Task Force and the Guam Task Force continue to conduct numerous complex and highly sensitive criminal investigations.

Integrity Awareness

Fraud prevention presentations continue to be made regularly at FEMA field and regional offices in the effort to heighten employee awareness of fraud pre-

vention. The presentations offer an overview of the OIG and reinforce the importance and responsibility of the employee 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 28 fraud awareness briefings to 505 FEMA and State emergency management personnel, 75 Arizona Registrar of Contractor representatives, 250 National Flood representatives, 500 Fraternal Order of Police representatives, 150 Economic Crime Summit representatives, and 150 International Association of Special Investigations Unit representatives. In association with the Western Region Inspectors General Council, 5 presentations were made to the United States Attorneys offices in various districts.

Enhanced Fraud Prevention Protocols

In FY 2001, the OIG recommended that FEMA enhance the fraud prevention protocols in the Individual Assistance and Family Grant Program. Recommendations included stronger language in fraud warnings given during telephone registration, enhancements to the “Applicants Statement and Authorization Form,” and dissemination of “Fraud Alert” information sheets to grant recipients. In FY 2001, FEMA agreed to fully implement the above changes. OIG continues to examine and recommend improved fraud prevention and deterrence measures in all FEMA grant programs.

Participation at the National Insurance Crime Training Academy

During this reporting period the OIG participated with the National Insurance Crime Bureau, the Department of Justice, the National White Collar Crime Center, and the Insurance Industry in the development of the National Insurance Crime Training Academy. The academy is designed to provide insurance crime related training to law enforcement and insurance investigators via the Internet. FEMA OIG will provide resource and training information to assist in the prevention, detection and prosecution of disaster related fraud.

OTHER OIG ACTIVITIES

Oversight of Non-FEMA Audits

We processed 42 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 in those reports. The audits, conducted pursuant to OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” identified \$27.7 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 26 audit reports containing recommendations that were unresolved for more than 6 months. Of the 26 audit reports, 9 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.



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 46 proposed changes to legislation, regulations, and policy and procedures that could affect FEMA. Significant reviews included reviewing FEMA program operations manuals, personnel guidelines, continuity of operations planning documents, and the proposed rule section of the Disaster Mitigation Act of 2000.

We commented on various FEMA program operations manuals for programs such as the emergency food and shelter program and human services disaster response program. These programs provide Federal assistance to individuals in the aftermath of a disaster. In addition, we have commented on guidance for FEMA's Disaster Cadre of Response/Recovery Employees program. Positions in the disaster cadre program are authorized under P.L. 93-288 to perform temporary disaster work on an on-call basis. We have also worked closely with the Agency on numerous activities to update and improve FEMA's continuity of operations plans. FEMA's continuity of operations planning activities prepare for operations in alternate facilities should a natural disaster or terrorist attack makes regular FEMA facilities unavailable.

In commenting on the proposed rule section of the Disaster Mitigation Act of 2000, we noted that FEMA should implement internal controls to avoid potential duplication of benefits between home repair grants and claim settlements from the Federal flood insurance program. We also noted that income verification should be considered as part of eligibility testing. We recently provided these comments to the Agency for their consideration.

U.S. CHEMICAL SAFETY & HAZARD INVESTIGATION BOARD

The U.S. Chemical Safety and Hazard Investigation Board (CSB) was created by the Clean Air Act Amendments of 1990 and began operations in January 1998. The CSB's mission is to enhance the health and safety of workers and the public by investigating the causes of serious chemical incidents, recommending protective measures to prevent future occurrences, and identifying and targeting systemic weaknesses in process safety.

To accomplish its mission, the CSB conducts hazard, safety and data studies, produces investigative reports, and issues targeted recommendations and advocates for these recommendations. Five Board members, appointed by the President of the United States, having five-year fixed terms, govern the CSB. Currently, the CSB has 35 full-time employees and a FY 2001 budget of \$7.5 million. In fiscal year 2001, Congress designated FEMA's OIG to serve as the cognizant IG over the agency.

CSB's Report to OMB—Government Information Security Reform Act

Pursuant to the Government Information Security Reform Act (GISRA), the Office of Management and Budget (OMB) required CSB and the OIG to report on the status of CSB's information security program by September 10, 2001. The independent accounting firm KPMG LLP, under our direction and with our assistance, evaluated CSB's information security program and practices.

We determined that CSB has not implemented the required GISRA security program elements. The lack of an effective security program could substantially place CSB's systems and technology at risk. For example, CSB needs to determine its critical systems, designate a Chief Information Officer, develop a security program review methodology, further assess system security weaknesses, and integrate security into its capital planning.

CSB plans to award a contract for information security assessment and consulting services to address the elements required by GISRA. CSB plans to include the contract information and security project milestones in a corrective-action plan report to OMB by October 31, 2001.

FY 2001 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 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 2001 identified three performance goals:

Goal 1 - Add value to FEMA programs and operations.

Goal 2 - Ensure integrity of FEMA programs and operations.

Goal 3 - Deliver quality products and services.

This performance report assesses our performance against those three goals as measured by nine performance indicators. We fell short of meeting some of our performance indicators because of unexpected changes in our priorities and because some of the indicators need adjustment. However, we believe that we have been very successful in adding value and integrity to FEMA's programs and operations.



FY 2001 Performance Goals and Indicators	FY 2001 Actual Performance
<i>Goal 1. Add value to FEMA programs and operations.</i>	
<p>1.1 Issue at least 13 reports on OIG projects.</p> <p>1.1 Issue 90 reports on audits of disaster grants.</p> <p>1.3 Achieve at least 75 percent concurrence with recommendations.</p>	<p>1.1 We issued 28 reports on OIG projects.</p> <p>1.2 We issued 80 reports on disaster grants. We were 11 percent short of our goal because we used our grant auditors on special projects at Headquarters and on statewide audits that require more time to complete than routine grant audits.</p> <p>1.3 We achieved 95 percent concurrence with our recommendations.</p>
<i>Goal 2. Ensure integrity of FEMA programs and operations.</i>	
<p>2.1 At least 75 percent of investigations are accepted for criminal, civil, or administrative action.</p> <p>2.2 At least 75 percent of investigations referred result in indictments, convictions, civil firings, or administrative actions.</p>	<p>2.1 85 percent of our investigations were accepted for criminal, civil, or administrative action.</p> <p>2.3 76 percent of our referred investigations resulted in indictments, convictions, civil firings, administrative actions.</p>

FY 2001 Performance Goals and Indicators	FY 2001 Actual Performance
<i>Goal 3. Deliver quality products and services.</i>	
<p>3.1 Achieve compliance with individual development plan goals and the requirement that auditors receive 80 hours of continuing professional education every two years.</p> <p>3.2 Conduct at least one internal quality control review.</p> <p>3.3 Achieve zero repeat problems on external peer reviews.</p>	<p>3.1 We are into our second year of monitoring continuing professional development and are on target for achieving this performance indicator.</p> <p>3.2 We have not conducted an internal quality control review this year because we have been working with our field offices to make improvements identified in last year's external peer review.</p> <p>3.2 No peer review was conducted in fiscal year 2001.</p>

