EXECUTIVE SUMMARY

This is the 24th 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 October 1, 2000, through March 31, 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 that the OIG considered to be the most serious management challenges facing FEMA. We reviewed FEMA's debris removal management program. We evaluated the mission assignment process used by FEMA to determine whether prior deficiencies had been corrected and the program was operating efficiently. In addition, we conducted a review to assess compliance with insurance purchase requirements in the Public Assistance Program. We responded to congressional concerns about the implementation of the mitigation program for structures damaged by Hurricane Floyd. We also reviewed five States' disaster grants management processes and financial reporting to FEMA. We continued to review information technology services and compliance with security and critical infrastructure requirements. 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 and continued our prevention activities through disaster fraud management training and integrity awareness presentations. 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 $21.7 million, and agreeing to recover and deobligate an additional $3.5 million. We issued 51 audit and inspection reports, processed an additional 34 reports issued by non-FEMA auditors, closed 56 investigations, arrested 37 and indicted 25 individuals/companies, convicted 14 individuals and closed 536 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 2,516 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.

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 were identified in our Fiscal Year 2001 Annual Performance Plan. Particular emphasis was placed on issues identified as the ten most serious management challenges facing FEMA. Those challenges included: (1) redesigning Disaster Response and Recovery Programs, (2) developing consequence management priorities for domestic terrorist events, (3) assessing State and local preparedness, (4) sustaining the national mitigation program, (5) enhancing the effectiveness of the National Flood Insurance Program, (6) modernizing flood insurance rate maps, (7) complying with the Government Performance and Results Act of 1993, (9) 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 42 external reports on Federal fund recipients and processed an additional 34 reports performed by non-FEMA auditors. These reports questioned $2.6 million in costs and identified an additional $9.6 million in funds that could be put to more effective use.

We dedicated significant resources to reviewing States and their compliance with grants management regulations and financial reporting requirements, evaluating compliance with Public Assistance Program insurance purchase requirements, analyzing improvements to the debris removal program, and reviewing cash management activities of the National Flood Insurance Program. We also responded to congressional concerns relating to the mitigation buyout program applied to States affected by Hurricane Floyd. Particular emphasis was also placed on evaluating the Agency's information technology services, including protection of its critical infrastructures. We also completed the audit of the Agency's fiscal year 2000 financial statements.

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

Under its disaster assistance programs, FEMA awards funds to the State where the disaster occurred for public assistance, individual and family assistance, and hazard mitigation. The State serves as the grant recipient and is responsible for administering the funds under the program, including all subgrants made by the State for disaster response and recovery operations.

We reviewed the disaster grants management systems and practices of five States covering 25 disasters and $520.8 million: Arkansas, Illinois, Kansas, Louisiana, and Oregon. 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 grants 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 closeout projects in a timely manner, and State financial status reports to FEMA are often incorrect or untimely. In addition, States do not always maintain adequate documentation to support their share of disaster costs and other financial requirements. FEMA needs to take the initiative to assist the States in developing reliable grants management systems.

Compliance With Public Assistance Program's Insurance Purchase Requirements

The Robert T. Stafford Disaster Relief and Emergency Assistance Act requires State and local governments to protect insurable facilities by obtaining and maintaining insurance as a condition of receiving Federal assistance. FEMA conducts insurance reviews during the project approval process to ensure the applicant satisfies any insurance requirements. Applicants must agree to maintain insurance for the life of the facility.

We conducted a review to assess compliance with insurance purchase requirements, the insurance review process, insurance applicability issues, and possible rule changes for insurance. We reported that:

- Neither FEMA nor the States consistently maintained sufficient information to support their decisions on applicants' insurance status. Thirty-nine percent of FEMA and States' project files did not contain acceptable evidence of insurance. In addition, entities were not maintaining insurance in 34 percent of projects reviewed. Some applicants failed to meet their insurance purchase requirements by purchasing less insurance than required. This has resulted in facilities that are underinsured.

- Unresolved insurance issues existed because FEMA accepted questionable documentation as proof of insurance and did not conduct timely insurance reviews. Incomplete reviews of current insurance coverage increase the likelihood of FEMA providing unnecessary assistance. We recommended that FEMA (1) document on project worksheets the status of applicant insurance purchase requirements during project approval and project closeout, (2) verify insurance in projects involving letters of commitment, and (3) consider requiring applicants to submit updated insurance information in instances where project completion is more than one year following project approval.

- FEMA and States do not regularly monitor public entities to ensure they are maintaining insurance on public buildings that previously received public assistance. As a result, they are not preserving information about applicants that could be used in future disasters to evaluate applicant eligibility. Furthermore, critical historical information is not easily accessible or available to Federal and State personnel responsible for reviewing and approving public assistance projects. This inhibits FEMA's ability to enforce the insurance purchase requirement. FEMA is placing itself at a disadvantage in future disasters because it may lack information to make an accurate and timely decision as to whether the applicant was a prior public assistance grant recipient and subject to insurance requirements, and the extent of those requirements. We recommended that FEMA (1) verify whether an applicant was a prior recipient and identify any prior insurance requirements, (2) query ADAMS data when verifying applicant history, and (3) conduct through the States periodic reviews of the insurance status of public entities that were required to purchase insurance.

- The program contains too many disincentives—especially the current practice of allowing local jurisdictions to wait for their facilities to be damaged before they must obtain insurance coverage. FEMA has established several important policies and precedents on emergency funds and insurance that favor applicants by making them eligible for additional Federal funding.

- FEMA is pursuing changes that would help eliminate current disincentives, streamline insurance reviews, and encourage State and local governments to obtain insurance coverage. In the long term, the potential changes would benefit the public assistance program. We recommended that FEMA review whether legislative change would be required in order for FEMA to recognize self-insurance below the State level.

Mission Assignments

When an event occurs that overwhelms State and local response capabilities, the President declares a national disaster. FEMA officials coordinate with State and local officials to assess operational capabilities and identify resource shortfalls and needed assistance, including tasks that need to be performed by Federal Agencies. FEMA then writes and issues the mission assignment(s) and obligates funds. As the other Federal agency completes the agreed-upon work, both FEMA and the other agency's personnel share the responsibility to monitor progress and work performance.

Although mission assignments represents an important component of FEMA's response to major disasters, OIG reports issued in 1994 and 1995 concluded that management controls were not adequate to ensure that deliverables met requirements, that costs were reasonable, bills were accurate, or that FEMA's interests were protected. We reviewed the Mission Assignment process to determine the extent to which FEMA management has acted to correct those deficiencies.

We concluded that although FEMA has taken steps to implement prior OIG recommendations, it has not yet fully corrected the previously identified problems.

Specifically, FEMA issued several policy and procedure documents that describe how the process should operate, including draft Standard Operating Procedures (SOPs). However, these documents have not yet been finalized. Our review of 91 mission assignments issued between July 1996 and June 1999, totaling $419 million, found that many of the same problems identified in the 1994 and 1995 audits continued to exist. In particular, mission assignments still (1) have excessive performance periods, (2) include activities that are not response oriented, and (3) receive limited oversight. Also, FEMA does not collect the States' share of mission assignment costs when appropriate. We recommended that FEMA (1) finalize and issue SOPs, (2) implement a process to provide effective oversight and monitoring of assignments and (3) be more deliberate in collecting the State share of mission assignment costs.

Debris Management

Debris management has been a long-standing problem for FEMA, State, and local managers assigned the tasks of collecting and disposing debris caused by disasters. We reviewed the major debris removal problems confronting FEMA and State and local governments and FEMA's efforts to correct those problems. FEMA has focused its efforts on improving its debris management problems by emphasizing increased disaster management oversight and improving its policing and procedures. To strengthen the program, we recommended that FEMA: deploy debris specialists at the onset of major debris disasters to ensure timely technical assistance; expand efforts to train and educate emergency management officials at all levels in effective debris management; explore ways to improve the delivery of technical assistance to State and local governments; develop a mechanism to better analyze debris management trends; and provide written instructions to disaster applicants, insurance companies, and property owners about their respective responsibilities for ensuring that FEMA is reimbursed for duplicative benefits.

Guam's Department of Parks and Recreation

The former Director of Guam's Department of Parks and Recreation (DPR), former Public Auditor for Guam, and current Acting Deputy Director of the Department of Administration, was charged in a 13-count indictment with 2 counts of wire fraud, 5 counts of receiving bribes, 3 counts of bid-rigging, and 3 counts of money laundering. We determined that he and his co-conspirators created artificially high price quotations instead of soliciting independent, competitive quotes for repair work. He is also accused of receiving at least $105,000 in kickbacks from contractors who did repair work following Typhoon Paka. If convicted he could receive a maximum prison term of 28 years and be fined in excess of $1 million dollars.

Virgin Islands
Housing Authority

FEMA awarded the Virgin Islands Housing Authority (VIHA) $6.6 million to repair and restore damaged properties. VIHA claimed $8.5 million and FEMA's Eastern Territorial Closeout Team recommended that FEMA reimburse VIHA $7.7 million. However, we recommended that FEMA limit funding to the $6.6 million initially approved because VIHA and the U.S. Virgin Islands Government did not timely request or justify the cost overrun, and the $7.7 million amount accepted by the Closeout Team contained unsupported, unauthorized, and unrelated project charges. FEMA agreed to disallow the additional $1.1 million recommended for acceptance by the FEMA Eastern Territorial Closeout Team.

Omaha Public Power District

The Nebraska Emergency Management Agency awarded $13.9 million to the Omaha Public Power District for emergency and permanent repairs resulting from severe storms in October 1997. The District's claim included questioned costs of $345,861 (Federal Share (FS) $259,396) resulting from an ineligible claim for regular labor time, overstated costs, rate computation errors, and an overstatement of equipment costs. We recommended that FEMA disallow the questioned costs.

California Department of Transportation

The California Office of Emergency Services (OES) awarded $4.5 million to the California Department of Transportation for damages as a result of severe mud and rockslides in January 1993. The Department's claim included questioned costs of $460,084 (FS $345,063) resulting from ineligible non-disaster related costs, overstated force account labor costs, and erroneous force account equipment usage costs. We recommended that FEMA disallow the questioned costs.

Fresno, California Freeze

Six family members filed 28 false claims totaling $138,285 for Mortgage – Rental Assistance following a presidentially declared disaster in Fresno, California. These claims were filed using their own identification documents and identification documents obtained from other individuals under false pretenses. We uncovered 28 fraudulent consumer loans totaling $57,456 that was obtained by this same group, utilizing identities stolen from unwitting victims. Federal indictments for conspiracy, false claims, false statements, identity theft, bank fraud, mail fraud, and wire fraud are pending.

Dawson County Public Power District
Lexington, Nebraska

The Nebraska Emergency Management Agency awarded $11.0 million to the Dawson County Public Power District for emergency and permanent repairs to overhead transmission lines as a result severe ice storms in April 1994. The District's claim included questioned costs of $820,583 (FS $615,437) resulting from questionable contractor fees, ineligible improved project costs, ineligible sales taxes, duplicate and erroneous claims, unreported salvage recovery funds, and pre-disaster expenses. We recommended that FEMA disallow the questioned costs.

Municipality of Caguas
Puerto Rico

FEMA awarded the Municipality of Caguas, Puerto Rico, $1.7 million for debris removal, emergency protective measures, road repairs, and restoration of public facilities as a result of Hurricane Hortense in September 1996. The Municipality claimed $1.7 million. The claim included questioned costs of $272,813 (FS $245,531) resulting from duplication of benefits, unauthorized activities, pre-disaster damage, unsupported costs, and excess labor costs. We recommended that FEMA disallow the questioned costs.

Municipality of Loiza
Puerto Rico

FEMA awarded the Municipality of Loiza, Puerto Rico, $872,122 for debris and solid waste removal, disposal of stagnant waters, and repair to roads and facilities damaged as a result of Hurricane Hortense in September 1996. The Municipality claimed $872,122. The claim included questioned costs of $350,265 (FS $315,239) resulting from unsupported charges, unsubstantiated and unrelated project charges, and losses that were covered by insurance. We recommended that FEMA disallow the questioned costs.

Illinois Department
of Transportation

FEMA awarded the Illinois Department of Transportation $1.5 million for emergency and permanent repairs to off-system roads damaged as a result of severe storms and flooding in May 1995. The Department's claim of $1.4 million included questioned costs of $346,226 (FS $259,670), resulting from duplicate funding, excessive fringe benefit charges, and unauthorized and unsupported costs. We recommended that FEMA disallow the questioned costs.

Hurricane Marilyn
U.S. Virgin Islands Government

The former general manager of RR Caribbean, a St. Thomas, U.S. Virgin Islands (VI)-based company, pleaded guilty, under a plea agreement, to one count of an initial 13-count indictment on charges of wire fraud and filing false claims. The VI Government contracted with Ramtech, a Texas-based company, to replace schools damaged by Hurricane Marilyn with new modular schools. Ramtech, in turn, hired RR Caribbean where the former general manager was in charge. We determined that the former general manager encouraged RR Caribbean's subcontractors, whom he hired, to prepare documents that falsely inflated the actual amount they charged RR Caribbean. He, in turn, inflated payments of about $18,000 to Ramtech, who would then bill the VI Government and FEMA under a cost-sharing agreement. He was sentenced to seven months in jail, ordered to pay $97,000 in restitution, fined $5,000, and will serve three years of probation upon release.

Also, in another case, a contractor was convicted in a jury trial of submitting $32,000 in false claims to the U.S. Government. The contractor provided security services for landfill operations on St. Thomas, US. Virgin Islands. At trial, the U.S. Government proved that the contractor did not provide the number of guards claimed and the majority of the guards provided were not armed. The contractor was found guilty of 8 counts of false claims and 9 counts of mail fraud. He is awaiting sentencing.

Typhoon Paka, Government of Guam

At FEMA's request, the OIG played a major role in the review and subsequent adjustment of the Government of Guam's (GovGuam) request for additional funding related to removal and reduction of debris resulting from Typhoon Paka that occurred in December 1997. A Damage Survey Report, approved in September 1999, provided $3,883,532 to remove and reduce 382,614 cubic yards of debris. Subsequently, GovGuam requested supplemental funding based on its estimate that 1.4 million cubic yards of debris was removed and reduced at a cost of $14.4 million.

Assisted by the OIG, FEMA officials visited Guam in September 2000 to determine the validity of GovGuam's request for supplemental funding. The team conducted interviews with senior GovGuam officials, including the Governor, and reviewed documentation to support GovGuam's request. Although the FEMA team recommended that GovGuam's request for supplemental funding be approved at $14.4 million, the OIG took the position that GovGuam could only reasonably support the removal and reduction of 713,607 cubic yards of debris at a total cost of $7.2 million. The FEMA Director concurred with the OIG's position that the adjusted funding of $7.2 million was a reasonable cost for GovGuam's debris removal and reduction. This resulted in a savings of $7.2 million, half of GovGuam's claim.

MITIGATION

Buyouts: Hurricane Floyd and Other Issues Relating to FEMA's Hazard Mitigation Grant Program

At the request of the Senate Subcommittee on VA, HUD and Independent Agencies, Committee on Appropriations, we reviewed FEMA's Buyout Program authorized by the supplemental appropriation of $215 million dollars as a result of Hurricane Floyd. We reported that:

- The method 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, Small Business Administration (SBA) loans, and other sources of disaster assistance, that may duplicate buyout costs, were not considered in determining funding requirements. We recommended that FEMA followup 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.

- Allocations of interim funding to States were 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 and 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 rationale for prioritizing projects to be funded. We also recommended that FEMA issue guidance that (1) incorporates a priority ranking system, (2) calls for the early identification of other funding sources, (3) establishes a ceiling that will be paid for structures, (4) focuses on primary residences, (5) prohibits relocating in SFHAs, (6) focuses on repetitive loss areas, as well as (7) institutionalizes a post hazard mitigation assessment program.

- The State Hazard Mitigation planning process provides the framework for identifying and implementing meaningful and cost-effective hazard mitigation measures. However, the quality of those plans did not make them a valuable tool in preparing mitigation buyout projects. We recommended that FEMA develop guidance to ensure that States have a meaningful planning process that would facilitate project approval, funding requirements, and up-front aggregate benefit-cost analysis.

- The Increased Cost of Compliance (ICC) provision under the National Flood Insurance Program, which is an additional benefit under the Standard Flood Insurance Policy, does not appear to be utilized as much as it could or should be. ICC coverage will pay up to

$20,000 to elevate, flood-proof, demolish, or relocate the structures declared substantially damaged ICC coverage offers a viable alternative to assess in buyouts through either demolition or relocation. It also offers an alternative to buyouts if circumstances indicate elevation would be an effective mitigation measure. We recommended that FEMA develop a strategy for increasing the use of the ICC program in conjunction with the HMGP.

- FEMA should explore the option of establishing a competitive process for funding hazard mitigation measures. This program could be funded through an annual appropriation that provides FEMA with discretion to determine, through a competitive process, which applicants are best positioned to address the requirements and priorities of the Nation's hazard mitigation objectives and initiatives. An advantage to this option is that it eliminates the "stovepipe" funding for various mitigation initiatives, such as Project Impact, Flood Mitigation Assistance, and repetitive loss projects, by providing greater focus on priorities and accountability of funds spent on hazard mitigation measures. It would also provide incentive for States to formulate meaningful hazard mitigation plans.

NATIONAL FLOOD INSURANCE PROGRAM (NFIP)

Payment of Invalid Flood Claims

We determined that a servicing agent for an insurance company violated Federal regulations by improperly paying invalid flood claims. Specifically, the agent backdated receipt dates of premiums and applications, and changed the effective dates of flood policies to avoid applicable wait periods. In a civil settlement, the insurance company paid $150,000 back to the Federal Insurance Administration (FIA) for four flood claims that were erroneously paid. The investigation also identified associated systemic issues that have been provided to NFIP management.

Cash Management Practices

We reviewed the NFIP's cash management practices and procedures in an effort to identify options for improvements, including the feasibility of allowing interest to be earned on funds deposited in restricted flood insurance accounts, better known as Write Your Own (WYO) accounts. In these accounts, premium income is deposited and maintained as a reserve for payment of claims and other uses.

Our review disclosed that most NFIP funds are held in non-interest-bearing accounts for a week or more by insurance companies who act as agents for FIA. Therefore, most NFIP funds do not generate interest. The few WYO companies that deposit NFIP funds in interest-bearing accounts do not earn as much interest as would be earned if the funds were on deposit at the U.S. Treasury Department (Treasury). Treasury offers a service that would allow the funds to be retained on deposit at the Treasury until needed, enabling the NFIP to offset interest costs on its Treasury debt. The Treasury service known as the Automated Standard Application for Payments (ASAP) would eliminate the need to maintain cash reserves in restricted accounts. As a result, premium funds could be remitted to Treasury more quickly and held at Treasury for a longer period. This would significantly increase the daily balance in the NFIP's Treasury account, thus earning more interest on the funds.

We recommended that the FIA: (1) conduct a pilot test to demonstrate the feasibility and measure the benefits of using the ASAP system, including the need for insurance companies to transfer receipts to Treasury using wire transfers rather than the current system when deposits exceed $100,000; and (2) review FIA's policy of reimbursing insurance companies for bank service charges in addition to normal administrative costs.

FINANCIAL MANAGEMENT

Auditors' Report on FEMA's Fiscal Year (FY) 2000 Financial Statements

The independent accounting firm of Deloitte & Touche (D&T), 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. The FY 2000 financial statements received an unqualified opinion, meaning that they are fairly presented and free of material misstatements. However, D&T identified system deficiencies that resulted in material weaknesses in the internal controls over financial reporting and led the Office of Inspector General 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).

Specifically, we found that FEMA's financial management system was unable to support timely preparation of reliable and consistent financial statement information. To overcome the system limitations, FEMA employees and contractors had to engage in intensive efforts requiring expensive and time-consuming manual procedures to develop reliable information. FEMA continues to produce its financial statements using software that is not integrated with its core financial system. The non-integrated software requires significant manual data entry, increasing the cost and time required to prepare financial statements and increasing the likelihood of error. The software also does not ensure that various statement line items and footnote disclosures are consistent and it does not identify differences for resolution. As a result, FEMA was not able to adhere to a logical and specific timetable to produce its statements, and draft financial statements contained a significant number of errors, omissions, and inconsistencies.

In addition, FEMA's financial management system was unable to support the presentation of detailed financial statement information by organizational component. FEMA eliminated its presentation of combining financial statements, which presents information by organizational component. This change was implemented in order to reduce the extensive manual efforts required to generate reliable information by organizational component. However, the change in presentation also reduced the usefulness of the financial statements to managers because the statements no longer provided information at a program level (i.e. by Directorate), which is useful to measure operational and financial performance by organizational component.

Further, 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. We also noted other internal control weaknesses in FEMA's financial management system, including access control, application program change control, and information technology security control deficiencies.

As a result of these weaknesses, FEMA is 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 does not meet FFMIA requirements. However, in response to both reports, FEMA disagreed that the problems were significant. In its FY 1999 Accountability Report, FEMA stated that the system complied with Federal system requirements. We believe it is unlikely that significant improvements can occur until management recognizes that these system deficiencies (1) substantially hinder FEMA's ability to generate reliable, timely, and consistent financial information and (2) result in significant wasted resources to manually generate information that should be readily available. To overcome the problems, FEMA needs to identify the systems deficiencies as a material weakness, fully analyze the nature and extent of the problems, develop a remediation plan, and secure the funding and support needed to implement the plan.

INFORMATION TECHNOLOGY

Critical Infrastructure Assurance Program

As requested by the President's Council on Integrity and Efficiency (PCIE), we completed Phase I of the PCIE's four-phased initiative to review Federal agencies' activities regarding the protection of their critical infrastructure. The objective of our review was to determine the adequacy of FEMA's planning and assessment activities for protecting its cyber-based critical infrastructures. Specifically, we reviewed agency plans, critical asset identification procedures, and initial assessments of vulnerability.

FEMA is not fully complying with Presidential Decision Directive 63 (PDD-63). PDD-63 mandated that every Federal department and agency was to have implemented its Critical Infrastructure Protection Plan (CIPP) by May 22, 2000. FEMA did not meet this milestone and, as a result, may have difficulty in developing the capability to protect its critical infrastructure by the PDD-63 deadline of May 2003. FEMA could be at risk because adequate controls to protect its critical infrastructure assets may not be in place.

Specifically, we found that FEMA (1) did not provide a complete identification of all its critical assets in the CIPP, (2) lacked documentation of its methodology for identifying the 13 critical information systems listed in its CIPP, (3) was significantly behind schedule in conducting vulnerability assessments of its critical assets as required by its CIPP, and (4) had not prepared remedial plans to correct deficiencies because the vulnerability assessments were not completed. We also found a need for FEMA to (1) improve its multi-year funding plans, (2) include critical infrastructure protection in its annual performance plan, and (3) implement other recommendations made by the national Critical Infrastructure Assurance Office's Expert Review Team. We made recommendations to correct the noted deficiencies.

Internet Vulnerability and Dial-In Analysis

PricewaterhouseCoopers LLP, under our direction and with our assistance, performed an Internet security penetration analysis of FEMA's information systems. The PricewaterhouseCoopers LLP team also performed a dial-in security analysis in April 2000. The purpose of this analysis was to assess the security of FEMA's outward facing information technology systems, identify vulnerabilities that could be exploited by external entities, and aid management in developing effective strategies for countering or mitigating any identified risks.

The analysis identified a number of high-level security strengths as well as measures that could be implemented to enhance defenses against unauthorized access to the FEMA network systems.

Entity-wide Information System Security Program Planning and Management

The independent accounting firm PricewaterhouseCoopers LLP, under our direction and with our assistance, evaluated FEMA's entity-wide information system security program planning and management. We found that management of FEMA's entity-wide system security program and planning needed improvement. Specifically, FEMA lacked an entity-wide system security program plan that was sufficiently comprehensive, the system security management structure was not adequate, an entity-wide risk assessment had not been performed, application risk assessments had not been completely effective, system security program effectiveness was not sufficiently monitored from an entity-wide perspective, and effective system security related personnel policies had not been fully implemented.

We made recommendations that FEMA:

- strengthen its system security plan,
- establish a central independent entity-wide system security program office,
- conduct independent and systematic risk assessments,
- improve its monitoring of the system security program, and
- implement better system security related personnel procedures.

OTHER SUPPORT ACTIVITIES

Cerro Grande Fire Assistance Act Program

The Cerro Grande Fire Assistance Act was enacted to compensate victims of the fire at Cerro Grande, New Mexico, for losses resulting from the fire, and to provide for the expeditious consideration and settlement of claims for those losses. The fire resulted from the initiation by the National Park Service of a prescribed burn at Bandelier National Monument, New Mexico, on May 4, 2000. The burn got out of control and destroyed about 400 residences in Los Alamos, NM, and potentially caused financial, business, and property losses to thousands of individuals, private companies, and governmental units.

In August 2000, FEMA established the Office of Cerro Grande Fire Claims in Santa Fe, NM for the purpose of receiving, processing, and paying claims to fire victims. Congress appropriated $500 million for the administration and payment of the claims.

The OIG is taking a proactive role in this process. The OIG has been on-site since the opening of the Santa Fe office and advises FEMA management on policy issues in a wide range of areas, including cost principles, compliance with applicable criteria, supporting documentation, duplication of benefits, and internal controls. We also perform periodic reviews of claims on a sample basis to determine whether claim payments are adequately supported, and made according to applicable laws, regulations, and other criteria.

In one case, we identified an individual that had applied for and received a $40,000 Small Business Administration Disaster Home Loan for loss of personal property. She also filed a claim for $329,617 in compensation for loss of personal contents, home based business, and wages. The OIG determined that this individual, having assumed the identity of a deceased friend, a FEMA employee, a Federal agent, and an employee of the United States Attorney's office, suffered no loss. On December 14, 2000, she was indicted 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. She remains in custody with no scheduled court proceedings.

Payments For Water and Sewer Services Provided to FEMA by the District of Columbia

The OIG responded to the Omnibus Consolidated Appropriations Act (PL 106-554) that contains a provision that requires the Inspector General of each Federal department, establishment, or agency receiving water and sewer services from the District of Columbia to submit a quarterly report to the Committees on Appropriations of the House of Representatives and Senate. The OIGs are required to analyze the promptness of payment with respect to the services furnished to such department, establishment, or agency.

We determined that FEMA leases its current facility from the General Services Administration (GSA), which in turn leases the facility from a commercial owner. GSA (or the commercial owner) receives the water and sewer services from the District of Columbia and is responsible for paying the water and sewer charges; therefore, FEMA is not covered by this provision of the Act.

Government Credit Card Fraud

Two FEMA employees used their official position to steal Government credit card numbers and purchase merchandise totaling more than $4,000. A search warrant, executed at one of the employee's residence, yielded stolen merchandise and the misappropriated credit card information. Both suspects were removed from FEMA employment and prosecution of one employee is ongoing. Corrective administrative remedies have been employed to prevent similar activity from occurring in the future.

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 643 hotline complaints. The majority of the calls were associated with the September flooding in Detroit, Michigan, and the October 2000 flooding in Miami, Florida. Allegations of fraud associated with the December 2000 ice storms in Texas, Oklahoma, and Arkansas also accounted for many of the complaints. We continue to receive allegations associated with Hurricanes Marilyn and Floyd, the Cerro Grande fire, and the Northridge earthquake. Examples of allegations include:

- Applicants used false names and multiple 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.
- State/local public officials used FEMA money for other than intended purposes.
- Co-applicants did not properly share/divide the money received.
- Price-gouging by contractors and businesses to profit from the disaster.

Disaster Fraud Management Training

In 1998, the OIG, in partnership with the National White Collar Crime Center, the National Insurance Crime Bureau, and the Small Business Administration, developed a two-day training course to assist State and local law enforcement in combating disaster related fraud. During this reporting period we sponsored two courses in Atlanta, Georgia. Forty-two professionals attended including prosecutors, investigators, emergency service personnel, and members of the insurance industry. To date, 377 professionals have attended 14 training sessions. Two additional courses will be offered this fiscal year.

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 prevention. 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 27 fraud awareness briefings to 402 FEMA and State emergency management personnel; 2 briefings to 35 sheriff's deputies and local police, 1 presentation to 12 employees of the Agency for International Development, 1 briefing to 100 members of the Center for Contract Compliance, and 1 presentation to 50 members of the National Association of Insurance Commissioners.

OIG Law Enforcement
Task Force Activities

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

During this reporting period, the Guam Task Force identified $900,000 in fraud related to Public Assistance and Individual Assistance programs, and is responsible for 10 arrests and 4 convictions. The Puerto Rico Task Force arrested and prosecuted 6 individuals under a local Commonwealth of Puerto Rico statute, resulting in the recovery of $61,000 in FEMA disaster funds. The Virgin Islands Task Force continues to conduct numerous complex and highly sensitive criminal investigations.

OTHER OIG ACTIVITIES

Oversight of Non-FEMA Audits

We processed 34 audit reports prepared by non-FEMA auditors on FEMA programs and activities, and we continue to monitor actions taken to implement the recommendations made in those reports. The audits were conducted pursuant to OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

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.

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 bases for our comments are the audit, inspection, investigation, and legislative experience. 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 period, the OIG reviewed 45 proposed changes to legislation, regulations, OMB guidance, and internal directives that could affect FEMA. Significant reviews included draft OMB guidance for auditing compliance with the Federal Financial Management Improvement Act (FFMIA) and draft OMB guidance on implementing the Government Information Security Reform Act (GISRA).

In commenting on the draft guidance for auditing compliance with FFMIA, we noted that the new guidance did not provide clear criteria needed to complete audit work and to assess the extent to which agency systems substantially comply with FFMIA requirements. Specifically, the definition of system requirements covered by FFMIA were incomplete, the materiality thresholds were very broad and did not consider requirements that auditors address safeguarding controls in federal financial statement audits, and the basis for determining what constituted substantial non-compliance was unclear. As a result, we expressed the view that the guidance could lead to confusion and disagreement among the audit and CFO communities, distracting our attention and resources from the important efforts to (1) understand the nature and extent of financial management system deficiencies and (2) implement cost effective improvements. Although OMB made changes to the draft guidance, it did not fully clarify the basis for determining what constitutes substantial non-compliance. In commenting on the draft guidance on implementing GISRA, we suggested several changes designed to encourage agency managers to fully coordinate their activities under the Act with OIG evaluation efforts. Doing so would help ensure that the activities were complementary rather than duplicative and would allow OIG's to rely more heavily on the results of agency activities. OMB incorporated our suggestions in its final guidance.

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.

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.

CUSTOMER SURVEY

The Office of Inspector General has a continuing interest in providing informative Semiannual 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 at HYPERLINK mailto:james.daniels@fema.gov james.daniels@fema.gov.