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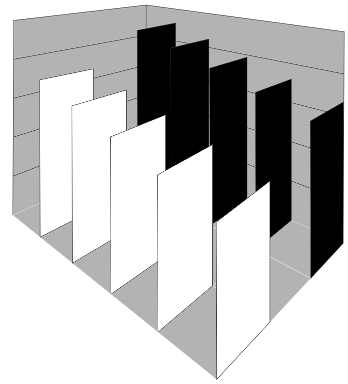

1

Executive Summary

This is the 21st 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, 1999, through September 30, 1999. 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 evaluated the effectiveness of the substantial damage rule as a mitigation tool. We continued to monitor the Agency's effort to comply with Year 2000 requirements. In addition, we reviewed FEMA's financial management system to determine whether controls were adequate and the system was compliant with federal financial requirements. We also reviewed several allegations of impropriety. We devoted significant resources to reviewing disaster costs and grant recipients' compliance with applicable laws and regulations. We investigated numerous allegations of fraud and abuse by disaster recipients. We continued to support Agency managers to improve the overall operations of the Agency through participation on task forces and working groups.

Our audits, inspections, and investigations were instrumental in FEMA management deobligating and recovering $170.9 million, and in agreements to recover and deobligate an additional $9.5 million. We issued 52 audit and inspection reports; processed an additional 32 reports issued by non-FEMA auditors; closed 106 investigations; arrested and/or indicted 17 individuals/companies; convicted 10 individuals; and closed 2,686 hotline complaints.

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Federal Emergency Management Agency

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

The U.S. Fire Administration and the Federal Insurance Administration (FIA) also are under FEMA's jurisdiction. The Fire Administration supports the Nation's fire services and emergency medical services communities with training, public education, and research in fire protection technologies and emergency response procedures. The FIA makes flood insurance available to residents and businesses in communities that agree to enforce floodplain management practices. More than 19,000 communities participate in the National Flood Insurance Program (NFIP), which has more than 4.1 million home and business policies in effect.

3

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 three divisions — Audit, Inspections, and Investigations — and was authorized 60 full-time equivalent positions during this semiannual period. We also engage disaster employees on temporary appointments to audit or investigate disaster-related matters.

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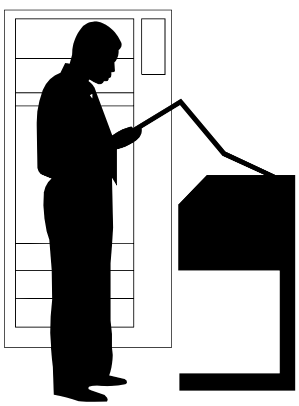
Summary of Significant OIG Activity

We completed several reviews that addressed issues identified in our Fiscal Year 1999 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 7 internal management reports on FEMA operations. We also issued 45 external reports on Federal fund recipients and processed an additional 32 reports performed by non-FEMA auditors. These reports questioned $10.3 million in costs and identified an additional $1.3 million in funds that could be put to more effective use.

We dedicated significant resources to sustaining the National Mitigation Program, enhancing financial management operations, and implementing and maintaining information management systems. Particular emphasis was placed on evaluating the Agency's integrated financial management information system.

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

RESPONSE AND RECOVERY

National Processing Service Center (NPSC), Denton, Texas

Disaster-related housing assistance payments were not certified as required by FEMA and Treasury regulations. In addition, NPSC employees compromised the integrity of the Electronic Certification System by allowing improper access to the system. These internal control weaknesses raised a serious question as to whether 313,164 housing assistance payments, totaling nearly $529 million, were proper and correct. While the internal control weaknesses voided necessary safeguards to prevent improper or incorrect payments, we did not find evidence that FEMA funds were adversely affected.

Based on the results of our review, we recommended that FEMA (1) strengthen controls to ensure that all housing assistance payments are certified as required and (2) determine the feasibility of reviewing the questioned payments.

Virginia Department of Transportation

FEMA awarded $14 million to the Virginia Department of Transportation for the emergency removal of snow that resulted from a January 1996 blizzard. The Department claimed $13.6 million. The claim included questioned costs of $4.6 million (Federal Share {FS} $3.5 million) resulting from charges for unauthorized activities, duplicate charges, excessive equipment costs, ineligible labor costs, and unsupported costs. We recommended that FEMA disallow the questioned costs.

California Highway Patrol

The California Office of Emergency Services (OES) awarded $7.4 million to the California Highway Patrol to cover expenditures relating to the civil unrest in Los Angeles during April 1992. The Highway Patrol claimed $1.4 million. We questioned $1.2 million (FS $869,200) in excessive personnel charges and vehicle mileage charges. We recommended that the Highway Patrol refund the questioned costs.

California Department of Forestry

The California Office of Emergency Services (OES) awarded $34.7 million to the California Department of Forestry for emergency protective measures to suppress fires in October and November of 1993. The Department claimed $34.7 million. We questioned $1.9 million (FS $1.5 million) in duplicate costs, excess charges for force account labor, unrelated project costs, and unsupported costs. We recommended that FEMA disallow the questioned costs, and because FEMA overpaid on eligible costs, the subgrantee should refund $1.8 million.

City of Santa Monica, California

The California Office of Emergency Services (OES) awarded $106.3 million to the City of Santa Monica to repair roads, bridges and other facilities damaged by the Northridge Earthquake in January 1994. The City claimed $3.1 million and received $3.7 from OES. We questioned the excess federal funds provided by OES to the City. We recommended that OES ensure that the $599,280 of excess payments be recovered during the final payment to the City.

Modoc County Road Department, California

The California Office of Emergency Services (OES) awarded $6.6 million to the Modoc County Road Department for emergency work and road repairs. The County claimed $6.6 million. We questioned $425,200 (FS $318,900) as unsupported costs and claims using incorrect equipment rates. We recommended that FEMA disallow the questioned costs.

Ventura County Flood Control District, California

The California Office of Emergency Services (OES) awarded $6.8 million to the Ventura County Flood Control District primarily for debris removal and repair of water control facilities damaged by floods occurring in February 1992. The District claimed $5.6 million. We questioned $544,400 (FS $408,300) in excess improvement costs and force account equipment costs, duplicate claims, unrelated project charges, and unsupported costs. We recommended that FEMA disallow the questioned costs.

Waco-Custer Ditch Company, Inc., Montana

The Montana Disaster and Emergency Services Division awarded $608,000 to the Waco-Custer Ditch Company, Inc. to repair irrigation dam facilities damaged by a flood in March 1997. The company claimed the full amount. Our review of FEMA rules and regulations, as well as other information addressing the eligibility of Private-Nonprofit irrigation organizations, disclosed that the Waco-Custer Ditch Company, Inc. was not eligible to receive FEMA funding. The company did not provide an essential Government service, nor was it open to the public. We questioned the $608,000 (FS $456,000) claimed, and recommended that FEMA disallow the company's claim.

Puerto Rico Department of Education

FEMA awarded the Puerto Rico Department of Education $1.8 million to provide emergency refugee centers and repair facilities damaged as a result of Hurricane Hugo in September 1989. The Department's claim of $1.8 million under two major projects included questioned costs of $413,500 resulting from charges in excess of actual cost and duplicate funding. We recommended that FEMA disallow the questioned costs.

Family Conspiracy to Defraud the Disaster Assistance Program

A mother, sister, and her daughter conspired to defraud FEMA's disaster assistance program of $17,300. A 1998 spring flood damaged the home owned by the mother, who applied for and received FEMA disaster assistance for the damage. She purchased a mobile home and placed it on her property next to the damaged house. When a second flood occurred, the mother again applied for disaster assistance for the already damaged house that she never repaired and was not occupying. In addition, the daughter applied for disaster assistance on damage to the mobile home the mother was occupying. The daughter claimed that the mother's sister sold the mobile home to her. On the initial habitability inspection form, the mother produced a false bill of sale showing that she had sold the mobile home to her sister. However, the document was later destroyed by the claimants. The claimants later admitted to the fraud and entered separate guilty pleas prior to trial. The mother, sister, and daughter received suspended sentences and probation. The judge also ordered the mother and the daughter to repay $8,300 and $9,000, respectively, to FEMA.

Debris Removal Contractor, Oklahoma

In May 1999, catastrophic tornadoes struck Oklahoma City and several surrounding municipalities. The OIG initiated an effort to measure debris in trucks, review contractor invoices, and provide oversight for debris removal operations. This effort resulted in recoveries of $376,200.

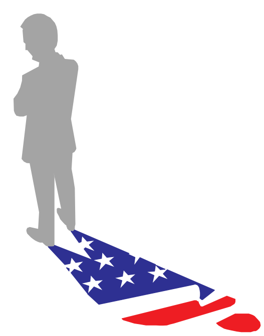
Individual Assistance Fraud

An applicant received disaster assistance funds for a dwelling damaged by Hurricane Georges that was not his primary residence. The applicant received $4,700 in Temporary Housing for emergency repairs and $4,400 in Individual and Family Assistance. Prior to trial, the applicant entered a guilty plea. The court ordered the applicant to repay $9,100 and sentenced him to 6 years in jail.

Bribery of Government Employees

A joint investigation conducted with the Army Criminal Investigations Division (CID) found that two inspectors from the Army Corp of Engineers asked for and received money from a debris removal contractor performing disaster related work as a result of Hurricane Fran in North Carolina. The inspectors were monitoring FEMA disaster funded projects and were responsible for certifying the daily work logs of this contractor. Each of the inspectors received a $1,000 payment from the contractor. Undercover investigators were present when the payoffs were accomplished and, in one instance, for reasons unknown, an inspector asked the undercover agent to take his picture with the contractor. Both subjects entered guilty pleas prior to trial. They were dismissed from Federal service, given probation, and fined.

Public Assistance Fraud, Puerto Rico



As reported in the previous Semiannual Report, the mayor of a municipality in Puerto Rico and a local contractor conspired to defraud FEMA of disaster funds for debris removal after Hurricane Georges. The mayor requested and received a partial payment of a $2.5 million bribe. The mayor and the local contractor have since been found guilty of two counts each of conspiracy and defrauding FEMA of disaster funds. The mayor and the contractor were sentenced to 57 months in jail. The mayor was also ordered to pay a fine of $10,000.

Debris Removal Contractor, Nebraska

A subcontractor, hired to remove snowstorm-related debris along city streets in Omaha, Nebraska, was observed cutting healthy trees from ineligible sites and dumping the ineligible debris at official disaster debris dumpsites. The contractor's intent was to increase his truck volume. This scheme illegally increased his gross profit under his federally funded contract with the city. The subcontractor pleaded guilty in Federal court to one count of fraud. On May 4, 1999, the subcontractor was sentenced to 6 months confinement in a federal institution, 6 months home confinement with electronic monitoring, 3 years supervised probation, ordered to repay $31,300 in disaster funds, and fined $15,000. The subcontractor was also debarred.

MITIGATION

Effectiveness of the Substantial Damage Rule

We assessed the effectiveness of FEMA's Substantial Damage Rule as a mitigation tool. The rule is designed to reduce future flooding risk and save lives and property. The rule requires communities participating in the National Flood Insurance Program (NFIP) to ensure that substantially damaged flood prone structures are mitigated and replaced with flood resistant structures. Mitigation generally requires elevating the structure. A structure is considered substantially damaged when the cost of restoring it to its pre-damaged condition is 50 percent or more of its market value. If substantially damaged structures are not mitigated, the owners face higher flood insurance premiums.

The review disclosed that the substantial damage rule could be an effective mitigation tool if FEMA took advantage of opportunities to assist communities in their efforts to better identify potentially substantially damaged structures. Communities only declared 106 structures as substantially damaged from our sample of 603 structures identified as substantially damaged using insurance claims data. As a result, mitigation efforts are not taking place, which is a contributing factor to structures being subject to future damage. Thirty-two percent of the structures included in our sample had repetitive losses totaling $19 million. Additionally, FEMA could better ensure that policyholders are charged the correct flood insurance premium if the NFIP separated the decision to re-rate policies from the communities' decision to declare a structure substantially damaged. The review also disclosed inconsistencies in methods used to calculate substantial damage.

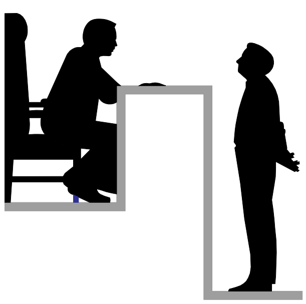
We recommended that FEMA (1) centralize management of substantially damaged structures; (2) notify policyholders, prior to payment, that their homes may be substantially damaged and funds may be available to mitigate; (3) re-rate flood policies based on a structure's flooding risk; (4) require communities to use market value capped at replacement cost to calculate substantial damage; (5) add additional training on the importance of the substantial damage rule; and (6) visit communities to monitor compliance with the substantial damage rule.

FEDERAL INSURANCE ADMINISTRATION

National Flood Insurance Program

A former disaster-housing inspector, who is now a licensed contractor, pleaded guilty to making a material false statement to an OIG special agent in connection with an OIG investigation. The contractor, however, did attempt to create a cover story for the homeowner who had submitted false claims totaling $157,000 against FEMA, the Small Business Administration (SBA) and private insurance carriers for purported flood insurance losses. The contractor was sentenced to 36 months probation, and ordered to pay a $10,000 fine and $10,000 restitution.

A second individual, also formerly employed as a federal disaster-housing inspector, pleaded guilty to making false statements for a claim made through



FEMA's National Flood Insurance Program. He also pleaded guilty for applying for a disaster loan through the SBA for disaster related damages to his home. The investigation established that the contractor had not performed the repair work, as he had stated to OIG agents.

PREPAREDNESS, TRAINING, AND EXERCISES

Allegations of Unnecessary Procurement by the Chemical Stockpile Emergency Preparedness Program (CSEPP) Branch

In response to an allegation of unnecessary fourth-quarter contracting, we reviewed four large fourth-quarter Fiscal Year 1999 procurement actions requested by the CSEPP Branch. Three of the four procurement actions had problems that included vague and inadequate statements of work, possible violations of Economy Act funding restrictions, possible overfunding of contracts, and procurements not approved by the Procurement Review Board. We recommended that FEMA improve the statements of work, review CSEPP contracts, de-obligate unexpended funds, and monitor CSEPP procurements to ensure adequate planning and Procurement Review Board approval.

FINANCIAL MANAGEMENT

Management Letter on Fiscal Year 1998 Financial Statements and Compliance with the Federal Financial Management Improvement Act of 1996

A management letter was prepared in June 1999 in conjunction with our issuance of the Auditor's Report on FEMA's Fiscal Year 1998 Financial Statements. The Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, requires the annual audit. The management letter contained the following findings related to material internal control weaknesses and instances of material non-compliance with certain laws and regulations.

FEMA did not have a fully integrated financial management system to meet the requirements of Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems". Specifically, deficiencies were identified relating to consistent internal control over data entry, transaction processing and reporting to support preparation of agency-wide financial statements. These elements are important characteristics of a fully integrated financial management system. These deficiencies also impacted FEMA's ability to prepare financial statements in accordance with OMB requirements and to meet related Department of the Treasury reporting requirements.

FEMA continued to lack a fully implemented and documented system of management controls that met the requirements of OMB Circular A-123, "Management Accountability and Control." Specifically, deficiencies were identified in certain aspects of FEMA's automated integrated financial management information system, particularly in the areas of information security and access controls, system documentation and documentation related to system modifications, and data entry standards. Please refer to <u>Review of FEMA's Integrated Financial Management Information System (IFMIS).</u>

FEMA did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The weaknesses described above resulted in significant departures from certain requirements of OMB Circulars A-123 and A-127 and were therefore instances of substantial non-compliance with the Federal financial management system requirements under FFMIA.

FFMIA requires the Inspector General to report instances and reasons when an agency has not met the intermediate target dates established in the agency's remediation plan for compliance with FFMIA. As described above, FEMA did not comply substantially with the requirements of FFMIA. FEMA's Office of Financial Management (OFM) is responsible for addressing the deficiencies reported in the management letter. We received OFM's response in September 1999 to our management letter and are currently reviewing those responses. FEMA's previous remediation plan dated September 1998 does not include target dates.

Actions that FEMA needs to take to comply with FFMIA include the following: 1) implement better controls over the financial statement preparation process; 2) implement complementary manual controls, such as timely account reconciliations and management reviews, to support financial statement preparation and to ensure that errors and omissions in accounting records are detected in a timely manner; 3) conduct periodic account closings during the year to ensure timely analyses and reconciliations of financial data and to facilitate a timely year-end closing and audit; and 4) address the several deficiencies identified in FEMA's automated integrated financial information system.

We noted that FEMA improved its ability to comply with laws and regulations over the past year, most notably meeting the statutory deadline of March 1, 1999, for producing Fiscal Year 1998 auditable agency-wide financial statements. OFM is to be commended for this accomplishment. We look forward to FEMA's continued progress and full compliance with FFMIA.

Review of FEMA's Integrated Financial Management Information System

We conducted a review of FEMA's integrated financial management information system (IFMIS). Our objective was to determine the adequacy of the system's internal controls and whether it was operating in compliance with applicable Federal financial management systems requirements.

Although controls in IFMIS were generally effective, there were some areas that could be improved. Specifically:

- Information security controls did not provide for proper segregation of duties and allowed excessive privileged access to be granted;
- Controls were weak in the calculation of vendor discounts. Also, the effectiveness of IFMIS-generated financial reports needs to be improved;
- Some documentation to support authorization for modifications to the IFMIS application was often missing or incomplete, and user and system documentation was often unavailable or incomplete;
- Weaknesses in database entry standards included inconsistent naming conventions;
- Journal vouchers were not in sequential order;
- FEMA lacked a comprehensive business continuity plan to support critical "non-systems" business operations in the event IFMIS is inaccessible. We noted that a disaster recovery system plan is currently in place for computer operations; and
- Contract documentation was incomplete and there were several differences between IFMIS functionality contracted for and the actual user functionality.

We made 21 recommendations relating to the areas of information security; application controls; application system implementation and maintenance; database standards, implementation and support; business continuity planning; and contract review. Recommendations ranged from improving system controls, to establishing sound administrative controls, including standard operating procedures for the system.

INFORMATION TECHNOLOGY SERVICES

Telecommunications Year 2000 Readiness

In January 1999, the Office of Inspector General issued its report, <u>Audit of FEMA's</u>

Compliance with Year 2000 Requirements. That report addressed FEMA's overall Year 2000 (Y2K) program, but did not specifically address telecommunications. Because FEMA's telecommunication and data networks are essential to the Agency's mission and face numerous unique challenges during calendar year 2000, we reviewed telecommunications Y2K renovations and continuity planning completed as of September 15, 1999. We found that FEMA had done a commendable job in its Y2K telecommunications preparations, and continues to scrutinize its operations to assure Y2K readiness. We also found that adequate contingency and continuity planning information is available, but not in any single, easily accessible document. We recommended that FEMA either cross-reference each of the Y2K-related planning documents or create an index that references all of the inter-related topics to facilitate quick access to all pertinent information.

HUMAN RESOURCES MANAGEMENT

Use of Disaster Assistance Employees in the Federal Coordinating Officer Program

We reviewed an allegation that two Disaster Assistance Employees (DAEs) worked at Headquarters in the Federal Coordinating Officer Program, Response and Recovery Directorate, contrary to FEMA guidelines governing the use of DAEs. We determined that two Region II DAEs worked at Headquarters for approximately one year. The DAEs' salary and travel expenses totaled about $165,000 and were incorrectly charged to two disasters. We recommended that policy guidance pertaining to DAEs be improved and its implementation monitored to avoid the improper use of DAEs at Headquarters.

PUBLIC AFFAIRS

Unauthorized Contract Commitments in the Office of Public Affairs

The Office of Inspector General reviewed allegations that the Office of Public Affairs entered into personal service contracts in violation of Federal Acquisition Regulations. Our review disclosed significant unauthorized commitments made by the Office of Public Affairs. A photojournalist had performed personal services for approximately 6 months without an authorized contract. We recommended that the Senior Procurement Executive review the unauthorized commitments, including all supporting documentation, and determine what portion of the work performed by the photojournalist, if any, should be ratified.

OTHER SUPPORT ACTIVITIES

Theft of Government Property

A former FEMA employee was convicted on one count of theft of Government property for embezzling money through the submission of 64 fraudulent local travel vouchers. The employee was sentenced to four months home detention; 5 years probation; and ordered to pay a $1,000 fine and to make restitution of $10,289 to FEMA.

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Prevention Activities

Hotline Complaints

The OIG continues to promote and publish our National Fraud Hotline telephone number as a tool to prevent and deter fraud, waste and abuse within FEMA programs. Hotline posters in both English and Spanish languages are displayed in locations frequented by the general public to encourage the reporting of crimes. We have an additional Spanish Language Hotline at our San Juan office.

During this reporting period we received 2,753 hotline complaints. The majority were associated with Hurricane Georges. Allegations of fraud associated with Hurricane Floyd and the tornadoes in Oklahoma City also accounted for many of the complaints. We continue to receive allegations associated with the Texas floods, the California freeze, and the Northridge Earthquake. Allegations include:

- Applicants used false names and multiple and/or fictitious addresses.
- Applicants claimed losses that they did not incur, or were not entitled to claim.
- Applicants did not use FEMA funds for intended purposes.
- Applicants experiencing difficulty with the insurance company that administers their NFIP policy.
- Contractor problems (repairs paid for in full, and work not completed).
- Township officials used FEMA money for other than disaster related repairs.
- FEMA checks were stolen.

Disaster Fraud Training

The OIG, in conjunction with the Small Business Administration, National Insurance Crime Bureau, and the National White Collar Crime Center, has developed a two-day training course on how to combat disaster related fraud. This course for Federal, State, and local authorities, and insurance investigators is designed to increase fraud awareness, educate attendees in methods of prevention and deterrence, and provide techniques and strategies to better maximize resources. Specifically, this training course gives authorities insight into the potential for crime during a vulnerable time, and enables them to work together more effectively to combat the criminal activity.

During Fiscal Year 1999, the FEMA OIG sponsored training was presented to 200 professionals that included prosecutors, investigators, emergency service personnel, and members of the insurance industry. There are 6 disaster fraud-training courses scheduled for Fiscal Year 2000 that will accommodate 200 attendees.

A three-hour abridgment of this training course has been developed to accommodate the schedules of higher-ranking officials and decision-makers. In Fiscal Year 1999, we presented this course at the National Emergency Management Agency conference and in Oklahoma City immediately following its tornadoes. In Fiscal Year 2000, we anticipate conducting these seminars across the country to a broad audience of high level officials from the International Association for Chiefs of Police, the National Association of Attorneys General, the Fraternal Order of Police, and the National Association of District Attorneys.

Integrity Awareness

Fraud prevention presentations continue at FEMA regional and field offices in an effort to inform employees about the importance of fraud prevention. The OIG also continues to participate in radio, television, and telephone interviews to educate the public about potential fraud schemes. During this reporting period we presented 12 briefings attended by 775 employees, inspectors, contract supervisory inspectors, adjusters, and attorneys.

OIG Law Enforcement Task Force Activities

OIG special agents continue to participate in multi-jurisdictional task forces that are presently conducting several investigations under the auspices of the United States Attorney's Office. Other agencies participating in these task forces include the Postal Inspection Service, the Department of Transportation-OIG, the Small Business Administration-OIG, the Federal Bureau of Investigation, and other Federal and local agencies involved with disaster programs.

The Guam Task Force is currently working several investigations associated with post Typhoon Palka FEMA funded contracts. In Puerto Rico, several investigations involving contractors and government officials continue to be prosecuted by the U.S. Attorney's Office, while the Guam Task Force continues to investigate multiple cases, each involving between \$10,000 to \$25,000 of FEMA disaster funding. The Virgin Islands Task Force is investigating several complex fraud investigations, some involving high-level government officials.

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Other OIG Activities

Oversight of Non-FEMA Audits

We processed 32 audit reports prepared by non-FEMA auditors on FEMA programs and activities in compliance with our responsibility to do so and to monitor actions taken to implement the recommendations. We processed 31 reports relating to OMB Circular A-133, "Audits of States, Local Governments, and Non-Profits Organizations", and 1 contract report. Four reports identified $ 1.2 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 22 audit reports containing recommendations that were unresolved for more than 6 months. Of the 22 audit reports, 20 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.

Two of the unresolved reports are management reports that we continue to have concerns about reaching resolution. Descriptions of these two reports follow:

Audit of the Flood Insurance Re-Inspection Activities, Audit Report H-03-93, Issued February 23, 1993.

We reported that the Federal Insurance Administration (FIA) was not getting the potential benefits of its re-inspection effort on Write-Your-Own (WYO) claims because re-inspection procedures were more lenient for WYO claims than those used for Direct claims. WYO claims are not adjusted for judgmental errors such as overscoping, depreciation, cost verification, and repairs versus replacement. Direct claims, however, are adjusted for judgmental as well as non-judgmental errors. Significant savings to FIA can accrue if uniform procedures are applied. For example, from fiscal years 1989-1991, savings from re-inspections of WYO claims amounted to only $392,000 contrasted with $4 million for Direct claims.

We recommended that FIA change the language in the WYO/FIA agreement and develop uniform procedures for performing WYO and Direct re-inspections. Since the issuance of our report in 1993, FIA has developed a standard Re-inspection Report for identifying judgmental and non-judgmental errors. However, FIA has not developed adequate procedures that require re-inspections be conducted in the same manner for WYO and Direct claims. We therefore consider that recommendation unresolved.

Audit of the Accuracy of Flood-Zone Ratings, Audit Report H-01-95, Issued January 6, 1995.

We conducted the audit to determine the accuracy of premiums for flood insurance policies managed by the FIA. We reported that there were zone misratings in at least 27 percent of the policies in our random sample. For 10 percent of the policies, the premium was incorrect. That meant that about 280,000 of the 2.8 million policyholders were paying the wrong premium. One cause for inaccurate ratings was the difficulty understanding the administrative grandfathering rules that allow policyholders to pay lower premiums than their risk of flooding warrants. Administrative grandfathering uses historical information that may be difficult for agents to obtain and manipulate, and if the information is obtained, it is often too confusing or demanding to use. In addition, FIA did not have a quality control program to monitor the accuracy of ratings. Part of the reason for this is that verifying the accuracy of administrative grandfathering is a cumbersome process that makes a premium review program expensive.

We recommended that FIA look into the feasibility of eliminating administrative grandfathering and establish a quality control program to monitor the accuracy of flood zone ratings. FIA agreed with the recommendations, but to date has not taken action to implement them. Because of the time lapse for implementation, we consider these recommendations unresolved.

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Legislative and Regulatory Reviews

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

During this reporting period, the OIG reviewed 30 proposed changes to legislation, regulations, and internal directives that could affect FEMA. Significant reviews included the draft Federal Response Plan-Operations Supplemental for Y2K Conversion. The supplement describes processes and procedures beyond the normal Federal Response Plan that may be necessary to deal with Y2K consequences. We found that the supplement, particularly with regard to FEMA's role, was sufficient as a guide for responding to Y2K problems. We also provided comments to FEMA's draft regulations pertaining to the National Urban Search and Rescue Response System. These regulations were prepared as a consequence of an audit we conducted of the Urban Search and Rescue Program. Our comments were directed towards clarification of issues, particularly those related to our findings and recommendations dealing with payroll, indirect costs, and fringe benefits. Finally, comments were given on the draft "Government Waste Corrections Act of 1999" that would require all agencies to conduct recovery audits to identify and collect overpayments in agency payment activities. We recommended that agencies be required to coordinate their activities pertaining to recovery audits with their respective Office of Inspector General and that percentages of distribution on amounts collected be clarified.

We also proposed language for inclusion in the Stafford Act amendments to address concerns pertaining to limits on cost recoveries. Our proposal dealt with (1) the time frame that action could be initiated to recovery payments made to recipients of disaster grants, (2) the period of time documentation of actual expenses is required to be maintained, and (3) the requirement that FEMA honor payments for work accomplished under an approved grant agreement pursuant to FEMA guidelines.

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Appendices

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Index of Reporting Requirements

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

Requirements		Pages
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Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	5-14
Section 5(a)(2)	Recommendations with Significant Problems	5-14
Section 5(a)(3)	Prior Recommendations Not Yet Implemented	1/
Section 5(a)(4)	Prosecutive Referrals	None
Section 5(a)(5) &	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of Audit Reports	26-31
Section 5(a)(7)	Summary of Significant Audits	5-14
Section 5(a)(8)	Reports with Questioned Costs	23, 28-31
Section 5(a)(9)	Reports Recommending That Funds Be Put to Better Use	24, 26-31
Section 5(a)(10)	Summary of Reports Where No Management Decision Was Made	26-31
Section 5(a)(11)	Revised Management Decisions	None

Section 5(a)(12)	Management Decision Disagreements	None

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

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Customer Survey

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

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

Attention: James Daniels

Your name: ______________________________

Your daytime telephone number; ______________________________

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

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

Hotline

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

1-800-323-8603

or write:

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

or use Internet Electronic Mail

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

Hotline Complaints

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