

Progress Toward Meeting the FY 2002 Program and Management Challenges Identified by the Inspector General



Following are Program and Management Challenges to FEMA that were identified by the Inspector General in the *FY 2001 Annual Performance & Accountability Report* to be addressed in 2002. These are paraphrased in italics, followed by a description of the activities FEMA management and staff are taking to address and meet these challenges.

PROGRAM CHALLENGES

Homeland Security Support. *The President established the Department of Homeland Security and Homeland Security Council. The mission of the Department is to develop, coordinate, and implement a comprehensive national strategy to secure the United States from terrorist threats or attacks. The Department, in consultation with the Homeland Security Council, is responsible for coordinating efforts to detect, prepare for, prevent, protect against, respond to, and recover from terrorist attacks within the United States. FEMA expects to have a major role as part of the Department of Homeland Security.*

FEMA representatives have been actively involved in working with the Department of Homeland Security to develop and implement the new organization as roles and responsibilities are further defined. The Office of National Preparedness will continue to carry out its mission of assisting state, local, and tribal emergency management organizations to build and sustain effective capabilities to respond to all emergencies and disasters during the time of transition to the new Department.

Disaster Response and Recovery. *As the number of federally declared disasters continues to increase, it is critical that FEMA reduce disaster response and recovery costs, better manage its disaster workforce, ensure the integrity of its many financial assistance programs, and improve program service delivery.*

FEMA's Human Resources Division (HR), as part of the Disaster Workforce Initiative Project announced by the Director in March 2002, is developing templates for recommended staffing in various sized disasters. HR staff are analyzing substantial historical data to determine previous patterns by job title in all disaster cadres and all types and sizes of disasters as a basis for developing resource models or templates as management tools for future events. However, the historical data has limitations. A companion goal of the Disaster Workforce

Initiative is to conduct a competency based analysis for each of the disaster cadres with a goal of consolidating job titles and refining competencies required to meet operational needs.

This consolidation will result in the development of generalists who will be able, in smaller and sustained disaster operations, to fulfill multiple roles rather than requiring a larger number of specialists. When the templates are established, they will be used in the Automated Deployment Database to define frameworks for Disaster Field Office staffing as part of the centralized deployment system. A demonstration of the competency-based analysis for the Information and Planning cadre is underway with a projected completion date of February 28, 2003. If successful, this process will be applied to the remaining cadres with a target completion date of July 31, 2003.

We continue to work with the regions and states to assess and develop their capabilities to manage small disasters. Arizona and North Dakota are managing disasters in their states.

Another area where FEMA has made improvements, but problems remain, is debris removal. FEMA needs to continue improving its control over the debris removal program to prevent serious fraud, waste, and abuse.

FEMA is committed to improving debris operations and has developed a robust training program for debris operations and management, published several guidance documents, and developed a computer-based training course on debris operations for federal, state and local officials. FEMA is developing English and Spanish versions of a debris brochure, which contains pertinent information on eligibility and contracting. This provides another way of informing the public about debris operations. FEMA plans to convene a task force consisting of federal and state partners to explore ways to better manage debris operations.

State and Local Preparedness. *FEMA awards approximately \$140 million each year to state emergency management offices to encourage the development of comprehensive emergency management, including terrorism consequence management, at the state and local level, and to improve emergency planning, preparedness, mitigation, response, and recovery capabilities.*

While it is true that as recently as FY 2000, FEMA awarded approximately \$140 million in grants to state emergency

management offices, it should be noted that the amount requested for this purpose for FY 2003 is \$118 million. In the FY 2003 proposed budget, a large part of the \$16.6 million reduction is designated for terrorism consequence management preparedness as part of the first responder grants initiative.

The FY 2002 *Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks on the United States (Public Law 107-206)*, was signed into law on August 16, 2002. Of the \$225 million, funds totaling \$100 million will be provided for updating plans and procedures to respond to all hazards, with a focus on weapons of mass destruction. The updated plans will address a common incident command system, mutual aid agreements, resource typing and standards, interoperability protocols, critical infrastructure protection, and continuity of operations for state and local governments. Administered by FEMA's Office of National Preparedness (ONP), the funds will flow through the states, with at least 75% going to local governments, and will assist local governments in developing comprehensive plans that are linked through mutual aid agreements and that outline the specific roles for all first responders (fire service, law enforcement, emergency medical service, public works, etc.) in responding to terrorist incidents and other disasters.

FEMA also will provide \$56 million in FY 2002 funds to upgrade state Emergency Operations Centers (EOCs). States and territories will receive a base allocation and then must submit grant proposals for additional funding. A total of \$25 million is available for Citizen Corps activities, including Citizen Corps Councils and expanded training for FEMA's Community Emergency Response Teams (CERTs) across the country. FEMA Director Joe Allbaugh notified Governors of the grant program by letter on August 23, 2002. State grant applications were due November 8, 2002 to FEMA regional offices, and grant awards for all except Phase II of the EOC grants are scheduled for early December 2002.

Additional FY 2002 funds include \$7 million for secure communications, \$5 million to begin laying the groundwork for a National Mutual Aid System, and \$32.4 million for weapons of mass destruction (WMD) training for FEMA's Urban Search and Rescue task forces.

States will receive supplemental FY 2002 funding to modify and enhance their Emergency Operations Plans (EOP), as needed, so that they address all hazards, to include WMD terrorism. In addition, planning funds may be used on the following activities in support of their EOPs:

- Interstate and intrastate mutual aid agreements;
- Facilitate communication and interoperability protocols, including the development of a communications plan so that

networks and communications lines are established prior to an event, thereby minimizing the interoperability problem;

- Establish a common incident command system;
- Identification and plans to protect critical infrastructure;
- Address state and local continuity of operations and continuity of government;
- State and local hazard and risk assessments to determine emergency management planning priorities;
- Coordination of citizen and family preparedness plans and programs, including Citizen Corps, donations programs, and other volunteer initiatives to ensure an effective response to an all hazard events.

The FY 2002 supplemental funds provided to FEMA for Citizen Corps will be used to support the formation of Citizen Corps Councils and the oversight and outreach responsibilities of these Councils, and to expand CERT training across the country. CERT training puts in place a volunteer response force that can supplement the emergency and disaster response capabilities within a community. FEMA's goal is to have 400,000 community members trained in the CERT program over the next two years.

The FY 2002 supplemental appropriation includes \$56 million to help state governments make improvements to EOCs in their states. There will be two phases in the awarding of EOC funding. The first phase consists of a \$50,000 allocation for an assessment of the existing EOC. Phase II involves a national grant application process to address the most immediate EOC deficiencies nationwide, including physical modifications to accommodate secure communications equipment. *FEMA has made considerable progress in streamlining and making the preparedness grant process more meaningful. Despite the progress, two major management challenges remain: (1) developing a reliable method of assessing state and local capability; and (2) developing a reliable basis to implement risk-based funding allocations to states.*

These grants were expected to help state and local governments lay the groundwork for the \$3.5 billion First Responder Grants program proposed in the President's FY 2003 Budget. That proposal would consolidate state and local terrorism preparedness grants for planning, training, equipping, and exercising first responders currently administered in FEMA and the Department of Justice. As of November 18, 2002, neither the House of Representatives, nor the United States Senate had agreed to act on the First Responder Grants program as proposed by the President.

In addition, FEMA's ONP updated state and local government terrorism preparedness planning guidance in conjunction with the FY 2002 Supplemental Grants program guidance, and worked with the Emergency Management Institute

to surge train-the-trainer course delivery for the new course, “Terrorism Planning.”

ONP issued an updated and expanded edition of *Are You Ready? A Guide to Citizen Preparedness (FEMA H-34)*, which provides practical information on preparedness for all hazards, including suggested actions under the Homeland Security Advisory System.

Finally, ONP launched efforts: (1) to create a National Mutual Aid System for response teams and equipment; (2) enhance first responder equipment interoperability; and (3) establish emergency management and first responder performance standards.

The local Capability Assessment for Readiness (CAR) was distributed in June 2002, to states for their use with the local jurisdictions. The Tribal CAR was completed and sent to the National Congress of American Indians (NCAI) in October 2002.

There are currently no plans to update the state CAR. However, FEMA is placing heavy emphasis on establishing baselines and developing the means to assess state and local capabilities through its sponsorship of the Emergency Management Accreditation Program (EMAP). We will begin the state component of the National Emergency Management Baseline–Capability Assessment Program (NEMB–CAP) in January 2003, and will use the EMAP process and assessors to identify a baseline for the 56 states and territories by the end of FY 2004.

FEMA is working on a risk assessment initiative. This initiative is called HAZUS (Hazards U.S.). HAZUS is designed to produce loss estimates for use by state, regional, and local governments in planning for natural hazard loss mitigation, emergency preparedness, and response and recovery. HAZUS could provide the basis for developing a risk-based funding methodology. We believe FEMA needs to explore the potential of HAZUS in future funding allocations to states.

FEMA is nearing completion of the multi-hazard version of HAZUS that incorporates earthquake, flood and hurricane wind loss estimation capabilities. Expansion to other hazards including man-made hazards and terrorism is being planned. It needs to be noted that the Federal Insurance and Mitigation Administration (FIMA), which is leading HAZUS development, does not oversee the decisions related to state funding allocations. HAZUS is being developed for use by state and local agencies and other entities to support their mitigation, preparedness and response planning and which may also be used to support their resource allocation processes.

Mitigation Programs. *Mitigation at the state and local level continues to present FEMA with significant opportunities as well as challenges. It can complement as well as bring an enhanced*

focus to preparedness at all levels of government. However, the challenges are great. The overarching challenge is how to effectively coordinate the various property acquisition programs, including those of the Corp of Engineers to address national mitigation strategies. Also, it is important that FEMA have regulations and guidance as to how its buyout program is implemented. In February 2002, the OIG issued a report that addressed: (1) the need for reliable cost effectiveness determinations; (2) the need for additional guidance for buyouts; (3) improved mitigation planning by states; and (4) improved coordination with the National Flood Insurance Program (NFIP).

FEMA agrees that effective coordination and planning at the local, tribal, state and federal government levels, as well as the coordination of pre- and post-disaster mitigation funding opportunities, is essential to achieving mitigation goals and the prevention of disaster losses. This precept applies regardless of the mitigation activities or the funding source for those activities undertaken by states, tribes and local communities.

FEMA’s new planning regulation, *44 CFR Part 201, Hazard Mitigation Planning*, which was published as an Interim Final Rule in the Federal Register on February 26, 2002, and replaces *44 CFR 206 Subpart M, Hazard Mitigation Planning*, establishes new criteria for state and local hazard mitigation planning. With this emphasis on mitigation planning, many communities will be better positioned to develop proposals for cost-effective mitigation “brick and mortar” projects and activities, including buyouts, and to link pre- and post-disaster mitigation planning and initiatives with public and private interests to ensure a comprehensive, community-based approach to disaster loss reduction. The deadline for approval of state and local mitigation plans as a condition of receiving Hazard Mitigation Grant Program (HMGP) grants will be November 1, 2004. A November 1, 2003 deadline for plans has been set as a condition for local governments to receive Pre-Disaster Mitigation (PDM) grants for “brick and mortar” mitigation projects.

The Interim Final Rule:

- Continues the requirement for state mitigation planning as a condition of disaster assistance;
- Provides incentive for strengthening mitigation programs by establishing criteria for states to receive increased (20%) HMGP funding if, at the time of the declaration of a major disaster, they have an enhanced mitigation plan in place;
- Establishes a new requirement for local mitigation plans as part of the HMGP, which will be phased in; and
- Allows states to use up to 7% of HMGP funds for the development of state, tribal, and local mitigation plans (this provision has been in effect for all disasters declared after October 30, 2000).

In the spring of FY 2002, FEMA conducted mitigation planning workshops for regional and state mitigation staff in all 10 FEMA regional offices, to provide a detailed orientation on the planning provisions of the Disaster Mitigation Act of 2000 (DMA) and requirements of the Interim Final Rule. These workshops also provided the opportunity to introduce states to the local mitigation planning workshop that we have developed to help local governments undertake a mitigation planning process that will meet the requirements of the DMA.

In FY 2002, FEMA awarded PDM grants to every state as well as the District of Columbia, the U.S. Virgin Islands, the Commonwealth of Puerto Rico, American Samoa, and the Commonwealth of the Northern Mariana Islands. FEMA placed an emphasis on mitigation planning in FY 2002 in order to position states and local governments to meet the new criteria for state and local hazard mitigation plans. Most states have chosen to use FY 2002 PDM funds to support planning and risk assessment for local governments. In addition, we awarded 18 PDM grants directly to Indian tribal governments for hazard identification and risk assessment, comprehensive multi-hazard mitigation planning, and public education and outreach.

The new planning provides a framework for linking pre- and post-disaster mitigation planning and initiatives with public and private interests to ensure a comprehensive approach to disaster loss reduction. Such decision-making, based on sound understanding of vulnerability to hazards and appropriate mitigation measures, is the best indicator of a successful mitigation strategy that can be sustained over the long-term.

The FY 2003 Budget dedicates \$300 million to a new competitive grant for pre-disaster mitigation. This new program will replace the formula-based Hazard Mitigation Grant Program, currently funded through the Disaster Relief Fund. The new program will operate independently of the Disaster Relief programs, assuring that funding remains stable from year to year and is not subject to spikes in disaster activity. Awarding grants on a competitive basis will ensure that the most worthwhile, cost-beneficial projects will receive funding.

FEMA staff and managers work internally to coordinate mitigation opportunities afforded through a variety of programs, e.g., HMGP, PDM, the Flood Mitigation Assistance Program, and the NFIP, toward the goals of targeting repetitive loss properties, reducing loss of life and property, and reducing disaster costs. We believe the disaster recovery process will be streamlined through implementation of planned, pre-identified, cost-effective mitigation measures, and we are working across programs to ensure that program requirements are complementary in order to facilitate mitigation efforts at the community and state levels. FEMA also works with its other federal partners to strengthen coordination and collaboration on common activities, and on resolving competing priorities. For

example, FEMA and the U.S. Army Corps of Engineers (USACE) have executed a memorandum of understanding to facilitate coordination of flood mitigation programs between the two agencies.

FEMA also continues to evaluate the implementation of buy-outs in order to strengthen our on-going program. During FY 2002, FEMA entered into a cooperative agreement with the University of North Carolina to conduct a study on the Impact of Property Acquisition Programs on Participating Communities. The purpose of this research is to conduct a national study that focuses on the process of conducting buy-out programs as well as an evaluation of outcomes of these programs. The research focuses on examining the structure of buyout programs and their impact on individual decision-making. The guiding questions include:

- Why do buyout programs work so well in some communities but not in others?
- What is the relationship between a program's structure and individual decision-making?
- What are the reasons why some people participate in a buyout program while others do not?
- Where do people go after their property is purchased; do they stay within the community or move somewhere else?
- What mechanisms are in place to evaluate the economic benefits of conducting local buyout programs?

In order to examine these issues, a sample of four communities that have participated in buyout programs are being studied, including: (1) Kinston, NC; (2) Greenville, NC; (3) Grand Forks, ND; and (4) San Antonio, TX. This study is being conducted in concert with a related study funded by the National Science Foundation, which examines the key factors that influence the decision-making of homeowners who are eligible to participate in a buyout program. The reports will provide FEMA with useful information to evaluate existing practices in the property acquisition program, and to identify steps to strengthen coordination and collaboration with other federal programs, such as the NFIP, Small Business Administration, and the USACE mitigation programs in order to better assist households, communities, tribes, and states that have been affected by disaster events.

There are several challenging issues that need to be addressed with respect to modernization of Flood Insurance Rate Maps. First, secure sufficient funds necessary to modernize maps; second, utilize the best available technology that could provide data on elevation of structures; third, prioritize areas to be mapped that will yield the maximum benefits to the National Flood Insurance Program, including areas of coastal erosion.

Both the Administration and Congress recognize the benefits of providing updated flood hazard data to the nation. The

President's FY 2003 budget included \$300 million for map modernization. Both the Senate and House subcommittees have provided favorable funding recommendations, and although the final amount for FY 2003 has not been determined, we are optimistic that a significant amount of funding will be made available for this effort. Toward this end, FEMA continues to expand innovative state, local, and federal partnerships, and to implement advanced technologies for determining and depicting flood hazards.

The map modernization program relies on partnering and technology in map production and product delivery. FEMA will use base maps supplied by others, the best available technology, including GIS based hydrology and hydraulic modeling, and LiDAR and IFSAR remote sensing to the maximum extent practicable. FEMA's modernized flood data will be provided via the Internet. Leading edge Internet mapping technologies developed through FEMA's Multi-hazard Mapping project and the Geospatial One-Stop Initiative will enable the dynamic combination of FEMA's data with state and local data sets to provide instant online access to FEMA's flood and other hazard information. Collecting elevation data on individual structures will continue to be a challenge given the current state of technology. FEMA has initiated a study of technological advances and other approaches to acquiring these data and making them available for NFIP purposes.

Although certain types of coastal erosion losses are not covered under the NFIP, it appears that because most coastal erosion occurs in conjunction with flooding, that the program, in fact, reimburses much of these losses sustained by policyholders. FEMA estimates that mapping erosion-prone areas would cost approximately \$48 million (if map modernization is funded), to \$112 million (if map modernization is not funded). However, congressional authorization is required to include this hazard on the flood maps and to explicitly factor that risk in setting flood insurance rates. In the FY 2003 budget, the Administration proposed that the program address the increasing risk from flooding brought about by the erosion hazard and that flood premiums explicitly start to reflect this for properties at risk. In the absence of the authorization FEMA has begun and will continue adjusting rates more generally in V-Zones (the coastal high hazard areas) to account for these losses.

One of the major successes for FEMA's Flood Hazard Mapping program, since the development of the map modernization plan, is the Cooperating Technical Partner (CTP) program. The key objectives are to leverage resources, share data and information, avoid duplication of efforts, and increase local involvement and ownership in their flood maps. Since 1999, the CTP program has grown to include 109 state, local, and regional entities.

National Flood Insurance Program. *The NFIP, the largest single line property insurer in the nation with coverage totaling approximately \$628 billion, presents a formidable management challenge for FEMA. When Congress originally enacted the NFIP in the early 1970s, the flood program was expected to reduce the financial burden of flood disasters on the American taxpayer and reduce the number of homes and businesses residing in the floodplain. The at-risk structures, which receive a subsidy for their risk from the NFIP, were expected to be gradually replaced over the years. By 1990, it was projected that only 10% of homes would be subsidized.*

In FY 2002, in keeping with the President's Budget blueprint, FIMA provided analyses for various alternative legislative proposals for reduction in the NFIP premium subsidy for pre-Flood Insurance Rate Map (pre-FIRM) buildings. Work also began on a study with the Department of Housing and Urban Development to obtain additional information on the impacts of subsidy reduction to assist public policy decision makers.

Regarding the nature of the subsidy, however, OIG points out that original projections were that by FY 1990 only 10% of the homes that were insured would be subsidized and that 40% of these buildings still remain in the policy base in FY 2002. It then states that these "at risk structures are flooded repetitively." This discussion is somewhat misleading in that it appears that all of these pre-FIRM properties are the problem when this is not the case.

We agree that the attrition of the subsidized buildings has occurred at a slower rate than originally projected. These early projections did not fully take into account the improved quality of construction and the increased property values that have resulted in older buildings being periodically rehabilitated to extend their useful life. As a result, the attrition of the pre-FIRM buildings is occurring, but at a slower rate than originally projected. This makes it all the more important to focus mitigation programs on the properties that are at greatest risk of flooding.

We are a little unclear as to the OIG's percentages. Today, 29% of NFIP policies are subsidized and 1% of the policies are for repetitive loss properties (45,000 insured repetitive loss properties out of 4.4 million policies). The report *Study of the Economic Effects of Charging Actuarially Based Premium Rates for Pre-FIRM Structures* done for FEMA by PriceWaterhouseCoopers identified significant variations of risk among the remaining pre-FIRM buildings. Around 46% of these structures were estimated to be at or above the Base Flood Elevation (BFE). Many of these structures have voluntarily chosen to be rated actuarially or could reduce their flood insurance premiums by choosing to do so and are not subsidized. A much smaller number of the pre-FIRM buildings are substantially below the BFE or subject to repetitive flooding. By

focusing our mitigation resources on these properties we can significantly reduce flood damages and the pre-FIRM subsidy even if large numbers of the lesser risk pre-FIRM continue to be insured. The problem is not all of the policy base that are pre-FIRM properties, but the smaller subset of these buildings that are at the greatest risk of flooding including the repetitive loss properties.

The increased cost of compliance terms in flood insurance policies can and should be used more frequently to reduce repetitive loss claims and further mitigation objectives. The increased cost of compliance terms in flood insurance policies provides funds to homeowners who have sustained substantial damage to make repairs that would mitigate future flood damages.

During FY 2002, to promote utilization of the NFIP's Increased Cost of Compliance (ICC) coverage, FIMA developed and published marketing, education, and instruction materials. We are encouraging policyholders to assign the benefits of their ICC claims in a buyout situation, to the community. The community is then able to use those funds as a part of their contribution to project funding. In FY 2002, work was started on raising the ICC limit of liability to \$30,000 from the current \$20,000. This increase will be effective upon completion of rulemaking. Further, a revised ICC Manual for communities is being prepared and FEMA regional offices as well as the adjusters have been requested to pay particular attention to Substantial Damage claims.

The OIG noted that there is an estimated 7 million structures located in special flood hazard areas throughout the country. Only approximately 2.4 million of those structures have flood insurance coverage. FEMA needs to maintain a sustained campaign to provide insurance coverage for the millions of uninsured properties that are still at risk.

As of September 30, 2002, there were approximately 3 million special flood hazard area policies. This is considerably less than the number of those at risk. We agree that FEMA must maintain a sustained campaign to insure more Americans. We are working to reinvigorate the NFIP marketing and advertising campaign with a paramount objective of increasing the number of NFIP policyholders. This new national marketing and advertising campaign will be grounded in effective risk communication principles and practice. In this way the campaign will address one of the major obstacles to flood insurance purchase, the lack of perception of risk. It is expected that the campaign will effectively convince consumers of their vulnerability to flood damage and the value of buying and retaining flood insurance protection.

In last year's management challenges, the OIG noted several areas where the Federal Insurance Administration and the Mitigation Directorate could work together to achieve common objectives and further the mission of the NFIP.

How effectively is compliance with floodplain management criteria being enforced as a condition of maintaining eligibility in the NFIP?

We agree that compliance is a continual challenge for the NFIP since local elected and appointed officials continually change. There is an on-going need to provide technical assistance and monitoring for these communities so that they can properly enforce their floodplain management regulations. Our primary tools for technical assistance and monitoring are Community Assistance Visits (CAVs) and Community Assistance Contacts (CACs) conducted by FEMA or by states on behalf of FEMA. We currently have over 14,000 CAVs and 12,000 CACs entered into our Community Information System that OIG can access. We also view workshops and other training and guidance documents as critical to this effort.

As indicated by the OIG, FEMA believes that most communities have effective floodplain management programs and that most new buildings are being built in accordance with program requirements, although there is room for improvement. We will be evaluating community compliance as part of our ongoing Evaluation of the National Flood Insurance Program. The compliance portion of this evaluation will be in two parts. The first part of the compliance portion of the evaluation will focus on the effectiveness of the current compliance process itself. The second part will try to assess the overall level of compliance with NFIP's floodplain management requirements across the nation. The combined results of both parts of the evaluation will allow us to assess the overall effectiveness of the compliance program and determine if changes are warranted. The compliance portion of the evaluation has been initiated and is in its early stages.

The OIG noted that a question that needs to be addressed is if insurance premium discounts provided for under the Community Rating System (CRS) are warranted based on conditions and mitigation actions taken by a community?

FIMA commented on this issue in detail in our October 1, 2002 reply to the recent OIG draft report I-03-02, *Community Rating System: Effectiveness and Other Issues*. In those comments we explained that CRS is revenue neutral and outlined the process that was used in developing those discounts and determining which activities were credited and for how much. The process involves "control point" activities that could be easily measured and using expert opinion to weight other activities in relation to these "control point" activities. We have also conducted periodic evaluations of the CRS to address this issue. The results of these evaluations to date are that CRS is working and that the credited activities do reduce flood losses beyond NFIP minimum requirements. There is not enough loss experience in CRS communities at this time to measure actual reductions in damages, but we will attempt to do so as this experience becomes available.

How effectively are mandatory flood insurance purchase requirements for homeowners being monitored?

FIMA recognizes that lender compliance with mandatory flood insurance purchase requirements is a major concern. FEMA does not, however, have oversight authority for lending institutions. Nevertheless, we foster lender compliance with mandatory purchase provisions by conducting lender training seminars across the country, developing guidance materials for lenders both in hard copy and electronically via our Web site, and by maintaining regular communication with federal lending regulators, Government Sponsored Enterprises (GSEs), and the lending community.

In FY 2001, through the work of our stakeholders, new business increased by about 14% with the addition of 598,411 new policies to the NFIP's books. These gains in flood insurance policies, however, were offset by attrition (556,183 policies) from the previous year's total number of policies in force.

While a certain degree of policyholder non-renewal has to be expected, we recognize that to improve overall NFIP participation we must not only continue to attract new business, but also boost the retention of current policyholders. Therefore, we have initiated a number of strategies and tactics to improve policy retention.

Recent analyses indicate that lenders may be correctly requiring the purchase of flood insurance as a condition of mortgage loan origination. We believe, based on policy attrition rates for the past several years and other data, that enough borrowers may not be maintaining flood insurance throughout the term of the loan, as required by law, to have a significant impact on our policy retention. GAO issued a June 2002 report on this issue, *Flood Insurance: Extent of Noncompliance with Purchase Requirements Is Unknown*.

We plan to work with federal lending regulators and GSEs to identify actions we can take to ensure borrowers are required to renew flood insurance policies annually. Although we do not have oversight authority, we can help identify whether there are any means by which we can prevent renewals of mandatory purchased policies from "falling through the cracks."

Also, we plan to assess state escrow laws and systems to determine whether any obstacles to flood insurance escrow may exist and, where necessary, work with the states on amendments. It bears further research and consideration because monthly-automated payments have been shown to improve the persistency of flood and other lines of insurance.

MANAGEMENT CHALLENGES

Information Technology Management. *Information technology (IT) is vital to FEMA's ability to accomplish its mission, but it presents several management challenges. Increasing connectiv-*

ity between systems, especially through the Internet, and constantly changing and evolving technology and communications, while creating new opportunities for enhancing existing processes, also dramatically increase technology and security risks. As a result, FEMA must remain ever vigilant in guarding its systems and data.

The Office of Cyber Security has instituted a plan for performing security reviews of the Agency's IT systems, beginning with the most critical operations. The office is also reviewing the *Exhibits 300: Capital Asset Plans* to ascertain that each system or activity has or plans to undertake security procedures appropriate to the perceived risks. The objective is to attain security accreditation and certification for critical IT systems.

FEMA is providing a mix of e-government applications and systems to improve access to Agency information and services via the Internet. At present, FEMA has e-government services for five government-to-government programs, one government-to-citizen program, and three that serve citizens, government, and businesses. In the next year, FEMA expects to provide access to ten more programs via the Internet. The goal is to implement a common standard for electronic exchange of Agency information and transactions to citizens, businesses, and other government offices. Project SAFECOM and DisasterHelp.gov will become the leaders in the effort to make the common standard a reality within FEMA and across the federal spectrum.

The OIG identified weaknesses in FEMA's IT capital planning and investment control process. FEMA revised the process to help ensure that it is making technology investment decisions that are cost effective and contribute to accomplishing the Agency's mission. FEMA also faces several upcoming technology decisions making implementation of a good IT capital planning process critical.

The Chief Information Officer (CIO) reorganized the Information Resources Management Board to strengthen the oversight and management of major IT investments. The Chief of Staff serves as chair, and the membership consists of assistant directors, administrators, and office chiefs, who have the authority to decide on IT operations or to recommend approval by the FEMA Director. The CIO serves as the secretariat and records the evaluations and recommendations for inclusion into reports to OMB, Congress, FEMA budget justifications, et al., and the proceedings are coordinated with the Agency's Budget and Planning Council. To facilitate the evaluations of IT projects, the CIO developed a *Capital Planning and Investment Control Guide* to direct the management of IT investments and to facilitate their evaluation by the board. The guide will serve as a template for program managers to track IT projects as they are conceived, developed, and implemented.

Other challenges FEMA faces, according to the OIG, include executing its Homeland Security responsibilities while also

managing its existing systems and programs; pursuing an e-government agenda; implementing significant system and program changes to address the requirements of the Disaster Mitigation Act of 2000; ensuring privacy of sensitive data; managing systems effectively in a rapidly changing IT environment with limited resources; and planning for potential IT human capital issues.

The Director approved the realignment of Information Technology Services Directorate (ITSD) into two distinct functions: (1) strategic and external issues; and (2) day-to-day operations. The executive officer for ITSD will oversee appropriate coordination between the two functions. The Office of the CIO will focus on strategic issues, including but not restricted to cyber security, e-government, enterprise transition management, technology insertions, and homeland security liaison. The three divisions will oversee the planning, development, and operations of daily and special operations.

In concert with OMB, an e-government program manager and two project managers were appointed to oversee both SAFECOM and DisasterHelp.gov, two major IT investments in support of Homeland Security (HS). Other IT managers will continue to coordinate the provision and maintenance of operational support services as requested. These managers will oversee the outreach and coordination of HS activities across the federal structure and with state and local units. This reorganization can respond to new and critical demands for HS and other emergency management responsibilities that have arisen since September 11th.

Financial Management. FEMA faces a significant challenge in addressing long-standing financial management problems and garnering resources to correct them. FEMA does not have a functioning integrated financial management system and its system of internal controls has material weaknesses. For years, these deficiencies have adversely affected the Agency's ability to record, process, summarize, and report accurate, reliable, and timely financial data, and have increased the risk that material errors or irregularities could occur without detection.

In response to the OIG report, the Agency put together a remediation plan that addresses every single one of the concerns. Currently, Agency financial management personnel are tracking each problem area on a week by week basis to ensure FEMA's compliance. The Agency contracted with the consulting firm, Grant Thornton, to revamp its financial management system, and launched a new version in August. Meanwhile, the facilities management office is doing a thorough top-to-bottom, "floor-to-book, book-to-floor inventory" of Agency property. OMB recently noted the Agency had made progress on the White House financial management evaluation scale.

Human Capital Management. Maximizing the value of FEMA employees and increasing organizational performance are significant challenges for FEMA. FEMA's most valuable asset is

its human capital. How FEMA acquires, develops, and deploys its human capital will determine how effectively its mission will be accomplished.

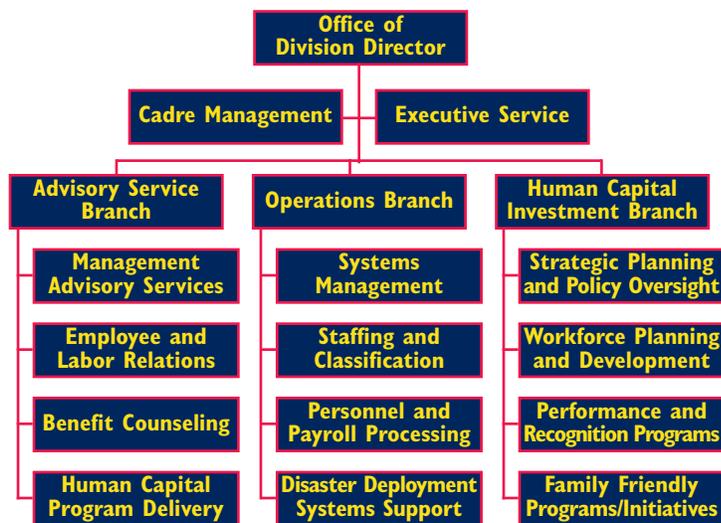
As a first step in meeting FEMA's Office of the Inspector General's Management Challenges, as well as the Administration's and General Accounting Office (GAO) human capital initiatives and the emerging requirements of its strategic planning initiatives, FEMA restructured its Human Resources Division (HRD).

Under the leadership of its management team, FEMA's HRD staff spent six months assessing its mission, structure, and services to establish a base line for change. FEMA's new HRD structure contains three branches: an advisory service branch, a reconfigured operations branch, and a human capital investment branch.

FEMA's 'New' Human Resources Division Plan of Organization

The advisory service branch provides onsite management advisory service and support to FEMA directorates, regional offices, divisions, and branches. The operations branch handles all staffing and selection, classification systems, employee self-service operations, and records processing. The human capital investment branch is designed to take the lead in FEMA's strategic human capital planning, workforce development, organizational development and policy oversight.

In partnership with NAPA, GAO, and OPM, FEMA worked to ensure that the division's restructuring achieved the goals of FEMA's new strategic plan and targeted the needs of employees and management while maintaining day-to-day responsibilities. HRD management also developed a one-year transformation plan to ensure a successful transition for staff in meeting the Agency challenges identified in the FEMA Strategic Plan 2003-2008, and in the FEMA Strategic Human Capital Plan (SHCP).



Source: FEMA

Over the past year, the Agency has also been engaged in charting a clear vision and mission to support this leadership spirit. There is a renewed focus on executing FEMA's vision... A Nation Prepared, with a strong, well trained, competent, motivated, challenged and committed workforce. The current environment has made it imperative that FEMA develop—and execute—an integrated, systematic, Agency-wide approach to Human Capital Management that will enable the Agency to perform the work it is charged to do safely and effectively, ensuring that the resources entrusted are well managed.

“Continuing to attract and sustain a high-performing workforce—and recognizing and rewarding the talents of all our people—is crucial to our success”. —Director Allbaugh

Just as the FEMA Strategic Human Capital Plan was approaching completion, the Department of Homeland Security began taking shape. The transition to the new Department makes FEMA's Strategic Plan, and the new Strategic Human Capital Plan more important than ever. The goals described in the Strategic Plan fully support the mission of the new Department. The Strategic Human Capital Plan highlights the unique capabilities and important strengths FEMA brings with it, underscoring FEMA's role as a cornerstone of the Department.

FEMA has undertaken in the past ten months, a number of actions to respond to workforce issues. The Human Resources Division has been proactive in addressing these concerns, initiating over thirty significant projects, targeting Human Capital improvements aligned to the Agency's Strategic Plan, the President's Management Agenda, and performance accountability. With the migration to the Department of Homeland Security, HRD has identified a new set of 17 'matrix/virtual' teams to prepare for the transition scheduled for March 1, 2003.

The improvement initiatives include: the Stafford Act Workforce Review/Improvement

Program, which will provide for central cadre management, uniform compensation bands determined by staff competencies, and workforce development; implementation of the People Capability Maturity Model (PCMM) 'workplace assessment process' which will improve unit performance, accountability, communications and continuous improvement (the PCMM process has been implemented in FIMA and the Administration and Resource Planning Directorate); mandatory annual management development training and an Employee Awareness program; as well as a series of initiatives focused on improving Human Resources services throughout the Agency.

The action plans include the assignment of accountability for successful implementation, both near-term and long-term timelines and specific milestones, and metrics. Among the

measures of success identified by the HRD management team are: tracking positive responses of workforce satisfaction in the annual OPM Government-wide Human Capital Survey; and in planned quarterly FEMA management surveys, which will begin with the close of the 2nd quarter of FY 2003.

Major change/improvement initiatives were also introduced through 'matrix teams' efforts in all HRD branches/sections to improve customer services, introducing continuous improvement strategies in all functions of the new HRD, establishing HRD specialists as 'catalysts of change' by shifting their role to become internal human capital management consultants, while also involving Agency management in 'virtual teams' in the transformations underway as we prepare to migrate to the Department of Homeland Security on March 1, 2003.

The FEMA SHCP's Management Action Plans, and the HRD Projects/Initiatives are all focused on one or more of the identified (7) Agency Human Capital Management Challenges: Strategic Alignment; Workforce Planning and Development; Leadership Continuity; Knowledge Management; Performance Culture; Strategic Competencies; and Accountability. Specific Metrics are identified, along with timelines and benchmarks, for all change (improvement) initiatives, with senior managers held accountable for their 'matrix (or virtual) teams' success with the project/initiative for improvement. The teams identify definitions of success, as well as outcomes/results expected, for each project plan.

A dedicated Program Manager oversees the progress of all HRD projects, as well as the 'performance culture transformation' process. Nine of the projects have been completed within the agreed timelines and with expected outcomes/results and are now in the process of being institutionalized within division/branch functions. Efforts are underway to assure a smooth transition to the Department of Homeland Security with another '17 new virtual teams' formed the first week of January 2003, while ten current teams move forward with their project plan completions in the next 4-6 weeks.

Grants Management. *FEMA awards billions of dollars in grants each year to state and local governments to administer a myriad of preparedness, mitigation, and response and recovery projects. Grants are the primary tool used by FEMA to administer its emergency management responsibilities. Although grant funds are spent at the state or local level, it is ultimately FEMA's responsibility to ensure that these funds are spent according to prescribed federal laws and regulations. Therefore, it is imperative that FEMA has an effective grants management system in place to fulfill both its program and fiduciary responsibilities.*

FEMA has made notable progress in recent years in relation to its management of federal grant funding. In FY 2002, FEMA continued to realize improvements.

Coordination with the Office of Inspector General

The Grants Office has an effective working relationship with the OIG and, consistent with FEMA's responsibility under *OMB Circular A-133*, we are focused on ensuring that grant recipient audits are completed and that their reports are received in a timely manner. We plan to continue our work with the OIG to verify that this is taking place. The need for this added control surfaced during a recent Single Audit survey by the General Accounting Office.

Each year, the Grants Office and the OIG coordinate on an annual update of the Audit Compliance Supplement, which identifies important compliance requirements that the federal government expects to be part of an audit required by the Single Audit Act.

In FY 2002, the OIG assisted the Grants Office in presenting audit related training to regional grants staff. The training explained what non-federal auditors look for and provided instruction on using the Federal Audit Clearinghouse as a means of monitoring federal grant recipients. Grants management staff in the regions and at headquarters now regularly utilize the Clearinghouse as a tool when evaluating grant awards and compliance with the Single Audit Act.

Improved Policy and Guidance

A *FEMA Grants Handbook* containing important information on FEMA's grant programs for disaster and non-disaster assistance was approved and distributed to headquarters and regional offices. The grants handbook has served as an internal resource document for FEMA's grants management specialists and is now available more widely throughout the Agency.

We've also written and distributed various guidance documents to regional offices to help clarify and standardize grant policies and procedures. The guidance is being reviewed regularly to determine what needs to be revised, eliminated or remain in effect. Both the *Handbook* and the guidance documents are designed to ensure consistent application of grant-related policy by all FEMA staff.

We again issued guidance in FY 2002 to help program offices issue guidance on the award of grants as early in the fiscal year as possible. We plan to issue these procedures annually to encourage a consistent approach to formulating the award requirements of FEMA's grant programs. We are continuing to build a cooperative working relationship between the grants staff and program staff so that other procedures which might improve the timeliness of grantee and sub-grantee reporting can be implemented as opportunities arise.

Basic grants management training is being developed to provide a consistent baseline level of knowledge and skills for grants and program staff as well. While development is beginning on the basic grants administration training, we also rec-

ognize the need to provide advanced training for some staff and training to both FEMA staff and the states we support. Given that, advanced grants training and training that meets the needs of states will also be developed.

The Public Assistance (PA) Program developed and pilot tested a grants administration class that is specific to the requirements of that program. The course, offered to regional PA staff as well as grants management staff in FY 2002, will be updated and offered again in FY 2003. The HMGP offered its grant administration course to regional HMGP program staff several times in FY 2002 and also plans to continue the course. More FEMA grant programs, including Cooperating Technical Partners and Flood Mitigation Assistance are offering program-specific training in grants administration and the Grants Office continues to encourage and support these efforts.

Grant Closeout

Grant closeout teams continue to facilitate the timely closeout of grants by providing technical assistance to regional offices in their closeout efforts. One area being emphasized is the timely deobligation of unliquidated grant funds. A headquarters Field Support Team visits FEMA regions regularly to assist grants specialists and program staff in monitoring unliquidated funds.

In another effort to help expedite grant closeout, we plan to revise FEMA's adoption of *OMB Circular A-102, Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* to include expanded guidance on FEMA's requirements for grantee time extensions. The guidance will be published for public comment to ascertain if any deviations in proposed policy are warranted.

FEMA's policy on granting time extensions is being enforced to ensure consistent adherence to grant management requirements by grantees. We are examining requests for time extensions and providing recommended instructions to regions on achieving closure on each grant. In addition, the HMGP recently issued policy guidance that sets a 3-year period of performance on its grants and underscores the Agency's adherence to its time extension policy.

Grant Monitoring

We're increasing our monitoring of grant recipients in their use of federal funds to prevent past problems cited in audit reports from recurring.

A National Grants Management Conference was held in FY 2002 to provide regional grants staff and a limited number of program staff with hands-on training on grants monitoring. The conference initiated the development of grant monitoring plans by each region. The monitoring plans will focus regional efforts on the common theme of grant monitoring while, at the same time, allow each region to undertake improvements

it determines necessary in its own administration of grants, both programmatically and administratively.

One focus of our monitoring is on financial reporting. We recently issued procedural guidance to help clarify for FEMA staff the information that is required from grantees to accurately report on the financial status of federal grants. We expect this to result in more accurate and consistent financial reporting by grantees. As part of the regions' grant monitoring, we asked for information on some key areas such as numbers and timeliness of financial and progress reports, numbers of requests for time extension and disaster closeouts. Monitoring reports from regions indicate that the regions are working with grantees to help them improve their own programmatic and administrative performance and that of their sub-grantees. In addition to financial reporting, other areas being monitored include the timeliness of payments, record retention and cost share requirements.

For the first time this year, the Grants Office will develop a report on regional grant monitoring to document our efforts and to keep our top management apprised of progress being made. We are hopeful that documentation provided by reports such as this will help to identify additional resources that are needed for the grants management function.

Electronic Grants Management

We're automating the grants process to increase our capability to process and monitor grants. FEMA launched the first life-cycle grants management system in FY 2002 to process grant awards from the \$360 million Assistance to Firefighters Program. Over 19,000 awards were received by the system from fire departments across the country. Over 5,000 grants will be awarded by December 30, 2002.

A newly established E-Grants Task Force is working to streamline and ensure consistency in the grants process throughout the Agency as we expand our own electronic grants initiative. The task force has as one of its primary goals ensuring compliance and compatibility with the HHS E-Grants system that will be delivered in October 2003 and will accept grantee applications and transfer data to federal grant-making agencies. We are aligning ourselves not only with the E-Grants system effort, but also with the related efforts such as the Business Partner Network (BPN), and FedBizops for our grant announcements.

We're working cooperatively with other government-wide grants streamlining efforts.

FEMA staff served on the Cost Principles subgroup that reviewed the three OMB Circulars containing Cost Principles. The mission of the subgroup was to determine if individual cost categories could be revised to be more consistent in description. FEMA will follow OMB's response to public comment on the recommendations.

FEMA recently supplied information for the Federal Grant Streamlining Program Inventory of Grant and Cooperative Agreement Forms and Formats. The inventory now includes a listing of FEMA's grant programs with the application and reporting forms required by each program.

An Intranet Web site has been established to share communication internally among the grants staff at FEMA headquarters and its regional offices. This internal portal for grants information will help to ensure the consistent delivery of appropriate information about grants within the Agency. Links can be found there to Agency-specific and standard grant forms such as the Application for Federal Assistance, Direct Deposit form, and Request for Advance and Reimbursement.

Government Performance and Results Act Implementation. *Measuring and reporting on performance, as required by the Government Performance and Results Act continues to be a critical challenge for FEMA. FEMA complied with the GPRA requirements that call for Annual Performance Plans and Report. However, according to FEMA and GAO, only some performance goals related to its three strategic goals.*

FEMA issued a new strategic plan in July 2002 to provide a clear path into the future. The vision and mission will be achieved through a series of goals focused around FEMA's lines of business that build a strong internal foundation based on human capital development and performance-based management. There is greater synergy between FEMA's FY 2003 and 2004 Annual Performance Plans and the new Strategic Plan.

