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REPORT TO THE CONGRESS

093754



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

Formidable Administrative Problems Challenge Achieving National Flood Insurance Program Objectives

Department of Housing and Urban Development

To meet a 1983 deadline required by law, the Federal Insurance Administration must make full program coverage available to flood-prone communities and must have a system for insuring that participating communities comply with program requirements.

However, as shown in this report, formidable difficulties must be overcome if the deadline is to be met.

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APRIL 22, 1976

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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4 To the President of the Senate and the
Speaker of the House of Representatives

1 This report addresses the Department of Housing and
Urban Development's efforts to implement the Flood Disaster
Protection Act of 1973. We reviewed the Department's flood
insurance program to determine the progress being made by
2 the Federal Insurance Administration, and other Federal
agencies and instrumentalities in implementing the national
flood insurance program as revised by the Flood Disaster
Protection Act of 1973.

We made our review pursuant to the Budget and Accounting
Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing
Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Secretary
of Housing and Urban Development, the Secretary of the Army,
the Secretary of Agriculture, the Secretary of the Interior,
the Chairman, Tennessee Valley Authority, and the
Administrator of Veterans Affairs.

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Handwritten signature of Thomas R. Heath in cursive.

Comptroller General
of the United States



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ABBREVIATIONS

FHA	Federal Housing Administration
FHLBB	Federal Home Loan Bank Board
FIA	Federal Insurance Administration
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
NFIA	National Flood Insurers Association
NOAA	National Oceanic and Atmospheric Administration, Department of Commerce
SCS	Soil Conservation Service, Department of Agriculture
TVA	Tennessee Valley Authority
GS	Geological Survey, Department of the Interior
VA	Veterans Administration

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FORMIDABLE ADMINISTRATIVE
PROBLEMS CHALLENGE ACHIEVING
NATIONAL FLOOD INSURANCE
PROGRAM OBJECTIVES

Department of Housing and
Urban Development 23

D I G E S T

The National Flood Insurance Program allows property owners in flood-prone areas to buy federally subsidized flood insurance. So that such insurance may be made available, communities are required to adopt and enforce flood plain management regulations to reduce future flood losses. 2 751
3 16

The Flood Disaster Protection Act of 1973 required flood-prone communities to participate in the program. This was the means for considerably reducing flood losses over the long term. (See pp. 2 and 8.)

- 2 The Federal Insurance Administration identified over 21,000 flood-prone communities that were subject to the requirements of the National Flood Insurance Program, as of June 30, 1975. When the program was established in 1968, about 5,000 communities had been identified. (See p. 17.)

Communities may enter the emergency program rather easily. They cannot enter the regular program until the Federal Insurance Administration completes detailed studies and maps for the communities.

Studies and maps are needed quickly so that

--communities can adopt enforceable flood plain management regulations and

--property owners in flood hazard areas can obtain the maximum available insurance.
(See pp. 6, 7, and 15.)

Although the Federal Insurance Administration had made considerable progress in identifying flood-prone communities and in providing them with flood-hazard boundary maps, it had made little progress in completing the necessary studies and moving communities into the regular program. Delays have occurred because of

- ineffective planning and scheduling of studies,
- changes in study guidelines,
- delays in reviewing completed studies,
- required corrections to rescinded maps, and
- ineffective coordination and use of Federal resources available to perform the studies.
(See pp. 15 and 21 to 34.)

The Federal Insurance Administration must complete its studies on all flood-prone communities by August 1, 1983. To meet this deadline, it will have to increase its completion rate from about 91 studies a year to about 2,600. The Federal Insurance Administration is not likely to meet that deadline. (See pp. 18 and 21.)

The Federal Insurance Administration told GAO that in its view it could start studies for all communities by the deadline if reasonable resources were allocated, but completion of the later studies would delay conversion of some communities to the regular program until about 1985. The Federal Insurance Administration said that a detailed plan for scheduling the studies had been developed by fiscal year through 1983.

Resources necessary to meet the deadline will greatly exceed current levels of funding.

Early in 1974 the Federal Insurance Administrator contracted with two private engineering firms to review completed flood insurance studies. By June 30, 1975--16-1/2 months later--the contractors had reviewed only 49 studies because they were updating older studies awaiting review to conform to the agency's latest guidelines. (See pp. 26 and 27.)

The Flood Disaster Protection Act of 1973 requires that property owners have flood insurance as a condition of Federal or federally related financing for acquisition or construction of property in flood hazard areas. GAO tested implementation of the requirement in nine communities and found that the required flood insurance generally was being obtained.

Most noncompliance was attributed to the newness of the program. Some cases of noncompliance involved the Federal Housing Administration and Veterans Administration guaranteed loans. Although the Federal Housing Administration had assumed responsibility for insuring that the required flood insurance was obtained, the Veterans Administration had charged the lending institutions with this responsibility. Some lending institutions relied on the agencies to specify the need for flood insurance. (See pp. 52 to 54.)

The policies that Federal regulatory agencies followed on the flood insurance requirement for mortgages purchased on the secondary market were inconsistent. The Acting Federal Insurance Administrator agreed that a consistent policy was needed and told GAO of actions planned to resolve the matter. (See pp. 54 to 57.)

The Federal Insurance Administration needs an effective system for monitoring participating communities' compliance with program requirements. GAO's review of program implementation by nine communities showed that some had been permitted to remain in the program for several years even though they had not adopted acceptable flood plain management regulations and some communities were not enforcing compliance with approved regulations.

As a result, the Federal Government had no assurance that the communities' flood-prone lands were being developed wisely to prevent or minimize future flood losses. (See pp. 41 to 44 and 47 to 49.)

To resolve these problems, the Secretary of Housing and Urban Development should

--present to the Congress, for its consideration, the detailed plan developed for systematically scheduling flood insurance studies for all identified communities by the statutory date of August 1, 1983, including the annual levels of funding necessary to meet that plan (see p. 35);

--assign the responsibility for updating and revising older studies awaiting review to a separate contractor (see p. 35); and

--establish and implement a monitoring system to insure community compliance with program requirements (see p. 50).

The heads of the various agencies concerned with flood control should coordinate their efforts so that available manpower and resources are allocated to help meet the deadline for completing flood insurance studies. (See p. 35.)

The Secretary of Housing and Urban Development and the Administrator of Veterans Affairs should determine who should be responsible for seeing that flood insurance is obtained and issue clarifying instructions to their field offices to see that flood insurance is obtained in connection with Federal or federally related financing for acquisition or construction of property in flood hazard areas. (See p. 57.)

AGENCY COMMENTS

The Federal Insurance Administration agreed with GAO's recommendations (see app. I) and made the following comments.

--Flood insurance studies for all communities could be started by the 1983 statutory deadline if reasonable resources are allocated. A detailed plan has been developed for those studies by fiscal year through 1983.

--Review of the later studies, as well as community appeals, will delay conversion of some communities to the regular program until about 1985.

--Two additional review contractors are to be added by the end of the transition quarter to reduce the backlog of studies awaiting review.

The Federal Insurance Administration agreed with GAO that efforts of the several Federal agencies involved in mapping flood hazard areas needed improvement. The other agencies involved indicated that they were trying to give the highest practicable priority to allocating available manpower and resources to help the Federal Insurance Administration meet the deadline. Detailed comments from each agency are included as appendixes.

The Federal Insurance Administration said that it had taken or would take action to carry out the monitoring system GAO recommended. (See p. 51.)

The Veterans Administration and the Federal Insurance Administration offered different views as to who should assume the ultimate responsibility for insuring that the required flood insurance is obtained.

CHAPTER 1

INTRODUCTION

Floods have been, and continue to be one of the most destructive natural hazards facing the people of the United States. Since the adoption of a national flood control policy in 1936, the Federal Government has invested over \$9 billion in flood protection works and State and local governments have invested additional millions. Even though these projects have contributed greatly to reducing or preventing the loss of life, flood damages have been increasing each year since 1936 and average annual losses exceed \$1 billion. The increases are largely attributable to the unwise use of the Nation's flood plains.

Flood plains are normally dry land areas which act as a natural reservoir and temporary channel for flood waters. Floods occur when water flowing in a well defined channel exceeds its banks due to excessive runoff from rain storms or heavy snow melt or when a body of water, such as an ocean or bay, experiences high tides resulting from severe storms. When manmade development encroaches upon the flood plain, it may retard the plain's natural capacity to store or pass flood flows. Flood heights are then raised, velocities are increased, and additional areas are subjected to damage.

The primary method to reduce flood damage has been through structural measures such as dams, reservoirs, dikes, levees, channel improvements, and watershed treatment. In the past decade, however, flood disaster relief increased and greater emphasis was placed on efforts to plan and regulate the use of flood plains to curtail flood damages and on programs to insure flood victims against property losses.

In the Southeast Hurricane Disaster Relief Act of 1965 (79 Stat. 1301) the Congress directed the Secretary of Housing and Urban Development to study alternative methods for providing Federal disaster insurance. The study showed that the flood damage hazard in the United States was constantly rising as increasing numbers of people moved to coastal and river locations for recreation, for business, and for other purposes. In addition, unwise development, reflecting ignorance or indifference, and sometimes an overestimation of the flood protection actually provided, increased the demand for property in flood-prone areas, thus accelerating flood damages.

Another of the study's major conclusions was that many people in high-flood areas are badly uninformed about flooding risks to which they are exposed, that they are grossly over optimistic about the chances that their property will not be flooded, or else that they expect public help to bail them out when the inevitable flood disaster strikes.

The Department of Housing and Urban Development (HUD) study affirmed the feasibility of a program to offer flood insurance at subsidized premium rates for those who had built in hazardous areas without fully knowing or understanding the consequences. However, it emphasized that such a program would be viable under two conditions only.

- Actuarial (nonsubsidized) premium rates to be charged for future construction in flood plains.
- Communities to be required to implement flood plain management regulations to reduce or avoid future losses.

In return, communities would receive the benefit of subsidized insurance protection for previously existing structures.

As a result, the Congress, in August 1968, enacted the National Flood Insurance Act of 1968 (42 U.S.C. 4001) which authorized the National Flood Insurance Program.

NATIONAL FLOOD INSURANCE PROGRAM

The Federal Insurance Administration (FIA), HUD, was created in December 1968 to administer the program. The program provides two basic lines of defense against flood losses. First, it allows property owners in designated flood-prone areas to buy flood insurance. Second, for federally subsidized flood insurance to be made available, communities¹ must adopt and enforce flood plain management regulations to reduce the probability and severity of flood damage.

¹For purposes of the program the term "community" means a State or political subdivision thereof, such as a county or incorporated municipality, with authority to adopt and enforce the required flood plain management regulations for the areas within its jurisdiction.

The National Flood Insurance Program makes coverage available for residential, business, agricultural, religious, private nonprofit, and local and State government structures and their contents. The program is a cooperative effort between FIA and a pool of over 120 private insurance companies which comprise the National Flood Insurers Association (NFIA). Under a contract between the Secretary of HUD and NFIA, member companies sell and service the flood insurance policies written under the program. Companies participating in the association as riskbearers commit risk capital (over \$44 million had been committed as of March 1975) and share in the aggregate profits or losses of the pool's operation for each accounting period. Other companies participate on a nonrisk bearing basis, acting as fiscal agents for the pool.

The Federal Government, fulfilling its financial responsibilities under the program through the National Flood Insurance Fund:

--Subsidizes the private industry pool through premium equalization payments. These payments funded by the Treasury represent the Federal Government's payment for risk it has assumed by reducing the chargeable premium to an affordable level for owners of existing properties, and cover a portion of losses and operating costs. The 1968 act, as amended, authorizes Treasury borrowing of up to \$500 million plus an additional \$500 million with the President's approval and notification provided the Congress. The act also authorizes appropriations to replenish amounts borrowed but, according to an FIA official, this authority had not been used through fiscal year 1975.

--Provides a Federal program of excess loss reinsurance to assist the industry in the event of catastrophic losses. Catastrophic losses are those sums too large for reimbursable purposes of the private insurance industry without Federal financial assistance. NFIA purchases the excess loss coverage by paying reinsurance premiums into the Fund.

From the Funds' establishment in fiscal year 1970 through fiscal year 1975, its total income came from reinsurance premiums of about \$11 million but its total expenses (incurred from premium equalization payments and interest on Treasury borrowings) were about \$122 million, as shown in the table on page 5. The resulting deficit of about \$110 million has been financed by Treasury borrowings.

Program costs for administrative expenses, surveys, and studies are financed through appropriations. Based on data provided by FIA, obligations through June 30, 1975, for these purposes would total about \$94 million (fiscal year 1975 obligations were estimated by FIA).

Thus, since establishment of the National Flood Insurance Program cumulative costs have totaled about \$204 million. The operations of the National Flood Insurance Fund and the amounts obligated by fiscal year according to FIA data are shown in the following table.

Cost of National Flood Insurance Program
Fiscal Years 1969 to 1975 and Cumulative

<u>Source of funds</u>	<u>Fiscal year</u>							<u>Cumulative</u>
	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	
----- (In thousands - rounded to nearest thousand) ^a -----								
National Flood Insurance Fund:								
Fund expenses	\$ b-	\$ 144	\$1,676	\$ 7,198	\$22,871	\$40,062	\$49,629	\$121,580
Fund income	b-	56	927	1,056	1,661	3,002	4,455	11,157
Fund deficit ^c	b-	88	749	6,142	21,210	37,060	45,174	110,423
Appropriations:								
Funds obligated	<u>1,093</u>	<u>1,947</u>	<u>4,987</u>	<u>5,982</u>	<u>9,990</u>	<u>19,904</u>	<u>50,000^d</u>	<u>93,903</u>
Total program cost	<u>\$1,093</u>	<u>\$2,035</u>	<u>\$5,736</u>	<u>\$12,124</u>	<u>\$31,200</u>	<u>\$56,964</u>	<u>\$95,174</u>	<u>\$204,326</u>

^aSubtotals and totals may not agree with column or line calculation results because of rounding.

^bNational Flood Insurance Fund not established until fiscal year 1970.

^cRepresents amount of Treasury borrowing necessary to cover each year's deficit. Does not necessarily equal amount of Treasury borrowings in any given year.

^dEstimated by FIA.

Property owners may purchase insurance from any property and casualty insurance agent or broker licensed to do business within the owners' State. An FIA official told us that, as of June 30, 1975, about 539,000 policies with insurance coverage totaling about \$14 billion were in force, and that policy holder premiums for fiscal year 1975 amounted to about \$40 million. The average coverage per policy would then be about \$25,000 and the average annual policy holder premium about \$74.

Policies are available, however, only in communities or areas which FIA has designated as eligible. To be eligible, a community must apply for designation and must adopt and enforce flood plain management regulations which meet FIA standards.

Participating communities may be suspended from the program for failure to adopt required flood plain management regulations, for revoking regulations adopted and approved by FIA, or for nonenforcement of adopted regulations. The community's eligibility remains terminated until, upon satisfactory evidence of an active flood plain management program, the community is reinstated by the Administrator, FIA. Flood insurance under the program cannot be sold or renewed in a suspended community.

PROGRAM CHANGES AND PROGRESS (1968 TO 1973)

From passage of the 1968 act through calendar year 1973, the National Flood Insurance Program operated on a voluntary basis. Communities could enter the program if and when they desired. Amendments to the 1968 act during this period provided some incentive for communities to enter by simplifying entry into the program and by broadening the scope of covered flood related losses.

1969, 1971, and 1973 amendments

Under the original or regular program as enacted in 1968, insurance could not be made available until a detailed and time-consuming flood insurance study had been made in the community to establish actuarially sound rates for the coverage and to determine and map (flood insurance

rate map) the level¹ at which new construction would be reasonably safe from flooding. This requirement severely restricted the rate at which communities could be brought into the program. At HUD's urging, the 1968 act was amended on December 24, 1969, to implement an emergency program.

Under the emergency program, property owners in eligible communities could obtain a first layer of insurance coverage on structures at federally subsidized rates even though the detailed study and rate map required for the regular program would not be completed for some time. Eligibility in the emergency program required that the community officially apply for participation and adopt minimum flood plain management regulations to guide new construction in flood-prone areas. FIA provides each flood-prone community a flood hazard boundary map outlining the areas estimated to be inundated by a 100-year flood. This map is developed on the basis of available information regarding the community's known flood hazard areas and is to be used until the more detailed flood insurance rate map is provided. Originally established for a 2-year period ending December 31, 1971, subsequent amendments in 1971 and in 1973 extended the emergency program to December 31, 1975.

The 1969 amendment also expanded the definition of flood to include inundation from mudslides caused by accumulations of water on or under the ground.

Program progress--1968 to 1973

The National Flood Insurance Act of 1968 was approved August 1, 1968. At that time, an estimated 5,000 flood-prone communities had been identified by the Corps of

¹FIA adopted the 100-year flood as the standard for identifying special flood hazard areas and as the base flood elevation for adopting local land use controls. The 100-year standard represents the flood level that on the average will have a 1-percent chance of being equaled or exceeded in any given year. The standard is established in terms of probability in order to achieve uniformity throughout the country as an estimate of degree of risk, without regional discrimination. A standard or probability was also required as a means of estimating potential annual damages for given locations and types of properties in order to determine actuarial rates for new construction as required by the National Flood Insurance Act.

Engineers (Corps). NFIA began to sell regular program flood insurance on June 25, 1969, after the Secretary of HUD had designated the first two communities eligible for flood insurance coverage.

In January 1970, 1 month after the emergency program was authorized, 4 communities were in the regular program, 16 policies had been sold, and \$392,000 of flood insurance coverage was in force.

By January 1, 1974, with the simplified entry provisions of the emergency program, participating communities had grown to 2,856, of which 2,264 were in the emergency program. About 312,000 policies with a total face value of about \$5.5 billion were in force. The number of identified flood-prone communities, however, had grown to about 13,600.

FLOOD DISASTER PROTECTION
ACT OF 1973

The voluntary nature of the National Flood Insurance Program was changed markedly by enactment of the Flood Disaster Protection Act of 1973 on December 31, 1973.

The act followed congressional recognition of the national need for a more reliable and comprehensive flood insurance program to provide adequate indemnification for the loss of property and the disastrous personal losses suffered by victims of recurring flood disasters throughout the Nation. In addition to the need for a more effective Federal flood insurance program, the Congress also recognized that mandatory flood insurance coverage must be applied with adequate safeguards and land use restrictions to minimize future losses of life and property.

The act substantially increased the limits and made other changes in available insurance coverage. The following table compares coverage available under the 1968 act with that provided by the 1973 act.

	Emergency program coverage (note a)		Regular program coverage (note a)	
	<u>Old limit</u>	<u>New limit</u>	<u>Old limit</u>	<u>New limit</u>
Single family residential	\$17,500	\$ 35,000	\$35,000	\$ 70,000
Other residential	30,000	100,000	60,000	200,000
Nonresidential	30,000	100,000	60,000	200,000
Contents, residential	5,000	10,000	10,000	20,000
Contents, nonresidential	5,000	100,000	10,000	200,000

^aIn addition, for Alaska, Hawaii, and the Territories of Guam and the Virgin Islands, the act increases the limit of structure coverage in the case of one-family residential properties, to \$50,000 emergency program coverage and \$100,000 regular program coverage. In the case of all other residential properties, the coverage is increased to \$150,000 and \$300,000 respectively for the emergency and regular programs.

The act broadened the scope of insurance coverage to include erosion losses caused by abnormal water levels and similar unforeseeable conditions, and to make it clear that all flood-related mudflow losses are covered, regardless of unrelated preexisting conditions.

In addition, the act provided a number of strong incentives for the purchase of flood insurance and for community participation, thereby looking toward the ultimate reduction of Federal disaster-relief outlays through the substitution of insurance and through wise future development of flood-prone areas. Under the 1973 act:

- The Secretary, HUD, is required to notify known flood-prone communities, by June 30, 1974, of their tentative identification as such. Each community must then either apply for participation in the program or within 6 months submit technical data sufficient to satisfy the Secretary that it is not seriously flood-prone.
- On and after March 2, 1974, property owners in participating communities must purchase flood insurance to receive new or additional Federal or federally related financial assistance for acquisition or construction purposes in identified flood-prone areas.

--By July 1, 1975, or 1 year after notification by FIA, whichever is later, flood-prone communities must be participating in the program or the Federal financial assistance restrictions will be invoked.

--To obtain Federal disaster assistance for construction or reconstruction purposes, property owners in participating communities are required to first purchase flood insurance.

The 1973 act also required consultation with appropriate elected officials of local governments regarding studies of a community's flood hazard, and established specific procedures for communities wishing to appeal FIA determinations regarding the flood hazard.

1974 amendments

The revised 1968 act was further amended on August 22, 1974, to (1) help insure that potential property owners in flood-prone areas are made aware of the area's susceptibility to flooding and (2) permit otherwise eligible communities that have made adequate progress on constructing a system to protect against the 100-year flood to obtain flood insurance at rates applicable if the flood protection system had been completed.

1975 amendment

An amendment to the 1973 act in July 1975 delayed until January 1, 1976, the requirement that flood insurance must be obtained in connection with loans made to finance the acquisition of a previously occupied residential dwelling in a special flood hazard area.

PROGRAM ADMINISTRATION AND RESPONSIBILITIES

Federal Insurance Administration

The Secretary, HUD, delegated to the Administrator, FIA, responsibility for administering the National Flood Insurance Program. FIA's Office of Assistant Administrator for Flood Insurance administers the program's operations. We were told that total staffing as of June 1975 consisted of a headquarters staff of 99 permanent and 36 temporary employees and a field staff of 49 permanent and 9 temporary employees in HUD's 10 regional offices. We were also told that the field staff was assigned in September 1973 in all except the San Francisco Region which was staffed in April 1975.

FIA's responsibilities in implementing the program include

- identifying communities having flood-hazard areas,
- notifying identified communities and providing them with flood hazard boundary maps so they can enter the emergency program and adopt the minimal flood plain management regulations necessary to retain eligibility,
- making and publishing flood insurance studies and flood insurance rate maps so that communities can adopt the more stringent flood plain management regulations necessary to become eligible for the regular program, and
- insuring that participating communities adopt and enforce required flood plain management regulations.

Other Federal agencies

In the Flood Disaster Protection Act of 1973, the Congress directed the Secretary, HUD, to accelerate the identification of risk zones in flood-prone and mudslide-prone areas, and instructed Federal agencies engaged in identifying or delineating flood-risk zones to give the highest practicable priority to assisting the Secretary in identifying and mapping flood hazard areas and flood risk zones. Federal agencies named in the act are the Army Corps of Engineers, Soil Conservation Service (SCS), Geological Survey (GS), National Oceanic and Atmospheric Administration (NOAA), and the Tennessee Valley Authority (TVA). These agencies carry out flood insurance studies on a reimbursable basis for FIA.

Also under the 1973 act, certain Federal agencies and those Federal instrumentalities which supervise lending institutions are required to insure that financial assistance provided on or after March 2, 1974, for acquisition or construction purposes in identified flood hazard areas is covered by flood insurance if the applicable community is participating in the flood insurance program. As defined by the act:

- Federal agency means any department, agency, corporation, or other entity or instrumentality of the executive branch of the Federal Government, and includes the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

--Federal instrumentality responsible for the supervision, approval, regulation, or insuring of banks, savings and loan associations, or similar institutions means the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration.

The Federal agencies and instrumentalities are also responsible for insuring that no such financial assistance is approved on and after July 1, 1975, (with one exception) if the property involved is located in a flood hazard area of a community which had been notified by June 30, 1974, of its flood-prone designation but had not entered the program. For communities notified after June 30, 1974, the sanctions are to be applied after 1 year from the date of notification if the community is not then participating. The exception stems from the 1975 amendment which permits federally regulated lending institutions to make loans in such areas until January 1, 1976, for the acquisition of previously occupied residential dwellings.

Federal instrumentalities, under the 1974 amendment, are also responsible for insuring that financial lending institutions under their supervision, as a condition of making, increasing, extending, or renewing any loan secured by improved real estate or a mobile home located or to be located in an area identified as having special flood hazards, notify the purchaser or lessee (or obtain satisfactory assurances that the seller or lessor has notified the purchaser or lessee) of such special flood hazards, in writing, a reasonable period before the signing of the purchase agreement, lease, or other documents involved in the transaction.

Role of the States

At the request of the Administrator, FIA, each State has designated a State agency to be responsible for coordinating Federal, State, and local aspects of flood plain and mudslide area management activities in the State. FIA's Assistant Administrator for Flood Insurance told us that FIA had not provided funds to support activities of the State coordinating agencies. In general, the role of the State coordinating agencies involves promoting the program and assisting communities in establishing eligibility for it. State agencies also are expected to assist in establishing priorities for flood insurance studies among qualifying communities.

PURPOSE OF REVIEW

In a July 19, 1973, report to the Congress we told of the results of our initial review of the National Flood Insurance Program (Actions Needed to Provide Greater Insurance Protection to Flood-Prone Communities, B-178737). That report, which was issued before passage of the Flood Disaster Protection Act of 1973, and thus, covered program operation under the voluntary program, stated that much more needed to be done if the program was to fully meet its objectives. For example, we noted that although FIA had had moderate success in promoting the program, it needed to

- complete the studies necessary for regular program participation at an accelerated rate so that more communities could obtain full benefits under the program without undue delay,
- review flood plain management regulations submitted by communities faster and notify them concerning deficiencies, and
- establish a monitoring program which would provide for determinations of communities' continued eligibility in the program based on their compliance with FIA flood plain management standards.

Enactment of the Flood Disaster Protection Act of 1973 made program participation essentially mandatory for flood-prone communities, and increased the importance of FIA meeting its responsibilities in a timely and effective manner to achieve program objectives. If the objectives of the National Flood Insurance Program are to be achieved in a timely manner, FIA must

- promptly identify and notify all communities having flood-prone areas so they can enter the emergency program,
- complete and provide to communities, as soon as possible, flood insurance studies and flood insurance rate maps so that (1) flood-prone communities can adopt flood plain management regulations necessary to properly guide flood plain development and (2) property owners can obtain the maximum insurance coverage available under the regular program, and
- assure itself that participating communities properly implement and enforce approved flood plain management regulations.

In addition, Federal agencies and instrumentalities named in the 1973 act must see that flood insurance is purchased when required by the act. Accordingly, we made this review to determine and evaluate the progress being made by FIA and the Federal agencies and instrumentalities in meeting their responsibilities in these areas. The scope of our review is discussed in chapter 5.

CHAPTER 2

NEED TO ACCELERATE COMPLETION OF FLOOD INSURANCE STUDIES AND RATE MAPS

FIA has made much progress in identifying flood-prone communities and providing them with flood hazard boundary maps, but has made only limited progress in completing the more detailed flood insurance studies and rate maps. Although FIA's workload has grown substantially due to large increases in the number of flood-prone communities identified, opportunities exist for them to accelerate completion of the studies and rate maps. Timely completion of the studies and rate maps is important because they enable (1) flood-prone communities to adopt enforceable flood-plain management regulations to guide wise future development of flood hazard areas and thus reduce future flood damages and (2) property owners in flood hazard areas to obtain the maximum insurance coverage available under the regular flood insurance program.

PROGRESS MADE IN IDENTIFYING AND NOTIFYING FLOOD-PRONE COMMUNITIES

The National Flood Insurance Act of 1968, as amended by the Flood Disaster Protection Act of 1973, required the Secretary, HUD, to identify all known flood-prone communities and notify them of the tentative identification of their special flood hazard areas by June 30, 1974. Although FIA had identified about 13,600 such communities at December 31, 1973--the date of the act--they failed to notify all of them and provide flood hazard boundary maps by the June 30, 1974, deadline. They had, however, made substantial progress. By June 30, 1974, 8,641 identified flood-prone communities had received their maps--about 64 percent of the communities identified at December 31, 1973, when the act was approved.

In June 1973, FIA contracted with three private engineering firms to prepare the flood hazard boundary maps for different geographical areas of the country. The firms were instructed to gather and consolidate all available information and, if possible, prepare the maps without making field trips to the communities. The Geological Survey provided FIA 11,000 maps outlining the areas of special flood hazards. An FIA official told us, however, that they could not be used for flood hazard boundary maps because they showed no streets or corporate boundaries, the map scale used by GS was too small, and the entire community was not always shown. They were provided to the contractors to assist in their preparation of flood hazard boundary maps.

FIA does not formally notify communities that they are flood prone and thus subject to the program until their flood hazard boundary map is completed. Then an information packet containing the maps, program information, and application forms is sent to the communities formally notifying them of program requirements. Once notified, the community has 1 year to qualify for the emergency program, or 6 months to appeal their designation as a flood-prone community. Each appeal must be supported by sufficient technical data showing they are not flood-prone.

As of August 22, 1975, 355 communities had appealed their flood-prone designation--136 were found not to be flood-prone. In addition, FIA provided us information showing that it had received 2,445 other appeals at that date. These appeals are received from communities that disagree with the flood hazard areas as reflected on their flood hazard boundary maps, or some other aspects of the maps such as errors in the corporate boundaries of the community or in the labeling of streets. An FIA official told us that corrections had been made for 436 of these, and revisions published in the Federal Register. According to an FIA official, the majority of the appeals were submitted because the communities had the older, blocked-out maps which incorrectly included structures in the special flood hazard area that would not be subject to flooding during the 100-year flood. He said these structures and properties will be excluded on the new curvilinear maps. An FIA official stated that even though the law only provides for communities to appeal their flood-prone designation, FIA has attempted to solve other problems the communities have with maps and revise those with errors.

The deadline established by the 1973 act for all identified flood-prone communities to gain eligibility in the emergency program by July 1, 1975, or 1 year after notification, whichever is later, required FIA to define flood hazard areas for these communities as expeditiously as possible. Consequently, the contractors were instructed to develop the maps with little or no field work using information readily available from existing sources.

Senate Report 93-583 of November 29, 1973, recognized the need to make flood insurance available without the benefit of time-consuming flood insurance studies. In commenting on the 1973 act, the report states:

"Since the effect of section 1336 [emergency implementation of program] is to suspend certain technical aspects of the program (principally, the requirement that a time-consuming rate study must be performed before any flood insurance can be sold within a community) in order to make flood insurance widely and rapidly available while the required studies are being undertaken, the committee concurs that an extension of this emergency authority is warranted."

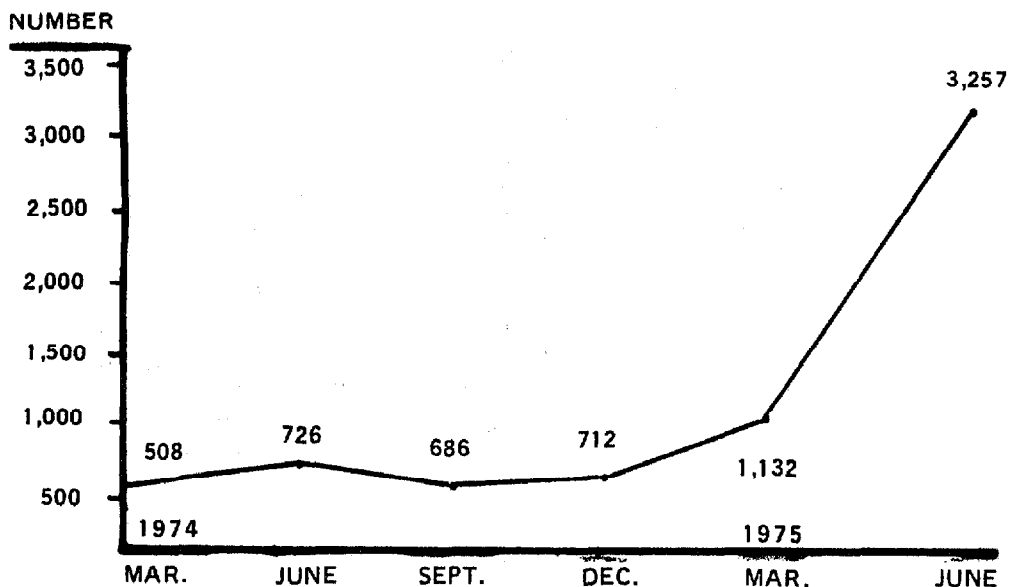
Because the Corps has been engaged since fiscal year 1962 in identifying and mapping flood-prone areas under its flood plain information program, we discussed with a Corps official the appropriateness of FIA's process for developing flood hazard boundary maps. The official told us that FIA's procedure was probably the most reasonable and most efficient under the circumstances, and there was really no feasible alternative for performing the assigned task in such a restrictive time frame.

When the flood insurance program was first enacted in August 1968, there were an estimated 5,000 flood-prone communities which had been identified by the Corps. The Federal Insurance Administrator estimated there were 10,000 such communities in May 1973. In December 1973, the number increased to about 13,600, and by June 1974, FIA had identified about 16,300 flood-prone communities. At June 30, 1975, there were 21,411 identified flood-prone communities. An FIA official stated in July 1975 that this figure is not expected to increase significantly.

By June 30, 1975, FIA had notified 15,137 communities--70 percent of all identified flood-prone communities--of their special flood hazards, and there were 9,877 communities participating in the program. This represents a 345 percent increase over the 2,856 communities participating at December 31, 1973--the date the Flood Disaster Protection Act of 1973 was approved. An FIA official told us that the primary reason all identified flood-prone communities were not notified by the June 30, 1974, deadline was the increasing number of communities identified with flooding problems. FIA advised us they hope to have all identified flood-prone communities notified by about July 1976.

The rate of communities entering the program has greatly increased since the December 1973 act was approved. In March 1974, communities were entering the program at a

rate of about 508 per quarter. By June 1975, this rate had increased to about 3,257 per quarter--a 641 percent increase. The chart below illustrates this increase:



If the current application rate continues, all 15,137 identified communities provided maps by June 30, 1975, that choose to join will have applied by December 1975. However, even if the current rate does not continue, all of these communities must apply for the program by June 30, 1976, or be subject to the financial sanctions of the 1973 act.

DELAYS IN COMPLETING FLOOD INSURANCE STUDIES AND RATE MAPS

The National Flood Insurance Act of 1968 required the Secretary of HUD to provide each flood-prone community a detailed flood insurance study and rate map by August 1, 1983. Communities are not eligible for the regular program until these maps are provided. Consequently, maximum flood insurance coverage is not available and they are not required to adopt stringent flood plain management regulations designed to reduce future flood losses.

Flood insurance studies are made for FIA by other Federal agencies, private engineering firms, and to a lesser extent, States, and River Basin Commissions. Although Federal agencies have made most studies in the past, FIA estimates that about 51 percent of their fiscal year 1976 studies will be contracted with private engineering firms.

FIA has also contracted with two private engineering firms to review completed studies before they are forwarded to the community. The community, under the 1973 act, has 90 days after the second publication of flood elevations in a prominent local newspaper to contest or appeal the accuracy or propriety of the flood insurance study and rate maps.

The procedures required for preparing a flood insurance study and rate map are much more detailed, time consuming, and costly than the procedures used to prepare a flood hazard boundary map. The flood insurance study requires detailed hydrological and engineering studies to develop the information necessary to establish elevations for various flood frequencies and prepare flood insurance rate maps. Flood insurance rate maps divide the special flood hazard areas into rate zones which relate the flood risk to the estimated actuarial premium rates required to provide flood insurance on a self-sustaining basis. The rate map must be sufficiently detailed and scaled to enable identification of a particular lot or structure to establish applicable premium rates.

The time and cost required to conduct a study and submit it to FIA for review varies for each community studied. We found that the average estimated cost of preparing 382 studies contracted between November 1968 and July 1974 was about \$22,000. It took an average of about 12 months to complete the studies contracted during that period. These studies had been in review an average of about 14 months, as of February 28, 1975. At June 30, 1975, only 49 of these had been completely reviewed by FIA and sent to the communities for their review and acceptance in accordance with the appeal procedures established by the act. It took an average of 16.5 months to review these studies.

Based on the costs for 1,115 studies awarded during fiscal year 1975, it currently costs an average of about \$36,000 to study a community. Using time and cost estimates submitted by private contractors and Government agencies, FIA has also estimated the average cost for studies, based on the number of stream miles studied, as illustrated in the following table.

Average cost per stream mile studied

<u>Number of stream miles studied</u>	<u>Federal agencies</u>	<u>Private engineering firms</u>
5	\$3,800	\$5,000
10	2,800	3,550
15	2,300	2,950
20	2,050	2,600
25	1,900	2,400
30	1,800	2,300
35	1,700	2,150
40	1,600	2,000
45	1,500	1,900
50	1,400	1,800
75	1,300	1,650
100	1,200	1,500

Although the above comparison shows that studies made by private firms are more costly, an FIA official explained that the private engineering firms often are assigned studies for areas which have not been studied previously or where only limited information is available. Government agencies, on the other hand, are assigned areas which they have expressed an interest in studying. These are often areas they already have information on. He further explained that Government agencies make studies strictly on a cost reimbursable basis while the private engineering firms must include a profit factor in their estimates.

Limited success in completing studies

Although 9,877 of the 21,411 identified flood-prone communities were participating in the flood insurance program at June 30, 1975, only 549 had flood insurance rate maps and were in the regular program, thus making them eligible for maximum program coverage. There were 1,646 additional studies in various stages of completion:

- 1,253 in process (153 overdue),
- 344 being reviewed, and
- 49 with the community for approval.

Only two of the communities had been provided flood insurance studies and flood insurance rate maps since the 1973 act was passed. An additional 49 studies had been forwarded to the communities for their review and acceptance in accordance with the appeal procedures established in the 1973 act.

We found that between June 1969 and June 1975 FIA completed an average of 91 studies each year. Between July 1975 and August 1, 1983, FIA must complete 20,862 studies if it is to meet the deadline for completing studies on all communities. To do this, FIA must increase its completion rate to an average of about 2,600 studies per year. We believe it is unlikely that FIA will be able to meet the schedule necessary to comply with the statutory deadline of August 1, 1983. FIA told us, however, that they believe the studies for all communities could be started by the statutory deadline, if reasonable resources are allocated, but stated that completion and review of the later studies will delay conversion of some communities to the regular program until about 1985. A detailed plan has been developed for scheduling the studies by fiscal year through 1983.

The amount of resources necessary to meet the deadline would be tremendous when measured in terms of the current level of funding. Accordingly, we believe that FIA should present its detailed plan for meeting the 1983 date to the Congress and advise it of the annual levels of funding necessary to meet that date.

Initiating and completing the studies and rate maps promptly has been hampered by

- ineffective planning and scheduling of studies,
- changes in study guidelines,
- delays in reviewing completed studies,
- revisions required to correct rescinded maps, and
- ineffective coordination and use of Federal resources available to perform the studies.

Ineffective planning and scheduling of studies

We found that FIA does not effectively plan, schedule, or assign its study workloads. This lack of planning has hampered the other Federal agencies in their planning to promptly initiate assigned studies. The agencies need to know the approximate number of studies they will be assigned far enough in advance to coordinate FIA requirements with their own program commitments. At a minimum, each agency should receive this information as they begin their own planning for the coming year. Instead, dollar amounts are agreed upon and then specific study areas are assigned

sporadically throughout the fiscal year. Consequently, the performing agencies do not know how many studies they will be assigned or specific communities to be studied until FIA issues project orders assigning the study. Officials from the Corps stated that they would like to know the amount of funds each District office will be allocated at least 2 years ahead of time.

We found that it was often late in the same fiscal year the studies were to be made before the Government agencies knew exactly what communities they were to study.

FIA plans and assigns studies in four phases.

- Executes interagency agreement which establishes a dollar amount that each Government agency can undertake in the coming fiscal year.
- Requests information from agencies to determine the type and amount of data already available and indications of areas each agency wishes to study.
- Requests time and cost estimates from various agencies on areas it wants the agency to study.
- Issues project orders subsequent to the review and approval of time and cost estimates.

About 2 to 3 months before the coming fiscal year, FIA sends each Government agency a letter requesting that they perform a designated dollar amount of studies during the succeeding fiscal year. Once the agencies respond and an amount is agreed upon, HUD's contracting office prepares an interagency agreement.

FIA sent fiscal year 1975 interagency agreements to all the agencies on June 28, 1974, for their signature, except the Bureau of Reclamation which was sent its agreement on January 13, 1975. The agreement amounts are shown below.

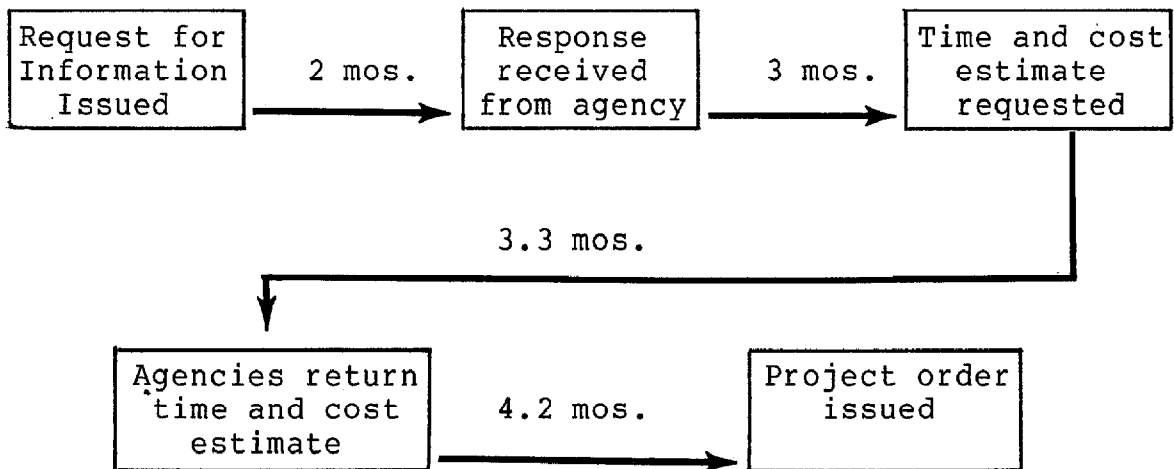
<u>Agency</u>	<u>Date of agreement</u>	<u>Amount of agreement</u>	<u>Actual amount obligated</u>
Corps	7/12/74	\$6,000,000	\$7,427,000
GS	8/12/74	4,000,000	4,000,000
SCS	7/10/74	3,000,000	1,222,090
TVA	7/ 8/74	200,000	350,000
NOAA	7/31/74	400,000	543,200
Bureau	2/11/75	250,000	146,540

Although a dollar amount is agreed upon at this time, the agencies do not know the number of flood insurance studies or which communities they will be asked to study in the coming fiscal year.

FIA requests information sporadically--several times each year for varying community groups--with no specific fiscal year for the studies to be assigned one of the performing agencies. Studies awarded the Corps in fiscal year 1975 were based primarily on separate request for information sent out on April 2, and June 21, 1974. These requests help determine which agencies already have information available on communities and the amount of data on hand. The agencies are also asked to indicate which communities they would like to study.

After evaluating the data received from each agency on the request, FIA submits a separate list of communities to each agency--based primarily on data available and interest indicated--asking that they estimate the time and cost required to study each community. The agencies are also asked to estimate the initiation and completion date for each study. Once time and cost estimates are returned, FIA reviews them and, if the estimates appear reasonable, project orders are issued to the appropriate agencies authorizing them to make specific studies. The Government agencies indicated that until project orders are received, they cannot plan their own workload and commit their staff.

An analysis of project orders issued the Corps in fiscal year 1975 shows that, on the average, it takes about a year from the time FIA sends out requests for information until a project order is actually issued for a new study.



During fiscal years 1974 and 1975, 92 percent and 82 percent, respectively, of all project orders issued authorizing an agency to begin new studies were issued during the last half of the fiscal year. Because of this, the performing agencies have been unable to effectively plan their own workload and have manpower available to begin the studies right away. The Corps, SCS, and GS told us that because project orders were not assigned consistently throughout the year, staff initially scheduled for FIA studies has had to be reassigned to other projects, thus delaying completion of FIA's studies.

The agencies told us that they cannot effectively plan and schedule FIA studies into their own workloads unless they know, when they begin their own planning, how many flood insurance studies they will be expected to do in the coming fiscal year. They also need to know specific communities they are to study so that the staff can be committed and the regional offices can effectively utilize their personnel.

An FIA official told us that they planned to schedule studies for fiscal year 1976 from a priority listing submitted by the State coordinating agencies indicating which communities in the State should be studied first, and which agencies have information on, and an interest in, performing the study. This procedure will eliminate the requests for information step in the planning process; however, we found that only 17 States had submitted their priority lists as of June 30, 1975. Others had not submitted their priority lists or submitted lists that were inadequate, so requests for information must still be processed for communities in those States.

Changes in study guidelines

Between fiscal year 1973 and June 30, 1975, FIA made 10 different issues of study requirements for flood insurance studies. According to officials from three Government agencies making flood insurance studies, the changes have improved the quality of the studies; however, they have also resulted in additional cost and delays. Changes made in September and November 1973 resulted in at least 67 delays, extending the estimated completion dates about 5 months and increasing the cost about \$290,100.

When FIA transmitted new guidelines in March 1975, the study contractors/agencies were instructed to incorporate the changes only on ongoing studies with flood insurance rate maps which were less than 50 percent complete. The

other studies were to be updated by the contractors FIA hired to review completed studies, thus causing untimely delays in the review process. (See p. 26.)

As a result of changes in the fall of 1973, agencies making studies requested increases in funds and extension of completion dates. For example, the Corps requested an additional 2 to 22 months for 47 studies. They also requested additional funds of approximately \$244,000 for 39 of these studies.

FIA officials told us that one of the most significant changes made to date was that of changing the outline of the 100-year flood plain from a blocked out method--following streets and section lines--to a curvilinear method--following the topography of the land. They explained that the older maps "blocked out" the flood plain using major streets as boundaries, rather than following the natural topography of the actual flood boundaries. These were prepared for all participating communities before December 31, 1973, when participation in the program was voluntary, to more easily identify specific structures in the flood hazard areas. Now that financial sanctions can be imposed on individuals constructing or acquiring property in the flood plain who do not purchase insurance, all of the older maps must be redrawn to more accurately outline the 100-year flood boundaries with curvilinear lines following the actual topography. This has contributed to delays in providing flood insurance rate maps as well as flood hazard boundary maps to all communities. Not only do the agencies/contractors have to change some of the maps they are working on, but all other maps--flood insurance rate maps and flood hazard boundary maps--also have to be redrawn.

An FIA official told us that most older studies completed before fiscal year 1974 will have to be updated or completely redone because of changes in study guidelines regarding scope of the studies. Many older studies did not cover the entire community because of limitations FIA placed on study costs and will require additional study. Many will have to be updated to show a floodway which was not required by study guidelines in effect before fiscal year 1972. Others completed for communities not in the regular program will require restudy because available information from the contractors is insufficient to update the studies to meet revised guidelines.

Our analysis of FIA records showed that, of 1,088 studies completed at July 31, 1975, 139 either have been or are in the process of being updated or restudied. As many as 580 others may also have to be updated or restudied.

The 1973 act requires the Secretary to consult with appropriate elected officials in the notification and identification of flood-prone areas. As a result, FIA amended its study guidelines to require agencies conducting flood insurance studies to hold coordination meetings to keep the community informed of all phases of the study as it progresses. FIA has designated Consultation Coordination Officers to oversee and direct the coordination activity with the community--a procedure requiring the agencies to meet with the community at least three times during the study.

Officials at some of the agencies conducting studies say coordination should minimize conflicts and disagreements at the studies' completion. But an official at one agency said trying to schedule meetings when the Coordination Officer can attend is contributing to delays in completing rate studies.

Delays in reviewing completed studies

In January and February 1974, FIA contracted with two private engineering firms to review completed studies before distributing them to the communities. Studies awaiting review had backlogged and on August 14, 1974, 156 completed studies--which had been held at HUD an average of about 21 months¹--were forwarded to the review contractors. As of February 1975, there were 419 completed studies which had been in review an average of about 14 months.¹ By June 30, 1975, only 49 studies had been reviewed and forwarded to the communities for their acceptance in accordance with the appeals procedure established by the 1973 act. It took an average of 16.5 months from the date received at FIA from the study contractor until the 49 studies were reviewed and sent to the communities.

Both FIA and a review contractor told us that the main reason that it is taking so long to review completed flood insurance studies and rate maps is that the contractors--in addition to reviewing studies--are updating the older studies so they will conform to FIA's latest study guidelines. The review contractors are also responsible for preparing flood insurance rate maps from base maps and other

¹The averages of 21 months for studies held at FIA prior to review and 14 months for studies in review are based on available data from 130 and 346 studies respectively.

related information provided by the study contractor. The tasks assigned the review contractors which are in addition to reviewing completed studies are shown below.

- Review, revise, update, and print for distribution study reports and maps previously prepared by other contractors and accepted by HUD.
- Prepare transmittal letter and legal notice forwarding revisions of flood insurance studies to communities.
- Make preliminary review of new flood insurance studies before acceptance by HUD.
- Assist in development of guidelines for flood insurance studies and maps.
- Make flood hazard determinations for individual structures, based on data in existing HUD studies and data submitted by individuals in communities.
- Investigate previously determined base flood elevations that may be in error owing to later changes in hydraulic conditions.
- Review and process revised rate maps showing curvilinear flood hazard boundaries.
- Microfilm community files.

One review contractor estimated that it cost, on the average, between \$6,000 to \$7,000 to review and update a study. At June 30, 1975, HUD had authorized payment of \$1,437,794 to one contractor and \$722,530 to another contractor. Although one contractor had about 40 people involved in the review process, it is still far behind in reviewing studies, and the backlog continues to build. The contract between FIA and the review contractors required each contractor to complete five studies a month. By June 30, 1975, 164 studies would have been completed if the contract schedule had been met; however, only 52 had been completely reviewed by both contractors and returned to FIA.

Rescinded maps

When errors are discovered, or other problems develop, FIA rescinds the communities' flood insurance rate maps. As of June 30, 1975, FIA had rescinded 71 rate maps. Without flood insurance rate maps in effect, FIA cannot require communities to continue enforcing adopted flood plain management regulations and they are placed once again in the emergency

program. Individuals who had purchased the additional "second layer" protection, available under the regular program, will be unable to maintain both layers of insurance coverage once their current policies expire. FIA officials told us that rescinded maps must be corrected, and the work necessary to correct the maps is given priority over completing other maps. This, in turn, causes additional delays.

We found that 65 of the 71 maps were rescinded between March 25 and June 3, 1974, because they had mudslide areas shown on them. The methods used to identify mudslide areas were new and problems developed which are still unresolved. Meanwhile, new maps must be prepared without mudslide areas shown. As of June 30, 1975, new flood insurance rate maps had still not been reissued to any of these communities. In commenting on this problem, FIA told us that

"The identification of mudslide hazard areas, and the subsequent requirement that insurance be purchased, was studied by the National Academy of Sciences. Their conclusion was that areas of potential mudslide would necessarily include many landslide occurrences not covered under the definition of mudslide, (i.e. a river of mud). Therefore, only a small percentage of claims would be paid; we felt that this was not equitable, and the attempt to delineate mudslide hazard areas in this way was dropped.

"Recently, the FIA has received requests from both the U.S. House of Representatives and the U.S. Senate to pursue the possible extension of coverage to landslides, including the specific mudslide hazard originally mandated by Congress in 1969. The scope of work for a feasibility study exploring such an extension is currently in preparation. This extension of coverage, if implemented, should ease the current problem in delineating mudslide hazard areas, since the technical distinction as to the nature of the land movement-landslide or mudslide-would no longer have to be made."

The remaining six maps were rescinded because FIA found discrepancies in flood elevations reported in the flood insurance studies of adjacent communities. FIA officials explained that such discrepancies usually occur when the two studies are made by different agencies or contractors. They stated that hydrology--the science used to study the distribution of the earth's surface and underground water

and its flow to the sea--is an inexact science where judgment must be used to make computations. Consequently, differences crop up, especially when the water surface elevations for adjacent communities are made by different agencies. These discrepancies cause additional delays while the agencies reconcile their differences.

In an attempt to minimize such conflicts, current FIA guidelines require the study contractor/agency to reconcile all differences or conflicts before studies are submitted. If this cannot be done, an outside source must be consulted to arbitrate. FIA officials stated that they knew of only one example when this had happened. The National Academy of Sciences was asked to evaluate the differences in flood elevations computed by two different Government agencies. It took about 1 year for the Academy to reach its decision.

The contractors responsible for reviewing completed studies are also required to check studies of communities adjacent to those they review to see that all elevations agree. We found 34 cases where studies were returned to the study contractor/agency to reconcile apparent conflicts.

FIA officials told us that, hopefully, the current contract requirement that all conflicts be resolved will cause the agency/contractor to consider existing information and to work towards reconciling potential conflicts early in the study process. In addition, the requirements under the 1973 act for the consultation sessions among the study contractor/agency, FIA, and the communities should bring potential conflicts to everyone's attention. An FIA official told us in February 1975 that FIA was starting to assign some studies which would cover entire counties or river basins. This approach also would help avoid differences in study results between adjacent communities.

Ineffective coordination of Federal resources

The Corps, SCS, TVA, and GS prepare their own flood plain information studies which are similar to FIA's flood insurance studies. The basic purposes of these studies are to

- identify flood hazard areas and
- minimize future flood damage through encouraging proper land use planning and control by local governments.

Although the Corps, SCS, TVA, and GS provide information to communities on flood hazard areas and encourage sound management of property in the flood plain, their statutory authority does not permit them to require that communities use the information provided to adopt flood plain management regulations as one of the conditions of performing the detailed studies. Furthermore, none of the information reports provided by these agencies can be used to satisfy the requirements of the flood insurance program because flood insurance rate maps, which establish risk zones and elevation requirements for construction purposes, are not included in the information reports.

Each of these agencies also performs flood insurance studies for FIA. The table below shows the dollar amount expended for their own information studies as well as that expended for FIA flood insurance studies for fiscal year 1975.

	<u>Agency's information studies</u>	<u>Flood insurance studies</u>
Corps	\$5,159,000	\$ 7,427,000
SCS	1,823,000	1,222,090
TVA	229,000	232,643
GS	<u>609,932</u>	<u>4,000,000</u>
Total	<u>\$7,820,932</u>	<u>\$12,881,733</u>

Since FIA is to provide flood insurance studies to all flood-prone communities by August 1983, any community studied under one of the agency's own programs will eventually require a restudy and update to conform with flood insurance requirements.

The Corps and SCS indicated that they would cancel or not prepare one of their own programmed studies if they were to receive a request from FIA to make a flood insurance study for the same area. Despite this willingness, we found numerous instances of Corps and FIA studying the same area and tying up Federal resources which could have been more effectively used if applied to the program which offers the greatest potential for effective use of study results--the flood insurance program.

The Corps has the largest flood plain information program and performs more flood insurance studies than any of the other Government agencies. Both the Corps and FIA recognize that duplication exists between the flood insurance

program and the Corps' flood plain information program yet, to date, the agencies have been unable to integrate the two into one report.

The Corps' flood plain information program has three basic segments: (1) report preparation and distribution, (2) provision of technical services and guidance, and (3) the development and distribution of guides and pamphlets. A Corps official told us that the Corps, under its technical services and guidance function, could provide the same type assistance using flood insurance studies as they currently provide using their own studies. This could be a valuable tool in helping communities develop the stringent flood plain management regulations required for acceptance into the regular flood insurance program.

We compared a listing of flood plain information studies completed by the Corps to a listing of FIA's completed flood insurance studies. We found 130 instances where the same communities or general areas had been studied by both. A further analysis was made of 20 such studies selected at random. Of these, 11 were duplicative in that 75 percent of the same area was studied by both. In two studies, there was no duplication of the study areas, and in the remaining seven studies, there was partial duplication--less than 75 percent. The amount of duplication was based on an evaluation and comparison of the studies made by a Corps engineer.

Since the Congress has ordered FIA to provide flood insurance studies to all flood-prone communities, potentially all of the studies made under another Government agency's own flood plain information program must be restudied or updated in order to provide the required flood insurance studies to each flood-prone community.

In a November 27, 1974, letter to HUD's Assistant Administrator for Flood Insurance, the Corps Deputy Director of Civil Works stated:

"* * * We agree that it is uneconomical and unwise for both agencies to conduct studies for an area, if in fact, one study would be adequate * * *. The Type 15 Flood Insurance Study (FIS) requires certain information not normally contained in our FPI [flood plain information] Reports. Likewise, our FPI Reports contain information not included in the FIS Reports."

The letter recommended that the agencies prepare joint studies and that the additional information required for the flood insurance study be included as a supplement to the Corps' published report. On January 8, 1975, we discussed the differences between the two reports with a Corps official--specifically, pictures, background, and historical information--included in the Corps report but not contained in flood insurance studies. However, FIA now includes such information in flood insurance studies.

In a March 7, 1975, GAO report entitled "National Attempts to Reduce Losses from Floods by Planning for and Controlling the Use of Flood Prone Lands," we recommended that the Corps "should consider preparing shorter versions of the traditional flood plain information reports as a way of performing more studies with the funds available." The Corps agreed to prepare the shorter reports, which would not include the historical background contained in their regular reports, except in special cases when a local government required the larger report.

On April 16, 1975, FIA replied to the Corps' November 27, 1974, letter stating:

"* * * when one considers the purpose of the U.S. Army Corps of Engineers' flood plain information reports and the Federal Insurance Administration's (FIA) flood insurance studies, it seems that they are, for all practical purposes, identical. However, it is important to note * * * the flood insurance program provides a mechanism to require communities to adopt and enforce the technical conclusions * * *. Section 204(c) of the Flood Disaster Protection Act of 1973 provides support for a joining of the efforts of FIA and the U.S. Army Corps of Engineers. The 1973 Act * * * directs the Secretary of Defense (through the U.S. Army Corps of Engineers) to give the highest practical priority in the allocation of manpower and other available resources * * * in order to * * * 'meet the deadline established by this section' * * *. If we are to comply with the intent of Congress, we will, of absolute necessity, need to maximize all available resources. * * * The intent of Congress, as expressed in the above-mentioned Acts, is clearly that the flood information be provided to communities as quickly as possible in order that prudent flood plain management measures may be instituted. To carry forth this intent with all possible speed, we strongly suggest a

combination of the resources of the Corps and FIA, not only to avoid duplication of effort, but also to publish, in a single publication, the most effective regulatory document of flooding information for areas subject to flood danger. The enforcement power granted to the National Flood Insurance Program, coupled with the 1973 Act's directive that the Corps give priority to FIA's studies * * * make it clear that the flood insurance study is that document. Thus, we are convinced that the public would be better served if the U.S. Army Corps of Engineers discontinued publishing flood plain information reports and used the manpower and monies, instead, to conduct flood insurance studies, as directed by Congress. * * *

As of July 15, 1975, the Corps had not formally replied to FIA's suggestion.

However, Corps officials told us that on June 27, 1975, instructions were forwarded to all Division Engineers (except Huntsville, Mediterranean, and Europe) to shift emphasis from flood plain information studies to flood insurance studies, thus minimizing competition for scarce technical resources needed for conducting flood insurance studies and avoiding a duplication of study effort. Corps officials estimated they could now provide FIA resources for about \$15 million worth of flood insurance studies for fiscal year 1976 as opposed to \$8 million shown in their interagency agreement.

Guidelines were provided for converting scheduled flood plain information studies, as well as those already underway, into flood insurance studies. Although the Corps plans to deemphasize flood plain information reports, they do not plan to completely eliminate them. The memo to the Division Engineers states:

"* * * Because there are areas which would not be covered by Flood Insurance Studies but should be provided flood plain information upon request, we cannot completely eliminate the FPI report from the Flood Plain Management Services Program at this time. As a matter of policy, however, we will give priority to Flood Insurance Studies when a community comes under both the FPMS and the Flood Insurance Program."

The general authority for the Corps' flood plain information program indicates that the need for such services is in recognition of "the need for information on flood hazards to serve as a guide for such development, and as a basis for avoiding future flood hazards by regulation of use by States and political subdivisions thereof * * *." FIA, with the assistance of the Corps, GS, and other Government agencies, has attempted to identify all communities throughout the United States which have flooding problems. Any such community requesting a flood plain information report from the Corps should already be on FIA's list of identified flood-prone areas--thus a community that will be studied for the flood insurance program. If not already on the list, the Corps should advise FIA of the community so it can be added and priorities assigned to it for study.

A Corps official stated that the shift in emphasis from flood plain information studies to flood insurance studies will enable them to expand the technical services and planning assistance components of their flood plain management program. We were told that funds for flood plain information studies have been decreased from about \$5.2 million in fiscal year 1975 to approximately \$3.9 million for fiscal year 1976 and that they should decrease even more in coming fiscal years. The funds initially programed for flood plain information studies will be used to increase their technical assistance program.

An FIA official stated that the Corps had not advised FIA of the additional resources programed for technical assistance. Our discussions with the Corps and FIA personnel show that there has been no coordination between the two agencies as to how the additional resources the Corps has programed for technical assistance could best be used to insure that the most effective and efficient use is made of these resources, avoiding any duplicative effort between the two agencies.

During an August 13, 1975, meeting between TVA and FIA, a TVA official proposed shifting emphasis from conducting flood plain information studies to providing more technical assistance to flood-prone communities. An FIA official pointed out that FIA, by statute, is also required to provide technical assistance but indicated that it does not presently know exactly how great the need for technical assistance may be. FIA stated that it plans to evaluate the need for technical assistance in various size communities and would discuss the proposal again once a better understanding of the magnitude of need for such assistance is obtained.

CONCLUSIONS

Although FIA has made substantial progress in identifying and notifying flood-prone communities, it is not likely to achieve the goal of completing flood insurance studies, providing flood insurance rate maps, and bringing all flood-prone communities into the regular program by August 1, 1983, unless it improves its administration of this effort, and significant additional resources are made available to complete these studies. The amount of additional resources necessary would be tremendous in terms of current levels of funding, and we believe FIA's detailed plan for meeting the statutory deadline and the annual levels of funding required should be presented to the Congress for its consideration.

RECOMMENDATIONS

We recommend that the Secretary of HUD:

- Present to the Congress, for its consideration, the detailed plan for systematically scheduling flood insurance studies for all identified communities by the statutory date of August 1, 1983, including the annual levels of funding necessary to meet that plan.
- Assign the responsibility of updating and revising older studies awaiting review to another contractor/ agency enabling the review contractors to more expeditiously complete its review of studies that need no further revision.

We recommend that the Secretaries of Defense, the Interior, and Agriculture and the Chairman of the Tennessee Valley Authority require the Chief of Engineers, U.S. Army Corps of Engineers; the Director, Geological Survey; the Administrator, Soil Conservation Service; and responsible officials of the Tennessee Valley Authority, respectively, to coordinate with officials from the Federal Insurance Administration to give the highest practical priority, as required by section 204(c) of the Flood Disaster Protection Act of 1973, to allocating available manpower and resources to assist the Secretary of HUD in meeting the August 1, 1983, deadline for completing studies. Such coordination should encompass an interagency agreement which would recognize the need to maximize (1) the use of existing capabilities in preparing the flood insurance studies required by FIA as a prerequisite for entering the regular flood insurance program and (2) the use of in-house expertise as a means of meeting FIA's requirement to provide technical assistance to those communities eligible for the flood insurance program.

AGENCY COMMENTS AND OUR EVALUATION

FIA, in commenting on this report (see app. I), agreed with our recommendations and has taken or has promised to take appropriate actions.

FIA said that flood insurance studies for all communities could be started by the statutory deadline if reasonable resources are allocated and a detailed plan has been developed for scheduling those studies by fiscal year through 1983. It stated that completion and review of the later studies, as well as community appeals, will delay conversion of some communities to the regular program until about 1985.

It also said that priority lists now have been developed for all 50 States which, by the end of fiscal year 1976, should enable planning of studies 3 years in advance. The use of these long-range priority listings should alleviate the complaints of the other Federal agencies involved.

To reduce the backlog of studies awaiting review, FIA stated that two additional review contractors are to be added not later than the end of the transition quarter.

FIA agreed with our conclusion that a need exists to better coordinate the efforts of the several Federal agencies involved in mapping flood hazard areas. The other agencies involved (Corps, SCS, GS, and TVA) indicated that they were attempting to give the highest practical priority to allocating available manpower and resources to assist FIA in meeting the August 1, 1983, deadline for completing studies. The Corps, SCS, and GS felt that the overall effect of issuing a flood insurance and an information study for the same community was minimal--particularly in cases where the information study was completed first. They explained that the information study in such cases could be used as a technical basis for the flood insurance study with only a minimum of additional work and updating required.

However, we found some cases where the flood insurance study was done concurrently or before the agencies' information study. For example on page 31 of our report, 51 of the 130 instances cited, and 10 of the 20 studies selected for further analysis, were cases of flood insurance studies being done before or concurrent with the Corps information study. We also found that in 6 of the 20 studies selected for further analysis, the flood insurance study was performed by an agency/contractor other than the agency which issued the information study. In these instances the additional cost and the effect of issuing two such studies

would be much greater. We also feel that some of this duplication could have been avoided had there been better coordination among the Federal agencies and FIA.

Although progress has been made in coordinating Federal efforts and allocating manpower and resources toward completion of flood insurance studies, we feel that additional efforts must be made to insure that there is no further duplication. Full coordination of all Federal efforts to provide technical assistance to communities is essential if technical assistance programs are to avoid duplication and possible contradictory recommendations.

Corps

The Department of the Army said that in fiscal year 1976, the Corps has an estimated capability to undertake nearly 500 new studies but as of January 15, 1976, has only been authorized funds for 153. Because FIA imposed restrictions on the use of architect engineer firms, the Department stated that its capability for future studies in fiscal year 1977 and beyond had been seriously affected. Without the use of architect engineer firms, the Department indicated it may be limited to 285 new studies in fiscal year 1977. It also indicated that the use of these firms did not materially increase the study costs and felt that these actions would restrict their capability to perform such studies.

The Corps has advised FIA of its continued support to the maximum extent possible and concurred in the need for, and indicated a willingness to, enter into an interagency agreement as recommended in our report.

We believe that as part of that agreement, the agencies involved should consider and determine whether using architect engineer firms is a reasonable approach in attempting to meet the 1983 deadline.

GS

The Director, GS, stated that assigning flood insurance studies for a county or entire river basin will not greatly reduce the discrepancies between flood elevations of adjacent communities. The example cited by the Director, which was discussed in our report, resulted from a difference between a flood insurance study and an independent flood frequency estimate. The Director stated that the potential for such differences exists in nearly all flood insurance studies.

We do not suggest that FIA has completely solved the problem of conflicting data. We point out that assignment of larger areas along with several other actions being taken by FIA should help avoid differences in flood insurance study results between adjacent communities.

CHAPTER 3

NEED TO MONITOR COMMUNITY EFFORTS TO ADOPT AND ENFORCE FLOOD PLAIN MANAGEMENT REGULATIONS

A long-range objective of the National Flood Insurance Program is to reduce flood losses in the United States. To meet this objective, the Flood Disaster Protection Act of 1973 requires States or local communities,

"* * *as a condition of future Federal financial assistance, to participate in the flood insurance program and to adopt adequate flood plain ordinances with effective enforcement provisions consistent with Federal standards to reduce or avoid future flood losses." (Underscoring added.)

FIA's Flood Plain Management Division is responsible for reviewing and approving proposed flood plain management regulations and monitoring community implementation and enforcement of their adopted regulations.

FIA, however, has not established an effective system for monitoring community efforts to adopt and enforce required flood plain management regulations. As a result, (1) some communities were permitted to remain in the regular program for several years even though they had not adopted the required regulations, (2) some communities were not enforcing compliance with approved regulations, and (3) the Federal Government--though heavily subsidizing the flood insurance program--had no assurance that the communities' flood-prone lands were being developed wisely to prevent or minimize future flood losses.

FIA MONITORING EFFORTS NOT EFFECTIVE

In a July 19, 1973, GAO report to the Congress entitled "Actions Needed to Provide Greater Insurance Protection to Flood Prone Communities," we said that FIA had no monitoring system to determine whether communities were effectively enforcing adopted flood plain management regulations. The Federal Insurance Administrator agreed that such a program is essential to long-term benefits from the flood insurance program and indicated that it would be implemented when staffing constraints permit. In January 1975, an FIA official told us that FIA still had no formal monitoring system.

FIA monitoring efforts are essentially limited to reviewing (1) flood plain management regulations submitted by communities to insure that they comply with FIA criteria and (2) annual reports from communities which are required by section 1909.22, title 24 of the Code of Federal Regulations. In addition, FIA relies on newspaper articles, complaints from private citizens, and correspondence from special interest groups to learn about communities that have violated their flood plain management regulations.

To evaluate the effectiveness of FIA's monitoring efforts, we reviewed monitoring activities at the FIA Washington office and three FIA regional offices, and we reviewed program implementation in nine communities in five States. Since a State agency has been designated in each State to coordinate the National Flood Insurance Program, we also interviewed officials of these agencies in five States to determine whether they monitor community efforts to comply with program requirements. The communities we visited and the FIA regional office and State coordinating agency are shown below.

<u>State and community</u>	<u>FIA regional office</u>	<u>State coordinating agency</u>
<u>Georgia</u> Atlanta Fulton County	Atlanta, Georgia	Georgia Department of Natural Resources
<u>Louisiana</u> Jefferson Parish Kenner Orleans Parish St. Bernard Parish	Dallas, Texas	Louisiana Department of Public Works
<u>Oklahoma</u> Tulsa	Dallas, Texas	Oklahoma Water Resources Board
<u>Oregon</u> Winston	Seattle, Washington	Oregon State Executive Department
<u>Washington</u> Richland	Seattle, Washington	Washington State Department of Ecology

The results of our review are summarized in the following sections.

- FIA's procedures for reviewing and approving flood plain management regulations submitted by communities as a condition for maintaining eligibility in the regular program have not insured that the required regulations are adopted promptly.
- FIA has not established procedures to insure that approved flood plain management regulations once adopted are enforced.
- FIA has not enforced the annual report requirement.

Delays in adopting flood plain management regulations

The minimum requirements governing the adequacy of the flood plain management regulations adopted by a particular community depend on the amount of technical data FIA provides. Since regular program data (flood insurance study and flood insurance rate map) is more detailed and comprehensive than the emergency program data (flood hazard boundary map), the flood plain management regulations required for regular program participation are more stringent and thus should provide a more effective means of insuring wise development of flood-prone areas.

FIA's Flood Plain Management Division is responsible for reviewing each community's flood plain management regulations to insure that they comply with the following requirements set forth in FIA regulations.

- Consider neighboring flood plain management programs.
- Regulate special flood hazard areas, as a minimum.
- Flood plain laws should take precedence over other laws.
- Require building permits for all proposed construction or other improvements in the flood plain area having special flood hazards.
- Major repairs in special flood hazard areas should use methods and material to minimize flood damage.

- New construction and substantial improvements (including mobile homes) in special flood hazard areas must use methods, materials, and be anchored to minimize flood damage.
- New subdivision and development proposals, including their utilities and drainage, should be consistent with the need to minimize flood damage.
- New water and sewer systems (including onsite systems) should be located to avoid impairment or contamination during flooding.
- New residential construction and substantial improvements should be elevated to the 100-year flood level.
- New nonresidential construction and substantial improvements should be elevated or flood-proofed to the 100-year flood level.
- In riverine situations, no use in special flood hazard areas will raise 100-year flood level more than 1 foot.

To maintain eligibility in the regular program, communities are required to adopt enforceable flood plain management regulations within 6 months of the date they receive their flood insurance study and flood insurance rate map.

Participating communities may be suspended from the program for failure to adopt required flood plain management regulations. Since December 31, 1971, a total of 80 communities had been suspended for not complying. Six communities were suspended as of June 30, 1975. We found others, however, that were allowed to remain in the program even though their regulations did not comply with FIA standards.

As of February 1975 when we started our review, each of the nine communities we selected had been in the regular program at least 1 year; eight had been in it over 3 years and thus should have adopted and implemented flood plain management regulations which complied with FIA requirements. In addition, each entered the program voluntarily before the 1973 act and thus could be expected to be more committed to it than those who would subsequently enter to avoid the financial sanctions imposed by the 1973 act on nonparticipating communities.

Of the nine communities we reviewed, however, six had serious deficiencies in the regulations they submitted for FIA review and approval--they did not require construction

at or above the 100-year flood elevation. In addition, one of the six had not formally adopted FIA's maps which identify that hazard areas in which the control measures are to be implemented. Without adopting the maps, the community had no basis for enforcing its regulations in accordance with program requirements.

Five of the six communities were allowed to continue participating in the regular program an average of 25.4 months before FIA advised them of the deficiencies.

Of the six communities four had been in the regular program an average of about 34 months after their regulations had been submitted to FIA for review before all serious deficiencies were resolved. As of June 30, 1975, one of the remaining communities had not been notified by FIA of the deficiencies in its regulations, nor had it corrected them--it had been participating in the regular program about 63 months after submitting its regulations to FIA and still was not requiring construction at or above the 100-year flood elevation. The other community--after participating in the regular program about 36 months from the date it submitted its regulations to FIA for review--adopted FIA's maps for most of its flood hazard areas but, as of June 30, 1975, still had not adopted them for two areas. In a July 22, 1975, letter FIA notified the community that it was required to enforce program requirements in all flood-prone areas delineated on FIA maps using the 100-year flood elevations provided on those maps.

Although the other three communities' regulations did not contain serious deficiencies, officials told us that they had not been formally advised as to the adequacy of their regulations which had been submitted to FIA for review between February 1972 and May 1972.

FIA officials told us that because of staffing limitations, a thorough, systematic review of flood plain management regulations was not made until April 1974 when they were reviewed for 302 regular program communities. In August 1974, deficiency notices were sent out to 207 of the 302 communities--those not making an effort to comply. Others have been placed in a "work with" status which indicates--at a minimum--that they have adopted the level of the 100-year flood. As of May 13, 1975, 201 regular program participants were in complete compliance, 297 in a work with status, and 44 deficient.

One of the communities we reviewed which FIA classified as work with had not adopted the 100-year flood level and had not been advised by FIA of deficiencies in its flood plain management regulations as of June 30, 1975.

FIA officials told us that since April 1974, the Flood Plain Management Division had been able to keep its review of new communities' flood plain management regulations current. We found, however, that no new communities had entered the regular program since that date.

Failure to enforce flood plain management regulations

Both the Flood Disaster Protection Act of 1973 and FIA regulations require "effective enforcement provisions" at the community level. Communities applying for eligibility in the program must implement these provisions. However, FIA does not require the community to submit evidence that effective procedures have been established to implement the regulations and without effective enforcement procedures, flood plain management regulations will have little value.

An FIA official told us that communities can also be suspended from the program for not enforcing flood plain management regulations but only one has been suspended for this reason.

Of the nine communities we reviewed eight had not established regulation enforcement procedures. In this regard, FIA regulations require communities participating in the regular program to (1) require that the lowest floor of newly constructed structures and substantially improved existing structures be elevated to or above the 100-year flood level and (2) maintain for public inspection and furnish on request information on the lowest floor elevations of all new or substantially improved structures.

We found that

- six communities were not properly recording elevations or verifying that structures were elevated to the 100-year flood level and
- two other communities were not maintaining a record of actual first floor elevations.

The eight communities had participated in the regular program an average of 42 months with inadequate enforcement procedures in effect and consequently could have allowed development to occur below the 100-year flood level. As a

result of our review, one of the nine communities strengthened its enforcement procedures and four told us they planned to strengthen their procedures to insure that elevations would be properly recorded and/or to verify that new structures would be properly elevated. An additional community took action on its own and the remaining two communities took actions which would, in part, strengthen their enforcement procedures.

The Acting Administrator, FIA, told us that FIA plans to study the feasibility of providing communities with model enforcement guidelines for community flood plain management.

Our review also showed that one of the nine communities had allowed channel improvements designed to lower the FIA designated 100-year flood level along a portion of one flood hazard area, and then permitted construction in the flood plain at the lower levels before requesting FIA to approve the changes. Although FIA contended that the community should have obtained approval before allowing such changes, we found no specific reference to this in FIA's regulations.

FIA regulations also require that the cumulative effect of all development in the flood plain will not cause more than a 1-foot increase in the 100-year flood level.

The community contended that the improved channel would contain or otherwise prevent the 100-year flood from reaching the finished floor elevations of those structures built below the established FIA requirement, and that the channel work had not adversely affected downstream areas. A community official further stated that they found no requirement in the 1968 or 1973 acts indicating they had to obtain FIA approval before starting such work.

The community notified FIA of the channel improvements and related development in August 1974 and requested revisions of the flood insurance rate maps. In December 1974, FIA requested additional information from the community because the initial data provided was insufficient for revising the maps. In January 1975, a consulting firm under contract with FIA to evaluate the effects of the changes requested more information. When we completed our field work in March 1975, no decision had been reached and the community continued to allow development in the improved areas below the FIA minimum elevations. FIA subsequently approved the revised lower flood levels in May 1975.

According to the FIA consultant, a decision could have been made sooner had all the necessary data been available. He stated that a reasonable time frame for evaluating change

data and preparing new maps would be 60 days--30 days to reach a decision and 30 days to prepare new maps. He indicated that to expedite the review, FIA could identify in its regulations the type of information needed to evaluate proposed changes requiring prior approval.

The Acting Administrator, FIA, told us it was studying the matter with a view toward drafting regulations setting forth appropriate procedures and information to help a community obtain approval for changes to the flood plain and to existing FIA maps, before starting the work. He pointed out that it is to the community's benefit to notify FIA of the steps it has taken to reduce flood levels since the higher FIA elevations determine actuarial insurance premium rates, and must be adhered to for flood plain management purposes until such time as the FIA flood insurance rate map is revised. Regarding the type of information needed by FIA to evaluate proposed changes a community would make in its flood plain, he stated that FIA would include such guides in any regulations promulgated.

Annual report requirement
not enforced

FIA regulations require that participating communities submit, on the anniversary date of their initial eligibility, an annual report to FIA on the progress made during the past year within the community on the development and implementation of flood plain and/or mudslide area management measures. Copies of the reports are also to be sent to State coordinating agencies. We found, however, that FIA does not actively encourage their submission. In addition, FIA has not provided a report format to all participating communities, does not notify communities when reports are due, and does not contact delinquent communities.

About 3,700 annual reports should have been received by FIA during the 1-year period ending April 1975, but FIA had only 81 reports on file at April 22, 1975. Our review showed that none of the communities who submitted annual reports were contacted or questioned concerning the content of their reports, and no attempt was made to check the validity of the reports received.

Each of the nine communities included in our review should have submitted at least three annual reports to FIA. Five had not submitted any and the other four had each submitted only one report. None of the communities had submitted an annual report since December 1971.

Officials of the five communities which had not submitted any annual reports told us that they were unaware of the requirement.

Although FIA has not developed a required format for annual reports, it has advised some communities to address the following points in their reports.

- What specific land use and building code measures have been proposed and/or adopted?
- To what extent is the community coordinating its flood plain management regulations with other governmental entities?
- What major construction or types of development have been permitted in the flood plain area having special hazards during the past year?
- Where regulations in the area of special flood hazards are effective, what major variances have been granted or nonconforming uses removed?

Of the nine communities we reviewed, three had granted variances allowing construction of structures with first floor elevations below the 100-year flood level. None of the variances had been reported to FIA.

In about September 1974, FIA began work to develop and establish an annual reporting system. Under the planned system, a specific report format would be provided communities for annual reports and the questions would be designed to provide FIA with information to assess the adequacy of program implementation by each participating community. As of July 1975, FIA was still working on the proposed system. Annual report guidelines had been drafted and, according to an FIA official, comments were being solicited from various FIA headquarters and field offices.

MONITORING NOT EMPHASIZED

FIA has not emphasized monitoring at the headquarters or field level, and the State coordinating agencies we contacted do not systematically monitor community efforts to implement program requirements.

FIA officials stated that they have not emphasized monitoring because of staffing constraints. Their main concern has been getting communities into the program as rapidly as possible. Because of this, they rely primarily

on complaints from private citizens and letters from special interest groups to learn of communities violating flood plain management regulations.

All complaint letters are reviewed and processed by the Flood Plain Management Division by telephone or through correspondence.

Since June 1974, FIA had received 13 complaints regarding nonenforcement of flood plain management regulations. Eleven of these were handled by a telephone call or correspondence and two required personal visits by field staff.

FIA's Assistant Administrator for Flood Insurance told us the primary responsibilities of FIA staff in regional offices are to

- encourage communities to enter the program,
- assist communities in their flood plain management efforts,
- help communities adopt required flood plain management regulations after receiving their flood insurance rate maps, and
- publicize the program.

Although FIA regional offices are responsible for assisting communities in implementing program requirements, officials at each of the three FIA regional offices we visited (Atlanta, Georgia; Dallas, Texas; and Seattle, Washington) told us they spend little time in monitoring program implementation. In the Dallas office, which has four professional employees, one employee spends about 5 percent of his time on monitoring activities. The Atlanta office has a staff of five, but they have not implemented a monitoring system because of insufficient personnel. The Seattle office has two professional staff members but they have not implemented a system to monitor community participation in the program.

None of the five State coordinating agencies we contacted systematically monitor community efforts to implement program requirements. An official of one of the State agencies stated he does not perform any monitoring because it is not a State function.

FIA's Acting Administrator told us that the congressional mandate to HUD in the 1973 act to identify all flood-prone communities by July 1, 1974, triggered the requirement for identified communities to gain eligibility in the program by July 1, 1975, or within 1 year from the date of identification, whichever is later. Because of time constraints and insufficient staff resources it is a huge task to qualify communities. He added that, until this task is adequately discharged, the monitoring of community flood plain management and enforcement must be held in abeyance unless a monitoring system can be implemented, where feasible, with State agency assistance augmented by other contractual arrangements.

The Assistant Administrator for Flood Insurance told us that FIA was considering requesting funds to contract with State coordinating agencies to

- coordinate flood plain management throughout the State to insure that actions taken by one community do not adversely affect other communities,
- assist communities in drafting and adopting required flood plain management regulations, and
- assist in monitoring communities' participation in the program and their enforcement of flood plain management regulations.

The Assistant Administrator further stated that because certain State agencies were not as conscientious as others in their coordinating efforts, FIA would likely contract only with those who were more likely to cooperate.

CONCLUSIONS

We believe that the Flood Disaster Protection Act of 1973 provides the means to make substantial progress over the long term in reducing flood losses because (1) it essentially requires that all flood-prone communities participate in the program and (2) participating communities must adopt, implement, and enforce measures designed to guide the wise future development of their flood-prone areas. Although participating communities have the primary responsibility to comply with program requirements, FIA is responsible for insuring that communities meet their responsibilities and assisting them where necessary.

Our review showed that FIA has not met their above responsibilities for monitoring community efforts. As a result, some communities which had entered the program

voluntarily either had not fully complied with program requirements or had not done so promptly. Other communities which enter the program to avoid the sanctions imposed by the 1973 act on nonparticipating, flood-prone communities may be less motivated to effectively implement and stringently enforce required flood plain management regulations. Unless FIA effectively implements a monitoring system designed to provide reasonable insurance of community compliance, timely realization of a major program objective--reducing future flood losses--could be seriously impaired.

Our review also showed that FIA regulations do not clearly specify when communities in the regular program should obtain FIA approval before proceeding with changes which may alter the flood plain levels initially approved by FIA, nor the type of information needed to evaluate proposed changes. The Acting Administrator has indicated that draft regulations correcting this are under consideration.

RECOMMENDATIONS

We recommend that the Secretary of HUD require the Administrator, FIA, to:

- Establish and implement a monitoring system to insure community compliance with program requirements. The system should be designed to (1) strengthen procedures for reviewing flood plain management regulations submitted to insure that deficiencies are identified and corrected promptly; (2) require communities to specify the procedures they will use to enforce their adopted flood plain management regulations; (3) implement a more effective system defining communities' reporting requirements and requiring a follow-up system with communities which fail to report and those which may have problems; and (4) provide a means of systematically spot checking community compliance with program requirements.

- Advise participating regular program communities of the need to obtain prior FIA approval of changes affecting existing flood plain levels pending issuance of revised regulations.

AGENCY COMMENTS AND OUR EVALUATION

The Federal Insurance Administrator agreed with our recommendations and has taken, or agreed to take, the following actions.

- Implement a limited program whereby each of the 10 regional offices will be responsible for visiting at least 8 communities each year to monitor compliance with adopted flood plain management regulations.
- Implement the requirement that each community submit an annual report and follow up on communities not submitting such reports. A revised format of the report has been prepared and is being tested in the field.
- Strengthen procedures for reviewing proposed flood plain management regulations.
- Publish regulations which clarify proper standards to be used for flood plain management regulations and describe the information that must be submitted to appeal these standards.
- Prepare a community guidebook containing information on how communities can implement and enforce their adopted regulations.

We believe that the corrective measures described by the Administrator will provide additional incentives for participating communities to more effectively implement and enforce required flood plain management regulations.

CHAPTER 4

IMPLEMENTATION OF FLOOD INSURANCE PURCHASE REQUIREMENTS

The Flood Disaster Protection Act of 1973 requires participating communities to purchase flood insurance on and after March 2, 1974, when any form of Federal financial assistance is provided for the construction, acquisition, or improvement of structures in any area identified as having special flood hazards. This includes, in addition to direct Federal loans and Federal loan guarantees, any financing provided by federally regulated financial institutions such as banks (regulated by the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Comptroller of the Currency), and savings and loan institutions (regulated by the Federal Home Loan Bank Board).

The 1973 act also prohibits Federal or federally related financial assistance for such purposes if the community in which the property is located is not participating in the National Flood Insurance Program at July 1, 1975--January 1, 1976, for previously occupied residential dwellings--or 1 year after notification by FIA, whichever is later. The purpose of this provision is to further encourage participation in the program by all identified flood-prone communities. A community's failure to enter the program by the prescribed date would effectively cut off most available sources of financial assistance for acquisition or construction of property in identified special flood hazard areas.

Our review showed that the flood insurance purchase requirement was, in most instances, being enforced. For the mortgage transactions tested, we found that the required flood insurance had been obtained about 90 percent of the time. We also found that because of differing interpretations of the applicable legislation, some Federal agencies responsible for regulating lenders are requiring flood insurance to be obtained for mortgages being purchased in the secondary market, while others are not.

FLOOD INSURANCE GENERALLY OBTAINED

We examined mortgage transactions made on or after March 2, 1974, for the construction or acquisition of property located in special flood hazard areas of the nine communities we reviewed, to determine whether financial institutions were requiring flood insurance as a condition of loan approval. Our review showed that the requirements to purchase flood insurance were generally being complied

with. Of the 272 mortgage transactions we tested, flood insurance should have been required in at least 244 instances. We could not readily determine the flood insurance status of three transactions. Of the 244 instances, the required flood insurance was obtained in all by 28.

We discussed the instances of noncompliance with financial institution officials and found that the majority of these cases resulted from oversights, misinterpretation of requirements, and delays in receiving instructions--many of which were attributed to the newness of the program. Other reasons cited by the officials for not requiring flood insurance included problems in obtaining maps necessary for determining need for the insurance, incorrect determinations, and failure to follow up on mortgage application to insure required insurance was obtained.

Eight of the instances of noncompliance--all of them in the New Orleans area--involved loans guaranteed by VA or FHA. We found that VA has charged the lending institutions with the responsibility for making the final determination as to whether flood insurance is required on mortgages which they guarantee.

FHA decides whether properties are located in special flood hazard areas. When a property appraisal is requested by a financial institution, the FHA appraiser--as part of the application procedure--determines the conditions which must be met to guarantee the loan and specifies the amount of flood insurance required on a conditional commitment which is sent to the financial institutions. HUD instructions issued to area offices on March 1, 1974, specify that the requirement for flood insurance shall be included as a condition of the conditional commitment with respect to FHA-insured properties.

VA has assigned the responsibility for requiring flood insurance on properties located in special flood hazard areas to the lending institution as stipulated in the February 22, 1974, Department of Veterans Benefits Circular 26-74-8, saying that VA will exert all reasonable effort to insure that, where appropriate, the VA Certificate of Reasonable Value (form 26-1843) includes the statement "This property is located in a special flood hazard area. Flood insurance will be required in accordance with VA regulations." The Circular further states, however, that it will be the lender's responsibility to insure that flood insurance is obtained as required.

Officials of eight lending institutions we contacted in Alabama, Indiana, Minnesota, Louisiana, and Texas which made FHA/VA guaranteed loans indicated that they relied on the VA/FHA loan commitment to specify the need for flood insurance. This was because:

- The mortgagee did not have the FIA Flood Hazard Boundary/Flood Insurance Rate Maps necessary to determine insurance requirements for three properties. The loan conditions of the FHA/VA, which were relied on, did not specify a flood insurance requirement.
- The mortgagee made a correct flood zone determination for one property, but VA incorrectly advised the mortgagee that the property was not in a special flood hazard area.
- The mortgagee incorrectly determined the flood zone for one property.
- No valid reason could be given for noninsurance of two properties.
- The mortgagee relied on the FHA loan conditions which did not specify that flood insurance was required for one property.

INCONSISTENT FEDERAL POLICY ON
SECONDARY MARKET PURCHASES

Nonfederally regulated lenders usually sell mortgages to permanent investors, such as banks and insurance companies or to the Federal National Mortgage Association in the secondary market within a few months after making the original loans. Generally, these permanent investors pay the nonfederally regulated mortgagees to continue servicing the mortgages after their sale.

The following table shows that in 1974 nonfederally regulated lenders held 15.8 percent of the total residential mortgages held by all lenders.

<u>Type lender</u>	Percent of total residential mortgages held by various lenders						
	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Savings and loan	40.5	40.6	41.0	42.6	44.5	44.6	44.5
Commercial banks	13.9	14.0	13.5	13.9	14.9	15.9	16.1
Mutual savings banks	15.7	15.3	14.8	14.2	13.5	12.9	12.2
Federal and related agencies	5.0	6.1	7.5	8.3	8.6	9.3	11.4
Life insurance company (note a)	14.0	13.2	12.6	11.0	9.4	8.6	8.4
Other lenders (note a)	<u>10.9</u>	<u>10.8</u>	<u>10.6</u>	<u>10.0</u>	<u>9.1</u>	<u>8.7</u>	<u>7.4</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

^aNonfederally regulated lenders.

We found that some federally regulated financial institutions have not been instructed to require flood insurance when purchasing loans in the secondary market from nonfederally regulated institutions. Consequently, indirect financing from federally regulated institutions can still be obtained for property located in flood hazard areas even though flood insurance has not been obtained and the mandatory requirement of the act possibly circumvented.

The mandatory requirement of the 1973 act has been interpreted differently by the Federal regulatory agencies. FIA and the Federal Home Loan Bank Board (FHLBB) interpreted the act as applying to not only the origination of mortgage loans but also to the purchase of mortgage loan portfolios in the secondary market. Thus, flood insurance is being required when savings and loan institutions subject to the FHLBB's jurisdiction purchase mortgages in the secondary market which finance construction in flood plains. The Federal Deposit Insurance Corporation, Federal Reserve Board, and Comptroller of the Currency have, however, construed the act to include original mortgage loans only--not secondary market purchases.

When questioned concerning its position regarding secondary market purchases, an official from the Federal Home Loan Bank Board explained that FHLBB's position was based on its interpretation of the overall purpose or intent of sections 102 and 202 of the 1973 act. Although the law did not specifically address secondary market purchases with

respect to federally regulated institutions, FHLBB felt it would be consistent with the overall intent of the law to require flood insurance on these purchases.

The official also stated that FHLBB considered the word "make" in section 102(b) and "making" in section 202(b) to include secondary market purchases. They reason that the purchaser of a note on the secondary market becomes the ultimate lender and they thus consider this transaction a "making," and subject to the sanctions of these sections.

Officials from the Comptroller of the Currency, Federal Reserve Board, and Federal Deposit Insurance Corporation interpreted sections 102(b) and 202(b) of the act by explaining that the term "financial assistance for acquisition or construction" is defined very explicitly in section 3(a)(4) of the act to include secondary market purchases. This term is used only in sections 102(a) and 202(a). Both of these sections are addressed only to Federal officers or agencies--not Federal instrumentalities. Federal instrumentalities are addressed in sections 102(b) and 202(b). The language in sections 102(b) and 202(b) speaks only of making, increasing, extending, or renewing loans--secondary market purchases are not mentioned. These officials felt that since the Congress specifically defined the term "financial assistance for acquisition or construction purposes" to include secondary market purchases, and used this term only in relation to Federal agencies and not when addressing Federal instrumentalities, implies that the requirement for flood insurance on secondary market purchases does not pertain to them.

Consequently, because of the conflicting interpretations of the act, flood insurance is not required for mortgages being purchased in the secondary market by federally regulated banks.

In July 1975, we requested HUD's comments on a preliminary report¹ to Congressman James R. Jones entitled "Review of Tulsa, Oklahoma's Participation in the National Flood Insurance Program." We had recommended that the Secretary, HUD, propose legislation to the Congress amending the Flood Disaster Protection Act of 1973 to prohibit federally regulated financial institutions from purchasing mortgages in the secondary market on properties located in designated flood hazard areas that are not protected by flood insurance.

¹The report was subsequently issued to Congressman Jones (RED-76-23, September 19, 1975).

In a July 29, 1975, letter the Acting Federal Insurance Administrator told us that FIA strongly agreed that uniformity among federally regulated lenders is needed and stated that HUD would take the following actions.

- Report our views to the regulatory agencies noting that they agree with those expressed by HUD's General Counsel. HUD will recommend that all of these instrumentalities, other than the Federal Home Loan Bank Board, reconsider and reverse their earlier position.
- If this fails, HUD will recommend that the Comptroller General issue an opinion which would be binding on all such instrumentalities except the Federal Reserve Board.
- Finally, should the preceding steps prove unsuccessful, FIA will recommend to the Secretary that our recommendation of remedial legislation be implemented, so that the 1973 act's insurance purchase requirements will not continue to be undermined.

CONCLUSIONS

Our review indicated that required flood insurance was generally obtained. The procedures followed by FHA and VA differed as to who was responsible for seeing that required flood insurance was obtained. HUD has assumed this responsibility while VA placed this responsibility on the lender.

We believe that clarification of the Flood Disaster Protection Act of 1973 is needed since all Federal agencies and federally regulated institutions should be consistent concerning the applicability of flood insurance when mortgages are purchased on the secondary market. In view of the Federal Insurance Administrator's planned actions to resolve this matter we are making no further recommendations.

RECOMMENDATION

We recommend that the Secretary, HUD, and the Administrator of Veterans Affairs determine who should assume the ultimate responsibility for seeing that flood insurance is obtained and issue clarifying instructions to their field offices for acquiring or constructing property in flood hazard areas.

AGENCY COMMENTS

The Administrator of Veterans Affairs said that FIA publications and guidelines clearly state that section 102 of the 1973 act places the responsibility for compliance and enforcement of the insurance purchase requirement on the lending institution. The Administrator stated that VA directives to its field offices are very specific concerning the ultimate responsibility and no clarification is considered necessary. HUD takes the opposite position--Federal agencies have the responsibility for insuring that flood insurance is obtained when required.

The Federal Insurance Administrator has contacted both VA and the Federal Housing Administration (FHA) in an effort to clarify who has the ultimate responsibility to oversee the mandatory insurance purchase requirement. The Administrator stated that FIA will meet with both VA and FHA officials to discuss the problems involved and try to reach an agreement on where the ultimate responsibility should rest.

CHAPTER 5

SCOPE OF REVIEW

Our review was directed toward determining and evaluating the progress being made by the Federal Insurance Administration, and other Federal agencies and instrumentalities in implementing the National Flood Insurance Program as revised by the Flood Disaster Protection Act of 1973. It generally covered the period from the program's inception through June 1975.

Our review included

- examining pertinent policies, procedures, studies, and reports and reviewing the program's legislative history;
- interviewing Federal, State, and local officials and representatives of selected FIA contractors responsible for implementing or assisting in implementing the program; and
- visiting nine communities in three HUD regions located in five different States--two in Georgia, four in Louisiana, one in Oklahoma, one in Oregon, and one in Washington, where we reviewed community efforts to implement program requirements.

The Federal agencies covered by our review were FIA, FHA, HUD; Corps of Engineers, Department of the Army; Soil Conservation Service, Department of Agriculture; Geological Survey and Bureau of Reclamation, Department of the Interior; Tennessee Valley Authority; the National Oceanic and Atmospheric Administration, Department of Commerce; Veterans Administration; Comptroller of the Currency; Federal Deposit Insurance Corporation; Federal Reserve Board; and the Federal Home Loan Bank Board.

We discussed State efforts to assist in implementing the program with officials in the States of Georgia, Louisiana, Oklahoma, Oregon, and Washington.

We interviewed officials of the National Flood Insurers Association headquarters office in Arlington, Virginia. We also contacted offices of insurance companies responsible for servicing flood insurance policies and selected financial institutions which made loans in flood hazard areas in the communities visited. Our contacts were limited to determining whether flood insurance had been obtained in selected cases and, if not, the reasons for not requiring it.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL INSURANCE ADMINISTRATION
WASHINGTON, D. C. 20410

MAR 2 1976

IN REPLY REFER TO:

Mr. Henry Eschwege
Director
Resources and Economic
Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

The Secretary has asked me to respond to the draft report entitled "Improvements Needed in Efforts to Achieve Objectives of the National Flood Insurance Program", dated December 17, 1975. Three major problem areas are addressed in this report: the need to accelerate the completion of flood insurance studies, the need to monitor community adoption and enforcement of regulations, and the need to maintain oversight of the mandatory flood insurance purchase requirement. We would like to comment on each of these areas in turn and then provide some additional information illustrating the success of the program in providing insurance protection. First, however, let us clarify an existing confusion over the terms "estimated" and "identified" flood prone communities.

Identification of Flood Prone Communities

Prior to the creation of the National Flood Insurance Program in 1968, the extent of flooding problems in this country had not been accurately determined. The United States Geological Survey (USGS), through its Flood Prone Quadrangle Maps, and other Federal Agencies had begun to study the problem, but the number of affected communities was unknown. In 1967 the U.S. Army Corps of Engineers used all of the available information to compile a list of approximately 5,000 "urban flood prone areas" (population greater than 2,500). At the time of enactment of the program, this was the available information that the Federal Insurance Administration (FIA) used to begin to fulfill the Congressional mandate to notify all flood prone communities. We contracted with the Soil Conservation Service (SCS) of the U.S. Department of Agriculture to expand the list to include smaller communities and unincorporated areas. Most counties in the United States have a USDA office which provides, among other services, technical assistance to local communities, and whose staff is knowledgeable about local flooding problems. The SCS study resulted in a list by State which

named each flood prone community, the responsible community official, the source of flooding, and the USGS quad map on which the community appeared. The list for each state was reviewed by the FIA-designated State Coordinating Agency, and also by the consulting engineering firm that was contracted to prepare Flood Hazard Boundary Maps for that state. At the end of this review process, FIA had a list of all communities thought to contain areas of flood hazard; this estimated number of communities is currently 21,411. As Flood Hazard Boundary Maps (FHBMs) are prepared for these communities and they are sent formal notice of their flood prone designation, they become identified flood prone communities. The Federal Insurance Administration estimates that the identification and notification of all flood prone communities will be essentially completed by mid-1977. The distinction between estimated and identified communities is important, since the issuance of the FHBM begins the one-year period in which a community must apply for participation in the program; failure to participate results in the imposition of the sanctions of section 202 of the Flood Disaster Protection Act of 1973.

Flood Insurance Studies

The National Flood Insurance Act of 1968 (PL 90-448) established August 1, 1983 as a deadline for completing the flood insurance studies necessary to qualify all flood prone communities for the Regular program. As reported, there were thought to be about 5,000 such communities at that time. Although we now know that there are over four times that number of communities with flooding problems, the Federal Insurance Administration (FIA) feels that flood insurance studies for all 21,000-plus communities can be started by the statutory deadline if reasonable resources are allocated. FIA has developed a detailed plan for scheduling these mapping studies by fiscal year through 1983. The completion and review of the later studies, as well as possible community appeals, will delay the conversion of some small percentage of these communities to the Regular program until about 1985.

In addition to the reasons given in the report for delays in completing Flood Insurance Studies, we would cite two others. Lack of staff hampered productivity in the early years of the program. Most importantly, the size of the task - based on the estimated number of flood prone communities - was underestimated by a factor of four, as explained above.

Flood Insurance Studies, in the early years of the program, were done exclusively by Federal Agencies. In fiscal year 1976, more than half of the contracted studies will be done by consulting engineering firms. The larger use of this available expertise in the private sector will greatly accelerate the completion of the mapping studies.

As the size of the mapping task has grown, FIA has been aware of the growing scheduling problem. Priority lists have now been received, from either the designated State Coordinating Agency or the Regional Flood Insurance Staff, for all fifty states. For many communities, the priority list recommends a specific Federal Agency to do the study, based on previous experience in the community or in nearby communities with similar flood problems. By the end of fiscal year 1976, these priority lists should enable planning of studies three years in advance. Inasmuch as the constraints on FIA for flood insurance studies are imposed by limited appropriations, we feel that the designation of specific dollar amounts to Federal agencies by interagency agreement, with specific apportionment to each state, is still a proper procedure. The complaints of various agencies that they do not know specifically which communities they will be studying should be alleviated through the use of these long-range priority listings, since the order of study will correspond to the priority ordering.

The limited work on mapping of flood prone areas done prior to 1968 was not suitable for determining zones of actuarial risk. The methodology for performing flood insurance studies has consequently evolved over the lifetime of the program, changes being made where it was clear that they would substantially improve the quality and usefulness of the final product. Of the several revisions of study guidelines, four or five involved substantive changes which caused delays of four or five months in the mapping of flood prone areas. In some respects, these changes required less work rather than more of the agencies and consulting engineering firms and thus simplified their task. The quality of the Flood Insurance Rate Maps is now very good, and future changes in study guidelines should be minimal. The Water Resources Council guidelines have been universally adopted by Flood Insurance Study contractors, which should eliminate conflicts between studies of neighboring areas in cases where flood records from gaging stations exist.

Two additional review contractors are to be added not later than the end of the Transition Quarter. The statement of work has been prepared, and the contracting of this work should take place shortly, substantially reducing the backlog of maps awaiting review.

The Congressionally mandated addition of mudslides as a hazard covered under the Flood Insurance Program has proven difficult to implement by the mapping of mudslide hazard areas. Early attempts to achieve such mapping proved insufficient, and FIA rescinded 65 maps which showed mudslide hazard areas. These maps were all done early in the

program, and consequently additional changes beyond the deletion of designated mudslide hazard areas were necessary, including some restudy of hydrology and revision to curvilinear hazard area boundaries. The majority of the maps, now designating only flood hazard zones, will be completed and issued to the communities to begin the formal appeals period in the first half of calendar year 1976.

The identification of mudslide hazard areas, and the subsequent requirement that insurance be purchased, was studied by the National Academy of Sciences. Their conclusion was that areas of potential mudslide would necessarily include many landslide occurrences not covered under the definition of mudslide, (i.e. a river of mud). Therefore, only a small percentage of claims would be paid; we felt that this was not equitable, and the attempt to delineate mudslide hazard areas in this way was dropped.

Recently, the FIA has received requests from both the U.S. House of Representatives and the U.S. Senate to pursue the possible extension of coverage to landslides, including the specific mudslide hazard originally mandated by Congress in 1969. The scope of work for a feasibility study exploring such an extension is currently in preparation. This extension of coverage, if implemented, should ease the current problem in delineating mudslide hazard areas, since the technical distinction as to the nature of the land movement-landslide or mudslide-would no longer have to be made.

The need to better coordinate the efforts of the several Federal agencies involved in mapping flood hazard areas remains, although some progress has been made. We feel that the Flood Insurance Study required for community participation in the Regular Program should take preference over other types of studies, and we agree with the GAO that efforts should be made to allocate available manpower and resources in order to complete these studies. Whether through the direction of the Office of Management and Budget, through an interagency agreement, or some other means, the coordination of Federal resources and expertise should accommodate two goals: first, the completion of the Flood Insurance Studies; and second, the provision of technical assistance to communities that will allow them to understand and utilize the maps that result from these studies and to participate in the National Flood Insurance Program by adopting and enforcing adequate flood plain management regulations. Technical assistance should also include providing communities with information on what is not possible; some communities may be looking to structural solutions for their flooding problems where no effective structural protection is possible, or where it is unjustifiable by a benefit-cost analysis. The earliest possible identification of this type of problem is desirable in order to provide for a realistic assessment of future alternatives for flood protection.

Technical assistance to communities will come from various Federal agencies, with differing areas of expertise. Coordination among these agencies will be essential if technical assistance programs are to avoid duplication of effort and contradictory recommendations.

Monitoring

We discern three different phases of the program: first, the identification and participation in the Emergency Program of communities with flooding problems; second, the conversion of these communities to the Regular Program; third, the monitoring of community enforcement of adopted flood plain management regulations. Over time, the principal effort will shift from one of these phases to the next. This is necessary because of limitations of staff and resources, but none of the three phases of the program can be focused on to the exclusion of the other two.

We share the GAO's concern that communities participating in the program and thereby having available flood insurance protection at substantially Government-subsidized rates should be making honest and effective efforts to regulate flood plain development and minimize future flood damages. The size of the task of monitoring all participating communities, however, is enormous and can be illustrated as follows: to visit each community for only two days once every year, we estimate that at a minimum an additional 140 field staff would be required, compared to the current 60 allocated positions. This makes no allowance for the other required functions of the field offices, notably the consultation and coordination with community officials (CCO) to enroll flood prone communities in the Regular Program. This CCO work will grow in importance as the rate of completing the Flood Insurance Studies increases. In the next fiscal year, an additional 56 field positions are planned; this increase in staffing should reduce problems that have been encountered in scheduling CCO meetings.

The requirement that communities submit an annual report is now being actively implemented. Attached is a draft of a revised annual report form currently being field tested. This report will provide information on development within the community, notably with respect to variances granted, which should help to direct the limited monitoring effort described below to those communities where it is most needed. In order to pursue delinquent reports, the FIA is arranging a computerized procedure of mailing notices of delinquency to communities which fail to file a report on time.

The requirement that communities adopt proper regulations has, in the past, not been adequately monitored by FIA, primarily because of staffing problems. Improvement in reviewing proposed ordinances is a priority of the Flood Plain Management Division of the Flood Insurance Program; since the comprehensive review of Ordinances in August, 1974, substantially improved procedures have been put into effect. Communities making good faith efforts to adopt appropriate regulations will be encouraged to do so, rather than immediately suspended, but every effort will be made to preclude the lengthy periods cited in the GAO report in which communities participated without even minimally sufficient compliance with FIA requirements.

A limited program of monitoring for community enforcement is being implemented, within the limits imposed by staffing. This community assistance and program evaluation effort will be achieved by having the Flood Insurance Specialists at each of ten Regional offices visit not fewer than eight communities per year to monitor compliance with adopted flood plain management regulations. The annual reports, as well as information received from private citizens and public groups, will be useful in determining which communities will be visited. This effort will be increased as staffing permits. Ultimately, the FIA would like to contract with the designated State Coordinating Agencies to help perform this monitoring. This possibility will be implemented with individual State Coordinating Agencies as they show a willingness and capability to take over such responsibilities.

New and comprehensive regulations have been under preparation by the FIA for some time, and they directly address the questions of the proper standards to be used for flood plain management and the information that must be submitted to appeal these standards (in sections 1915.5 and 1910.2(h)). These regulations are being prepared for publication in the Federal Register, and will preclude misinterpretation of the standards communities should be using in enforcing their flood plain management regulations.

Finally, the FIA is preparing a Community Guidebook which will be sent to all participating communities. Information on how communities could implement and enforce their adopted flood plain management regulations will be included; this information should be helpful to all communities, but particularly so for smaller communities with less experience in local flood plain management regulation. Additionally, the FIA is preparing to contract for a study of what technical assistance is needed in small communities.

Mandatory Insurance Purchase

The lack of a consistent policy on secondary market mortgage purchases, resulting in the circumvention of the mandatory insurance purchase requirement of the Flood Disaster Protection Act of 1973, remains a problem. The Federal Insurance Administration has written the various instrumentalities involved to recommend that flood insurance be required on such secondary market transactions and has received an acknowledgement from Mr. Arthur F. Burns of the Federal Reserve System and a reply from Mr. Frank Wille, Chairman of the Federal Deposit Insurance Corporation (attached). Mr. Wille restates the differing interpretation of the 1973 Act on which the FDIC bases its position, and recommends that only a Congressional amendment would resolve the different interpretations of Congressional intent. As outlined in the July 29, 1975 letter to the GAO, FIA will continue to pursue a consensus on secondary market policy, and we will recommend legislation to clarify the intent of Congress if necessary. The circumvention of mandatory purchase requirements made possible by these interagency differences is damaging to the effectiveness of the program and needs to be quickly resolved.

Both the Veterans Administration and the Federal Housing Administration have been contacted by FIA in an effort to clarify who has the ultimate responsibility to oversee the mandatory insurance purchase requirement. Mr. Lyman Miller of the VA reported that all VA-approved loans include a check of the location of the property on the suitable Flood Hazard Boundary Map whenever it has been published, and when flood insurance is required, a notation to that effect is included on the Certificate of Reasonable Value in order to alert the lender. However, the frequent publication of additional maps, changes in existing maps, or imposition of sanctions on a community made it impossible for the VA to insure that their information was still accurate as of the date of closing of the loan, often some six to twelve months later. Therefore, the VA has charged the lenders with ultimate responsibility for making the purchase of flood insurance mandatory where required. Mr. Glenn Ruggles of FHA furnished FIA with that agency's inquiry of their Dallas regional office requesting verification that the the New Orleans Area Office was complying with HUD directives regarding flood insurance.

[See GAO note 2, page 79.]

We will meet with both VA and FHA officials to discuss the problems involved in oversight of the mandatory insurance purchase requirements and try to reach an agreement on where the ultimate responsibility should rest.

The FIA maintains two toll free lines (800-424-8872 and 800-424-8873) to provide information to lenders and the public regarding insurance purchase requirements and other aspects of the program.

Current Effectiveness of the Program

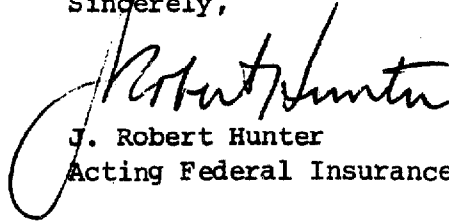
The GAO Report does not provide much insight to the successful functioning of the insurance mechanism itself as a means of protecting from flood losses. From the inception of the program in June, 1969 to June 30, 1975, over \$80 million was distributed to policyholders in payment of claims for flood damages, and another \$25 million in claims was pending. These figures are even more significant in light of the slow initial growth in the number of participating communities and in the number of policies issued (see attached Historical Growth Charts).

A most illuminating comparison can be made between the insurance experiences in two hurricane disasters that struck many of the same communities in the Eastern United States, Agnes in 1972 and Eloise in 1975 (see attached table). Of the total insurable losses in each case, less than 1 percent were covered by flood insurance in Agnes, but nearly 26 percent were covered in Eloise, only three years later. Although Eloise was a significantly weaker storm than Agnes, more than seven times as many claims were filed. This dramatic increase in the effectiveness of the National Flood Insurance program reflects, in part, the wisdom gained through experience of people who have already suffered tremendously from one flood disaster. Although there is surely much room for improvement remaining, the comparison clearly illustrates the potential of a program of flood insurance in providing protection from economic loss.

The sanctions of the 1973 Act first took effect on July 1, 1975. Tremendous growth in community participation has taken place starting shortly before that date, and much of that growth is not reflected in the GAO report on the program as it existed on June 30, 1975. We think it is worthwhile to point out that as of March 10, 1976, 13,817 communities will be participating in the program.

The GAO, in its comprehensive and careful review of the National Flood Insurance Program, has pointed out several areas of justifiable concern where improvements are possible. As the enumeration in this letter of steps being taken by FIA shows, significant efforts are being made to improve this program. We are grateful to the GAO for their continued interest and insight into the National Flood Insurance Program.

Sincerely,



J. Robert Hunter
Acting Federal Insurance Administrator

Enclosures

[See GAO note 1, page 79.]



DEPARTMENT OF THE ARMY
 OFFICE OF THE ASSISTANT SECRETARY
 WASHINGTON, D.C. 20310

20 FEB 1976

Mr. Henry Eschwege
 Director, Resources and Economic
 Development Division
 U. S. General Accounting Office
 Washington, D. C. 20548

Dear Mr. Eschwege:

The Secretary of Defense has asked us to respond to your draft report of 17 December 1975 on the Improvements Needed in Efforts to Achieve Objectives of the National Flood Insurance Program (OSD Case #4247).

Before commenting on the report, I feel a few preliminary comments are in order. Under Section 206 of the Flood Control Act of 1960, as amended, the Corps has conducted an extensive program of providing flood plain information, technical services and guidance to local governments. Some 1400 Flood Plain Information (FPI) Reports covering nearly 3100 places have been furnished to requesting State and local agencies. In FY 75 alone the Corps responded to about 14,000 requests for all types of technical services and guidance. As one measure of the effectiveness of those efforts, particularly the information reports and follow-up activities, over 1500 report locations have adopted flood plain regulations. Areas covered have been able to go ahead with planning and flood plain regulation programs. Some communities are now among those in the "Regular" Flood Insurance Program.

With regard to the draft report, we will limit our comments to four areas of the report which give us some concern and which we feel warrant further clarification: (1) statements regarding an apparent duplication of effort and lack of coordination between the Corps' Flood Plain Information Reports and the Flood Insurance Study Reports by the Federal Insurance Administration (FIA); (2) the reasons for the increase in FY 1976 Flood Insurance Study (FIS) program for the Corps from \$8 to \$15 million; (3) the implication of the recommendation that the Corps give a higher priority to the support of FIA; and (4) the recommendation that Corps in-house expertise be used as a means of meeting FIA's requirement for providing technical assistance to communities.



On page 41 and 42 of the draft report, it is stated that places studied by the Corps are also studied by FIA. In virtually every case, the Corps' study preceded (several years in most cases) the FIA study. In practice, the Flood Insurance Study for a given area often was given priority for initiation because information already developed in conjunction with a Corps' study was available. Consequently, there was little, if any, duplication of effort of data collection and technical evaluation. The implication (also on page 41) that a duplication of effort still prevails is misleading in view of the extensive efforts being taken to coordinate the Corps' study program with that of the Federal Insurance Program. As noted in the draft report, FIA rejected the Corps' proposal to provide a supplement to the FPI report to satisfy the requirements of the Flood Insurance Program. Despite this, the Corps proceeded to revise a significant part of their FPI report and study requirements to provide information directly applicable to the Flood Insurance Program. Implementation instructions were sent to the Corps' field offices on 6 June 1975. As indicated on pages 41 and 44 of the draft report, the Corps has also adopted a policy to switch readily from a Flood Plain Information Study to a Flood Insurance Study (FIS) once that opportunity is presented by FIA and the necessary study funds are provided. Over 30 such studies have been converted so far. In cases where FIA plans to initiate an FIS and the Corps is not selected, the Corps terminates the study, if not already in the printing phase, to avoid a duplication of effort. The Corps recognizes the pressures for completion of additional FIS and the increase in funds available for FIS. Consequently, the Corps has drastically cut back on its resources previously used for the preparation of Flood Plain Information reports.

With respect to the GAO report finding (page 45) that the Corps capability increased from \$8 to \$15 million, it should be pointed out that the Corps initially estimated a capability of \$15 million in flood insurance studies for FY 1976. However, only \$8.0 million was offered by FIA (HUD) in the Inter-Agency Agreement for 1976. The \$15.0 million study level has now been approved by FIA. We presently have a capability to use and even exceed that level for FY 1976.

The recommendations (pages 48-49) state that a higher priority be given to the accomplishment of work to support FIA. The Corps has attempted to do this. Each year the Corps has indicated an increase in allocated resources for the reimbursable work. In FY 1976, the Corps has an estimated capability to undertake nearly 500 new studies.

As of 15 January 1976, however, the Corps has been authorized funds for only 153 studies. Because of subsequent restrictions imposed by FIA on our use of Architect Engineer (AE) firms, our overall capability has been seriously affected for future studies, those to be conducted primarily in FY 77 and beyond. Without restriction on AE use, we estimate a capability to undertake about 515 new studies in FY 1977. With the restriction in effect, we may be limited to 285 new studies. The Corps has informed FIA of this impact and recommended that they revise their policy and permit the Corps to use AE firms. With the current legislative mandate for FIA to complete a detailed study for each community by 1983, restricting the Corps capability to be responsive does not appear advisable. The Corps finds that their use of AE firms does not materially increase the cost of the study. The Corps has been very successful in the accomplishment of engineering studies by using the support of AE firms. That arrangement utilizes the contract administration services available in the Corps and the technical expertise needed to properly establish a scope of work and its cost, to monitor the study, and to provide a thorough review of the completed work.

We acknowledge the recommendation on page 49 pertaining to the use of in-house expertise as a means of meeting FIA's requirement to provide technical assistance. Because technical assistance and services, other than reports, are not readily susceptible to being handled by AE's and are furnished with short turnaround time, they are provided by in-house effort. However, limitations on manpower ceilings prevent a significant reallocation of in-house capability.

Regardless of the above constraints, the Corps has informed FIA officials of their intent to continue supporting FIA to the maximum extent possible, and concurs in the need for, and is willing to enter into an interagency agreement as recommended in the report.

Thank you for the opportunity to review the draft.

Sincerely,



Victor V. Veysey
Assistant Secretary of the Army
(Civil Works)

UNITED STATES DEPARTMENT OF AGRICULTURE
SOIL CONSERVATION SERVICE

Washington, D. C. 20250

JAN 30 1976

Mr. Henry Eschwege
Director
Resources and Economic
Development Division
General Accounting Office

Dear Mr. Eschwege:

In response to your letter of December 17, 1975, the Soil Conservation Service has reviewed the draft of a proposed report to the Congress by the General Accounting Office entitled "Improvements Needed to Achieve Objectives of the National Flood Insurance Program" on behalf of the Department of Agriculture.

We want to assure you the Soil Conservation Service (SCS) has been giving the highest practical priority to allocating available manpower and resources to assist the Federal Insurance Administration (FIA) in carrying out flood insurance studies. In addition, SCS provides technical data and assistance to local governments in helping them implement their flood plain management regulations.

Since starting our initial rate study in June of 1969, the SCS has been involved in a total of 214 detailed (rate) flood insurance studies to date. The total value of all reimbursable project orders received from the FIA to date amounts to \$5,696,000.

We are enclosing several comments for your consideration in preparing the final report. We appreciate the opportunity to comment on this draft.

Sincerely,



R. M. Davis
Administrator

Enclosure





United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

FEB 17 1976

Mr. Henry Eschwege
Director, Resources and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

This responds to your draft report, "Improvements Needed in Efforts to Achieve Objectives of the National Flood Insurance Program."

Your report recommended that the Department coordinate with officials from the Federal Insurance Administration to give the highest practical priority in the allocation of resources needed to complete flood insurance studies by the August 1, 1983, deadline. You also recommended an interagency agreement which recognizes the need to maximize the use of existing capabilities.

The Department concurs in the recommendation. However, we believe that this program has already been afforded the highest practical priority in the allocation of resources and that, accordingly, the Department has met the requirements of section 204(c) of the Flood Disaster Protection Act of 1973.

Enclosed are comments prepared by the Geological Survey. These comments suggest minor revisions to the report and offer additional suggestions for improving the program.

We appreciate the opportunity to comment on your draft report.

Sincerely,

James T. Clarke
James T. Clarke
Assistant Secretary - Management

Enclosure





United States Department of the Interior

GEOLOGICAL SURVEY
RESTON, VIRGINIA 22092

JAN 22 1976

Memorandum

To: Director of Audit and Investigation

Deputy

Through: Assistant Secretary--Energy and Minerals

Harry M. Kirtuck
FEB 9 1976

From: Director, Geological Survey

Subject: GAO Draft Report, "Improvements Needed in Efforts to Achieve Objectives of the National Flood Insurance Program"

We have reviewed the draft of the report to the Congress of the United States entitled, "Improvements Needed in Efforts to Achieve Objectives of the National Flood Insurance Program." We have noted two points where we have a minor disagreement with the text and we offer, for your consideration, our comments on several other aspects of this program. Our comments are based upon Geological Survey experience in the program, and are concerned primarily with material in Chapters 1 and 2.

One disagreement with the text concerns the discussion on pages 30-37, about resolution of conflicting flood estimates by different agencies or contractors. The text implies that assignment of flood studies for a county or entire river basin will avoid or reduce future conflicting flood estimates. Actually, the one unresolvable conflict discussed on page 38, last paragraph, did not result from differences in two flood-insurance studies, but rather from a difference between an insurance study and an independent flood-frequency estimate. The Geological Survey, as part of its mission of evaluating the Nation's water resources, has prepared and published numerous reports providing flood-frequency estimates for use by planners and designers. These estimates are applicable to most streams in all regions of the Nation, and they sometimes may differ significantly from estimates prepared by other agency/contractors for flood-insurance studies. The conflict resolved by the National Academy of Science (last paragraph, page 38) resulted from such a difference. The potential for these differences exists in nearly all flood-insurance studies, and will not be reduced significantly by assignment of insurance studies covering large areas to a single contractor.

Our other minor disagreement with the draft is the implication of the table on page 40 that some \$600,000 worth of Geological Survey investigations may be inefficient because they are uncoordinated with the Flood Insurance



Program. All of these Geological Survey studies started well in advance of any knowledge of a proposed insurance study; most are of a broader scope than an insurance study and provide information specifically requested by a State or local community, and all provide information that can be used as a technical basis for an insurance study.

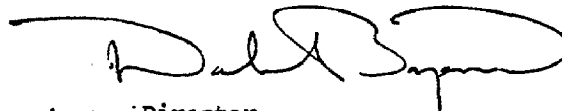
We feel we have met fully the requirements of Section 204(C) of the Flood Disaster Protection Act of 1973, by allocating available manpower and resources to assist the Secretary of HUD in meeting the August 1, 1983, deadline for completing studies (page 13). While engaged in that work we have noted several opportunities for modification or improvement of the processes of flood-insurance studies. They are:

(1) We definitely agree that a more effective system is needed for scheduling of flood-insurance studies (page 48). The description on pages 27-31 adequately assesses the problem. We suggest that to insure mutual efficiency in flood studies we need at least a 2-year lead time, and that the regional availability of our manpower should be considered in planning and assigning studies.

(2) Although previous changes in study guidelines have resulted in delays and additional cost for some of the earlier studies, we feel that most of those changes were needed to provide effective reports. We suggest that there is a need to provide additional guidelines that more specifically describe the analytical techniques to be used in the studies. More rigorous specifications of methods of hydrologic and hydraulic analysis would reduce the coordination efforts that now are both frustrating and time consuming.

(3) Research holds large promise for improving the efficiency of the Flood Insurance Program. Only through research does it seem possible to define techniques of evaluating mudslide potential and tidal-flood frequency, and to develop more efficient methods of flood-insurance investigations. The Geological Survey independently is researching some of these problems, but additional effort appears warranted.

We appreciate the opportunity to review this report and will be glad to assist further if you desire.



Acting Director



TENNESSEE VALLEY AUTHORITY
KNOXVILLE, TENNESSEE 37902

February 16, 1976

Mr. Henry Eschwege, Director
Resources and Economic Development Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

The following comments result from review of your proposed report to the Congress on Improvements Needed in Efforts to Achieve Objectives of the National Flood Insurance Program. They confirm information supplied by telephone to Mr. Leland E. Goatley of your office, at his request.

The information concerning TVA's work on flood insurance studies and technical assistance to communities on flood plain management appears to be accurate with the following two exceptions:

1. In the table on page 40, the amount expended by TVA in fiscal year 1975 for flood insurance studies should be \$232,643. The \$350,000 figure given is the total of project orders accepted from FIA and includes funds for work completed after June 30.
2. On line 1 of page 47, the word "proposed" should be deleted with regard to TVA technical assistance to communities; this program is an ongoing one which simply needs FIA cooperation to increase the opportunity to work effectively with communities in this region as they receive flood hazard information developed through the National Flood Insurance Program.

TVA is certainly willing to make manpower and resources available to assist the Secretary of HUD in meeting the August 1, 1983, deadline. Our staff is already coordinating with FIA, and flood insurance studies have already been given a very high priority. As a result of these efforts, our work for FIA during the first six months of the current fiscal year has already exceeded the total for the preceding twelve months and is scheduled for additional increases.

Mr. Henry Eschwege

February 16, 1976

We appreciate the opportunity to review this report and hope that your other recommendations will help the National Flood Insurance Program become an even more effective means of encouraging sound flood plain management measures. Our commitment to help communities in this region develop and carry out good flood plain management gives us a strong basis for interest in the flood insurance program, and we will cooperate fully with FIA to make our joint efforts in this region as effective as possible.

Sincerely,


Lynn Seeber
General Manager



VETERANS ADMINISTRATION
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS
WASHINGTON, D.C. 20420



FEBRUARY 9 - 1976

Mr. Gregory J. Ahart
Director
Manpower and Welfare Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Ahart:

We appreciate the opportunity to review and comment on your draft report relating to improvements needed in efforts to achieve objectives of the National Flood Insurance Program. We have completed our review and have comments regarding the recommendation in Chapter 4 concerning flood insurance responsibility.

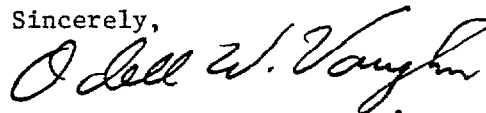
Federal Insurance Administration publications and guidelines clearly state that "Section 102 of the 1973 Act places the responsibility for compliance with and enforcement of the insurance purchase requirement squarely on the lending institution." The Veterans Administration (VA) makes every reasonable effort to alert lenders and identify properties where flood insurance is required. In those instances where a property is so identified by VA the Certificate of Reasonable Value (CRV) is annotated with the statement "This property is located in a special flood hazard area. Flood insurance will be required in accordance with VA regulations."

However, CRV's are issued with validity periods from six to twelve months. The status of the property may change from the time the CRV is issued by VA until the loan is closed by the lender. In view of the timing problem, the VA is not in a position to alert or forewarn lenders with 100% accuracy. Regardless of the efforts by VA to assist lenders by attempting to identify properties where flood insurance is required, the VA is in no position to relieve lenders of their responsibility to comply with the law. It is the responsibility of the lending institution to comply with the law and assure itself of the need for flood insurance at the time the loan is closed.

Mr. Gregory J. Ahart
Director
Manpower and Welfare

VA directives to its field offices are very specific in regard to the ultimate responsibility and no clarification is considered necessary. DVB Circular 26-74-8, dated February 22, 1974, clearly specifies the lenders' ultimate responsibility. In addition, Change 1 to the circular, dated July 16, 1975, again specifies the ultimate responsibility of the lender by stating, "The VA will continue to exert all reasonable effort and care to ensure, when appropriate, that CRV's are not issued on properties where the improvements are located in designated flood-prone areas unless the community is participating in the National Flood Insurance Program. Nevertheless, it will be the lenders' responsibility to assure that no loan is closed on or after July 1, 1975, when the property is located in a flood-prone area indicated on the flood hazard boundary map for a nonparticipating community and the identification date of the flood hazard area is more than 1 year prior to loan closing." All VA field stations were directed to distribute this information to all lenders for their edification.

Sincerely,



Deputy Administrator - In the absence of

RICHARD L. ROUDEBUSH
Administrator

GAO notes:

1. Appendices were not included because they were too voluminous, or dealt with matters considered in report preparation.
2. Deleted comments refer to material contained in draft report which has been revised or considered in report preparation or which has not been included in the final report.

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Tenure of office
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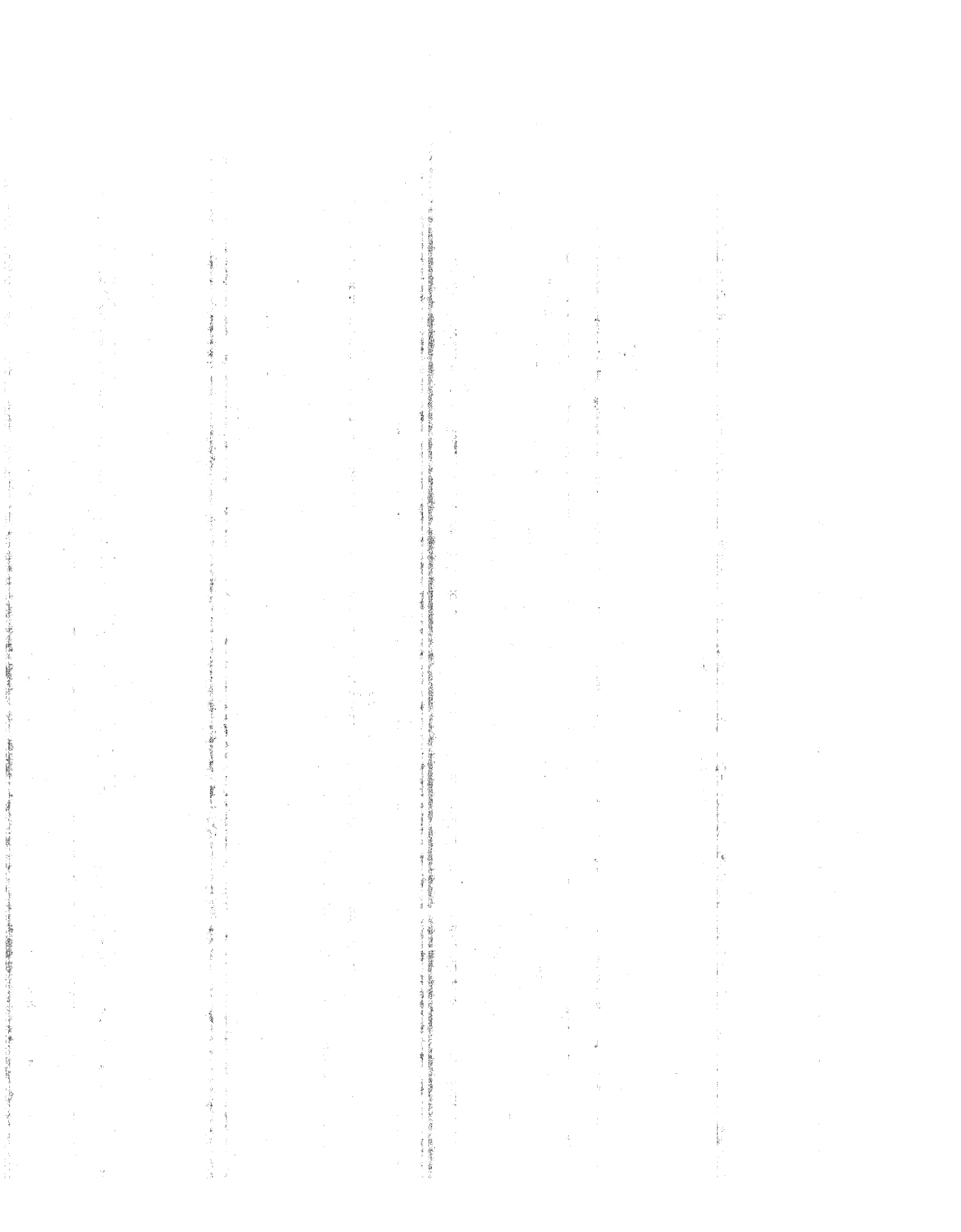
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