

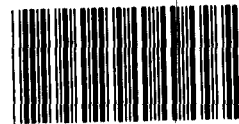
GAO

Report to the Subcommittee on
Investigations and Oversight, Committee
on Public Works and Transportation,
House of Representatives

February 1993

DISASTER RELIEF
FUND

Actions Still Needed to
Prevent Recurrence of
Funding Shortfall



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**Resources, Community, and
Economic Development Division**

B-251087

February 3, 1993

The Honorable Robert A. Borski
Chairman
The Honorable James M. Inhofe
Ranking Minority Member
Subcommittee on Investigations and Oversight
Committee on Public Works and Transportation
House of Representatives

The Federal Emergency Management Agency's (FEMA) Disaster Relief Fund is the major source of federal disaster recovery assistance to state and local governments when a disaster occurs. To replenish the fund, FEMA requests annual appropriations from the Congress that are based on an average of annual fund expenditures over the previous 10 years. FEMA has relied on supplemental appropriations for years when costs were above average. However, in fiscal year 1991 when the fund faced an \$800 million shortfall, FEMA, the Office of Management and Budget (OMB), and the Congress had difficulty reaching agreement on the nature and amount of the supplemental appropriation.

This letter responds to your request that we examine the circumstances surrounding the shortfall and the actions taken to help prevent a recurrence. Specifically, we determined (1) when FEMA became aware of the need for additional disaster assistance funds for 1991, when it first made its request to OMB, and what OMB's response was; (2) whether FEMA told the congressional appropriations committees about the shortfall during fiscal year 1992 appropriations hearings; (3) what budgeting changes, if any, FEMA has made to lessen the likelihood of a significant shortfall in subsequent years; (4) whether FEMA can now more accurately estimate future funding needs coming due each fiscal year; and (5) what caused the delay in awarding the fiscal year 1991 supplemental appropriation.

Results in Brief

According to FEMA officials, they expected a shortfall in the Disaster Relief Fund would most likely occur because in November 1990 the Congress did not appropriate any money for the fund for fiscal year 1991. In February 1991 FEMA advised OMB that a supplemental appropriation would be needed. However, in March 1991 OMB officials informed FEMA that no funds would be requested because of the uncertainty, variation, and lack of timeliness of FEMA's estimate of the amount needed. At OMB's request, an

OMB/FEMA task force was established, and by June 1991 an estimate of additional funds needed for fiscal year 1991 was determined. At that time, the administration submitted a fiscal year 1991 supplemental request and an amendment to its fiscal year 1992 budget request to the Congress.

During March 1991 FEMA testified before the Senate and House appropriations committees on its fiscal year 1992 budget request. At that time, it notified the committees that the fund balance would probably not be sufficient for its fiscal year 1991 obligations. FEMA estimated that without a supplemental appropriation, the fund would need about an \$800 million appropriation for fiscal year 1992.

FEMA did not modify its budgeting procedures after the fiscal year 1991 shortfall. According to FEMA officials, the uncertainties involved in estimating the frequency and severity of future disasters do not allow for accurate budget estimates.

In June 1991 FEMA headquarters instructed its field offices to prepare more timely and accurate estimates of future obligations that are due each fiscal year for past disasters. Although FEMA issued guidance on how to provide more timely data, it had not issued any guidance on steps that field offices should take to collect more accurate data.

The fiscal year 1991 supplemental appropriation was not received until December 1991 primarily because of disagreements between the Congress and the administration on whether the supplemental request was for an emergency and, if not, what offsets to other federal programs should be taken. In the interim, FEMA suspended federal disaster assistance to many states and communities. The final language in FEMA's 1991 supplemental appropriation legislation should help eliminate such disputes in the future by considering supplemental requests for funds as emergency funds.

Background

FEMA's Disaster Relief Fund supports a wide range of programs providing grants to assist state and local governments and certain private nonprofit organizations to repair or replace roads, bridges, utilities, and public buildings after a disaster occurs. The fund is also used to provide temporary housing to individuals and households and to provide them with grants of up to \$11,500 to meet other disaster-related needs.

FEMA cannot readily determine the annual amount of money needed for the fund because it is difficult to (1) predict the number and magnitude of

disasters each year and (2) accurately forecast the fiscal years in which payments will be made for each disaster. The appropriation to the fund is a no-year appropriation—funds not used in the year in which they are appropriated can be carried over and used in succeeding years.

Disaster cost estimates usually originate in FEMA's field offices, established in each disaster area. An inspection team, usually comprising federal, state, and local officials, inspects damage sites and prepares estimates of the cost to repair or replace the damaged property. FEMA uses these estimates to reserve amounts from the fund to pay for the disaster. Prior to fiscal year 1992, FEMA often used amounts reserved for one disaster to pay for another disaster where a more imminent need existed.

Accurate estimates of total disaster costs are difficult to develop. Certain structural damage from earthquakes is not always readily apparent, and disagreements occur over the amount of federal assistance needed. Disagreements concerning repairs for San Francisco's City Hall, damaged by the 1989 Loma Prieta earthquake, resulted in cost estimates ranging from \$4 million to \$120 million. FEMA's past experience indicates that generally all individual assistance will be needed during the year the disaster occurs, and about 85 percent of the public assistance funds will be needed within a year of the disaster. Major disasters, such as Hurricane Andrew, which occurred in August 1992, require large amounts of funds immediately.

The Budget Enforcement Act of 1990 (title XIII of P.L. 101-508) established federal spending caps and required that supplemental appropriation requests include offsetting spending cuts. However, the act stipulates that if the President and the Congress designate the supplemental appropriation request as needed for an emergency, offsetting cuts are not necessary.

At OMB's request, in March 1991 a joint OMB/FEMA task force was established to examine the causes of the 1991 funding shortfall. The task force was interested in determining the appropriate level of FEMA's funding requirements, finding ways to improve FEMA's ability to project and monitor disaster costs, and finding methods to better predict future disaster costs.

A Supplemental Appropriation Was Requested 4 Months After FEMA Advised OMB in February 1991 of Its Need

The administration's fiscal year 1991 budget request to the Congress for the Disaster Relief Fund was \$270 million, which was based on the fund's average historical needs. The request estimated that \$255 million would be available from previous years, which could be obligated, if needed, in fiscal year 1991.¹ FEMA had intended to use a substantial portion of the available funds to pay expenses of previously declared disasters, but it did not identify the amount for this purpose in its budget submission. Because the fund's carryover from previous years appeared to almost equal FEMA's budget request, the House Committee on Appropriations reduced FEMA's budget request from \$270 million to \$100 million. The Senate Committee on Appropriations provided no funds for fiscal year 1991.

FEMA's fiscal year 1991 appropriation legislation, enacted in early November 1990, contained no appropriation for the fund. Without a fiscal year 1991 appropriation, FEMA officials at that time suspected that sufficient funds would not be available to meet its fiscal year 1991 obligations.

By February 1991 it was clear to FEMA, upon analyzing the expenditures from the fund, that it would not have sufficient funds to meet disaster assistance obligations through the end of fiscal year 1991. Thus, in February 1991 FEMA, as it had done in past years, advised OMB that it would need to request a supplemental appropriation. FEMA provided OMB with two estimates of the supplemental funds needed based on (1) the previous 10-year average annual costs and (2) a continuation of higher-than-average expenses experienced during the first 4 months of fiscal year 1991. However, OMB did not agree with FEMA's decision to seek a supplemental appropriation.

In March 1991 FEMA's Director, while testifying before the Senate and House appropriations committees on its 1992 budget request, pointed out that FEMA most likely would not have enough funds to cover its 1991 obligations without a supplemental appropriation. FEMA estimated that without a supplemental appropriation, the fund would need an estimated appropriation of about \$800 million for fiscal year 1992.

Also, in March 1991 OMB advised FEMA that the uncertainty, variation, and lack of timeliness of FEMA's estimates prevented responsible and orderly budgeting. Therefore, according to OMB, it immediately requested a special

¹Obligations are costs for which there is a definite federal commitment to disburse funds, such as a contract or purchase order.

OMB/FEMA task force to determine, among other things, the appropriate level of the fund's monetary needs.

By June 1991, according to OMB, the task force had developed a well-founded estimate of additional funds needed for fiscal year 1991, and the administration then requested both a fiscal year 1992 budget amendment and a supplemental appropriation for fiscal year 1991 that totaled about \$800 million.

FEMA's Budgeting Procedures Have Not Changed

FEMA has not changed its budgeting procedures as a result of the fiscal year 1991 shortfall. It intends to continue to base its appropriation requests on average historical needs and augment the fund by supplemental appropriations as needed. FEMA officials said there is no practical way to predict disaster frequencies, severity, or cost. For example, Hurricane Hugo and the Loma Prieta earthquake in 1989 each required supplemental appropriations exceeding \$1 billion—or four times the historical average annual cost. More recently, Hurricane Andrew resulted in cost estimates exceeding \$1.8 billion.

When FEMA submits its budget request to the Congress for the Disaster Relief Fund, it does not identify unpaid costs from disasters that occurred in previous years. The OMB/FEMA task force reported that because FEMA does not identify such costs, the Congress frequently underfunds the Disaster Relief Fund.

For example, for fiscal year 1991 FEMA requested \$270 million, the historical annual average expended from the fund. Although FEMA stated that funds would be needed throughout fiscal year 1991 to pay for the damage done by Hurricane Hugo and the Loma Prieta earthquake, it did not indicate the costs of such previous years' disasters. The unpaid costs for the previous years' disasters exceeded the fund balance at the beginning of fiscal year 1991.

Although the task force report criticized FEMA because its budget submissions did not disclose costs of previous disasters, it did not recommend any changes. This lack of pertinent data takes on added importance in the aftermath of disasters such as Hurricane Andrew, which, according to FEMA, will create substantial costs for many years.

FEMA Requires More Frequent Updating of Costs to Provide for Timely Estimates

The OMB/FEMA task force called for more accurate and timely reporting of disaster cost estimates. FEMA officials told us that they have encouraged their field offices to obtain more accurate cost data. However, FEMA has not provided its field office personnel instructions on how to develop more accurate cost estimates.

Each disaster field office has a program officer in charge of estimating each of the four major cost areas of (1) public assistance, (2) individual assistance, (3) hazard mitigation, and (4) administrative and related costs. Using inspection team cost estimates and other relevant information, each program officer is to estimate what the costs for that area will be and when such payments will occur.

The joint OMB/FEMA task force also found that up-to-date estimates of the total costs of disasters are (1) not routinely communicated to headquarters and (2) not easily consolidated on a regional or national level. The task force recommended that FEMA field offices, which develop the cost estimates, ensure that estimates and reports on the status of funds be provided to FEMA headquarters on a routine and timely basis.

In June 1991 FEMA began implementing the recommended changes by requiring that the cost estimates be updated twice a month,² showing the funds needed for the current and future years. This information provides a basis for comparing the funds needed with those available. With this more up-to-date information, FEMA told us that it should be in a better position to determine if it has sufficient funds for the year.

Disagreements Between the Congress and the Executive Branch Caused a 6-Month Delay in Awarding the Supplemental Appropriation

The administration's request for a fiscal year 1991 supplemental appropriation was approved by the Congress about 6 months after it was requested. Because the administration's request indicated that most of the supplemental request was not for emergency needs, offsetting reductions to other federal spending were required by the Budget Enforcement Act of 1990. In July 1991 the Senate Committee on Appropriations recommended a fiscal year 1992 funding level of \$185 million, but it did not approve the fiscal year 1991 supplemental request of \$693 million for two reasons. First, in the Committee's view, the offsets proposed by the administration to fund the supplemental were unrealistic. Second, the Committee stated that the total supplemental request was for emergency purposes and should not require any budget offsets. In December 1991 the

²Or monthly for those disasters where the activity is less and FEMA is no longer needed on-site.

administration redesignated the fiscal year 1991 funds requested as emergency funds, and the Congress appropriated the additional funds.

In March 1991 FEMA advised OMB that the disaster fund balance was about \$100 million. FEMA told OMB because of OMB's decision not to request a supplemental appropriation for fiscal year 1991, FEMA planned to suspend grants to state and local governments, other than those for lifesaving needs. In April 1991 FEMA suspended such payments.³ OMB said that it supported FEMA's decision to suspend such assistance as a means of preserving moneys to make disaster grants to individuals and households during the task force's process of determining the actual supplemental need. However, because of the delay in receiving the supplemental appropriation, the suspension of such payments lasted until December 1991. The length of the suspension of payments required communities in 48 of the 50 states to defer payments or borrow money for repairs.

To help ensure that grants to states and local governments not be suspended in future years, the law, which provided the fiscal year 1991 supplemental appropriation in December 1991, states that, beginning in fiscal year 1993, amounts appropriated for the Disaster Relief Fund exceeding the lower of the 10-year average or the initial budget request shall automatically be considered as emergency funds and will not require offsetting reductions to other federal spending. In addition, to more quickly respond to funding shortfalls, the legislation provided an additional \$143 million, available to FEMA immediately upon a presidential submission to the Congress stating that the funds are needed for an emergency. These funds were used in support of FEMA's initial response to Hurricane Andrew.

Conclusions

The fiscal year 1991 shortfall in FEMA's Disaster Relief Fund occurred essentially because (1) large expenses were paid from the fund during fiscal year 1991 as a result of disasters from previous years, such as the Loma Prieta earthquake and Hurricane Hugo, (2) no appropriation was made for fiscal year 1991, and (3) the enactment of the supplemental appropriation was delayed.

Actions taken by the Congress and FEMA subsequent to the shortfall should lessen the chances of another shortfall. For example, legislation enacted in

³The approximately \$100 million in the fund was reserved so critical needs could be funded during the rest of the year, such as providing temporary housing to families whose homes were uninhabitable.

1991 stating that supplemental appropriations for the Disaster Relief Fund will be considered as emergency funds should help to reduce the delay in making funds available. Also, FEMA is taking steps to develop more accurate and timely estimates of disaster costs.

Although severe disasters, such as Hurricane Andrew, involve significant costs paid over a number of fiscal years, FEMA's budget submission to the Congress does not indicate the extent to which the balance of the Disaster Relief Fund at the beginning of the year will be needed to pay for costs of disasters that have occurred in previous years. The Congress could use such information in its consideration of the need for and the amount of appropriations.

Recommendation

We recommend that the Director of FEMA expand the information included in the Disaster Relief Fund budget proposals submitted to the Congress to show estimated future costs for disasters that occurred in previous years but for which recovery was not complete.

Agency Comments

As agreed with your offices, we did not obtain written agency comments on this report. However, we discussed its contents with FEMA's Assistant Associate Director, the Office of Disaster Assistance Programs, and OMB's Budget Examiner for FEMA. FEMA agreed with the information included in the report. OMB provided us with information to clarify its dealings with FEMA and the Congress concerning the fiscal year 1991 supplemental appropriation, and we made appropriate changes where needed.

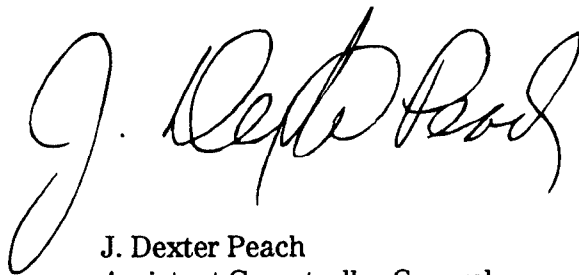
Scope and Methodology

We reviewed appropriate laws and FEMA's operating procedures and reports, and examined the instructions and other information that FEMA provided to its regions in 1991. We discussed the causes of the 1991 \$800 million shortfall with FEMA headquarters and OMB officials. We also discussed with FEMA officials the new procedures for estimating and reporting costs. Our audit work was done between March and December 1992 in accordance with generally accepted government auditing standards.

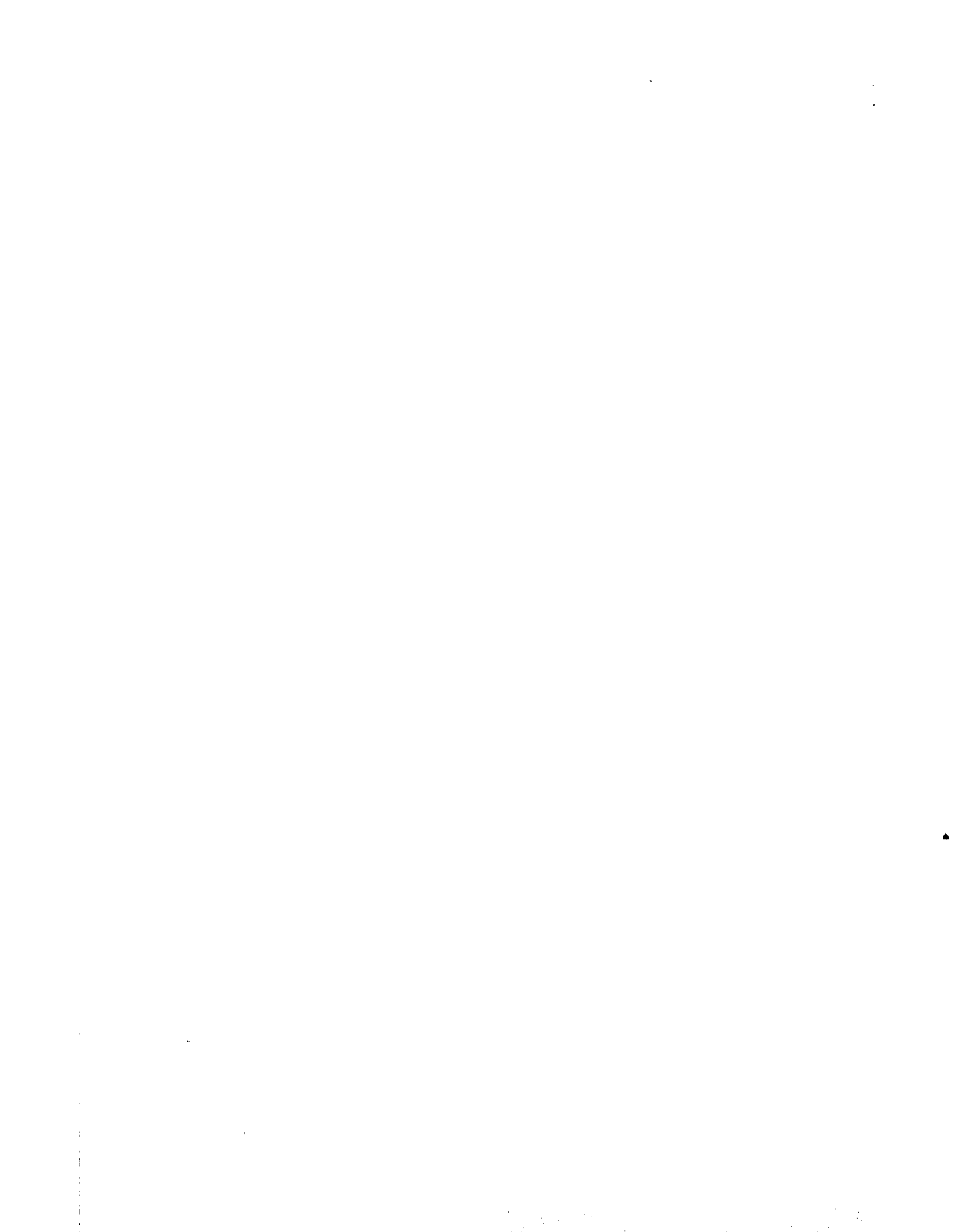
As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Directors of

FEMA and OMB and appropriate congressional committees. We will also make copies available to others upon request.

This work was done under the direction of Judy A. England-Joseph, Director, Housing and Community Development Issues, who can be reached at (202) 275-5525 if you or your staff have any questions. Major contributors to this report were Frank V. Subalusky, Assistant Director, and Paul W. Bryant, Evaluator-in-Charge.



J. Dexter Peach
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