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DISASTER ASSISTANCE

Information on Expenditures and Proposals to Improve Effectiveness and Reduce Future Costs

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss federal disaster assistance issues. There has been growing concern in the Congress about the increasing costs of federal disaster assistance in recent years, especially in light of attempts to reduce the federal budget deficit. Our statement today is based on our work for the Senate Bipartisan Task Force on Funding Disaster Relief and a number of reports that we have issued over the past few years. Our statement will focus on (1) ways that we and/or others have identified to enhance the effectiveness of a number of federal disaster assistance programs, (2) proposals that have been identified to modify federal disaster assistance policy to potentially lower future federal costs, and (3) questions about the accuracy of financial information in FEMA's Disaster Relief Fund.

In summary, we have found the following:

-- GAO and others--including the Federal Emergency Management Agency (FEMA), the National Academy of Public Administration, and the National Performance Review--have identified ways of improving federal disaster assistance programs. For example, our work following Hurricane Andrew indicated that greater flexibility on FEMA's part in providing grant funding would increase the effectiveness of state and local governments' response to disasters, a recommendation echoed by the National Performance Review. We have also suggested that the Congress consider amending title 10 of the U.S. Code to allow military reserve components to be activated to provide disaster assistance and recommended that, to facilitate the efficient provision of recovery assistance, the FEMA Director clarify the agency's regulations to specify whether and under what conditions

FEMA would pay more than the replacement cost to restore certain structures.

-- A number of proposals have been made to modify, and lower the costs of, federal disaster assistance. The extent to which the implementation of these proposals would lower the costs of federal disaster assistance is unknown. Specific proposals vary but follow one of three general approaches: (1) establish more explicit and/or stringent criteria for providing federal disaster assistance, (2) emphasize hazard mitigation through incentives, and (3) rely more on insurance.

-- Problems exist with FEMA's current accounting systems, such as field office systems that are neither integrated nor linked to FEMA's central accounting system. Accordingly, FEMA cannot comprehensively audit the Disaster Relief Fund, which accounted for about 80 percent of the agency's $5.4 billion in obligations in fiscal year 1994. The ability to audit the fund is essential to ensure that requests for appropriations are based on an accurate assessment of needs.

BACKGROUND ON FEDERAL ROLE AND COSTS OF DISASTER ASSISTANCE

Traditionally, the role of the federal government has been to supplement the emergency management efforts of state and local governments, voluntary organizations, and private citizens. FEMA administers most emergency preparedness assistance programs, funds various hazard mitigation measures, and coordinates federal response and recovery programs.

From fiscal years 1977 through 1993 (the most recent years for which data were available), about $120 billion (in constant

1993 dollars) was obligated for disaster-related activities. The federal government provided assistance for an average of 34 disasters or emergencies each year during this period. Much of the spending is overseen by FEMA, but many other federal agencies are involved.

A number of factors have tended to increase the costs of federal disaster assistance in recent years. Since 1989, the United States has experienced a sequence of unusually large and costly disasters, including Hurricane Hugo, the Loma Prieta earthquake, Hurricane Andrew, Hurricane Iniki, the 1993 Midwest floods, and the Northridge earthquake. The conjunction of such costly disasters in the United States is unprecedented.

For several of these large disasters, the federal government has borne a larger-than-usual share of the costs. The Robert T. Stafford Disaster Relief and Emergency Assistance Act provides that many disaster relief costs are to be shared by the federal government with the affected states and localities. This act is the principal federal authority for providing disaster relief. For example, the federal share of funding is at least 75 percent for public assistance projects (to repair or replace disaster-damaged public and nonprofit facilities). Following some recent disasters, the President has raised the federal share--for example, to 90 percent for the Northridge earthquake and to 100 percent for Hurricane Andrew.

There has also been an upward trend in the overall number of annual presidential disaster declarations. The Stafford Act authorizes the President to issue major disaster or emergency declarations and specifies the types of assistance the President may direct federal agencies to provide. For fiscal years 1984 through 1988, the average number of such declarations was 26 per year, whereas, for fiscal years 1989 through 1993, the average number was nearly 42 per year.

WAYS OF ENHANCING THE EFFECTIVENESS OF DISASTER ASSISTANCE

GAO and others--including FEMA, the National Academy of Public Administration, and the National Performance Review--have identified ways of improving federal disaster assistance programs. These programs encompass three phases of emergency management: preparedness, response, and recovery.

Preparedness

Preparedness strengthens the ability of a community to respond to its citizens' needs immediately after a disaster has struck and to meet their longer-term recovery needs. An example of a preparedness activity would be the development of a response plan that would enable a community's officials to move quickly in the aftermath of a disaster. From fiscal years 1977 through 1993, the federal government obligated about $2.3 billion for preparedness assistance (or about 2 percent of the approximately $120 billion that was obligated for disaster-related programs and activities).

Effective emergency preparedness can reduce the cost of disasters and minimize the long-term social, economic, and environmental damage they cause. Historically, state and local governments have had primary responsibility to prepare for disasters. However, we found in our work for the Senate Task Force that for a variety of reasons--such as a lack of relevant experience with disasters or lack of commitment to disaster planning--state and local governments often do not treat disaster preparedness as a high priority.

We have previously recommended ways of enhancing federal preparedness assistance. For example, our work following Hurricane Andrew indicated that FEMA could do more to help state and local governments with preparedness training and that greater flexibility on FEMA's part in providing grants would increase the effectiveness of state and local governments' response to disasters.[1] Similarly, the National Performance Review recommended that FEMA establish performance measures that encourage states to use federal funding efficiently for the most productive emergency management activities.[2] The National Academy of Public Administration suggested that FEMA target upgrades of state and local government capacity, use financial incentives strategically to reward effort and competent performance, and improve education and training.[3]

Similarly, in reviewing the responses to Hurricane Hugo and the Loma Prieta earthquake, we found that problems arose because some state and local officials had paid inadequate attention to disaster preparedness. We recommended that FEMA ask states to establish monitoring systems to help ensure that local jurisdictions correct problems and weaknesses identified during emergency training exercises and drills.[4] Similarly, in a 1991 report, the National Research Council recommended, among other things, that FEMA assist states and local jurisdictions in assessing community awareness, training, and preparedness.[5]

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[1]Disaster Management: Improving the Nation's Response to Catastrophic Disasters (GAO-RCED-93-186, July 1993).

[2]National Performance Review, Creating a Government That Works Better and Costs Less: Federal Emergency Management Agency (Washington, D.C.: U.S. Government Printing Office [GPO], 1993).

[3]Coping with Catastrophe, National Academy of Public Administration, (Washington, D.C.: 1993), p. xii.

[4]Disaster Assistance: Federal, State, and Local Responses to Natural Disasters Need Improvement (GAO/RCED-91-43, Mar. 6, 1991).

[5]A Safer Future: Reducing the Impacts of Natural Disasters, National Research Council (Washington, D.C.: National Academy Press, 1991).

Response

Generally, local and nongovernmental agencies are the first to respond after a disaster. Response activities are those accomplished during or immediately following a disaster and are intended to save lives and property. They include providing temporary shelter, food, water, medical care, or other items to meet the immediate needs of disaster victims. From fiscal years 1977 through 1993, the federal government obligated about $3.4 billion for disaster response (or about 3 percent of the approximately $120 billion that was obligated for disaster-related programs and activities).

We have identified ways of improving the effectiveness of federal disaster response activities. For example, following Hurricane Andrew we found that for the most severe catastrophic disasters, the Department of Defense is the only organization capable of providing, transporting, and distributing sufficient quantities of the items needed. We suggested that the Congress consider amending title 10 of the U.S. Code to allow military reserve components to be activated to provide disaster assistance.[6] Also, in our work following Hurricane Hugo, we suggested that the Congress consider authorizing FEMA to act as a first-response agency whenever states ask FEMA to respond.[7]

We have also reported that the federal strategy for responding to catastrophic disasters does not promote adequate preparedness when there is advance warning of a disaster because preparatory activities are not explicitly authorized until the

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[6]Disaster Assistance: DOD's Support for Hurricanes Andrew and Iniki and Typhoon Omar (GAO/NSIAD-93-180, June 18, 1993).

[7]Disaster Assistance: Federal, State, and Local Responses to Natural Disasters Need Improvement (GAO/RCED-91-43, Mar. 6, 1991).

President has declared a disaster. Thus, federal agencies may fail to undertake advance preparations because they are uncertain whether costs incurred before a disaster declaration will ultimately be reimbursed by FEMA.[8] In its report on the federal response to Hurricanes Andrew and Iniki and Typhoon Omar, FEMA reached similar conclusions.[9]

Recovery

In terms of federal financial obligations, recovery is the most costly phase of disaster assistance. Our work for the Senate Task Force showed that about 73 percent of the federal funds obligated for disaster assistance between fiscal years 1977 and 1993--some $87 billion in constant dollars--was for disaster recovery. FEMA and other agencies administer a range of loan and grant programs to help states, localities, and individuals rebuild and restore homes, businesses, and public facilities and to assist in the long-term recovery from the physical and economic damage caused by disasters.

In our work following the Loma Prieta earthquake, we found that FEMA lacked specific guidance for determining the appropriate federal share of the cost of restoring historic buildings. We recommended that, to help avoid differing interpretations of FEMA's regulations and to expedite the provision of federal disaster assistance in future earthquakes, the FEMA Director clarify the agency's regulations to specify whether and under what conditions FEMA would pay more than the

[8]Disaster Management: Improving the Nation's Response to Catastrophic Disasters, (GAO/RCED-93-186, July 23, 1993).

[9]FEMA, Andrew, Iniki, Omar: FEMA Evaluation of Federal Response and Recovery Efforts, (Washington, D.C., Feb. 1993).

replacement cost to restore historic buildings.[10] As recent disasters have occurred, the agency has entered into agreements with state historical preservation officers on the restoration of designated historical structures.

FEMA's Inspector General found that administrative improvements could increase the effectiveness of federal disaster recovery assistance. The Inspector General concluded that FEMA's disaster response and recovery efforts were impeded, to a large extent, because the agency did not have administrative support systems capable of sustaining large-scale disaster relief operations. For example, FEMA did not have the systems to account for funds, control property, staff operations, fully utilize automated technology, give logistical support to satellite operations, and provide timely reports to managers. The Inspector General found that an "inordinate amount of time and energy" was spent immediately after the disaster developing ad hoc systems to satisfy these administrative support needs.

Recovery from a large natural disaster can be spread over many years and typically involves many agencies, programs, and activities. Significant questions exist about the overall effects of the enormous federal investment in disaster recovery programs and activities:

-- Are the efforts of the many federal agencies that may be involved effectively integrated and coordinated?

-- How effective are federal recovery assistance efforts? To what extent is the recovery of a disaster area affected by federal assistance?

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[10] <u>Earthquake Recovery: Staffing and Other Improvements Made Following Loma Prieta Earthquake</u> (GAO/RCED-92-141, July 30, 1992).

-- How much variance is there in the rate and process by which communities recover? And what accounts for that variance--the severity of the disaster itself, the magnitude of the subsequent relief effort, the characteristics of the community before the disaster, or some combination of these or other characteristics?

PROPOSALS FOR MODIFYING FEDERAL DISASTER ASSISTANCE

In addition to programmatic changes, a number of more fundamental proposals have been made to modify, and lower the costs of, federal disaster assistance. The extent to which the implementation of these proposals would lower the costs of federal disaster assistance is unknown. Specific proposals vary but follow one of three general approaches: (1) establish more explicit and/or stringent criteria for providing federal disaster assistance, (2) emphasize hazard mitigation through incentives, and (3) rely more on insurance.

Disaster Criteria

One approach is to establish more explicit and/or stringent criteria for providing federal disaster assistance. Currently, much assistance is contingent on the President's "declaration" of an emergency or major disaster under the Stafford Act, which provides that requests for declarations (and therefore federal assistance) "shall be based on a finding that the disaster is of such severity and magnitude that effective response is beyond the capabilities of the State and the affected local governments and that federal assistance is necessary." State governors request such declarations; FEMA gathers and analyzes facts and makes a recommendation to the President. FEMA's Inspector General reported in 1994 that (1) neither a governor's findings nor FEMA's analysis of capability is supported by standard factual data or related to published criteria and (2) FEMA's process does not ensure equity in disaster decisions because it does not always review requests for declarations in the context of previous declarations.

Mitigation

A second approach is to emphasize hazard mitigation through incentives. Mitigation consists of taking measures to prevent future losses or to reduce the losses that might otherwise occur from disasters. FEMA provides hazard mitigation grants and training to state and local governments. Other federal disaster mitigation efforts include (1) establishing floodplain management and building standards required by the National Flood Insurance Program, (2) conducting earthquake research and related activities under the National Earthquake Hazards Reduction Program, and (3) constructing and operating flood control facilities. About 23 percent--some $27 billion--of the federal dollars obligated for disaster assistance during fiscal years 1977 through 1993 were for mitigation efforts.

A well-designed disaster mitigation program is perceived as a good way to reduce the overall exposure to risk of damages from a disaster. The following examples show how mitigation has reduced risk:

-- Building codes that incorporate seismic design provisions can reduce earthquake damage. In hearings before the U.S. Senate, the Director of the California Office of Emergency Services testified that structures designed and built to seismic design provisions of the state's Uniform Building Code withstood the forces of the Loma Prieta earthquake with little or no damage while structures built to lesser code provisions suffered extensive damage.

-- FEMA estimates that the National Flood Insurance Program building standards that apply to floodplain structures annually avoid about $569 million in flood losses. At a September 1993 congressional hearing, the FEMA Director stated that structures built after communities join the program suffer 83 percent less damage than those built before the standards were in place.

-- Following the 1993 Midwest floods, FEMA obtained authority to purchase properties located in the floodplain, in order to avoid potential recurring future losses. By taking this step, FEMA may reduce future disaster recovery costs.

Quantifying the effects of mitigation efforts can be difficult, however, because estimates of risk or loss reduction depend on assumptions or projections of "what would have happened" in the absence of the mitigation effort, and such projections can be questioned.

Like disaster preparedness, hazard mitigation historically has been considered primarily a responsibility of local and state governments, as well as of private citizens. Decisions affecting hazard mitigation are often under the control of these entities; for example, building code enforcement and land-use planning are generally under local jurisdiction. However, state and/or local governments may be reluctant to take actions to mitigate natural hazards: Hazard mitigation can conflict with developmental goals and may be perceived as both costly and involving solutions that are overly technical and complex. Furthermore, increased mitigation can be justified only to the extent that the value of the losses averted exceed the increased costs of mitigation; however, mitigation policies often do not systematically compare the costs of mitigation with the value of the losses expected to be averted.

FEMA, the National Research Council, and the National Performance Review all recommended the use of federal incentives to encourage hazard mitigation. For example, among the specific incentives identified to improve earthquake mitigation were (1) providing federal income tax credits for investments to improve the performance of existing facilities, (2) changing federal tax laws to give tax-exempt status to private activity bonds if the bond proceeds are used for the seismic retrofitting of private facilities, (3) creating a federal matching grant program to encourage the retrofitting of critical state and local government facilities, (4) requiring actions to reduce risks from earthquakes in conjunction with the receipt of federal disaster and other assistance, and (5) prohibiting federally insured lenders from issuing conventional mortgages to households or businesses in an earthquake-prone area unless state or local governments have adopted or enforced appropriate seismic building standards. The National Performance Review suggested increasing the federal share of disaster assistance costs for states that have adopted effective mitigation and preparedness measures.

Insurance

A third approach is to rely more on insurance. Insurance provides a way of "prefunding" disaster recovery because premiums provide a source of funds for compensating the victims of disaster losses. Like other forms of disaster relief, insurance spreads the burden of the losses borne by the disaster victims over a large number of individuals, potentially reducing the effect of the disaster on the victims without substantially increasing the burden borne by those who are otherwise unaffected. Some studies of disaster assistance programs have concluded that providing assistance through insurance can be more efficient and more equitable than providing it through other means. Recent Congresses have considered proposed all-risk insurance programs, under which homeowners would purchase a single, comprehensive natural hazard policy and would be able to file claims for damage to their property whenever the damage was caused by any type of natural hazard. Such an insurance program--whether operated by the private insurance industry, the government, or both--would have to be structured and priced carefully to avoid increasing federal liabilities.

QUESTIONS ABOUT THE ACCURACY OF THE DISASTER RELIEF FUND'S FINANCIAL INFORMATION

To replenish the Disaster Relief Fund, which accounts for the majority of FEMA funds--about 80 percent of the agency's obligations in fiscal year 1994--FEMA requests annual appropriations from the Congress. Problems associated with FEMA's current accounting systems make a comprehensive audit of the fund difficult. For example, the agency's field offices use systems that are neither integrated nor linked to the central accounting system. The Office of Management and Budget identified this situation as a high-risk problem. FEMA also acknowledged this problem in its 1994 Federal Managers Financial Integrity Act report. According to FEMA's Chief Financial Officer and Inspector General, the fund has not been reconciled to supporting records for many years.

In the past, the fund was not required to have audited financial statements, and no audited financial statements have been prepared; rather, the audits that have occurred have focused on individual projects and grants. However, beginning in fiscal year 1996, audited agencywide financial statements will be required under the Government Management Reform Act of 1994 (P.L. 103-356).

Because the fund has not been subject to audit, there is no assurance that the fund's financial data are accurate. An accurate accounting of the fund's expenditures, as well as adequate information on upcoming obligations, is essential to ensure that requests for appropriations are based on an accurate assessment of needs.

FEMA has taken steps to enhance its ability to prepare audited financial statements. According to FEMA officials, the agency is implementing a new core financial management system that is designed to help resolve many accounting and system problems. They said the planned system, which will replace several existing financial management and accounting systems, will be integrated with FEMA's proposed disaster management system. Once operational, the new system should be able to generate financial statements and reports as well as track performance data to aid management in establishing performance measures and measuring program results.

The new system is scheduled to be fully implemented by the beginning of fiscal year 1996. The agency plans to prepare financial statements for the fund initially in that year. The Inspector General has indicated that these statements will be audited. Until the new system is operational, it is premature to tell how effective it will be.

In summary, Mr. Chairman, the growth in the size and number of federally declared disasters in recent years is unprecedented putting a tremendous strain on the federal budget. Balancing the enormous costs of disasters with federal efforts to respond quickly and effectively to devastated communities and individuals is not easy, but growing concerns about the federal deficit make the task of identifying ways those costs can be reduced more difficult. In the past GAO has made several recommendations directed at improving federal emergency management efforts, such as FEMA doing more to help state and local governments in preparing for and responding to disasters.

Based on the work we recently completed for the Senate Task Force, it is clear that more needs to be learned about the overall effects of the federal investment in disaster recovery programs and the potential for lowering future federal costs if federal disaster assistance policies are changed. We look forward to working with the Subcommittee as you consider these federal disaster assistance issues.

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Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or the other subcommittee members may have.

RELATED GAO PRODUCTS

GAO Work on Disaster Assistance (GAO/RCED-94-293R, Aug. 31, 1994)

Disaster Management: Improving the Nation's Response to Catastrophic Disasters (GAO-RCED-93-186, July 23, 1993).

Disaster Assistance: DOD's Support for Hurricanes Andrew and Iniki and Typhoon Omar (GAO/NSIAD-93-180, June 18, 1993).

Disaster Relief Fund: Actions Still Needed to Prevent Recurrence of Funding Shortfall (GAO/RCED-93-60, Feb. 3, 1993).

Earthquake Recovery: Staffing and Other Improvements Made Following Loma Prieta Earthquake (GAO/RCED-92-141, July 30, 1992).

Disaster Assistance: Federal, State, and Local Responses to Natural Disasters Need Improvement (GAO/RCED-91-43, Mar. 6, 1991).

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