

January 2003

Major Management Challenges and Program Risks

Federal Emergency Management Agency



A Glance at the Agency Covered in This Report

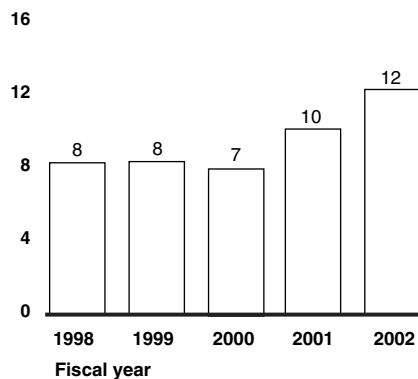
The Federal Emergency Management Agency coordinates federal disaster and emergency assistance policies and administers programs that provide assistance before and after disaster strikes. Agency programs and activities include

- supplemental assistance to enhance state and local preparedness activities,
- disaster relief for communities and individuals,
- a national flood insurance program,
- fire prevention and suppression assistance, and
- support for hazard mitigation projects.

The Federal Emergency Management Agency's Budgetary and Staff Resources

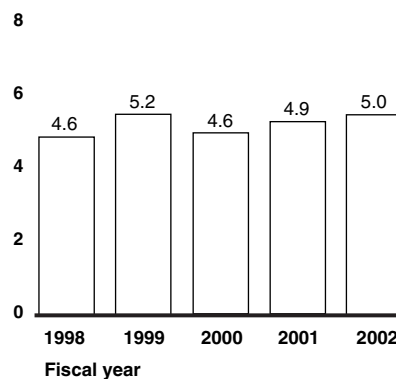
Budgetary Resources^{a, b}

Dollars in billions



Staff Resources^b

FTEs in thousands



Source: Budget of the United States Government.

^a Budgetary resources include new budget authority (BA) and unobligated balances of previous BA.

^b Budget and staff resources are actuals for FY 1998-2001. FY 2002 are estimates from the FY 2003 budget, which are the latest publicly available figures on a consistent basis as of January 2003. Actuals for FY 2002 will be contained in the President's FY 2004 budget to be released in February 2003.

This Series

This report is part of a special GAO series, first issued in 1999 and updated in 2001, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. The 2003 Performance and Accountability Series contains separate reports covering each cabinet department, most major independent agencies, and the U.S. Postal Service. The series also includes a governmentwide perspective on transforming the way the government does business in order to meet 21st century challenges and address long-term fiscal needs. The companion 2003 *High-Risk Series: An Update* identifies areas at high risk due to either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness. A list of all of the reports in this series is included at the end of this report.



Highlights of [GAO-03-113](#), a report to Congress included as part of GAO's Performance and Accountability Series

Why GAO Did This Report

The 2003 performance and accountability series includes the first report on the Federal Emergency Management Agency (FEMA) since the series started in 1999. GAO reported on management challenges facing FEMA this year because of the increased national significance of the agency's missions and the additional responsibilities placed on the agency.

The information GAO presents in this report is intended to help sustain congressional and agency attention on continuing to make progress in addressing these challenges and ultimately overcoming them. This report is part of a special series of reports on governmentwide and agency-specific issues.

What Remains to Be Done

GAO believes that FEMA should

- ensure effective coordination of preparedness and response efforts,
- enhance the provision and management of disaster assistance for efficient and effective response,
- reduce the impact of natural hazards by improving the efficiency of mitigation and flood programs, and
- resolve financial management weaknesses to ensure fiscal accountability.

www.gao.gov/cgi-bin/getrpt?GAO-03-113.

To view the full report, click on the link above. For more information, contact John H. Anderson Jr. at (202) 512-2834 or andersonj@gao.gov.

PERFORMANCE AND ACCOUNTABILITY SERIES

Federal Emergency Management Agency

What GAO Found

FEMA has made progress in recent years in achieving its mission of supplementing state and local governments' efforts to prepare and respond to major disasters. FEMA's mission will be absorbed into a new Department of Homeland Security. As FEMA moves to integrate its mission into this new department, FEMA faces several management challenges to:

- **Ensure effective coordination of preparedness and response efforts.** FEMA and its missions will be transferred in their entirety into the new Department of Homeland Security (DHS)—the largest reorganization of the federal government since 1947. However, FEMA's homeland security and nonhomeland security missions will be under separate DHS directorates. The separation of disaster and emergency preparedness responsibilities will present coordination challenges for the Undersecretaries within DHS.
- **Enhance the provision and management of disaster assistance for efficient and effective response.** FEMA has demonstrated its ability to quickly get resources to stricken communities in many disasters. However, FEMA needs to develop more objective and specific criteria to assess the capabilities of states and localities to respond to a disaster. FEMA needs to assess how the extent of its response and recovery assistance to future disasters may be affected by the magnitude and scope of recovery efforts undertaken in New York City. Information system problems and a shortfall of appropriately trained FEMA staff could compromise FEMA's ability to respond to a disaster.
- **Reduce the impact of natural hazards by improving the efficiency of mitigation and flood programs.** As the number of large, costly disasters has grown, FEMA has placed more emphasis on disaster mitigation efforts to reduce the effects of natural hazards. However, concerns about the cost effectiveness of some of the mitigation programs have been raised. The National Flood Insurance Program has not operated on a sound financial footing for several years.
- **Resolve financial management weaknesses to ensure fiscal accountability.** From 1998 to 2000, FEMA's Inspector General issued unqualified opinions on FEMA's consolidated financial statements. However, problems with some of FEMA's systems resulted in a qualified opinion on their 2001 financial statement, and FEMA plans to take corrective action. Until corrective actions are completed to address reliability of information and instances of noncompliance with requirements of certain laws and regulations, FEMA will not be able to achieve effective financial accountability.

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United States General Accounting Office
Washington, D.C. 20548

January 2003

The President of the Senate
The Speaker of the House of Representatives

This report addresses the major management challenges and program risks facing the Federal Emergency Management Agency (FEMA) as it works to carry out its missions, which range from hazard mitigation to disaster response coordination. It is part of a special series GAO has issued biennially since January 1999.

This report discusses the actions that FEMA has taken and that are under way to address its management challenges. The report also discusses major events that have occurred that significantly influence the environment in which the agency carries out its mission. Also, GAO summarizes the challenges that remain, new ones that have emerged, and further actions that GAO believes are needed.

This analysis should help the new Congress and the administration carry out their responsibilities and improve government for the benefit of the American people. For additional information about this report, please contact John H. Anderson Jr., Managing Director, Physical Infrastructure, at (202) 512-2834 or at andersonj@gao.gov.

David M. Walker
Comptroller General
of the United States

Major Performance and Accountability Challenges

For more than 20 years, the Federal Emergency Management Agency (FEMA) has been the nation's lead federal agency for preparing for, responding to, and recovering from emergencies and disasters, natural and manmade. The agency provides disaster management assistance and funding for disaster response and recovery activities to communities and individuals in situations where catastrophic events are beyond the capabilities of the state and local governments affected. During this past year, the agency has faced the daunting challenge of leading the federal response to aid victims of the September 11, 2001 terrorist attacks—the most costly disaster and most devastating terrorist incident since FEMA was created. Moreover, FEMA's role in working with first responder agencies—police, fire departments, and emergency medical personnel—has taken on new urgency in preparing for similar, or possibly worse, terrorist incidents. Yet, FEMA's traditional responsibility of preparing for and responding to natural disasters has not lessened, and the agency responded to 49 major disaster events in 2002.

Consistent with the increasing responsibilities placed upon FEMA, its budget is growing substantially. The fiscal year 2003 FEMA budget request is \$6.7 billion, roughly three times the request for fiscal year 2002.¹ The largest portion of the fiscal year 2003 request is meant to support state and local preparedness through the proposed \$3.5 billion First Responder Initiative.

On November 25, 2002, President Bush signed into law a bill creating the Department of Homeland Security (DHS)—the largest reorganization of the federal government since the formation of the Department of Defense in 1947. DHS will be dedicated to protecting the United States from terrorist attacks and will combine about 170,000 federal workers from 22 agencies. FEMA and its missions will be placed entirely into DHS.

¹FEMA's annual budget request provides for normal agency operations and for conducting its various programs. Supplemental funding is requested if funds appropriated in annual legislation are not sufficient to respond to disasters. In fiscal year 2002, most of the funds appropriated to FEMA were provided through supplemental appropriations.

The placement of FEMA within DHS represents a significantly changed environment in which FEMA will conduct its missions in the future. FEMA has traditionally operated in an “all hazards” approach—preparing simultaneously for all types of disasters—and it will be important for FEMA and DHS management to ensure that sufficient management capacity and accountability is provided to both homeland security and natural hazards missions. Some of these missions—such as hazard mitigation and flood insurance—have not traditionally been security related. In testimony to the Congress, the Comptroller General stated that care needs to be taken so that nonsecurity functions in agencies such as FEMA receive adequate funding, attention, visibility, and support when subsumed into a department that will be under tremendous pressure to succeed in its primary mission.²

This year, for the first time, we are issuing a report that addresses challenges facing FEMA because of the increased national significance of the agency’s missions and the additional responsibilities placed on the agency. These responsibilities include responding to the effects of terrorist attacks and providing a central focal point for disaster preparedness and response. As a result, the agency faces a number of challenges, some of which result from the creation of the DHS, and some which the agency will bring into the new department. The performance and accountability challenges facing FEMA are described below.

²U.S. General Accounting Office, *Homeland Security: Critical Design and Implementation Issues*, GAO-02-957T (Washington, D.C.: July 17, 2002).

The graphic features a background of a stylized American flag with stars and stripes. On the right side, there is a detailed illustration of the United States Capitol building. The title "Performance and Accountability Challenges" is prominently displayed in the center-left of the graphic.

Performance and Accountability Challenges

- Ensure effective coordination of preparedness and response efforts
- Enhance provision and management of disaster assistance for efficient and effective response
- Reduce the impact of natural hazards by improving the efficiency of mitigation and flood programs
- Resolve financial management weaknesses to ensure fiscal accountability

Ensure Effective Coordination of Preparedness and Response Efforts

As a result of the legislation forming DHS, FEMA and its missions will be transferred in their entirety into DHS. However, its homeland security and nonhomeland security missions will be under separate DHS directorates. This divisional separation could complicate FEMA's historical all-hazards approach—a comprehensive approach focused on preparing for and responding to all types of disasters, either natural or man-made. The separation of disaster and emergency responsibilities across two directorates of the new department will present coordination challenges for the appropriate Undersecretaries within DHS.

Separation of responsibilities for preparedness and response activities has created problems in the past. Prior to 1979, more than 100 federal agencies were involved in some aspect of disasters and emergencies, causing problems at all levels of government and highlighting the need for consolidation of functions. Thus, one of the objectives in the establishment of FEMA in that year was to bring together disaster and emergency response for all hazards in a single federal entity. More recently, fragmentation of responsibilities for combating and responding to terrorism has been recognized as a problem. As we reported in March 2002, over 40 federal entities have had a role in combating and responding to terrorism.³ The absence of a central focal point resulted in two major problems. First, there was a lack of cohesive effort from within the federal government. Second, the lack of leadership resulted in the federal government's development of multiple, similar programs to assist state and local governments. For example, numerous federal entities offered state and local governments training, planning, and assistance in dealing with the consequences of chemical, biological, radiological, or nuclear attacks. Not only did these efforts overlap, they potentially duplicated other efforts to prepare for possible disasters such as from biological outbreaks, nuclear power plants, or chemical factories.

In May 2001, as one approach to achieving a more integrated federal terrorism preparedness response, the President created an Office of National Preparedness within FEMA to coordinate all federal programs that support state and local preparedness. In our September 2001 report, we recommended a move beyond coordination—program consolidation.⁴ We believed that consolidation of assistance programs would best eliminate overlapping assistance programs and provide a single liaison for state and local officials. The need for consolidation of preparedness and response assistance efforts has been similarly expressed in the Gilmore Commission's reports on assessing domestic response capabilities for terrorism involving weapons of mass destruction.

Placing varied preparedness and response functions, which are currently dispersed across several different departments, within DHS does achieve a measure of consolidation. However, responsibility for terrorism

³U.S. General Accounting Office, *Combating Terrorism: Key Aspects of a National Strategy to Enhance State and Local Preparedness*, [GAO-02-473T](#) (Washington, D.C.: Mar. 28, 2002).

⁴U.S. General Accounting Office, *Homeland Security: A Framework for Addressing the Nation's Issues*, [GAO-01-1158T](#) (Washington, D.C.: Sept. 21, 2001).

preparedness and response will reside in the department's Border and Transportation Security Directorate, which will include FEMA's Office of National Preparedness. Other types of FEMA disaster preparedness and response efforts will transfer to DHS's Emergency Preparedness and Response Directorate. With this division of preparedness and response responsibilities, close coordination will be needed among these directorates to ensure programs are developed, and activities undertaken, that do not replicate the problems of duplication, overlap, and confusion that occurred in the past. Additionally, a single face for the new department will be needed so that state and local governments can be provided with clear leadership and assistance. This will be particularly critical as the funding requested by the President to assist state and local preparedness is expected to be substantial. The President has requested \$3.5 billion for a First Responder Initiative that will aid state and local preparedness and response efforts.

As FEMA has been at the forefront of preparedness and response efforts, and has established networks with state and local governments, it will be incumbent upon the FEMA components within the new department to play a lead role in helping to establish an effective, coordinated preparedness and response program that integrates both the homeland security and nonhomeland security elements. Additionally, the DHS Undersecretaries responsible for the Border and Transportation Security and the Emergency Preparedness and Response Directorates will have the challenge of establishing strong leadership and links between the directorates to ensure that coordinated preparedness and response is achieved. The new department will need this leadership to be able to quickly undertake this important mission.

Enhance Provision and Management of Disaster Assistance for Efficient and Effective Response

FEMA faces a number of challenges pertaining to the provision and management of disaster assistance. The agency administers several programs authorized under the Robert T. Stafford Disaster Relief and Emergency Assistance Act⁵ that provide federal assistance to supplement state and local governments' disaster response, recovery, preparedness, and mitigation efforts. Since the Act's passage in 1988, FEMA provided over \$34 billion in assistance for more than 600 disasters. In fiscal year 2001, FEMA disaster assistance obligations totaled \$3.4 billion, reflecting FEMA's

⁵Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.)

response and recovery efforts for 50 declared major disasters, 15 declared emergencies, and 36 events related to fire assistance.

FEMA has demonstrated its ability to quickly get resources to stricken communities and disaster victims, but has problems ensuring the effective use of such assistance, according to the Office of Management and Budget (OMB). FEMA will be challenged to

- improve its criteria for determining state and local eligibility to receive federal disaster assistance,
- assess extent of assistance for future major disasters based on the recovery efforts undertaken in New York City,
- build on lessons learned from charities' response to September 11,
- enhance disaster assistance staff training and resource planning,
- strengthen oversight of disaster assistance, and
- improve an existing information system before it is used as a building block for a multiagency disaster management Web site.

Improve Eligibility Criteria for Federal Disaster Assistance

FEMA is developing more objective and specific criteria to assess the capabilities of state and local governments to respond to a disaster. The Stafford Act requires that the President determine if conditions are beyond state and local capability to respond before major disaster assistance from the federal government is warranted. In 1999, FEMA published revised regulations that established formal criteria for recommending presidential approval of disaster declarations. These criteria include both minimum financial thresholds and other qualitative measures that FEMA applies in deciding whether to recommend presidential approval. As we reported in August 2001,⁶ FEMA can recommend a disaster declaration if preliminary estimates of the damage exceed \$1.04 per capita statewide and \$1 million in total. FEMA's other criteria include qualitative factors such as the impact of

⁶U.S. General Accounting Office, *Disaster Assistance: Improvement Needed in Disaster Declaration Criteria and Eligibility Assurance Procedures*, [GAO-01-837](#) (Washington, D.C.: Aug. 31, 2001).

a disaster on a particular area or the occurrence of recent multiple disasters in the same area.

FEMA's criteria, however, may not be an appropriate measure of state financial resources. The current threshold was established in 1999 at \$1.00-per-capita and is adjusted for inflation. However, FEMA initially proposed this \$1.00-per-capita threshold in 1986, as it then represented about 0.1 percent of estimated General Fund expenditures by states. Adjusting for annual inflation since 1986, the threshold level would have been \$1.58 in 2001. Additionally, better measures of a state's financial capacity exist. Total Taxable Resources, a measure developed by the Department of the Treasury, provides a more comprehensive measure of the resources that are potentially subject to state taxation and are used to target aid in other federal programs. Use of Total Taxable Resources criteria would result in varying financial capability thresholds for states instead of a uniform threshold and might better reflect states' capacity to bear the burden of responding to a disaster.⁷

We recommended in our August 2001 report that FEMA develop more objective and specific criteria to assess the capabilities of state and local governments to respond to a disaster. FEMA commented that our observations would be valuable for its review of disaster declaration criteria, but FEMA has yet to implement this recommendation. As the President noted in his fiscal year 2002 budget proposal, the lack of clear and meaningful criteria for recommending disaster declarations puts FEMA at risk of providing federal funds to some states that do not need assistance, while ignoring the legitimate needs of others. This situation will remain until FEMA develops more objective assessment criteria.

Assess the Extent of
Assistance for Future Major
Disasters Based on the
Recovery Efforts
Undertaken in New York
City

FEMA needs to assess how the extent of its response and recovery assistance to future disasters may be affected by recovery efforts undertaken in New York City after the September 11, 2001, terrorist attacks. The assistance FEMA is providing New York is of historic proportions. Following the attacks, President Bush pledged at least \$20 billion in federal funds to New York City to be delivered through various federal agencies. Of these funds, FEMA is responsible for the largest share, a total of \$9 billion, an amount that is also the greatest level of financial

⁷U.S. General Accounting Office, *Federal Grants: Design Improvements Could Help Federal Resources Go Further*, GAO/AIMD-97-7 (Washington, D.C.: Dec. 18, 1996).

assistance FEMA has ever provided for any single disaster. To provide this funding and respond to the degree of damage resulting from the attacks, FEMA has needed to expand its assistance guidelines. The amount and extent of assistance FEMA is providing may, however, have consequences on spending for future major disasters if other affected communities expect comparable federal disaster assistance.

FEMA's response to the horrific damage resulting from the terrorist attacks on New York City has led to a generally higher level of federal assistance. According to the Stafford Act, once a disaster is declared, FEMA may reimburse state and local governments for between 75 to 100 percent of the eligible cost for response and recovery activities. FEMA states that assistance has generally been limited to 75 percent of eligible costs; however, assistance levels were increased to 100 percent of eligible costs for the terrorist attacks on New York and other affected areas due to the magnitude of the disaster. Although FEMA funding of 100 percent of eligible costs is not unprecedented, funding of all eligible costs not only places a greater financial burden on the federal government and potentially reduces the cost control incentives inherent in cost-sharing arrangements, but may also be viewed as a precedent for FEMA assistance by other affected communities that may experience major disasters.

Additionally, in light of the magnitude and scope of damage to New York City, FEMA determined—in some cases, at the direction of Congress—that it was necessary to expand its guidelines to allow for maximum flexibility in defining eligible response and recovery activities. FEMA Public Assistance has traditionally been limited to coverage of disaster-related losses and damages to existing infrastructure, and such assistance has not been provided to enhance or modernize the infrastructure beyond its predisaster condition. However, in recognizing the interdependence of Lower Manhattan's transportation system, FEMA officials reported that they were able to broadly interpret their guidelines in order to ensure the transportation needs of New York City were met. As a result, FEMA will work with the Department of Transportation to rebuild the various transportation systems that were damaged from attacks and to improve Lower Manhattan's overall transit system. Similarly, FEMA officials, as mandated by the Congress, reported expanding eligibility guidelines of the Mortgage and Rental Assistance program (MRA). Prior to September 11, MRA was a rarely used FEMA program designed to aid individuals in disaster areas whose employment was directly damaged by the event. However, with the 2002 Supplemental Appropriations Act for Further Recovery From and Response To Terrorist Attacks on the United States

(P.L. 107-206), FEMA expanded the eligibility guidelines of MRA to include individuals who lived and worked in Lower Manhattan and lost significant income regardless of whether their place of employment was damaged. According to FEMA, the expansion represented the broadest interpretation of the program in FEMA's history.

FEMA faces several challenges as it continues to lead the largest recovery effort in its history. Currently, FEMA faces the challenge of providing an unprecedented amount of federal assistance to efficiently meet the needs of New York City. For the future, it will be important for FEMA to consider how the landmark federal response to the terrorist attacks could pose a challenge in determining the level and breadth of future federal assistance.

Build On Lessons Learned from Charities' Response to September 11

FEMA needs to work with charities to build on lessons learned from charities' response to September 11 in order to improve the collective response to future disasters. FEMA is the lead federal agency for responding to disasters and may link with charitable organizations to provide assistance. In fact, FEMA is required to coordinate government relief and assistance activities with those of the American Red Cross and the Salvation Army, as well as other voluntary organizations that agree to operate under FEMA's direction. Charitable aid made a major contribution in the nation's response to the September 11 attacks. However, the scope and complexity of the September 11 disasters presented a number of challenges to charities in their attempts to provide seamless social services for survivors of the disaster. At the same time, FEMA and the various charities involved in the response learned valuable lessons that could improve future disaster response.

Thirty-five of the larger charities reported raising an estimated \$2.6 billion since September 11, 2001. Charities reported distributing their September 11 funds for a broad range of assistance. For example, in addition to cash grants to more than 3,000 families of the victims, charities aided at least 50,000 families who lost jobs or income or whose homes were damaged and served millions of meals to thousands of rescue workers. To distribute aid, charities had to make extensive efforts to identify victims and survivors, as there was no uniform contact lists for families of victims; charity officials also said privacy issues affected the sharing of information among charities.

Initially, little coordination of charitable aid occurred, but a more integrated approach emerged some months later. Despite these efforts, however, September 11 survivors reported they generally had to navigate a maze of service providers in the early months, and both charities and those individuals who were more indirectly affected by the disaster were confused about what aid might be available to them. Although steps were taken to address some of these issues in previous disasters, the scope and complexity of the September 11 attacks presented a number of challenges to charities in their attempts to provide seamless social services for surviving family members. Some months after the disaster, however, oversight agencies and large charities established a more coordinated approach. This included the formation of coordinating entities, the implementation of case management systems, and attempts to implement key coordination tools, such as client databases. To help facilitate future collaborative efforts, we recommended in a December 2002 report that FEMA convene a working group of involved parties to take steps to implement strategies for future disasters, building upon lessons learned in the aftermath of September 11.⁸ FEMA generally agreed that a broad based working group is likely to foster enhanced communication and coordination among charitable organizations and others involved in disaster response.

Enhance Disaster Assistance Training and Resource Planning

FEMA faces challenges to enhance its disaster assistance training and resource planning. After a disaster has been declared, FEMA officials determine which projects meet Stafford Act criteria for funding. Given this responsibility, it is critical that a process exists to ensure staff have the requisite disaster assistance knowledge, skills, and abilities. In fiscal year 1999, FEMA developed a credentialing program that provided a framework for evaluating the knowledge, skills, and abilities of its staff—including its permanent full-time employees as well as its temporary disaster assistance employees, who are deployed to respond to a disaster. FEMA expected that this program would ensure that its employees would have the basic qualifications to perform their jobs and would make FEMA managers, applicants, and the public more confident about their performance. According to FEMA officials, however, the credentialing program has not been implemented because of budget constraints.

⁸U.S. General Accounting Office, *September 11: More Effective Collaboration Could Enhance Charitable Organizations' Contributions in Disasters*, GAO-03-259 (Washington, D.C.: Dec. 19, 2002).

The credentialing program may be a critical need because FEMA staff may not be getting adequate training. As we reported in 2001,⁹ the Public Assistance budget for training has decreased from about \$1.9 million for fiscal year 1999 to \$725,000 for fiscal year 2001. In addition, several studies conducted by individual FEMA disaster field offices during 1999 and 2000 found training either was not timely or was not offered at all. For example, according to available data on formal training, only 20 percent of the staff had received training on the agency's core information tracking system—the National Emergency Management Information System (NEMIS). NEMIS is the management information system staff is expected to use to document disaster assistance to various recipients. Only one FEMA region had trained over half of its staff to use the system.

In our 2001 report, we recommended that FEMA reconsider budgetary priorities to determine if a higher priority should be assigned to implementing a credentialing and training program for federal disaster staff that focuses on the knowledge, skills, and abilities needed for each of the various roles involved in disaster management. FEMA disagreed with the need to assign training a higher budgetary priority, as FEMA stated that all disaster staff attended its basic training class, which provides such instruction. We still believe, however, that FEMA should consider giving higher priority to implementing a credentialing program such as the one the agency has designed.

In addition, FEMA faces the challenge posed by attrition from retirements. According to FEMA projections, 48 percent of FEMA's workforce will be eligible to retire in the next 5 years. FEMA is working to develop a workforce-restructuring plan to address how the agency will attract and retain personnel with the skills to perform core agency functions. FEMA advised us that they expect to have a draft of the plan in early 2003.

Strengthen Oversight of Disaster Assistance

For a presidentially declared disaster, FEMA has primary responsibility for coordinating the federal response. Typically, this response consists of providing grants to assist state and local governments and certain private nonprofit organizations to alleviate the damage resulting from such disasters. FEMA's monitoring of grantee and contractor performance can be improved. In 1998, FEMA's Inspector General (IG) reported that FEMA

⁹GAO-01-837.

grantees were not fully complying with FEMA and federal grant regulations, and problems went undetected because FEMA did not have an effective grants management system. In response, FEMA formed a grants management team to develop policies and procedures to enable FEMA regional offices to manage grants. However, GAO and the FEMA IG have continued to report FEMA grant and contractor oversight problems.

An example of an area where FEMA can improve its oversight is debris removal. According to a 2001 FEMA IG report,¹⁰ FEMA needs to continue improving its controls over the debris removal program to prevent fraud, waste, and abuse. The IG identified examples of excess charges that did not meet eligibility criteria, unsupported costs not substantiated by documentation, and duplicate payments. The IG also called for FEMA to improve grantees' recording of debris information, to provide better technical assistance for debris removal, and to improve debris management training. Although confronted with unprecedented challenges such as the site's immense scale and its status as a crime scene, FEMA officials noted steps were taken to improve oversight of debris removal at the World Trade Center site. Specifically, FEMA officials reported that grantees used best practices to ensure contractor accountability, such as trip tickets, load counts and equipping trucks with global positioning satellite tracking systems. Figure 1 shows debris at the World Trade Center.

¹⁰FEMA, Office of Inspector General Audit Division, *Audit of FEMA's Debris Removal Program* (Washington, D.C., March 2001).

Figure 1: Debris at the World Trade Center



Source: FEMA Photo Library.

FEMA lacks adequate procedures and processes to recapture improper payments. GAO's work over the past several years has demonstrated that improper payments (payments that should not have been made or were made for incorrect amounts) are a significant and widespread problem in federal agencies,¹¹ and FEMA's IG has found improper payments to be a problem area for FEMA. For example, the IG found an \$8.5 million improper grantee payment, and FEMA management indicated in February 2001 that they would take action to recover the money. However, 7 months later, FEMA had not taken any action to collect these funds. Moreover, FEMA officials explained that the agency was actively pursuing such debts, but that collecting debts was an arduous process due to poor or no documentation, lack of final inspections on disaster related projects, and difficulty in negotiating final debt amounts with the states.

¹¹U.S. General Accounting Office, *Financial Management: Coordinated Approach Needed to Address the Government's Improper Payments Problems*, [GAO-02-749](#) (Washington, D.C.: Aug. 9, 2002).

FEMA's lack of documentation was also noted as a problem in our July 2001 report on a presidentially declared major disaster—the Cerro Grande fire in New Mexico.¹² Although a systematic process for the payment of fire victims' injury claims had been established, we found that certain key procedures used by the claim reviewers under contract were not formally documented. Further and more importantly, because of the condition of the files, FEMA officials could not effectively carry out their responsibilities for assessing the contractor's work to determine the validity and reasonableness of the amounts claimed. As a result, inconsistent claims determinations can occur, and there is no assurance that the proper amounts are paid. To address the lack of documentation, we recommended that FEMA direct the Office of Cerro Grande Fire Claims to require all claims reviewers to document all steps and procedures they perform to determine the validity of a claim and the amount recommended for payment. Although FEMA did not specifically comment on our recommendation, officials reported that claim reviewers have responded to

Improve Existing Information System Prior to System Expansion

FEMA's disaster information system, NEMIS, has fundamental problems that must be resolved before it can be used as a springboard for an expanded disaster assistance tool. FEMA plans to create and manage a one-stop information Web site that will include information to assist in emergency preparedness. The new site, Disasterhelp.gov—one of the top three e-government initiatives of the Bush administration—aims to provide a single federal point of contact for all assistance in response to major disasters. FEMA officials hope that states and localities will use the Web site as an information source for preparedness, mitigation, response, and recovery, and that public and private organizations might use it to share knowledge and information. The new system is being structured to use FEMA's existing system—NEMIS—as a building block.

¹²U.S. General Accounting Office, *Federal Emergency Management Agency: Weaknesses Exist in the Cerro Grande Fire Assistance Claim Validation Process*, [GAO-01-848](#) (Washington, D.C.: July 13, 2001).

FEMA needs to resolve NEMIS problems before the system can effectively be used for developing Disasterhelp.gov. As we reported in 2001,¹³ NEMIS has limited application in providing the information needed to manage and oversee disasters and suffers from a lack of quality controls. We found that NEMIS can provide information on a project-by-project basis, but it is severely limited in its ability to provide higher-level information that could help FEMA management review the agency's performance. Further, there have been many complaints from federal and state disaster personnel that the system is difficult to use and subject to sporadic shutdowns. In addition, the system does not automatically verify certain information that has been entered; and it can be unreliable, time-consuming, and difficult to use in a remote disaster environment. The quality of the information in NEMIS is also suspect because of FEMA's reliance on temporary staff that may lack experience with the system or training in its use.

Furthermore, in the administration's fiscal year 2002 budget, OMB noted that FEMA has traditionally given little oversight to its information technology spending. OMB stated this led to ineffective and costly information technology projects, and specifically noted the \$67 million NEMIS system. OMB said that the system has a history of crashing during disaster response operations.

Reduce the Impact of Natural Hazards by Improving the Efficiency of Mitigation and Flood Programs

For many years, FEMA has focused increased emphasis on reducing the impact of natural hazards, not only to lessen the impact to property and individuals, but also to reduce federal disaster costs. Two of the agency's major efforts in this regard have been its mitigation programs and the National Flood Insurance Program. These programs seek to strengthen structures against the effects of hazards or remove them from harm's way and to minimize the need for future FEMA disaster assistance. However, concerns exist in both of these efforts that may limit their effectiveness in achieving these objectives.

Moreover, the placement of FEMA within DHS represents a substantially changed environment in which FEMA will conduct its missions in the future, and missions that focus on reducing the impacts of natural hazards, such as hazard mitigation and flood insurance, may receive decreased emphasis. Sustained attention to these programs will be needed to ensure

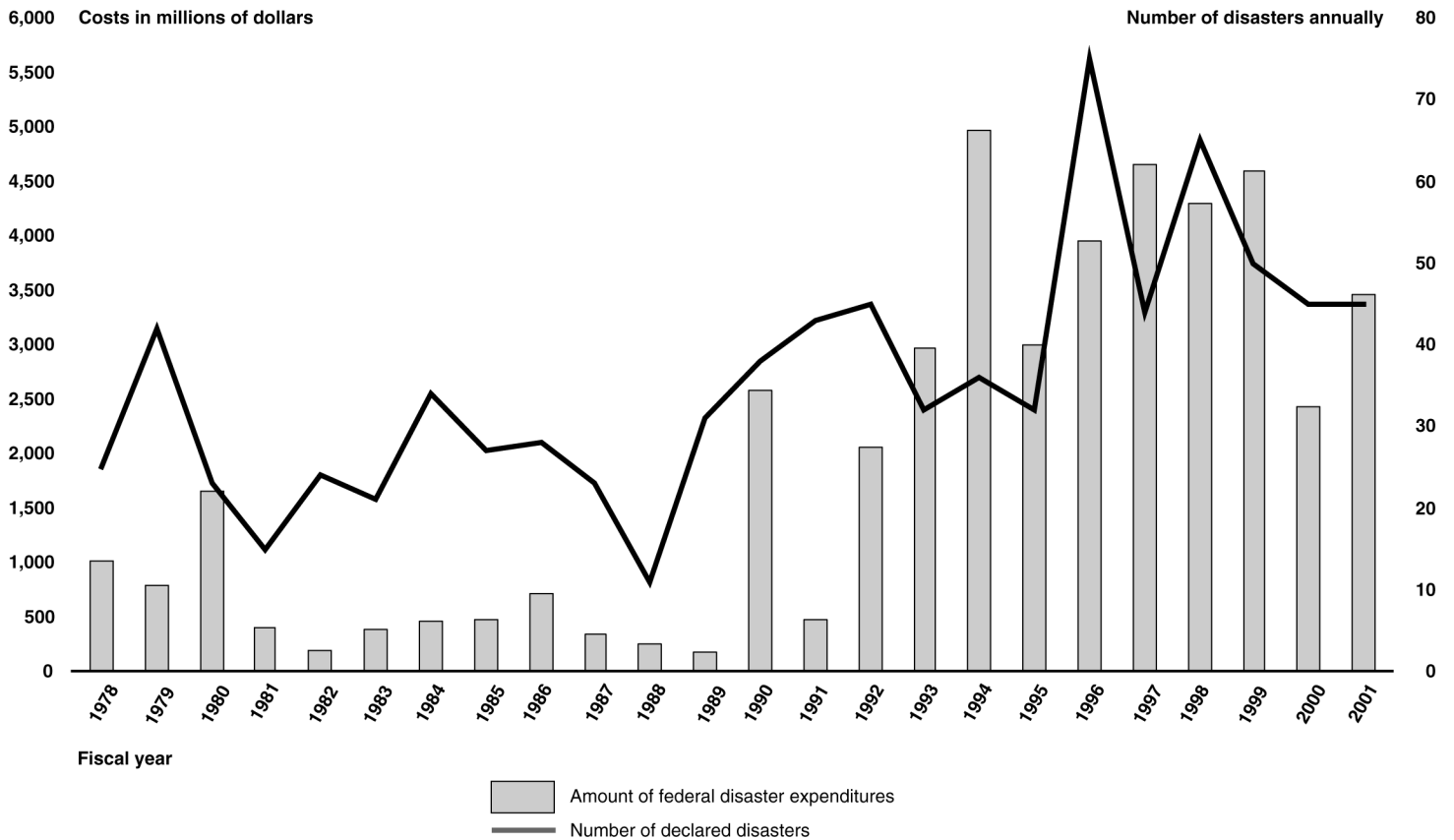
¹³GAO-01-837.

they maintain or improve their effectiveness in protecting the nation against, and reducing federal costs associated with, natural hazards.

Multihazard Mitigation Programs

The cost of federal disaster assistance has grown significantly since the late 1980s. During the 12-year period ending in 1989, the expenditures from the disaster relief fund totaled about \$7 billion (in fiscal year 2001 dollars). However, during the following 12-year period ending in 2001, as the number of large, costly disasters has grown and the activities eligible for federal assistance have increased, expenditures from the disaster relief fund increased fivefold to about \$39 billion (in fiscal year 2001 dollars). (See figure 2.) Disaster assistance costs are expected to remain high in 2002, in part as a result of the September 11, 2001, terrorist attacks. According to FEMA's projections, disaster assistance expenditures from the disaster relief fund will total more than \$4 billion in fiscal year 2002.

Figure 2: Disaster Relief Fund Expenditures and Number of Declared Disasters, Fiscal Years 1978-2001 (in Fiscal Year 2001 Dollars)



Source: FEMA.

As costs for disaster assistance have increased, mitigation actions—both “brick and mortar” efforts, such as elevating buildings in flood-prone areas or creating tornado-resistant structures, and outreach activities, such as providing mitigation education and awareness to the public—have taken on greater importance. Figure 3 shows a house in the process of being elevated to mitigate flood damage.

Figure 3: House in North Carolina in the Process of Being Elevated to Mitigate Flood Damage



Source: FEMA Photo Library.

FEMA has placed more emphasis on disaster mitigation efforts to reduce or eliminate long-term risks to people and property from hazards and their effects. Among the most significant of these efforts are its multihazard mitigation programs that address a broad range of hazards. These are the Hazard Mitigation Grant Program, which provides funding to undertake mitigation actions in areas that have recently suffered a major disaster, and the Project Impact program, which funds predisaster mitigation actions.¹⁴

Concerns have been raised regarding the demonstration of cost effectiveness of some mitigation projects in these programs. For example, as we reported in 1999, FEMA had exempted four categories of projects in the Hazard Mitigation Grant Program from benefit-cost analysis,¹⁵ and for projects in these categories—the number of which FEMA could not identify—the cost effectiveness was unknown. Similarly, FEMA's Office of Inspector General reported in March 1998 and again in February 2001 concerns about the cost-effectiveness of mitigation projects and pointed out that analyses had often not been done and techniques for conducting them were poorly understood. Furthermore, many projects had been exempted from analysis.¹⁶

The administration has also had concerns with the cost-effectiveness of mitigation projects, and in FEMA's fiscal year 2003 budget request, a consolidation of the mitigation programs has been proposed. This proposed consolidation would (1) eliminate the Hazard Mitigation Grant Program, (2) establish a new predisaster mitigation program, and (3) require all grants to be awarded on a national, cost-competitive basis. The funding for mitigation activities would be around \$300 million annually—relatively consistent with historical averages—but all mitigation funding would be subject to the annual appropriation process and spending caps. Currently, funding for the Hazard Mitigation Grant Program can total up to

¹⁴The Project Impact program was discontinued in 2002, but a similar program was funded by the Congress to continue predisaster mitigation activities. However, this new program has not yet been implemented. Consequently, we refer to the predisaster mitigation program as Project Impact.

¹⁵U.S. General Accounting Office, *Disaster Assistance: Opportunities to Improve Cost-Effectiveness Determinations for Mitigation Grants*, [GAO/RCED-99-236](#) (Washington, D.C.: Aug. 4, 1999).

¹⁶FEMA, Office of Inspector General Audit Division, *Auditors Report on FEMA Fiscal Year 2001 Financial Statement* (Washington, D.C., February 2002) and *Improvements are Needed in the Hazard Mitigation Buyout Program 1-01-98* (Washington, D.C. March 1998).

15 percent of the total grant funds for disasters, an amount that has no dollar limit.

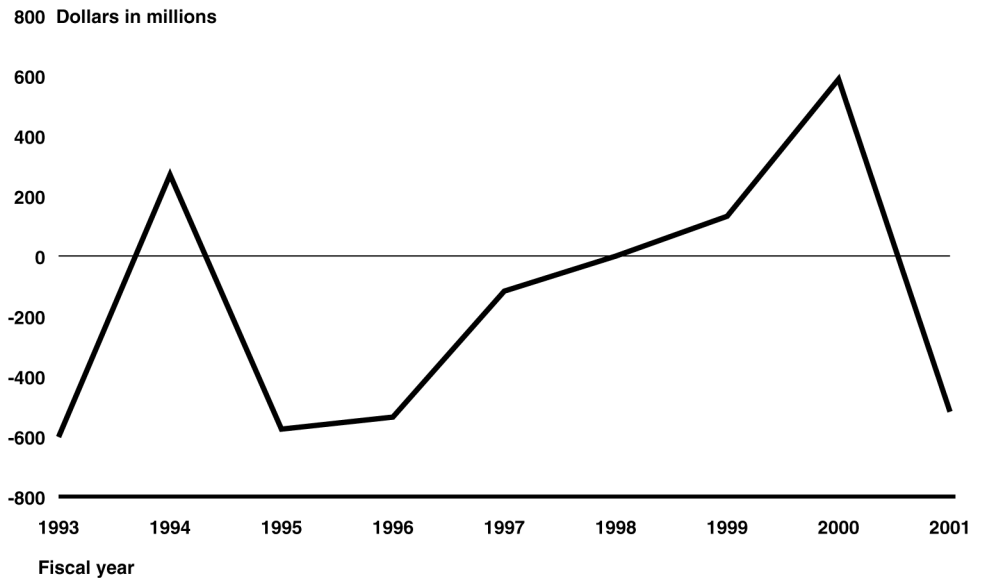
We reported in September 2002 that the administration's proposals to change the mitigation programs could raise additional challenges to mitigation program participation and implementation.¹⁷ These challenges include: (1) a reduced window of opportunity for taking advantage of the heightened interest in mitigation that exists after a disaster has struck, (2) potential exclusion of some states from disaster mitigation funding, and (3) possible curtailment of outreach and planning activities that increase mitigation awareness and participation. Additionally, FEMA does not have a process for determining or comparing the relative benefits and costs of projects needed for a competitive grant program. As a result, these changes to the mitigation programs could lessen their effectiveness.

Flood Insurance Program

Floods have inflicted more economic losses upon the United States than any other natural disaster. From fiscal year 1992 through fiscal year 1999 alone, 20 major flooding disasters caused over \$97 billion in damages. Since its inception 34 years ago, the National Flood Insurance Program has become a major component of the federal government's efforts to provide disaster assistance. The program offers insurance to property owners in communities that have joined the program and encourages floodplain management efforts to mitigate flood hazards. Additionally, the program has reduced federal expenditures on disaster assistance. It is estimated that community compliance with the program's standards for new construction are now saving about \$1 billion annually in flood damage avoided, and that its payment of nearly \$12 billion in insurance claims replaced costs that would, to some extent, have increased taxpayer-funded disaster relief.

¹⁷U.S. General Accounting Office, *Hazard Mitigation: Proposed Changes to FEMA's Multihazard and Mitigation Programs Present Challenges*, [GAO-02-1035](#) (Washington, D.C.: Sept. 30, 2002).

Figure 4: Net Financial Status of the National Flood Insurance Program (Annual Income Minus Costs)



Source: FEMA.

Nevertheless, the National Flood Insurance Program has not operated on solid financial footing. Annual operating losses or net revenues from the insurance program's operations have varied significantly from year to year, and while revenues exceeded program costs in some years, cumulative program costs exceeded income by more than \$1.3 billion during fiscal years 1993 through 2001. (See Figure 4.)

This long-term loss has occurred because the flood insurance program is not actuarially sound. As we reported in July 2001,¹⁸ about 30 percent of the policies in force are subsidized. By law, FEMA is prohibited from charging full premiums for structures that were in existence before a community joined the program, and on average the premium on subsidized policies represents only about 38 percent of the true risk premium for these properties. FEMA estimates subsidized properties to be as much as four

¹⁸U.S. General Accounting Office, *Flood Insurance: Information on the Financial Condition of the National Flood Insurance Program*, [GAO-01-992T](#) (Washington, D.C.: July 19, 2001).

times more likely to suffer a flood loss, and to receive 40 percent more damage, than properties with unsubsidized policies. FEMA officials estimated that premium income from subsidized policyholders is about \$500 million per year less than it would be if these rates had been actuarially based.

Further, the program is not designed to collect sufficient premium income to build reserves to meet the long-term future expected flood losses. The program's annual target for premium income is at least the amount of losses and expenses in an average year. However, the program has only been in existence since 1978 and has not experienced any catastrophic loss years; consequently, in determining losses and expenses in an average year, it does not include possible catastrophic losses.¹⁹ This, in turn, does not enable the program to build sufficient reserves to cover such a loss. Because the program does not collect sufficient premium income to build reserves to meet the long-term future expected losses, it is inevitable that losses from the claims and program expenses will exceed the funds available to the program in some years and, cumulatively, over time. Figure 5 illustrates severe flooding that occurred in East Grand Forks, Minnesota.

¹⁹A catastrophic loss year is defined as a year resulting in \$5.5 to \$6 billion in claims losses, which has a 1 in 1,000 chance of occurring.

Figure 5: Destructive Flooding in East Grand Forks, Minnesota



Source: FEMA Photo Library.

In addition to these concerns, the level of compliance with requirements for the mandatory purchase of flood insurance is unknown. The purchase of flood insurance is required for properties located in flood-prone areas of participating communities for the life of mortgage loans made or held by federally regulated lending institutions, guaranteed by federal agencies, or purchased by government-sponsored enterprises.²⁰ However, no system exists upon which to determine the level of compliance. In June 2002,²¹ we reported that, based on an analysis of data on new mortgages and new flood insurance policies, compliance with mandatory insurance purchase

²⁰A federally regulated lending institution is any bank, savings and loan association, credit union, farm credit bank, federal land bank, production credit association, or similar institution supervised by a federal entity for lending regulation. A government-sponsored enterprise is a privately owned, federally chartered corporation that serves a public purpose.

²¹U.S. General Accounting Office, *Flood Insurance: Extent of Noncompliance with Purchase Requirements Is Unknown*, [GAO-02-396](#) (Washington, D.C.: June 21, 2002).

requirements does not appear to be a problem at the time mortgage loans are originated. However, no readily available data exists upon which to determine if flood insurance policies are being maintained over the life of the mortgage loan as required. Consequently, the federal government remains at risk of having to provide disaster assistance to properties that should be covered by flood insurance and of not receiving all the flood insurance premiums that it should.

The administration has recognized that the National Flood Insurance Program faces major financial challenges, and has proposed several reforms to improve financial performance and transfer greater financial liability to individuals building in flood-prone areas. These reforms include phasing out premium subsidies on second homes and vacation properties and requiring that mortgage borrowers insure the full replacement value of their properties. Nevertheless, while these steps may result in some improvement to the program's financial soundness, the underlying problems have yet to be fully addressed. Additionally, beginning in fiscal year 2003, FEMA expects to begin a program to update existing flood rate maps, an effort that may increase the number of properties within the identified flood zone and exacerbate the current problems in the flood insurance program.

Resolve Financial Management Weaknesses to Ensure Fiscal Accountability

Sound financial management is critical to ensuring that FEMA's—and by extension, the federal taxpayer's—funds are appropriately controlled, managed, and reported. In fiscal year 2001, FEMA received a qualified opinion on its financial statement from its independent auditors—a reversal from the previous 3 years in which it received unqualified audit opinions. Further, the auditors reported six material internal control weaknesses in FEMA's financial systems as well as substantial noncompliance with certain laws and financial regulations such as the Federal Financial Management Improvement Act. Until these weaknesses and instances of noncompliance are addressed, FEMA will not be able to achieve effective financial accountability and will continue to be at risk for errors, fraud, or noncompliance that may not be promptly detected.

Inadequate Accounting for Property and Unliquidated Obligations

FEMA received a qualified audit opinion on its financial statements for fiscal year 2001.²² This was a departure from the last 3 years when FEMA received unqualified opinions on its financial statements. FEMA's auditor was unable to issue an unqualified opinion because, with regard to

personal property amounts, it found that FEMA's systems were not integrated and required two different manual accounting processes, which together were inadequate for financial reporting purposes. Due to these inadequate processes, FEMA could not reconcile the property information from the manually created spreadsheets to its personal property management system and to its core financial system. As a result, the auditors were unable to determine the accuracy of the \$10.8 million amount reported for FEMA's equipment.

Further, FEMA did not have adequate support for its unliquidated obligations accounts. The auditors found that FEMA did not reconcile many of these accounts fully or on time. Once FEMA reconciled unliquidated obligations from its subsidiary records to the general ledger, it reduced the general ledger by \$77 million, as of September 30, 2001, in order to bring its financial statement into balance. However, FEMA did not have supporting documentation for the reduction. As a result, the auditors were unable to determine the accuracy of the adjustment made to FEMA's financial statements.

Internal Control Weaknesses Impede Financial Accountability

FEMA's auditor has also identified six serious weaknesses with the agency's internal financial controls. These are as follows:

- Weak information security controls and insufficient financial system controls increase vulnerability, such that users with viewing access could modify data, including creating new records. This results in a substantial risk that financial resources and data may be exposed to unauthorized modification, disclosure, loss, or impairment.
- Ineffective interfaces between FEMA financial systems result in inefficient and potentially inaccurate manual processes to integrate data for financial reporting or financial statement preparation. Such interface problems and manual processes significantly affect FEMA's ability to process, maintain, and report financial information.
- The financial statement reporting process is unreliable and does not generate reliable reports, as financial statements are not accurate until a significant number of adjustments are made and substantial resources

²²The qualified opinion was due to inadequate documentation to support personal property amounts and an unsupported adjustment to its unliquidated obligations account.

are committed to review and validate the statements. These conditions increase the risk that FEMA's financial statements could be inaccurately presented.

- FEMA does not have adequate accounting systems and processes that ensure that all property, plant, and equipment is properly recorded, accurately depreciated, and tracked in accordance with FEMA policies and applicable federal accounting standards. As a result, the system cannot track items to supporting documentation or to a current location.
- Many of FEMA's accounts had not been reconciled during the year and, once reconciliations were performed, significant adjustments to FEMA financial accounts and records were required. For example, a \$177 million reduction was required in records supporting accounts payable, and at the time the report was issued, there still existed a \$22.6 million unreconciled difference in a fund account between FEMA and the Department of the Treasury's records.
- Due to noncompliance with applicable regulations and policies, FEMA's accounts receivable required detailed analysis and stronger collection efforts. For example, as of September 30, 2001, FEMA has made no attempt to recoup about \$30 million of overpayments recorded as accounts receivable in 1998.

The FEMA IG reported in January 2002 that problems with the agency's internal controls significantly affect its financial accountability. In the fiscal year 2001 Annual Performance and Accountability Report, FEMA's IG reported that FEMA does not have a functioning integrated management system and that its system of internal controls has weaknesses that have adversely affected its ability to record, process, summarize, and report accurate, reliable, and timely financial information.

FEMA Did Not Comply with Certain Laws and Regulations

The auditors reported that FEMA's financial management systems did not substantially comply with requirements of certain laws and regulations intended to improve financial accountability. The auditors reported the following:

- FEMA's financial management systems did not substantially comply with federal financial management systems' requirements or applicable

federal accounting standards under the Federal Financial Management Improvement Act.

- Improvements were needed to FEMA's information security program in order to fully comply with the Government Information Security Reform Act.
- FEMA's selection, control, and evaluation processes for information resource investments did not comply with the Clinger-Cohen Act.
- FEMA did not have a financial management system plan with action plans and time frames for enhancing the agency's financial systems environment and, other than its IG coordinated reviews, did not perform reviews of financial management systems to ensure sufficient controls were in place as required by the Federal Managers' Financial Integrity Act and OMB Circular A-127, *Financial Management Systems*.

In a February 2002 letter responding to the audit report, FEMA officials agreed with each issue and identified corrective actions to all recommendations. FEMA stated that processes would be in place during fiscal year 2002 to address the report qualifications and the material internal control weaknesses. In addition, FEMA officials expect the Chief Information Officer's final report to provide responses to concerns about information technology and information system security controls.

Until these qualifications, weaknesses, and instances of non-compliance are addressed, FEMA will not have accurate financial statements or adequate internal controls over financial information. FEMA will continue to require intensive time-consuming manual efforts to develop reliable information and be at risk for errors, fraud, or noncompliance that may not be promptly detected. The results of the fiscal year 2002 financial statement audit will be the determining factor in the success of FEMA's efforts to address these issues.

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