

GAO

Report to the Ranking Member,
Committee on Banking, Housing, and
Urban Affairs, U.S. Senate

June 2008

NATIONAL FLOOD INSURANCE PROGRAM

Financial Challenges Underscore Need for Improved Oversight of Mitigation Programs and Key Contracts





Highlights of [GAO-08-437](#), a report to the Ranking Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

Why GAO Did This Study

The Federal Emergency Management Agency (FEMA) and its contractors administer and implement the National Flood Insurance Program (NFIP). GAO designated NFIP as a high-risk area in March 2006, and as of December 2007, FEMA owed more than \$17.3 billion to the Treasury for hurricane-related losses. Concerns have been raised about the financial condition of NFIP and FEMA's efforts to mitigate losses and monitor NFIP contractors. This report (1) describes statistical and financial trends for NFIP from 1997 through 2006, (2) assesses the extent to which flood-damaged properties were purchased to mitigate risk, and (3) evaluates procedures for monitoring NFIP-related contracts.

For this study, GAO analyzed financial and statistical data on the NFIP and its mitigation programs, reviewed documentation of contract monitoring activities, and interviewed FEMA officials and contractors.

What GAO Recommends

GAO recommends that FEMA establish processes to track property acquisitions in real time and ensure systematic monitoring and reviews of contractor performance. FEMA agreed with the recommendations on contractor oversight and has taken steps to address them. FEMA questioned the value of collecting property acquisition data real-time. Without such data, FEMA's ability to assess program effectiveness is limited.

To view the full product, including the scope and methodology, click on [GAO-08-437](#). For more information, contact Orice M. Williams at (202) 512-8678 or williamso@gao.gov.

NATIONAL FLOOD INSURANCE PROGRAM

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What GAO Found

The number of federal flood insurance policies in force nationwide increased 36 percent from 1997 through 2006, but most homeowners at risk of flooding still lacked such insurance. While average insurance amounts (per policy) increased 78 percent from 1997 through 2006—consistent with rising home values—the average premium decreased 3 percent from 1997 through 2006, likely driven in part by the increase in policies sold in moderate- to low-risk areas. Conversely, loss amounts fluctuated by year, peaking at more than \$17.7 billion in 2005. Seventy-nine percent of the funds paid out through NFIP from 1997 through 2006 were for hurricane-related claims, but the percentages in individual years varied widely (correlating with hurricane activity). Finally, the extent of claim payments attributed to repetitive loss properties (those with two or more claims in a rolling 10-year period) increased from 1997 through 2006, from \$3.7 billion to nearly \$8 billion, with the most significant increases resulting from the 2005 Gulf Coast hurricanes.

Because of data limitations, GAO was not able to determine the actual number of properties acquired through FEMA mitigation programs, which are intended to minimize the damage and financial impact of floods. Information on completed mitigation projects (which encompass multiple properties) indicates that about one-third of properties approved for acquisition from 1997 to 2006 were acquired. However, these data are limited because they do not include a count of properties acquired in ongoing projects. Projects may take several years to complete, and FEMA does not report properties acquired until a project is complete. Further, FEMA collected property acquisition data (for completed projects) in an ad hoc manner because FEMA's grants management system lacks the capability to record acquisition data. As a result, FEMA cannot readily determine the extent to which flood-damaged and repetitive loss properties have been acquired through its mitigation programs.

Lack of monitoring records, inconsistent application of procedures, and lack of coordination have diminished the effectiveness of FEMA monitoring of NFIP-related contracts. While federal internal control standards state that records should be properly maintained, FEMA did not consistently follow its monitoring procedures for preparing or maintaining monitoring reports and was unable to provide copies of the majority of monitoring reports GAO requested. Further, FEMA offices did not coordinate information and actions relating to contractor deficiencies and payments. In some cases, key officials were unaware of decisions on contractor performance. As a result, FEMA cannot consistently ensure adherence to contract requirements and lacks information critical for effective oversight of key contractors. Given the reliance of NFIP upon contractors, it is important that FEMA have in place adequate controls that are consistently applied to all contracts.

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Abbreviations

BFE	Base Flood Elevation
BSA	Bureau and Statistical Agent
COTR	Contract Officer's Technical Representative
DHS	Department of Homeland Security
DSA	Direct Servicing Agent
eGovernment	Electronic Government
eGrants	Electronic Grants Management System
FEMA	Federal Emergency Management Agency
FIRM	Flood Insurance Rate Map
FIS	Flood Insurance Study
FMA	Flood Mitigation Assistance Program
HMGP	Hazard Mitigation Grant Program
IFMIS	Integrated Financial Management Information System
NEMIS	National Emergency Management Information System
NFIF	National Flood Insurance Fund
NFIP	National Flood Insurance Program
OMB	Office of Management and Budget
RFC	Repetitive Flood Claims Program
RCBAP	Residential Condominium Building Association Policy
SRL	Severe Repetitive Loss Pilot Program
TRRP	Transaction Record Reporting and Processing
WYO	Write Your Own

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United States Government Accountability Office
Washington, DC 20548

June 16, 2008

The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate

Dear Senator Shelby:

Following the signing of the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004, which reauthorized the National Flood Insurance Program (NFIP) through September 30, 2008, the United States experienced back-to-back catastrophic hurricane seasons and experienced nearly \$20 billion in flood-insurance losses. Because NFIP premium rates have been set to cover losses in an average year (that is, based on “average historical losses”), the program has been unable to set aside sufficient funds to meet future expected losses.¹ According to the Federal Emergency Management Agency (FEMA) of the Department of Homeland Security (DHS), which administers NFIP, claims from Hurricane Katrina alone have totaled in excess of \$16.3 billion, as of October 2007. The Katrina-related claims represent more than eight times the amount for claims in 2004 and surpass (by more than \$1 billion) the aggregate amount of all claims previously paid in the nearly 40-year history of NFIP.²

In response to the magnitude and severity of losses from the 2005 hurricanes, Congress increased NFIP’s borrowing authority from the Department of the Treasury (Treasury) to \$20.8 billion. As of December 2007, FEMA owed more than \$17.3 billion to Treasury, an amount the program is unlikely to be able to repay while paying future claims with its current premium income of about \$2 billion annually. We designated NFIP as a high-risk area in March 2006 because the program likely will not

¹GAO, *National Flood Insurance Program: FEMA’s Management and Oversight of Payments for Insurance Company Services Should Be Improved*, [GAO-07-1078](#) (Washington, D.C.: Sept. 5, 2007).

²Senate Committee on Banking, Housing, and Urban Affairs, testimony of David I. Maurstad, Assistant Administrator and Federal Insurance Administrator, Mitigation Division of the Federal Emergency Management Agency of the Department of Homeland Security, 110th Cong., 1st sess., October 2, 2007.

generate sufficient revenues to repay the billions it borrowed from the Treasury to cover flood claims from the 2005 hurricanes.³ In addition, it is unlikely that NFIP—a key component of the federal government’s efforts to minimize the damage and financial impact of floods—could cover catastrophic losses in future years. The insufficient revenues highlight structural weaknesses in how the program is funded, and Congress is considering a number of legislative changes to improve NFIP’s financial solvency.⁴

NFIP was created in 1968 in part to provide some insurance protection for flood victims because private insurers were (and largely still are) unwilling to bear the economic risks associated with the potentially catastrophic impact of flooding. NFIP also provides incentives for communities to adopt and enforce floodplain management regulations to reduce future flood damage. Such incentives include mitigation programs that provide grants to acquire and demolish flood-prone structures that NFIP insures and perform other activities (such as elevating buildings) to reduce or eliminate flood losses and insurance claims. Floods are the most common and destructive natural disasters in the United States. According to NFIP statistics, 90 percent of all natural disasters in the United States involve flooding. In previous work, we reported that between 1980 and 2005, about 97 percent of the U.S. population lived in a county that had at least one declared flood disaster, and 45 percent lived in a county that had six or more flood disaster declarations.⁵ Under NFIP, federally backed flood insurance is available to homeowners and other property owners in communities that adopt and enforce local floodplain ordinances. Finally, FEMA makes extensive use of contractors to implement NFIP. For example, about 68 FEMA employees, assisted by about 170 contract employees, manage and oversee NFIP.

³GAO’s High-Risk Series identifies federal programs and operations that, in some cases, are high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement. GAO, *High-Risk Series: An Update*, [GAO-07-310](#) (Washington, D.C.: January 2007).

⁴H.R. 3121, 110th Cong. (2007), S. 2284, 110th Cong. (2007), each entitled “Flood Insurance Reform and Modernization Act of 2007;” see also GAO, *National Flood Insurance Program: New Processes Aided Hurricane Katrina Claims Handling, but FEMA’s Oversight Should Be Improved*, [GAO-07-169](#) (Washington, D.C.: Dec. 15, 2006).

⁵GAO, *Natural Hazard Mitigation: Various Mitigation Challenges Exist, but Federal Efforts Do Not Provide a Comprehensive Strategic Framework*, [GAO-07-403](#) (Washington, D.C.: Aug. 22, 2007).

As agreed with your staff, this report

- describes trends for NFIP policies, insurance amounts, premiums, and losses from 1997 through 2006, and the extent to which NFIP losses were attributable to hurricanes and repetitive loss properties;
- assesses how the amounts available for the purchase of flood-damaged and repetitive loss properties changed over time, and the extent to which FEMA purchased flood-damaged and repetitive loss properties; and
- evaluates the extent to which FEMA followed its procedures for monitoring selected NFIP-related contracts.

To address these objectives, we analyzed data on NFIP policies, insurance amounts, premiums, and losses for calendar years 1997 through 2006 and assessed the reliability of these data. In addition, we analyzed available data on funds available for three NFIP-funded mitigation programs and properties purchased in connection with two of these programs. We reviewed monthly contractor monitoring reports and documentation of contract-specific monitoring policies and procedures at FEMA. We also assessed the extent to which these procedures were followed for two of the largest NFIP-related contracts—the Bureau and Statistical Agent (BSA) and Direct Servicing Agent (DSA) contracts—upon which FEMA relies to collect all financial and statistical data related to NFIP and directly sell and service flood insurance policies. Finally, we interviewed FEMA officials in Washington, D.C., and Virginia and NFIP contractors based in Kansas and Maryland. Appendix I provides more information on our scope and methodology. We conducted this performance audit from March 2007 to June 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

From 1997 through 2006, NFIP showed steady increases in the number of policies in force, the average amount of insurance per policy, and the net cumulative amount paid to settle claims for repetitive loss properties; while average premiums decreased, total losses fluctuated, and the majority of losses were hurricane-related. The number of policies in force increased 36 percent, from nearly 4 million in 1997 to more than 5.4 million in 2006. However, a 2006 study estimated that about half of single-family homes in special flood hazard areas nationwide did not have flood

insurance policies. The average amount of insurance per policy increased 78 percent from 1997 through 2006, from about \$158,000 to almost \$214,000.⁶ The average annual premium per flood insurance policy decreased slightly from 1997 through 2006, from \$489 to \$475 annually in part because most of the policies being sold were in moderate- and low-risk areas that tend to have lower rates. However, premiums increased in the high-risk coastal flood zone from about \$1,039 in 1997 to more than \$1,400 in 2006. Total loss amounts fluctuated from year to year, ranging from a low of \$302 million in 2000 to more than \$17.7 billion in 2005. Further, 79 percent of the funds paid out through NFIP from 1997 through 2006 were for hurricane-related claims, but the percentages in individual years varied widely (correlating with hurricane activity). More specifically, while less than 10 percent of the losses paid out in 5 of the 10 years were linked to hurricane-related damage, 97 percent of the losses paid out in 2005, the highest loss year in the history of the program, were for hurricane-related losses. The net cumulative amount FEMA had paid to settle claims filed for repetitive loss properties (properties with two or more claims paid by NFIP in a rolling 10-year period) totaled \$7.9 billion at the end of 2006, more than doubling from the net cumulative total of \$3.7 billion in 1997. Clearly, repetitive loss properties continue to be a drain on NFIP. FEMA's annual estimates of average historical losses also increased, from \$622 million in calendar year 1997 to \$2.3 billion in 2006. Finally, analysis by occupancy type shows that more than 90 percent of policyholders owned residential properties (single- and two-four family homes) or condominiums, and the majority of these properties were in flood zones that FEMA designated as high risk.

The amounts available for mitigation activities such as the purchase and demolition of flood-damaged properties increased for one of NFIP's mitigation programs and became available for two others in 2006. Properties have been purchased through two of the three NFIP-funded mitigation programs—Flood Mitigation Assistance (FMA) and Repetitive Flood Claims (RFC). However, the total number of properties purchased is unknown at the headquarters level due to a lack of reporting requirements and information system limitations that hamper assessments of the extent of property acquisitions in the two programs. According to data provided by FEMA, funding for the FMA program increased in the period we reviewed, from \$12.5 million in fiscal year 1997 to nearly \$31 million in fiscal year 2006, while funds for the other two programs—RFC and the Severe Repetitive Loss (SRL) pilot

⁶All dollars are in 2006 constant dollars.

program—only have been available since 2006. In addition, the SRL pilot program guidance was not published and applications for grant funds were not accepted until January 2008.⁷ According to available data on completed mitigation projects, 35 percent of properties approved for acquisition through FMA, and 19 percent of properties approved through RFC, have been acquired as of October 2007. However, the total number of properties acquired through NFIP-funded mitigation programs is unknown because FEMA lacks real-time data on property acquisitions for ongoing mitigation projects. For example, of the properties reported as being acquired through the FMA program as of October 2007, FEMA records show that none have been acquired since 2003. However, this number is likely understated because FEMA does not explicitly require the timely recording of property acquisitions, and FEMA regional staff may not record property acquisitions until a project closes, which could take several years. Internal control standards for the federal government direct that transactions be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.⁸ In addition, FEMA's grants management system does not allow for the electronic capture of data on property acquisitions. As a result of these limitations, FEMA management cannot readily determine the effectiveness of the mitigation programs and the number of acquisitions, a key means of reducing or eliminating future insurance claims on NFIP-insured properties and determining the effectiveness of these programs.

FEMA lacked monitoring records, inconsistently followed its procedures for monitoring contractors, and did not coordinate contract monitoring responsibilities for the two major contracts we reviewed. At FEMA, a Contracting Officer's Technical Representative (COTR) and staff (referred to as "monitors") are responsible, respectively, for ensuring compliance with contract terms and regularly monitoring and reporting on the extent to which an NFIP contractor has met standards in contract-specified performance areas. FEMA lacked records for the majority of the monitoring reports we requested and did not consistently follow the monitoring procedures for preparing, reviewing, and maintaining monitoring reports. Internal control standards for the federal government state that records should be properly

⁷In October 2007, FEMA published an interim rule effective December 3, 2007, that began implementation of the SRL program. *72 Fed. Reg.* 61720 (Oct. 31, 2007); see 44 C.F.R. Part 79. On January 14, 2008, FEMA issued guidance for the program.

⁸GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

managed and maintained. Additionally, key FEMA offices responsible for addressing contractor deficiencies did not share information and coordinate actions about contractor performance problems and payments. As a result, FEMA cannot ensure adherence to contract requirements and lacks information critical for effective oversight of contractors performing key NFIP data collection, reporting, and insurance functions.

We are making five recommendations to the Secretary of Homeland Security to more accurately track the extent to which flood-prone properties are acquired in NFIP mitigation programs and help ensure adherence to contract monitoring requirements. They include establishing written guidance about consistent and timely recording of property acquisition data and establishing a way to track real-time property acquisitions. The remaining recommendations address contract management and oversight and include establishing a process to systematically review monitoring reports and develop guidance to improve coordination among key FEMA offices in addressing contractor deficiencies.

We provided a draft of this report to the Secretary of Homeland Security. The Assistant Administrator, Mitigation Directorate, FEMA, provided written comments that are reprinted in appendix VIII. In these comments, FEMA generally agreed with the three recommendations on contract monitoring and described various steps they are taking to implement them. While FEMA did not explicitly address our two recommendations related to tracking property acquisitions, it noted the challenges it faces in tracking property acquisitions but questioned the value of tracking such acquisitions at the headquarters level. As noted in our report, real-time data would improve FEMA headquarters' ability to produce, analyze, and report timely information on ongoing operations and thus improve its ability to assess the effectiveness of its mitigation programs. Specifically, FEMA would be able to more accurately assess the rate at which properties are acquired and thus pinpoint within a shorter timeframe the extent to which mitigation programs were reducing the number of flood-damaged and repetitive loss properties. Finally, FEMA's written response also included technical comments that we incorporated in this report as appropriate.

Background

NFIP was established in the National Flood Insurance Act of 1968 to provide policyholders with some insurance coverage for flood damage, as an alternative to disaster assistance, and to try to reduce the escalating costs of repairing flood damage.⁹ NFIP has mapped flood risks, assigning a flood zone designation based on the risk level for flooding (see table 1 for examples), which is a factor in determining premium rates.

Table 1: NFIP Flood Zone Designations

Designations	Risk level
Flood zones B,C, X	Moderate- to low-risk
Flood zones A, AE	High-risk
Flood zones V, VE	High-risk coastal
Flood zone D	Undetermined risk

Source: GAO analysis of FEMA data.

Notes: See appendix VII for a description of all FEMA flood zones. The FEMA contractor responsible for collection and analysis of NFIP data uses two additional designations when collecting and reporting data by flood zone. Zone “O” (Other) is not a flood zone designation; rather, it is used to indicate missing or erroneous data for policies. Policies under FEMA’s Emergency Program, which is the program through which communities enter NFIP, do not have designated flood zones. Instead, the FEMA contractor captures data on the policies by using their Emergency Program status.

To participate in NFIP, communities agree to enforce regulations for land use and new construction in high-risk flood zones. As of May 2007, more than 20,300 communities across the United States and its territories participated in NFIP by adopting and agreeing to enforce state and community floodplain management regulations to reduce future flood damage.¹⁰ Although community participation in the program is voluntary, homeowners with mortgages from federally regulated lenders on properties in special high-risk, flood hazard areas are required to purchase flood insurance on their dwellings for at least the outstanding mortgage amount, up to the maximum policy limit of \$250,000.¹¹ Optional, lower-cost coverage also is available under NFIP to protect homes in areas of moderate- to low-risk. In addition, owners of properties built before NFIP officially mapped a community (known as pre-FIRM properties, referring

⁹The National Flood Insurance Act of 1968, as amended, is codified at 42 U.S.C. §§ 4001-4129.

¹⁰[GAO-07-1078](#).

¹¹The maximum policy limit of \$250,000 is for building-only coverage for residential properties. 42 U.S.C. § 4013.

to the Flood Insurance Rate Map) pay premiums that do not reflect their true risk because Congress authorized subsidized insurance rates to be made available for policies covering certain structures to encourage communities to join the program. To insure other personal property items against flood damage, homeowners may purchase separate NFIP personal property (or “contents”) coverage, up to the maximum coverage limit of \$100,000.¹²

In addition to mapping and categorizing flood risk zones, FEMA also has developed two estimates of potential losses to help set rates and develop information relating to losses. FEMA introduced the concept of the average historical loss year—the purpose of which is to estimate the amount of premium that would be sufficient to pay for losses resulting from the type of loss years that previously occurred. According to FEMA, this estimate is used as one indicator in setting subsidized premium rates. FEMA also prepares a catastrophic loss year estimate, usually every other year, to provide Congress with an informal guide on the losses that could occur in the event of a storm that would have 0.1 percent chance of occurring in a given year (a 1 in a 1,000 year event).

For more than a decade, FEMA has pursued a variety of strategies to reduce the number of repetitive loss properties, which are insurable buildings for which NFIP paid two or more claims of more than \$1,000 within any rolling 10-year period. For example, NFIP funds three mitigation programs, the FMA program, the RFC program, and the SRL pilot program.¹³ The purpose of the FMA program is to fund activities that reduce or eliminate the long-term risk of flood damage to buildings and other structures insured by NFIP, such as property acquisition.¹⁴ The FMA program requires applicants to provide a portion of the funds for the proposed mitigation activities. If the applicant cannot secure funding for the proposed activities, FEMA may contribute 100 percent of the funding through the RFC program, which is specifically designed to mitigate repetitive loss properties (structures insured by NFIP that have had one or

¹²The maximum policy limit of \$100,000 is for contents only coverage for residential properties. 42 U.S.C. § 4013.

¹³The SRL pilot program was authorized by the Bunning, Bereuter-Blumenauer Flood Insurance Reform Act of 2004, Pub. L. No. 108-264, 118 Stat.712 (codified in scattered sections of 42 U.S.C. (2004)).

¹⁴Properties that are acquired through NFIP-funded mitigation programs are demolished or relocated and the land kept as open space in perpetuity.

more claim payments for flood damages).¹⁵ Finally, the SRL program is designed for repetitive loss properties that have at least four claim payments of more than \$5,000 each.¹⁶ See table 2 for more information on these mitigation programs.

Table 2: NFIP-Funded Mitigation Grant Programs

Program element	FMA	RFC	SRL
Purpose	To implement cost-effective measures that reduce or eliminate the long-term risk of flood damage to buildings, manufactured homes, and other structures insured under NFIP.	To reduce or eliminate the long-term risk of flood damage to structures insured under NFIP that have had one or more claim payments for flood damage.	To reduce or eliminate the long-term risk of flood damage to severe repetitive loss residential properties and the associated drain on the National Flood Insurance Fund (NFIF) from such properties.
Applicant eligibility	State emergency management agencies or a similar state office. ^a	Same as FMA, but for those states or communities that cannot meet the requirements of the FMA program for either cost share or capacity to manage the activities.	State emergency management agencies or a similar state office. ^a
Eligible project grants	Acquisition, structure demolition, or structure relocation with the property deed restricted for open space uses in perpetuity; elevation of structures; dry floodproofing of nonresidential structures; and minor structural flood control activities.	Acquisition, structure demolition, or structure relocation with the property deed restricted for open space uses in perpetuity.	Acquisition, structure demolition, or structure relocation with the property deed restricted for open space uses in perpetuity; elevation of structures; dry floodproofing of historic structures; minor physical localized flood control projects; and mitigation reconstruction (demolition and rebuilding of structures).
Funding	2-year funds ^b	No-year funds	No-year funds

Source: FEMA.

Note: In fiscal year 2008, appropriations for RFC changed from “one-year funds”—congressionally appropriated funds that must be expended within the fiscal year—to “no-year” funds, congressionally appropriated funds with no time limit for expenditure.

^aThe office that has primary emergency management or floodplain management responsibility.

^bCongressionally appropriated funds that must be expended within two fiscal years.

NFIP staff are located at FEMA headquarters in Washington, D.C., and 10 regional offices. Their functions include tasks for administering mitigation

¹⁵Except for the RFC program, NFIP defines repetitive loss properties as those with two or more paid claims of more than \$1,000 within any rolling 10-year period.

¹⁶More specifically, SRL properties are those for which four or more separate claim payments have been made, with the amount of each claim payment exceeding \$5,000; or for which at least two separate claims payments have been made, with the cumulative amount of such claims exceeding the reported value of the property.

grant programs such as processing applications for grant funds and distributing the funds to eligible applicants. While FEMA establishes policies and procedures for NFIP, and has some staff dedicated to the management of the program, FEMA relies on contractors to administer key aspects of the program. Contractors collect NFIP data, market the program, and sell specific flood-insurance policies. Private insurance companies that participate in FEMA's Write Your Own (WYO) program largely are responsible for insurance sales and claims adjustment.¹⁷

At the time of our work, there were four major ongoing contracts in place for NFIP, two of which we reviewed in this report. For example, FEMA awards a contract for a BSA, which is responsible for conducting financial and statistical reporting based upon data submissions from the 92 WYO companies, developing forms and information related to NFIP, and providing various data analyses.¹⁸ The BSA contract that was effective from September 2005 through December 2007 was valued at \$38 million. FEMA also awards a contract for a DSA, which is responsible for selling and servicing standard and group insurance for policies that are not sold through WYOs. For that agent, the value of the contract in effect from September 2003 to September 2008 is \$26.5 million.

Two offices in FEMA are responsible for contracts and contract oversight (see fig. 1). A Contracting Officer in the Acquisition Operations Branch awards contracts related to NFIP and has responsibility for determining the adequacy of a contractor's performance.¹⁹ The Program Management Office also has responsibilities for overseeing each contractor's performance. A COTR is assigned to each contract. The COTR is authorized to act on behalf of the Contracting Officer to monitor the contract. However, the COTR is not authorized to make any contractual commitments or contractual changes on behalf of FEMA; any changes that the contractor deems may affect the contract, price, terms, or conditions are referred to the Contracting Officer in the Acquisition Operations Branch for action. Each COTR is assisted by monitors, who review and

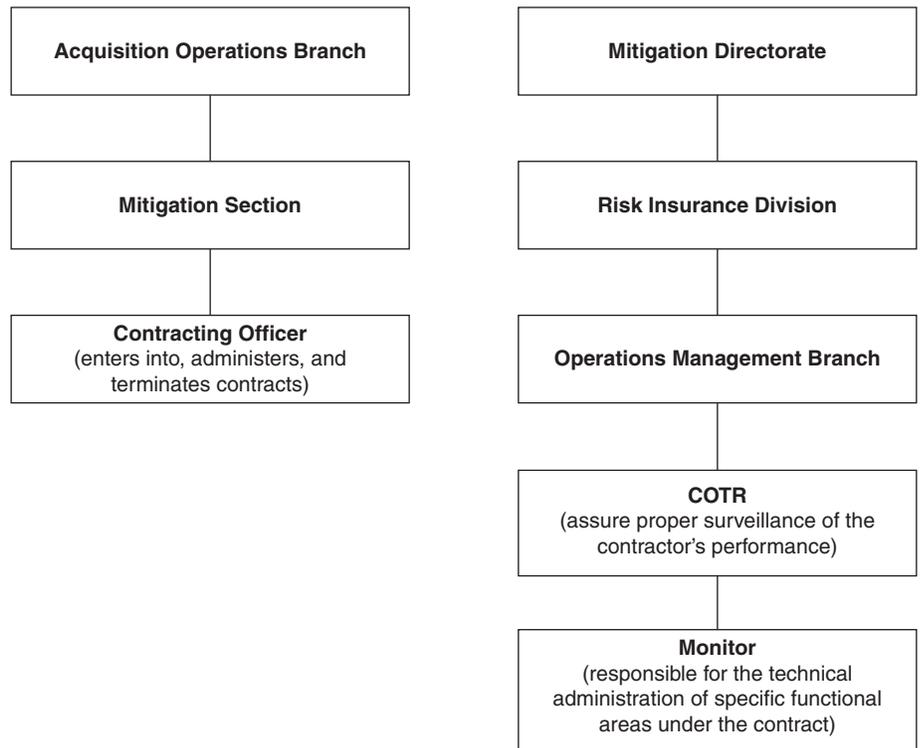
¹⁷A WYO is a private insurance company that sells and service policies and adjusts claims for NFIP.

¹⁸The BSA serves as the liaison between the government and independent property and casualty insurance companies that issue federally guaranteed NFIP policies.

¹⁹According to the Federal Acquisition Regulation, the Contracting Officer is responsible for "ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships." 48 C.F.R. § 1.602-2.

report on technical aspects of the contractor's performance such as compliance with specific contract terms.

Figure 1: FEMA Offices with Contract Monitoring Responsibilities



Source: GAO.

Note: During the period of our review, the Operations Management Branch was referred to as the Program Management Office.

Policies and Insurance Amounts Increased, Premiums Decreased, and Losses Fluctuated from 1997 through 2006 with Hurricane Activities

Overall, data relating to the number of NFIP policies and amount of insurance coverage indicated upward trends for the period we reviewed and most losses were paid for hurricane-related claims, primarily due to losses from the 2005 hurricane season. The number of policies in force increased 36 percent and the average amount of coverage increased 78 percent from 1997 through 2006, consistent with average rising home values. The average premium per flood-insurance policy decreased 3 percent, but when analyzed by flood risk zone, average premiums increased in the high-risk coastal flood zone, from about \$1,039 in 1997 to more than \$1,400 in 2006. Over this period, total losses fluctuated from a low of \$302 million in 2000 to a high of \$2 billion in 2004 before reaching more than \$17.7 billion in 2005. In 5 of the 10 years reviewed, less than 10 percent of losses paid out were linked to hurricane-related damage, and over the 10-year period cumulative losses for repetitive loss properties increased from \$3.7 billion to \$7.9 billion. FEMA's estimates for average historical loss and catastrophic loss increased over this 10-year period. Finally, analysis by occupancy type shows more than 90 percent of policyholders owned residential properties (single and two-four family homes) or condominiums, and the majority of these properties were found in zones that FEMA designated as high risk. For additional statistical and trend data, see appendixes II-VI.

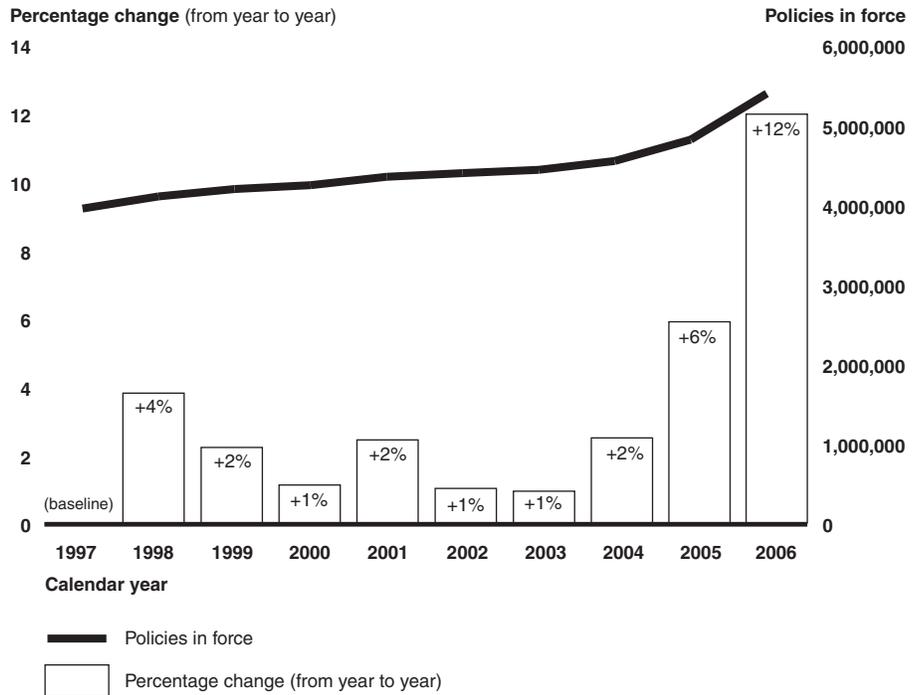
Policies in Force and Average Insurance Amounts Increased, and Average Premiums Decreased

The number of federal flood insurance policies in force increased from 3.96 million in 1997 to 5.40 million at the end of 2006, an increase of 36 percent.²⁰ The number of policies increased from 1 to 6 percent each year from 1997 through 2005, but increased 12 percent the year after the Gulf Coast hurricanes (see fig. 2). While the number of policies in force has increased, a 2006 study commissioned by FEMA estimated that about half of the single-family homes in special flood hazard areas nationwide do not have flood insurance policies.²¹ Moreover, the study estimated that market penetration outside of special flood hazard areas is about 1 percent.

²⁰Overall data on policies in force, average insurance coverage, average premium, and losses are based on all NFIP occupancy types (single and two-four family, other residential, nonresidential, and condominium), all flood zones, and all policy types (building, contents, and building and contents). For more information on occupancy types, see appendix IV.

²¹RAND, *The National Flood Insurance Program's Market Penetration Rate: Estimates and Policy Implications* (Santa Monica, California: 2006).

Figure 2: Number of NFIP Policies in Force and Year to Year Percentage Changes, 1997–2006



Source: GAO analysis of NFIP data.

Note: See appendix II for more detailed information.

The average amount of insurance coverage per policy in force increased from about \$158,000 in 1997 to almost \$214,000 at the end of 2006, an increase of 78 percent (see table 3).²² While we did not attempt to determine the reason that the average amount of insurance purchased increased, we note that this increase coincides with the increase in average home values over this period.²³

²²This figure is based on the average amount of insurance purchased by all policyholders, including those that had building-only coverage, contents-only coverage, or both building and contents coverage.

²³Under the National Flood Insurance Reform Act of 1994, borrowers in flood zones with loans from federally regulated lenders are to purchase flood insurance, for the term of the loan, up to \$250,000 for building coverage and \$100,000 for contents coverage for the residential occupancy type and up to \$500,000 for nonresidential occupancy type. Pub. L. No. 103-325, title V, 108 Stat. 2255 (Sept. 23, 1994); see 42 U.S.C. §§ 4012a, 4013.

Table 3: Average Amount of Insurance Coverage per Policy in Force and Average Premium Paid, 1997–2006

Calendar year	Average insurance per policy in force	Average premium paid
1997	\$158,125	\$489
1998	163,688	503
1999	167,162	493
2000	168,788	468
2001	176,797	451
2002	178,467	444
2003	187,709	453
2004	198,136	465
2005	206,501	469
2006	\$213,944	\$475

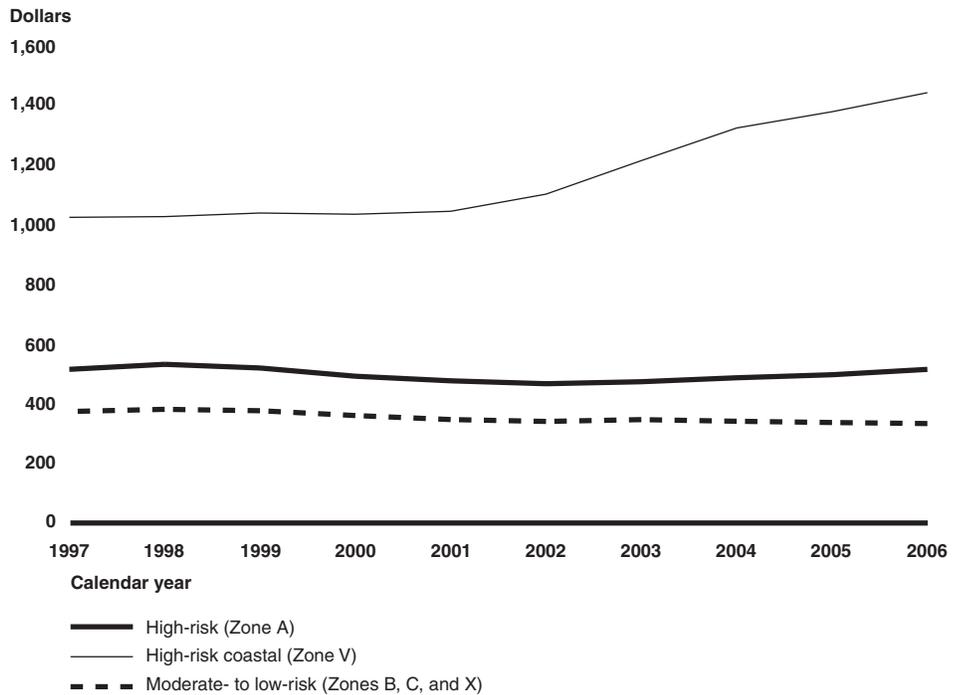
Source: GAO analysis of NFIP data.

Note: Dollars are in 2006 constant dollars.

The average annual premium per policy in force decreased from \$489 in 1997 to \$475 at the end of 2006, a decrease of almost 3 percent (see table 3). According to FEMA, the average premium has been influenced by changes in two types of flood zones. First, the average premium has been strongly influenced by changes in the moderate- to low-risk flood zones, where policies as a percentage of the total policies in force have increased greatly primarily due to increased sales of Preferred Risk Policies, FEMA’s lowest-cost flood insurance policy.²⁴ Second, average annual premium per policy has been influenced by the steep increase in the average premium of high-risk coastal zone policies, but because they make up a smaller percent of policies in force, this increase did not drive up the average policy premium. As figure 3 illustrates, the average premium increased in the high-risk coastal zone the most (41 percent), from about \$1,039 in 1997 to more than \$1,400 at the end of 2006.

²⁴A Preferred Risk Policy is a lower-cost protection option for residential and nonresidential properties in moderate- to low-risk areas.

Figure 3: NFIP Average Premium per Policy in Force, by Flood Zone, 1997–2006



Source: GAO analysis of NFIP data.

Notes: We excluded flood zone D and the Emergency Program because policies in force in these zones represented less than 1 percent of the policies in force for each year reviewed. Dollars are in 2006 constant dollars. See appendix III for supporting data.

Total Losses Fluctuated in the Period We Reviewed, and the Majority of Losses Were Attributable to Hurricanes

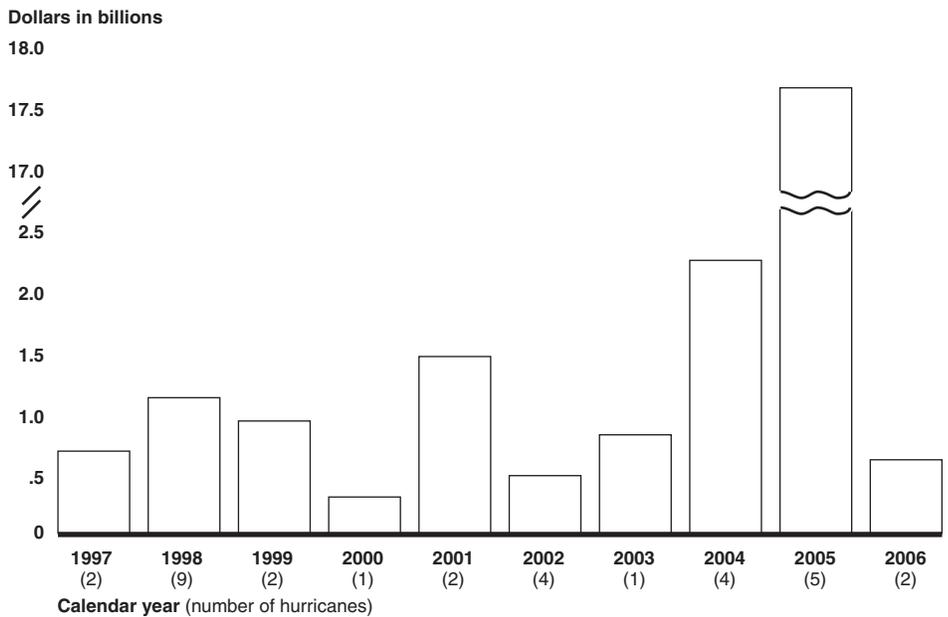
With the exception of 2005, the amount that FEMA paid out in losses over the 10- year period fluctuated between a low of \$302 million in 2000 and a high of \$2 billion in 2004 (see fig. 4).²⁵ Losses refer to the amount that FEMA paid to settle flood insurance claims and are recorded for the year in which the loss occurred.²⁶ For example, if a flood damaged an insured property in 2005, but the claim was not paid until 2006, the amount paid

²⁵NFIP defines a catastrophic loss year as one in which the level of paid losses associated with the loss year had a 0.1 percent chance of occurring.

²⁶We excluded loss-related expenses because they were not available for all of the categories of losses in our analysis, such as hurricane-related losses. Loss-related expenses, which accounted for 6-8 percent of the total losses paid out each year from 1997 through 2006, refer to the administrative costs associated with paying losses.

out would be recorded as a 2005 loss. For 2005, as a result of the Gulf Coast hurricanes, FEMA paid out more than \$17.7 billion in losses.²⁷

Figure 4: NFIP Losses, 1997–2006



Source: GAO analysis of NFIP data.

Notes: “Other residential” and “nonresidential” are excluded because, for each year of our review, over 90 percent of all policies were for the residential (single- and two-four family) and the condominium occupancy type. Dollars are in 2006 constant dollars. We excluded loss-related expenses because they were not available for all of the categories of losses in our analysis, such as hurricane-related losses. Loss-related expenses, which accounted for from 6-8 percent of the total losses paid out each year from 1997 through 2006, refer to the administrative costs associated with paying losses. See appendix II for supporting data.

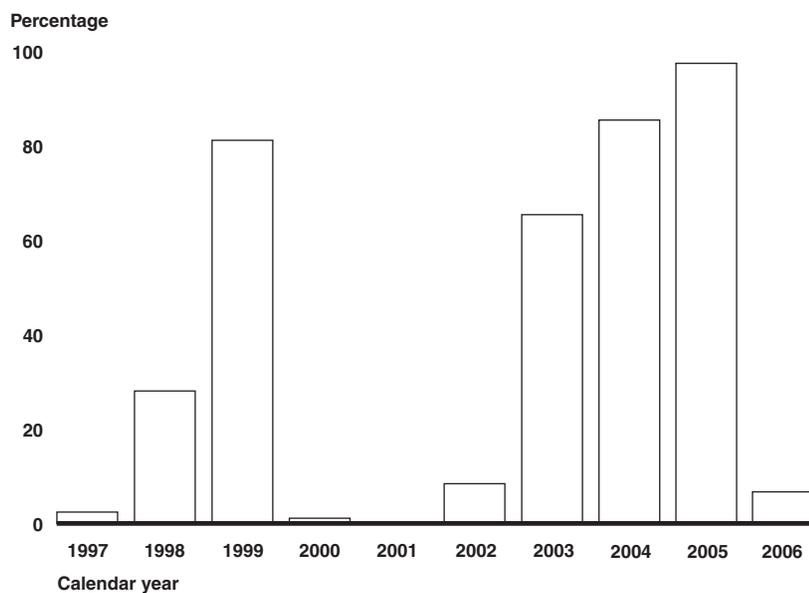
From 1997 through 2006, 79 percent of the funds paid out in losses were for hurricane-related claims, but the percentages in individual years varied widely (correlating to hurricane activity). As shown in figure 5, in five of the years reviewed, less than 10 percent of losses were attributable to hurricanes, and in four other years, more than 60 percent of losses were attributable to hurricanes.²⁸ In 2005, the Gulf Coast hurricanes accounted

²⁷To pay out flood losses, FEMA borrowed \$17.5 billion from Treasury. As of December 2007, FEMA owed more than \$17.3 billion to Treasury.

²⁸In the remaining year, 1998, 28 percent of losses were attributable to hurricanes.

for 97 percent of all losses paid. Moreover, the 2005 hurricanes accounted for 65 percent of the losses paid during the 10-year period we reviewed. As we have previously reported, it is highly unlikely that NFIP, as currently funded, could generate revenues to repay the amount borrowed from Treasury to pay for claims from the 2005 hurricane season.²⁹

Figure 5: Percentage of NFIP Losses Attributable to Hurricanes, 1997–2006



Source: GAO analysis of NFIP data.

Notes: In 2001, approximately \$463,000, or less than 1 percent of total NFIP losses, was attributable to hurricanes. See appendix V for supporting data.

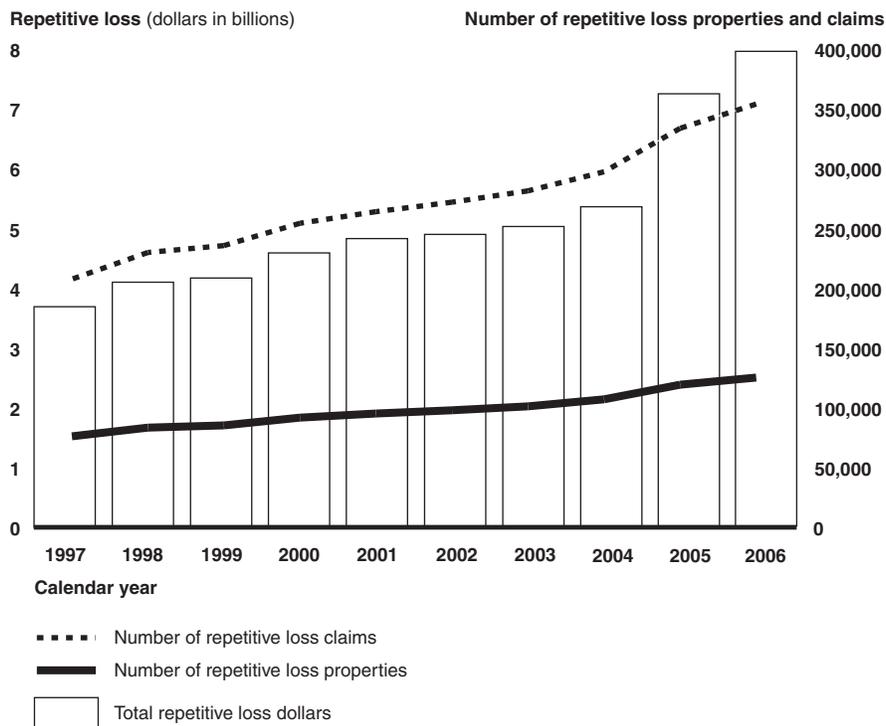
From 1997 through 2006, the net cumulative amount that FEMA paid to settle claims filed for repetitive loss properties increased from \$3.7 billion to \$7.9 billion.³⁰ Congress has noted that repetitive loss properties constitute a significant drain upon NFIP. While FEMA has tried to decrease the portfolio of repetitive loss properties, during this same period, the net cumulative number of repetitive loss properties increased approximately 64 percent, from 76,000 to 125,000 (see fig. 6). Clearly,

²⁹GAO-07-310.

³⁰Under NFIP the repetitive loss property is defined as any insurable building for which two or more claims of more than \$1,000 were paid by NFIP within a rolling 10-year period.

repetitive loss properties continue to be a problem for NFIP. While these repetitive loss properties account for about 1 percent of NFIP-insured properties, they account for between 25 and 30 percent of all flood claims. We could not determine the extent to which losses paid in a given year were attributable to repetitive loss properties because FEMA collects net cumulative, not annual, data on such losses. However, as shown in figure 6, the cumulative totals have continued to increase, in particular in the past 3 years, as the number of repetitive loss properties has increased.

Figure 6: Net Cumulative Claims Filed and Losses Paid for Repetitive Loss Properties, and Number of Repetitive Loss Properties, 1997–2006



Source: GAO analysis of NFIP data.

Notes: Dollars are in 2006 constant dollars. All claims and loss data are net cumulative. See appendix V for supporting data.

FEMA's Average Historical Loss and Catastrophic Loss Estimates Increased from 1997 through 2005

FEMA's average historical loss estimate increased from \$622 million in 1997 to \$1 billion in 2005, or about 62 percent. As previously noted, FEMA uses this estimate to calculate the premium that would be sufficient to pay for the average level of losses that occurred in past years and help set the rate level for subsidized flood insurance policies. The estimate is also part of the calculation that FEMA uses to determine the minimum subsidy price that should be charged for pre-FIRM flood insurance policies. When this calculation is used, it ensures that sufficient premiums are collected, in aggregate, to cover at least the average annual loss as determined by historical data (see app. II).³¹ This estimate increased from 1997 to 2005 because it is annually updated with the previous years' flooding activity. To date, FEMA has not determined how it will use the 2005 catastrophic losses from Hurricanes Katrina, Rita, and Wilma in its 2006 or subsequent average historical loss year calculations.

FEMA's estimates (in ranges) for probable maximum loss in the event of a catastrophic loss year gradually increased from \$6–9 billion in 1998 (the first year the estimate was made) to \$8–11 billion in 2000, \$9–12 billion in 2002, and to \$11–15 billion in 2005.³² According to FEMA, the estimate increased over this period due to inflation and the increased policyholder base. Estimates of a catastrophic loss year are designed to provide Congress with an informal guide on the loss potential of a catastrophic event—an event that has a 0.1 percent chance of occurring in any given year. According to FEMA, these estimates generally are done every other year due to the slow growth in policies in force, limited actuarial staff, and the imprecision of such estimates.

³¹According to FEMA, the average historical loss year is computed to determine the minimum (target) amount of premium that needs to be collected to cover at least the average annual loss as determined by historical data. The risk-premium, or "actuarial" rates, are then set according to a rate model for high-risk zones, and remaining actuarial rates are set based on judgment and the high-risk rates. Finally, using the average historical loss year target, the subsidized rates are judgmentally set to generate sufficient additional premium to attain the target.

³²The probable maximum loss estimate was not made in 2004 due to staffing reductions.

More Than 90 Percent of Policies Were for Residences (Single and Two-Four Family) and Condominiums, with Coverage and Premiums Higher for Residences Than for Condominiums

Analysis of policies in force, average insurance per policy, average premium per policy, and losses by two occupancy types—residential and condominium—from 1997 through 2006 indicates the following:³³

- More than 90 percent of the insured properties annually were residential (single- and two-four family) or condominium properties from 1997 through 2006. Specifically, more than 70 percent of the insured properties were residential properties, and more than 20 percent were condominiums.³⁴
- For residential properties, the average amount of insurance purchased per flood insurance policy ranged from about \$170,000 in 1997 to about \$235,000 in 2006. For condominiums, the average amount of flood insurance per policy increased from about \$98,000 in 1997 to \$121,000 in 2006. As mentioned previously, this is consistent with the increase in house values during this period.
- For residential properties, the average premium decreased from about \$522 in 1997 to about \$494 in 2006. For condominiums, the average premium decreased from about \$216 in 1997 to \$201 in 2006. Premiums may have decreased because the number of policies in the moderate- and low-risk zones, which have more affordable premiums, have increased at a greater rate than in other zones—even though the average amount of insurance was increasing.
- Residential and condominium losses accounted for 82.5 percent and 3 percent, respectively, of all flood insurance losses that occurred from 1997 through 2006. Losses paid out for residential properties ranged from a low of \$185 million in 2000 to a high of \$15.5 billion in 2005, a result of the Gulf Coast hurricanes. Losses paid out for condominiums ranged from \$6.6 million in 2002 to \$395 million in 2004, which were largely driven by the 2004 Florida hurricanes. The average loss per claim (for building-only, contents-only, and building and contents policies) was higher for condominiums than for residential properties because the data for

³³There are five occupancy types: single-family, two-four family unit, condominium, other residential, and nonresidential. Other residential includes long-stay hotels or motels and rooming houses. Nonresidential includes small businesses, churches, schools, warehouses, short-stay hotels and motels, and nursing homes. We focused on the residential (single and two-four family unit) and condominium occupancy types because over 90 percent of the policies in force each year (from 1997 through 2006) were for these occupancy types.

³⁴The remaining policies were for the non-condo other residential, nonresidential, or unknown dwelling types.

condominium includes losses for entire condominium structures, not just individual units. For example, if an insured condominium building flooded, the (building) claim amount would be for the whole building and not for the average amount per unit.

See appendix IV for additional detail about policies in force by dwelling type, amount of insurance purchased, average premium, and losses by occupancy type.

Funding for Mitigation Programs Has Increased, but FEMA Cannot Readily Track Real-time Property Acquisitions

Funding for NFIP mitigation programs that can be used to acquire properties that are at risk of repetitive flooding has increased from 1997 through 2006, but FEMA's ability to track the effectiveness of these programs is limited because it does not track property acquisitions real time. As we mentioned earlier, property acquisition is one of the tools that FEMA uses to reduce losses from flood-damaged and repetitive loss properties. FEMA acquires these properties out of funds appropriated for mitigation programs.³⁵ Three of these programs are funded by the NFIP: the FMA program, the RFC program, and the SRL pilot program. Since 1997, annual funding for FMA more than doubled, while funding for the RFC program and the SRL pilot program remained the same from 2006, the first year of funding, to 2007.³⁶ While overall funding for mitigation has increased, the total number of properties that have been acquired through the mitigation programs that have expended funds—the FMA and RFC programs—is unknown. As a result, FEMA's ability to evaluate the effectiveness of the programs, such as the extent to which repetitive loss properties have been acquired, is limited. For the FMA and RFC programs, FEMA does not have real-time property acquisition data because the agency does not require its regional staff to report the status of individual property-level acquisitions to headquarters before a project closes—a process that can take several years—and its current grants management system does not have the capability to capture and track such data. As a result, FEMA management cannot readily access information on the current status of property acquisitions, limiting their ability to evaluate the effectiveness of these programs on a real-time basis.

³⁵The Hazard Mitigation Grant Program (HMGP) provides funds for mitigation-related activities during the immediate recovery from a disaster. While we did not include this program in our analysis because it is not funded by the NFIP, as of March 2008, HMGP funds have been used to acquire approximately 30,647 flood-damaged properties.

³⁶Though funds have been made available, the application period for the SRL program did not open until January 2008 when program guidance was published.

Funds for One Mitigation Program Increased, While Funds for Two Other Mitigation Programs Only Have Been Available Since 2006

The purpose of the FMA program is to fund activities that reduce or eliminate the long-term risk of flood damage to buildings and other structures insured by NFIP. FEMA data shows that, for the FMA program, funding increased from \$12.5 million in fiscal year 1997 to \$31 million in fiscal year 2007 (see table 4). During this period, nearly \$229 million was appropriated to reduce or eliminate the long-term risk of flood damage to buildings, manufactured homes, and other structures insured under NFIP.

Table 4: Funding for the FMA Program, 1997–2007

Fiscal year	Amount appropriated	Obligational authority brought forward ^a
1997	\$12,500,000	\$7,500,000
1998	17,500,000	6,917,400
1999	20,000,000	8,677,975
2000	20,000,000	10,636,707
2001	20,000,000	8,996,504
2002	20,000,000	9,729,370
2003	19,870,000	2,573,363 ^b
2004	20,000,000	9,394,960
2005	20,000,000	18,000,072
2006	28,000,000	13,689,240
2007	\$31,000,000	\$10,465,962

Source: FEMA's Integrated Financial Management Information System (IFMIS).

^aPrior year funds that have not expired and have not been obligated.

^bAccording to FEMA, part of the obligational authority brought forward from fiscal year 2002 to fiscal year 2003 was transferred to DHS, which was established in fiscal year 2003.

For each of fiscal years 2006 and 2007, Congress appropriated \$50 million for the RFC and SRL programs. In fiscal year 2006, Congress apportioned \$10 million specifically for the RFC program and \$40 million for the SRL pilot program.³⁷ For fiscal year 2007, Congress appropriated a sum of \$50 million for the two programs, which FEMA apportioned the same way.³⁸ RFC funds are intended to assist states and communities in reducing flood damages to insured properties that have had one or more claims of more

³⁷Pub. L. No. 109-90.

³⁸Pub. L. No. 109-295. The RFC program was authorized in the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004 but was unfunded until fiscal year 2006.

than \$1,000 to NFIP. While funding for the SRL pilot program has been made available since 2006, the application period did not open until January 2008 when program guidance was published. The purpose of the SRL program is to provide grant funds for mitigation projects that reduce or eliminate the long term risk of flood damage to severe repetitive loss residential structures insured under NFIP.³⁹

Lack of Current Property-Level Information Limits FEMA's Ability to Accurately Account for Property Acquisitions

According to FEMA data, the FMA program acquired 35 percent of the properties approved for acquisition from fiscal years 1997 through 2007, and the RFC program acquired 19 percent of the properties approved for acquisition from 2006 through 2007. However, FEMA headquarters cannot readily account for the actual number of properties acquired through each of these programs because it does not require real-time reporting of individual acquisitions, and its grant management system does not record purchase information. According to FEMA data, as of October 2007, FEMA approved the acquisition of 980 properties through the FMA program from 1997 through the end of fiscal year 2007. However, FEMA does not routinely track how many of these properties have been acquired until a project closes, which can take several years. According to FEMA's records, 342 of the 980 properties (35 percent) approved through the FMA program have been acquired through acquisition-only projects, or mixed mitigation projects, which involve acquisition and at least one other type of mitigation, such as relocation, elevation, or floodproofing.⁴⁰

Of the 980 properties FEMA approved for acquisition, 952 were approved as acquisition-only projects. As of October 2007, 331 of the 952 properties approved for acquisition were recorded as acquired. However, this number is likely understated because FEMA does not account for property acquisitions until the projects are closed, and no projects have been recorded as closed since 2003 (see table 5). Based on FEMA data provided

³⁹The SRL pilot program was authorized by the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004, but was unfunded until fiscal year 2006. In the SRL pilot program, a severe repetitive loss property is defined as an NFIP-insured residential property that has incurred flood-related damage for which four or more separate claims payments have been paid, with the amount of each claim payment exceeding \$5,000; or for which at least two separate claims payments have been made, with the cumulative amount of such claims exceeding the value of the property.

⁴⁰Floodproofing is any combination of structural and nonstructural additions, changes, or adjustments to structures that reduces or eliminates flood damage to real estate or improved real property, water and sanitary facilities structures, and their contents.

on properties acquired through the FMA program, the average acquisition amount for acquisition-only projects was more than \$55,000.⁴¹

Table 5: Properties Approved for Acquisition and Acquired through the FMA Program, 1997–2007 (Acquisition-Only Projects)

Fiscal year approved	Approved		Closed as of October 2007	
	Number of projects	Total properties in projects	Number of projects	Total properties in projects
1997	28	75	23	39
1998	27	71	27	71
1999	43	116	36	72
2000	52	130	41	71
2001	72	139	44	63
2002	51	83	12	13
2003	18	79	2	2
2004	14	32	0	0
2005	21	49	0	0
2006	33	112	0	0
2007	18	66	0	0
Total	377	952	185	331

Source: FEMA.

According to FEMA, the remaining 28 of 980 properties approved through the FMA program were approved as mixed mitigation projects. Of the 28 properties approved since 1997, 11 were recorded as acquired (see table 6). However, FEMA headquarters cannot reliably account for the actual number of properties acquired because it does not collect data on individual acquisitions until a project closes, and no mixed mitigation projects have been reported as closed since 1999.

⁴¹The “average acquisition amount” was determined by dividing the amount of federal funds for a project by the number of properties acquired for closed projects. Average acquisition amount for “mixed” mitigation projects are not available by property because mixed mitigation project funding data is not separated by mitigation type.

Table 6: FMA Program Properties Approved for Acquisition and Acquired, 1997–2007 (Mixed Mitigation Projects)

Fiscal year approved	Approved ^a				Closed as of October 2007			
	Number of projects	Properties in project	Properties to be acquired	Properties to be otherwise mitigated ^b	Number of projects	Properties in project	Properties acquired	Properties otherwise mitigated ^b
1997	1	9	6	3	1	9	6	3
1998	2	8	3	5	2	8	3	5
1999	1	5	2	3	1	5	2	3
2000	0	0	0	0	0	0	0	0
2001	1	17	9	8	0	0	0	0
2002	2	12	3	9	0	0	0	0
2003	0	0	0	0	0	0	0	0
2004	0	0	0	0	0	0	0	0
2005	1	8	3	5	0	0	0	0
2006	1	5	1	4	0	0	0	0
2007	1	7	1	6	0	0	0	0
Total	10	71	28	43	4	22	11	11

Source: FEMA.

^aApproved for mitigation.

^bProperties that were to be mitigated through means other than acquisition.

FEMA has approved the acquisition of 79 properties through the RFC program since 2006.⁴² As of October 2007, FEMA regional offices confirmed that mitigation activities for 15 properties (19 percent) were completed, although none of these projects have been closed officially.⁴³

According to FEMA officials, the data on property acquisitions are limited because they include only data for completed, or closed, projects. The completion of a mitigation project, which can include mitigation activities for multiple properties, may take several years. The officials stated that a variety of factors can slow or hinder property acquisitions including historic preservation concerns or environmental issues. However, FEMA

⁴²In 2007, a total of 41 properties were approved for acquisition through the RFC program. One property was withdrawn and, as of March 2008, two projects remained under environmental and historic preservation review.

⁴³Acquisition is the only project type currently approved under the RFC program.

officials stated that the agency does not require FEMA regional offices to record property acquisitions until an entire project closes. Internal control standards for the federal government direct that transactions be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.⁴⁴ While FEMA guidance for mitigation programs requires grantees to submit quarterly performance reports on significant activities, whether work will be completed within the performance period, and cost information, this guidance does not explicitly require the reporting of property acquisitions. The lack of an explicit requirement for FEMA regional offices to record property acquisitions data in a consistent and timely manner hinders FEMA's ability to account for the extent to which flood-damaged and repetitive loss properties have been acquired through its mitigation programs (thereby decreasing the inventory of these properties).

In addition to lacking a requirement to record acquisition data promptly, the information system that FEMA currently uses for the NFIP mitigation programs does not record property acquisition data at all. Prior to 2004, FEMA regional staff recorded data on properties acquired through closed projects into FEMA's National Emergency Management Information System (NEMIS). In 2004, FEMA transitioned from NEMIS to the Electronic Grants Management System (eGrants) in an effort to meet the intent of the Electronic Government (eGovernment) initiative.⁴⁵ While eGrants was envisioned to help manage all phases of grants, the system currently assists in the front end of the grant life cycle by providing grant applicants the ability to electronically search and apply for grants. The eGrants system does not have the capability to capture any acquisition data. That is, eGrants records neither ongoing nor completed property acquisition data for FEMA's mitigation programs. According to FEMA officials, FEMA is in the process of consolidating all nondisaster grants into one information system that will

⁴⁴ [GAO/AIMD-00-21.3.1](#)

⁴⁵ Federal Financial Assistance Management Improvement Act of 1999, Pub. L. No. 106-107, section 5(1), 113 Stat. 1487-1488, 1999. Following the authorization of this act, in 2001 the President's Management Agenda introduced five government-wide initiatives, which included expanded electronic government and integration of budget and performance information. To achieve the overall goal of improving government performance, the e-government initiative included strategies such as creating "easy-to find single points of access to government services"—for example, a common grant application and reporting system.

support the entire grants life cycle from solicitation through closeout.⁴⁶ The enhanced information system will track property acquisitions in real-time and will have project closeout capabilities; however, this information system is not scheduled to be completed until 2010. Until the nondisaster grants management system is developed, FEMA will continue to manage grants using eGrants, despite its limited capabilities.

While FEMA's headquarters officials explained that, since 2004 their regional staff have used paper files and electronic spreadsheets to maintain information on property acquisitions for closed projects, FEMA did not provide information on project closures that have occurred since 2004 for the FMA program because they could not easily collect the information from their regional offices. Specifically, when we requested property acquisition data for the 10-year period of our review, FEMA was able to provide data on closed projects for 1997 through 2003 (6 of 10 years) for the FMA program, and for 2006, the first year of the RFC program. FEMA had to collect data from at least two information systems for the FMA program and from paper files for the RFC program. GAO has previously reported on the continued lack of standardization and other inefficiencies in grant administration across agencies, including not aligning federal grant processes with typical grantees' business processes, inadequate advance information on potential grant availability, and unexplained delays in grant awards.⁴⁷ However, a lack of standardization does not preclude FEMA from having a mechanism that allows it to effectively track real-time property acquisition data.

As a result of the limitations of eGrants in capturing property acquisition data, FEMA cannot readily determine the extent to which NFIP-funded mitigation programs have been reducing or eliminating the risk of losses from repetitive loss properties, a key measure needed to determine the effectiveness of the program. Coupled with lack of a requirement for staff

⁴⁶All federal agencies that award grants have been required to streamline their grants management systems. The Office of Management and Budget (OMB) encouraged these agencies to join one of three consortiums (of specific agencies with existing grants management systems) and coordinate use of these systems. While agencies can request a waiver from OMB to opt out of joining the consortiums and use their own grants management systems, as of March 2008, FEMA's waiver application had been denied.

⁴⁷GAO, *Grants Management: Additional Actions Needed to Streamline and Simplify Processes*, [GAO-05-335](#) (Washington, D.C.: Apr. 18, 2005).

GAO, *Grants Management: Grantees' Concerns with Efforts to Streamline and Simplify Processes*, [GAO-06-566](#) (Washington, D.C.: July 28, 2006).

to consistently and promptly record acquisitions data, the lack of comprehensive data impedes FEMA's ability to account for the properties acquired through its mitigation programs and hinders its ability to provide Congress with timely information with which to assess the impact of these programs on mitigating losses to NFIP and ensure that limited resources are appropriately allocated.

FEMA's Oversight of Contractor Activities Lacked Consistency, Documentation, and Coordination

FEMA makes extensive use of contractors who perform critical functions to implement the NFIP. Contractors perform functions such as the collection and reporting of all financial and statistical data and the selling and servicing of some flood insurance policies. While FEMA relies upon contractors to implement the NFIP, our review of FEMA's monitoring documentation for the BSA contract showed that FEMA did not consistently follow its own monitoring procedures for preparing, maintaining, and reviewing monitoring reports, and was unable to provide copies of the majority of the monitoring reports we requested. Moreover, key FEMA offices that have responsibilities for addressing contractor deficiencies did not coordinate information and actions related to deficiencies identified for the BSA and DSA contractors. As a result, FEMA could not ensure adherence to contract requirements and lacked information critical for effective oversight on key NFIP contractors.

FEMA Staff Responsible for Regularly Monitoring BSA Performance Areas Did Not Clearly or Consistently Follow Monitoring Procedures

Our review found that FEMA staff did not consistently follow monitoring procedures related to the submission, documentation, and review of monitoring reports for the BSA contract. In assessing the extent to which FEMA staff followed their contract-specific procedures, we focused on monitoring of the BSA contractor, which is responsible for all financial and statistical reporting related to NFIP.

FEMA lacked comprehensive monitoring policies and procedures for all NFIP-related contracts during the period of our review; instead, FEMA's procedures were summarized in individual contracts, and, for the BSA contract we reviewed, in a "surveillance plan" that specified monitoring roles and responsibilities. According to the BSA contract, in effect from October 2005 through December 2007, FEMA monitors were to review the BSA's performance in 10 specific performance areas. FEMA assigned five monitors including a COTR to the BSA contract, and each was required to prepare monitoring reports containing the results of their specific

FEMA Lacks Records for Most Monitoring Reports We Requested, and Available Reports Were Not Clearly Linked to Performance Requirements

surveillance activities.⁴⁸ The reports were to indicate clearly the performance area monitored and whether the performance standard was met, according to an official from the Program Management Office. The surveillance plan also specified that reports were to be submitted in a timely fashion to the COTR and maintained by the COTR for the life of the contract in a quality assurance file. Both the COTR and the Program Management Office were supposed to review the monitoring reports.

In March 2008, FEMA provided GAO with a set of contract monitoring procedures that are applicable to all Risk-Insurance NFIP contracts that have performance requirements. However, these procedures were not scheduled to be implemented until May 1, 2008.

FEMA did not clearly or consistently follow the requirements to submit a monitoring report as specified in both the BSA contract and the surveillance plan. Seven of these performance areas were to be monitored monthly, one was to be monitored quarterly, and two were to be monitored annually. For the time period we reviewed (from October 2005 through May 2007), FEMA monitors should have produced 380 monthly monitoring reports. In response to our request for all of these monitoring reports, FEMA made 145 available for our review. While monitors stated that some of the missing reports were submitted to either the COTR or the Program Management Office, the monitor, COTR, and the Program Management Office were not able to produce evidence of these reports or their findings. FEMA officials stated that many reports were not prepared because most monitors were detailed to assist with recovery efforts following Hurricane Katrina. However, our analysis shows the majority of the monthly monitoring reports that were required to be prepared throughout 2006 apparently were not.

Further, more than 70 percent of the 145 monthly reports we reviewed did not specify the performance areas to which they related (see table 7).⁴⁹ For example, some monitoring reports described the contractor's activities, without specifying what performance area was being reviewed or an assessment of the performance. Because some monitors were responsible

⁴⁸The COTR is responsible for technical administration of the projects and assuring proper surveillance of the contractor's performance.

⁴⁹According to the BSA contract, performance areas 1, 3, 5, 6, 7, 8, and 10 should be monitored monthly; performance area 9 (effectiveness of workshops and training materials) should be monitored quarterly; and performance areas 2 and 4 (cost control, and financial management, respectively) should be monitored annually.

for reporting on multiple performance areas, and did not specify the areas on which they were reporting, we could not consistently determine the performance area(s) that the reports were intended to address.

Table 7: Extent to Which FEMA Produced Required Monthly Monitoring Reports for the BSA Contractor (October 2005–May 2007)

Performance area	Monitoring reports required by contract	Monitoring reports provided to GAO	Monitoring reports that GAO could link to a performance area
1 – Statement of Work	100	42	20
3 – Implementation of Program Management Plans	100	42	4
5 – Disaster Response	20	12	12
6 – Program Development, Operations, and Systems	100	36	1
7 – Timeliness of Service	20	4	1
8 – Quality of Customer Service	20	4	0
10 – Timeliness of Prior Term Refunds	20	5	0
Total	380	145	38

Source: GAO analysis of FEMA’s monitoring reports for the BSA contract.

Notes: This table focuses on monthly monitoring reports for the BSA contract. Thus, it excludes analysis of performance area 9, which was to be monitored quarterly, and performance areas 2 and 4, which were to be monitored annually. We arrived at the number of “reports required by contract” by multiplying the number of monitors who were required to monitor the performance areas with the number of months for which GAO requested information.

Many of the monthly reports were not clearly linked to contract-specified requirements because they used performance area names and numbers that were inconsistent with names and numbers in the BSA contract. When asked about the lack of a direct link to specific performance areas, as listed in the BSA contract, most of the BSA monitors we interviewed stated that they did not know the “number” of the performance area they were to monitor but knew the general areas. When we brought this issue to the attention of FEMA’s Program Management Office in August 2007, it determined that the numbering of performance areas was inconsistent in the BSA contract and the surveillance plan. As a result, the office revised

the surveillance plan to make numbering of performance areas consistent with the contract. The surveillance plan also was modified to include the specific names of the monitors responsible for each performance area.

FEMA's inability to provide documentation that clearly indicated how contractor performance linked to contract standards indicates that records had not been properly managed and maintained in accordance with internal control standards for the federal government.⁵⁰ FEMA management acknowledged the problem when we presented a preliminary analysis of performance reports and performance standards. While we did not become aware of any significant performance problems with the BSA contractor during the course of our review, our results are inconclusive because most of the monitoring reports were not documented. Given FEMA's extensive use of contractor's to implement the NFIP, it is vital that FEMA maintain internal controls, which are critical to ensuring that contractors are performing as required. The lack of documentation and linkages between performance reports and performance areas and the extent to which FEMA effectively monitored the BSA contract revealed weaknesses that could adversely impact the functioning of the NFIP.

For Most of Available Reports,
We Found Little Evidence of
Required Timely Submission or
Systematic Review and
Maintenance of Documentation

The majority of the 145 monthly monitoring reports that we reviewed were not date stamped or otherwise annotated to reflect the date they were submitted to either the COTR or the Program Management Office. Moreover, an official from the Program Management Office was unable to provide evidence that her office tracked the dates on which monitoring reports were received from each monitor.

In response to our and other queries about the timeliness with which monitoring reports were submitted to the Program Management Office, in July 2007, the office directed monitors to submit their monthly monitoring reports to the COTR on the fifth of each month. The COTR was then directed to review these reports and provide the Program Management Office with a summary of the findings by the tenth of each month. While we did not evaluate monitoring reports submitted after May 2007, these contract-specific policies are a step in the right direction for ensuring that monitoring reports are collected and reviewed in a timely manner.

In addition, the COTR and the Program Management Office appeared not to have consistently reviewed the monitoring reports. For example,

⁵⁰GAO/AIMD-00-21.3.1, 15.

according to the COTR, the Program Management Office directed monitors to send their monitoring reports directly to the Program Management Office. The COTR did not begin to receive them until July 2007, 21 months into the 27-month BSA contract. Therefore, it was not until July 2007 that the COTR began maintaining a quality assurance file for the BSA contract. While FEMA provided documentation of a portion of the required monitoring reports, FEMA could not provide evidence that they were reviewed systematically by the COTR or the Program Management Office. Internal control standards for the federal government provide that ongoing monitoring that occurs in the normal course of operations is performed continually and is ingrained in the agency's operations.⁵¹ Moreover, these standards call for clear areas of authority and appropriate lines of reporting. While the surveillance plan established that the COTR had responsibility for collecting monitoring reports from each monitor and maintaining them in a quality assurance file, he was not a part of the process for reviewing monitoring reports until July 2007.

As a result of these conditions, the extent to which monitoring reports were being reviewed appropriately and in a timely fashion was unclear. Such conditions could allow performance problems to go unnoticed and potentially worsen, thereby affecting the quality of NFIP. In addition, the failure of the COTR to begin maintaining a quality assurance file until July 2007 meant that a complete file of monitoring reports could not be provided to the Contracting Officer for consideration during contract renewal negotiations. Although the BSA contract was awarded to a different contractor in January 2008, the Contracting Officer would have been unable to determine whether the original contractor had a record of performance problems, potentially useful information to consider when deciding whether to renew a contract.

In March 2008, FEMA provided GAO with monitoring procedures that established a clear process through which monitoring reports should be submitted to the COTR and the Program Management Office, and the review steps that should be taken by the COTR. However, these procedures do not specify the role of the Program Management Office in reviewing monitoring reports, or its broader responsibilities for the implementation of the contract monitoring procedures. Again, such conditions could allow performance problems to go unnoticed and potentially worsen, thereby affecting the quality of NFIP.

⁵¹[GAO/AIMD-00-21.3.1](#), 20.

FEMA's Handling of BSA and DSA Contractor Deficiencies Was Not Coordinated and Was Poorly Documented

While Monitoring Reports Noted Some BSA Deficiencies, FEMA Staff Did Not Issue Discrepancy Reports or Inform the Contracting Officer of Deficiencies

Analysis of FEMA's efforts to address performance deficiencies for two major NFIP contractors—the BSA and DSA—indicates a lack of coordination between key FEMA officials and a failure to properly document decisions and actions associated with performance problems. Of the 38 monitoring reports that FEMA provided in relation to the BSA contract, and that could be linked to specific performance areas, 2 indicated that performance standards were not met. While no discrepancy reports (which FEMA requires the Contracting Officer to issue when contractors fail to meet specified performance standards) were written as a result of the BSA deficiencies, 18 discrepancy reports were issued for the DSA contract.

Two of the 38 BSA monthly monitoring reports that could be clearly linked to performance standards indicated that a performance standard was not met (see table 8). In both cases, one of which involved the failure of the BSA's computer security system to meet performance standards, and the other related to the contractor's failure to submit a deliverable to FEMA on time, the COTR determined that a discrepancy report was not necessary and did not inform the Contracting Officer of the contractor's failure to meet its performance standards. According to the COTR, a discrepancy report was not necessary in the first case because the computer security standards were relatively new at the time and have been updated since. The COTR stated that, in the second case, he used his discretion to determine that a discrepancy report was not necessary and resolved the issue through discussions with the contractor.

Table 8: Analysis of FEMA Monthly Monitoring Reports Required for the BSA Contract (October 2005–May 2007)

Performance area	Performance requirement was met	Performance requirement was not met
1 – Statement of Work	19	1
3 – Implementation of Program Management Plans	4	0
5 – Disaster Response	12	0
6 – Program Development, Operations and Systems	0	1
7 – Timeliness of Service	1	0
8 – Quality of Customer Service	0	0
10 – Timeliness of Prior Term Refunds	0	0
Total	36	2

Source: GAO analysis of FEMA's monitoring reports for the BSA contract.

Note: This table focuses on monthly monitoring reports for the BSA contract. Thus, it excludes analysis of performance area 9, which was to be monitored quarterly, and performance areas 2 and 4, which were to be monitored annually.

FEMA's Handling of
Discrepancy Reports for the
DSA Contract Was
Uncoordinated and Hampered
by Lack of Guidance

While only a few deficiencies were identified, the monthly monitoring reports that we reviewed most often found that the performance requirement was met. In two instances, they revealed a lack of coordination between the BSA COTR and the Contracting Officer. The BSA contract stated that if a performance standard was not met, the Contracting Officer was to issue a discrepancy report to which the contractor had to respond. Upon evaluation of the contractor's response, the Contracting Officer would determine whether a deduction in payment to the contractor was appropriate. The failure of the COTR to share his assessment may be due to the lack of written policies and procedures specifying how such assessments should be shared with the Contracting Officer. While FEMA developed guidance in July 2007 specifying when and how the COTR should communicate discrepancies with the Contracting Officer, this guidance is specifically for the BSA contract. Federal standards for internal control call for appropriate documentation of significant events. Because the COTR did not document and inform the Contracting Officer of his assessment, FEMA management was unaware of the contractor's failure to meet a performance requirement; the contractor was not penalized financially.⁵²

Our analysis of the actions taken in connection with the 18 discrepancy reports written from September 2004 through May 2007 on the DSA contract also found that FEMA offices did not coordinate in preparing, documenting, and reviewing these determinations. Specifically, the COTR for the DSA contract, FEMA's Program Management Office, and FEMA's Contracting Officer did not coordinate to address the failure of the DSA to meet contract-specified performance standards.⁵³ Generally, the DSA received discrepancy reports for not processing NFIP policy documents, such as renewals and applications, within required time frames. According to the COTR, these types of deficiencies had minimal negative effects because, in some cases, the universe of documents the contractor processed was so small that the failure to process 10-20 documents in a timely manner resulted in a discrepancy report. But, interviews with the FEMA offices responsible for processing discrepancy reports revealed that FEMA's Contracting Officer was unaware that the COTR for that contract had sent 18 discrepancy reports to the DSA. According to the Contracting

⁵²Based on the contract-specified formulas, the BSA could have received more than \$25,000 in financial penalties for failing to meet these two performance standards.

⁵³The DSA is responsible for selling and servicing flood insurance directly to property owners on behalf of FEMA.

Officer, her office became aware that discrepancy reports had been sent to the DSA in June 2007 during the course of our review.

In addition to a lack of communication about the discrepancy reports, some reports lacked required signatures, or evidence that different offices had reviewed the contractor's responses and determined what, if any, actions would be taken. The discrepancy report is to contain a signature from FEMA's Contracting Officer; a response from the contractor; FEMA's subsequent evaluation of the contractor's response; and the resulting action, such as a payment reduction. While discrepancy reports were to be signed by the Contracting Officer, none of the reports we reviewed had the signatures. The lack of signatures by the Contracting Officer suggests that this officer was unaware of the performance problems associated with the DSA and potentially could have renewed the contract without complete information about the contractor's performance.

Our review also showed a failure to consider the contractor's written response to the report. According to the DSA contract, FEMA's determination of payment changes is to be based on consideration of the contractor's response to the discrepancy report. Neither the contract nor the discrepancy reports specify how the Contracting Officer was to be made aware of contractor performance problems; that is, whether and how either the COTR or the Program Management Office was responsible for informing the Contracting Officer of contractor performance problems. Six reports contained a written response from the contractor, yet none of the reports contained information on FEMA's assessment of the contractor's response or its subsequent actions (for example, payment reductions). According to the COTR for the DSA contract, if a contractor did not meet a performance standard, the COTR would arrange for deductions, regardless of the contractor's stated or written response.

Moreover, we found that the 18 discrepancy reports called for a total of more than \$55,000 in financial disincentives for the DSA. However, FEMA had not debited nearly \$19,000 in financial disincentives from the contractor's invoices as of January 2008. According to the COTR, the disincentives that had not been debited had been assessed in 6 discrepancy reports prepared from 2005 through 2006. The COTR never gave 2 of these discrepancy reports to FEMA's accounting department for processing, and the accounting department did not process the remaining 4. According to the COTR, all 6 discrepancy reports were not properly processed due to human error. The COTR said that FEMA had no process by which he could be informed that a financial penalty had been processed as a result of the discrepancy reports. In addition to the 6 unprocessed

reports that assessed disincentives, FEMA did not process 2 other reports because they were drafted within the first 6 months of the contract. According to the COTR, the contractor had a 6-month “grace period” for meeting its performance standards; therefore, no financial disincentives were either calculated or applied for these discrepancy reports. However, such a grace period is not specified in the DSA contract. The lack of clear, written policies and procedures regarding the specific roles of various FEMA offices in processing discrepancy reports and ensuring the appropriate application of financial disincentives resulted in the failure of FEMA to process financial disincentives.

In the monitoring procedures that FEMA provided to GAO in March 2008, the role of the COTR in identifying deficiencies and communicating them with a representative of the Contracting Officer is specified. However, the procedure does not explain how the Program Management Office will be involved, or how the agency will ensure that financial disincentives are appropriately applied.

Conclusions

Various statistical trends reveal that while NFIP is growing and becoming more widely purchased enabling it to more widely diversify its risks, FEMA continues to face a number of challenges in managing this program including a growing number of claims on repetitive loss properties, insufficient information to readily track the property acquisitions of its mitigation programs, inconsistent application of contract monitoring procedures, and inconsistent documentation and coordination of contractor oversight. The ability of FEMA officials to effectively monitor the effectiveness of its flood mitigation programs, as well as its NFIP contractors, is essential to the effective implementation of NFIP.

Floods impose an enormous financial burden on the nation’s flood insurer, the federal government. Consequently, FEMA management, Congress, and the public need accurate and timely information to assess the effectiveness of programs designed to mitigate flood-related damages, particularly for repetitive loss properties that account for a significant portion of claims paid under NFIP. We found that FEMA does not have specific written policies for the timely recording of property acquisition data in its mitigation programs. By developing such policies and guidance, FEMA could improve its ability to produce, analyze, and report on property acquisitions and thus improve its ability to assess the operations and effectiveness of these programs. In addition to not requiring the timely recording of acquisition data, since 2004 when FEMA began using eGrants as its grants management system, FEMA has been unable to use this grants

management system to record such information. The eGrants system can process “front-end” processes (such as accepting applications) but not subsequent grants management processes (such as project closures). Not having an end-to-end grant management capability makes it particularly challenging for grant management staff to oversee the grant process across their organization. Grant management systems were intended to enhance the ability of federal managers and grant-making agencies to readily collect, analyze, and report information. With its current system limitations, FEMA cannot accurately assess or report the extent to which its mitigation programs are reducing the number of flood-damaged and repetitive loss properties.

Deficiencies in FEMA processes relating to NFIP data and performance extend to oversight of contractors responsible for supporting NFIP. For instance, we were unable to link a substantial number of monitoring reports to contract-specified performance areas and were unable to determine, based upon available documentation, the extent to which monthly monitoring reports were submitted on time, systematically reviewed by appropriate officials and offices, and the associated documentation properly filed and maintained. The lack of a framework to ensure that essential oversight and control functions were completed could allow performance problems to go unnoticed or worsen. Furthermore, the lack of documentation to determine the extent to which specific performance standards were met makes it appear that FEMA was not effectively monitoring its contractors, diminishes its ability to determine if and when problems occurred, and may have led the agency to not apply specific financial incentives or disincentives per contract terms (such as when the BSA COTR independently determined that discrepancy reports were not necessary). Given the reliance of NFIP upon contractors, poor contractor performance could diminish the overall quality of program operations and management.

In addition to enhancing its management and oversight of its contractors, FEMA also has an opportunity to improve internal operations and communication as they relate to contract oversight functions. Our review indicated a lack of overall contract-monitoring guidance and consequently conflicting understandings of procedures, responsibilities, and authority for addressing contractor deficiencies among FEMA officials and offices. While FEMA developed guidance during the course of our review for all Risk-Insurance NFIP-related contracts that have performance requirements, in part as a result of issues that we identified during our work, revised monitoring procedures were not scheduled to be implemented until May 2008, which was after the period of our analysis.

Recommendations for Executive Action

To more accurately track the extent to which flood-prone properties are acquired, we recommend that the Secretary of Homeland Security take the following two actions:

- Establish written guidance for FEMA regional offices to better ensure consistent and timely recording of property acquisition data.
- Establish a means to track real-time property acquisitions for NFIP-funded mitigation programs.

To ensure more effective oversight of contractors performing key NFIP data collection, reporting, and insurance functions, we also recommend that the Secretary of Homeland Security take the following three actions:

- Implement a process to ensure that monitoring reports are submitted on time and systematically reviewed by the COTR and the Program Management Office and copies of monitoring reports are retained in a quality assurance file, as directed by the contract.
- Ensure that FEMA staff clearly monitor each performance standard that the contractor is required to meet in the time frames required by contract and that FEMA staff clearly link monitoring reports and performance areas.
- Ensure implementation of written guidance for all NFIP-related contracts on how to consistently handle the failure of a contractor to meet standards in performance areas and establish written policies and procedures about the coordination between FEMA officials and offices (including the COTR, the Program Management Office, and the Contracting Officer) when addressing contractor deficiencies, including determining whether and under what circumstances to issue discrepancy reports, and ensuring that financial disincentives are appropriately and consistently applied.

Agency Comments and Our Evaluation

We requested comments on the draft of this report from the Secretary of Homeland Security. The Assistant Administrator, Mitigation Directorate, FEMA, provided written comments that are reprinted in appendix VIII. FEMA's written response also included technical comments, which we incorporated as appropriate. In its written comments, FEMA generally concurred with our recommendations and noted that the agency has taken actions to address the recommendations related to oversight of contractors performing key data collection, reporting, and insurance functions. In particular, the agency stated that it has

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- implemented a procedure whereby monitors will provide a monthly status report to the COTR using a specific format to ensure monitoring is performed in a consistent manner across all contracts; and
 - developed written procedures on monitoring reporting requirements and conducted a training session with all monitors.

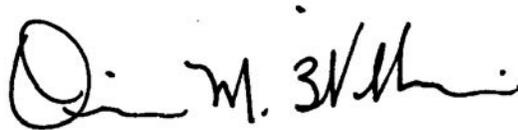
In commenting on our presentation of information related to mitigation programs that can be used to acquire properties, FEMA headquarters agreed that the agency does not track property acquisition data in real time; that is, between review of project applications and closeout. FEMA stated that it would be inefficient for headquarters to collect real-time data from regional, state, and local partners, and asserted that the added value of such data was unclear.

We agree that FEMA lacks an efficient process for collecting data on the extent to which properties have been acquired before a project is closed out and, therefore, recommend that FEMA establish written guidance for FEMA regional offices to better ensure consistent and timely recording of property acquisition data. We disagree that the value of collecting real-time property acquisition data at the headquarters level is unclear. Real-time data would improve FEMA headquarters' ability to produce, analyze, and report information on ongoing operations and thus improve its ability to assess the effectiveness of its mitigation programs. For example, FEMA headquarters would be able to more accurately assess the rate at which properties are acquired and thus pinpoint within a shorter time frame the extent to which mitigation programs were reducing the number of flood-damaged and repetitive loss properties.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of this report until 30 days from the report date. At that time, we will provide copies to the Chairman, Senate Banking, Housing and Urban Affairs Committee; the Chairman and Ranking Member of the Senate Committee on Homeland Security and Governmental Affairs; the Chairman and Ranking Member of the House Committee on Financial Services; the Chairman and Ranking Member of the House Committee on Homeland Security; and other interested committees. We are also sending a copy of this report to the Secretary of Homeland Security and other interested parties. We also will make copies available to others upon request. In addition, the report will be available at no charge on our Web site at <http://www.gao.gov>. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

If you or your staff has any questions about this report, please contact me at (202) 512-8678 or williamso@gao.gov. GAO contact and staff acknowledgments are listed in appendix IX.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Orice M. Williams". The signature is fluid and cursive, with a large initial "O" and "M".

Orice M. Williams
Director, Financial Markets
and Community Investment

Appendix I: Objectives, Scope, and Methodology

Our objectives were to (1) describe trends for National Flood Insurance Program (NFIP) policies, insurance amounts, premiums, and losses from 1997 through 2006 and the extent to which NFIP losses were attributable to hurricanes and repetitive loss properties; (2) assess how the amounts available for the purchase of flood-damaged properties changed over time, and the extent to which the Federal Emergency Management Agency (FEMA) purchased flood-damaged properties; and (3) evaluate the extent to which FEMA followed its procedures for monitoring selected NFIP-related contracts.

Description of NFIP Trends

To describe overall NFIP statistics, we obtained data from FEMA on policies in force and claims made. We obtained data as of December 31 for each year of the period from calendar year 1997 through calendar year 2006 on policies in force, average insurance per policy in force, and average premium per policy in force. For the claims data, we obtained information (as of May 31, 2007) about the claim dates of losses incurred between January 1, 1997, and December 31, 2006. For all monetary data obtained, we adjusted dollar amounts to 2006 constant dollars using the Shelter Total formulas found in the Consumer Price Index.¹

To describe statistics by flood zone, we first determined in which flood zones the majority of flood insurance policies were located by analyzing the data using SAS software version 9.1. FEMA has mapped flood risks in the United States and in most flood-prone areas has assigned a flood zone designation based on the level of flood risk. Although FEMA uses 12 types of flood zones (see appendix VII), we combined these into four flood zone designations based on risk levels—moderate- to low-risk (Zones B, C, and X); high-risk (Zone A); high-risk coastal (Zone V); and undetermined risk (Zone D). FEMA officials agreed with the way these were combined. In appendix III we also present data on Zone “O” (Other), which is not an official flood zone; rather, FEMA’s contractor uses the designation for coding purposes to indicate missing values or incorrect codes. Less than 1 percent of all policies and less than .5 percent of all losses fell under Zone “O.” In addition, in appendix III we present data on Zone “E” (Emergency Program), which indicates policies in the Emergency Program, which does not assign flood-risk zone designations. Communities participating in NFIP

¹Office of the President, *Economic Report of the President: 2007 Report*. Spreadsheet tables, appendix B, spreadsheet B-61, “Consumer Price Indexes for Selected Expenditure Classes, 1959-2006,” Shelter Total.

initially enter the Emergency Program. We determined that, for the 10-year period of our review, 99 percent of policies in force were located in the high-risk, high-risk coastal, and moderate- to low-risk zones. We, therefore, reported on these in the body of the report, and provided data on the remaining zones (undetermined risk and Emergency Program) in appendix III. For all flood zones, we obtained data on policies in force, annual average amount of flood insurance purchased, annual average premium, and losses.

To describe statistics by occupancy type, we first determined which occupancy types represented the majority of policies in force. We determined that, for the period of our review, residential (single-family and two-four family) properties generally accounted for more than 70 percent of policies in force each year, and condominiums accounted for more than 20 percent of policies in force each year. We reported information on these occupancy types in the body of the report and provided data on the remaining occupancy types (other residential and nonresidential) in appendix IV.

We conducted electronic testing of FEMA's data to identify outliers and missing data elements. We also cross-checked various tables to assess the consistency of the data provided. For example, we compared data on overall losses with the losses reported by flood zone to ensure that the losses reported each year were consistent. According to our electronic testing and cross-checking, we determined that these data were sufficiently reliable for the purposes of this report.

We obtained data on FEMA's average historical loss estimate (the purpose of which is to estimate the amount of premium that would be sufficient to pay for the average level of losses that occurred in past years) for calendar years 1997 through 2006 from FEMA's Chief Actuary. We interviewed FEMA officials about the basis for the average historical loss estimate, reviewed FEMA's white paper on the estimate, and reviewed FEMA's 2006 Actuarial Rate Review for additional information about this estimate. We also obtained data on FEMA's estimates of catastrophic loss years from FEMA's Chief Actuary. FEMA prepares the catastrophic loss year estimate, usually every other year, to indicate the maximum amount that NFIP would have to expend during a catastrophic loss year. That is, the estimate is designed to provide Congress with an informal guide on the losses that could occur in the event of a storm that has a 0.1 percent chance of occurring. We did not assess FEMA's methodology for either of these estimates.

To evaluate the extent to which flood-related damages exceeded flood insurance limits, we requested and obtained data from FEMA on flood-insurance policies that were purchased for coverage at the maximum limit for building-only coverage and contents-only coverage for calendar years 1997 through 2005. For policies that contained both building and contents coverage, we obtained data on policies where the maximum insurance limit was purchased for either the building or contents coverage (or both) for calendar years 1997 through 2005. We excluded group flood insurance policies because they have coverage limits that differ from other flood insurance policies.² We obtained data on the number of claims that were paid for the resulting subset of flood-insurance policies and the number of claims for which damage data were available. We then identified the number of claims for which flood-related damages exceeded the maximum amount of insurance available and the losses associated with these claims. We presented the data for 1997–2004 and 2005 separately due to the high number of claims that occurred in 2005. For more information, see appendix VI. In conjunction with this work, we also reviewed parts of the 2006 study commissioned by FEMA.³

To evaluate the extent to which flood-related damages were greater than the amount of insurance purchased, we obtained data on flood insurance policies that were purchased for coverage below the maximum limit for contents coverage, and below the maximum limit for building coverage, for calendar years 1997 through 2005. For policies that contained both building and contents coverage, we obtained data on policies where less than the maximum insurance limit was purchased for either the building or contents coverage (or both) for calendar years 1997 through 2005. We excluded group flood insurance policies because they have coverage limits that differ from other flood insurance policies. We obtained data on the number of claims that were paid for the resulting subset of flood insurance policies and the number of claims for which damage data were available. We then identified the number of claims for which flood-related damages exceeded the amount of insurance purchased and the losses associated

²NFIP offers group flood-insurance policies to recipients of disaster assistance (generally low-income persons), which provide coverage for 3 years following a flood loss. The amount of coverage is equal to the maximum grant amount.

³American Institute for Research, *Assessing the Adequacy of the National Flood Insurance Program's 1 Percent Flood Standard* (College Park, Md.: University of Maryland, October 2006).

with these claims. We presented the data for 1997-2004 and 2005 separately due to the high number of claims that occurred in 2005.

To describe the extent to which losses were attributable to repetitive loss properties, we obtained data from FEMA on the net cumulative number of claims filed for repetitive loss properties and the amount of losses FEMA paid out for these properties as of December 31 for each calendar year from 1997 through 2006. We obtained net cumulative data because this is the only way that FEMA collects data on repetitive loss properties. We also obtained data on the net cumulative number of repetitive loss properties for calendar years 1997–2006. According to FEMA officials, the number of repetitive loss properties represents a snapshot in time of the number of insured repetitive loss properties as of the end of each calendar year. The number of claims and amount of losses paid out on repetitive loss properties represents the net cumulative total of all dollars paid out. As a result, based upon the configuration of the available data, we were unable to calculate the average loss paid out to repetitive loss properties.

To describe the extent to which losses were paid out for hurricane-damaged properties, we requested information on hurricane-related claims from FEMA for calendar years 1997 through 2006. According to FEMA officials, claims are not coded or notated as being hurricane-related. However, FEMA does maintain a list of “significant events.” To provide GAO data on hurricane-related claims, FEMA identified claims that were associated with significant events, then identified those events that were hurricanes. We did not verify FEMA’s categorizing of claims as being “hurricane-related.”

Analysis of Amounts Available for Property Acquisition and Extent of Property Acquisition

To assess how the amounts available for the purchase of flood-damaged properties have changed over time, we obtained data from FEMA on funding appropriations, obligation authority brought forward, and funding available for the three NFIP-funded mitigation programs.⁴ For the Flood Mitigation Assistance (FMA) program, we obtained data for fiscal years 1997 through 2007. For the Repetitive Flood Claims (RFC) program and the Severe Repetitive Flood (SRL) pilot program, we obtained data for

⁴Eligible applicants for FMA and RFC mitigation grant funds include state emergency management agencies or a similar office of the state, various territories, and federally recognized Indian tribal governments. Subapplicants such as state-level agencies, federally recognized Indian tribal governments and local communities are eligible to apply to the applicant for assistance.

fiscal years 2006 and 2007, as both programs were unfunded until 2006. To assess the extent to which flood-damaged properties have been acquired, we also obtained data from FEMA on the number of projects and properties approved for acquisition and the number of properties actually acquired through the FMA and RFC programs, but not the SRL program because guidance for this program was not published until January 2008. FEMA officials informed us that the most reliable information that they could provide on property acquisitions was at the project level. FEMA officials also stated that because not all properties approved for acquisition are ultimately acquired, it may take several years for a project to close. Because FEMA's grant management system does not track project closures or property acquisitions in real time, the data we report is likely an undercount of the actual number of properties that have been acquired through the FMA and RFC mitigation programs.

For the FMA program, FEMA officials obtained data on property acquisitions (for closed projects) that occurred from 1997 through 2003 from FEMA's Enterprise Data Warehouse. According to FEMA officials, the warehouse data are extracted from the National Emergency Management Information System (NEMIS), the information system FEMA used to manage the FMA program until 2003. In 2004, FEMA transitioned from NEMIS to the Electronic Grants Management System (eGrants) to manage the FMA program. eGrants does not have project closure capabilities; therefore, FEMA was unable to provide any data on property acquisitions for FMA projects that may have closed from 2004 through 2007. While we did not attempt to verify the reliability of this information, we did look for inconsistencies between the number of properties approved for acquisition and the number actually acquired and followed up with FEMA officials for an explanation of any differences.

The property acquisition data FEMA provided for the FMA program differentiated acquisition-only projects, and mixed mitigation projects, or projects that mitigate flood-prone properties through acquisition and additional mitigation strategies, such as property elevation. We did not attempt to verify the categorization of acquisition-only or mixed mitigation projects but presented them as provided by FEMA.

For the RFC program, which started in 2006, FEMA provided data on properties acquired (through closed projects) from regional FEMA offices, which keep such data in electronic spreadsheets or paper files. We did not attempt to verify the accuracy of this information.

Analysis of Extent to Which FEMA Followed Monitoring Procedures for Selected NFIP Contracts

To obtain information on the procedures FEMA uses to monitor its NFIP-related contracts, we reviewed contracts awarded in support of NFIP, federal acquisition regulations, a surveillance plan, performance standards, and the template for discrepancy reports (which FEMA requires a Contracting Officer to issue when a contractor fails to meet its performance standards). For selected contracts, we interviewed FEMA officials and staff with responsibility for issuing and overseeing contracts—the Contracting Officer, the manager of FEMA’s Program Management Office, the Contracting Officer’s Technical Representatives (COTR) for each contract we reviewed, and monitors—as well as contractors.

To determine how effectively FEMA followed its monthly monitoring procedures, we focused upon the contract for FEMA’s Bureau and Statistical Agent (BSA), which is responsible for collecting and reporting on financial and statistical data for the NFIP. First, we collected documentation of monthly monitoring reports for the period from October 2005 through May 2007 to determine if the reports were submitted by monitors to the appropriate office in a timely manner. We then compared these reports with the contract-specified performance standards to see if FEMA reported on each standard and to assess the extent to which FEMA determined whether the contractor met performance standards. We asked FEMA officials to provide an explanation of missing reports and explain why discrepancy reports were not required when performance standards were not met. In August 2007, we were provided with a Contract Administration Plan for the BSA contract, dated July 25, 2007 (nearly 22 months after the contract award date) that documented the contract administration process.

During the course of our work, we learned the NFIP’s Direct Servicing Agent (DSA) contractor had received multiple discrepancy reports from FEMA. To determine if FEMA had followed its stated policies and procedures for addressing deficiencies identified through monitoring, we obtained copies of the discrepancy reports written for the DSA contractor, documentation of the contractor’s responses to the reports, and documentation of financial penalties made against the contractor. We also interviewed the Contracting Officer, the manager of FEMA’s Program Management Office, the COTRs for each contract we reviewed – as well as contractors.

We conducted this performance audit in Atlanta, Georgia; Lanham, Maryland; and Washington, D.C., from March 2007 to June 2008 in accordance with generally accepted government auditing standards. Those

standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: National Flood Insurance Program Statistics, 1997–2006

Under the NFIP, homeowners with mortgages from federally regulated lenders on property in communities identified to be in high-risk flood zones are required to purchase flood insurance for at least the outstanding mortgage amount, up to the maximum policy limit of \$250,000. NFIP covers both residential and commercial properties. However, residential (defined as single- and two-four family dwellings) and condominium properties account for more than 90 percent of all policies in force. Optional, lower-cost coverage also is available under NFIP to protect homes in zones designated as moderate- to low-risk. In addition to building coverage, NFIP offers policies to protect personal property (“contents”) against flood damage, up to a maximum of \$100,000.

The tables and figures in this appendix provide selected information for the period we analyzed on

- policies in force,
- insurance coverage amounts,
- premiums,
- claims, and
- losses by calendar year.

Tables and figures (see tables 9, 10, 11, 12, 13, 14, 15, and 16 and figures 7 and 8) in appendix II include all data unless specified otherwise. In addition, we provide data on estimates for historical loss years. The estimates are used as one indicator to help set annual premiums in NFIP that would be sufficient to pay for the average level of losses that occurred in past years.

Table 9: Number and Percentage Change for Policies in Force, 1997–2006

Calendar year	Number of policies in force	Percentage change
1997	3,962,077	Baseline
1998	4,114,319	3.84%
1999	4,206,914	2.25
2000	4,255,425	1.15
2001	4,360,678	2.47
2002	4,406,664	1.05
2003	4,447,774	0.93
2004	4,558,696	2.49
2005	4,827,181	5.89
2006	5,404,952	11.97%

Source: GAO analysis of NFIP data.

Table 10: Maximum Level of Flood Insurance Available, Regular Program, 1997–2006

Building type	Amount available	
	Building ^a	Contents ^{ab}
Noncondominium and nonunit owner		
Single-family dwelling	\$250,000	\$100,000
Two-four family dwelling	\$250,000	\$100,000
Other residential ^c	\$250,000	\$100,000
Nonresidential ^d	\$500,000	\$500,000

Source: FEMA.

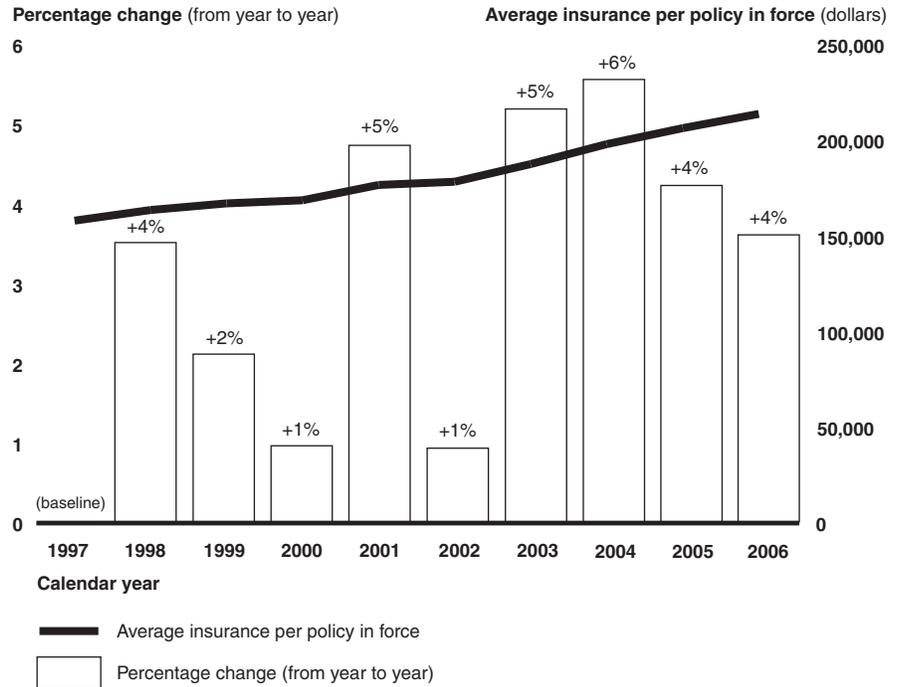
^aThe National Flood Insurance Act of 1968 (Pub. L. No. 90-448), as amended by the Disaster Assistance Act of 1973 (Pub. L. No. 93-234), specifies the maximum levels of coverage.

^bLimit per unit.

^cHotels or motels where the normal occupancy of a guest is 6 months or more; a tourist home or rooming house that has more than four boarders.

^dIncludes, but is not limited to small business concerns, churches, schools, farm buildings, poolhouses, clubhouses, recreational buildings, mercantile structures, agricultural and industrial structures, warehouses, hotels and motels with normal room rentals for less than 6 months' duration, and nursing homes.

Figure 7: Trends in Percentage Change and Average Amount of Insurance Coverage per Policy in Force, 1997–2006



Source: GAO analysis of NFIP data.

Note: Dollars are in 2006 constant dollars.

Table 11: Average Amount of Insurance Coverage per Policy in Force, 1997–2006

Calendar year	Average insurance per policy in force	Annual percentage change
1997	\$158,125	Baseline
1998	163,688	3.52%
1999	167,162	2.12
2000	168,788	0.97
2001	176,797	4.74
2002	178,467	0.94
2003	187,709	5.18
2004	198,136	5.55
2005	206,501	4.22
2006	\$213,944	3.60%

Source: GAO analysis of NFIP data.

Note: Dollars are in 2006 constant dollars.

Table 12: NFIP Average Premium per Policy in Force, 1997–2006

Calendar year	Average premium per policy in force
1997	\$489
1998	503
1999	493
2000	468
2001	451
2002	444
2003	453
2004	465
2005	469
2006	\$475

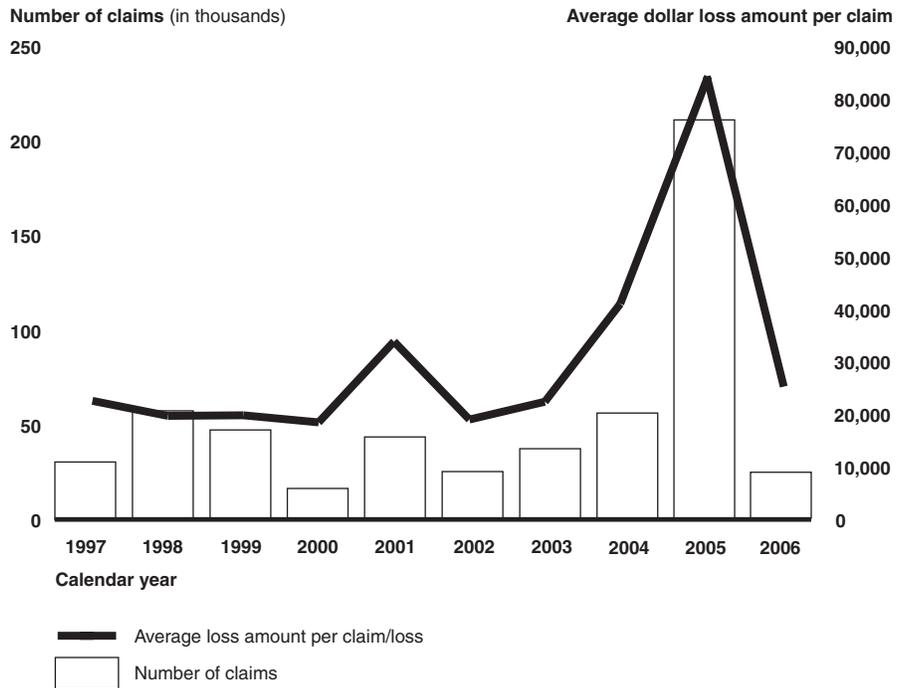
Source: GAO analysis of NFIP data.

Note: Dollars are in 2006 constant dollars.

Both the average loss per policy and the average loss per claim fluctuated from 1997 through 2006 (See figure 8 and table 13). The average loss per flood insurance claim is the amount that NFIP pays to settle the average claim. The loss per claim (for all flood insurance policy types) averaged around \$19,000 from 1998 through 2000, but fluctuated more widely since 2001, with peaks in 2001 as a result of Tropical Storm Allison and in 2005 (at more than \$84,000) as a result of the Gulf Coast Hurricanes.¹

¹Tropical Storm Allison caused major flooding in Texas and Louisiana and heavy losses in other states as distant as Pennsylvania.

Figure 8: Number of NFIP Claims and Average Loss per Claim, 1997–2006



Source: GAO analysis of NFIP data.

Notes: Dollars are in 2006 constant dollars. We excluded loss-related expenses because they were not available for all of the categories of losses in our analysis, such as hurricane-related losses. Loss-related expenses, which accounted for 6-8 percent of the total losses paid out each year from 1997 through 2006, refer to the administrative costs associated with paying losses.

Table 13: NFIP Losses, 1997–2006

Calendar year	Losses paid out	Number of claims	Average loss per claim
1997	\$683,929,040	30,338	\$22,544
1998	1,128,782,402	57,345	19,684
1999	935,293,635	47,245	19,797
2000	301,920,782	16,361	18,454
2001	1,472,324,685	43,550	33,808
2002	480,039,474	25,280	18,989
2003	819,783,210	36,647	22,370
2004	2,272,625,290	55,468	40,972
2005	17,700,798,980	210,204	84,208
2006	\$611,711,511	24,231	\$25,245

Source: GAO analysis of NFIP data.

Note: Dollars are in 2006 constant dollars.

According to FEMA, from 2000 through 2004 the average loss per flood insurance policy in force varied from about \$82 to about \$567. The average annual loss per policy increased significantly in 2005 as a result of the Gulf Coast Hurricanes to \$4,189 (See table 14).

Table 14: Average Loss per Policy in Force in Dollars, 1997–2006

Calendar year	Average loss per policy
1997	\$210
1998	324
1999	262
2000	82
2001	398
2002	129
2003	211
2004	567
2005	4,189
2006	\$129

Source: FEMA.

Note: Trended to May 2009 dollars. Includes all loss and allocated loss adjustment expenses. Analyzed by the type of flood insurance policy that covered the claim (building, contents, or building and contents), NFIP data indicate that from 1997 through 2006 the average claim payment increased for each type of flood insurance policy (see table 15). The average claim payment increased 13 percent for building-only policies, nearly double to 25 percent for contents-only policies, and increased by 8 percent for building and contents policies.

Table 15: Average NFIP Claim Payment by Insurance Policy Type, 1997–2006

Calendar year	Average claim payment		
	Building-only policy	Contents-only policy	Building and contents policy
1997	\$15,768	\$16,944	\$36,644
1998	11,786	15,971	31,656
1999	14,348	26,205	28,376
2000	13,275	19,665	23,590
2001	17,767	21,147	49,462
2002	10,865	11,905	30,429
2003	15,559	15,894	36,175
2004	26,118	19,809	65,575
2005	49,977	12,631	113,299
2006	\$17,762	\$21,154	\$39,719

Source: GAO analysis of NFIP data.

Note: Adjusted to 2006 dollars.

As shown in table 16, the average historical loss year estimates has increased each year except 2001 and 2003.

Table 16: Average Historical Loss Year Estimate for NFIP, 1997–2005

Calendar year	Average historical loss year	Percentage change
1997	\$622,007,303	Baseline
1998	649,349,085	4.40%
1999	685,178,316	5.52
2000	819,986,865	19.67
2001	741,469,715	(9.58)
2002	803,489,615	8.36
2003	802,254,959	(0.15)
2004	820,889,663	2.32
2005	\$1,008,347,561	22.84%

Source: GAO analysis of NFIP data.

Appendix III: National Flood Insurance Program Statistics by Flood Zone, 1997–2006

FEMA’s NFIP studies and maps flood risks, assigning 12 flood zone designations based on the risk level for flooding. We combined FEMA’s flood zone designations into four groups relating to risk levels (see table 17). FEMA agreed with the way we combined the designations.

Table 17: NFIP Flood Zone Designations

Designations	Risk level
Flood zones B, C, X	Moderate- to low-risk
Flood zones A, AE	High-risk
Flood zones V, VE	High-risk coastal
Flood zone D	Undetermined risk

Source: FEMA.

Note: See appendix VII for a description of each zone.

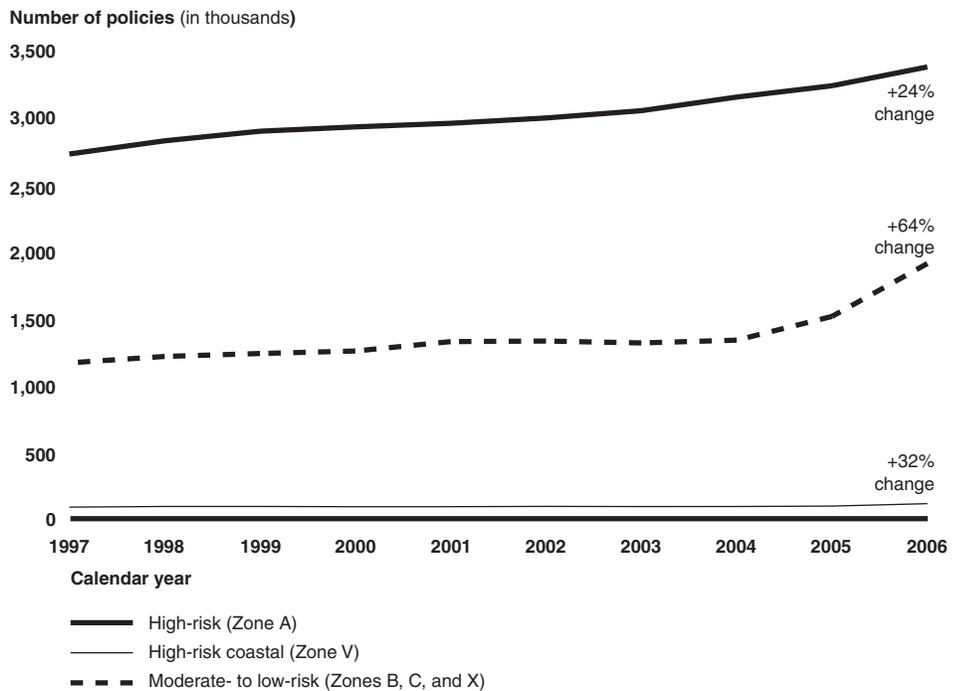
NFIP incorporates the flood zones into Flood Insurance Rate Maps—which also show land elevations and floodplain boundaries—and uses the maps to manage flood risks and help set insurance rates. More specifically, more than 20,300 communities participating in NFIP adopt and enforce the program’s minimum building standards for new construction within identified floodplains; NFIP also uses the maps to help set flood insurance policy rates for properties in a given area based on the designated flood risks. Further, federally regulated mortgage lenders use the maps to identify those property owners who are required to purchase federal flood insurance.

To present additional detailed information on NFIP trends, we collated our analyses of policies in force, insurance amounts, premiums, losses, and other information by flood zone in this appendix. For the purposes of our analysis, the tables and figures in this appendix also include the Emergency Program as a zone. The Emergency Program is the initial phase of a community’s participation in the NFIP and was designed to provide a limited amount of insurance at less than actuarial rates. A community participating in the Emergency Program either does not have an identified and mapped flood hazard or has been provided with a Flood Hazard Boundary Map. According to FEMA officials, flood zone designations are not assigned to policyholders that are in the Emergency Program. As a result, FEMA captures data on these policies by referring to their Emergency Program status. Additionally, the FEMA contractor responsible for collection and analysis of NFIP data uses a coding designation of Zone “O” for policies for which flood zone information is missing or erroneous. That is, Zone “O” is not a FEMA flood zone but

rather is used to help code data. The tables and figures in this appendix include Emergency Program and Zone O data unless otherwise indicated.

The number of policies in force increased to the greatest extent (64 percent) in the moderate- to low-risk flood zone and to the least extent (24 percent) in the high-risk. More specifically, policies in force increased steeply in the moderate- to low-risk flood zone following the Gulf Coast hurricanes in 2005 (see fig. 9 and table 18) as more property owners purchased flood policies. However, as mentioned earlier, a FEMA commissioned study found the penetration rate outside of the high-risk areas to be about 1 percent.

Figure 9: Number of Policies in Force by Flood Zone, 1997–2006



Source: GAO analysis of NFIP data.

Note: We excluded flood zones D and O and the Emergency Program because they accounted for 1 percent or less of the policies in force for each of the years we reviewed.

**Appendix III: National Flood Insurance
Program Statistics by Flood Zone, 1997–2006**

Table 18: Number of Policies in Force by Flood Zone, 1997–2006

Calendar year	High-risk (zone A)	High-risk coastal (zone V)	Moderate- to low-risk (zones B, C, and X)	Undetermined risk level (zone D)	Emergency Program ^a	Flood zone O ^b	Total
1997	2,703,350	79,393	1,151,375	5,346	1,826	20,787	3,962,077
1998	2,801,370	84,332	1,199,032	4,167	1,580	23,838	4,114,319
1999	2,872,625	84,391	1,220,851	4,069	1,568	23,410	4,206,914
2000	2,904,796	82,481	1,239,448	3,809	1,590	23,301	4,255,425
2001	2,931,474	82,737	1,309,200	3,509	1,752	32,006	4,360,678
2002	2,970,972	84,876	1,313,551	3,283	1,632	32,350	4,406,664
2003	3,025,121	83,668	1,299,483	2,942	1,605	34,955	4,447,774
2004	3,126,322	83,946	1,320,107	2,975	1,606	23,740	4,558,696
2005	3,210,442	87,148	1,496,359	2,868	1,690	28,672	4,827,179
2006	3,350,209	105,183	1,889,242	3,069	1,851	55,398	5,404,952

Source: GAO analysis of NFIP data.

^aProperties in the Emergency Program have no assigned flood zone.

^bFlood zone “O” includes policies where zone is missing or erroneously coded.

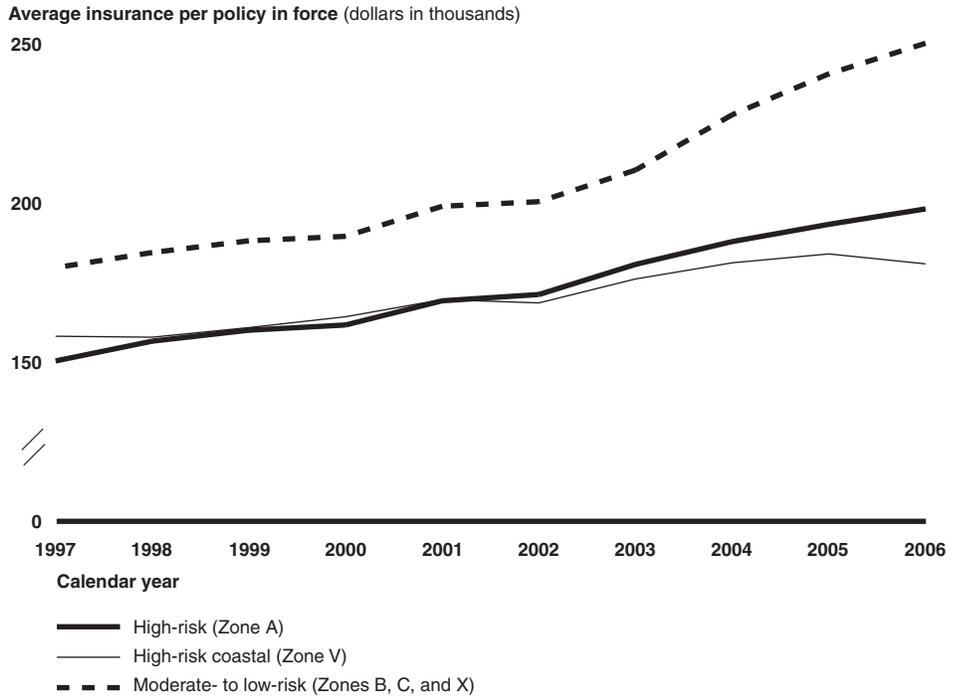
The average amount of flood insurance purchased gradually increased in the high risk and moderate- to low-risk zones from 1997 through 2006 (see fig. 10 and table 19). Flood-insurance policyholders in the moderate- to low-risk flood zones consistently purchased on average a higher amount of flood insurance than policyholders in the high-risk and high-risk coastal flood zones.¹ As we mentioned previously, premiums in this zone tend to be more affordable and FEMA has been marketing in these areas through its FloodSmart program (see table 20).²

¹The price of flood insurance varies by risk; therefore, the cost of purchasing flood insurance is lower in a low-risk area, or flood zone, than in a high-risk area.

²Since 2004, FEMA has implemented a mass media campaign called “FloodSmart” to educate the public about the risks of flooding and to encourage the purchase of flood insurance.

**Appendix III: National Flood Insurance
Program Statistics by Flood Zone, 1997–2006**

Figure 10: NFIP Average Amount of Insurance Coverage per Policy in Force in Selected Flood Zones, 1997–2006



Source: GAO analysis of NFIP data.

Notes: Flood zones D, O, and Emergency Program are excluded. Dollars are in 2006 constant dollars.

**Appendix III: National Flood Insurance
Program Statistics by Flood Zone, 1997–2006**

Table 19: NFIP Average Amount of Insurance Coverage per Policy in Force by Flood Zones, 1997–2006

Calendar year	High-risk (zone A)	High-risk coastal (zone V)	Moderate to low-risk (zone B, C, X)	Undetermined risk level zone D	Emergency Program ^a	Flood zone O ^b
1997	\$150,118	\$157,885	\$179,429	\$153,142	\$46,608	\$31,441
1998	156,334	157,577	184,190	153,937	45,532	27,784
1999	159,776	160,599	187,876	165,643	44,668	25,300
2000	161,417	164,007	189,282	168,974	43,611	23,011
2001	169,019	169,387	198,725	176,839	42,231	18,648
2002	170,990	168,352	200,167	179,675	40,887	17,299
2003	180,462	175,881	210,096	190,723	40,111	17,480
2004	187,627	180,961	227,488	186,208	38,881	22,833
2005	193,052	183,750	240,352	200,645	37,610	25,486
2006	\$197,893	\$180,624	\$249,949	\$207,744	\$38,271	\$26,194

Source: GAO analysis of NFIP data.

^aProperties in the Emergency Program have no assigned flood zone.

^bFlood zone “O” includes policies where zone is missing or erroneously coded.

Table 20: Average Premium Per Policy in Force by Flood Zone, 1997–2006

Calendar year	High-risk (zone A)	High-risk coastal (zone V)	Moderate- to low-risk (zones B, C, and X)	Undetermined risk level (zone D)	Emergency Program	Flood zone O
1997	\$521	\$1,039	\$377	\$794	\$492	\$372
1998	538	1,041	384	814	501	342
1999	525	1,053	380	824	484	313
2000	497	1,049	363	788	438	277
2001	482	1,059	350	766	409	240
2002	472	1,118	343	775	392	228
2003	478	1,232	349	824	370	262
2004	492	1,343	344	842	353	476
2005	502	1,398	340	912	340	572
2006	\$521	\$1,463	\$336	\$980	\$348	\$600

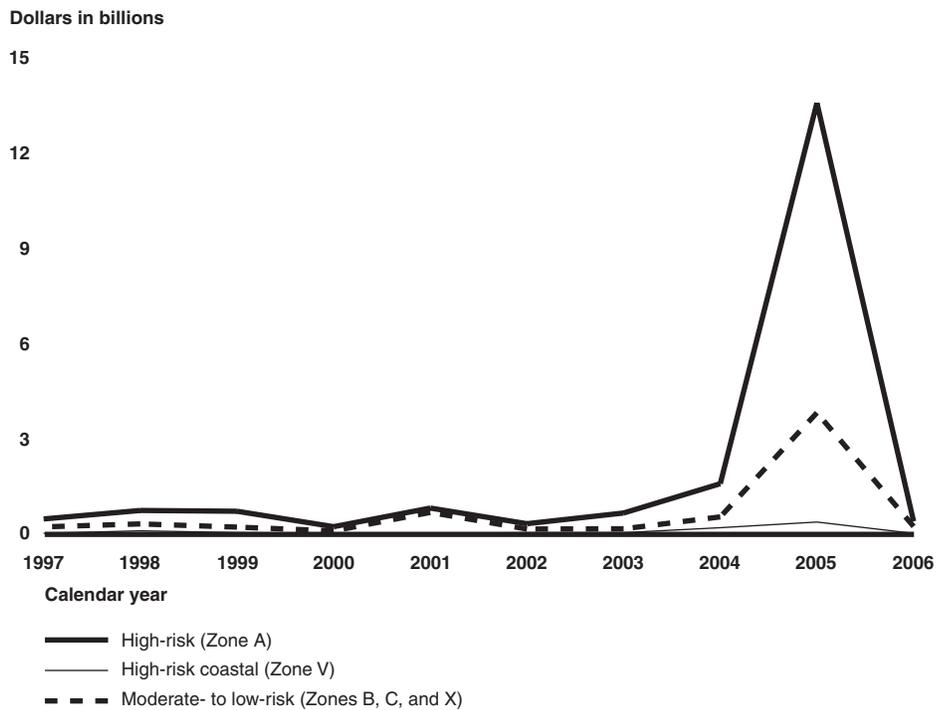
Source: GAO analysis of NFIP data.

Note: Dollars are in 2006 constant dollars.

Approximately 73 percent of the \$26 billion in losses paid from 1997 through 2006 were for properties in the high-risk flood zone, followed by 24 percent in moderate- to low-risk zones, and 3 percent for properties in

the high-risk coastal zones.³ Over time, losses consistently were highest in the high-risk zone. As figure 11 illustrates, for all three of the flood zones analyzed, losses peaked in 2005 as a result of the Gulf Coast hurricanes. See table 21 for supporting data.

Figure 11: NFIP Losses Paid Out by Flood Zones, 1997–2006



Source: GAO analysis of NFIP data.

Notes: We excluded flood zones D, O, and the Emergency Program. Loss-related expenses, which are administrative costs associated with paying losses, are excluded. Dollars are in 2006 constant dollars.

³Losses for the undetermined and the Emergency Program accounted for less than 2 percent of all losses. From 1997 through 2006, 67 percent of the 44.5 million policies in force were in the high-risk zone, followed by 30 percent in moderate- to low-risk zones, and 2 percent in high-risk coastal zones.

**Appendix III: National Flood Insurance
Program Statistics by Flood Zone, 1997–2006**

Table 21: NFIP Losses Paid Out by Flood Zones, 1997–2006

Calendar year	High-risk (zone A)	High-risk coastal (zone V)	Moderate- to low-risk (zones B, C, and X)	Undetermined risk level (zone D)	Emergency Program	Flood zone O
1997	\$456,555,698	\$6,276,654	\$207,839,169	\$7,045,459	\$2,329,301	\$3,882,759
1998	722,519,934	83,150,008	300,483,030	5,533,197	902,569	16,193,665
1999	698,374,286	28,006,656	200,253,001	2,199,064	529,447	5,931,182
2000	213,622,872	1,329,540	83,029,277	314,843	190,356	3,433,894
2001	797,975,329	7,536,546	660,967,216	1,298,790	1,078,207	3,468,596
2002	307,332,791	24,553,984	140,549,419	571,768	1,728,792	5,302,721
2003	642,742,686	26,054,254	147,100,294	473,973	297,744	3,114,258
2004	1,563,110,977	181,973,420	521,236,606	790,689	758,046	4,755,553
2005	13,512,906,531	359,573,054	3,789,992,998	2,158,546	513,176	35,654,675
2006	\$381,933,348	\$3,133,077	\$221,502,820	\$739,772	\$289,475	\$4,113,019

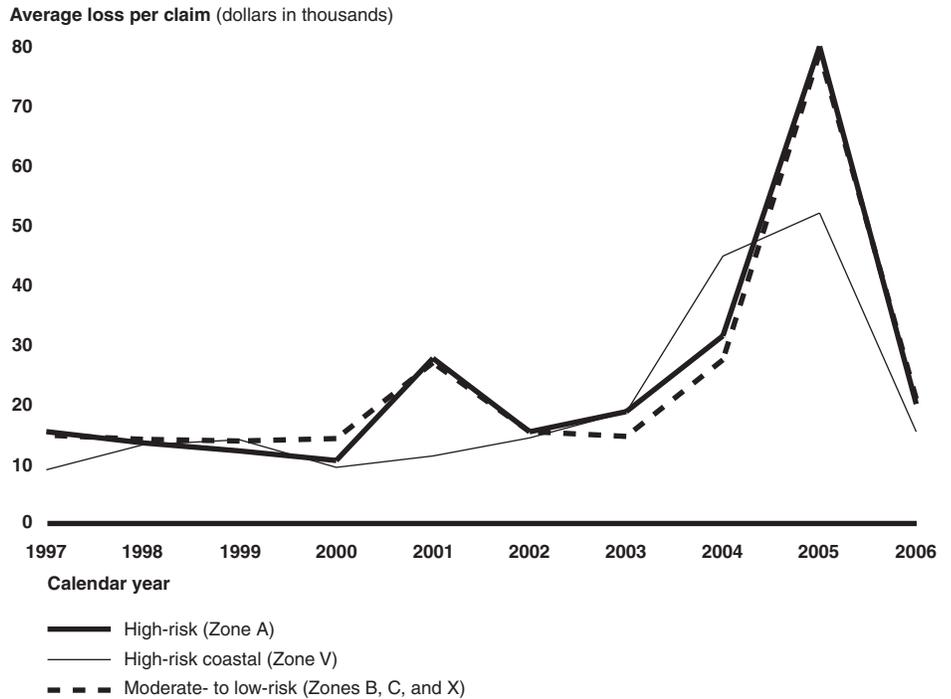
Source: GAO analysis of NFIP data.

Note: Dollars are in 2006 constant dollars.

For single- and two-four family homes, average losses per claim were generally highest in the high-risk zone from 1997 to 2006 (see fig. 12 and table 22). For all three of the flood zones analyzed average losses peaked in 2005.

Appendix III: National Flood Insurance
Program Statistics by Flood Zone, 1997–2006

Figure 12: NFIP Residential (Single- and Two-Four Family) Average Loss per Claim by Flood Zone for Selected Flood Zones, 1997–2006



Source: GAO analysis of NFIP data.

Notes: Flood zones D, O, and the Emergency Program are excluded. Dollars are in 2006 constant dollars. Data are for calendar years 1997-2006.

Table 22: NFIP Residential (Single- and Two-Four Family) Average Loss per Claim by Flood Zone, 1997–2006

Calendar year	High-risk (zone A)	High-risk coastal (zone V)	Moderate- to low-risk (zones B, C, and X)	Flood zone D	Emergency Program	Flood zone O
1997	\$20,043	\$11,637	\$19,272	\$40,197	\$15,945	\$17,945
1998	17,004	16,603	17,763	38,567	16,473	10,361
1999	14,862	17,178	16,924	45,761	16,103	10,672
2000	12,476	11,093	16,880	17,741	10,985	7,744
2001	31,817	12,905	30,950	41,505	24,514	9,942
2002	16,954	15,815	16,991	28,054	23,132	6,555
2003	20,224	20,155	15,711	39,711	14,178	7,671
2004	33,157	47,303	28,895	31,728	17,263	7,860
2005	82,415	53,580	81,253	33,396	18,083	13,966
2006	\$19,843	\$15,201	\$20,713	\$40,074	\$19,838	\$14,134

Source: GAO analysis of NFIP data.

Note: Dollars are in 2006 constant dollars.

Appendix IV: National Flood Insurance Program Statistics by Occupancy Type, 1997–2006

Policies under the NFIP insure buildings categorized into five different occupancy types: single-family, two-four family unit, condominium, other residential, and nonresidential. Other residential includes long-stay hotels or motels and rooming houses. Nonresidential includes small businesses, churches, schools, warehouses, short-stay hotels and motels, and nursing homes. We focused our analysis on the residential (single- and two-four family units) and condominium occupancy types because more than 90 percent of the policies in force each year (from 1997 through 2006) were for those occupancy types. Both the owners of units and condominium associations can take out policies. That is, while a condominium unit owner may purchase flood insurance for the unit, a condominium association could purchase coverage for all of the units in a condominium community.

To present additional detailed information on NFIP policy trends, we collated our analysis of policies in force, insurance amounts, premiums, and losses by occupancy type. In this appendix, residential includes all single- and two-four family residences, excluding condominiums. Condominium includes policies that are purchased by condominium associations, which may cover all residential units within that association, as well as policies purchased by individual unit owners. The Emergency Program is separated out, or excluded, in some tables since it is through this program that properties enter NFIP, and participation in this program is temporary. Statistics by occupancy type are presented in tables 23, 24, 25, 26, and 27 and figures 13 and 14.

**Appendix IV: National Flood Insurance
Program Statistics by Occupancy Type,
1997–2006**

Table 23: NFIP Policies in Force—Percentage for Residential (Single- and Two-Four Family) Properties and Condominiums, 1997–2006

Calendar year	Percentage of total (residential and condominiums)	Compared with total policies in force	
		Residential percentage of policies in force	Condominiums percentage of policies in force
1997	94%	70%	23%
1998	94	70	24
1999	94	71	23
2000	94	72	22
2001	94	72	22
2002	94	72	22
2003	94	72	22
2004	94	71	23
2005	94	71	23
2006	94%	71%	23%

Source: GAO analysis of NFIP data.

Note: Percentages for residential and condominiums may not add to the total because of rounding. Data includes the Emergency Program.

Table 24: Average Amount of Insurance Coverage by Occupancy Type, 1997–2006

Calendar year	Residential (single- and two-four family)	Condominiums
1997	\$169,593	\$98,166
1998	177,709	94,690
1999	180,864	95,960
2000	181,788	96,968
2001	190,446	100,113
2002	192,131	101,936
2003	203,622	104,980
2004	217,068	108,809
2005	227,172	114,707
2006	\$235,424	\$120,599

Source: GAO analysis of NFIP data.

Note: Dollars are in 2006 constant dollars. Data includes the Emergency Program.

**Appendix IV: National Flood Insurance
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Table 25: Average Premium by Occupancy Type, 1997–2006

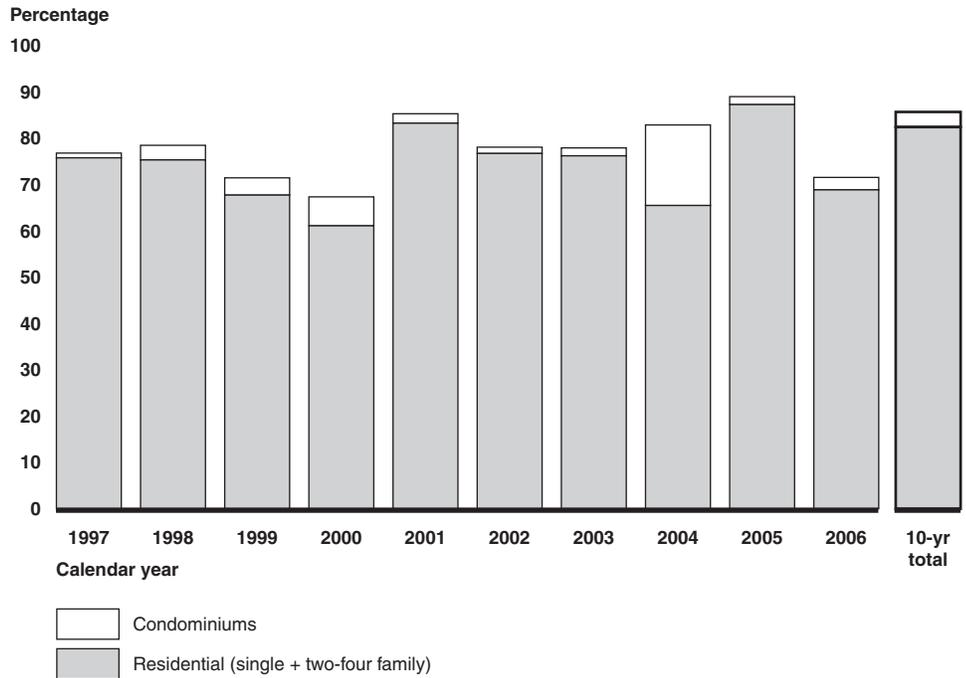
Calendar year	Residential (single- and two-four family)	Condominiums
1997	\$522	\$216
1998	538	216
1999	523	209
2000	493	191
2001	474	174
2002	467	164
2003	479	163
2004	494	165
2005	497	174
2006	\$494	\$201

Source: GAO analysis of NFIP data.

Note: Dollars are in 2006 constant dollars. Data includes the Emergency Program.

Appendix IV: National Flood Insurance Program Statistics by Occupancy Type, 1997-2006

Figure 13: Percentage of Losses Attributable to Residential (Single- and Two-Four Family) Properties and Condominiums, 1997-2006



Source: GAO analysis of NFIP data.

Notes: Other residential and nonresidential occupancy types and the Emergency Program are excluded. Expenses associated with losses are excluded. Data are for calendar years 1997-2006.

Table 26: Losses by Occupancy Type, 1997-2006

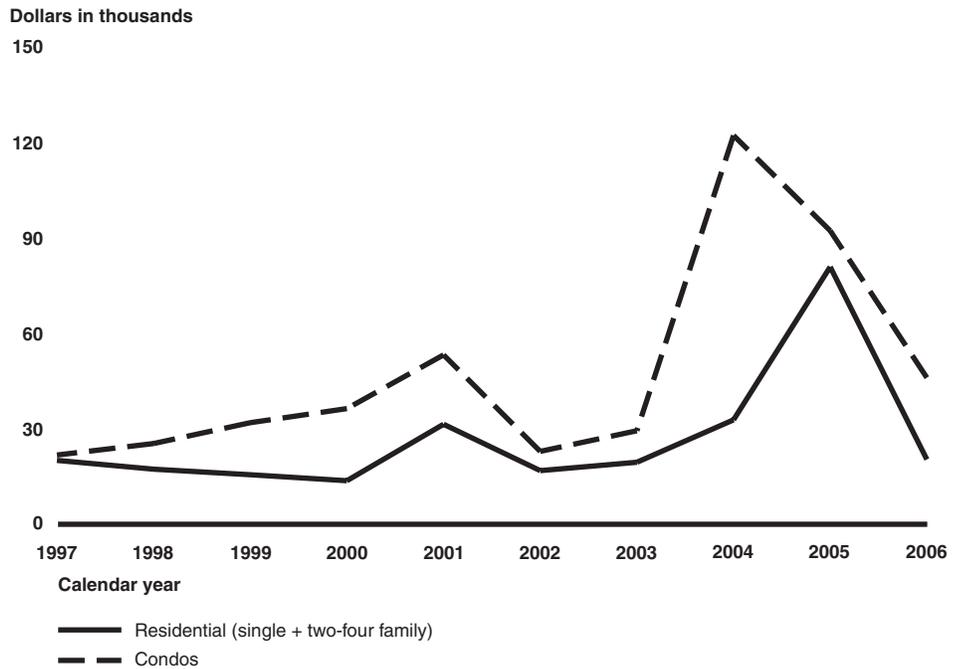
Calendar year	Residential (single- and two-four family)	Condominium	Other residential	Nonresidential	Emergency Program	All
1997	\$518,753,614	\$7,078,057	\$19,378,331	\$136,389,738	\$2,329,301	\$683,929,040
1998	851,053,810	35,676,473	22,063,163	219,086,388	902,569	1,128,782,402
1999	634,106,104	34,878,457	35,014,809	230,764,818	529,447	935,293,635
2000	184,654,279	18,906,280	13,817,485	84,352,381	190,356	301,920,782
2001	1,227,105,081	30,076,589	44,185,525	169,879,283	1,078,207	1,472,324,685
2002	368,650,564	6,551,591	14,878,813	88,229,715	1,728,792	480,039,474
2003	625,416,917	14,010,311	29,118,069	150,940,169	297,744	819,783,210
2004	1,489,992,465	395,329,908	35,734,052	350,810,820	758,046	2,272,625,290
2005	15,463,740,780	303,945,881	349,603,946	1,582,995,197	513,176	17,700,798,980
2006	\$421,637,712	\$16,454,476	\$20,620,278	\$152,709,571	\$289,475	\$611,711,511

Source: GAO analysis of NFIP data.

**Appendix IV: National Flood Insurance
Program Statistics by Occupancy Type,
1997-2006**

Notes: Expenses associated with losses are excluded. Dollars are in 2006 constant dollars. Flood insurance policies that are purchased through the Emergency Program are not designated by flood zone. As a result, we include a separate column on policies purchased through the Emergency Program to provide complete data on losses.

Figure 14: NFIP Average Loss per Claim for Residential (Single- and Two-Four Family) Properties and Condominiums, 1997-2006



Source: GAO analysis of NFIP data.

Notes: Condominium data includes Residential Condominium Building Association Policies (RCBAP), which cover entire condominium buildings. Dollars are in 2006 constant dollars. Other residential and nonresidential occupancy types and Emergency Program data are excluded. Data are for calendar years 1997-2006.

**Appendix IV: National Flood Insurance
Program Statistics by Occupancy Type,
1997–2006**

Table 27: NFIP Average Loss per Claim by Occupancy Type, 1997–2006

Calendar year	Residential (single- and two-four family)	Condominiums
1997	\$19,767	\$21,449
1998	17,009	25,054
1999	15,267	31,593
2000	13,389	36,012
2001	31,104	52,859
2002	16,555	22,592
2003	19,178	29,067
2004	32,485	121,715
2005	80,486	91,827
2006	\$20,059	\$45,707

Source: GAO analysis of NFIP data.

Note: Dollars are in 2006 constant dollars. Data includes the Emergency Program.

Appendix V: National Flood Insurance Program Statistics for Hurricane-Related Losses and Repetitive Loss Properties

This appendix presents statistics related to the percentage of losses under the program attributable to hurricanes (see table 28), as well as certain properties insured under NFIP of FEMA (see table 29). Repetitive loss properties are those with two or more flood insurance claims filed against them in a 10-year period. FEMA does not collect annual data on the number of repetitive loss properties, the number of losses paid out on repetitive loss properties, or the total amount paid out on repetitive loss properties. Rather, FEMA data on repetitive loss properties are cumulative. For every loss that NFIP pays out, information is collected on the reason for the flood loss, including whether the loss was related to a significant flooding event. To determine whether losses were related to a hurricane, FEMA's BSA (the contractor responsible for collecting, analyzing, and reporting NFIP financial and statistical data) identified the significant flooding events that were hurricanes from 1997 through 2006.

Table 28: Percentage of NFIP Losses Attributable to Hurricanes, 1997–2006

Calendar year	Losses attributable to hurricanes	Total NFIP losses	Percentage of losses attributable to hurricanes
1997	\$16,688,745	\$683,929,040	2.4%
1998	315,397,036	1,128,782,402	27.9
1999	757,332,268	935,293,635	81.0
2000	3,402,022	301,920,782	1.1
2001	463,178	1,472,324,685	<1
2002	40,277,150	480,039,474	8.4
2003	529,584,857	819,783,210	64.6
2004	1,927,168,199	2,272,625,290	84.8
2005	17,223,480,732	17,700,744,265	97.3
2006	39,002,051	611,725,757	6.4
Total	\$20,852,796,237	\$26,407,168,541	79.0%

Source: GAO analysis of NFIP data.

Note: Dollars are adjusted to 2006 constant dollars.

**Appendix V: National Flood Insurance
Program Statistics for Hurricane-Related
Losses and Repetitive Loss Properties**

Table 29: Net Cumulative Total Repetitive Loss (RL) Properties, Net Cumulative Number of Losses for RL Properties, and Net Cumulative Total Losses Paid Out for RL Properties, 1997–2006

Calendar year	Total number of properties designated as RL	Total number of losses for RL properties	Total losses paid out for RL properties
1997	76,108	207,550	\$3,693,755,135
1998	83,374	229,895	4,097,632,582
1999	85,234	235,649	4,173,082,273
2000	91,731	254,313	4,586,465,818
2001	95,177	264,024	4,831,966,271
2002	97,881	271,945	4,900,612,408
2003	101,173	281,426	5,005,016,348
2004	107,041	297,377	5,340,144,550
2005	119,292	333,756	7,227,098,779
2006	125,239	354,010	\$7,940,022,187

Source: GAO analysis of NFIP data.

Note: Dollars are adjusted to 2006 constant dollars.

Appendix VI: Flood-Related Damages

Under NFIP flood insurance can be purchased through policies with building-only coverage, contents-only coverage, or both building and contents coverage. For each coverage type, a policyholder can purchase up to the maximum amount of coverage, depending on the type of structure that they are insuring, and whether it is in the Emergency or Regular Program.¹ NFIP also offers group flood insurance policies to recipients of disaster assistance (generally low-income persons), which provide coverage for 3 years following a flood loss. We excluded data on these policies from our analysis because they have coverage limits that differ from other flood insurance policies.

According to FEMA information, data on the amount of flood-related damages that insured properties received are available for more than 99 percent of all claims filed from 1997 through 2004, and 97 percent of all claims filed in 2005 for policies that were purchased at the insurance limit. However, the reliability of available damage data is uncertain. According to FEMA guidance found in the NFIP Transaction Record Reporting and Processing (TRRP) Plan for the Write Your Own (WYO) Program, WYO insurers are required to report “Total Building Damages” and “Total Content Damages” to NFIP. Furthermore, FEMA guidance states that the amounts WYO insurers report to NFIP are not limited to the amount of insurance coverage on the property. However, a 2006 report that FEMA commissioned on NFIP states that in cases where the amount of flood insurance carried was less than the amount of damages, adjusters did not determine losses above the limit. Rather, the adjusters only recorded the losses needed to reach the limit.² Therefore, the use of FEMA data to determine the number of claims and the dollars by which damages exceed the insurance limit (tables 30 to 37) is likely to result in an undercount.

For single- and two-four family flood insurance policies with building-only, or both building and contents coverage that were purchased at the insurance limit, damage data were available (see table 30) for more than 99 percent of claims filed from 1997 through 2004 and damage data was

¹The maximum amount of insurance available for purchase is lower for NFIP’s Emergency Program. We excluded analysis of the Emergency Program because policyholders in this program represent 1 percent or less of all policyholders for each of the years we reviewed. The maximum amounts of insurance that can be purchased (for either building or contents coverage) did not change from 1997 through 2006.

²American Institute for Research, *Assessing the Adequacy of the National Flood Insurance Program’s 1 Percent Flood Standard* (College Park, Md.: University of Maryland, October 2006).

available for about 98 percent of claims filed for policies with contents-only coverage. For policies with building-only, or both building and contents coverage, damage data were available (see table 31) for almost all claims filed in 2005, damage data was available for about 33 percent of the claims filed with contents-only coverage.

Table 30: Percentage of Claims for Which Damage Data Are Available, for Policies Purchased at the Insurance Limit, 1997–2004

	Claims for policies purchased at the insurance limit	Claims for which damage data are available	Percentage of claims for which damage data are available ^a
Building coverage			
Single- and two-four family	11,227	11,144	99.3%
Other residential	1,454	1,444	99.3
Nonresidential	1,999	1,973	98.7
Condominium	269	269	100.0
Contents coverage			
Single- and two-four family	352	344	97.7
Other residential	4	4	^b
Nonresidential	303	300	99.0
Condominium	22	22	100.0
Building and contents coverage			
Single- and two-four family	8,854	8,848	99.9
Other residential	117	117	100.0
Nonresidential	1,210	1,209	99.9
Condominium	109	109	100.0
Total	25,920	25,783	99.5%

Source: GAO analysis of NFIP data.

Notes: Data are for the Regular Program (Emergency Program is excluded), for policies purchased at the insurance limit. Data are for calendar years 1997–2004.

^aWe derived the percentages by dividing the number of claims for which damage data are available by the total number of claims (for policies purchased at the insurance limit).

^bToo few values to present percentage.

Table 31: Percentage of Claims for Which Damage Data Are Available, for Policies Purchased at the Insurance Limit, 2005

	Claims for policies purchased at the insurance limit	Claims for which damage data are available	Percentage of claims for which damage data are available ^a
Building coverage			
Single- and two-four family	8,592	8,578	99.8%
Other residential	1,154	1,154	100.0
Nonresidential	1,144	1,138	99.5
Condominium	178	177	99.4
Contents coverage			
Single- and two-four family	1,287	427	33.2
Other residential	2	1	^b
Nonresidential	89	88	98.9
Condominium	22	20	90.9
Building and contents coverage			
Single- and two-four family	13,431	13,430	100.0
Other residential	143	143	100.0
Nonresidential	865	865	100.0
Condominium	40	40	100.0
Total	26,947	26,061	96.7%

Source: GAO analysis of NFIP data.

Notes: Data are for the Regular Program (Emergency Program is excluded), for policies purchased at the insurance limit. Data are for calendar year 2005.

^aWe derived the percentages by dividing the number of claims for which damage data are available by the total number of claims (for policies purchased at the insurance limit).

^bToo few values to present percentage.

For single- and two-four family flood insurance policies with building-only, or both building and contents coverage (see table 32) that were purchased at less than the insurance limit, damage data were available for more than 99 percent of claims filed from 1997 through 2004 and damage data was available for about 98 percent of claims filed for policies with contents-only coverage. For policies with building-only coverage, or both building and contents coverage (see table 33), damage data were available for almost all claims filed in 2005, damage data was available for 39 percent of the claims filed with contents-only coverage.

Table 32: Percentage of Claims for Which Damage Data Are Available, for Policies Purchased at Less Than the Insurance Limit, 1997–2004

	Claims for policies purchased at less than the insurance limit	Claims for which damage data are available	Percentage of claims for which damage data are available ^a
Building coverage			
Single- and two-four family	148,565	147,410	99.2%
Other residential	4,117	4,100	99.6
Nonresidential	13,776	13,694	99.4
Condominium	5,577	5,433	97.4
Contents coverage			
Single- and two-four family	6,558	6,416	97.8
Other residential	353	353	100.0
Nonresidential	3,955	3,905	98.7
Condominium	1,520	1,520	100.0
Building and contents coverage			
Single- and two-four family	106,266	106,209	99.9
Other residential	600	600	100.0
Nonresidential	8,275	8,265	99.9
Condominium	820	819	99.9
Total	300,382	298,724	99.4%

Source: GAO analysis of NFIP data.

Notes: Data are for the Regular Program (Emergency Program is excluded), for policies purchased at less than the insurance limit. Data are for calendar years 1997–2004.

^aThe number of claims for which damage data were available divided by the total number of claims (for policies purchased at less than the insurance limit).

Table 33: Percentage of Claims for Which Damage Data Are Available, for Policies Purchased at Less Than the Insurance Limit, 2005

	Claims for policies purchased at less than the insurance limit	Claims for which damage data are available	Percentage of claims for which damage data are available ^a
Building coverage			
Single- and two-four family	56,210	56,037	99.7%
Other residential	2,773	2,769	99.9
Nonresidential	5,259	5,236	99.6
Condominium	1,990	1,941	97.5
Contents coverage			
Single- and two-four family	12,257	4,745	38.7
Other residential	343	303	88.3
Nonresidential	1,348	1,328	98.5
Condominium	805	722	89.7
Building and contents coverage			
Single- and two-four family	111,602	111,582	100.0
Other residential	429	429	100.0
Nonresidential	4,111	4,111	100.0
Condominium	464	464	100.0
Total	197,591	189,667	96.0%

Source: GAO analysis of NFIP data.

Notes: Data are for the Regular Program (Emergency Program is excluded), for policies purchased at less than the insurance limit. Data are for calendar year 2005.

^aThe number of claims for which damage data were available divided by the total number of claims (for policies purchased at less than the insurance limit).

According to NFIP data, properties insured for the maximum flood insurance available and with damage claims that exceeded the insurance maximum represented from 0 to 17 percent of claims filed from 1997 through 2004 (see table 34), and from 1 to 57 percent of claims filed in 2005 (see table 35), depending upon the type of flood insurance coverage and the type of structure insured.

Table 34: Percentage of Claims and Damages in Excess of NFIP Insurance Available by Policy Type, for Policies Purchased at the Insurance Limit, 1997–2004

	Claims for which damage data are available	Claims for which damage amounts exceeded insurance available	Amount of damages for all claims (where damage data are available)	Amount of damages in excess of insurance limit ^a	Percentage of claims for which damages exceeded insurance limit	Percentage dollars for which damages exceeded insurance limit ^b
Building coverage						
Single- and two-four family	11,144	23	\$205,855,130	\$2,924,050	0.2%	1.4%
Other residential ^c	1,444	19	90,308,627	2,313,666	1.3	2.6
Nonresidential	1,973	32	173,220,384	10,312,164	1.6	6.0
Condominium	269	0	14,902,054	0	0.0	0.0
Contents coverage						
Single- and two-four family	344	5	2,786,787	98,323	1.5	3.5
Other residential	4	1	284,881	956	^d	^d
Nonresidential	300	50	72,560,292	11,012,711	16.7	15.2
Condominium	22	1	534,633	1,157	4.6	0.2
Building and contents coverage^e						
Single- and two-four family	8,848	934	749,722,860	33,801,218	10.6	4.5
Other residential	117	17	15,353,560	641,519	14.5	4.2
Nonresidential	1,209	195	401,306,344	58,890,423	16.1	14.7
Condominium	109	6	\$46,538,569	\$372,826	5.5%	0.8%

Source: GAO analysis of NFIP data.

Notes: Data are for the Regular Program (Emergency Program is excluded), for policies purchased at the total insurance limit.

^aAmount of flood damages in excess of the respective insurance available (for policies purchased at the total insurance limit). Dollars are adjusted to 2006 dollars.^bThe dollar amount paid out for damages in excess of the maximum NFIP insurance available divided by the total amount of damages paid out (for policies purchased at the total insurance limit)^cOther residential properties include hotels or motels where the normal occupancy of a guest is 6 months or more.^dCell counts considered too low to report this figure.^eThe amount of damages are the sum of both building and contents damages combined for only claims that exceed the insurance coverage limit.

Table 35: Percentage of Claims and Damages in Excess of NFIP Insurance Available by Policy Type, for Policies Purchased at the Insurance Limit, 2005

	Claims for which damage data are available	Claims for which damage amounts exceeded insurance available	Amount of damages for all claims (where damage data are available)	Amount of damages in excess of insurance limit ^a	Percentage of claims for which damages exceeded insurance limit	Percentage dollars for which damages exceeded insurance limit ^b
Building coverage						
Single- and two-four family	8,578	162	\$337,362,745	\$14,916,018	1.9%	4.4%
Other residential ^c	1,154	323	248,056,786	44,846,713	28.0	18.1
Nonresidential	1,138	199	373,097,199	121,705,313	17.5	32.6
Condominium	177	2	9,168,451	87,100	1.1	1.0
Contents coverage						
Single- and two-four family	427	45	15,037,299	5,549,366	10.5	36.9
Other residential	1	0	1,034	0		
Nonresidential	88	39	40,013,671	10,563,914	44.3	26.4
Condominium	20	9	4,553,974	1,184,553	45.0	26.0
Building and contents coverage^d						
Single- and two-four family	13,430	6793	2,854,477,247	308,150,782	50.6%	10.8
Other residential	143	68	53,995,270	19,495,267	47.6	36.1
Nonresidential	865	496	702,615,730	233,547,555	57.3	33.2
Condominium	40	13	\$14,229,915	\$454,052	32.5%	3.2%

Source: GAO analysis of NFIP data.

Notes: Data are for the Regular Program (Emergency Program is excluded), for policies purchased at the total insurance limit.

^aAmount of flood damages in excess of the respective insurance available (for policies purchased at the total insurance limit). Dollars are adjusted to 2006 dollars.

^bThe dollar amount paid out for damages in excess of the maximum NFIP insurance available divided by the total amount of damages paid out (for policies purchased at the total insurance limit)

^cOther residential properties include hotels or motels where the normal occupancy of a guest is 6 months or more.

^dThe amount of damages are the sum of both building and contents damages combined for only claims that exceed the insurance coverage limit.

Similarly, properties insured for less than the maximum flood insurance available and with damage claims that exceeded the amount of insurance purchased represented from less than 1 to more than 27 percent of claims filed from 1997 through 2004 (see table 36), and from 5 to 71 percent of

claims filed in 2005 (see table 37), depending upon the type of flood insurance coverage and the type of structure insured.

Table 36: Percentage of Claims and Damages in Excess of NFIP Insurance Purchased by Policy Type, for Policies Purchased at Less Than the Insurance Limit, 1997–2004

	Claims for which damage data are available	Claims for which damage amounts exceeded insurance available	Amount of damages for all claims (where damage data are available)	Amount of damages in excess of insurance limit ^a	Percentage of claims for which damages exceeded insurance limit	Percentage dollars for which damages exceeded insurance limit ^b
Building coverage						
Single- and two-four family	147,410	2,069	\$2,256,558,707	\$281,311,921	1.4%	12.5%
Other residential ^d	4,100	195	192,907,814	7,113,743	4.8	3.7
Nonresidential	13,694	478	482,115,190	20,012,459	3.5	4.2
Condominium	5,433	40	438,636,443	5,855,113	0.7	1.3
Contents coverage						
Single- and two-four family	6,416	563	47,434,548	4,248,471	8.8	9.0
Other residential	353	68	4,847,785	275,007	19.3	5.7
Nonresidential	3,905	861	218,802,981	26,132,535	22.1	11.9
Condominium	1,520	314	22,470,296	2,930,008	20.7	13.0
Building and contents coverage^c						
Single- and two-four family	106,209	19,367	4,036,695,005	168,592,193	18.2	4.2
Other residential	600	157	30,319,077	1,642,330	26.2	5.4
Nonresidential	8,265	2,250	678,052,867	46,763,739	27.2	6.9
Condominium	819	191	\$103,637,989	\$1,464,236	23.3%	1.4%

Source: GAO analysis of NFIP data.

Notes: Data are for the Regular Program (Emergency Program is excluded), for policies purchased at less than the insurance limit.

^aAmount of flood damages in excess of the amount of insurance purchased (for policies purchased at less than the insurance limit). Dollars are adjusted to 2006 dollars.

^bThe dollar amount paid out for damages in excess of the amount of NFIP insurance purchased divided by the total amount of damages paid out (for policies purchased at less than the insurance limit).

^cThe amount of damages are the sum of both building and contents damages combined for only claims from policies purchased at less than the insurance coverage limit.

Table 37: Percentage of Claims and Damages in Excess of NFIP Insurance Purchased by Policy Type, for Policies Purchased at Less Than the Insurance Limit, 2005

	Claims for which damage data are available	Claims for which damage amounts exceeded insurance available	Amount of damages for all claims (where damage data are available)	Amount of damages in excess of insurance limit ^a	Percentage of claims for which damages exceeded insurance limit	Percentage dollars for which damages exceeded insurance limit ^b
Building coverage						
Single- and two-four family	56,037	4,934	\$2,881,408,610	\$194,355,195	8.8%	6.8%
Other residential ^d	2,769	646	393,351,226	79,407,484	23.3	20.2
Nonresidential	5,236	619	696,224,026	152,365,225	11.8	21.9
Condominium	1,941	97	236,415,187	7,818,754	5.0	3.3
Contents coverage						
Single- and two-four family	4,745	1,073	72,534,988	15,199,933	22.6	21.0
Other residential	303	163	6,550,690	1,074,163	53.8	16.4
Nonresidential	1,328	758	132,715,501	29,493,756	57.1	22.2
Condominium	722	337	28,218,416	5,978,872	46.7	21.2
Building and contents coverage^c						
Single- and two-four family	111,582	78,902	14,362,248,586	1,719,892,117	70.7	12.0
Other residential	429	251	62,643,182	10,522,880	58.5	16.8
Nonresidential	4,111	2,621	965,751,875	195,370,843	63.8	20.2
Condominium	464	306	\$70,503,326	\$15,031,919	66.0%	21.3%

Source: GAO analysis of NFIP data.

Notes: Data are for the Regular Program (Emergency Program is excluded), for policies purchased at less than the insurance limit.

^aAmount of flood damages in excess of the amount of insurance purchased (for policies purchased at less than the insurance limit). Dollars are adjusted to 2006 dollars.^bThe dollar amount paid out for damages in excess of the amount of NFIP insurance purchased divided by the total amount of damages paid out (for policies purchased at less than the insurance limit).^cThe amount of damages are the sum of both building and contents damages combined for only claims from policies purchased at less than the insurance coverage limit.

Appendix VII: Definitions of Flood Zones

Zone V: Areas along coasts subject to inundation by the 1-percent-annual-chance flood event with additional hazards associated with storm-induced waves. Because detailed hydraulic analyses have not been performed, no Base Flood Elevations (BFE) or flood depths are shown. Mandatory flood insurance purchase requirements apply.

Zones VE and V1-V30: Areas along coasts subject to inundation by the 1-percent-annual-chance flood event with additional hazards due to storm-induced velocity wave action. BFEs derived from detailed hydraulic analyses are shown within these zones. Mandatory flood insurance purchase requirements apply. (Zone VE is used on new and revised maps in place of Zones V1-V30.)

Zone A: Areas subject to inundation by the 1-percent-annual-chance flood event. Because detailed hydraulic analyses have not been performed, no BFEs or flood depths are shown. Mandatory flood insurance purchase requirements apply.

Zones AE and A1-A30: Areas subject to inundation by the 1-percent-annual-chance flood event determined by detailed methods. BFEs are shown within these zones. Mandatory flood insurance purchase requirements apply. (Zone AE is used on new and revised maps in place of Zones A1-A30.)

Zone AH: Areas subject to inundation by the 1-percent-annual-chance shallow flooding (usually areas of ponding) where average depths are between 1 and 3 feet. BFEs derived from detailed hydraulic analyses are shown in this zone. Mandatory flood insurance purchase requirements apply.

Zone AO: Areas subject to inundation by the 1-percent-annual-chance shallow flooding (usually sheet flow on sloping terrain) where average depths are between 1 and 3 feet. Average flood depths derived from detailed hydraulic analyses are shown within this zone. Mandatory flood insurance purchase requirements apply.

Zone A99: Areas subject to inundation by the 1-percent-annual-chance flood event, but which will ultimately be protected upon completion of an under-construction federal flood protection system. These are areas of special flood hazard where enough progress has been made on the construction of a protection system, such as a dikes, dams, or levees, to consider it complete for insurance rating purposes. Zone A99 may only be used when the flood protection system has reached specified statutory

progress toward completion. No BFEs or flood depths are shown. Mandatory flood insurance purchase requirements apply.

Zone AR: Areas that result from the decertification of a previously accredited flood protection system that is determined to be in the process of being restored to provide base flood protection. Mandatory flood insurance purchase requirements apply.

Zones AR/AE, AR/AH, AR/AO, AR/A1-A30, AR/A: Dual flood zones that, because of the risk of flooding from other water sources that the flood protection system does not contain, will continue to be subject to flooding after the flood protection system is adequately restored. Mandatory flood insurance purchase requirements apply.

Zones B, C, and X: Areas identified in the community Flood Insurance Study (FIS) as areas of moderate or minimal hazard from the principal source of flood in the area. However, buildings in these zones could be flooded by severe, concentrated rainfall coupled with inadequate local drainage systems. Local stormwater drainage systems are not normally considered in the community's FIS. The failure of a local drainage system creates areas of high flood risk within these rate zones. Flood insurance is available in participating communities but is not required by regulation in these zones. (Zone X is used on new and revised maps in place of Zones B and C.)

Zone D: Unstudied areas where flood hazards are undetermined, but flooding is possible. No mandatory flood insurance purchase requirements apply, but coverage is available in participating communities.

In addition, the FEMA contractor responsible for collection and analysis of NFIP data uses two additional designations when collecting and reporting data by flood zone. Zone "O" (Other) is not a flood zone designation; rather it is used to indicate missing or erroneous data for policies. Policies under FEMA's Emergency Program, which is the program through which communities enter NFIP, also do not have designated flood zones. Instead, the FEMA contractor captures data on the policies by using their Emergency Program status.

Appendix VIII: Comments from the Federal Emergency Management Agency

U.S. Department of Homeland Security
500 C Street, SW
Washington, DC 20472



FEMA

May 16, 2008

Orice M. Williams
Director
Financial Markets and Community Investments
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

RE: GAO Draft Report, *NFIP- Financial Challenges Underscore Need for Improved Oversight of Mitigation Programs and Key Contracts* (GAO-08-437)

Dear Ms Williams:

Thank you for providing the Department of Homeland Security, Federal Emergency Management Agency (FEMA), the opportunity to review and comment on the GAO draft report, *NFIP- Financial Challenges Underscore Need for Improved Oversight of Mitigation Programs and Key Contracts*.

FEMA has completed its review. We have taken actions related to each of the Recommendations for Executive Actions to resolve issues identified in the reports. These actions were taken prior to issuance of this report. In addition we have comments on statements and analysis contained in the report.

FEMA Actions related to Recommendations:

For each of the recommendations for executive action, I highlight the FEMA actions taken to date to resolve the noted issues:

Recommendation #1: Implement a process to ensure that monitoring reports are submitted on time and systematically reviewed by the COTR and the Program Management Office and copies of monitoring reports are retained in a quality assurance file, as directed by the contract.

FEMA Action:

A process has been implemented as part of the newly installed Program Management Office; a procedure is now in place whereby Technical Monitors will provide a monthly status report by the fifth working day of the month to the COTR. All Technical Monitors will use the established *Monthly Status Report* format to ensure monitoring is performed in a consistent manner across all contracts. The result will ensure the Federal Government receives the quality of services called for in the contract and pays only for the acceptable level of services received.

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The COTR will, in addition to providing documentation to the Contracting Specialist, maintain a complete Performance Monitoring file. All such records will be retained for the life of this contract. The COTR shall forward these records to the Contracting Officer at termination or completion of the contract.

Recommendation #2: Ensure that FEMA staff clearly monitors each performance standard that the contractor is required to meet in the time frames required by contract and that FEMA staff clearly link monitoring reports and performance areas.

FEMA Action:

The Program Management Office developed a written procedure on the proper reporting requirements and conducted a training session with all Technical Monitors. A *Monthly Status Report* form has been developed that states each contract performance objective as identified in the contract. A *Performance Summary* section is provided to summarize each performance objective as either exceeded; met; or unmet as required by the contract's SOW/PWS. When citing performance standards, the Technical Monitor must link the comment to the appropriate section of the SOW/PWS. Where performance is identified as unmet for any monthly reporting period, appropriate action must be taken by the COTR who reviews the Monthly Status Report. The COTR submits the Discrepancy Report for follow-up by the Contracting Officer on the performance deficiency.

Recommendation #3: Ensure implementation of written guidance for all NFIP-related contracts on how to consistently handle the failure of a contractor to meet standards in performance areas and establish written policies and procedures about the coordination between FEMA officials and offices (including the COTR, the Program Management Office, and the Contracting Officer) when addressing contractor deficiencies, including determining whether and under what circumstances to issue discrepancy reports, and ensuring that financial disincentives are appropriately and consistently applied.

FEMA Action:

The Program Management Office developed a written procedure on the proper reporting requirements and conducted a session with all Technical Monitors. At the training session, copies of the *Monthly Status Report* format were provided and reviewed. An electronic copy of the form was provided to each Technical Monitor to use each month.

It is the responsibility of the COTR to thoroughly review the *Monthly Status Reports* and to follow up with the Contracting Officer where deficiencies in a contractor's performance are discovered. The COTR will complete out the Discrepancy Report and will discuss the consequences of the deficiencies with the Contracting Officer as required. The Contracting Officer will decide if disincentives are appropriate.

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General Comments:

The following are comments we have on various aspects of the statements and comments made throughout the report:

Various pages: Throughout the document there are statements to the effect that “.....FEMA’s ability to track the effectiveness of these programs (FMA, SRL, RFC) is limited because it does not track property acquisitions in real time (page 23)” and “FEMA does not have real time property acquisition data because the agency does not require its regional staff to report the status of individual property level acquisitions before a project closes - a process that can take several years – and its current grants management system does not have the capability to capture and track such data (page 24).” Additional cites are pages 26, 27, 29, 43

Comment: Currently FEMA does track and verify the effectiveness of the grant programs at two points:

- 1- During application submission and review - when engineering feasibility and cost effectiveness are determined; and,
- 2- At close out when the project is considered completed.

GAO is correct in the statement that FEMA does not currently “track property acquisitions in real time,” assuming GAO means that we do not record in the eGrants system on the date of the property ownership transfer. That “real time” data is not obtainable under our existing reporting systems and tools. FEMA can obtain this information; however it would involve multiple levels of contacts between Headquarters (HQ), Region, State, and local partners and is not efficient. The two points that are currently used to verify the effectiveness of projects (application review and close out) are used for several reasons including:

- The project development and award process is fluid. Site specific projects (e.g. acquisition of a certain house) may change in an application once a project is selected for further review. In other words, when a community submits a multiple property project application, some properties may be eliminated and new ones (identified as alternates in the application) may become available for project funding. This fluidity is in fact tracked at the State and Regional level, however not at FEMA HQ.
- Tracking in between status prior to closeout currently requires multiple levels of contacts including FEMA HQ, Region, State, and local partners; and, it is not clear that there is added value to have that information at HQ. Program effectiveness of the grant programs is verified at two key points. By verifying effectiveness at application for benefit cost analysis and engineering feasibility, FEMA is able to project potential effectiveness (e.g. losses avoided) for each project. That effectiveness is subsequently reverified at project closeout, when all property acquisition transactions are completed.

**Appendix VIII: Comments from the Federal
Emergency Management Agency**

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Page 5: states that *“the amounts available for mitigation activities such as the purchase and demolition of flood-damaged properties increased for one of the NFIP’s mitigation programs and became available for two others in 2006, yet the total number of properties purchased through these three programs is unknown.”*

Comment: We disagree that it is unknown, however we do concur that the data is not easily obtained under our existing reporting systems and tools. This information is in fact tracked at the State and Regional level, however not at HQs. FEMA can obtain this information; however it involves multiple levels of contacts including HQ, Region, State, local partners and is not efficient. This information is only reported to HQ at closeout or on an as-needed basis.

Page 6: Format issue: The paragraph that begins *“FEMA lacked monitoring records, inconsistently followed it procedures for monitoring contractors.....”* pertains to contracts for the Insurance side of Mitigation Directorate. This paragraph is located between two paragraphs pertaining to the Mitigation grants programs. The placement of the paragraphs gives the impression that the NFIP contract issues has something to do with the grant program issue (tracking property acquisitions), which it does not, and we suggest GAO rearrange paragraphs.

Page 10 Format issue: (same issue as Page 6) Paragraph below Table 2 also mixes grant management issues with Insurance contract management issues and needs to be clearly separated.

We appreciate your continued interest in improving the National Flood Insurance Program and the opportunity to review and comment on this report.

If you need additional information, please contact me by telephone at 202-646-2780.

Sincerely,



David I. Maurstad
Assistant Administrator
Mitigation Directorate

Appendix IX: GAO Contact and Staff Acknowledgments

GAO Contact

Orice M. Williams, (202) 512-5837, or williamso@gao.gov

Staff Acknowledgments

In addition to the contact named above, Lawrence Cluff, Assistant Director; Verginie Amirkhanian; Crystal Swain-Bates; William (Rudy) Chatlos; May Lee; Lisa Moore; Barbara Roesmann; Christine San; Paul Thompson; Shamiah Woods; and William T. Woods made significant contributions to this report.

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