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Loss of Financial Control over the National Flood Insurance Program. April 11, 1977. 14 pp.

Testimony before the Senate Committee on Governmental Affairs: Efficiency and the District of Columbia Subcommittee; by Henry Eschwege, Director, Community and Economic Development Div.

Issue Area: Domestic Housing and Community Development: Effects on Communities from Natural Catastrophes (2106).

Contact: Community and Economic Development Div.

Budget Function: Community and Regional Development: Disaster Relief and Insurance (453).

Organization Concerned: Department of Housing and Urban Development; National Flood Insurers Association.

Congressional Relevance: Senate Committee on Governmental Affairs: Efficiency and the District of Columbia Subcommittee.

Authority: National Flood Insurance Act of 1968 (P.L. 90-448, sec. 1301; 42 U.S.C. 4071). Flood Disaster Protection Act (P.L. 93-234).

The National Flood Insurance Program, which helps owners of real or personal property to purchase flood insurance, is administered by the Federal Insurance Administration (FIA) of HUD. Authorized insurance coverage is provided by the member companies of the National Flood Insurers Association. Weaknesses were noted in the association's ability to generate accurate data, which cast doubt on the Government's ability to determine reasonable amounts payable to the association under the Flood Insurance Program. Since October 1975, the association has been unable to prepare financial statements on the results of its operations or to prepare proper billings to HUD for its share of program costs and flood losses. A CPA review revealed that the computer system used did not meet criteria established by FIA and by the association. Because of inadequate financial controls, the Government was unable to properly calculate the association's share of expenses reimbursable under the program, and the amount of the operating allowance to be retained under the program could not be properly determined. (RRS)

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UNITED STATES GENERAL ACCOUNTING OFFICE
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STATEMENT OF
HENRY ESCHWEGE, DIRECTOR
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY
AND
THE DISTRICT OF COLUMBIA
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ON

LOSS OF FINANCIAL CONTROL OVER
THE NATIONAL FLOOD INSURANCE PROGRAM

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE HERE TODAY AT THE INVITATION OF THE SUBCOMMITTEE
TO DISCUSS OUR REVIEW OF THE FINANCIAL CONTROLS OVER THE
NATIONAL FLOOD INSURANCE PROGRAM.

THE RESULTS OF OUR REVIEW WERE INCLUDED IN A LETTER
REPORT TO THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT (HUD)
DATED MARCH 21, 1977 (CED-77-47). MY TESTIMONY WILL SUMMARIZE
OUR FINDINGS AND ADDRESS THREE SPECIFIC QUESTIONS WHICH YOU
RAISED, MR. CHAIRMAN, FOLLOWING RECEIPT OF OUR REPORT. YOU
MAY WISH TO HAVE THE FULL TEXT OF THE REPORT PLACED IN THE
RECORD.

THE NATIONAL FLOOD INSURANCE PROGRAM WAS ESTABLISHED BY THE NATIONAL FLOOD INSURANCE ACT OF 1968 (SECTION 1301, PUBLIC LAW 90-448). IT WAS DESIGNED TO HELP OWNERS OF REAL OR PERSONAL PROPERTY PURCHASE FLOOD INSURANCE. THE 1973 FLOOD DISASTER PROTECTION ACT (PUBLIC LAW 93-234) PROVIDED FOR A MANDATORY RATHER THAN VOLUNTARY FLOOD INSURANCE PROGRAM. THE FEDERAL INSURANCE ADMINISTRATION (FIA) OF HUD IS RESPONSIBLE FOR THE ADMINISTRATION OF THE PROGRAM. THE NATIONAL FLOOD INSURANCE PROGRAM WAS SUBJECTED TO THE REQUIREMENTS OF THE GOVERNMENT CORPORATION CONTROL ACT, WHICH MEANS THAT FIA IS REQUIRED TO PREPARE ANNUAL FINANCIAL STATEMENTS AND WE ARE REQUIRED TO AUDIT THE PROGRAM'S FINANCIAL STATEMENTS AT LEAST ONCE EVERY 3 YEARS.

THE NATIONAL FLOOD INSURERS ASSOCIATION, UNDER A CONTRACT WITH FIA, IS RESPONSIBLE THROUGH ITS MEMBER COMPANIES TO PROVIDE AUTHORIZED INSURANCE COVERAGE. IT IS ALSO RESPONSIBLE TO MAINTAIN ACCOUNTING AND ADMINISTRATIVE RECORDS OF THE PROGRAM'S OPERATIONS.

THE FLOOD INSURANCE PROGRAM HAS GROWN CONSIDERABLY SINCE ITS INCEPTION. ACCORDING TO AN FIA REPORT, BY JANUARY 1977 AN ESTIMATED 883,000 POLICIES, REPRESENTING ABOUT \$26.6 BILLION OF INSURANCE, WERE IN FORCE. ABOUT 63,000 CLAIMS HAD BEEN SETTLED FOR ABOUT \$188 MILLION.

OUR MOST RECENT AUDIT OF THE NATIONAL FLOOD INSURANCE PROGRAM'S FINANCIAL REPORTS WAS MADE AS OF JUNE 30, 1974,

AND OUR REPORT ON THAT REVIEW WAS RELEASED BY THE COMPTROLLER GENERAL ON SEPTEMBER 17, 1975. OUR NEXT AUDIT HAD BEEN SCHEDULED FOR THE END OF FISCAL YEAR 1977. WE LEARNED, HOWEVER, THAT SERIOUS ACCOUNTING PROBLEMS HAD DEVELOPED AT THE ASSOCIATION AND, BECAUSE OF OUR RESPONSIBILITY UNDER THE GOVERNMENT CORPORATION CONTROL ACT TO REPORT ON THE FINANCIAL STATUS OF THE PROGRAM, WE INITIATED A REVIEW TO DETERMINE THE SEVERITY OF THESE PROBLEMS.

IN SUMMARY, WE FOUND NUMEROUS WEAKNESSES IN THE ASSOCIATION'S ABILITY TO GENERATE ACCURATE FINANCIAL DATA. AS LONG AS THESE WEAKNESSES PERSIST THERE IS SUBSTANTIAL DOUBT AS TO THE GOVERNMENT'S ABILITY TO DETERMINE REASONABLE AMOUNTS PAYABLE TO THE ASSOCIATION. UNDER THE PROGRAM THE GOVERNMENT PARTICIPATES IN THE PAYMENT OF FLOOD INSURANCE CLAIMS AND OTHER EXPENSES. IN ADDITION, THE ASSOCIATION MAY RETAIN A PART OF THE OPERATING PROFIT, IF ANY, FOR EACH ACCOUNTING PERIOD NOT TO EXCEED 5 PERCENT OF POLICY-HOLDERS' PREMIUMS.

IT IS DOUBTFUL ALSO THAT THE GOVERNMENT CAN PROPERLY DETERMINE FLOOD INSURANCE PREMIUM RATES OR PREPARE FINANCIAL STATEMENTS OF THE PROGRAM'S CONDITION AND THE RESULTS OF ITS OPERATIONS. FINALLY, UNDER THESE CONDITIONS THE GOVERNMENT'S ABILITY TO MAKE MANAGEMENT DECISIONS ON THE BASIS OF ACCOUNTING DATA IS IMPAIRED. FOR EXAMPLE, ACCOUNTING DATA CAN BE USED TO PINPOINT HIGH CLAIM AREAS, COMPARE VARIOUS ESTIMATES TO

ACTUAL COST AND INCOME DATA, AND DETERMINE THE COST OF SPECIFIC FLOOD DISASTERS.

LOSS OF FINANCIAL CONTROL OVER
THE FLOOD INSURANCE PROGRAM

THE ASSOCIATION'S FINANCIAL STATEMENTS AT JUNE 30, 1975, WERE AUDITED AND CERTIFIED BY A FIRM OF CERTIFIED PUBLIC ACCOUNTANTS. HOWEVER, SINCE OCTOBER 1975, THE ASSOCIATION HAS BEEN UNABLE TO PREPARE FINANCIAL STATEMENTS ON THE RESULTS OF ITS OPERATIONS OR TO PREPARE PROPER BILLINGS TO HUD FOR ITS SHARE OF PROGRAM COSTS AND FLOOD LOSSES. AFTER A REVIEW OF THE STATUS OF THE ASSOCIATION'S RECORDS AS OF JUNE 30, 1976, THE SAME CPA FIRM CONCLUDED THAT, IF AN AUDIT WAS AT ALL FEASIBLE, THE SCOPE OF THE WORK WOULD NECESSARILY BE SO EXTENSIVE THAT THE COST WOULD MAKE IT PROHIBITIVE. THE AUDIT FIRM SUGGESTED THAT A 24-MONTH AUDIT BE MADE AT JUNE 30, 1977, SINCE IT BELIEVED THAT THE CURRENT PROBLEMS COULD BE SOLVED BY THAT TIME.

THE ASSOCIATION'S CONTROLLER ATTRIBUTED THE ASSOCIATION'S INABILITY TO PREPARE FINANCIAL STATEMENTS TO THE FAILURE OF ITS COMPUTER CONTRACTOR TO MEET ITS CONTRACTUAL OBLIGATIONS. HE SAID THAT THE FAILURE CREATED MULTIPLE FINANCIAL AND STATISTICAL PROBLEMS DURING THE PERIOD THAT THE COMPUTER CONTRACTOR WAS RESPONSIBLE FOR THE SYSTEM. THE ASSOCIATION HAD ENGAGED THE COMPUTER FIRM TO DEVELOP AND IMPLEMENT A COMPUTERIZED ACCOUNTING SYSTEM AFTER THE NATIONAL FLOOD

INSURANCE PROGRAM BECAME MANDATORY AND AFTER FIA ORDERED ITS DEVELOPMENT IN MARCH 1974.

IN A MARCH 1976 LETTER TO THE ASSOCIATION, THE COMPUTER FIRM CHARGED THAT ALL SIGNIFICANT DIFFICULTIES IN PERFORMANCE CLEARLY HAD BEEN CAUSED BY THE ASSOCIATION'S FAILURE TO FULFILL ITS OWN OBLIGATIONS, BY THE SERIOUS DEFICIENCIES IN THE DATA MADE AVAILABLE, AND BY THE ASSOCIATION'S LACK OF COOPERATION.

EXTENT OF FINANCIAL CONTROL PROBLEMS

IN NOVEMBER 1975, THE ASSOCIATION REQUESTED ITS CPA'S TO REVIEW THE PROBLEMS EXPERIENCED WITH THE ADP SYSTEM CONTRACT. IN FEBRUARY 1976 THE CPA FIRM REPORTED THAT THE COMPUTER SYSTEM DID NOT MEET THE CRITERIA ESTABLISHED BY FIA AND THE ASSOCIATION FOR ACCOUNTABILITY OF THE FLOOD INSURANCE OPERATIONS. THE FIRM CITED ABOUT 75 DEFICIENCIES COVERING 22 MAJOR SYSTEM REQUIREMENTS. EXAMPLES OF DEFICIENCIES INCLUDED PROBLEMS IN THE AREAS OF PREMIUM CALCULATIONS, ERROR EDITING, PROCESSING OF AGENT COMMISSIONS, POLICY STATISTICS, POLICY SERVICING, FINANCIAL STATEMENTS, POLICY MASTER FILES, CLAIMS ADMINISTRATION, AND SYSTEM CONTROLS.

FIA ALSO REVIEWED PROBLEMS ASSOCIATED WITH THE CONTRACTUAL RELATIONSHIP BETWEEN THE ASSOCIATION AND THE CONTRACTOR. THE PRIMARY PURPOSE OF ITS REVIEW WAS TO DETERMINE WHETHER PROBLEMS WITH THE SYSTEM WERE HAVING AN

ADVERSE IMPACT ON POLICYHOLDERS. THE REVIEW WAS ALSO INTENDED TO IDENTIFY PARTICULARLY ANNOYING PROBLEMS SO THAT FIA COULD WORK WITH THE PARTIES AND SEEK SOLUTIONS TO THEM. FIA'S REPORT IDENTIFIED NUMEROUS PROBLEMS RELATING TO POOR FINANCIAL CONTROL.

WE MADE A LIMITED REVIEW AT THE ASSOCIATION TO DETERMINE WHETHER THE CONTROLS OVER COMPUTER OPERATIONS COULD BE RELIED UPON TO ENSURE THAT AUTOMATED ACCOUNTING AND ADMINISTRATIVE RECORDS CONTAINED ACCURATE AND RELIABLE INFORMATION. OUR REVIEW SHOWED

--CONTROLS WERE NOT ADEQUATE TO ENSURE THAT CASH RECEIPTS WERE DEPOSITED IN BANKS AND PROPERLY RECORDED IN THE GENERAL LEDGER,

--THERE WAS NO REASONABLE ASSURANCE THAT FLOOD INSURANCE INFORMATION RECEIVED BY THE ASSOCIATION FROM SERVICING COMPANIES WAS PROPERLY ENTERED INTO THE FINANCIAL RECORDS, AND

--THE SYSTEM DID NOT ENSURE THAT FLOOD INSURANCE FORMS CONTAINING INCORRECT OR MISSING INFORMATION WERE IDENTIFIED AND REJECTED BEFORE FINAL COMPUTER PROCESSING.

WE DISCUSSED THESE CONTROL WEAKNESSES WITH THE ASSOCIATION'S CONTROLLER IN DECEMBER 1976. HE STATED THAT THE PROBLEMS RESULTED FROM DEFICIENCIES IN THE COMPUTERIZED ACCOUNTING SYSTEM AND THAT CORRECTIONS TO THE SYSTEM WERE BEING MADE WITH THE AID OF SPECIALISTS FROM THE CPA FIRM.

HE BELIEVED THAT CASH CONTROLS HAD BEEN IMPROVED; HOWEVER, IMPROVEMENTS WERE STILL BEING DEVELOPED TO ENSURE THAT

- (1) ALL DATA RECEIVED FROM THE VARIOUS MEMBER INSURANCE COMPANIES WERE BEING RECORDED IN THE ACCOUNTING RECORDS AND
- (2) EDITING PROCEDURES WERE ADEQUATE TO IDENTIFY INCORRECT OR MISSING INFORMATION.

EFFECTS OF INADEQUATE FINANCIAL CONTROLS

THERE WERE A NUMBER OF ADVERSE EFFECTS ON THE NATIONAL FLOOD INSURANCE PROGRAM ARISING OUT OF INADEQUATE FINANCIAL CONTROLS.

--THE FEDERAL GOVERNMENT WAS UNABLE TO PROPERLY CALCULATE THE ASSOCIATION'S SHARE OF EXPENSES REIMBURSABLE UNDER THE PROGRAM. IN JUNE 1976 FIA REQUESTED THE ASSOCIATION TO SUBMIT, FOR BUDGET PURPOSES, AN ESTIMATE OF CERTAIN FINANCIAL FIGURES INCLUDING THE PAYMENT DUE TO THE ASSOCIATION. THE ASSOCIATION SUBMITTED THE DATA REQUESTED WITH THE QUALIFICATION THAT THE ESTIMATES WERE BASED ON NUMEROUS ASSUMPTIONS AND PROJECTIONS, BECAUSE OF PROBLEMS WITH ITS COMPUTER CONTRACTOR. THE ASSOCIATION INDICATED THAT CAUTION SHOULD BE EXERCISED IN THE USE OF THE DATA.

--THE AMOUNT OF THE OPERATING ALLOWANCE TO BE RETAINED BY THE ASSOCIATION COULD NOT BE PROPERLY DETERMINED. THE INABILITY OF THE ASSOCIATION TO PROVIDE ACCURATE INCOME AND EXPENSE STATEMENTS

HAS A DIRECT EFFECT ON THE DETERMINATION OF THE OPERATING ALLOWANCE.

--PREMIUM RATES COULD NOT BE ESTABLISHED ON A REASONABLE BASIS. UNDER SECTION 1307 OF THE NATIONAL FLOOD INSURANCE ACT, THE SECRETARY IS REQUIRED TO ESTIMATE THE PREMIUM RATES NECESSARY TO COVER THE ESTIMATED FULL COST OF INSURANCE CLAIMS. HOWEVER, THE ASSOCIATION DID NOT HAVE ITS CLAIMS PAYMENT PROCESS UNDER ADEQUATE FINANCIAL CONTROL.

--ACCURATE FINANCIAL STATEMENTS COULD NOT BE PREPARED. UNDER THE PROVISIONS OF THE GOVERNMENT CORPORATION CONTROL ACT, FIA IS REQUIRED TO PREPARE ANNUALLY A STATEMENT OF FINANCIAL CONDITION, AN INCOME AND EXPENSE STATEMENT, AN ANALYSIS OF SURPLUS OR DEFICIT, AND A STATEMENT OF SOURCES AND APPLICATION OF FUNDS. FIA DEPENDS TO A GREAT EXTENT ON RELIABLE FINANCIAL DATA FROM THE ASSOCIATION TO PRODUCE ACCURATE FINANCIAL STATEMENTS.

OUR REPORT RECOMMENDED THAT THE SECRETARY OF HUD

--REVIEW THE FINANCIAL CONTROL PROBLEMS AND ESTABLISH A PLAN THAT WOULD RESULT IN THE RECEIPT OF RELIABLE FINANCIAL AND STATISTICAL DATA NECESSARY TO MANAGE THE PROGRAM.

--UTILIZE THE INSPECTOR GENERAL'S OFFICE TO REVIEW THE PLAN TO MAKE SURE SUCH DATA WOULD MEET FIA'S NEEDS, AND

--GIVE CONSIDERATION TO A PARTIAL OR FULL ASSUMPTION BY THE GOVERNMENT OF NECESSARY FUNCTIONS, AS PERMITTED UNDER PART B OF THE NATIONAL FLOOD INSURANCE ACT OF 1968 (42 U.S.C. 4071), IF ADEQUATE FINANCIAL CONTROL COULD NOT BE ESTABLISHED THROUGH ARRANGEMENTS WITH THE ASSOCIATION.

CURRENT STATUS

IT MAY BE USEFUL TO BRIEFLY SUMMARIZE AND PROVIDE OUR VIEWS ON THE CURRENT STATUS OF THE SITUATION. AS PREVIOUSLY NOTED, AS OF DECEMBER 1976 CONTROL HAD NOT YET BEEN REGAINED. IMPROVEMENTS WERE STILL BEING DEVELOPED TO ENSURE THAT ALL DATA RECEIVED FROM THE VARIOUS MEMBER INSURANCE COMPANIES WILL ULTIMATELY BE RECORDED IN THE ACCOUNTING RECORDS AND THAT EDITING PROCEDURES WILL BE ADEQUATE TO IDENTIFY INCORRECT OR MISSING INFORMATION.

IN FEBRUARY 1977 WE MET WITH REPRESENTATIVES OF THE CPA FIRM TO DISCUSS THE RESULTS OF OUR REVIEW. THEY INFORMED US AT THAT TIME THAT IT MIGHT BE 1 OR 2 YEARS BEFORE FULL FINANCIAL CONTROL COULD BE REGAINED. THEY SAID THAT AUDITABLE FINANCIAL STATEMENTS, HOWEVER, MAY BE AVAILABLE BEFORE THAT TIME AND THAT CONSIDERABLE EFFORT IS BEING MADE TOWARDS THOSE ENDS.

IN A LETTER DATED MARCH 25, 1977, THE GENERAL MANAGER OF THE ASSOCIATION, HOWEVER, INFORMED US THAT FINANCIAL CONTROL OF THE INSURANCE ASPECTS OF THE PROGRAM HAD BEEN RESTORED AND THAT ACCURATE FINANCIAL AND STATISTICAL DATA HAD BEEN PREPARED.

ALTHOUGH IT IS LIKELY THAT IMPROVEMENTS HAVE BEEN MADE IN THE COMPUTERIZED ACCOUNTING SYSTEM SINCE THE ASSOCIATION ASSUMED ITS OPERATION AND THE CPA FIRM BEGAN WORKING ON ITS PROBLEMS, WE DOUBT THAT FULL CONTROL HAS BEEN REGAINED. OUR OPINION IS BASED ON

--THE CPA FIRM'S STATEMENT TO US THAT IT MAY BE 1 OR 2 YEARS BEFORE FULL FINANCIAL CONTROL COULD BE REGAINED, AND

--A FEBRUARY 10, 1977, MEETING BETWEEN THE ASSOCIATION AND FIA OFFICIALS DURING WHICH CHANGES NEEDED TO CORRECT THE COMPUTER SYSTEM DEFICIENCIES WERE CLASSIFIED INTO FOUR CATEGORIES AS FOLLOWS--(1) CRITICAL, (2) SIGNIFICANT BUT COULD BE DEFERRED, (3) WOULD IMPROVE EFFICIENCY BUT COULD BE DEFERRED, AND (4) NICE TO HAVE.

WITH RESPECT TO THE CRITICAL CHANGES ONLY, THE ASSOCIATION ASSISTED BY THE CPA FIRM CONCLUDED THAT 3,000 STAFF-DAYS OF PROGRAMMING AND TESTING WOULD BE REQUIRED TO RESOLVE THE CRITICAL PROBLEMS. THEY ESTIMATED THAT A TOTAL OF 6,900 STAFF-DAYS WOULD BE NEEDED TO BRING THE ENTIRE SYSTEM UP TO ACCEPTABLE LEVELS.

IN FEBRUARY 1977, HUD ESTABLISHED A TASK FORCE WITHIN FIA WITH THE OBJECTIVE OF WORKING WITH THE ASSOCIATION TO OBTAIN ACCURATE DATA ON FLOOD INSURANCE OPERATIONS. ALSO, HUD'S OFFICE OF INSPECTOR GENERAL IS PERFORMING REVIEWS OF THE FINANCIAL CONTROL PROBLEMS.

MR. CHAIRMAN, AT THE BEGINNING OF MY TESTIMONY I REFERRED TO THREE QUESTIONS YOU HAD ASKED US RELATING TO THE FLOOD INSURANCE PROGRAM. MY RESPONSES TO THESE QUESTIONS FOLLOW.

1. YOU INQUIRED AS TO THE RESPONSIBILITIES OF THE FIA ADMINISTRATOR FOR PRESCRIBING FINANCIAL RECORDS AND PROCEDURES AND ASSURING ADEQUATE FINANCIAL CONTROL AS REQUIRED UNDER THE NATIONAL FLOOD INSURANCE ACT AND THE GOVERNMENT CORPORATION CONTROL ACT.

UNDER THE GOVERNMENT CORPORATION CONTROL ACT THE ADMINISTRATOR IS REQUIRED TO PREPARE ANNUALLY A BUSINESS TYPE BUDGET INCLUDING STATEMENTS OF FINANCIAL CONDITION, INCOME AND EXPENSE, AND SOURCES AND APPLICATION OF FUNDS, AND AN ANALYSIS OF SURPLUS OR DEFICIT.

UNDER THE HOUSING AND URBAN DEVELOPMENT ACT OF 1968 THE ADMINISTRATOR HAS ACCESS TO THE RECORDS OF THE ASSOCIATION FOR THE PURPOSE OF AUDIT. FIA HAS THE RESPONSIBILITY TO PRESCRIBE THE TYPE OF RECORDS NEEDED

INCLUDING RECORDS WHICH FULLY DISCLOSE THE TOTAL COSTS OF THE PROGRAM.

THE OPERATIONAL CONTRACT BETWEEN THE ASSOCIATION AND FIA PRESCRIBES CERTAIN FINANCIAL REQUIREMENTS WHICH ARE TO BE FOLLOWED BY THE ASSOCIATION. FURTHER, THROUGH CORRESPONDENCE WITH THE ASSOCIATION, THE FIA HAS PRESCRIBED ADDITIONAL GUIDANCE RELATED TO FINANCIAL MATTERS.

2. YOU INQUIRED ALSO AS TO THE STEPS TAKEN BY FIA TO CORRECT THE DEFICIENCIES IN THE FINANCIAL SYSTEM.

FIA HAS DEVOTED CONSIDERABLE TIME AND EFFORT TRYING TO RECONCILE THE CONFLICTS WHICH DEVELOPED BETWEEN THE ASSOCIATION AND ITS COMPUTER CONTRACTOR AND TO COME UP WITH AN ACCEPTABLE SOLUTION THAT WOULD NOT ADVERSELY AFFECT THE NATIONAL FLOOD INSURANCE PROGRAM. FIA HAS PROVIDED GUIDANCE AND SUGGESTIONS THROUGH NUMEROUS LETTERS AND MEMORANDUMS AND HAS MET WITH THE ASSOCIATION AND ITS COMPUTER CONTRACTOR ON MANY OCCASIONS TO MAP OUT A STRATEGY WHICH WOULD SOLVE THE COMPUTER SYSTEM'S DEFICIENCIES. AS I MENTIONED EARLIER IN MY STATEMENT, FIA ALSO MADE AN INDEPENDENT REVIEW TO IDENTIFY PROBLEMS AND WORK WITH THE PARTIES TOWARD A SOLUTION.

BECAUSE OF A DISPUTE BETWEEN THE ASSOCIATION AND FIA AS TO THEIR RESPECTIVE RESPONSIBILITIES FOR VARIOUS ASPECTS

OF PROGRAM ADMINISTRATION, FIA PUBLISHED PROPOSED RULES IN THE FEDERAL REGISTER ON AUGUST 30, 1976, WHICH ARE INTENDED TO CLARIFY ITS ROLE IN INTERPRETING LEGISLATION AND PRESCRIBING PROCEDURES GOVERNING SUBCONTRACTS LET BY THE ASSOCIATION.

AFTER THE ASSOCIATION TERMINATED ITS CONTRACT WITH THE COMPUTER CONTRACTOR IN NOVEMBER 1976, FIA AGREED TO SET UP A TASK FORCE TO ASSIST THE ASSOCIATION IN ATTEMPTING TO SALVAGE THE PREVIOUSLY DESIGNED SYSTEM RATHER THAN DESIGN A COMPLETELY NEW SYSTEM.

WE HAVE OBTAINED FROM FIA A DETAILED CHRONOLOGY OF EVENTS RELATING TO FINANCIAL CONTROL AND STATISTICAL REPORTING OBLIGATIONS OF THE ASSOCIATION WHICH OCCURRED BETWEEN AUGUST 2, 1973, AND APRIL 1, 1977. WE WOULD BE HAPPY TO PROVIDE THIS CHRONOLOGY FOR THE RECORD.

3. FINALLY, YOU QUESTIONED THE ADMINISTRATOR'S BASIS FOR SUBMITTING REQUIRED REPORTS TO THE CONGRESS WHEN FINANCIAL DATA WERE KNOWN BY FIA TO BE INADEQUATE.

THE ADMINISTRATOR, UNDER THE GOVERNMENT CORPORATION CONTROL ACT, IS REQUIRED TO SUBMIT SEVERAL FINANCIAL STATEMENTS TO OMB FOR THE ANNUAL BUDGET PROCESS. THE STATEMENTS CONTAIN ESTIMATES OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE CURRENT AND ENSUING FISCAL YEAR AND THE

ACTUAL CONDITION AND RESULTS OF OPERATIONS FOR THE PRIOR YEAR. THE ACTING ADMINISTRATOR, FIA, EXPLAINED THAT THE ASSOCIATION'S STATEMENTS HAD BEEN AUDITED AND CERTIFIED THROUGH JUNE 30, 1975.

THEREFORE, THE ACTING ADMINISTRATOR BELIEVES THAT THE INFORMATION USED FOR THE FISCAL YEAR 1977 BUDGET WAS ADEQUATE BECAUSE THE EARLIEST YEAR REQUIRING ACTUAL DATA WAS FISCAL YEAR 1975. FOR THE FISCAL YEAR 1978 BUDGET, HOWEVER, ACTUAL RATHER THAN ESTIMATED DATA WAS NEEDED AS OF JUNE 30, 1976, AND THE ASSOCIATION HAD NOT DEVELOPED STATEMENTS AS OF THAT TIME.

THE ACTING ADMINISTRATOR TOLD US THAT HE USED THE BEST DATA AVAILABLE FROM THE ASSOCIATION. THIS WAS THE DATA WHICH THE ASSOCIATION HAD CAUTIONED WAS BASED ON NUMEROUS ASSUMPTIONS AND PROJECTIONS, BECAUSE OF ITS PROBLEMS WITH THE COMPUTER CONTRACTOR.

MR. CHAIRMAN, THIS COMPLETES MY PREPARED STATEMENT. WE WILL BE GLAD TO RESPOND TO YOUR QUESTIONS.