



Highlights of [GAO-10-66](#), a report to the Ranking Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

Why GAO Did This Study

Due to the federal government's role as guarantor, floods impose an enormous potential financial burden on the federal government. Consequently, decision makers at the Department of Homeland Security (DHS), the Federal Emergency Management Agency (FEMA), and the Congress need accurate and timely financial information to assess the effectiveness of the National Flood Insurance Program (NFIP). This report assesses whether controls in place during the 2005 to 2007 time frame were effective and whether actions to improve controls are likely to address identified weaknesses. GAO reviewed and analyzed FEMA/NFIP guidance, data, and financial reports, reviewed prior audit reports, interviewed FEMA officials and contractors, and selected a sample of claim losses paid to determine whether claim files contained key documents.

What GAO Recommends

GAO makes seven recommendations to improve NFIP financial management controls and oversight. FEMA agreed with two of GAO's recommendations and cited corrective actions under way, stated that two recommendations were unnecessary because sufficient procedures were already in place, and disagreed with the remaining three recommendations. GAO reaffirms the need for all seven recommendations.

View [GAO-10-66](#) or [key components](#). For more information, contact Susan Ragland at (202) 512-9095 or raglands@gao.gov.

FINANCIAL MANAGEMENT

Improvements Needed in National Flood Insurance Program's Financial Controls and Oversight

What GAO Found

Weaknesses in internal controls impaired FEMA's ability to maintain effective transaction-level accountability. These weaknesses limited FEMA's ability to assure accurate NFIP financial data during the 3-year period from fiscal year 2005 through 2007, which included the financial activity related to the 2005 Gulf Coast hurricanes. FEMA relies heavily on Write Your Own (WYO) insurance companies to carry out NFIP financial activities such as documenting and maintaining claim files. FEMA's Bureau and Statistical Agent (BSA) serves as a liaison between the government and WYO insurance companies. GAO identified weaknesses at three levels of the NFIP transaction accountability and financial reporting process. First, at the WYO level, our internal control testing of a statistical sample determined that almost 71 percent of WYO company claims loss files did not have the necessary documents to support the claims, or reports were filed late. Second, incomplete BSA-level premium data files (lacking key information such as insureds' names and addresses) prevented an assessment of the reliability of reported NFIP premium amounts. Further, BSA-level internal control activities were ineffective in verifying the accuracy of WYO-submitted data. Lastly, FEMA's financial reporting process uses summary data that is overly reliant on error-prone manual data entry.

GAO found that FEMA's broader oversight structures were also of limited effectiveness. Specifically, GAO found weaknesses in three key structures FEMA relies on to provide oversight over NFIP and monitor financial activity: (1) WYO company audits—specifically, we found that FEMA did not collect the results of state insurance department audits related to flood insurance activity and did not perform any audits for cause; (2) triennial operational reviews of WYO insurance companies—we found that FEMA did not perform operational reviews at almost one third of all WYO companies over the 3-year period; and (3) FEMA's claims reinspection program—we found that FEMA used flawed sampling procedures in the claims reinspection program. These findings are consistent with weaknesses GAO has previously identified. These oversight weaknesses limited FEMA's ability to identify and address financial transaction control breakdowns resulting from the 2005 hurricanes.

FEMA's initiatives to improve specific internal control weaknesses and the overall NFIP control environment since the 2005 Gulf Coast hurricanes have done little to address many of the NFIP financial data deficiencies highlighted by these catastrophic events. FEMA has made improvements such as revising its claim reinspection selection methodology to provide for review of a random selection of a statistically representative sample of claim files. However, the modified reinspection methodology still does not include all claims. FEMA has also implemented a tracking system to monitor the number of WYO biennial audits obtained and reviewed. Further, FEMA has a system modernization development and implementation effort under way. It is too soon to determine the extent to which these efforts will achieve program efficiencies.