

## Why GAO Did This Study

As of September 30, 2013, FEMA, which administers NFIP, had more than 1.1 million subsidized flood insurance policies—about 21 percent of all of its policies. Because their premiums do not reflect the full risk of losses, subsidized policies have been a financial burden on the program. Due to NFIP’s financial instability and operating and management challenges, GAO placed the program on its high-risk list in 2006. The Biggert-Waters Act mandated GAO to report on the forgone premiums from subsidies in NFIP.

This report examines the forgone premiums associated with subsidies during 2002–2013 along with data reliability issues discovered in GAO’s examination. Data for earlier periods were unavailable. GAO analyzed NFIP premium data, published statements about the size of the subsidies, and expenses associated with premiums. GAO also interviewed FEMA officials.

## What GAO Recommends

GAO recommends that FEMA institute controls to validate implementation of data system changes and track progress toward completion in its monitoring reports. GAO also maintains its position that a recommendation made in July 2013 ([GAO-13-607](#)) that FEMA develop and implement a plan to obtain flood-risk information needed to determine full-risk rates for properties with subsidized rates is valid and should be fully implemented. FEMA agreed with the new recommendations and discussed its approach for addressing the July 2013 recommendation.

View [GAO-15-111](#). For more information, contact Alicia Puente Cackley at (202) 512-8678 or [cackleya@gao.gov](mailto:cackleya@gao.gov).

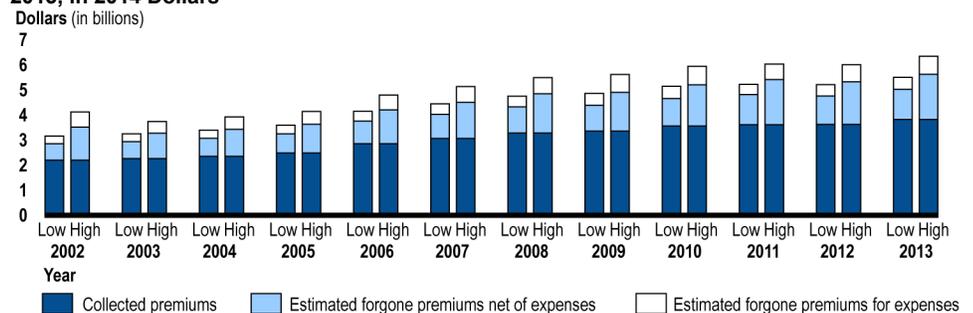
## FLOOD INSURANCE

### Forgone Premiums Cannot Be Measured and FEMA Should Validate and Monitor Data System Changes

## What GAO Found

The actual forgone premiums—the difference between subsidized and full-risk premiums—to the National Flood Insurance Program (NFIP) due to subsidies cannot be measured. The Federal Emergency Management Agency (FEMA) does not collect flood risk information for all subsidized policies, which is needed to calculate their full-risk premium rates. GAO recommended in July 2013 that FEMA develop and implement a plan to obtain this information. FEMA agreed with the recommendation, but has not yet fully implemented it. Although FEMA is phasing out subsidies through statutorily required rate increases, collecting this information remains important because the number of subsidized policies—and associated financial impacts—could grow over time with the restoration of certain subsidies under the Homeowner Flood Insurance Affordability Act of 2014 that previous legislation had eliminated. Working with available data and FEMA’s published statements describing the size of the subsidies, GAO estimated forgone premiums in the range of \$16–25 billion for 2002–2013 but estimates vary based on the calculation used. As FEMA would have incurred additional expenses if it had been able to collect the forgone premiums, GAO estimated that FEMA might have had \$11–17 billion in premiums net of expenses, or as much as \$1 billion a year, for losses or debt repayment.

**Estimated Range of National Flood Insurance Program (NFIP) Premiums Forgone during 2002–2013, in 2014 Dollars**



Source: GAO analysis of FEMA data. | [GAO-15-111](#)

FEMA did not have sufficient controls or monitoring in place to validate system changes (made because of the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act)) before they became effective, and some premium data were unreliable. Federal internal control standards suggest that agencies have controls, such as validating implementation of changes, to help ensure the accuracy of transactions. A FEMA contracting handbook also calls for monitoring a contractor’s progress toward completion of specified requirements. However, FEMA did not validate that its contractor fully implemented changes and system checks, or verify the changes in vendors’ software, before program changes became effective in October 2013. FEMA’s monitoring reports also did not capture critical information to oversee the contractor’s progress toward completion of the required changes. As a result, premium data on policies GAO analyzed are unreliable in the time period studied, some policyholders were charged inaccurate rates, and the full extent of delays and errors went undetected for nearly a year. Without better monitoring and controls over future changes, FEMA risks further inaccuracies in its data system.