



Highlights of [GAO-07-1078](#), a report to congressional committees

Why GAO Did This Study

Extraordinary recent flood events raise serious questions about the solvency of the National Flood Insurance Program (NFIP), which is administered by the Federal Emergency Management Agency (FEMA). The NFIP is largely implemented by private insurance companies that sell and service policies and adjust claims under the Write Your Own (WYO) Program. This report, prepared under the authority of the Comptroller General, examines (1) how much FEMA paid the WYO companies in recent years for operating costs and how FEMA determined payment amounts; (2) how FEMA's approach to determining operating costs assures that payments are reasonable estimates of companies' expenses; and (3) how FEMA assures that financial and management controls are in place for the WYO program and operate as intended. To do these assessments, GAO interviewed FEMA and insurance officials, and analyzed statutes, regulations, payment data, methodologies, and audits of WYO companies.

What GAO Recommends

GAO recommends that FEMA take steps to ensure that it has a reasonable estimate of actual expenses WYO companies incur to help determine payments for services and that financial audits are performed. The Department of Homeland Security reviewed a draft of this report and generally agreed with our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-1078.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William O. Jenkins, (202) 512-8757 or jenkinswo@gao.gov.

NATIONAL FLOOD INSURANCE PROGRAM

FEMA's Management and Oversight of Payments for Insurance Company Services Should Be Improved

What GAO Found

FEMA's payments to WYO insurance companies for operating costs ranged from more than a third to almost two-thirds of the total premiums paid by policyholders to the NFIP for fiscal years 2004 through 2006. In fiscal years 2005 and 2006, larger payments to WYO insurance companies were the result of settling an unprecedented number and dollar amount of claims for damages resulting from major hurricanes and flood events including Hurricane Katrina. To determine the amount of these payments, FEMA negotiated payment approaches with insurance industry representatives when it established the current WYO program in 1983 based on industry averages for operating expenses for other lines of insurance (such as homeowners, commercial, and fire), past practice, and discussion.

The approach FEMA uses to determine operating costs for WYO insurance companies, rooted in policies negotiated and established about 25 years ago, cannot ensure that payments are based on reasonable estimates of actual expenses because actual expenses incurred by the companies for their services to the NFIP are not considered. Although it has authority to do so, FEMA does not collect data on actual WYO flood insurance expenses that could provide a basis for insuring that the WYO payments are based on a reasonable estimate of actual expenses. FEMA officials said that they have not asked WYO insurance companies to provide expense information due to concerns that the approach would increase FEMA's administrative costs and cause a decline in WYO program participation. However, some data on expenses WYO insurance companies allocate to flood insurance are available. FEMA officials said that they cannot use this information due to reporting inconsistencies. Also, there is some precedent in two similar public-private insurance partnerships for collecting actual expense information. FEMA's decision to rely on long-standing practices does not meet federal internal control standards that agencies be held accountable for, among other things, stewardship of government resources.

Biennial financial statement audits—FEMA's primary mechanism to provide assurance that it receives complete and accurate financial management information from the WYO insurance companies—were not performed consistently as required by regulation. FEMA regulations require each participating company to arrange and pay for these audits by independent certified public accounting firms. However, many WYO insurance companies did not comply with the schedule in recent years. For example, for fiscal years 2005 and 2006, 5 of 94 participating companies had biennial financial statement audits performed. FEMA officials said they allowed some companies to delay having the audits done because they were in the process of contracting with new subcontractors to perform their financial reporting responsibilities. Nonetheless, without the required biennial audits, FEMA lacks an appropriate internal control mechanism for effective program oversight.