



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

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

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.