

**FEMA Continues to
Phase Out Its Use of
Alternative Contracting
Methods to Administer the
National Flood Insurance
Program**





OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

January 4, 2022

MEMORANDUM FOR: The Honorable Deanne Criswell
Administrator
Federal Emergency Management Agency

FROM: Joseph V. Cuffari, Ph.D. JOSEPH V
Inspector General CUFFARI

SUBJECT: *FEMA Continues to Phase Out Its Use of
Alternative Contracting Methods to Administer the
National Flood Insurance Program*

Digitally signed by
JOSEPH V CUFFARI
Date: 2021.12.27
17:24:04 -05'00'

For your action is our final report, *FEMA Continues to Phase Out Its Use of Alternative Contracting Methods to Administer the National Flood Insurance Program*. We incorporated the formal comments provided by your office.

The report contains three recommendations aimed at improving the National Flood Insurance Program. Your office concurred with all three recommendations. Based on information provided in your response to the draft report, we consider recommendations 2 and 3 open and unresolved. As prescribed by the Department of Homeland Security Directive 077-01, *Follow-Up and Resolutions for the Office of Inspector General Report Recommendations*, within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Based on information provided in your response to the draft report, we consider recommendation 1 open and resolved. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendation. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts. Please send your response or closure request to OIGAuditsFollowup@oig.dhs.gov.

Consistent with our responsibility under the *Inspector General Act of 1978, as amended*, we will provide copies of our report to congressional committees with



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Bruce Miller, Deputy Inspector General for Audits, at (202) 981-6000.



DHS OIG HIGHLIGHTS

FEMA Continues to Phase Out Its Use of Alternative Contracting Methods to Administer the National Flood Insurance Program

January 4, 2022

Why We Did This Audit

During two prior audits of FEMA's NFIP, we found FEMA used alternative contracting methods to bypass the Federal Acquisition Regulation (FAR) contracting requirements for reimbursing contractors. We conducted this audit to determine the extent and appropriateness of FEMA's use of alternative contracting methods to administer the NFIP.

What We Recommend

We made three recommendations that, when implemented, should ensure payment for NFIP services under a FAR contract and strengthen FEMA's oversight of the NFIP cash management process.

For Further Information:

Contact our Office of Public Affairs at (202) 981-6000, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The Federal Emergency Management Agency (FEMA) continues to phase out its use of alternative contracting methods to administer the National Flood Insurance Program (NFIP). FEMA used alternative contracting methods to pay NFIP Community Rating System (CRS), NFIP Direct servicing agent, and FEMA Bureau and Statistical Agent (BSA) contractors. Between fiscal year 2015 and FY 2021, FEMA used alternative contracts to pay about \$263.9 million for certain NFIP services. FEMA used NFIP insurance premiums collected or advanced funds to pay the contractors. In using these alternative contracting methods, FEMA bypassed FAR contracting requirements and did not accurately report Federal dollars expended to procure and pay for NFIP services. As a result, taxpayers were unaware of the total cost of NFIP services. According to FEMA, by FY 2023 it will acquire NFIP CRS services through a FAR contract. Additionally, beginning in FY 2021, FEMA's new NFIP Direct and BSA contracts require its contractors to invoice FEMA for flood response services and reimbursable items, instead of using NFIP premiums collected or advanced funds.

Unrelated to our audit objective, we found FEMA did not provide adequate oversight of the NFIP cash management process. Instead, FEMA relied heavily on self-certifications and external audits. As a result, FEMA was unaware why at least 2,000 policyholders' premium refund and claim payments remained uncashed.

FEMA's Response

FEMA concurred with all three of our recommendations. We included a copy of FEMA's response in its entirety in Appendix A.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Background

The Federal Emergency Management Agency's (FEMA) mission is to help people before, during, and after disasters. FEMA helps to reduce loss of life and property and protect communities nationwide from all hazards, including natural disasters, acts of terrorism, and other manmade disasters. To support its mission, FEMA manages the National Flood Insurance Program (NFIP).

NFIP provides flood insurance for property owners to protect against losses resulting from floods occurring in the United States.¹ Property owners may purchase an NFIP flood insurance policy, also known as a Standard Flood Insurance Policy, from a Write Your Own (WYO) insurance provider² or from FEMA through a direct servicing agent (NFIP Direct) contractor.

Through a cooperative arrangement between FEMA and the private insurance industry, WYOs are allowed to write and service FEMA's Standard Flood Insurance Policy in their own names.³ Each WYO agrees to the responsibilities outlined in 42 U.S. Code Chapter 50 (42 U.S.C. 50), *National Flood Insurance*, and in its yearly WYO Financial Assistance/Subsidy Arrangement⁴ (WYO Arrangement) with FEMA.

Both the WYOs and NFIP Direct contractor issue and service flood insurance policies, collect insurance premiums, and adjust and settle claims on behalf of the Federal Government. Per WYO Arrangements, WYOs retain a commission from premiums they collect for their services. FEMA allows the WYOs to request a Letter of Credit⁵ (advance) from FEMA to cover expenses that exceed premiums collected. Monthly, the WYOs and NFIP Direct contractor report their NFIP account activity to FEMA. FEMA pays the NFIP Direct contractor a fixed fee for its services under a Federal Acquisition Regulation (FAR)⁶ contract.

Furthermore, FEMA uses the WYO Arrangements to facilitate payment for NFIP Community Rating System (CRS) services. The CRS plays an important role in

¹ The United States comprises the 50 states, District of Columbia, territories and possessions, Commonwealth of Puerto Rico, and Trust Territory of the Pacific Islands.

² As of November 2021, there were 57 property and casualty insurance companies participating in the WYO program.

³ *National Flood Insurance Act of 1968 (NFIA), as amended* (42 U.S.C. 4001 et seq.).

⁴ 44 Code of Federal Regulations (C.F.R.) § 62.23 - *WYO Companies authorized*.

⁵ A Letter of Credit is an advance payment method that authorizes a WYO to request an electronic drawdown/advance of funds approved by FEMA.

⁶ The FAR is the primary regulation for use by all Federal Executive agencies in their acquisition of supplies and services. The goal of a FAR contract is to promptly deliver the best value product or service while maintaining the public's trust and fulfilling public policy objectives.



OFFICE OF INSPECTOR GENERAL

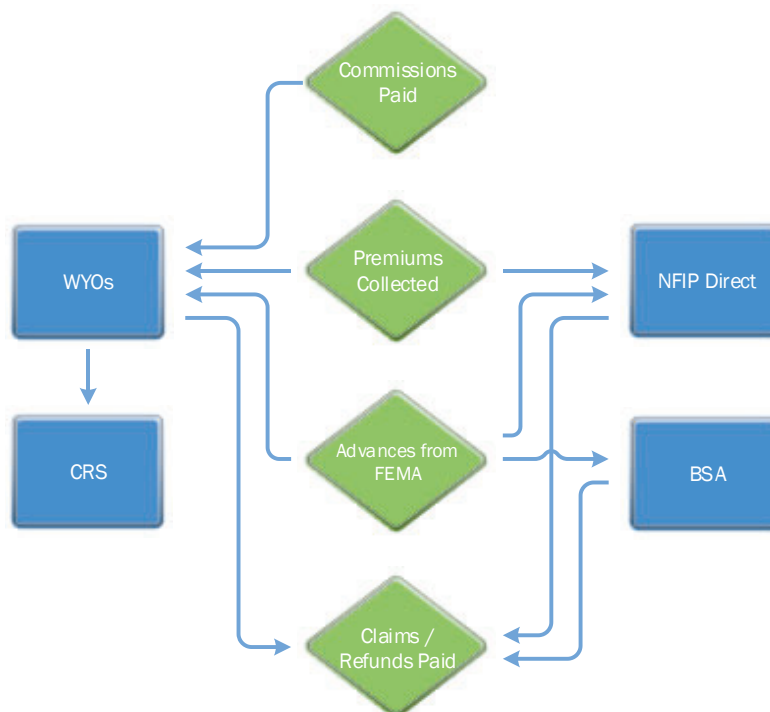
Department of Homeland Security

the NFIP by encouraging local governments to take appropriate steps to reduce flood losses, protect their residents, and improve flood insurance coverage. FEMA uses the WYO Arrangements with four WYO insurance providers to facilitate payment for NFIP CRS services using NFIP insurance premiums collected and FEMA advances.

In support of WYO operations, FEMA's Bureau and Statistical Agent (BSA) contractor⁷ provides program management and insurance services, including financial and statistical reporting analysis and re-evaluation of claims and policy premiums. Similar to NFIP Direct, FEMA pays the BSA contractor for its services under a FAR contract. The BSA and NFIP Direct contractors also provide flood disaster assistance, which may include establishment, administration, and operation of flood response offices to promote and assist with the efficient adjustment and settlement of NFIP losses.

Figure 1 represents the NFIP financial transactions process using WYOs, and NFIP Direct and BSA contractors' normal business practices.

Figure 1. NFIP Financial Transactions Process outside FEMA



Source: DHS Office of Inspector General (OIG) analysis of NFIP guidance

⁷ A BSA contractor is a corporation, partnership, association, or any other organized entity that contracts with FEMA to be the focal point of support operations for the NFIP. Currently, FEMA is transitioning away from using the BSA and instead has divided the responsibilities into multiple contracts.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Results of Audit

FEMA Continues to Take Steps to Procure and Pay for NFIP Services through FAR Contracts

FEMA used alternative contracting methods to bypass FAR contracting requirements to procure and pay for NFIP services. Since 1987, FEMA used provisions in 42 U.S.C. 4081⁸ to enter into multiple service agreements with Insurance Services Office, Inc. (ISO),⁹ rather than procuring NFIP CRS services through a competitively awarded FAR contract. Separately, FEMA bypassed FAR contracting requirements and paid its NFIP Direct and BSA contractors for flood response services and reimbursable items¹⁰ using NFIP insurance premiums collected or advanced funds rather than through contract modifications.

Use of these alternative contracting methods resulted in taxpayers being unaware of the total cost of NFIP services. From FY 2015 through FY 2021, FEMA used alternative contracting methods to pay approximately \$263.9 million for NFIP services. FEMA paid about \$40.9 million to four WYOs for NFIP CRS services and about \$223 million to NFIP Direct and BSA contractors for flood response services and reimbursable items.

FEMA is taking steps to assess and, where appropriate, discontinue its use of alternative contracting methods to procure and pay for NFIP CRS services. According to FEMA, it re-evaluated its use of 42 U.S.C. 4081 and plans to competitively award a FAR contract for NFIP CRS services by FY 2023. Additionally, FEMA has taken steps to assess and, where appropriate, discontinue its use of alternative contracting methods to procure and pay for flood response services and reimbursable items. The new NFIP Direct and BSA contracts no longer permit contractors to seek reimbursement through NFIP insurance premiums collected or advances for flood response services and reimbursable items.

NFIP CRS Services

The NFIP CRS encourages local governments to take appropriate steps to reduce flood losses, protect their residents, and improve flood insurance coverage. Since 1987, FEMA used its authority under 42 U.S.C. 4081 to enter into service agreements with ISO to administer NFIP CRS services, rather than procuring these services through a FAR contract. According to FEMA, the

⁸ 42 U.S.C. 4081, *Services by insurance industry; contracts, agreements, or other arrangements.*

⁹ ISO is a wholly owned subsidiary of Verisk Analytics, Inc.

¹⁰ Reimbursable items include commissions, legal, and postage expenses.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

authority allowed it to receive and reimburse contractors for goods and services without a contract. This authority is not subject to the provisions of 41 U.S.C., *Public Contracts*, or any other provisions of law requiring competitive bidding for NFIP CRS services. FEMA currently uses the WYO Arrangements with four WYOs to facilitate payment for NFIP CRS services using NFIP insurance premiums collected and FEMA advances. For FY 2015 through FY 2021, ISO services totaled approximately \$40.9 million.

Because we confirmed during our audit that FEMA was still paying for NFIP CRS services without a contract, we expressed concern about FEMA using its authority in 42 U.S.C. 4081 to fund these services. FEMA re-evaluated its unique arrangement with ISO and determined the original reasons and assumptions supporting this arrangement no longer exist. FEMA concluded there is a market solution and plans to competitively award a FAR contract for NFIP CRS services by FY 2023.

NFIP Direct and BSA Services

Both NFIP Direct and BSA¹¹ provide flood response services under FAR contracts. We determined FEMA used its authority under 42 U.S.C. 4081 to pay for flood response services and reimbursable items from both entities without properly obligating additional funds under these contracts. Rather than modifying the existing contracts and properly obligating funding, FEMA paid for these services and reimbursable items using NFIP premium revenues and advances. As a result, taxpayers were unaware of the actual cost of services because total contract costs were not captured in USAspending.gov.¹²

FEMA contracted for NFIP Direct services¹³ and for BSA services.¹⁴ FEMA allowed the NFIP Direct and BSA contractors to perform services related to flood response without properly obligating additional funds through contract modifications. Instead, FEMA paid for these services using NFIP premiums

¹¹ Currently, FEMA is transitioning away from using the BSA and instead has divided the responsibilities into multiple contracts.

¹² USAspending.gov is the official source for spending data for the U.S. Government. The *Funding Accountability and Transparency Act of 2006* requires that Federal contract, grant, loan, and other financial assistance awards of more than \$25,000 be displayed on a publicly accessible and searchable website to give the American public access to information on how their tax dollars are being spent.

¹³ Contract HSFEHQ-11-D-0279 - COVANSYS Corporation and AON National Flood Services, Inc. (through a novation agreement); and Contract HSFE60-16-D-0201 - Torrent Technologies, Inc.

¹⁴ Contract HSFEHQ-08-C-0130 - Optimal Solutions and Technologies, Inc.; and Contract HSFE70-15-C-0060 - Optimal Solutions and Technologies, Inc.



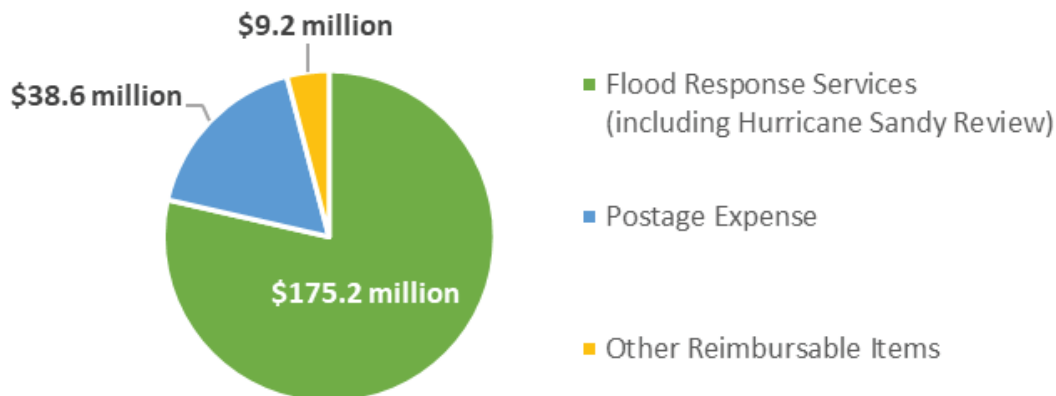
OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

collected or advances. For example, in a prior audit,¹⁵ we found FEMA used a clause in a BSA contract that allowed for reimbursement of flood response services to adjust and settle NFIP losses related to the Hurricane Sandy review. The review lasted more than 2 years and cost the Federal Government in excess of \$196 million. Instead of properly modifying the contract for the cost of the review and obligating additional funds, FEMA paid the BSA contractor directly from the U.S. Treasury using FEMA advances.

In addition, FEMA allowed both NFIP Direct and BSA contractors to pay themselves for reimbursable items. For example, from FY 2015 to FY 2021, the contractors were allowed to use NFIP premium revenue or advances to pay themselves for postage expenses, in the amount of \$38.6 million, instead of invoicing FEMA for payment. The cost of NFIP flood response services and reimbursable items paid to NFIP Direct and BSA contractors using insurance premiums collected or FEMA advances for FY 2015 to FY 2021 totaled approximately \$223 million, as shown in Figure 2.

Figure 2. NFIP Flood Response Services and Reimbursable Items Paid with Premiums or Advances from FY 2015 to FY 2021



Source: DHS OIG analysis of NFIP financial records

By bypassing FAR contracting requirements, FEMA did not accurately report Federal dollars expended for NFIP Direct and BSA services. As a result, taxpayers are unaware of the total cost of these contracts. Figure 3 highlights the total yearly estimated NFIP Direct and BSA contract costs as compared to the total obligated amounts reported in USAspending.gov for FY 2015 to FY 2021.

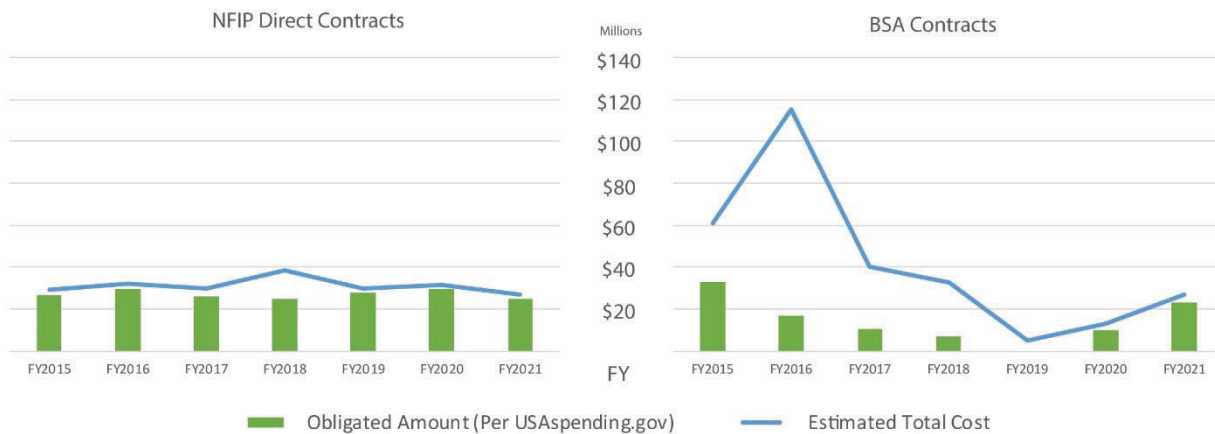
¹⁵ *Unsupported Payments Made to Policyholders Who Participated in the Hurricane Sandy Claims Review Process*, OIG-18-38, January 24, 2018.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Figure 3. Estimated Costs of NFIP Direct and BSA Contracts



Source: DHS OIG analysis of NFIP financial transactions and USAspending.gov

Beginning in FY 2021, FEMA's new NFIP Direct¹⁶ and BSA¹⁷ contracts require the contractors to invoice FEMA for flood response services and reimbursable items, instead of using NFIP premium revenues or advances. Through proper invoicing, FEMA should be able to accurately report Federal dollars expended for NFIP services.

Other Matter of Interest – Cash Management Processes

Unrelated to our audit objective, we also found FEMA did not provide adequate oversight of its NFIP cash management process. Under the NFIP, WYOs and NFIP Direct and BSA contractors perform NFIP functions using their customary business practices and own internal systems. At the end of each month, the WYOs, and NFIP Direct and BSA contractors report to FEMA to attest to the accuracy of their cash and other account balances (e.g., accounts receivable and accounts payable). Appendix B contains additional detail about NFIP's financial transaction process.

We reviewed FEMA's NFIP cash management process to assess the accuracy of the month-end cash, accounts receivable, and accounts payable balances for one WYO and the BSA contractor for June 2020. We found that FEMA's oversight procedures did not require the submission and review of accounts receivable or accounts payable aging reports or bank reconciliations. Instead, FEMA relied heavily on WYO or BSA contractor self-certifications and external

¹⁶ Contract 70FA6020D000000004 - National Flood Services, LLC.

¹⁷ Contract 70FB7021D000000014 - Optimal Solutions and Technologies, Inc.; and Contract 47QRAD-18-D-0005 - Total Solutions, Inc.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

audits¹⁸ for oversight of its cash management process. Relying on self-certifications limits FEMA's ability to assess its own financial health and identify potential irregularities.

In the absence of proper oversight, the WYO and BSA contractor had approximately \$4.5 million in payments sent to policyholders that remained uncashed for more than 180 days. Additionally, the WYO did not properly record accounts payable transactions. Specifically, the WYO did not properly record approximately \$394,000 in uncashed premium refunds and claim payments between October 2019 and June 2020. Due to inadequate oversight of its NFIP cash management process, FEMA was unaware why at least 2,000 policyholders' premium refunds and claim payments remained uncashed.

Recommendations

We recommend FEMA's Deputy Associate Administrator for Insurance and Mitigation:

Recommendation 1: Complete the effort to procure National Flood Insurance Program Community Rating System services under a Federal Acquisition Regulation contract.

Recommendation 2: Review all existing guidance to ensure that the use of Letters of Credit is not allowed for goods or services that should be procured with a Federal Acquisition Regulation contract.

Recommendation 3: Strengthen oversight of the National Flood Insurance Program cash management process to ensure Write Your Own insurance providers' and NFIP Direct and Bureau and Statistical Agent contractors' accounts receivable and accounts payable aging reports and bank reconciliations are reviewed.

¹⁸ External audits include biennial audits of WYOs' flood insurance financial statements and the yearly DHS financial statement audit.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Management Comments and OIG Analysis

FEMA concurred with all three of our recommendations. We included a copy of FEMA's response in its entirety in Appendix A. FEMA also provided technical comments and suggested revisions to our report in a separate document. We reviewed the technical comments and made changes to the report where appropriate. A summary of FEMA's response and our analysis follows.

FEMA's Comments to Recommendation 1: Concur. FEMA's Federal Insurance and Mitigation Administration's Floodplain Management Division is in the award phase of a sole source acquisition for NFIP CRS services. FEMA anticipates the Office of the Chief Procurement Officer in the FEMA Contracting Office will award a contract to ISO within the next 30 days. This interim contract will be followed by a competitive contract, which is anticipated in FY 2022. Estimated Completion Date: December 31, 2022.

OIG Analysis of FEMA's Comments: FEMA's planned corrective action is responsive to the recommendation. The recommendation will remain open and resolved until we have reviewed the contract for NFIP CRS services.

FEMA's Comments to Recommendation 2: Concur. FEMA agreed with the recommendation and is already reviewing all existing guidance. Additionally, FEMA completed actions to ensure that Letters of Credit are not used to procure goods or services that should be procured with a FAR contract. Specifically, in September 2020, FEMA awarded new contracts for the NFIP Direct and BSA contracts, which replaced previous contracts that allowed for an expanded and inappropriate use of Letters of Credit. These newer contracts awarded in September 2020 do not include use of Letters of Credit other than in appropriate allowable instances. FEMA provided OIG with the updated *Standard Operating Plan for Letters of Credit* on November 5, 2021. FEMA requests the OIG consider this recommendation resolved and closed, as implemented.

OIG Analysis of FEMA's Comments: FEMA's planned corrective action is partially responsive to the recommendation. Specifically, FEMA stated it had reviewed all existing guidance to ensure use of Letters of Credit is not allowed for goods or services except in appropriate allowable instances. However, the updated *Standard Operating Plan for Letters of Credit*, provided on November 5, 2021, still included unallowable goods and services such as NFIP flood response services and reimbursable items.

The recommendation will remain open and unresolved until FEMA reviews and provides updated guidance to ensure only allowable goods and services use Letters of Credit and all reimbursable items are paid through a FAR contract.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

FEMA's Comments to Recommendation 3: Concur. Based on our discussion with the OIG audit team, this finding is specific to the process of accounting for stale-dated checks. To ensure claims payments are always available to our policyholders, NFIP holds on to the stale-dated checks longer than required under Generally Accepted Accounting Principles. FEMA will review the process and ensure policies and procedures are in place that uphold our customer service commitment and comply with Generally Accepted Accounting Principles to the extent possible. FEMA's revised process will be documented and distributed to WYOs to ensure consistency of accounting application. The Federal Insurance and Mitigation Administration's Finance Management Division will provide oversight of the process by routinely reviewing the status of stale-dated checks and actions taken to date to ensure accuracy and consistency. Estimated Completion Date: December 31, 2022.

OIG Analysis of FEMA's Comments: FEMA's planned corrective actions are partially responsive to the recommendation. However, FEMA's corrective actions do not include plans to strengthen its oversight of the cash management process to ensure review of WYO insurance providers' and NFIP Direct and BSA contractors' accounts receivable and accounts payable aging reports and bank reconciliations.

The recommendation will remain open and unresolved until FEMA strengthens its oversight plans and provides policies and procedures to ensure review of WYO insurance providers' and NFIP Direct and BSA contractors' accounts receivable and accounts payable aging reports and bank reconciliations.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Objective, Scope, and Methodology

The Department of Homeland Security Office of Inspector General was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*.

Our objective was to determine the extent and appropriateness of FEMA's use of alternative contracting methods to administer the NFIP. To accomplish our objective, we determined FEMA's organizational and reporting structure and roles and responsibilities. We also reviewed relevant authorities, policies, and procedures including:

- *Federal Accounting Standards Advisory Board Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*
- Federal Acquisition Regulation
- *FEMA's Federal Insurance and Mitigation Administration, Financial Assistance/Subsidy Arrangement*
- *NFIP Flood Insurance Manual*
- *National Flood Insurance Act of 1968, as amended*
- *NFIP Transaction Record Reporting and Processing Plan*
- *NFIP Write Your Own Accounting Procedures Manual*
- *NFIP Write Your Own Accounting Training Manual*
- *NFIP Write Your Own Program Financial Control Plan Requirements and Procedures*
- 41 U.S.C., *Public Contracts*
- *Treasury Financial Manual*

We interviewed FEMA personnel to gain an understanding of NFIP contracting, FEMA's interpretation of 42 U.S.C. 4081, and the controls surrounding the preparation of the NFIP Financial Statements. We interviewed FEMA personnel from the:

- Federal Insurance and Mitigation Administration
- Office of the Chief Financial Officer
- Office of the Chief Procurement Officer

We interviewed FEMA's BSA contractor personnel to gain an understanding of the controls surrounding the preparation of the NFIP financial statements. We also reviewed FEMA's NFIP cash management process to ensure FEMA provided adequate oversight of WYOs, NFIP Direct, and BSA financial submissions.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

We reviewed workpapers associated with three prior OIG audits of FEMA's NFIP:

Report Number	Report Title	Report Date
<u>OIG-16-47</u>	<i>FEMA Does Not Provide Adequate Oversight of Its National Flood Insurance Write Your Own Program</i>	March 8, 2016
<u>OIG-18-38</u>	<i>Unsupported Payments Made to Policyholders Who Participated in the Hurricane Sandy Claims Review Process</i>	January 24, 2018
<u>OIG-20-68</u>	<i>FEMA Is Not Effectively Administering a Program to Reduce or Eliminate Damage to Severe Repetitive Loss Properties</i>	September 8, 2020

We assessed internal controls and compliance with laws and regulations necessary to satisfy our audit objective. We assessed contractor oversight and controls surrounding the preparation of the NFIP financial statements. Our review was limited to addressing our audit objective and the cash management process and may not have disclosed all internal control deficiencies that may have existed at the time of this audit. We concluded FEMA's NFIP financial statement data was sufficiently reliable for meeting our audit objective and supporting our audit findings.

We conducted this performance audit between October 2020 and December 2021 pursuant to the *Inspector General Act of 1978, as amended*, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.

The Office of Audit major contributors to this report are Sandra John, Audit Director; Devon Padula, Audit Manager; Bethany Russell, Auditor in Charge; Jamie Clark, Auditor; Kevin Donahue, Auditor; Kelly Herberger, Communications Analyst; Tom Hamlin, Communications Analyst; and Ardeth Savery, Independent Referencer.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A
FEMA Comments to the Draft Report

U.S. Department of Homeland Security
Washington, DC 20528



FEMA

November 8, 2021

MEMORANDUM FOR: Mr. Joseph V. Cuffari, Ph.D.
Inspector General
U.S. Department of Homeland Security

FROM: Cynthia Spishak CYNTHIA
Associate Administrator SPISHAK
Office of Policy and Program Analysis
Federal Emergency Management Agency

Digitally signed by CYNTHIA
SPISHAK
Date: 2021.11.08 12:32:46 -05'00'

SUBJECT: Management Response to Draft Report: "FEMA is Taking Steps
to Discontinue its Use of Alternative Contracting Methods to
Administer the NFIP" (Project No. 20-048-AUD-FEMA)

Thank you for the opportunity to comment on this draft report. The Federal Emergency Management Agency (FEMA) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

FEMA is pleased to note OIG's positive recognition of FEMA taking steps to procure and pay for National Flood Insurance Program (NFIP) Services through Federal Acquisition Regulations (FAR) contracts and discontinue its use of alternative contracting methods. DHS remains committed to improving its critical business processes as part of its commitment to outstanding stewardship on behalf of the American public.

The draft report contained 3 recommendations, including 3 for FEMA with which the Agency concurs. Attached find our detailed response to each recommendation. FEMA previously submitted technical comments addressing several accuracy and contextual issues under a separate cover for OIG's consideration.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you again in the future.

Attachment



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Attachment: Management Response to Recommendations Contained in OIG 20-048-AUD-FEMA

OIG recommended that FEMA's Deputy Associate Administrator for Insurance and Mitigation (FIMA):

Recommendation 1: Complete the effort to procure National Flood Insurance Program Community Rating System services under a Federal Acquisition Regulation contract.

Response: Concur. The Federal Insurance and Mitigation Administration (FIMA), Floodplain Management Division is in the award phase of a sole source acquisition for the Community Rating System (CRS). A contract is anticipated to be awarded to Insurance Services Office (ISO) by the FEMA Contracting Office (OCPO) within the next 30 days. This interim contract will be followed by a competitive contract, which is anticipated in FY 22. Estimated Completion Date (ECD): 12/31/2022.

Recommendation 2: Review all existing guidance to ensure that the use of Letters of Credit is not allowed for goods or services that should be procured with a Federal Acquisition Regulation contract.

Response: Concur. FEMA agrees with the recommendation and has already taken action to review all existing guidance. Additionally, FEMA has completed actions to ensure that Letters of Credit are not used to procure goods or services that should be procured with a Federal Acquisition Regulation contract. More specifically, in September 2020, FEMA awarded new contracts for the NFIP Direct and NFIP Standard Operations contracts, which replaced previous contracts that allowed for an expanded and inappropriate use of Letters of Credit. These newer contracts awarded in September 2020 do not include the use of Letters of Credit other than the appropriate allowable instances.

The updated Standard Operating Plan for Letters of Credit was provided to OIG on 11/5/2021. FEMA requests the OIG consider this recommendation resolved and closed, as implemented.

Recommendation 3: Strengthen oversight of the National Flood Insurance Program cash management process to ensure Write Your Own (WYO) insurance providers' and NFIP Direct and Bureau and Statistical Agent contractors' accounts receivable and accounts payable aging reports and bank reconciliations are reviewed.

Response: Concur. Based on our discussion with the OIG audit team, this finding is specific to the process of accounting for stale-dated checks. To ensure claims payments are always available to our policyholders, NFIP holds on to the stale-dated checks longer



OFFICE OF INSPECTOR GENERAL

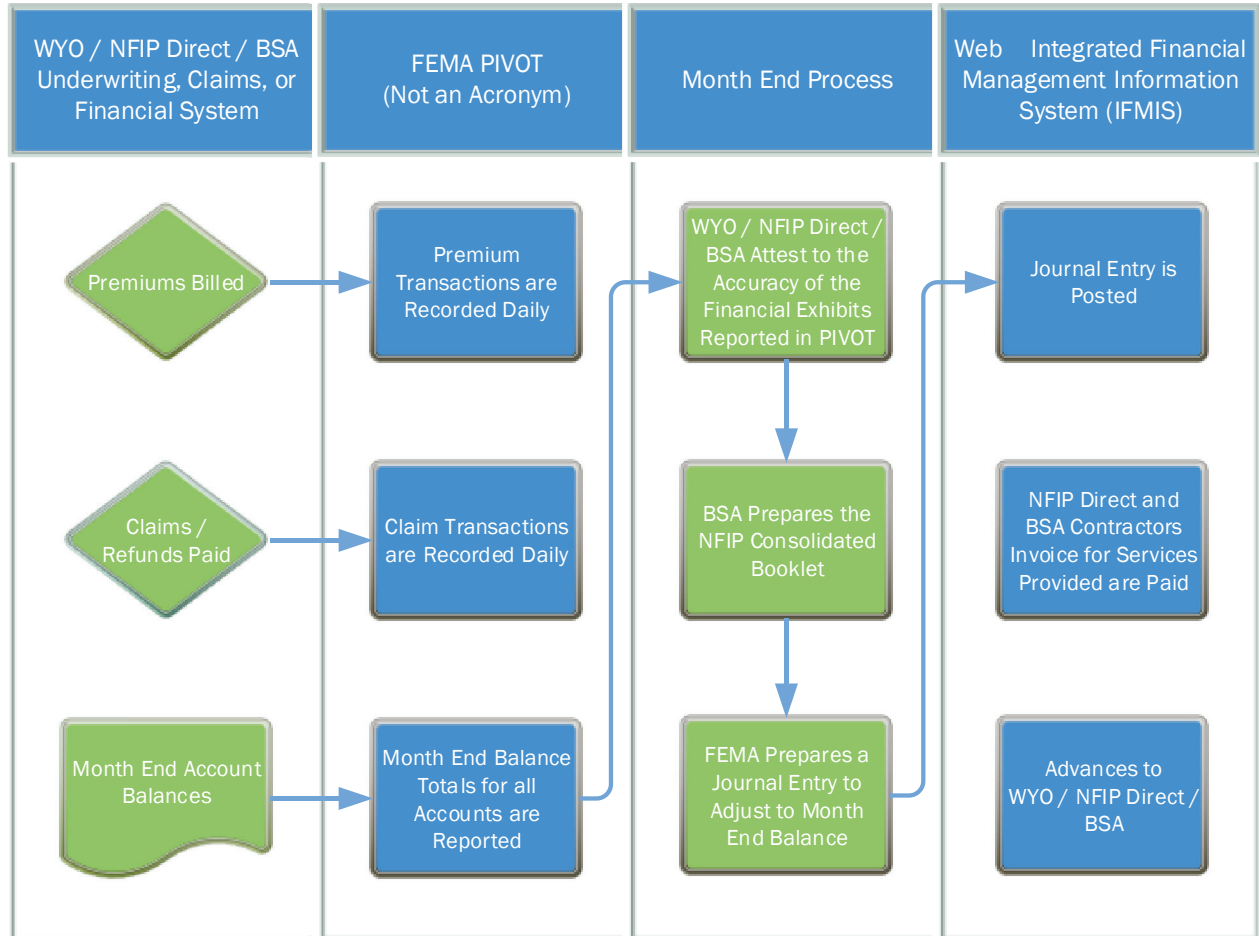
Department of Homeland Security

than required under Generally Accepted Accounting Principles (GAAP). FEMA will review the process and ensure policies and procedures are in place that uphold our customer service commitment and provide compliance with GAAP to the extent possible. FEMA's revised process will be documented and distributed to WYOs to ensure consistency of accounting application. FIMA's Finance Management Division will provide oversight of the process by routinely reviewing the status of stale-dated checks and actions taken to date to ensure accuracy and consistency. ECD: 12/31/2022.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
FEMA's NFIP Financial Transactions Process



Source: DHS OIG analysis of FEMA's NFIP financial transactions process



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Appendix C

Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
Deputy Chiefs of Staff
General Counsel
Executive Secretary
Director, GAO/OIG Liaison Office
Under Secretary, Office of Strategy, Policy, and Plans
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs
FEMA Administrator
FEMA Audit Liaison

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees

Additional Information and Copies

To view this and any of our other reports, please visit our website at:
www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General
Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov.
Follow us on Twitter at: @dhsoig.



OIG Hotline

To report fraud, waste, or abuse, visit our website at www.oig.dhs.gov and click on the red "Hotline" tab. If you cannot access our website, call our hotline at (800) 323-8603, fax our hotline at (202) 254-4297, or write to us at:

Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305