

Why GAO Did This Study

The National Flood Insurance Program (NFIP) has been on GAO's high-risk list since March 2006 because of concerns about its long-term financial solvency and related operational issues. Significant management challenges also affect the Federal Emergency Management Agency's (FEMA) ability to administer NFIP. This report examines (1) the extent to which FEMA's management practices affect the administration of NFIP; (2) lessons learned from the cancellation of FEMA's attempt to modernize NFIP's insurance management system; and (3) limitations on FEMA's authority that could affect NFIP's financial stability. To do this work, GAO reviewed internal control standards and best practices, analyzed agency documentation, reviewed previous work, and interviewed relevant agency officials.

What GAO Recommends

GAO makes 10 recommendations to improve the effectiveness of FEMA's planning and oversight efforts for NFIP; improve FEMA's policies and procedures for achieving NFIP's goals; and increase the usefulness and reliability of NFIP's flood insurance policy and claims processing system. GAO also presents three matters for congressional consideration to improve NFIP's financial stability. DHS concurred with all of GAO's recommendations.

FEMA

Action Needed to Improve Administration of the National Flood Insurance Program

What GAO Found

FEMA faces significant management challenges in areas that affect NFIP, including strategic and human capital planning; collaboration among offices; and records, financial, and acquisition management. For example, because FEMA has not developed goals, objectives, or performance measures for NFIP, it needs a strategic focus for ensuring program effectiveness. FEMA also faces human capital challenges, including high turnover and weaknesses in overseeing its many contractors. Further, FEMA needs a plan that would ensure consistent day-to-day operations when it deploys staff to federal disasters. FEMA has also faced challenges in collaboration between program and support offices. Finally, FEMA lacks a comprehensive set of processes and systems to guide its operations, in particular a records management policy and an electronic document management system. FEMA has begun to address some of these challenges, including acquisition management, but the results of its efforts remain to be seen. Unless it takes further steps to address these management challenges, FEMA will be limited in its ability to manage NFIP's operations or better ensure program effectiveness.

FEMA also faces challenges modernizing NFIP's insurance policy and claims management system. After 7 years and \$40 million, FEMA ultimately canceled its latest effort (NextGen) in November 2009 because the system did not meet user expectations. As a result, the agency continues to rely on an ineffective and inefficient 30-year old system. A number of acquisition management weaknesses led to NextGen's failure and cancellation, and as FEMA begins a new effort to modernize the existing legacy system, it plans to apply lessons learned from its NextGen experience. While FEMA has begun implementing some changes to its acquisition management practices, it remains to be seen if they will help FEMA avoid some of the problems that led to NextGen's failure. Developing appropriate acquisitions processes and applying lessons learned from the NextGen failure are essential if FEMA is to develop an effective policies and claims processing system for NFIP.

Finally, NFIP's operating environment limits FEMA's ability to keep the program financially sound. NFIP assumes all risks for its policies, must accept virtually all applicants for insurance, and cannot deny coverage for high-risk properties. Moreover, additional external factors—including lapses in NFIP's authorization, the role of state and local governments, fluctuations in premium income, and structural and organizational changes—complicate FEMA's administration of NFIP. As GAO has previously reported, NFIP also faces external challenges that threaten the program's long-term health. These include statutorily required subsidized premium rates, a lack of authority to include long-term erosion in flood maps, and limitations on FEMA's authority to encourage owners of repetitive loss properties to mitigate. Until these issues are addressed, NFIP's long-term financial solvency will remain in doubt.