



Federal Emergency Management Agency

Washington, D.C. 20472

JAN 29 2003

MEMORANDUM FOR: Nancy L. Hendricks
Assistant Inspector General for Audits

FROM: Matt Jadacki 
Acting Chief Financial Officer

SUBJECT: Auditors' Report on FEMA's
Fiscal Year 2002 Financial Statements

Thank you for the opportunity to respond to the draft auditors' report on FEMA's FY 2002 financial statements. We generally agree with the report's findings, conclusions, and recommendations, and are pleased that the report recognizes the improvements made during the last fiscal year. We also recognize that there are long-standing problems that will require additional time and resources to correct.

As a result of September 11, 2001, terrorist events, FEMA's budget grew to record levels in FY 2002. This created an unprecedented workload for the financial management staff. Even with the significant workload increase, we were on track to produce the statements to allow sufficient time for the audit to be completed. However, we lost three accountants at the end of the fiscal year. Since they handled FEMA's most critical accounts, the loss was devastating and the financial statement preparation schedule slipped. Despite these impediments, we were able to produce auditable statements through the hard work and efforts of the Financial and Acquisition Management Division (FAMD) staff. We also appreciate the flexibility, patience, and cooperation extended by the Office of Inspector General (OIG) and its contractor, KPMG, LLP. We plan to address all the concerns identified in the report and revise our remediation plan accordingly. We will also continue to impress upon senior management the importance of sound financial management and request adequate resources commensurate with the workload, especially as FEMA transitions into the Department of Homeland Security.

The following provides brief comments on the material weaknesses identified in the report:

1. INFORMATION SECURITY CONTROLS FOR FEMA'S FINANCIAL SYSTEMS ENVIRONMENT NEED IMPROVEMENT

We generally agree with the findings and recommendations and will continue to work closely with FEMA's Chief Information Officer to develop a strategy to resolve the weakness.

The Human Resources Division (HR) agrees that we need to improve upon our QuickTime Security controls in an effort to come into compliance with the Federal information security control guidelines and FEMA requirements, and that we need to ensure that system accesses are quickly removed from employees who terminate from the Agency. As a corrective measure, HR will be working in partnership with the appropriate organizational entities to develop and implement policies and procedures to ensure these issues are addressed.

2. FEMA'S FINANCIAL SYSTEM FUNCTIONALITY NEEDS SIGNIFICANT IMPROVEMENT

We agree that the financial system functionality needs improvement. Several important steps were taken during FY 2002 to improve the system. First, a new JFMIP compliant version of IFMIS was implemented in August 2002. Unfortunately, since the implementation occurred so late in the fiscal year, only limited benefits of the new system were realized. We fully expect significant improvements in financial system functionality during FY 2003.

During FY 2002, the financial systems operation and administration functions were transferred to the Information Technology Services Directorate (ITSD). The purpose of the transfer was to allow the financial staff to define the system requirements and ITSD staff to implement and execute the technical systems aspects. We believe that these are important steps to address the system functionality issues.

3. FEMA MUST IMPROVE ITS FINANCIAL REPORTING PROCESS

We generally agree with the findings and recommendations. As mentioned above, a new version of IFMIS was implemented late in FY 2002, but its full capability was not realized. As a result, we continued to prepare the financial statements using the manual process from previous years. As the FY 2001 audit report indicated, that process is labor intensive and prone to errors. Our goal is to fully utilize IFMIS to prepare both quarterly and year-end financial statements during FY 2003.

4. FEMA MUST IMPROVE ITS REAL AND PERSONAL PROPERTY SYSTEM PROCESSES

We concur with the overall findings and the recommendations issued in this report. We agree that overall property management in FEMA, including accounting for property, needs improvement. The Facilities Management Division independently identified the issues outlined in this report and corrective action plans have been developed. Implementation of these plans have been delayed due to the reallocation of directorate resources required to satisfactorily support the Agency's transition to the Department of Homeland Security, and the personnel constraints resulting from the unavailability of new or additional property management resources.

In any event, we continue to reprioritize resources from other priorities to address these and other program concerns, and are evaluating staff realignments to better leverage human resources in support of property management. While FEMA will continue to pursue the recommendations outlined in this report, underlying all of the efforts to address these findings is the fact that the Agency is migrating into the Department of Homeland Security. All accountability and responsibility for property management are being evaluated and best practices are being determined for implementation in the new Department.

5. FEMA MUST IMPROVE ITS ACCOUNT RECONCILIATION PROCESSES

We agree with the findings and recommendations. As a result of the FY 2001 audit report, FAMF took steps to correct this weakness. During FY 2002, FAMF purchased a commercial software package, Checkfree, to automate the reconciliation process. Because of competing priorities, including the FY 2002 financial statement preparation, the implementation was temporarily put on hold. We plan to implement the software during the second quarter of FY 2003.

6. FEMA MUST IMPROVE ITS ACCOUNTS RECEIVABLE PROCESSES

We generally agree with the findings and recommendations. Some improvements were made during FY 2002, including billing States for their share of disaster costs. We will continue to improve the close-out process and develop procedures to identify and bill states and other debtors in a timely manner.

In conclusion, we appreciate the opportunity to comment on this draft report. We are committed to improving the financial management operations in FEMA that are soon to be part of the Department of Homeland Security, and will work with the OIG to correct the conditions disclosed in this report.



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Washington, D.C. 20472

JAN 31 2003

MEMORANDUM FOR: Nancy Hendricks
Assistant Inspector General
Office of Inspector General

FROM: Laurence W. Zensinger *Laurence W. Zensinger (for)*
Recovery Division Director
Response and Recovery Directorate

SUBJECT: Decomposition of Change Analysis

You asked that the Response and Recovery Directorate (RR) respond to the recommendation contained in FEMA's Fiscal Year 2002 Financial Statement Audit relating to the activities of our Office of Cerro Grande Fire Claims ("the Office"). The Audit suggested that RR should "perform a decomposition of change analysis to determine the dollar impact on the liability estimate (for the Cerro Grande program) due to changes in methodology, assumptions, systems, data, or other factors, between FY 2002 and FY 2001." I am writing to confirm that RR intends to perform such an analysis. We will provide you with our analysis once it has been completed.

Please contact me at extension 3685 if you have any questions about this memorandum.

cc: Mark Masczak

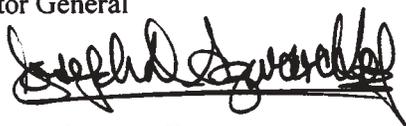


Federal Emergency Management Agency

Washington, D.C. 20472

January 29, 2003

MEMORANDUM FOR: Nancy L. Hendricks
Assistant Inspector General for Audit
Office of the Inspector General

FROM: ~~FOR~~ Rosita O. Parkes 
Assistant Director
Information Technology Services Directorate

SUBJECT: Draft Auditor's Report on FEMA's Fiscal Year 2002 Financial
Statements - Appendix I – Material Weaknesses

The Information Technology Services Directorate (ITSD) appreciates the opportunity to review and comment on Appendix I of the subject draft report and agrees in principal with the ten recommendations 1.a through 1.j. Each of the recommendations is consistent with a previously known condition.

Addressing the recommendations requires a significant commitment of FEMA resources to adequately implement the agency-wide IT Security Program, and concurrently to ensure that program officials adequately implement security for the IT systems that support their programs. The requirements for this are explained in the draft report, further specified in public laws, Executive Branch directives, Federal standards, and FEMA policies.

Recommendations 1.a. through 1.d, and 1.j. are the responsibility of the Chief Information Officer and need to be addressed as part of the agency-wide IT Security Program. The implementation of the agency-wide IT security program is the responsibility of the Chief Information Systems Security Officer. The Chief Information Officer has reported to the Office of Management and Budget (OMB) that successful implementation of this program and addressing the noted recommendations is directly dependent upon receiving adequate resources.

In accordance with the Federal Information Security Management Act and OMB Circular A-130, Recommendations 1.e. through 1.i. appear to be primarily the responsibility of the relevant program officials. ITSD suggests that these recommendations be re-phrased to reflect that it is the responsibility of the relevant program official to resolve these issues, and to do so in coordination with the Chief Information Officer. In their present forms, the recommendations could incorrectly imply that it is the Chief Information Officer's responsibility to resolve these issues.

ITSD understands the importance of FEMA working quickly to address the weaknesses identified in this draft report, particularly as FEMA transitions to the new Department of Homeland Security (DHS).

