

**Louisiana Did Not Properly
Oversee a \$706.6 Million
Hazard Mitigation Grant
Program Award for Work on
Louisiana Homes**



DHS OIG HIGHLIGHTS

Louisiana Did Not Properly Oversee a \$706.6 Million Hazard Mitigation Grant Program Award for Work on Louisiana Homes

July 25, 2019

Why We Did This Audit

Because of allegations of possible irregularities, we were asked to audit \$706.6 million awarded to Louisiana's OCD for hazard mitigation work following Hurricanes Katrina and Rita. We conducted this audit to determine whether Louisiana's OCD accounted for and expended HMGP funds according to Federal regulations.

What We Recommend

We recommend FEMA postpone project closeout until Louisiana provides adequate documentation that supports \$706.6 million in costs.

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) did not properly oversee the Louisiana Governor's Office of Homeland Security and Emergency Preparedness (Louisiana or State) to ensure it complied with Federal regulations. Louisiana and its Office of Community Development (OCD), in turn, did not always properly account for and expend Federal grant funds. Specifically, Louisiana did not provide adequate documentation to support costs, as required by Federal regulations, and FEMA is not requiring the State to provide mandatory documentation to close out the \$706.6 million Hazard Mitigation Grant Program (HMGP) grant. Louisiana also has not provided FEMA with required documentation showing that homeowners paid \$79.7 million in promissory notes for state-funded mitigation work on their homes. Finally, Louisiana drew down funds exceeding project obligations by \$50.4 million due to a lack of FEMA controls.

These issues arose primarily because FEMA did not ensure Louisiana exercised proper oversight of the HMGP grant and the State did not comply with Federal regulations. As a result of these issues, Federal funds are at risk of fraud, waste, and abuse.

FEMA Response

FEMA's responses were sufficient to close all but one of our five recommendations. We included a copy of FEMA's management comments in their entirety in appendix C. FEMA did not concur with the remaining recommendation, which we consider open and unresolved.




OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

July 25, 2019

MEMORANDUM FOR: David Maurstad
Deputy Associate Administrator
Federal Insurance and Mitigation Administration
Federal Emergency Management Agency

FROM: Sondra F. McCauley 
Assistant Inspector General for Audits

SUBJECT: *Louisiana Did Not Properly Oversee a \$706.6 Million
Hazard Mitigation Grant Program Award for Work on
Louisiana Homes*

Attached for your action is our final report, *Louisiana Did Not Properly Oversee a \$706.6 Million Hazard Mitigation Grant Program Award for Work on Louisiana Homes*. We incorporated the formal comments the Federal Emergency Management Agency (FEMA) Region VI provided.

The report contains five recommendations. FEMA Region VI concurred with all recommendations except recommendation 3. Based on information provided in Region VI's response to the draft report and additional documentation provided after the initial comments, we consider all recommendations closed except recommendation 1. 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 the recommendation. Also, please include contact information for responsible parties and any other supporting documentation necessary to inform us about the status of the recommendation. Until your response is received and evaluated, the recommendation will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the final report on our website for public dissemination.

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



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Background

On August 29, 2005, and September 24, 2005, the President declared major disasters in Louisiana for damages from Hurricanes Katrina (designated disaster 1603) and Rita (designated disaster 1607), respectively. Section 404 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended (Stafford Act), authorizes cost-effective, hazard mitigation measures that “substantially reduce the risk of future damage, hardship, loss, or suffering in any area affected by a major disaster.” As a result of Hurricane Katrina, the Federal Emergency Management Agency (FEMA) approved a \$1.7 billion grant to the Louisiana Governor’s Office of Homeland Security and Emergency Preparedness (Louisiana or State) under the “Section 404” Hazard Mitigation Grant Program (HMGP). Louisiana awarded a subgrant of \$681.9 million (later adjusted to \$685.4 million) of these funds to the Louisiana Office of Community Development (OCD) — another state agency — to elevate or reconstruct eligible structures to comply with local floodplain ordinances. Elevation or reconstruction is intended to address repetitive flood problems in Louisiana.

Following Hurricane Rita, which occurred about a month after Hurricane Katrina, FEMA approved an additional \$137.9 million to Louisiana as a Section 404 HMGP grant. Louisiana awarded a subgrant of \$21 million (later adjusted to \$21.2 million) of these funds to OCD for elevating or reconstructing homes. Therefore, Louisiana awarded a total subgrant of \$702.9 million (later adjusted to \$706.6 million) to OCD in connection with Hurricanes Katrina and Rita for 11,444 property grants — 7,156 to elevate homes and 4,288 for non-elevation mitigation. Figure 1 shows an elevated home in Gretna, Louisiana.



Figure 1: Elevated Home in Gretna, Louisiana
Source: Louisiana OCD Applicant Tracking System



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On August 31, 2015, the state transferred responsibility for elevation and reconstruction of homes under HMGP from OCD (subgrantee) to Louisiana (grantee); therefore, our recommendations are addressed to FEMA with a focus on Louisiana.

We audited FEMA HMGP awards totaling \$706.6 million that the FEMA grantee, Louisiana, awarded to OCD. The awards provided 75 percent FEMA funding for elevating or reconstructing homes to mitigate against damages from future disasters.¹

We performed this limited-scope audit in support of our Office of Investigations. After receiving allegations of possible irregularities in HMGP, the Office of Investigations requested audit assistance with its investigation into management of HMGP funds. Therefore, we conducted this audit jointly with the Office of Investigations to address potential issues. As of the date of this report, the investigation was ongoing. Appendix A includes details about the investigation.

This is the second report we have issued on OCD. In June 2016, we issued *The Office of Community Development Paid Most Contractors in a Timely Manner for Hazard Mitigation Work on Louisiana Homes* (OIG-16-104-D). In that limited-scope audit, we examined the timeliness of OCD's payments to contractors and made no recommendations.

Results of Audit

FEMA did not properly oversee Louisiana to ensure it complied with Federal regulations. Louisiana and OCD, in turn, did not always properly account for and expend Federal grant funds. Specifically, FEMA is not requiring Louisiana to provide mandatory supporting documentation to close out a \$706.6 million HMGP grant. Louisiana has not provided FEMA with required documentation showing that homeowners paid \$79.7 million in promissory notes for state-funded mitigation work on their homes. Finally, Louisiana drew down funds exceeding project obligations by \$50.4 million due to a lack of FEMA controls. These issues arose primarily because FEMA did not ensure Louisiana exercised proper oversight of the HMGP grant and the State did not comply with Federal regulations. As a result, Federal funds are at risk of fraud, waste, and abuse.

¹ FEMA can fund up to 75 percent of the eligible costs. The grantee must provide a 25 percent match, which can be a combination of cash and in-kind sources. The grantee cannot use funding from other Federal sources for the 25 percent share, with the exception of U.S. Department of Housing and Urban Development funding to states under the Community Development Block Grant program. For Louisiana post-Katrina, Congress ruled that the magnitude of such funding satisfied the non-Federal share.



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Federal and FEMA Grant Management Requirements

FEMA's Administrator shall provide Federal leadership necessary to prepare for, protect against, respond to, recover from, or mitigate against a natural disaster, among other disasters, including supervising grant programs administered by FEMA (6 United States Code (U.S.C.) section 314(a)(12)). Title 44 Code of Federal Regulations (CFR) sections 13.37(a)(2) and 13.40(a) provide that states must monitor subgrantees to ensure they are aware of, and comply with, Federal regulations. The following specific Federal regulations ensure that grantees and subgrantees manage Federal funds appropriately and are held accountable.

- Supporting Cost Documentation: Title 44 CFR section 13.20(b)(6) requires that costs must be adequately documented and supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, contracts, and subgrant award documents. Under 44 CFR section 13.6(b), only the Office of Management and Budget has authority to waive requirements applicable to grantees, including requirements in connection with cost substantiation.
- Tracing of Funds: Title 44 CFR section 13.20(a)(2) provides that grantees and subgrantees must account for grant funds in accordance with state laws and procedures, which must be sufficient to permit adequate tracing of funds to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- Records Maintenance: Title 44 CFR section 13.20(b)(2) requires grantees and subgrantees, other than states, to maintain records that adequately identify the source and application of funds provided for financially assisted activities.
- No Duplicate Claims: Section 312(a) of the Stafford Act prohibits recipients from using FEMA funds for expenditures already reimbursed by another Federal program, insurance, or any other source.
- Reimbursement: Title 44 CFR section 206.438(d) provides that the Governor's Authorized Representative, the person empowered by the Governor to execute, on behalf of the state, all necessary documents for disaster assistance, shall make a claim to the FEMA Regional Administrator for reimbursement of allowable costs for each approved measure. In submitting such claims, the Governor's Authorized Representative shall certify that reported costs were incurred in the performance of eligible work.



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Louisiana Did Not Comply with Federal and FEMA Grant Management Requirements

Louisiana did not fulfill its grantee responsibility to ensure OCD followed applicable Federal regulations. We identified issues related to unsupported costs, lack of documentation for paid promissory notes, and drawdown of FEMA payments in excess of obligations. These issues demonstrate that Louisiana did not adequately oversee and monitor the subgrantee, and FEMA did not hold the State accountable for doing so. The lack of grant management oversight by Louisiana and FEMA places Federal funds at risk of fraud, waste, and abuse.

Louisiana Did Not Adequately Support Costs

Louisiana did not provide adequate documentation to support costs, as required by Federal regulations. As set forth above, 44 CFR section 13.20 directs Louisiana to support costs by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, contracts, and subgrant award documents.

Our file reviews of home elevation and mitigation reconstruction costs² showed a lack of such supporting documentation. Specifically:

- We randomly reviewed 37 of 138 files related to home elevation work that FEMA deemed “ready for closeout.”³ Twenty-one, or 57 percent, of the 37 files did not have adequate cost support.
- We randomly reviewed 105 of 4,288 files of reconstruction and individual mitigation measures applicants.⁴ Fifty-five, or 52 percent, of the 105 files did not have the required invoices to support closeout.
- We randomly reviewed 245 of 7,156 files related to home elevation work. Of the 245 files, 210, or 86 percent, contained a cost estimate based on

² In some cases, qualified homeowners living in high-risk areas receive funds to elevate (raise) their homes to FEMA-based flood elevation standards. According to FEMA’s website, mitigation reconstruction is the construction of an improved, elevated building on the same site where an existing building or foundation has been partially or completely demolished or destroyed. Mitigation reconstruction is only permitted for structures outside of the regulatory floodway or coastal high hazard area (Zone V) as identified by available flood hazard data.

³ Louisiana officials provided FEMA 10,200 files that they said were ready for closeout. FEMA selected a sample of 477 of those files for review to determine whether Louisiana provided proper documentation and, as of the time of our audit, had completed reviewing 138.

⁴ These files were in Louisiana’s Applicant Tracking System, which OCD and Louisiana used to aggregate program documentation on a per-house basis.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Elevation Cost Guidance (ECG)⁵ to support closeout, which does not constitute proper documentation. Also, 114 files, or 47 percent, did not have the invoices required to support closeout.

Although Louisiana cannot support all HMGP project costs totaling \$706.6 million as required, FEMA is accepting this documentation. Specifically, OCD and Louisiana used the cost estimate based on ECG because they believed such an estimate could be used for closeout, but according to 44 CFR section 13.20, such an estimate does not constitute proper documentation for closeout. At the time of our audit, FEMA officials were reviewing property elevation files that Louisiana had deemed ready to closeout. FEMA contended that after completing this review, it would use files that met “Federal support requirements” to close out the \$706.6 million HMGP grant, including files with ECG-based cost estimates rather than support based on actual costs in source documentation, as required. Even though the Office of Management and Budget (OMB) may waive this support documentation requirement, FEMA has not requested or otherwise received such a waiver.

As reported in previous Office of Inspector General (OIG) audit reports, FEMA has previously inappropriately allowed exceptions for ineligible costs based on reasonableness.⁶ Although 44 CFR 13.6(c) provides FEMA with authority to grant exceptions to administrative requirements on a case-by-case basis, the previous OIG audits reported on the granting of exceptions for a class of grants, which only OMB has the authority to grant, as set forth in 44 CFR 13.6(b).

Although FEMA officials allowed OCD to use ECG as a cost-estimating tool to facilitate the obligation of funding, FEMA officials indicated in a January 27, 2017 memo to Louisiana that “invoices and other proof of payment documents,” among other documentation, would be required at closeout. The memo listed documentation required by Federal regulations and FEMA guidelines, such as building permits, pre- and post-elevation certificates, proof of flood insurance, invoices, and other proof of payment documents (appendix D contains all required documentation listed in the January 27, 2017 FEMA memo).

⁵ OCD hired a contractor to help develop ECG, a cost-estimating tool. OCD used ECG to estimate the cost of elevating properties.

⁶ *FEMA Can Do More to Improve Public Assistance Grantees’ and Subgrantees’ Compliance with Federal Procurement* (OIG-16-126-D), issued September 2, 2016, addresses FEMA’s inappropriate grant of an exception for a class of grants. Further, *Summary and Key Findings of Fiscal Year 2016 FEMA Disaster Grant and Program Audits* (OIG-18-06), issued October 27, 2017, addresses FEMA’s continued failure to manage disaster relief grants and funds adequately.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

OCD advised FEMA it did not have the proper documentary evidence necessary to close out the grant. Louisiana's lack of legally required cost documentation increases the risk of misuse, abuse, and misstatement of costs. As a result, FEMA has no reasonable assurance that OCD and Louisiana properly accounted for and expended Federal funds. Therefore, FEMA should postpone project closeout until Louisiana provides proper documentation that supports \$706,574,823 in costs. Additionally, FEMA should consider performing a forensic audit on the \$706,574,823 in Hazard Mitigation Grant Program files.⁷

Louisiana Could Not Document Homeowners' Payment of Promissory Notes

Louisiana could not document whether homeowners paid contractors for \$79.7 million in promissory notes⁸ for elevation work begun under a state-funded program. This situation arose because Louisiana did not have procedures for collecting and maintaining such documentation. As a result, Louisiana could not provide proof of promissory note payment that FEMA required to determine the amount of HMGP funding it would provide to homeowners to complete elevation work. FEMA extended the deadline for providing proof of payment, and Louisiana began addressing the lack of procedures to track promissory notes.

Under the Road Home Elevation Incentive (RHEI), a State program, Louisiana awarded \$30,000 each to homeowners for home elevation work. Homeowners were supposed to use RHEI funds as a down payment to start the elevation process. Louisiana expected to use FEMA HMGP funds to reimburse homeowners for the remaining balances on elevation work. Louisiana learned that many homeowners had used RHEI funds for purposes other than elevation work. To account for previously expended RHEI funding, OCD adopted a promissory note policy, under which homeowners were required to document proof of payment of promissory notes under RHEI. However, at the time, Louisiana acknowledged it did not have procedures in place to document proof of homeowners' payment of 2,730 promissory notes totaling \$79.7 million.⁹

As discussed earlier, according to Section 312(a) of the Stafford Act, recipients cannot use FEMA funds for expenditures recoverable from another source. Therefore, before providing HMGP funds to homeowners who received assistance under RHEI, FEMA told Louisiana it would need proof of payment of promissory notes under RHEI. FEMA could then determine the amount of

⁷ A forensic audit is the process of reviewing a person's or a company's financial statements to determine whether they are accurate and lawful.

⁸ A promissory note is an unconditional written promise to pay absolutely and in any event a certain sum of money either to, or to the order of, the bearer or a designated person.

⁹ The \$79.7 million is included in the \$706.6 million in costs that we questioned in the previous section.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

HMGP funding it would provide to homeowners for elevation work. In a letter to Louisiana dated October 3, 2017, FEMA wrote:

In order for FEMA to accept the amount of these notes as proof of payment for any portion of the cost of the project, one of the following conditions must be met:

- the note has been paid in full, or
- the homeowner is continuing to repay the note pursuant to its terms and conditions.

Any portion of the note forgiven by the elevation contractor, either explicitly or implicitly through the contractor's failure to collect, will not be considered as proof of payment. If the elevation contractor forgave the note, that forgiveness is financial assistance. Documentation of promissory note repayment must be provided to FEMA for all affected properties no later than March 30, 2018. Failure to submit the required documentation will result in a reduction to the total project cost equal to the amount of the promissory note.

FEMA later extended the deadline for providing promissory note repayment documentation to August 29, 2018. Louisiana officials said they established procedures for a contractor to collect promissory note data. On May 29, 2018, Louisiana signed a task order contract with a firm to assist in the collection of promissory notes. FEMA granted Louisiana's request to extend the deadline for promissory note payment documentation to November 27, 2018. According to Louisiana, it has experienced difficulties in documenting notes from contractors and homeowners. Louisiana requested a pause in its efforts to allow it and FEMA to reconcile data already obtained, establish the value of this data toward the financial closeout of the project, and determine the best path forward. In a letter dated June 5, 2019, FEMA extended the deadline for promissory note payment documentation to September 5, 2019.

Louisiana Drew Down Funds Exceeding Project Obligations Due to a Lack of FEMA Controls

Louisiana drew down funds exceeding project obligations by \$50.4 million due to a lack of FEMA controls. FEMA obligations for the project total \$706.6 million, but OCD requested drawdowns of \$756.8 million and, according to Louisiana's reconciliation of funds drawn down, received \$757 million — \$50.4 million more than FEMA obligations. This discrepancy occurred because FEMA and Louisiana lacked proper procedures to account for drawdowns of Federal



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

funds in sufficient detail. As a result, neither FEMA nor Louisiana could provide adequate documentation of funds paid to OCD for Hurricanes Katrina and Rita.

FEMA obligates funding on projects for grantees and subgrantees, and this funding is made available through the Department of Health and Human Services' Smartlink electronic payment system. The grantee (Louisiana) initiates a drawdown from Smartlink based on documentation received from a subgrantee requesting payment.

We requested detail of amounts paid for project worksheets¹⁰ 50 and 113, the project numbers for OCD under Hurricanes Katrina and Rita, respectively. FEMA provided lists of mitigation drawdowns by Louisiana for these hurricanes, but the lists were not specific to project numbers. It should be noted that, as of March 2015, FEMA was accounting for drawdowns on a project-by-project basis, but not for drawdowns prior to that date. A FEMA representative said many drawdowns encompass a combination of project numbers and that the list provided was not itemized. FEMA also provided a "ledger" that showed \$688.4 million in payments for project number 50, mitigation work for OCD under Hurricane Katrina. FEMA could not provide any supporting documentation for the ledger and said such detail is the State's responsibility. FEMA also could not provide any documentation to support OCD project number 113 for Hurricane Rita.

Louisiana did not account for drawdowns of Federal funds on a project-by-project basis. OCD, the original subgrantee for the mitigation projects, had only one project worksheet for each of the two hurricanes, which should have simplified accounting for Louisiana. However, Louisiana included non-OCD activity in payment requests for FEMA-funded OCD projects. In all, Louisiana provided documentation for about \$46.2 million in costs unrelated to OCD, in which funds were co-mingled across multiple subgrantees. As a result, FEMA has no reasonable assurance that Louisiana properly accounted for and expended these Federal funds, which increases the risk for misuse, abuse, and misstatement of costs.

According to Louisiana, in 2010, it initiated procedures to account for its drawdowns on a project-by-project basis and planned to do so retroactively. Louisiana reclassified some costs beginning in January 2011. In March 2018, Louisiana said it had made more recent reclassifications.

¹⁰ A project worksheet is the primary form used to document the scope of work and cost estimate for a project. It includes the location, damage description and dimensions, scope of work, and cost estimate.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Recommendations

Recommendation 1: We recommend the Regional Administrator, Federal Emergency Management Agency Region VI, postpone project closeout until Louisiana provides documentation that supports \$706,574,823 in costs in accordance with the terms of the Hazard Mitigation Grant Program and Federal accounting regulations. The documentation should ensure funds are accounted for accurately, easily traced for support, and eligible under the Hazard Mitigation Grant Program grant. Additionally, FEMA should consider performing a forensic audit on the \$706,574,823 Hazard Mitigation Grant Program files.

Recommendation 2: We recommend the Regional Administrator, Federal Emergency Management Agency Region VI, direct Louisiana to establish an effective accounting and records retention system that accurately accounts for, maintains supporting documentation, and facilitates FEMA oversight and tracking of the State's use of grantee funds.

Recommendation 3: We recommend the Regional Administrator, Federal Emergency Management Agency Region VI, ensure Louisiana provides documentation that shows \$79,677,594 in promissory notes are paid in full and deobligate any unpaid amounts accordingly. This amount is included in the \$706,574,823 in recommendation 1 and therefore is not cumulative.

Recommendation 4: We recommend the Regional Administrator, Federal Emergency Management Agency Region VI, provide technical assistance to Louisiana to strengthen its accounting controls relative to the drawdown process.

Recommendation 5: We recommend the Regional Administrator, Federal Emergency Management Agency Region VI, provide additional technical assistance and monitoring to Louisiana to correct identified deficiencies and ensure compliance with grant requirements.

Management Comments and OIG Analysis

FEMA provided an initial written response to this report on April 5, 2019, and concurred with recommendations 1, 2, 4, and 5; and non-concurred with recommendation 3. We included a copy of FEMA's initial management comments in their entirety in appendix C. We requested additional documentation on April 10, 2019, to support FEMA's actions taken concerning recommendations 1 and 3 and received that documentation on April 17, 2019. Based on FEMA's initial response and additional documentation provided, their proposed actions or actions taken were sufficient to close recommendations 2,



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

3, 4, and 5. However, FEMA's actions were not sufficient to resolve recommendation 1; therefore, recommendation 1 is considered unresolved and open.

Recommendation 1

FEMA Response: FEMA concurred with the recommendation. FEMA stated that Louisiana provided sufficient documentation to adequately support costs and in 2014 FEMA "developed a strategy to ensure that the OCD projects met the overarching HMGP goals for closeout." FEMA stated that it conducted an evaluation of a randomized sample of 1,632 properties, 16 percent of 9,928 properties, intended to achieve 99 percent statistical confidence, and a confidence interval of less than ± 3 . FEMA stated that, outside of promissory note and flood insurance requirements, all review criteria have been satisfied. FEMA's response did not address the forensic audit portion of the recommendation.

OIG Analysis: Although FEMA concurred with the recommendation, we find FEMA's actions inadequate to resolve the recommendation. According to 44 CFR section 13.20, Louisiana is required to support costs by providing source documentation such as canceled checks, paid bills, payrolls, time and attendance records, contracts, and subgrant award documents for all projects. The Office of Management and Budget can waive the documentation requirement, but FEMA did not request or receive such a waiver. FEMA assessed 16 percent of all properties to determine whether Louisiana provided the required documentation.

In considering FEMA's response, we requested documentation supporting its analysis. The documentation provided was incomplete, supporting analysis of only 704 of the 1,632 sampled properties (7 percent of all properties). Of the 704 completed, FEMA found that 40 did not have adequate documentation. Furthermore, for 99 properties, FEMA contradicted its own findings that costs were adequately supported. For example, for applicant 06HH011411, FEMA determined that cost documentation was adequate; however, FEMA also noted that \$17,697.82 in costs was unsupported.

Based on its incomplete analysis, FEMA cannot conclude with a 99 percent statistical confidence level, interval of less than ± 3 , that all documentation review criteria have been satisfied. FEMA also did not address the forensic audit portion of the recommendation. Therefore, we consider this recommendation unresolved and open.

Recommendation 2

FEMA Response: FEMA concurred with the recommendation. FEMA stated that Louisiana has made significant progress on grants management, documents retention, and accounting since issues were identified in these



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

areas following Hurricanes Katrina and Rita. In 2017, FEMA successfully validated OCD's accounting system. FEMA directed OCD to make corrections to its financial monitoring process, which FEMA retested and validated in 2018.

OIG Analysis: FEMA's actions and the documentation provided satisfy the intent of the recommendation. Therefore, we consider the recommendation closed.

Recommendation 3

FEMA Response: FEMA non-concurred with the recommendation. FEMA stated that promissory notes are a legal and ongoing financial obligation of the homeowner for which full repayment has yet to occur. Louisiana has been working to identify and track all promissory notes associated with this program. FEMA has instructed Louisiana to include an "in active payment" provision for proof of payment. Of approximately 2,790 notes, most are long-term, many as long as 30 years. FEMA added that to implement the recommendation, the project, the HMGP grant program, and the FEMA-State Agreement for both Hurricanes Katrina and Rita would need to remain open until the last note is fully repaid, which it believes is not reasonable.

OIG Analysis: Although FEMA non-concurred, we believe the actions taken and planned and additional documentation provided after its initial response satisfy the intent of this recommendation. We acknowledge that promissory notes are legal and ongoing financial obligations that may take years to repay; therefore, we requested that FEMA provide additional documentation of the payment status of the 2,790 promissory notes. According to the documentation FEMA provided, as of November 27, 2018, Louisiana had successfully obtained responses pertaining to 1,431 of the 2,790 promissory notes, documenting \$15.9 million in payments. Because of FEMA's actions to ensure Louisiana makes progress on ensuring promissory notes are paid, and to require that Louisiana include an "in active payment" provision for proof of payment, we consider the recommendation closed. However, we stress that FEMA should continue to monitor Louisiana and establish a deadline concerning nonresponsive contractors and homeowners to prevent possible duplication of Federal funds in the form of unpaid promissory notes. According to Section 312(a) of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, FEMA funds cannot be used for expenditures recoverable from another Federal program, insurance, or any other source.

Recommendation 4

FEMA Response: FEMA concurred with the recommendation. FEMA stated that Louisiana has made significant progress on grants management, documentation retention, and accounting since issues were identified in these areas from Hurricanes Katrina and Rita. FEMA stated that in 2012 it



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

recommended improvements be made to Louisiana's grant file maintenance. FEMA also recommended the State implement definitive steps to deobligate funds to address closeouts.

OIG Analysis:

FEMA's actions and the documentation provided satisfy the intent of the recommendation. Therefore, we consider the recommendation closed.

Recommendation 5

FEMA Response: FEMA concurred with the recommendation. FEMA stated that it has worked closely with Louisiana to develop applicable policies and procedures regarding its accounting controls, records retention system, and tracking of state funds. FEMA performed joint monitoring visits to review these areas. FEMA validated that Louisiana developed policies and procedures to improve subgrantee monitoring and policy implementation. Validation of policy implementations occurred over multiple visits and ended with satisfactory implementation in FY 2018. FEMA identified funds wrongly withdrawn without FEMA approval and worked with the State to recoup funds. Louisiana has returned \$53.1 million in overdrawn funds.

OIG Analysis: FEMA's actions and the documentation provided satisfy the intent of the recommendation. Therefore, we consider the recommendation closed.



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Department of Homeland Security

Appendix A

Objective, Scope, and Methodology

The DHS 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*. We audited Hazard Mitigation grant funds awarded to OCD (Identification Number 99022). Our audit objective was to determine whether Louisiana accounted for and expended hazard mitigation grant funds according to Federal regulations. We conducted this limited-scope audit jointly with the DHS OIG Office of Investigations to address potential issues that office identified. The Office of Investigations received allegations of possible irregularities within the program and requested audit assistance.¹¹

OCD received a grant of \$685.4 million for elevation/reconstruction of homes from the Governor's Office of Homeland Security and Emergency Preparedness (Louisiana), a FEMA grantee, following Hurricane Katrina (1603-DR-LA), and an additional \$21.2 million for the same purpose following Hurricane Rita (1607-DR-LA), totaling \$706.6 million. We relied on a FEMA-provided spreadsheet detailing project obligations, adjusted for one deobligation that was made after our scope date. To validate this data, we compared it to the project universe totals from an earlier audit of OCD, pulled from Louisianahm.com, adjusting for activity that took place after those reports were pulled. These totals agreed, and we considered the data reliable. We randomly reviewed closeout files Louisiana officials provided FEMA and files in the Louisiana's Applicant Tracking System to determine whether Louisiana provided FEMA with adequate documentation to support costs.

On August 31, 2015, responsibility for the elevation/reconstruction of homes under the HMGP program transferred from OCD (subgrantee) to Louisiana (grantee). We focused our analysis on the potential issues that the Office of Investigations identified. Our audit covered the period August 29, 2005, to February 21, 2017.

To accomplish our audit objective, we interviewed FEMA and Louisiana officials and performed other necessary procedures. We gained an understanding of the policies, procedures, and business practices OCD and Louisiana used and plan to use to administer activities provided for under the FEMA award.

We conducted this performance audit between February 2017 and June 2018, 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

¹¹ DHS OIG Office of Investigations findings may be detailed in a separate Report of Investigation.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. Unless stated otherwise in this report, to conduct this audit, we applied the statutes, and regulations in effect at the time of the disasters. As of the date of this report, a separate OIG investigation was ongoing.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Rec. No.	Amounts	Federal Share
Questioned Costs – Ineligible		0	0
Questioned Costs – Unsupported	1	\$706,574,823	\$706,574,823
Funds Put to Better Use		0	0
Totals		\$706,574,823	\$706,574,823

Source: OIG analysis of findings in this report



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix C
FEMA Region VI Audit Response



FEMA

April 5, 2019

MEMORANDUM FOR: Sondra McCauley
Assistant Inspector General
Office of Audits

FROM: George A. Robinson *George A. Robinson*
Regional Administrator

SUBJECT: Management Response to OIG Draft Report: "Louisiana Did Not Properly Oversee a \$706.6 Million Hazard Mitigation Grant Program Award for Work on Louisiana Homes" (Project No. G-16-064-EMO-FEMA)

Thank you for the opportunity to review and 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.

At \$750 million, the Office of Community Development (OCD) project was the largest Hazard Mitigation Grant Program (HMGP) Louisiana had ever managed, and the largest single HMGP project in FEMA's history. The OCD project was unprecedented in size and scope, and was developed to reduce risks of damage from future storms and flooding. Because of the project, nearly 10,000 structures were elevated, hardened, and improved to save lives and reduce future losses by billions of dollars. According to the National Institute of Building Sciences' Interim Report Fact Sheet "Natural Hazard Mitigation Saves 2018," natural hazard mitigation saves \$6 on average for every \$1 spent of federal mitigation grants. FEMA has conducted due diligence to ensure that eligible mitigation occurred with reasonable cost and sufficient documentation.

The draft report contained five recommendations with which FEMA concurs on four and non-concurs on one. Technical comments were previously provided under a separate cover.

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 in the future.

Attachment

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Appendix C (Continued)

Attachment: DHS Management Response to Recommendations Contained in G-16-064-EMO-FEMA

We recommend the FEMA Regional Administrator, Region VI:

Recommendation 1: Postpone project closeout until Louisiana provides documentation that supports \$706,574,823 in costs in accordance with the terms of the Hazard Mitigation Grant Program and Federal accounting regulations. The documentation should ensure funds are accounted for accurately, easily traced for support, and eligible under the Hazard Mitigation Grant Program grant. Additionally, FEMA should consider performing a forensic audit on the \$706,574,823 Hazard Mitigation Grant Program files.

Response: Concur. The Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) has provided sufficient documentation to adequately support actual costs. GOHSEP has provided the information detailed in a traditional invoice and other required documentation that support project costs:

- Demonstrating what work was performed;
- Demonstrating project cost;
- Demonstrating that work performed was eligible;
- Demonstrating that the cost for work performed was reasonable;
- Documented the amount paid for the work (e.g., cancelled checks); and,
- Show that mitigation of the structure was accomplished.

The documents required by GOHSEP to support these costs are:

- A contract between homeowner and contractor that broadly describes the nature of the work, most often this was elevation of a home. FEMA acknowledges these contracts were often lump sum and with less than full details, however this lack of detail was addressed by the next requirement;
- A completed elevation quote form (a requirement Louisiana imposed upon the contractor) that details the total cost of the work and what work will be done, e.g., how high a property will be elevated, base costs (engineer drawings, site prep, type of elevation (pier vs. slab), masonry, etc.);
- Proof of payment documents (e.g., cancelled checks);
- Before and after photos;
- Post-elevation certificate; and,
- Certificate of Occupancy or Certificate of Completion and evidence of occupancy.

In 2014, FEMA Region VI developed a strategy to ensure that the OCD project met the overarching HMGP goals for closeout. FEMA Region VI conducted an evaluation of a randomized sample of properties mitigated with HMGP funding. The sample was generated to be sufficient in meeting the threshold of a 99 percent statistical confidence level, and a confidence interval of less than (+/-3). The randomized sample size was 1,632 of 9,928 properties, or 16%. Using these 1,632 properties, Region VI conducted a closeout

Project No. G-16-064-EMO-FEMA /Page 1



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Appendix C (Continued)

audit to determine documentation compliance. Results showed that 22.7% did not meet the promissory note requirement and 2.6% did not meet the flood insurance requirement. Outside of these two issues, all review criteria have been satisfied for the sample of 1,632 properties. GOSHEP has continued to work toward resolving promissory note and flood insurance requirement issues.

We request that the OIG consider this recommendation resolved and closed as implemented.

Recommendation 2: Direct Louisiana to establish an effective accounting and records retention system that accurately accounts for, maintains supporting documentation, and facilitates FEMA oversight and tracking of the State's use of grantee funds.

Response: Concur. Louisiana has made significant progress on grants management, documentation retention, and accounting since issues were identified following Hurricanes Katrina and Rita. In 2017, FEMA Region VI successfully validated OCD's accounting system. FEMA directed OCD to make corrections to its financial monitoring process. In 2018, FEMA retested and validated the improvements made to OCD's financial monitoring process. OCD improvements have been implemented for current HMGP projects, as well as projects currently being obligated for Hurricanes Katrina and Rita.

We request that the OIG consider this recommendation resolved and closed as implemented.

Recommendation 3: Ensure Louisiana provides documentation that shows \$79,677,594 in promissory notes are paid in full and de-obligate any unpaid amounts accordingly. This amount is included in the \$706,574,823 in Recommendation 1 and therefore is not cumulative.

Response: Non-concur. Promissory notes are a legal and on-going financial obligation of the homeowner where full repayment has yet to occur. GOSHEP has been working to identify and track all promissory notes associated with this program. FEMA Region VI has instructed GOSHEP to include an "in active payment" provision for proof of payment. Of the approximately 2,790 promissory notes, most of the remaining notes are long-term, many as long as 30 years in length. To implement the recommendation, this project, the HMGP grant program, and the FEMA-State Agreement for both Hurricanes Katrina and Rita would need to remain open until the last note is fully repaid. Region VI believes that this is not reasonable and does not demonstrate grants management best practices.

Recommendation 4: Provide technical assistance to Louisiana to strengthen its accounting controls relative to the drawdown process.

Response: Concur. Louisiana has made significant progress on grants management, documentation retention, and accounting since issues were identified from Hurricanes



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Department of Homeland Security

Appendix C (Continued)

Katrina and Rita. In 2012, FEMA Region VI recommended improvements be made to GOHSEP's grant file maintenance. Lastly, FEMA Region VI recommended GOHSEP implement definitive steps to deobligate funds to address closeouts.

We request that the OIG consider this recommendation resolved and closed as implemented.

Recommendation 5: Provide additional technical assistance and monitoring to Louisiana to correct identified deficiencies and ensure compliance with grant requirements.

Response: Concur. FEMA Region VI has worked closely with GOHSEP to develop applicable policies and procedures regarding GOHSEP's accounting controls, records retention system, and tracking of state funds. FEMA Region VI performed joint monitoring visits to review GOHSEP's policies, procedures, and provide technical assistance. FEMA also validated that GOHSEP developed policies and procedures to improve sub-grantee monitoring and policy implementation. Validation of policy implementations occurred over multiple visits and ended with satisfactory implementation in FY 2018. FEMA identified funds wrongly withdrawn without FEMA approval and worked with GOHSEP to recoup the funds; GOHSEP has returned \$53.1 million, the amount of funds over-withdrawn.

We request that the OIG consider this recommendation resolved and closed as implemented.



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Appendix D

Required Documentation for Closeout per FEMA Region VI

Memo of January 27, 2017

According to the FEMA memo, the following documentation is required for property closeout:

- Recorded Covenant
- Building Permit
- Certificate of Occupancy or Certificate of Completion and evidence of occupancy
- Pre-elevation Certificate of other evidence of status of home prior to completion of elevation
- Post Elevation Certificate
- Flood Map Printouts
- Total Project Cost Documents (TPC), i.e., Signed Contract – Lump Sum Contract and Quote Sheet
- Invoices and Other Proof of Payment Documents
- Termite Certificate/Invoices
- Before and After Photos
- Flood Insurance Documentation at Time of Property Submission

Source: FEMA Louisiana Recovery Office Executive Director



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Appendix E

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