

Summary and Key Findings of Fiscal Year 2014 FEMA Disaster Grant and Program Audits





DHS OIG HIGHLIGHTS

Summary and Key Findings of Fiscal Year 2014 FEMA Disaster Grant and Program Audits

September 15, 2015

Why We Did This

This is our sixth annual “capping” report summarizing our disaster-related audits. Our first five annual reports focused solely on our Public Assistance and Hazard Mitigation grant audits. This year, we added the results of our non-grant audits to reflect all of our work related to Disaster Relief Fund activities.

What We Recommend

The Federal Emergency Management Agency (FEMA) should advise its Regional Administrators to request FEMA grantees to provide a copy of our *Audit Tips for Managing Disaster-Related Project Costs* to every Public Assistance and Hazard Mitigation Grant Program applicant.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov.

What We Found

In fiscal year (FY) 2014, we issued reports on 61 audits of FEMA grants, programs, and operations funded from the Disaster Relief Fund: 49 grant audits and 12 program audits. The 61 reports contained 159 recommendations, with potential monetary benefits of \$1 billion, which included \$971.7 million reported for grant audits and \$29.3 million reported for program audits. The \$971.7 million represents 28 percent of the \$3.44 billion in grant funds we audited in FY 2014. One Hazard Mitigation Grant Program audit resulted in \$812 million of the \$971.7 million of potential monetary benefits. We continue to find problems with grant management, ineligible and unsupported costs, and noncompliance with Federal contracting requirements. The 12 program audits included 3 audits of FEMA’s initial response to disasters, 4 audits related to issues we identified during our audits of FEMA’s disaster responses, and 5 other audits of FEMA programs or operations. The 12 program audit reports recommended improvements to FEMA programs or operations and the recoupment of a \$29.3 million debt that a state owed to FEMA.

FEMA has been proactive in responding to our FY 2014 recommendations. As of July 15, 2015, FEMA had taken corrective actions sufficient to close 146 of the 159 recommendations, with the remaining 13 being resolved pending FEMA’s completion of its planned actions. For example, FEMA Mitigation has reduced the \$812 million of unobligated funding we mention above to about \$153 million. In addition, regarding the \$29.3 million debt, FEMA secured an agreement from the State of Louisiana to pay FEMA \$53.8 million for this debt and other overpayments.

FEMA Response

FEMA agreed with our recommendations. Appendix C includes FEMA’s response in its entirety.



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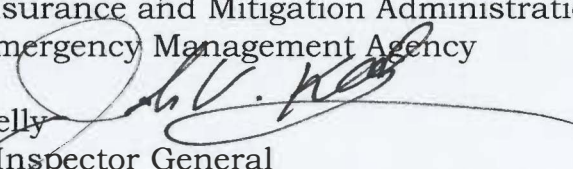
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SEP 15 2015

MEMORANDUM FOR: Elizabeth Zimmerman
Associate Administrator
Office of Response and Recovery
Federal Emergency Management Agency

Roy Wright
Acting Associate Administrator
Federal Insurance and Mitigation Administration
Federal Emergency Management Agency

FROM: John V. Kelly 
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Summary and Key Findings of Fiscal Year 2014
FEMA Disaster Grant and Program Audits
Report Number OIG-15-146-D*

This report summarizes the results of audit reports we issued in fiscal year (FY) 2014 on Federal Emergency Management Agency (FEMA) grants, programs, and other operations funded from the Disaster Relief Fund. In total, we issued reports on 61 audits: 49 grant audits and 12 program audits.

Background

Each year, our audit reports reveal significant issues representing millions of dollars of Federal funds allocated for disaster assistance and recovery efforts. These reports also contain recommendations to assist FEMA in improving operations.

The majority of our audits focus on grants under FEMA's Public Assistance (PA) program and Hazard Mitigation Grant Program (HMGP), both funded from the Disaster Relief Fund.¹ Under the PA program, FEMA provides grants to

¹ The Disaster Relief Fund (DRF) is an appropriation against which FEMA can direct, coordinate, manage, and fund eligible response and recovery efforts associated with domestic major disasters and emergencies that overwhelm state resources pursuant to the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, Public Law 93-288 as amended, 42 U.S.C. 5121 *et seq.* Through the DRF, FEMA can fund authorized Federal disaster support activities as well as eligible state, territorial, tribal, and local actions, such as providing emergency protection and debris removal. Congress provided the DRF approximately \$6.2 billion in FY 2014.



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states, tribal and local governments, and certain types of private nonprofit organizations so that communities can quickly respond to and recover from major disasters. FEMA's HMGP program provides funding to the same entities to implement long-term measures to prevent damages from future disasters.

We issue our reports to FEMA officials, Congress, and the public through our website (www.oig.dhs.gov). This annual summary, a consolidation of all of our findings and recommendations, addressed to FEMA headquarters officials, specifically informs them about significant issues of noncompliance and program inefficiencies that warrant their attention. The reports also emphasize the total resulting potential monetary benefits of our questioned costs and recommendations (see table 1). In the last 6 FYs, we audited grant funds totaling \$9.35 billion and reported potential monetary benefits of \$2.3 billion, or an average of 25 percent of the amount audited.

Table 1. Potential Monetary Benefits from FYs 2009–2014 Grant Audits

Capping Report Number	Fiscal Year	Amount Audited (billions)	Potential Monetary Benefits (millions)	Percentage of Potential Monetary Benefits to Amount Audited
DS-11-01	2009	\$0.93	\$138.4	15%
DD-11-17	2010	\$1.23	\$165.3	13%
OIG-12-74	2011	\$1.22	\$336.9	28%
OIG-13-90	2012	\$1.25	\$415.6	33%
OIG-14-102-D	2013	\$1.28	\$307.8	24%
OIG-15-146-D	2014	<u>\$3.44</u>	<u>\$971.7</u>	<u>28%</u>
	Totals	<u>\$9.35</u>	<u>\$2,335.7</u>	<u>25%</u>

Source: Office of Inspector General (OIG) compilation and analysis of issued reports²

We have begun our oversight of FEMA grants early in the disaster assistance process with audits of subgrantees. These proactive audits assess a subgrantee's ability to successfully manage Federal disaster funds. We report the results to FEMA officials and grantees before the subgrantees expend the majority of grant funds. This early intervention can prevent potential waste, fraud, and abuse of Federal disaster resources. We also continue to audit PA and HMGP grant funds after the subgrantees received and spent the funds.

We appreciate that FEMA officials have acknowledged the value of our audits and have implemented corrective measures to address many of the issues we identified. For example, because of our continued findings of noncompliance with Federal procurement regulations, FEMA developed a new Procurement

² The source of information for all the tables in this report is the same; therefore, we cite the source only once.



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Disaster Assistance Team in April 2014. The Procurement Disaster Assistance Team is a group of attorneys whose primary mission is to work with grant applicants and FEMA employees to ensure compliance with Federal procurement standards.

Procurement Disaster Assistance Team attorneys have deployed to disasters in Arkansas, Florida, Missouri, and Washington to provide real-time procurement advice. They have also provided procurement training to approximately 1,300 FEMA, state, and local emergency management personnel in 16 states.

Also, as a result of our reports, FEMA is revising its policy on insurance to ensure applicants obtain and maintain the correct type and amount of insurance and comply with all Federal requirements. This policy, which FEMA expects to complete and issue in 2015, will reduce reliance on Federal assistance in future disasters.

Finally, FEMA's Recovery Directorate has established a Recovery Audits Section dedicated to overseeing, coordinating, responding to, and implementing our audit recommendations. Since launching the Section in June 2014, FEMA has begun (1) hiring staff; (2) developing procedures to improve the quality and timeliness of audit responses; and (3) identifying ways to improve audit-related information sharing, recordkeeping, and communication between FEMA Headquarters and Regional Recovery Divisions. FEMA anticipates the Recovery Audit Section will reach full staffing and operating capacity by the end of FY 2015.

Results of Review

In FY 2014, we issued reports on 61 audits of FEMA grants, programs, and operations funded from the Disaster Relief Fund: 49 grant audits and 12 program audits. The 61 reports contained 159 recommendations, with potential monetary benefits of \$1 billion.

The 49 grant audit reports related to specific grants and subgrants under the Public Assistance program and Hazard Mitigation Grant Program. The 49 grant audit reports contained 140 recommendations, with potential monetary benefits of \$971.7 million. The \$971.7 million in potential monetary benefits represents 28 percent of the \$3.44 billion of grant funds we audited in FY 2014. The \$971.7 million included \$812 million of potential monetary benefits associated with one HMGP audit. We continue to find problems with grant management, ineligible and unsupported costs, and noncompliance with Federal contracting requirements.

The 12 program audits included 3 audits of FEMA's initial response to disasters, 4 audits related to issues we identified during our audits of FEMA's



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disaster responses, and 5 audits of FEMA programs or operations not related to specific grants. The 12 program audits contained 19 recommendations for improving FEMA programs or operations and for recouping a \$29.3 million debt a state owed to FEMA.³

FEMA has been proactive in responding to our FY 2014 recommendations. As of July 15, 2015, FEMA had taken corrective actions sufficient to close 146 of the 159 recommendations, with the remaining 13 being resolved pending FEMA's completion of its planned actions. For example, FEMA Mitigation has reduced the \$812 million of unobligated funding we mention previously to about \$153 million. In addition, regarding the \$29.3 million debt, FEMA secured an agreement from the State of Louisiana to pay FEMA \$53.8 million for this debt and other overpayments.

We urge FEMA officials to share this report with their Regions and grantees to raise awareness of new and recurring issues and recommendations for improvements. In addition, we believe that future subgrantees of FEMA PA and HMGP funds would also benefit from our advice. Therefore, we recommend that FEMA direct its Regional Administrators to request FEMA grantees to provide a copy of our *Audit Tips for Managing Disaster-Related Project Costs* (Report Number OIG-15-100-D, issued June 8, 2015) to every PA and HMGP applicant.

Grant Audits

Of the 49 grant audit reports we issued in FY 2014, 41 contained 140 recommendations, resulting in potential monetary benefits of \$971.7 million.⁴ This amount included \$860.1 million in cost avoidance and unused obligated funding that we recommended FEMA deallocate or deobligate and put to better use. It also included \$111.6 million in questioned costs that we recommended FEMA disallow as ineligible or unsupported. The \$971.7 million in potential monetary benefits represents 28 percent of the \$3.44 billion we audited in FY 2014.

We continue to find problems with grant management, ineligible and unsupported costs, and noncompliance with Federal contracting requirements. A new significant issue this year is unused funding that could be put to better use.

Ineligible costs occur for numerous reasons, but we continue to stress the important role the states, as FEMA grantees, must play in monitoring their PA

³ We recommended FEMA take immediate action to administratively offset a \$23,131,010 debt plus \$6,190,310 in accrued interest, penalties, and administrative fees, totaling \$29,321,320 in questioned costs (OIG-14-134-D).

⁴ Eight FY 2014 grant audit reports had no findings or reportable conditions.



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and HMGP grants. FEMA reimburses states to administer and oversee disaster funds. The states are generally responsible for the day-to-day monitoring of PA and HMGP grants and can have a major impact on preventing misuse of funds. Therefore, improved grantee oversight would increase compliance with Federal regulations and thus decrease ineligible costs. In addition, better grant administration will help grantees more quickly identify unneeded and unused funding. Table 2 categorizes our audit findings and the 140 recommendations into four broad types.

Table 2. Potential Monetary Benefits by Finding Type

Types of Findings	Number of Resulting Recommendations	Amounts Questioned in Our Reports
A. Funds Put to Better Use	15	\$860,142,793
B. Ineligible Work or Costs	64	109,750,224
C. Unsupported Costs	8	1,868,483
D. Grant Management and Administrative Issues	<u>53</u>	<u>0</u>
Totals	<u>140</u>	<u>\$971,761,500</u>

A. Funds Put to Better Use

As table 3 illustrates, we reported 15 instances where FEMA had not obligated authorized funding or subgrantees no longer needed obligated funding, and recommended that FEMA deallocate or deobligate \$860.1 million.

Table 3. Funds Put to Better Use by Subtype

Subtypes of Funds Put to Better Use	Number of Resulting Recommendations	Amounts Questioned in Our Reports
1. Cost Avoidance	5	\$850,322,503
2. Unused Obligated Funds	9	9,798,850
3. Interest Earned	<u>1</u>	<u>21,440</u>
Totals	<u>15</u>	<u>\$860,142,793</u>

1. Cost Avoidance. We reported five instances totaling \$850.3 million of potential cost avoidance. The majority of funds we identified related to HMGP grants FEMA authorized for the State of Louisiana for disasters that occurred between August 2005 and October 2011.⁵ In Audit Report OIG-14-150-D,⁶ we reported that FEMA has not obligated \$812 million of \$2.16

⁵ Louisiana disasters for this timeframe include 1603, 1607, 1668, 1685, 1786, 1792, 1863, 4015, and 4041.

⁶ Appendix A lists the report number, disaster number, date issued, and title for each of the 49 grant reports we discuss in this report.



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billion HMGP funds FEMA allocated (authorized) for the state since Hurricane Katrina. The funding delays occurred, in part, because—

- Louisiana’s local governments had not submitted hazard mitigation plans that FEMA must review and approve to allow applicants to receive HMGP funds;
- FEMA did not require Louisiana to submit project applications within required deadlines; and
- FEMA allowed Louisiana to submit incomplete “placeholder” project applications, despite FEMA policy that requires states to submit complete applications.

We further reported that the \$812 million of unobligated HMGP funds represents missed or delayed opportunities to protect the lives and property of Louisiana citizens from future disasters. Therefore, we recommended that FEMA establish periods of performance for each approved project, close approved projects, and deallocate all remaining unobligated funds (approximately \$812 million as of March 2014) after making funding determinations.⁷

However, FEMA Mitigation has collaborated with the State of Louisiana to identify eligible use for over half of the \$812 million in unobligated funds. During the last year, FEMA worked with Louisiana to identify and develop viable projects. FEMA’s and Louisiana’s efforts have reduced the initial \$812 million to about \$153.2 million and FEMA continues to identify additional eligible work to further reduce this amount.

We also identified potential cost avoidance in several of our proactive audits. In Reports OIG-14-128-D and OIG-14-136-D, we reported that the Santa Clara Pueblo and the City of Albuquerque, New Mexico, did not have adequate procurement policies and procedures in place for awarding disaster contracts. We recommended that FEMA provide additional technical assistance to ensure that the Pueblo and the City comply with Federal procurement regulations in awarding \$7.4 and \$2.6 million in disaster contracts, respectively.

2. Unused Obligated Funds. We reported nine instances totaling \$9,798,850 for unneeded and unused obligated funds. Title 44 of the Code of Federal Regulations (CFR) 206.205(b)(1) requires grantees to account for eligible costs for each large project and certify to FEMA that the reported costs were for eligible disaster work as soon as practicable after the subgrantee has

⁷ FEMA’s *HMGP Desk Reference* and subsequent published guidance use the term deallocate to describe the action FEMA will take on any funds not obligated for applications and subapplications 24 months after a disaster declaration.



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completed the approved work and requested payment. Further, the grantee should inform FEMA when it will not use a significant amount of obligated funding.

For example, in Report OIG-14-127-D, we recommended that FEMA deobligate and put to better use \$3.6 million in unused funds because Hancock County, Mississippi, Board of Supervisors for Hurricane Katrina Damages had completed all authorized work for less than the original estimated cost. Additionally, in Report OIG-14-54-D, we recommended that FEMA deobligate and put to better use \$3.7 million in unneeded funding provided to the Borough of Beach Haven, New Jersey. The Borough had entered into a shared services agreement with Ocean County, New Jersey, for debris removal activities shortly after FEMA approved funding under the project. Under the agreement, Ocean County accepted full responsibility for debris removal within the Borough, thereby eliminating the need to provide funding to the Borough.

Deobligating unneeded funds in a more timely manner can—

- release funding to cover cost overruns on other projects associated with the disaster;
- aid FEMA in closing projects throughout the life of the subgrant, rather than after the subgrantee has completed all work;
- provide a more accurate status of program costs for a disaster; and
- be consistent with Federal accounting principles and appropriation law that requires FEMA to support obligations in its accounting system according to actual needs.

Grantees can also improve their monitoring efforts by identifying unneeded funds and returning them to FEMA as soon as practicable after subgrantees complete projects.

3. Interest Earned. The remaining instance of funds put to better use totaling \$21,440 related to interest earned on fund advances.

B. Ineligible Work or Costs

As table 4 illustrates, we reported 64 instances where we questioned \$109.8 million in costs as ineligible for FEMA reimbursement.



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Table 4. Ineligible Work or Costs by Subtype

Subtypes of Ineligible Work or Costs	Number of Resulting Recommendations	Amounts Questioned in Our Reports
1. Contracting Practices	14	\$ 53,762,388
2. Insufficient Insurance	2	48,912,501
3. Improper Contract Billings	7	2,838,467
4. Other Ineligible Work/Costs	<u>41</u>	<u>4,236,868</u>
Totals	<u>64</u>	<u>\$109,750,224</u>

1. Contracting Practices. We reported 14 instances totaling \$53.8 million where subgrantees did not comply with Federal procurement regulations for contracts. Noncompliance with Federal procurement regulations results in high-risk contracts that potentially cost taxpayers millions of dollars in excessive costs. Further, it often precludes open and free competition to all qualified bidders, including small business, minority-owned firms, and women's business enterprises. Open and free competition helps to discourage and prevent favoritism, collusion, fraud, waste, and abuse.

We considered emergencies (exigencies) that often arise after a disaster occurs and did not question contracting practices or costs associated with those exigencies, except for mark-ups on cost-plus-percentage-of-cost contracts. For example, in Audit Report OIG-14-12-D, Columbus Regional Hospital did not always follow Federal procurement standards in awarding \$64.8 million of \$74.7 million in contracts for disaster work.⁸ Two of nine contracts awarded were noncompetitive contracts for non-exigent work, another two were prohibited cost-plus-percentage-of-cost contracts for exigent work, and all nine contracts involved violations of other Federal procurement standards.

Federal regulation 2 CFR 215.44(c) prohibits cost-plus-percentage-of-cost contracts because they provide no incentive for contractors to control costs—the more contractors charge, the more profit they make. However, because exigent circumstances existed at the time the hospital awarded \$74.7 million in contracts, we did not question the majority of contract costs, but we did question \$10.9 million, consisting of \$8.7 million for the two non-competitive contracts for non-exigent work and \$2.2 million for prohibited markups on the two cost-plus-percentage-of-cost contracts for exigent work.

In Report OIG-14-95-D, we identified \$8 million in contract costs that St. Stanislaus College Preparatory, Bay St. Louis, Mississippi, awarded for contracts in a manner that limited competition and did not comply with

⁸ Procurement standards in 44 CFR Part 13 apply to state and local governments, while procurement standards in 2 CFR Part 215 apply to institutions of higher education, hospitals, and other nonprofit organizations.



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Federal procurement standards at 2 CFR 215.43. For example, St. Stanislaus did not provide open and free competition and failed to demonstrate the implementation of required affirmative steps to ensure the use of minority-owned firms, and women's business enterprises when possible.

2. Insufficient Insurance. We reported two instances totaling \$48.9 million where subgrantees did not obtain and maintain sufficient flood insurance required as a condition for receiving Federal disaster assistance. Section 311 of the *Robert T. Stafford Disaster Relief and Emergency Act*, Public Law 93-288, 42 U.S.C. §5154, as amended, (*Stafford Act*) requires recipients of disaster assistance to obtain and maintain such types of insurance “as may be reasonably available, adequate, and necessary, to protect against future loss” to “any property to be replaced, restored, repaired, or constructed with such assistance.”

FEMA’s *Public Assistance Guide* (FEMA 322, October 1999, p. 97) states that (1) as a condition for receiving public assistance for a facility, an applicant must obtain and maintain insurance to cover that facility for the hazard that caused the damage; and (2) such coverage must, at minimum, be in the amount of the estimated eligible project costs for that structure before any reduction. Having insufficient coverage is not only a violation of Federal regulations and FEMA policy, but it puts subgrantees at risk of not having adequate protection the next time disaster strikes.

In Report OIG-14-10-D, we questioned \$48.9 million of \$86.6 million FEMA obligated under six projects for Holy Cross School in New Orleans, Louisiana. The school had not obtained and maintained the required amounts of flood insurance, or obtained certification of insurance from the Louisiana insurance commissioner to obtain an exemption from all or part of the obtain-and-maintain insurance requirements. The school completed construction on a high school, middle school, and student center and should have increased its flood insurance coverage as it completed these buildings or obtained an exemption with a certification of insurance from the Louisiana insurance commissioner.

The school began occupying its new buildings years ago, allowing more than adequate time to obtain the required flood insurance or insurance exemption. School officials informed us that they obtained the maximum flood insurance available through the National Flood Insurance Program for each building; however, FEMA’s obtain-and-maintain requirement mandates substantially more flood coverage than that available through the National



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Flood Insurance Program.⁹ The school ultimately received an insurance waiver from the State Commissioner certifying that the amount of insurance obtained was reasonable.

3. Improperly Billed Contract Costs. We reported seven instances totaling \$2.8 million where subgrantees claimed improperly billed contract costs. According to 2 CFR 225, Appendix A, Section C.1.a, a cost must be necessary and reasonable to be allowed under Federal awards. Also, 44 CFR 13.36(b)(2) requires grantees and subgrantees to maintain a contract administration system that ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

In Report OIG-14-63-D, we questioned \$1.4 million of excessive contract costs the City of Waveland, Mississippi, claimed for bladder tanks and pumps that the sewer system contractor overbilled. The contractor installed bladder tanks at 812 dwellings and billed the City \$4,116,000, which included the unit cost of each bladder tank and required pumps. However, the contractor included in its bill to the City an additional \$811,000 for 379 pumps that it installed at 341 of the 812 dwellings. Therefore, the contractor should not have billed the pumps as a separate cost. The contractor also improperly charged the City for 290 more bladder tanks than the contract allowed at an additional cost of \$608,000. The City failed to enforce its own contract and should not have paid for items the contract did not authorize.

Also, in Report OIG-14-44-D, we questioned \$746,554 of excessive contract costs the Bay St. Louis - Waveland (Mississippi) School District claimed for emergency mold remediation. The contractor corrected the billings on the contract because of calculation errors it had made. Although FEMA acknowledged the corrected invoice in a narrative included in the project scope description, it inadvertently used the contractor's original billings to calculate eligible project costs during project closeout. Therefore, we questioned the \$746,554 as ineligible because that is the difference of the amount the District received in FEMA funds for the mold remediation and what it paid for the mold remediation services.

4. Other Ineligible Work or Costs. Table 5 lists other ineligible work or costs we questioned in FY 2014. Insurance proceeds and work performed outside of the FEMA-approved scope of work were the top two subtypes of ineligible work or costs we questioned.

⁹ The National Flood Insurance Program offers a maximum of \$500,000 each for building and contents coverage. Additional flood insurance for amounts greater than \$500,000 is available from private insurance providers.



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Table 5. Other Ineligible Work or Costs

Other Ineligible Work or Costs	Number of Resulting Recommendations	Amounts Questioned in Our Reports
Insurance proceeds misapplied/misallocated	6	\$ 808,409
Outside FEMA-approved scope of work	5	604,914
Estimated/calculated costs	2	596,599
Duplicate funding	4	368,807
Non-disaster related costs	4	152,829
Duplicate claims	4	150,147
Force account labor/equipment	4	144,776
Miscellaneous ineligible costs	<u>12</u>	<u>1,410,387</u>
Totals	<u>41</u>	<u>\$4,236,868</u>

We reported six instances totaling \$808,409 where subgrantees and FEMA did not correctly apply or allocate insurance proceeds. Federal regulations at 44 CFR 206.250(c) requires FEMA to deduct actual or anticipated insurance recoveries that apply to eligible costs from project awards. This action prevents subgrantees from receiving duplicate benefits for losses, which is prohibited under Section 312 of the *Stafford Act*. For example, in Report OIG-14-124-D, we questioned \$557,943 of insurance coverage that FEMA had not applied to reduce Cobb County, Georgia's approved project costs. At the time of our fieldwork, FEMA had not conducted a final review of insurance proceeds the County received from its carrier. As a result, FEMA was unsure of the amount of insurance proceeds it should apply to adjust obligated project amounts.

Although subgrantees are responsible for reporting insurance proceeds, FEMA is responsible for completing an insurance review to determine insured losses. Completing this review prevents FEMA from over-obligating Federal funds that otherwise could be put to better use.

We also reported five instances totaling \$604,914 where subgrantees performed project improvements that FEMA did not authorize in the scope of work. For example, in Report OIG-14-104-D, we questioned \$321,003 because the University of Hawaii did not obtain State and FEMA approval before initiating construction on an improved project. FEMA and the state must approve an improved project before construction. These approvals, in part, ensure that FEMA can complete the appropriate environmental and/or historic preservation review when the improved project results in a significant change from the pre-disaster configuration.

C. Unsupported Costs

Our FY 2014 audits reported eight instances of unsupported costs totaling \$1.9 million. For example, in Report OIG-14-57-D, we reported that Little Egg



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Harbor Township, New Jersey, did not support \$338,448 of its own (force account) equipment costs and \$296,769 of force account labor costs. Additionally, in Report OIG-14-53-D, we reported that East Jefferson General Hospital, Metairie, Louisiana, did not adequately support \$325,853 in time-and-material contract costs.

Federal cost principles require that subgrantees adequately document claimed costs under Federal awards.¹⁰ Also, 44 CFR 13.20(b)(6) lists specific examples of documentation—including canceled checks, paid bills, payrolls, time and attendance records, and contracts—that auditors may accept as adequate to support accounting records.

We questioned unsupported costs because subgrantees did not maintain adequate accounting records or provide documentation sufficient for us to confirm costs were valid or otherwise allowable under Federal awards. Further, the grantee (usually the state) did not always verify closeout documentation to ensure validity and compliance with all applicable Federal requirements.

D. Grant Management and Administrative Issues

Federal regulations require states, as grantees, to (1) ensure that subgrantees (such as cities and school districts) are aware of Federal regulations and (2) manage the day-to-day operations of subgrant activity and monitor subgrant activity to ensure compliance with applicable Federal requirements.¹¹ Our reports included 53 grant management and administrative recommendations covering project accounting, general grant management, contracting practices, and project costs. According to FEMA officials, grantees (states and Indian tribal governments) received \$143 million on average per year to manage and administer PA grants.¹²

We reported instances in which grantees could improve grant management. In some instances, grantees needed to (1) improve oversight of subgrantees' accounting for direct administrative costs; (2) provide project applications within required deadlines; (3) submit closeout documentation for projects as soon as practicable; and (4) reconcile all project costs. We also reported instances of improper project accounting where subgrantees did not account for disaster expenditures on a project-by-project basis. Failure to perform

¹⁰ *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR, Part 225); *Cost Principles for Educational Institutions* (2 CFR, Part 220); and *Cost Principles for Non-Profit Organizations* (2 CFR, Part 230).

¹¹ 44 CFR 13.37(a)(2) and 44 CFR 13.40(a)

¹² Five year average (FY 2009 – FY 2013), based on state management and administrative costs from FEMA's Chief Financial Officer (CFO). We asked FEMA's CFO to provide an updated accounting through FY 2014; however, the amount provided significantly differed from the previous 5-year average. Because of the magnitude of the difference, we asked the CFO's office to reconcile the difference, but it did not.



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project-by-project accounting increases the risk of duplicating disaster expenditures among projects.

Federal regulations establish uniform administrative rules for grants and procedures for PA and HMGP project administration. These rules and procedures require that grantees and subgrantees have fiscal controls, accounting procedures, and project administration procedures that provide FEMA reasonable assurance that grantees and subgrantees (1) accurately report grant and subgrant financial and project status; (2) trace expenditures to a level that ensures they have not violated applicable statutes in using funds; and (3) adhere to *Stafford Act* requirements and the specific provisions of applicable Federal regulations when administering PA program and HMGP grants.

Program Audits

We completed 12 program audits in FY 2014 not related to specific grants. In three audits, we deployed staff to major disasters to assess FEMA's initial response to disasters. Another four audits related to issues we identified during those disaster deployments. The remaining five program audits covered other FEMA programs or operations. As table 6 shows, the 12 program audits contained 19 recommendations for improving FEMA programs or operations.

Table 6. Program Audits

Subject Matter	Number of Audits	Number of Recommendations
A. Disaster Deployments	3	4
B. Issues Identified During Deployments	4	7
C. Other	5	8
Totals	<u>12</u>	<u>19</u>

A. Disaster Deployments

Following a major disaster, FEMA officials must take decisive actions responding to the event and initiating recovery efforts. However, FEMA's actions must also protect taxpayer dollars. To assist FEMA in this challenge, we deploy staff to disasters to evaluate FEMA's operations and to help prevent fraud, waste, and abuse of Federal funds.

In addition, by deploying staff to assess FEMA's disaster response and recovery activities while they happen, we better position ourselves to identify potential problems before they occur. Doing so also improves the quality of the recommendations we make in other reports designed to improve the disaster



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assistance program's integrity by preventing applicants from misspending disaster assistance funds.

During deployments, we distribute our *Audit Tips for Managing Disaster-Related Project Costs*, which provides an overview of OIG responsibilities; applicable disaster assistance Federal statutes, regulations, and guidelines; the audit process and frequent audit findings; and key points to remember when administering FEMA grants. Using these audit tips should assist disaster assistance applicants (1) document and account for disaster-related costs; (2) minimize the loss of FEMA disaster assistance program funds; (3) maximize financial recovery; and (4) prevent fraud, waste, and abuse of disaster funds.

In FY 2014, we deployed staff to disaster sites in Oklahoma, Colorado, and Alaska.¹³ We concluded in our reports that FEMA's responses to these disasters were effective. Overall, FEMA responded proactively and overcame a variety of challenges while effectively coordinating activities with other Federal agencies and state and local governments.

B. Issues Identified During Deployments

During our deployments to Oklahoma and Colorado, we identified four disaster-related issues that required FEMA's attention. The four resulting reports included OIG-14-46-D, which reported instances where FEMA personnel provided incomplete and, at times, inaccurate information to PA applicants regarding Federal procurement standards. We determined that FEMA's draft *Public Assistance Program Field Operations Pocket Guide (Pocket Guide)*, September 2012, contributed to the problem because its appendix included this same incomplete contracting guidance. In response to our report and recommendation, FEMA corrected the Pocket Guide to more accurately and completely describe the Federal contracting standards outlined in 44 CFR Part 13, 2 CFR Part 215, and FEMA guidelines.

C. Other Program Audits

We also issued five other program audit reports that contained eight recommendations for improving FEMA programs and operations and recouping funds. The objectives of our program audits vary, but most program audits generally determine the efficiency and effectiveness of FEMA policies, procedures, and programs. For example, in Report OIG-14-134-D, we assessed the adequacy of FEMA's efforts to collect the \$23.1 million due from the State of Louisiana, and determined whether FEMA followed Federal regulations and its own guidelines in its efforts to collect this debt. Federal regulations and

¹³ Appendix B lists the report number, disaster number, date issued, and title for each of the 12 program audit reports we issued in FY 2014.



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FEMA guidelines require FEMA to aggressively collect its debts, yet more than 8 years after initiating recoupment efforts, FEMA had collected none of this money. We recommended FEMA take immediate action to administratively offset the \$23.1 million debt plus \$6.2 million in accrued interest, penalties, and administrative fees, totaling \$29.3 million in questioned costs. As of April 30, 2015, the Governor's Office of Homeland Security and Emergency Preparedness agreed to pay FEMA \$53.8 million over 5 years for this debt and for other overpayments.

Conclusion

FEMA still faces significant systemic problems and operational challenges, as the wide range of findings summarized in this report illustrates. Our report recommendations offer FEMA opportunities to implement effective solutions to those problems and challenges. Although, by necessity, our reports focus on problems, we also recognize the exceptional work that FEMA and state and local emergency management officials continue to perform in responding to and recovering from disasters.

FEMA has been very proactive in responding to our FY 2014 recommendations. As of July 15, 2015, FEMA had taken corrective actions sufficient to close 146 of the 159 recommendations, with the remaining 13 being resolved pending FEMA's completion of its planned actions. For example, as we mentioned previously, FEMA Mitigation has reduced the \$812 million of unobligated HMGP funding in Louisiana to about \$153 million. In addition, regarding the \$29.3 million debt, FEMA secured an agreement from the State to pay FEMA \$53.8 million for this debt and other overpayments. In addition, as we discuss in the background section of this report, FEMA has implemented several other initiatives to address many of the issues our reports identified, such as Procurement Disaster Assistance Teams and the Recovery Audits Section.

Many of our findings and reportable conditions indicate that states, which are required to provide oversight of grant funds and subgrant activities, should do a better job of educating subgrantees and enforcing Federal regulations through effective and vigilant monitoring. To encourage states to be more accountable in their roles as grantees, we believe FEMA should consider asking grantees to absorb some of the costs we question.

It is also FEMA's responsibility to hold states accountable for proper grant administration, especially with regard to contracting practices. Although questioned costs for improper contracting practices decreased this year compared to FY 2013, compliance with Federal procurement regulations remains a consistent and systemic issue. Our new proactive audits will continue to highlight potential compliance issues early in the grant process



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and help ensure that subgrantees correct noncompliance problems early in the grant cycle. However, FEMA should also explore imposing monetary disincentives or other negative consequences for applicants that do not follow procurement regulations.

Although FEMA has the authority to waive certain administrative requirements, it should not be standard practice to allow noncompetitive and cost-plus-percentage-of-cost contracts even when the costs are reasonable.¹⁴ However, FEMA should use the remedies specified in Federal regulations to (1) hold grantees and subgrantees accountable for material noncompliance with Federal statutes and regulations, and (2) demand grantees and subgrantees properly account for and expend FEMA funds. In FY 2015 we plan to issue a report on FEMA's practice of waiving procurement regulations and administrative requirements.

Finally, because PA and HMGP projects often take years to complete, it is critical that grantees constantly monitor their subgrantees to ensure that subgrantees follow applicable laws, regulations, and policies throughout the life of the projects. Therefore, FEMA should advise grantees to continuously (1) evaluate their capabilities to administer PA program and HMGP grants, (2) identify weaknesses that inhibit effective grant and subgrant management and program and project execution, and (3) identify opportunities for FEMA technical assistance such as training and project monitoring.

This report provides a starting point for FEMA officials to examine regulations, policies, and procedures and assess the need for changes based on the recurring nature of our findings. FEMA officials should also provide this report to state emergency management officials to increase their awareness of problematic grant and subgrant activities and best practices for protecting the taxpayers' investment in disaster relief and preparedness.

Recommendations

Recommendation #1: We recommend that the Associate Administrator for Response and Recovery, Federal Emergency Management Agency, advise FEMA Regional Administrators to request grantees to provide a copy of our *Audit Tips for Managing Disaster-Related Project Costs* (Report Number OIG-15-100-D issued June 8, 2015) to every Public Assistance grant applicant.

Recommendation #2: We recommend that the Associate Administrator for the Federal Insurance and Mitigation Administration, Federal Emergency Management Agency, advise FEMA Regional Administrators to request grantees to provide a copy of our *Audit Tips for Managing Disaster-Related Project Costs*

¹⁴ 44 CFR 13.6 and 2 CFR 215.4



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(Report Number OIG-15-100-D issued June 8, 2015) to every Hazard Mitigation Grant Program applicant.

Discussion with FEMA and Audit Follow-up

We provided a draft of this report to FEMA officials and discussed it with them on June 17, 2015. FEMA subsequently provided us comments on the draft report, which we incorporated, as appropriate. On August 31, 2015, FEMA also provided us a formal written response, which appears in its entirety as appendix C. The following summarizes FEMA's written comments and includes our responses.

FEMA officials agreed with our recommendations. In addition, FEMA highlighted its new management initiatives including improving how it develops project worksheets, enhancing FEMA and State visibility over projects, establishing the Procurement Disaster Assistance Team to help educate grantees and applicants, and accelerating the resolution and closure of recommendations with help from its new Recovery Audits Section.

FEMA's new initiatives should provide additional tools for improving compliance with Federal regulations, and we are hopeful the Procurement Disaster Assistance Team will result in long term compliance with Federal procurement requirements. However, our capping report contains a broad mix of disasters occurring over many years, some of which the President declared over 10 years ago. For example, of the 49 grant audits we performed in FY 2014, only 2 involved disasters declared in FY 2014, with 2 others declared in late FY 2013. Consequently, a one year decrease in a particular type of finding does not prove a long term cause and effect relationship.

FEMA officials also said that our report did not include final resolution actions on potential monetary benefits. This is true as we focus our capping reports on findings and recommendations, not final actions taken to close the recommendations. However, we have included in this report the status of all recommendations as of July 15, 2015, and also agreed to consider including more details on final audit resolutions in future reports.

Our more proactive approach should provide applicants, States, tribal governments, and FEMA opportunities to correct problems before applicants spend the majority of their money. We hope our future reports show an increase in potential cost savings from identifying problems early and a decrease in questioned costs from funds already spent.

FEMA's August 31, 2015, response described action sufficient to resolve these recommendations with a target completion date of September 30, 2015. We can close the recommendations when FEMA provides evidence that it has



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completed the planned actions. Please email a signed pdf copy of all responses and closeout request to Paige.Hamrick@oig.dhs.gov. Until we receive your response, we will consider the recommendations open and resolved.

The Office of Emergency Management Oversight major contributors to this report are Christopher Dodd, Director; Paige Hamrick, Director; Patti Smith, Acting Audit Manager; and Jacob Farias, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Tonda L. Hadley, Deputy Assistant Inspector General for Audit Services, Office of Emergency Management Oversight, at (214) 436-5200.



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Appendix A

FY 2014 OIG Disaster Grant and Subgrant Reports

	Report Number, Date Issued	Type of Grant, Disaster Number	Title	Amount Awarded (\$M)	Amount Audited (\$M)	Potential Monetary Benefit
1	OIG-14-03-D, 10/31/2013	PA 1646	Santa Cruz County, California, Generally Followed Regulations for Spending FEMA Public Assistance Funds	\$6.2	\$4.6	\$295,334
2	OIG-14-07-D, 11/21/2013	PA 1609	FEMA Should Recover \$154,143 of Public Assistance Grant Funds Awarded to Brevard County, Florida, under Hurricane Wilma	\$12.1	\$1.3	\$154,143
3	OIG-14-08-D, 11/21/2013	PA 1561	FEMA Should Recover \$615,613 of Public Assistance Grant Funds Awarded to Orlando Utilities Commission under Hurricane Jeanne	\$3.4	\$2.7	\$615,613
4	OIG-14-10-D, 11/22/2013	PA 1603	FEMA Should Recover \$48.9 Million for Inadequate Insurance Coverage for Holy Cross School, New Orleans, Louisiana	\$89.3	\$89.3	\$48,879,429
5	OIG-14-11-D, 12/3/2013	PA 1545	FEMA Should Recover \$6.1 Million of Public Assistance Grant Funds Awarded to Orlando Utilities Commission under Hurricane Frances	\$11.6	\$11.4	\$6,122,935
6	OIG-14-12-D, 12/4/2013	PA 1766	FEMA Should Recover \$10.9 Million of Improper Contracting Costs from Grant Funds Awarded to Columbus Regional Hospital, Columbus, Indiana	\$110.3	\$74.7	\$10,931,981
7	OIG-14-13-D, 12/11/2013	PA 1785	Brevard County, Florida, Properly Accounted For and Expended FEMA Public Assistance Grant Funds Received Under Tropical Storm Fay	\$9.7	\$1.5	\$43,631
8	OIG-14-15-D, 12/11/2013	PA 1974	The City of Chattanooga, Tennessee Properly Accounted for and Expended FEMA Public Assistance Grant Funds	\$25.3	\$23.8	\$71,040
9	OIG-14-24-D, 12/30/2013	PA 1628	The Town of San Anselmo, California, Generally Followed Regulations for Spending FEMA Public Assistance Funds	\$2.0	\$1.4	\$26,100



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FY 2014 OIG Disaster Grant and Subgrant Reports

	Report Number, Date Issued	Type of Grant, Disaster Number	Title	Amount Awarded (\$M)	Amount Audited (\$M)	Potential Monetary Benefit
10	OIG-14-26-D, 1/24/2014	HMGP 1604	George County, Mississippi, Successfully Managed FEMA's Hazard Mitigation Grant Funds – Hurricane Katrina	\$4.1	\$4.1	\$0
11	OIG-14-28-D, 1/29/2014	PA 1628	FEMA Should Recover \$302,775 of Public Assistance Funds Awarded to the City of Oakland, California	\$1.58	\$1.5	\$302,775
12	OIG-14-30-D, 2/5/2014	PA 1883	Rural Electric Cooperative, Lindsay, Oklahoma, Generally Accounted for and Expended FEMA Public Assistance Grant Funds Correctly	\$3.76	\$3.75	\$0
13	OIG-14-34-D, 2/11/2014	PA 1969	The City of Raleigh, North Carolina, Properly Accounted for and Expended FEMA Public Assistance Grant Funds Awarded for April 2011 Disaster	\$4.3	\$2.5	\$0
14	OIG-14-44-D, 2/25/2014	PA 1604	FEMA Should Recover \$5.3 Million of the \$52.1 Million of Public Assistance Grant Funds Awarded to the Bay St. Louis Waveland School District in Mississippi - Hurricane Katrina	\$52.1	\$43.8	\$5,333,797
15	OIG-14-45-D, 2/27/2014	PA 4086	New Jersey Complied with Applicable Federal and State Procurement Standards when Awarding Emergency Contracts for Hurricane Sandy Debris Removal Activities	\$463.0	\$463.0	\$0
16	OIG-14-49-D, 3/13/2014	PA 1604	FEMA Should Recover \$8.2 Million of the \$14.9 Million of Public Assistance Grant Funds Awarded to the Harrison County School District, Mississippi - Hurricane Katrina	\$14.9	\$8.8	\$8,171,446
17	OIG-14-51-D, 3/19/2014	PA 1785	The City of Jacksonville, Florida, Successfully Accounted for and Expended FEMA Public Assistance Grant Funds Awarded for Tropical Storm Fay	\$11.7	\$10.5	\$49,949



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Appendix A (continued)

FY 2014 OIG Disaster Grant and Subgrant Reports

	Report Number, Date Issued	Type of Grant, Disaster Number	Title	Amount Awarded (\$M)	Amount Audited (\$M)	Potential Monetary Benefit
18	OIG-14-53-D, 3/21/2014	PA 1603	FEMA Should Recover \$2.3 Million of Unsupported, Unused, and Ineligible Grant Funds Awarded to East Jefferson General Hospital, Metairie, Louisiana	\$14.3	\$10.6	\$2,262,273
19	OIG-14-54-D, 3/21/2014	PA 4086	FEMA Should Recover \$3.7 Million in Unneeded Funds and Review the Eligibility of \$344,319 in Public Assistance Grant Funds Awarded to the Borough of Beach Haven, New Jersey, for Hurricane Sandy Debris Removal Activities	\$5.84	\$4.85	\$4,032,385
20	OIG-14-56-D, 3/24/2014	PA 1628	Santa Cruz Port District Generally Followed Regulations for Spending FEMA Public Assistance Funds	\$2.5	\$2.5	\$99,215
21	OIG-14-57-D, 3/24/2014	PA 4086	FEMA Should Review the Eligibility of \$689,138 of \$5.57 Million in Public Assistance Grant Funds Awarded to Little Egg Harbor Township, New Jersey, for Hurricane Sandy Debris Removal Activities	\$5.57	\$4.46	\$689,138
22	OIG-14-58-D, 3/26/2014	PA 4085	The Village of Saltaire, New York, Generally Managed FEMA's Public Assistance Grant Funds Effectively	\$13.2	\$12.97	\$0
23	OIG-14-63-D, 4/15/2014	PA 1604	FEMA Should Recover \$1.7 Million of Public Assistance Grant Funds Awarded to the City of Waveland, Mississippi - Hurricane Katrina	\$130.2	\$5.2	\$1,689,026
24	OIG-14-72-D, 4/22/2014	PA 4086	FEMA Should Review the Eligibility of \$523,007 of \$5.4 Million in Public Assistance Grand Funds Awarded to the Borough of Belmar, New Jersey, for Hurricane Sandy Debris Removal Activities	\$20.0	\$5.4	\$523,007



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FY 2014 OIG Disaster Grant and Subgrant Reports

	Report Number, Date Issued	Type of Grant, Disaster Number	Title	Amount Awarded (\$M)	Amount Audited (\$M)	Potential Monetary Benefit
25	OIG-14-95-D, 5/22/2014	PA 1604	FEMA Should Recover \$8.0 Million of \$26.6 Million in Public Assistance Grant Funds Awarded to St. Stanislaus College Preparatory in Mississippi - Hurricane Katrina	\$26.6	\$11.7	\$8,012,665
26	OIG-14-101-D, 6/6, 2014	PA 1604	Pearl River Community College, Mississippi, Properly Accounted for and Expended FEMA Public Assistance Grant Funds Awarded under Hurricane Katrina	\$18.5	\$10.5	\$0
27	OIG-14-103-D, 6/10/2014	PA 4158	Tuolumne County, California, Has Policies, Procedures, and Business Practices in Place Adequate To Manage FEMA Public Assistance Grant Funds	\$0	\$1.2	\$0
28	OIG-14-104-D, 6/10/2014	PA 1575	FEMA Should Recover \$764,968 of Public Assistance Program Grant Funds Awarded to the University of Hawaii, Honolulu, Hawaii	\$47.5	\$24.6	\$764,968
29	OIG-14-107-D, 6/17/2014	PA 1603	FEMA Should Recover \$1.3 Million of Public Assistance Grant Funds Awarded to Desire Street Ministries, New Orleans, Louisiana, for Hurricane Katrina	\$10.9	\$10.9	\$1,302,812
30	OIG-14-109-D, 6/25/2014	PA 1628	FEMA Should Recover \$258,488 of Public Assistance Grant Funds Awarded to the Graton Community Services District, California	\$3.4	\$3.4	\$279,030
31	OIG-14-114-D, 7/21/2014	PA 1971	FEMA Should Recover \$3.9 Million of Public Assistance Grant Funds Awarded to Jefferson County, Alabama, as a Result of Severe Storms in April 2011	\$22.2	\$22.2	\$3,897,764



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Appendix A (continued)

FY 2014 OIG Disaster Grant and Subgrant Reports

	Report Number, Date Issued	Type of Grant, Disaster Number	Title	Amount Awarded (\$M)	Amount Audited (\$M)	Potential Monetary Benefit
32	OIG-14-115-D, 7/21/2014	PA 4085	New York City's Department of Design and Construction Needs Assistance To Ensure Compliance with Federal Regulations	\$13.3	\$13.3	\$0
33	OIG-14-120-D, 7/31/2014	PA 4085	New York City's Department of Transportation Needs Assistance To Ensure Compliance with Federal Regulations	\$19.1	\$19.1	\$0
34	OIG-14-121-D, 7/30/2014	HMGP 1247	The Puerto Rico Department of Housing Generally Complied with FEMA Hazard Mitigation Grant Program Eligibility Requirements for Participants of the New Secure Housing Program - Hurricane Georges	\$165.3	\$184.3	\$785,706
35	OIG-14-124-D, 8/7/2014	PA 1858	FEMA Should Recover \$985,887 of Ineligible and Unneeded Public Assistance Grant Funds Awarded to Cobb County, Georgia, as a Result of Severe Storms and Flooding	\$10.5	\$3.0	\$985,887
36	OIG-14-125-D, 8/14/2014	PA 1940	City of Flagstaff, Arizona, Generally Accounted for and Expended FEMA Grant Funds Properly, But FEMA Should Disallow \$124,443 and Deobligate \$57,941 of Public Assistance Grant Funds	\$3.5	\$3.3	\$182,384
37	OIG-14-127-D, 8/26/2014	PA 1604	FEMA Should Recover \$4.9 Million of \$87.7 Million in Public Assistance Grant Funds Awarded to the Hancock County, Mississippi, Board of Supervisors for Hurricane Katrina Damages	\$93.6	\$42.7	\$4,917,028



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Appendix A (continued)

FY 2014 OIG Disaster Grant and Subgrant Reports

	Report Number, Date Issued	Type of Grant, Disaster Number	Title	Amount Awarded (\$M)	Amount Audited (\$M)	Potential Monetary Benefit
38	OIG-14-128-D, 8/26/2014	PA 4147	Santa Clara Pueblo, New Mexico, Needs Assistance to Ensure Compliance with FEMA Public Assistance Grant Requirements	\$0	\$7.4	\$7,378,813
39	OIG-14-130-D, 9/2/2014	PA 4086	The City of Elizabeth, New Jersey, Has Adequate Policies, Procedures, and Business Practices in Place to Effectively Manage FEMA Public Assistance Grant Funds	\$18.0	\$16.8	\$0
40	OIG-14-133-D, 9/5/2014	PA 1603	Louisiana Should Monitor \$39.8 Million of FEMA Funds Awarded to Pontchartrain Housing Corporation I to Ensure Compliance with Federal Regulations	\$39.8	\$39.8	\$26,000,000
41	OIG-14-136-D, 9/10/2014	PA 4148	The City of Albuquerque, New Mexico, Needs Assistance to Ensure Compliance with FEMA Public Assistance Grant Requirements	\$0.5	\$2.6	\$2,643,014
42	OIG-14-141-D, 9/12/2014	PA 4085	New York City Department of Correction Has Adequate Policies, Procedures, and Business Practices in Place to Effectively Manage FEMA Public Assistance Grant Funds	\$20.1	\$3.5	\$0
43	OIG-14-143-D, 9/16/2014	PA 4148	The Village of Corrales, New Mexico, Needs Assistance to Ensure Compliance with FEMA Public Assistance Grant Requirements	\$0	\$2.1	\$2,061,900
44	OIG-14-145-D, 9/17/2014	PA 1763	FEMA's Incorrect Decisions to Replace Rather than Repair Facilities in Cedar Rapids, Iowa, Cost Taxpayers Over \$12 Million	\$330.0	\$38.6	\$278,822



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FY 2014 OIG Disaster Grant and Subgrant Reports

	Report Number, Date Issued	Type of Grant, Disaster Number	Title	Amount Awarded (\$M)	Amount Audited (\$M)	Potential Monetary Benefit
45	OIG-14-146-D, 9/19/2014	PA 1973	Catoosa County, Effectively Managed FEMA Public Assistance Grant Funds Awarded for Severe Storms and Flooding in April 2011	\$6.2	\$6.0	\$0
46	OIG-14-148-D, 9/19/2014	PA 1603	FEMA Should Disallow \$9.6 Million of Disaster-Related Costs Incurred by the University of New Orleans Research and Technology Foundation, New Orleans, Louisiana	\$12.0	\$12.0	\$9,627,379
47	OIG-14-149-D, 9/19/2014	PA 1603	East St. Tammany Events Center Generally Followed Regulations for Spending FEMA Public Assistance Funds	\$3.7	\$3.7	\$111,335
48	OIG-14-150-D, 9/19/2014	HMGP 1603 1607 1668 1685 1786 1792 1863 4015 4041	FEMA and the State of Louisiana Need to Accelerate the Funding of \$812 Million in Hazard Mitigation Grant Program Funds and Develop a Plan to Close Approved Projects	\$3.7	\$3.7	\$812,238,776
49	OIG-14-152-D, 9/19/2014	PA 1604	West Jackson County Utility District, Mississippi, Effectively Managed FEMA Public Assistance Grant Funds Awarded for Hurricane Katrina Damages	\$2.5	\$2.4	\$0



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Appendix A (continued)

**FEMA Public Assistance and Hazard Mitigation Grant and
Subgrant Audit Reports Issued in FY 2014**

Type of Grant	Number of Audits	Number of Disasters	Amount Awarded (billions)	Amount Audited (billions)	Potential Monetary Benefit
PA	46	25	\$1.715	\$1.091	\$ 158,737,018
HMGP	3	9 ¹⁵	\$2.329	\$2.348	\$ 813,024,482
Totals	49	34	\$4.044	\$3.439	\$971,761,500

Copies of the audit reports we issued in FY 2014 are available at the following web address:

http://www.oig.dhs.gov/index.php?option=com_content&review=article&id=63&Itemid=33

¹⁵ Declared Disasters 1603 and 1604 are included in the PA total and are not duplicated in the HMGP total.



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Appendix B

FY 2014 OIG Disaster Program Audit Reports

	Report Number	Disaster Number	Date Issued	Title
Disaster Deployments				
1	OIG-14-50-D	4117	3/19/2014	FEMA's Initial Response to the Oklahoma Severe Storms and Tornadoes
2	OIG-14-106-D	4122	6/17/2014	FEMA's Response to the Disaster in Galena, Alaska
3	OIG-14-111-D	4145	7/1/2014	FEMA's Initial Response to the Colorado Flood
Issues Identified During Deployments				
4	OIG-14-46-D	4117	2/28/2014	FEMA's Dissemination of Procurement Advice Early in Disaster Response Periods
5	OIG-14-100-D	4117	6/6/2014	FEMA's Slab Removal Waiver in Oklahoma 4117-DR-OK
6	OIG-14-110-D	4117	6/25/2014	Mitigation Planning Shortfalls Precluded FEMA Hazard Mitigation Grants to Fund Residential Safe Room Construction During the Disaster Recovery Phase
7	OIG-14-118-D	4145	7/29/2014	FEMA Should Take Steps To Improve the Efficiency and Effectiveness of the Disaster Assistance Helpline for Disaster Survivors That Do Not Speak English or Spanish
Other				
8	OIG-14-01-D	1786	10/24/2013	FEMA's Application of Rules and Federal Regulations in Determining Debris Removal Eligibility for Livingston Parish, Louisiana
9	OIG-14-91-D	NA	5/6/2014	FEMA Could Realize Millions in Savings by Strengthening Policies and Internal Controls Over Grant Funding for Permanently Relocated Damaged Facilities
10	OIG-14-102-D	NA	6/10/2014	Capping Report: FY 2013 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits
11	OIG-14-123-D	4085 4086	8/7/2014	FEMA's Progress in Clarifying its "50 Percent Rule" for the Public Assistance Grant Program
12	OIG-14-134-D	NA	9/8/2014	FEMA's Efforts To Collect \$23.1 Million Debt from the State of Louisiana Should Have Been More Aggressive



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Appendix C

FEMA's Comments


U.S. Department of Homeland Security
Washington, DC 20472



FEMA

August 31, 2015

MEMORANDUM FOR: John V. Kelly
Assistant Inspector General
Office of Emergency Management Oversight
Office of Inspector General (OIG)
Department of Homeland Security

FROM: David Bibo 
Associate Administrator (Acting)
Office of Policy and Program Analysis

SUBJECT: Response to Draft Report: "Summary and Key Findings of
Fiscal Year 2014: FEMA Disaster Grant and Program Audits
(Project No. 15-028-EMO-FEMA)"

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

We are pleased that OIG recognized in this report the "exceptional work that FEMA and state and local emergency management officials continue to perform in responding to and recovering from disasters." OIG's draft report acknowledges FEMA's "proactive" response to addressing recommendations reviewed in the report. Sustained agency-wide efforts to address recommendations, including the work of the Recovery Audits Section, have enabled FEMA to close as of July 15, 2015, 146 of the 159 recommendations from FY 2014 referenced in this report – fully 92 percent of the total recommendations. The remaining 13 recommendations are resolved and open.

We appreciate OIG's recognition of the action FEMA takes to resolve issues quickly. For instance, this report highlights one FY 2014 mitigation audit where OIG identified \$812 million of unobligated funds that OIG believed "could be put to better use." To date, as this report highlights, FEMA's collaborative efforts with the State of Louisiana have reduced this amount to about \$153 million – an 81 percent reduction.

Key Management Actions in 2014

OIG's acknowledgement of the effectiveness of various FEMA initiatives designed to enhance performance, including establishment of the Recovery Audits Section and

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Procurement Disaster Assistance Teams (PDAT), reinforces the on-going progress being made agency-wide to be more survivor-centric, effective, and efficient in mission and program delivery. A number of ongoing FEMA efforts address findings raised in this report, including:

- Improving the Public Assistance project worksheet development process: In early 2014, FEMA began an effort to make the delivery of services more effective, efficient, and survivor-centric. The redesign phase of the process of providing public assistance has been completed and is currently being tested.
- Enhancing Grantee performance of grant management role: In September 2014, FEMA implemented a revised quarterly reporting process regarding Public Assistance (PA) and Hazard Mitigation Grant Program (HMGP) grants that improves visibility of individual projects. This enhancement, which focuses on improved project management, enables the Grantee and FEMA to monitor how individual projects are progressing, which should be closed, and when timely deobligation of unused funds should occur in the grant lifecycle.
- Establishing the PDAT: FEMA created the PDAT in 2014 to educate Grantees and Applicants regarding Federal procurement standards associated with grants. While additional time is needed to assess the effect of this initiative, FEMA is confident it should reduce procurement problems in the future. The draft OIG report's reflection that noncompliance with contracting requirements decreased in FY 2014 as well as the fact that questioned costs for this issue decreased from \$130.2 million in FY 2013 to \$53.8 million in FY 2014 are positive signs.

Resolution of Potential Monetary Benefit Matters is Not Reflected in the Report FEMA gives full consideration to all OIG audit findings and at times exercises its discretionary authority in ways that may differ from the OIG's recommendation. With the past fiscal year's audits, FEMA has occasionally disagreed with funding amounts OIG has recommended for disallowance or deobligation. Those decisions typically reflect FEMA's recognition that eligible work was completed, the non-compliant action of not adhering fully to the federal procurement requirements would not have materially impacted overall project costs, and the retroactive action to disallow or deobligate funds would cause additional financial harm to recovering communities. Understanding FEMA's authority and those factors, the OIG has ultimately agreed to resolve and close the associated recommendations without FEMA disallowing or deobligating the full recommended amount.¹ In many instances, FEMA has also been able to address and

¹ See OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB CIRCULAR NO. A-50, AUDIT FOLLOWUP, at 2 (1982) (stating that resolution occurs when the auditors and audited agency agree on corrective actions); DHS INSTRUCTION 077-01-001, INSTRUCTION ON FOLLOW-UP AND RESOLUTION FOR OFFICE OF INSPECTOR GENERAL



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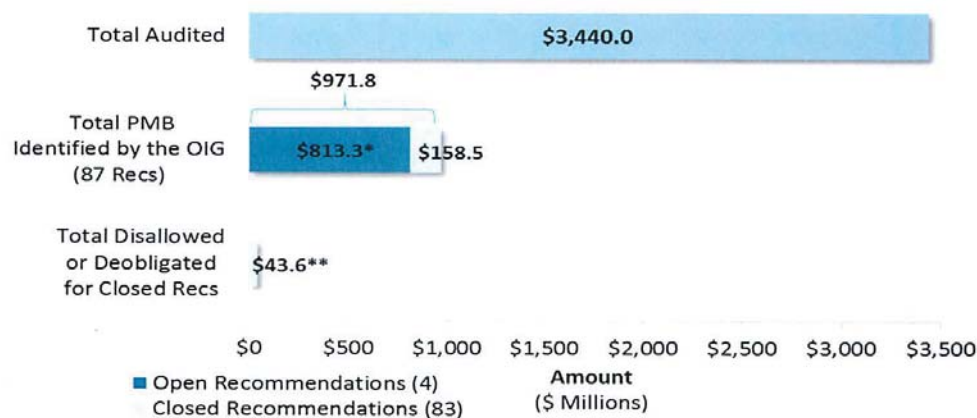
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resolve the underlying finding, thereby removing the need to potentially disallow or deobligate funding. When considering the amount OIG has audited and for which it has issued recommendations associated with certain amounts of Potential Monetary Benefit (PMB), it is important to understand how those recommendations were resolved. Figure 1 and the summary below provide this context for the other data presented in the report:

- Of the 140 total grant recommendations, 87 have associated PMB totaling \$971.8 million.²
- \$158.5 million (16.3 percent) of the total PMB represents 83 closed recommendations, and the remaining \$813.3 million (83.7 percent) represents 4 open recommendations (with \$812.2 million of that representing the one HMGP recommendation discussed above).
- With the 83 closed grant recommendations, FEMA disallowed or deobligated \$43.6 million, representing 4.5 percent of the total \$971.8 million PMB, and 27.5 percent of the \$158.5 million PMB for the closed recommendations. In closing those audit recommendations, OIG accepted FEMA's action.

Figure 1

Breakdown of Monetary Figures from Capping Report



* \$812.2 million represents 1 of 4 open recommendations; the remaining 3 totaled \$1.1 million.

**\$43.6 million accounts for 27.5 percent of the PMB identified for closed recommendations, 4.5 percent of the total PMB, and 1.3 percent of the total amount audited.

REPORT RECOMMENDATIONS, at 2-4, 8, 10, (Revision No. 01, July 2, 2010) (stating that OIG closes recommendations at its discretion).

² The total PMB is \$971,761,500, which rounds up to \$971.8 million. However, in the OIG's draft report, based on the rounding of the subtotals for cost avoidance (\$860.1 million) and questioned costs (\$111.6 million), the OIG lists the total PMB as \$971.7 million.



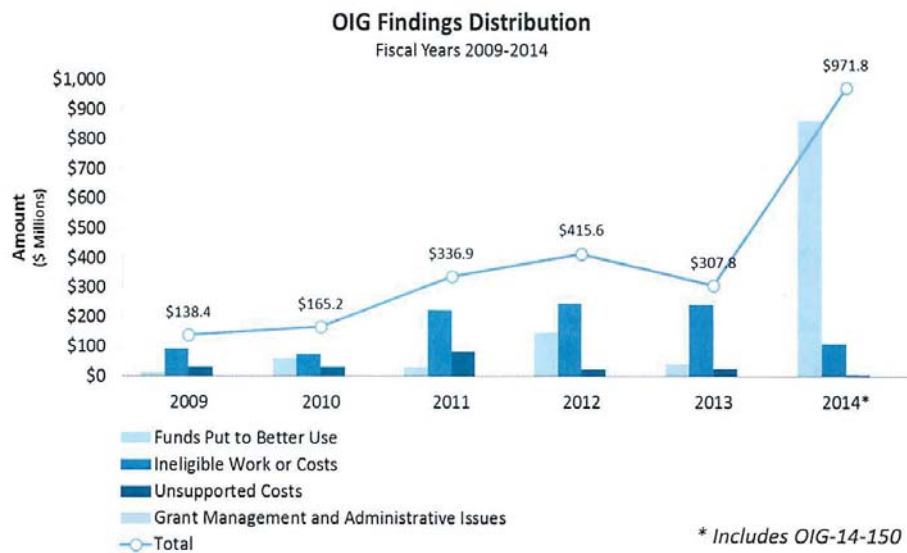
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Positive Trends and Recommendations

Setting aside the one \$812.2 million HMGP recommendation, which represents 83 percent of the total amount of PMB and has already been reduced to \$153.2 million (81 percent reduction), other data conveyed in the report demonstrate that the enhanced proactive relationship FEMA and OIG have committed to is beginning to yield results. For instance, this past fiscal year's audits have shown an overall decrease in ineligible work or costs as well as in unsupported costs, as demonstrated by Figure 2 below. In the FY 2013 Capping Report, questioned costs for ineligible work or costs were \$242.6 million (78.8 percent) out of about \$307.8 million in total PMB.³ However, the FY 2014 Capping Report lists questioned costs for ineligible work or costs as \$109.8 million (11.3 percent) out of the \$971.8 million in total potential monetary benefits.⁴ This represents a 67.5 percent decrease in the ratio between ineligible costs and total PMB.

Figure 2



³ U.S. DEP'T OF HOMELAND SEC. OFFICE OF INSPECTOR GEN. (OIG), OIG-14-102-D, CAPPING REPORT: FY 2013 FEMA PUBLIC ASSISTANCE AND HAZARD MITIGATION GRANT AND SUBGRANT AUDITS, at 4 (2014) [hereinafter FY13 Capping Report].

⁴ OIG-15-XXX-D, SUMMARY AND KEY FINDINGS OF FISCAL YEAR 2014: FEMA DISASTER GRANT AND PROGRAM AUDITS, at 5 (unpublished Draft Report provided on July 23, 2015) (on file with FEMA) [hereinafter Draft FY14 Capping Report].



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Similarly, the questioned costs for unsupported costs also decreased from \$23.6 million in FY13⁵ (7.7 percent of the total PMB) to \$1.9 million in FY14⁶ (0.2 percent of the total PMB). Within the ineligible costs category, the most consistent subtype across capping reports is questioned costs for improper contracting practices. This subtype decreased from \$130.2 million in FY13⁷ (53.7 percent of the ineligible costs subtotal and 42.3 percent of the total PMB) to \$53.8 million in FY14⁸ (49.0 percent of the ineligible costs subtotal and 5.5 percent of the total PMB).

Overall, we believe these trends reflect important, positive progress and we recognize the need to continue to update and enhance our policies and procedures to be effective and efficient. FEMA remains committed to continuing to focus on improving various processes, performance, and delivery of services to the public.

Recommendation #1: We recommend that the Associate Administrator for Response and Recovery, Federal Emergency Management Agency, advise FEMA Regional Administrators to request grantees to provide a copy of our Audit Tips for Managing Disaster-Related Project Costs (Report Number OIG-15-100-D, issued June 8, 2015) to every Public Assistance grant applicant.

Response: Concur. The Associate Administrator for the Office of Response and Recovery will advise the Regional Administrators to request Grantees provide the OIG's "Audit Tips" report to all current and future PA grant applicants.

Estimated Completion Date (ECD): September 30, 2015.

Recommendation #2: We recommend that the Associate Administrator for the Federal Insurance and Mitigation Administration, advise FEMA Regional Administrators to request grantees to provide a copy of our Audit Tips for Managing Disaster-Related Project Costs (Report Number OIG-15-100-D, issued June 8, 2015) to every Hazard Mitigation Grant Program applicant.

Response: Concur. The Associate Administrator for the Federal Insurance and Mitigation Administration will advise the Regional Administrators to request that Grantees provide a copy of the OIG's "Audit Tips" report to all current and future HMGP applicants.

ECD: September 30, 2015

⁵ FY13 Capping Report, at 4.

⁶ Draft FY14 Capping Report, at 5.

⁷ FY13 Capping Report, at 5.

⁸ Draft FY14 Capping Report, at 8.



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Again, thank you for the opportunity to comment on this draft report. Technical comments were previously provided under separate cover. We look forward to working with you in the future. Please direct any questions or concerns regarding this response to Gary Mckeen, Director GAO/OIG Audit Liaison Office at 202-646-1308.



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Appendix D

Objectives, Scope, and Methodology

The objectives of this audit were to (1) compile and summarize 61 disaster-related audit reports the OIG issued in FY 2014, (2) analyze frequently reported audit findings in those reports, and (3) quantify the financial significance of those findings. The 61 FY 2014 reports included 49 grant audit reports and 12 program audit reports. The objective of all the grant audits was to determine whether the grantees and subgrantees accounted for and expended FEMA funds according to Federal regulations and FEMA guidelines. Our HMGP audits also included objectives to determine whether the projects met FEMA eligibility requirements and whether project management complied with applicable regulations and guidelines. The 12 program audits each had unique objectives and scopes.

The scope of this audit covered 61 disaster-related audit reports the OIG issued in FY 2014. The 49 grant audits were of grantees and subgrantees awarded FEMA PA and HMGP funds for 34 presidentially declared disasters that occurred between September 1998 and December 2013 in 16 states and 1 U.S. Territory. The grantees and subgrantees we audited received awards totaling \$4.0 billion for debris removal; emergency protective measures; or permanent repair, restoration, and replacement of damaged facilities. We audited \$3.44 billion of the \$4.0 billion, or 85 percent of the amounts FEMA awarded to recipients. Appendix A summarizes the 49 grant audit reports and provides a link to our web page where copies of all OIG reports are available. Appendix B summarizes the 12 program audit reports.

To accomplish our objectives, we compiled and summarized 61 disaster assistance reports issued in FY 2014; analyzed findings and recommendations in those reports; identified and quantified types of frequently reported findings in grant reports; quantified the potential monetary benefits of recommendations in grant audit reports; reviewed applicable Federal laws, regulations, Office of Management and Budget grant and audit guidance, and FEMA PA and HMGP guidance applicable to the conditions we noted in reports; and performed other procedures we considered necessary to accomplish our objectives. We did not assess the adequacy of FEMA's internal controls applicable to disaster activities because it was not necessary to accomplish our audit objectives.



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Appendix D (continued)

We conducted this audit between September 2014 and May 2015 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 during this audit and during the 49 performance audits provides a reasonable basis for our findings and conclusions based upon our audit objectives. We conducted these audits according to the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disasters.



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Appendix E

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