OFFICE OF INSPECTOR GENERAL

Summary and Key Findings of Fiscal Year 2015 FEMA Disaster Grant and Program Audits

Homeland Security

November 29, 2016

OIG-17-13-D

DHS OIG HIGHLIGHTS

Summary and Key Findings of Fiscal Year 2015 FEMA Disaster Grant and Program Audits

November 29, 2016

Why We Did This

This is our seventh annual "capping" report summarizing the results of our disaster-related audits. This annual summary, a consolidation of all of our findings and recommendations, informs FEMA headquarters officials about significant issues of noncompliance and program inefficiencies that warrant their attention. The report also emphasizes the total resulting potential monetary benefits of our recommendations.

What We Recommend

This report contains no recommendations, but provides an opportunity for FEMA to assess the need for changes based on the recurring nature of our findings.

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 2015, we issued reports on 63 audits of FEMA grants, programs, and operations funded from the Disaster Relief Fund involving 55 grant audits and 8 program audits. During FYs 2014 and 2015, our more proactive approach to auditing produced a significant shift from recommendations that question costs already spent to recommendations that put funds to better use before problems occur. Our recommendations, if implemented, contain over $1.7 billion in potential monetary benefits, including potential cost savings in future disasters.

One troubling finding is that, of the $1.55 billion in disaster relief funds we audited, we found $457 million in questionable costs, such as duplicate payments, unsupported costs, improper contract costs, and unauthorized expenditures. This represents a 29 percent questioned-cost rate, which indicates FEMA's continued failure to manage disaster relief funds adequately. Given that the disaster relief fund averages more than $10 billion per year and FEMA grants comprise a large portion of that amount, the total amount of improper payments related to grants and other expenditures would likely reach $3 billion per year.

While FEMA has been responsive to our recommendations for administrative actions and for putting unspent funds to better use, it has not sufficiently held grant recipients financially accountable for improperly spending disaster relief funds. For example, we recommended that FEMA disallow $457 million of ineligible or unsupported grant funds. However, recommendations representing 90 percent ($413 million) of those funds remain open. Further, in FYs 2009–2014, FEMA allowed 91 percent of the contract costs we recommended for disallowance for noncompliance with Federal procurement regulations, such as those that require opportunities for disadvantaged firms (e.g., small, minorities, and women) to bid on federally funded work.

FEMA Response

This report contains no recommendations; therefore, we consider it closed and require no further actions from FEMA. Appendix C includes FEMA's response in its entirety.

November 29, 2016

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

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

Thomas M. Salmon

FROM: Thomas M. Salmon
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Summary and Key Findings of Fiscal Year 2015 FEMA Disaster Grant and Program Audits*
Report Number OIG-17-13-D

This report summarizes the results of audit reports we issued in fiscal year 2015 on Federal Emergency Management Agency (FEMA) grants, programs, and other operations funded from the Disaster Relief Fund. In total, we issued reports on 63 audits including 55 grant audits and 8 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, both funded from the Disaster Relief Fund.[1] Under the Public Assistance program, FEMA

[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 (Stafford 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.

provides grants to 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 Hazard Mitigation Grant Program provides funding 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, informs FEMA headquarters officials about significant issues of noncompliance and program inefficiencies that warrant their attention. The report also emphasizes the total resulting potential monetary benefits of our recommendations. In the last 7 FYs, we audited grant funds totaling $10.9 billion and reported potential monetary benefits of $4.07 billion, or 37 percent of the amount audited (see table 1).

Table 1: Potential Monetary Benefits from FYs 2009–2015 Grant Audits

Capping Report Number	Fiscal Year	Amount Audited (billions)	Potential Monetary Benefits[2] (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	$3.44	$971.7	28%
OIG-17-13-D	2015	$1.55	$1,734.3	112%
	Totals	$10.90	$4,070.0	37%

Source: Office of Inspector General (OIG) compilation and analysis of issued reports[3]

[2] Fiscal years 2014 and 2015 included $12.1 million and $287.4 million, respectively, in cost avoidances resulting from our early proactive audits.
[3] The source of information for all the tables in this report is the same; therefore, we cite the source only once.

Results of Review

In FY 2015, we issued reports on 63 audits of FEMA grants, programs, and operations funded from the Disaster Relief Fund: 55 grant audits and 8 program audits. The 63 reports contained 160 recommendations, with potential monetary benefits of $1.74 billion.

The 55 grant audit reports related to specific grants and subgrants under the Public Assistance program and Hazard Mitigation Grant Program. The 55 grant reports involved 49 declared disasters and contained 154 recommendations, with potential monetary benefits of $1.73 billion. The $1.73 billion exceeds the $1.55 billion in grant funds we audited in FY 2015 because it includes potential cost savings in *future* disasters. The $1.73 billion included $1.14 billion of potential monetary benefits associated with one Public Assistance audit.

The eight program audits included three audits of FEMA's initial response to disasters and one audit related to technical assistance we provided during a disaster deployment. The remaining four program audits covered other FEMA programs or operations, contained six recommendations for improving programs or operations, and identified $1.6 million in potential monetary benefits.

During FYs 2014 and 2015, our more proactive approach to auditing produced a significant shift from recommendations that question costs already spent to recommendations that put funds to better use before problems occur. FY 2015's $1.734 billion of potential monetary benefits includes $1.277 billion in funds that FEMA could put to better use and $457 million in costs we recommended FEMA disallow.

We continue to find problems with grant management, ineligible and unsupported costs, and noncompliance with Federal contracting requirements. The $457 million we questioned includes duplicate payments, unsupported costs, improper contract costs, and unsupported and unauthorized expenditures. Of the $1.55 billion in disaster relief funds we audited, the $457 million represents a 29 percent questioned-cost rate. Given that the disaster relief fund averages more than $10 billion per year and FEMA grants comprise a large portion of that amount, the total amount of improper payments related to grants and other expenditures would likely reach $3 billion per year.[4]

[4] The $3 billion estimate is not based on statistical analysis.

FEMA has been responsive to our recommendations for administrative actions and for putting unspent funds to better use. However, FEMA has not sufficiently held grant recipients financially accountable for improperly spending disaster relief funds. As of September 27, 2016, FEMA had taken sufficient action to close 130 of our 154 FY 2015 grant audit report recommendations. However, the 24 recommendations that remain open contain 90 percent ($413 million) of the $457 million we recommended FEMA disallow that grant recipients spent improperly or could not support. Further, in FYs 2009–2014, FEMA allowed 91 percent of the contract costs we recommended for disallowance for noncompliance with Federal procurement regulations, such as those that require opportunities for disadvantaged firms (e.g., small, minorities, and women) to bid on federally funded work.

FEMA did take several positive steps in FY 2015 to improve grant management and the efficiency and effectiveness of programs and operations. According to FEMA, these improvements included —

- the New Public Assistance Delivery Model,
- the Grants Management Modernization program,
- the Public Assistance Audits Branch Comparative Analysis,
- the Ongoing Strategic Legal Priorities,
- issuance of the Public Assistance Policy on Insurance,
- policy clarification under its "50 Percent Rule,"
- ongoing work of the procurement assistance disaster team,
- enhancement of technical guidance and assistance addressing Federal procurement requirements, and
- proactive education of grantees and subgrantees about Title 2 Code of Federal Regulations (CFR) Part 200.

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 Public Assistance and Hazard Mitigation Grant Program funds would also benefit from our advice. Last year, we recommended that FEMA direct 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. FEMA agreed and implemented that recommendation. We have since updated our *Audit Tips* (Report Number OIG-16-109-D, issued July 1, 2016) and will provide copies to officials in FEMA Headquarters and Regional Administrators.

Grant Audits

Of the 55 grant audit reports we issued in FY 2015, 43 contained 154 recommendations, resulting in potential monetary benefits of $1.73 billion.[5] This amount included $1.28 billion in cost avoidance, unused obligated funding, and unused funds at risk that we recommended FEMA put to better use. It also included $457.46 million in questioned costs that we recommended FEMA disallow as ineligible or unsupported. The $1.73 billion in potential monetary benefits exceeds the $1.55 billion in grant funds we audited in FY 2015 because it includes potential cost savings in *future* disasters.

We continue to find problems with grant management, ineligible and unsupported costs, and noncompliance with Federal contracting requirements. Of the $1.55 billion in grant funds we audited, we questioned $457 million, or 29 percent. Given that the disaster relief fund averages more than $10 billion per year and FEMA grants comprise a large portion of that amount, the total amount of improper payments related to FEMA expenditures would likely reach $3 billion per year.

Ineligible costs occur for numerous reasons, but we continue to stress the important role the states, as FEMA grantees, must play in monitoring their Public Assistance and Hazard Mitigation Grant Program grants. FEMA reimburses states to administer and oversee disaster funds. The states are generally responsible for the day-to-day monitoring of Public Assistance and Hazard Mitigation Grant Program 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 154 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	17	$1,276,845,196
B. Ineligible Work or Costs	60	443,783,478
C. Unsupported Costs	16	13,678,473
D. Grant Management and Administrative Issues	61	0
Totals	154	$1,734,307,147

[5] Twelve FY 2015 grant audit reports had no findings or reportable conditions.

A. Funds Put to Better Use

The term "recommendation that funds be put to better use" means funds that could be used more efficiently if management took corrective actions including reducing outlays, deobligating funds from programs or operations, future cost avoidances implemented through improvements related to programs or operations, and avoiding unnecessary expenditures noted in reviews of contracts or grant agreements.[6] As table 3 illustrates, we reported 10 instances of potential cost avoidances totaling $1.25 billion. We also reported seven other instances where subgrantees no longer needed obligated funding or unused funds were at risk. For these seven instances, we recommended that FEMA deobligate $13.4 million in unneeded funds and $14.8 million in unused funds at risk for fraud, waste, and abuse.

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	10	$1,248,633,082
2. Unneeded Obligated Funds	6	13,408,651
3. Unused Funds at Risk	1	14,803,463
Totals	17	$1,276,845,196

1. Cost Avoidance. We reported 10 instances of potential cost avoidance totaling $1.25 billion. Most significant was our audit of insurance adjustments applied against FEMA Public Assistance funds awarded to applicants who had insurance coverage during the 2004 and 2005 hurricane seasons in Florida (OIG-15-19-D).[7] The Florida Department of Emergency Management, a FEMA grantee, awarded these funds to applicants for disaster recovery work related to hurricanes that occurred in Florida during this time. Federal regulation 44 CFR 206.253(b)(1) requires that, as a condition of receiving public assistance for a facility, an applicant must obtain and maintain insurance to cover that facility.[8] We determined that FEMA's insurance specialists routinely waived the requirement to obtain and maintain insurance for future disasters. We recommended that

[6] *Inspector General Act of 1978*, as amended, section 5(f)(4)
[7] Appendix A lists the report number, disaster number, date issued, and title for each of the 55 grant reports we discuss in this report.
[8] As stated in Appendix D, Objectives, Scope, and Methodology, we conducted our audits according to the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disasters.

FEMA direct Florida to review all applicants who received Federal disaster assistance in Florida in 2004 and 2005 and determine whether they obtained and maintained the required insurance. We estimated that ensuring that these applicants obtained adequate amounts of insurance could potentially save taxpayers almost a billion dollars because private insurance, rather than FEMA, would pay for future hurricane damages.

Also significant was our audit of the Port Authority of New York and New Jersey, which accounted for $213 million in potential cost avoidance (Audit Report OIG-15-67-D). At the time of the grant award, the Port Authority's standard procurement policies allowed prohibited cost-plus-a-percentage-of-cost contracts and did not address contract provisions that Federal regulations require. Federal regulation 44 CFR 13.36(f)(4) prohibits cost-plus-a-percentage-of-cost contracts because they provide no incentive for contractors to control costs — the more contractors charge, the more profit they make. In late 2013, the Port Authority drafted new contracting rules that comply with Federal procurement requirements. If the Port Authority complies with these new rules, FEMA and taxpayers should have reasonable assurance that the Port Authority has the capacity to account for and spend Public Assistance funds according to Federal regulations and will avoid misspending $213 million of Public Assistance funding it requested for Hurricane Sandy damages.

2. Unneeded Obligated Funds. We reported six instances totaling $13.4 million for unneeded obligated funds. Federal appropriations law requires Federal agencies to deobligate funds when they are no longer needed or exceed amounts obligated for a project.[9]

   In Report OIG-15-35-D, we recommended that FEMA deobligate and put to better use $2.5 million in unneeded funds provided to the Imperial Irrigation District, California. The District completed all authorized work to repair earthquake damages on four projects for less than the original estimated cost, but the unneeded Federal funding for the projects remained obligated. Also, in Report OIG-15-02-D, we recommended that FEMA deobligate and put to better use $4.3 million in unneeded funding provided to Columbus Regional Hospital, Columbus, Indiana. FEMA initially obligated $62.3 million for the project, and the Hospital subsequently submitted to Indiana a revised claim for $58 million, or $4.3 million less than the original estimate. Although the Hospital completed the project 2 years before our audit, it did not provide, and Indiana did not request, an updated cost

[9] *E.g.*, B-286929 (2001); B-207433 (1983) ("[W]hen an agency obligates more funds than are needed for a project, it must, upon learning the correct amount, deobligate the excess amount."). *See also* B-321297 (2011).

reconciliation. As a result, a project cost underrun of $4.3 million remained unidentified and over obligated on FEMA's budgetary records. Deobligating unneeded funds in a timelier 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.

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. Unused Funds at Risk. The remaining instance of funds put to better use totaling $14.8 million related to mismanagement of Federal funds (OIG-15-149-D). We reported that Riverside Hospital's misuse of Federal funds did not end in 2012 with the indictment and departure of its Chief Executive Officer and others on charges of bilking Medicare out of $158 million. Following the indictments, Riverside's remaining management continued to misuse and mismanage Federal funds — this time, FEMA funds. FEMA obligated $32.4 million for hospital damages resulting from Hurricane Ike; however, Riverside did not comply with Federal grant requirements when it spent $17.6 million of the $32.4 million FEMA grant it received from Texas. For example, it used these funds to pay for its annual audit, legal fees, Federal taxes, insurance, gift cards, a new grant management system, and fire alarm repairs — all unrelated to the 2008 hurricane damage.

   Riverside's poor financial accounting system and inability to manage grant funds put its remaining $14.8 million in unused funds at risk for fraud, waste, and abuse. Therefore, we questioned the entire $32.4 million grant award and recommended FEMA disallow as ineligible the $17.6 million Riverside received from Texas and deobligate the remaining grant fund balance of $14.8 million and put those funds to better use (see report section B, paragraph 3 that follows for additional details regarding the $17.6 million we questioned as ineligible).

B. Ineligible Work or Costs

As table 4 illustrates, we reported 60 instances where we questioned $443.8 million in costs as ineligible for FEMA reimbursement.

Table 4: Ineligible Work or Costs by Subtype

Subtypes of Ineligible Work or Costs	Number of Resulting Recommendations	Amounts Questioned in Our Reports
1. Duplicate Funding	13	$ 200,083,929
2. Contracting Practices	14	126,512,795
3. Other Ineligible Work/Costs	33	117,186,754
Totals	60	$443,783,478

1. Duplicate Funding. We reported 13 instances where subgrantees claimed $200.1 million in project costs that duplicated benefits the subgrantees received from other forms of assistance. The *Stafford Act*, section 312, states that an entity cannot receive Federal financial assistance for any loss for which it has received financial assistance for the same purpose from any other program, insurance, or any other source.

   In 10 of the 13 instances, subgrantees claimed $179.3 million in duplicate benefits for project costs that insurance covered. For example, in Report OIG-15-19-D, in addition to FEMA insurance specialists waiving the requirement to obtain insurance for future Florida hurricanes (see prior report section A, paragraph 1), we also determined that FEMA's insurance reviews were inadequate to ensure that approved project costs included required reductions for the maximum amount of available insurance and did not include duplicate benefits. As a result, FEMA funded $177.2 million that insurance may have covered. We recommended that FEMA (1) conduct a full insurance review of all projects associated with applicants that had insurance to determine the correct amount of available insurance benefits that the applicants received or should have received, and (2) recover all additional insurance amounts (potentially up to $177.2 million) identified in the review.

   In the remaining three instances, subgrantees claimed duplicate benefits for project costs covered by other programs or third-party donors. For example, in audit report OIG-15-142-D, FEMA awarded the Puerto Rico Department of Housing a $20.8 million Disaster Assistance for Unmet Needs grant to supplement a Hazard Mitigation grant the Department received for the New Secure Housing Program. However, the Department mistakenly claimed the same $20.8 million of costs twice — once under the Unmet Needs grant and again under the Hazard Mitigation grant. Accordingly, we questioned the $20.8 million as ineligible duplicate benefits.

2. Contracting Practices. We reported 14 instances totaling $126.5 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 businesses, 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 markups on cost-plus-a-percentage-of-cost contracts. For example, in Audit Report OIG-15-65-D, Holy Cross School did not always follow Federal procurement standards in awarding 21 contracts totaling $84.6 million.[10] For 19 of the 21 contracts, we questioned $82,261,103 because Holy Cross did not follow Federal procurement standards after exigent circumstances ended. The remaining two contracts were for exigent work and totaled $2,326,598; we questioned $99,144 in markups on costs because the two contracts were prohibited cost-plus-a-percentage-of-cost contracts.

In Report OIG-15-131-D, the City of Biloxi, Mississippi, did not comply with all Federal procurement standards in awarding a contract totaling $21.7 million for managing infrastructure projects. The City improperly awarded the contract to a firm based solely on its qualifications, rather than using price as a selection factor. Federal regulations allow this method of selection only for architectural and engineering (A/E) work.[11] However, the scope of work was for project management, not A/E work. As a result, other responsible firms that might have been willing to perform the work for less did not receive the City's consideration. In addition, because the City negotiated price based on rates appropriate for A/E work, rather than the lower rates appropriate for project management, the $21,711,231 contract exceeded a reasonable cost amount by at least $8,093,971. Therefore, we questioned $8,093,971 of contract costs as unreasonable, and questioned the remaining $13,617,260 because the City procured the contract improperly.

3. Other Ineligible Work or Costs. Table 5 lists other ineligible work or costs we questioned in FY 2015. Housing construction costs and mismanaged Federal funds were the top two subtypes of ineligible work or costs we questioned.

[10] Procurement standards at 44 CFR 13.36 apply to state and local governments, while procurement standards at 2 CFR 215 apply to institutions of higher education, hospitals, and other nonprofit organizations.
[11] 44 CFR 13.36(d)(3)(v)

Table 5: Other Ineligible Work or Costs

Other Ineligible Work or Costs	Number of Resulting Recommendations	Amounts Questioned in Our Reports
Housing construction costs	2	$ 60,016,453
Mismanaged Federal funds	2	21,311,652
Outside FEMA-approved scope of work	4	10,022,673
Extended period of performance	1	8,230,969
Estimated/calculated costs	5	8,034,120
Contractor billings	6	6,025,659
Direct administrative costs	1	2,272,675
Miscellaneous ineligible costs	12	1,272,553
Totals	33	$117,186,754

In Report OIG-15-142-D, we reported two instances totaling $60.0 million where the Puerto Rico Department of Housing did not comply with Federal requirements for rebuilding homes damaged or destroyed by Hurricane Georges. Under its New Secure Housing Program, the Department acquired and removed damaged or destroyed homes and replaced them with homes at new sites not subject to such damage. FEMA required the Department to demolish each acquired property within 90 days from the date of closing on properties for program participants who received replacement housing. Further, 44 CFR 206.434(e) required the Department to place certain deed restrictions on the acquired properties dedicating them to uses compatible with open space practices. However, the Department claimed $34.6 million of ineligible construction costs when it failed to complete the demolition and deed restriction requirements.

The Department also claimed $25.4 million of costs for 217 housing units it constructed, but left unoccupied, because it could not find eligible program participants to occupy the homes. FEMA notified the Department that it would not reimburse any expenditures for housing units in which the Department had not identified eligible program participants. Therefore, we questioned the $25.4 million.

In Audit Report OIG-15-149-D, Riverside General Hospital in Houston, Texas, mismanaged $17.6 million of FEMA funds received for damages resulting from Hurricane Ike. Specifically, Riverside completely disregarded Federal regulations and guidelines when it decided to use $7.9 million in FEMA funds to pay operating expenses and other unverifiable items with no connection to the disaster. According to 44 CFR 206.223(a)(1), an item of work must be "required as the result of the major disaster event" to "be eligible for financial assistance." Further, Riverside asserted that it spent $13.2 million of the $17.6 million it received for disaster-related expenses. However, it did not always account for or support project expenses and did not follow Federal procurement standards in awarding $12.2 million in disaster-related contracts (2 CFR 215).[12]

Riverside also failed to comply with FEMA requirements to limit disaster assistance cash advances to the minimum amounts needed to carry out the purpose of the approved disaster-related projects, pay its disaster related expenses within a reasonable amount of time, and time the advances according to actual, immediate cash needs.[13] Riverside consistently obtained cash advances from Texas that exceeded its immediate needs, and then used these excess funds to pay its hospital operations and other unverifiable items.

We also reported five instances totaling $10.0 million where subgrantees claimed project costs that FEMA did not authorize in the scope of work. For example, in Audit Report OIG-15-142-D, the Puerto Rico Department of Housing built 58 housing units for a Commonwealth-funded (non-FEMA) project in conjunction with building other housing units under the FEMA-funded New Secure Housing Program. However, the Department erroneously claimed $7.54 million in FEMA funds for construction costs that were allocable to the Commonwealth-funded (non-FEMA) project. Federal cost principles at 2 CFR Part 225, Appendix A, Section C.1.b, require costs to be allocable to a Federal award to be eligible for reimbursement. Accordingly, we questioned the $7.54 million of unrelated costs.

C. Unsupported Costs

Our FY 2015 audits reported 16 instances of unsupported costs totaling $13,678,473. Without adequate documentation, FEMA has no assurance that costs are valid and eligible. Federal cost principles require that subgrantees adequately document claimed costs under Federal awards.[14] Also, 44 CFR 13.20(b)(6) lists specific examples of documentation — including canceled

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[12] The *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* at 2 CFR 215 (formerly known as Office of Management and Budget (OMB) Circular A–110) include applicable Federal procurement standards. Also, 2 CFR 215.21(b)(1) and (2) require accounting records and source documentation to be accurate, current, and complete, and to identify adequately the source and application of funds for federally sponsored activities.
[13] 2 CFR 215.22(b)(2)
[14] *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR 225); *Cost Principles for Educational Institutions* (2 CFR 220); and *Cost Principles for Non-Profit Organizations* (2 CFR 230)

checks, paid bills, payrolls, time and attendance records, and contracts — that auditors may accept as adequate to support accounting records.

For example, in Report OIG-15-01-D, we reported that the Tulane Educational Fund, New Orleans, Louisiana, did not adequately support $6.9 million in fuel and labor-related contract costs. In Report OIG-15-142-D, we reported that the Puerto Rico Department of Housing did not support $2.4 million of construction costs with documents such as contractor invoices, payment records, or daily logs. In Report OIG-15-151-D, we reported that the Borough of Spring Lake, New Jersey did not support $798,317 of its own (force account) equipment, labor, and miscellaneous costs.

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 operations of subgrant activity and monitor subgrant activity to ensure compliance with applicable Federal requirements.[15] Our reports included 61 grant management and administrative recommendations covering contracting practices, project costs and accounting, general grant management, and insurance recovery. According to FEMA officials, during the 5-year period ending September 30, 2015, FEMA paid grantees (states and some Indian tribal governments) $522 million to manage and administer disasters (direct and indirect costs).

We reported 24 instances in which grantees could improve contracting practices. In some instances, states needed to inform, monitor, and assist subgrantees to comply with procurement standards and ensure contractors performed in accordance with their contracts. We also reported other instances in which grantees needed to —

- reconcile all project costs,
- submit closeout documentation for projects as soon as practicable,
- complete remaining projects within required deadlines,
- pursue insurance recoveries, and
- account for disaster-related costs on a project-by-project basis to avoid duplicating disaster expenditures among projects.

Federal regulations establish uniform administrative rules for grants and procedures for Public Assistance and Hazard Mitigation Grant Program project administration. These rules and procedures require that grantees and

[15] 44 CFR 13.37(a)(2) and 44 CFR 13.40(a)

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 Public Assistance and Hazard Mitigation Grant Program grants.

Program Audits

We completed eight program audits in FY 2015 not related to specific grants. In three audits, we deployed staff to major disasters to assess FEMA's initial response to disasters. Another audit related to technical assistance we provided during a disaster deployment. The remaining four program audits covered other FEMA programs or operations, contained six recommendations for improving FEMA programs or operations, and identified $1.6 million in potential monetary benefits.

FEMA's Initial Disaster Responses

Following a major disaster, FEMA officials must take decisive actions responding to the event and initiating recovery efforts. Nevertheless, 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 assistance program's integrity by preventing applicants from misspending disaster assistance funds.

In 2015, we completed three audits assessing FEMA's initial response to the March 2014 mudslide near Oso, Washington; the August 2014 severe storms and flooding in Michigan; and the August 2014 earthquake in Napa Valley, California.[16] We deployed to the disaster sites shortly after the disaster declarations and concluded in our reports that FEMA's responses to these major disasters were effective. Overall, FEMA responded proactively and

[16] Appendix B lists the report number, disaster number, date issued, and title for each of the eight program audit reports we issued in FY 2015.

overcame a variety of challenges while effectively coordinating activities with other Federal agencies and state and local governments.

Assistance Provided during Deployment

In April 2015, at the request of FEMA Region III, we deployed to FEMA's Joint Field Office in Charleston, West Virginia. FEMA opened the Joint Field Office in response to a disaster declaration for severe winter storms that occurred in March 2015. FEMA requested our assistance to ensure compliance with Public Assistance requirements regarding the eligibility of damages to the runway safety area at Yeager Airport. Media reports indicated that repairing the safety area may cost between $40 and $100 million. At the time of our deployment, questions remained about whether the declared disaster caused the damages to the Engineered Arresting Structure. Federal regulation 44 CFR 206.223 states that an item of work must be the result of the disaster event to be eligible for FEMA Public Assistance.

In Audit Report OIG-15-145-D, we advised that FEMA take reasonable steps to determine whether the damage to the runway safety area at Yeager Airport is the direct result of the disaster, and, if so, that a duplication of benefits does not occur. This action should provide reasonable assurance that FEMA obligates Public Assistance funding only for eligible work. Section 312 of the *Stafford Act* states that no entity will receive assistance for any loss for which it has received financial assistance from any other source.

Other Program Audits

We also issued four other program audit reports that contained six recommendations for improving FEMA programs and operations and recouping funds totaling $1,553,000. 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-15-06-D, we found that FEMA could not verify the costs of its seven Long Term Recovery Offices by location nor was FEMA tracking data associated with performance measures. We estimated that between 1994 and 2013, FEMA obligated and spent more than $4 billion in administrative costs and more than $1 billion in salaries for these offices. The *Federal Managers' Financial Integrity Act of 1982*, in part, requires that Federal agencies properly record and account for revenues and expenditures applicable to agency operations. Without tracking costs and data, FEMA was unable to determine whether these Long Term Recovery Offices and associated processes, outputs, and outcomes were cost effective.

We further found that FEMA established, operated, and closed Long Term Recovery Offices without standardized policies, procedures, and performance measures. Without these controls, FEMA was at risk for mismanaging Federal disaster funds and unable to ensure consistency in establishing and managing these offices. We recommended that FEMA (1) identify, track, and report costs and performance data that show cost effectiveness for Long Term Recovery Offices, and (2) implement standardized policies, procedures, and performance measures to establish, operate, and close Long Term Recovery Offices.

In Report OIG-15-128-D, we determined that FEMA officials' building selection for the New Jersey Joint Field Office (JFO) was not cost effective because they waited until after Hurricane Sandy struck and then rushed to a selection decision. Although many factors contributed to the lack of a timely, cost-effective JFO selection, the primary cause was FEMA's lack of pre-disaster planning. As a result, FEMA's selection of the New Jersey JFO for Hurricane Sandy exposed the Federal Government to unnecessary facility costs and delayed JFO operations. By taking advantage of nearby Federal facilities or locating to more affordable, flexible office space (lightly zoned buildings), FEMA might have avoided these facility costs and saved significant Federal disaster funds.

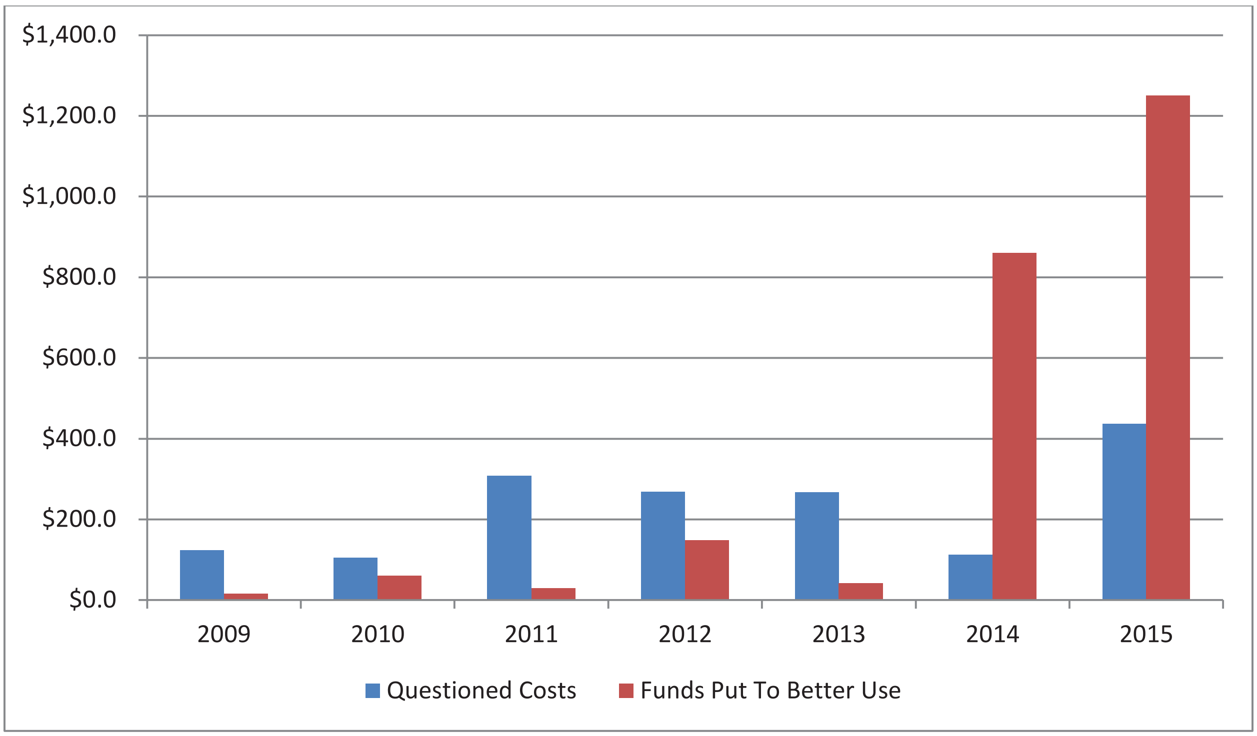
In addition, FEMA could have done more to minimize JFO lease costs as staffing levels decreased. By moving to a more appropriately sized building once staff levels declined as anticipated, FEMA could have saved approximately $1.5 million. FEMA officials missed this opportunity because they did not aggressively right size their space according to FEMA policies as disaster staff levels declined. To save costs in future disasters, we recommended that FEMA should (1) be proactive, with its General Services Administration partners, in identifying potential Joint Field Office locations before predicted disasters similar to Hurricane Sandy, and (2) develop a JFO operational procedure guide to locate and right size JFO space requirements and leases as disaster staffing decreases.

Shift from Questioned Costs to Funds Put to Better Use

During FYs 2014 and 2015, our more proactive approach to auditing produced a significant shift from recommendations that question costs already spent to recommendations that put funds to better use before problems occur. We instituted this new approach in 2013 to make our audits proactive rather than reactive. Our early, proactive audits assess whether subrecipients have the capacity to account for and spend Federal funds responsibly and whether they need additional monitoring and technical assistance. Designing our audit program in this way is smarter for FEMA and the American taxpayer because it appropriately places the focus on preventing wasteful spending in the first place rather than trying to chase the money after recipients spend it.

Figure 1 demonstrates that, during FYs 2014 and 2015, this more proactive approach produced a significant shift from recommendations that question costs already spent to recommendations that put funds to better use before problems occur.

Potential Monetary Benefits from All Disaster Assistance Audits FYs 2009–2015 (in millions)



FEMA officials, for their part, have welcomed our new proactive audit approach. They have actively engaged and participated with OIG staff in finding solutions to problems. FEMA officials often request our review of planned actions and proposed policies. Although we must maintain our independence in these situations, we can still identify vulnerabilities that increase the risk of fraud, waste, and abuse of Federal funds.

FEMA's Response to Our Recommendations

FEMA has been responsive to our recommendations for administrative actions and for putting unspent funds to better use. However, FEMA has not sufficiently held grant recipients financially accountable for improperly spending disaster relief funds.

FY 2015's $1.734 billion of potential monetary benefits includes $1.277 billion in funds that FEMA could put to better use and $457 million in costs we recommended FEMA disallow. As of September 27, 2016, FEMA had taken sufficient action to close 130 of our 154 FY 2015 grant audit report recommendations. However, the 24 recommendations that remain open contain 90 percent ($413 million) of the $457 million we recommended FEMA disallow that grant recipients spent improperly or could not support. Further, during the 6-year period ending September 30, 2014, FEMA allowed 91 percent of the grant funds we recommended for disallowance for noncompliance with Federal procurement regulations, such as those that require opportunities for disadvantaged firms (e.g., small, minorities, and women) to bid on federally funded work.[17]

Positive Steps FEMA Took in FY 2015

FEMA took several positive steps in FY 2015 to improve grant management and the efficiency and effectiveness of programs and operations. According to FEMA, these improvements included the following:

- The New Public Assistance Delivery Model. This multi-year project to refine Public Assistance project delivery changes FEMA's overall approach to providing program dollars by putting the needs of the customer first. FEMA successfully conducted a Beta Test of the new delivery model in a declared disaster in Iowa and is using lessons learned to refine and implement it agency wide.
- The Grants Management Modernization program. FEMA launched the scoping phase of the program; developed a multi-year, above FEMA base budget that includes an acquisition strategy for FY 2016 and 2017; and actively engaged with stakeholders to document grants processes challenges.
- The Public Assistance Audits Branch Comparative Analysis. This comprehensive analysis of Public Assistance first and second appeals of OIG/GAO audits identified recurring problems, trends, and root cause

[17] *FEMA Can Do More to Improve Public Assistance Grantees' and Subgrantees' Compliance with Federal Procurement Rules* (OIG-16-126-D, issued September 2, 2016)

issues. FEMA presented the results of the analysis to FEMA regions and grantees in April 2015 and developed and distributed region-specific reports with state-level findings.

- The Ongoing Strategic Legal Priorities. The Strategic Legal Priority for 2015 supports the new grants administration requirements of 2 CFR Part 200 by addressing grant management process concerns and implementing and recommending enforcement remedies for various types of noncompliance.
- Issuing the Public Assistance Policy on Insurance. The Policy guides personnel administering the Public Assistance program, as well as Public Assistance applicants, in decision making and interpreting statutes and regulations related to insurance requirements under FEMA's Public Assistance program.
- Policy clarification under its "50 Percent Rule." FEMA's recently implemented policy clarification helps prevent improper calculations under its "50 Percent Rule": FEMA Recovery Policy 9524.4, *Repair vs. Replacement of a Facility under 44 CFR 206.226(f) (The 50 Percent Rule) - Policy Clarification; and Cost Estimating and Review Requirements*, September 2015.
- Ongoing work of the Procurement Assistance Disaster Team. The Team published its *Field Manual on Public Assistance Grantee and Subgrantee Procurement Requirements under 44 CFR Part 13 and 2 CFR Part 215,* December 2014. The Manual provides a description and explanation of the mandatory procurement requirements for Public Assistance recipients and subrecipients.
- Enhancing technical guidance and assistance addressing Federal procurement requirements. In 2015, the Hazard Mitigation Assistance guidance was updated to provide additional guidance on procurement requirements. In addition, a job aid was developed to address specific areas of concern for the Hazard Mitigation Grant Program.
- Proactively educating grantees and subgrantees about Title 2 CFR Part 200: *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Super Circular" or "Omni Circular"). These regulations supersede 44 CFR Part 13, and Office of Management and Budget (OMB) Circulars A-21, A-87, A-102, A-110, A-122, and A-133 for all FEMA awards made on or after December 26, 2014.

Conclusion

FEMA continues to face 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 responsive to our recommendations for administrative actions and for putting unspent funds to better use. However, FEMA should do more to hold grant recipients financially accountable for improperly spending disaster relief funds. As we have reported in prior years, many of our findings and reportable conditions continue to indicate that states should do a better job of educating subgrantees and enforcing Federal regulations through effective and vigilant monitoring. Therefore, FEMA should consider increasing its use of the remedies available 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.

This report, like our previous “capping” reports, provides an opportunity for FEMA officials to examine regulations, policies, and procedures and assess the need for changes based on the recurring nature of our findings.

Discussion with FEMA and Audit Follow-up

We provided a draft report to representatives from FEMA Headquarters and discussed it with them on August 5, 2016. FEMA subsequently provided technical comments, which we incorporated, as appropriate, in this report. This report contains no recommendations; therefore, we consider the report closed and require no further actions by FEMA. On September 16, 2016, FEMA 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 highlighted its new management initiatives including ongoing development and execution of a new Public Assistance delivery model, launching the Grants Management Modernization initiative, and publication of its *Public Assistance Policy on Insurance* (June 29, 2015). FEMA’s new initiatives should provide additional tools for improving compliance with Federal regulations.

In FEMA’s comments, officials stated that OIG’s methodology for calculating potential monetary benefits has changed. However, what has changed is the timing of our audits, not our methodology for calculating potential monetary benefits. As previously stated, in FYs 2014 and 2015, we instituted a more proactive approach that initiates audits much earlier in the grant life cycle. Designing our audit program in this way produced the cost avoidances identified in footnote 2 to Table 1, along with the requisite recommendations in our audit reports that put funds to better use before problems occur.

In supporting its statement that OIG-computed cost savings for future disasters was based upon flawed assumptions, FEMA incorrectly asserts that OIG assumed that 100 percent of the applicants would not obtain or maintain insurance coverage (FEMA footnote iii). However, the cost savings was, in fact, based on the potential risk to FEMA if applicants did not obtain and maintain insurance. FEMA also incorrectly asserts that OIG assumed that all of the facilities damaged were insurable. Again, the cost savings was based on the potential risk to FEMA if facilities were not insured. The fact that FEMA's corrective actions to our audit recommendations show that 89 percent of applicants obtained insurance (FEMA footnote iv) and that some facilities are uninsurable was unknown to FEMA and OIG at the time of audit fieldwork.

FEMA is also concerned that OIG's presentation of $1.73 billion in potential monetary benefits for FY 2015 skews the report because it includes $1.14 billion associated with one Public Assistance audit. However, twice in this audit report we disclose that the $1.73 billion includes the $1.14 billion associated with one Public Assistance audit — first in the second paragraph of the Results of Audit, and again in the explanatory paragraph at the beginning of Appendix A, FY 2015 OIG Disaster Grant and Subgrant Reports.

The Office of Emergency Management Oversight major contributors to this report are William H. Johnson, Director; Carlos Aviles, Audit Manager; and Richard Kotecki, Auditor-in-Charge.

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.

Appendix A
FY 2015 OIG Disaster Grant and Subgrant Reports

The 55 grant audit reports listed below are related to specific grants and sub-grants under the Public Assistance program and Hazard Mitigation Grant Program. The 55 grant audit reports involved 49 declared disasters and contained 154 recommendations, with potential monetary benefits of $1.73 billion. The $1.73 billion exceeds the $1.55 billion in grant funds we audited in FY 2015 because it includes potential cost savings in future disasters. The $1.73 billion included $1.14 billion of potential monetary benefits associated with one Public Assistance audit (Line 6, Audit Report OIG- 15-19-D).

FY 2015 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-15-01-D, 10/8/2014	PA 1603	FEMA Should Recover $13.0 Million of Public Assistance Grant Funds Awarded to The Administrators of the Tulane Educational Fund, New Orleans, Louisiana	$291.9	$36.1	$12,988,064
2	OIG-15-02-D, 10/8/2014	PA 1766	FEMA Should Recover $3 Million of Ineligible Costs and $4.3 Million of Unneeded Funds from the $110 Million in Grant Funds Awarded to Columbus Regional Hospital, Columbus, Indiana	$110.3	$107.6	$7,277,472
3	OIG-15-03-D, 10/15/2014	PA 1829 1907 1981	The State of North Dakota Needs to Assist Ramsey County in Completing $24 Million of FEMA Public Assistance Projects for Three Federally Declared Disasters that Occurred in 2009-2011	$24.5	$0.5	$19,768,371
4	OIG-15-12-D, 11/18/2014	PA 1604	Gulfport School District, Mississippi, Properly Accounted for and Expended FEMA Public Assistance Grant Funds Awarded for Hurricane Katrina Damages	$14.3	$6.3	$0
5	OIG-15-15-D, 12/9/2014	PA 1604	Gulf Coast Mental Health Center, Mississippi, Generally Accounted for and Expended FEMA Public Assistance Grant Funds According to Federal Requirements	$2.1	$1.4	$61,200

Appendix A (continued)
FY 2015 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
6	OIG-15-19-D	PA 1539 1545 1551 1561 1595 1602 1609	FEMA Insurance Reviews of Applicants Receiving Public Assistance Grant Funds for 2004 and 2005 Florida Hurricanes Were Not Adequate	$244.2	$66.0	$1,138,409,749
7	OIG-15-30-D, 1/29/2015	PA 4145	The City of Loveland, Colorado, Could Benefit from Additional Assistance in Managing Its FEMA Public Assistance Grant Funding	$21.1	$6.4	$17,305,642
8	OIG-15-34-D, 2/26/2015	PA 4145	Larimer County, Colorado, Needs Assistance to Ensure Compliance with FEMA Public Assistance Grant Requirements	$22.5	$2.6	$22,540,761
9	OIG-15-35-D, 2/13/2015	PA 1911	FEMA Should Recover $6.2 Million of Ineligible and Unused Grant Funds Awarded to the Imperial Irrigation District, California	$10.5	$7.8	$6,158,414
10	OIG-15-37-D, 2/20/2015	PA 1858	Gwinnett County, Georgia, Generally Accounted for and Expended FEMA Public Assistance Grant Funds According to Federal Requirements	$6.3	$4.6	$87,208
11	OIG-15-40-D, 3/3/2015	PA 1577	FEMA Needs to Ensure the Cost Effectiveness of $945,640 that Los Angeles County, California Spent for Hazard Mitigation Under the Public Assistance Program	$1.7	$1.7	$945,640
12	OIG-15-48-D, 3/18/2015	PA 1603	FEMA Should Recover $395,032 of Improper Contracting Costs from $14.3 Million Grant Funds Awarded to East Jefferson General Hospital, Metairie, Louisiana	$14.3	$12.4	$395,032
13	OIG-15-49-D, 3/18/2015	PA 1545	Palm Beach County School District, Florida, Effectively Managed FEMA Public Assistance Grant Funds Awarded for Hurricane Frances Damages	$6.4	$3.8	$0

Appendix A (continued)
FY 2015 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
14	OIG-15-50-D, 3/19/2015	PA 1561	Florida and the Palm Beach County School District Did Not Properly Administer $7.7 Million of FEMA Grant Funds Awarded for Hurricane Jeanne Damages	$15.0	$12.8	$145,145
15	OIG-15-51-D, 3/19/2015	PA 1609	Florida and Palm Beach County School District Did Not Properly Administer $9.2 Million of FEMA Grant Funds Awarded for Hurricane Wilma Damages	$34.0	$13.7	$33,239
16	OIG-15-65-D, 4/14/2015	PA 1603	FEMA Should Disallow $82.4 Million of Improper Contracting Costs Awarded to Holy Cross High School, New Orleans, Louisiana	$89.3	$88.6	$82,360,247
17	OIG-15-66-D, 4/14/2015	PA 4166	South Carolina Department of Transportation Has Adequate Policies, Procedures, and Business Practices to Effectively Manage Its FEMA Public Assistance Grant Funding	$165.2	$1.2	$0
18	OIG-15-67-D, 4/14/2015	PA 4085 4086	The Port Authority of New York and New Jersey's Recently Updated Policies, Procedures, and Business Practices Should Be Adequate to Effectively Manage FEMA Public Assistance Grant Funds	$213.0	$1.1	$213,000,000
19	OIG-15-89-D, 5/7/2015	PA 1733	FEMA Misapplied the Cost Estimating Format Resulting in an $8 Million Overfund to the Port of Tillamook, Oregon	$48.2	$44.6	$8,021,885
20	OIG-15-90-D, 5/7/15	PA 4086	FEMA Should Recover $2.75 Million of $16.9 Million in Public Assistance Grant Funds Awarded to the Borough of Seaside Heights, New Jersey	$16.9	$14.7	$2,751,550
21	OIG-15-96-D, 5/19/2015	PA 1858	The City of Atlanta, Georgia, Effectively Managed FEMA Public Assistance Grant Funds Awarded for Severe Storms and Flooding in 2009	$13.5	$0.8	$0

Appendix A (continued)
FY 2015 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
22	OIG-15-99-D, 6/5/2015	PA 4145	Boulder County, Colorado, Has Adequate Policies and Procedures to Manage Its Grant, but FEMA Should Deobligate about $2.5 Million	$100.0	$18.0	$2,483,162
23	OIG-15-101-D, 6/9/2015	PA 1922	The Chippewa Cree Tribe of the Rocky Boy's Indian Reservation in Montana Mismanaged $3.9 Million of FEMA Disaster Grant Funds	$31.6	$3.9	$3,892,073
24	OIG-15-103-D, 6/12/2015	PA 4019	The City of Rocky Mount, North Carolina, Effectively Managed FEMA Public Assistance Grant Funds Awarded for Hurricane Irene	$5.4	$5.3	$0
25	OIG-15-104-D, 6/15/2015	PA 1733	FEMA Should Recover $337,135 of Ineligible or Unused Grant Funds Awarded to the Port of Tillamook Bay, Oregon	$48.2	$1.9	$337,125
26	OIG-15-106-D, 6/17/2015	PA 4080	Dixie Electric Membership Corporation, Greenwell Springs, Louisiana, Generally Accounted For and Expended FEMA Grant Funds Properly	$9.2	$9.2	$37,032
27	OIG-15-109-D, 6/24/2015	PA 1776	Kansas and the Unified School District #473 in Chapman, Kansas, Did Not Properly Administer $50 million of FEMA Grant Funds	$65.2	$54.1	$285,727
28	OIG-15-110-D, 6/25/2015	PA 4002	Lawrence County Engineer, Ohio, Generally Accounted for and Expended FEMA Grant Funds Properly	$7.5	$5.7	$0
29	OIG-15-111-D, 7/1/2015	PA 4117	FEMA Should Recover $4.85 Million of Ineligible Grant Funds Awarded to Oklahoma City, Oklahoma	$9.8	$9.2	$4,853,156
30	OIG-15-113-D, 7/16/2015	PA 4134	FEMA Should Disallow over $4 Million Awarded to Mountain View Electric Association, Colorado, for Improper Procurement Practices	$7.1	$7.4	$4,010,222

Appendix A (continued)
FY 2015 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
31	OIG-15-114-D, 7/16/2015	PA 4116	FEMA Should Recover $9.3 Million of Ineligible and Unsupported Costs from Fox Waterway Agency in Fox Lake, Illinois	$9.4	$9.4	$9,367,187
32	OIG-15-115-D, 7/21/2015	PA 4075	Montgomery County, Maryland, Effectively Managed FEMA Public Assistance Grant Funds Awarded for Severe Storms During June and July 2012	$8.2	$8.2	$36,244
33	OIG-15-116-D, 7/21/2015	PA 4091	Montgomery County, Maryland, Generally Accounted for and Expended FEMA Public Assistance Grant Funds According to Federal Requirements — Hurricane Sandy Activities	$3.0	$3.0	$297,583
34	OIG-15-119-D, 8/7/2015	PA 4144	Pulaski County, Missouri, Could Benefit from Additional Assistance in Managing Its FEMA Public Assistance Grant	$5.8	$0.4	$724,515
35	OIG-15-123-D, 8/10/2015	PA 4081	The Jackson County, Mississippi, Board of Supervisors Would Benefit from Technical Assistance in Managing Its $14 Million FEMA Grant Award	$14.0	$13.8	$353,154
36	OIG-15-125-D, 8/12/2015	PA 4182	Scott County, Minnesota, Physical Development Department Has Adequate Policies, Procedures, and Business Practices to Effectively Manage Its FEMA Public Assistance Grant Funding	$2.6	$0.9	$0
37	OIG-15-126-D, 8/20/2015	PA 4193	The City of Napa, California, Needs Additional Technical Assistance and Monitoring to Ensure Compliance with Federal Regulations	$8.0	$6.0	$994,224
38	OIG-15-127-D, 8/20/2015	PA 4080	Jefferson Parish, Louisiana, Generally Accounted for and Expended FEMA Grant Funds Properly	$18.1	$17.8	$129,480

Appendix A (continued)
FY 2015 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
39	OIG-15-129-D 8/21/15	PA 4182	Mankato, Minnesota, Has Adequate Policies, Procedures, and Business Practices to Effectively Manage Its FEMA Public Assistance Grant Funding	$0.9	$0.3	$0
40	OIG-15-130-D 8/21/2015	PA 4080	The City of Kenner, Louisiana, Generally Accounted For and Expended FEMA Grant Funds Properly	$5.4	$5.4	$148,500
41	OIG-15-131-D 8/21/15	PA 1604	FEMA Should Recover $21.7 Million of $376 Million in Public Assistance Grant Funds Awarded to the City of Biloxi, Mississippi for Hurricane Katrina Damages	$527.0	$376.0	$21,711,231
42	OIG-15-132-D 8/24/15	PA 1604	FEMA Should Recover $1.78 Million of Public Assistance Grant Funds Awarded to the City of Duluth, Minnesota	$13.3	$7.7	$1,778,485
43	OIG-15-133-D, 8/24/2015	PA 4005	The Knoxville Utilities Board Effectively Managed FEMA Public Assistance Grant Funds Awarded for Damages from Tornadoes and Severe Storms in June 2011	$5.2	$4.3	$0
44	OIG-15-134-D, 8/24/2015	PA 1974	The Knoxville Utilities Board Effectively Managed FEMA Public Assistance Grant Funds Awarded for Damages from Tornadoes and Severe Storms in April 2011	$2.7	$2.5	$0
45	OIG-15-135-D, 8/28/2015	PA 4193	Napa County, California, Needs Additional Technical Assistance and Monitoring to Ensure Compliance with Federal Regulations	$6.0	$3.8	$973,778
46	OIG-15-136-D 8/28/2015	HMGP 1603 1607 1786 1792	FEMA Should Recover $929,379 of Hazard Mitigation Funds Awarded to St. Tammany Parish, Louisiana	$15.3	$15.0	$929,379

Appendix A (continued)
FY 2015 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
47	OIG-15-139-D 8/31/2015	PA 4152	Los Alamos County, New Mexico, Generally Accounted For and Expended FEMA Grant Funds Properly	$5.1	$4.9	$0
48	OIG-15-141-D 9/9/2015	PA 4086	FEMA Should Disallow $2.78 Million of $14.57 Million in Public Assistance Grant Funds Awarded to the Township of Brick, New Jersey, for Hurricane Sandy Damages	$14.6	$12.9	$2,782,386
49	OIG-15-142-D 9/9/2015	HMGO 1247	The Puerto Rico Department of Housing Did Not Properly Administer $90.79 Million of FEMA Grant Funds Awarded for the New Secure Housing Program	$186.1	$154.9	$90,789,536
50	OIG-15-143-D 9/9/2015	PA 4182	Rock County, Minnesota, Highway Department Has Adequate Policies, Procedures, and Business Practices to Effectively Manage its FEMA Assistance Grant Funding	$1.3	$339.4	$0
51	OIG-15-147-D 9/15/2015	PA 4086	Asbury Park, New Jersey, Needs Assistance in Supporting More Than $2 Million in FEMA Grant Funds for Hurricane Sandy Debris and Emergency Work	$9.3	$6.3	$2,118,283
52	OIG-15-148-D, 9/15/2015	PA 1604	FEMA Should Recover $4.2 Million of $142.1 Million in Grant Funds Awarded to the City of Gulfport, Mississippi, for Hurricane Katrina Damages	$248.3	$142.1	$4,202,857
53	OIG-15-149-D, 9/17/2015	PA 1791	FEMA Should Recover $32.4 Million in Grant Funds Awarded to Riverside General Hospital, Houston, Texas	$32.4	$32.4	$32,365,675

Appendix A (continued)
FY 2015 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
54	OIG-15-151-D, 9/30/2015	PA 4086	FEMA Should Recover $2.0 Million in Unneeded Funds and Disallow $1.2 Million of $7 Million in Grant Funds Awarded to Spring Lake, New Jersey, for Hurricane Sandy	$7.0	$6.2	$2,906,841
55	OIG-15-152-D, 9/30/2015	PA 4101	Mount Carmel Baptist Church in Hattiesburg, Mississippi, Needs Assistance to Ensure Compliance with FEMA Public Assistance Grant Requirements	$13.2	$13.2	$13,226,700

FY 2015 OIG Disaster Grant and Subgrant Reports Summarized by Type of Grant

Type of Grant	Number of Audits	Number of Disasters	Amount Awarded (billions)	Amount Audited (billions)	Potential Monetary Benefit
PA	53	46	$2.61	$1.38	$ 1,642,588,232
HMGP	2	3[18]	0.20	0.17	91,718,915
Totals	**55**	**49**	**$2.81**	**$1.55**	**$1,734,307,147**

Copies of the audit reports we issued in FY 2015 are available at the following web address:

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

[18] Declared Disaster 1603 is included in the PA total and is not duplicated in the HMGP total.

Appendix B
FY 2015 OIG Disaster Program Audit Reports

	Report Number	Disaster Number	Date Issued	Title
Initial Disaster Deployments				
1	OIG-15-92-D	4193	5/13/2015	FEMA Provided an Effective Response to the NAPA, California, Earthquake
2	OIG-15-102-D	4168	6/10/2015	FEMA's Initial Response to the 2014 Mudslide near OSO, Washington
3	OIG-15-105-D	4195	6/17/2015	FEMA's Initial Response to Severe Storms and Flooding in Michigan
Issues Identified During Deployments				
4	OIG-15-145-D	4210	9/15/2015	OIG Deployment Activities at FEMA's Joint Field Office in Charleston, West Virginia – Yeager Airport
Other				
5	OIG-15-06-D	NA	10/30/2014	FEMA Needs to Track Performance Data and Develop Policies, Procedures, and Performance Measures for Long Term Recovery Offices
6	OIG-15-100-D	NA	6/8/2015	Audit Tips for Managing Disaster Related Project Costs
7	OIG-15-128-D	NA	8/30/2015	FEMA's Process for Selecting Joint Field Offices Needs Improvement
8	OIG-15-146-D	NA	9/15/2015	Summary and Key Findings of Fiscal Year 2014 FEMA Disaster Grant and Program Audits

Appendix C
FEMA's Comments

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

Homeland Security

September 16, 2016

MEMORANDUM FOR: Thomas M. Salmon
Assistant Inspector General
Office of Emergency Management Oversight

FROM: David Bibo
Associate Administrator (Acting)
Office of Policy and Program Analysis
Federal Emergency Management Agency

SUBJECT: Management's Response to OIG Draft Report: "Summary and Key Findings of Fiscal Year 2015 FEMA Disaster Grant and Program Audits"
(Project No. G-16-027-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.

The Agency is pleased to note OIG's positive recognition of FEMA's many Fiscal Year (FY) 2015 accomplishments, including its closure of 128 of 154 OIG recommendations related to improving Agency programs, policies, technology, and practices. However, FEMA has serious concerns with the Report's presentation of the Potential Monetary Benefit (PMB) of the OIG's findings. In consecutive FY Summary and Key Finding Reports, the OIG's methodology for calculating PMB, as well as the criteria defining it, has changed and included findings we believe to be inaccurate and skewed by one audit report. FEMA believes this could mislead the public to conclude that FEMA is not exercising appropriate stewardship over grant funds.

FEMA's serious concerns with the portrayal of information related to PMB in this year's Report are twofold. First, in Table 1, the OIG depicts the "Percentage of Potential Monetary Benefit to Amount Audited" in FY 2015 to be 112 percent and then compares it to figures ranging from 13 to 28 percent for the preceding five fiscal years. This Table appears to convey an "apples to apples" comparison while also demonstrating a significant one year increase in PMB. Such a conclusion would be incorrect in both regards because, as noted later in the Report, OIG changed its FY 2015 methodology for calculating PMB to include potential cost savings for *future disasters*. Second, this depiction of an increasing PMB problem is also skewed by and based upon the Report's reliance on a single FY 2015 audit,[i] an audit that projected $961.3 million of potential cost savings for *future disasters.*[ii] This single projection was based upon flawed assumptions[iii] and subsequently disproved through FEMA's corrective action process.[iv] Instead of setting aside the PMB figure associated with this one audit and adopting FEMA's factually accurate assessment, which demonstrated at most $11.9 million[v] of potential cost savings rather than the $961.3 million OIG estimated, this Report continues to include an incorrect amount within its FY 2015 PMB calculation. The Report's comparison of this inaccurate and inflated FY 2015 PMB figure to past years, which were based on a different and less speculative methodology for assessment, further compounds this error and potentially could lead to false conclusions. Chart 1 below depicts a more accurate portrayal of actual PMB at the time of each Report's publication.

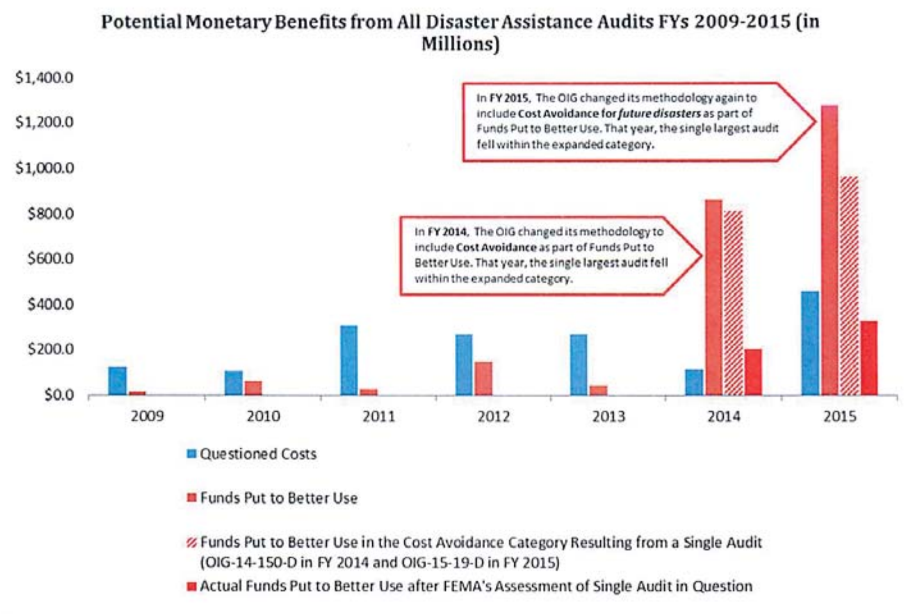


Chart 1: Potential Monetary Benefits from All Disaster Assistance Audits FYs 2009-2015 reflecting FEMA's assessment.

FEMA is hopeful that OIG's unwillingness to address these issues, which were raised during the Exit Conference, in Corrective Action Plan Updates, and through submission of Technical Comments for this Report, will not overshadow the many positive actions the Agency has taken over the past fiscal year to improve its processes and business practices. Such efforts include, but are not limited to, FEMA's:

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- Ongoing development and execution of a new Public Assistance delivery model, which will streamline this grant process and help communities recover faster following a disaster.
- Launching of the Grants Management Modernization initiative, a Congressionally-approved, multi-million dollar and multi-year effort to consolidate technology systems to increase efficiency and effectiveness across all grant programs.
- Publication of FP206-086-1, *Public Assistance Policy on Insurance* (June 29, 2015) to ensure the consistent understanding and application of insurance requirements.

These endeavors will enable FEMA to remain survivor-centric in mission and delivery, improve efficiency and fiscal stewardship, and be better positioned to respond to catastrophic disasters in the future.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact Gary McKeon, Director Audit Liaison Office at 202-646-1308 if you have any questions. We look forward to working with you in the future.

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[i] A similar negative comparative trend is reflected in Figure 1, which also depicts a FY 2014 Capping Report finding that was largely skewed by one $812 million Hazard Mitigation Grant Program audit finding. U.S. DEP'T OF HOMELAND SEC. OFFICE OF INSPECTOR GEN. (OIG), 15-146-D, *Summary and Key Findings of Fiscal Year 2014 FEMA Disaster Grant and Program Audits* (2015) (referencing U.S. DEP'T OF HOMELAND SEC. OFFICE OF INSPECTOR GEN. (OIG), 14-150-D, *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* (2014)). Of note, FEMA had obligated 81 percent of $812 million of unobligated funds associated with that FY2014 HMGP audit recommendation prior to OIG's publication of its *Summary and Key Findings of Fiscal Year 2014 FEMA Disaster Grant and Program Audits* report.

[ii] In the OIG's audit report OIG-15-19-D *FEMA Insurance Reviews of Applicants Receiving Public Assistance Grant Funds for 2004 and 2005 Florida Hurricanes Were Not Adequate,* (2014), the OIG found that for 32 of the 78 projects it reviewed, FEMA's insurance specialists waived the requirement to obtain and maintain insurance for future disasters. The OIG included $961,230,799 within the cost savings for future disasters component of the $1.14 billion Potential Monetary Benefit figure it assigned to this audit.

[iii] *Id.* Contrary to typical risk management practices a reasonable local government would follow, in calculating PMB for this audit, the OIG assumed that 100 percent of the applicants at issue would not obtain or maintain insurance coverage to protect their assets in future disasters. Further, it appears OIG assumed that all of the facilities damaged were insurable. Such an assumption would be incorrect as a significant portion of the Permanent Work that the OIG questioned pertains to facilities that fall under Categories C (Roads and Bridges), D (Water Control Facilities), most of F (Utilities) and most of G (Parks, Recreational Facilities, and Other Items), are generally not considered insurable under the general/standard policy, and thus are not subject to an obtain and maintain insurance requirement.

[iv] Corrective Action Plan Update for Audit Report OIG-15-19-D, FEMA Region IV (Aug. 16, 2016) ("89% (or 1,088 of 1,220) of the total unique [a]pplicants for the 2004-2005 events in fact obtained and maintained insurance" for approximately $1,437,820,717.28 of permanent work").

[v] *Id.* ("The remaining 132 [total unique applicants for the 2004-2005 events] are still under FEMA review…These applicants have $86,099,809.43 in permanent work funding of which only $11,944,819.58 has been identified as Category E (Buildings and Equipment) work…").

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Appendix D
Objectives, Scope, and Methodology

The objectives of this audit were to (1) compile and summarize 63 disaster-related audit reports OIG issued in FY 2015, (2) analyze frequently reported audit findings in those reports, and (3) quantify the financial significance of those findings. The 63 FY 2015 reports included 55 grant audit reports and 8 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 Hazard Mitigation Grant Program audits also included objectives to determine whether the projects met FEMA eligibility requirements and whether project management complied with applicable regulations and guidelines. The eight program audits each had unique objectives and scopes.

The scope of this audit covered 63 disaster-related audit reports OIG issued in FY 2015. The 55 grant audits were of grantees and subgrantees awarded FEMA Public Assistance and Hazard Mitigation Grant Program funds for 49 presidentially declared disasters that occurred between September 1998 and August 2014 in 23 states, and 1 U.S. Territory. The grantee and subgrantees we audited received awards totaling $2.81 billion for debris removal; emergency protective measures; or permanent repair, restoration, and replacement of damaged facilities. We audited $1.55 billion of the $2.81 billion, or 55 percent of the amounts FEMA awarded to recipients. Appendix A summarizes the 55 grant audit reports and provides a link to our web page where copies of all OIG reports are available. Appendix B summarizes the eight program audit reports.

To accomplish our objectives, we compiled and summarized 63 disaster assistance reports issued in FY 2015; 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; quantified the actual monetary benefits from audit recommendations that were closed from our 63 FY 2015 grant audit reports as of June 1, 2016, and from open recommendations that were closed during FY 2015 from audit reports issued in FYs 2010 to 2014; updated the number of closed recommendations as of September 27, 2016; reviewed applicable Federal laws, regulations, Office of Management and Budget grant and audit guidance, and FEMA Public Assistance and Hazard Mitigation Grant Program guidance applicable to the conditions we noted in reports; and performed other procedures we considered necessary to

Appendix D (continued)

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.

We conducted this performance audit between November 2015 and June 2016 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 63 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.

Appendix E
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