

**Summary and Key Findings
of Fiscal Year 2016
FEMA Disaster Grant
and Program Audits**





DHS OIG HIGHLIGHTS

Summary and Key Findings of Fiscal Year 2016 FEMA Disaster Grant and Program Audits

October 27, 2017

Why We Did This Report

This is our eighth 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 and systemic 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

The Federal Emergency Management Agency (FEMA) does not manage disaster relief grants and funds adequately and does not hold grant recipients accountable for properly managing disaster relief funds. We continue to identify persistent problems such as improper contract costs, and ineligible and unsupported expenditures as examples of this continued failure. In fiscal year 2016, we found \$155.6 million, or 23 percent, in questioned costs out of the \$686 million that we audited, which we recommended FEMA disallow as ineligible and unsupported costs.

As part of our open recommendation follow-up responsibilities, we determined that as of April 8, 2017, FEMA allowed \$85.7 million of the \$155.6 million in costs that we questioned. Further, FEMA continues to not hold grant recipients accountable for failing to provide adequate monitoring or technical assistance to subgrantees. In FY 2016, 29 of our grant audit reports contained recommendations addressing the lack of adequate oversight on the part of grant recipients.

In FY 2016, we issued reports on 58 audits of FEMA grants, programs, and operations involving 46 grant audits and 12 program audits. Our balanced audit approach, including proactive audits, continues to produce a significant number of recommendations that put funds to better use before problems occur. Our recommendations, when implemented, contain nearly \$316 million in potential monetary benefits, including potential cost avoidances in future disasters.

FEMA Response

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



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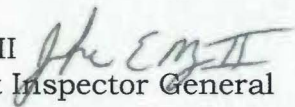
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MEMORANDUM FOR: Corey Gruber
Acting Associate Administrator
Office of Response and Recovery
Federal Emergency Management Agency

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

FROM: John E. McCoy II 
Acting Assistant Inspector General
Office of Audits

SUBJECT: *Summary and Key Findings of Fiscal Year 2016
FEMA Disaster Grant and Program Audits*

This report summarizes the results of audit reports we issued in fiscal year 2016 on Federal Emergency Management Agency (FEMA) grants, programs, and other operations funded from the Disaster Relief Fund. We issued 46 grant and 12 program audit reports in FY 2016.

Background

Each year, our audit reports identify significant issues involving 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 FEMA's Public Assistance (PA) program and Hazard Mitigation Grant Program grants funded by the Disaster Relief Fund.¹ Under the Public Assistance program, FEMA 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

¹ The Disaster Relief Fund 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 Disaster Relief Fund, 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. As reported by FEMA, the Disaster Relief Fund had a balance of \$6.4 billion as of December 31, 2016.



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major disasters. FEMA's Hazard Mitigation Grant Program provides funding to implement long-term measures to prevent damages from future disasters.

Our annual summary is a consolidation of our findings and recommendations to highlight significant and systemic issues of noncompliance and program inefficiencies that warrant FEMA management's attention. Although the report contains no recommendations, it does provide FEMA an opportunity to assess the need for changes based on the recurring nature of our findings. The report also emphasizes the total resulting potential monetary benefits of our recommendations. In the last 8 fiscal years, we audited grant funds totaling \$11.59 billion and reported potential monetary benefits of \$4.39 billion.

Results of Review

FEMA did not manage disaster relief grants and funds adequately and did not hold grant recipients accountable for properly managing disaster relief funds. We continue to identify persistent problems such as improper contract costs, and ineligible and unsupported expenditures as examples of this continued failure. Over the 7-year period, FYs 2009 to 2015, we found \$1.64 billion, or 15 percent, in questioned costs out of the \$10.9 billion that we audited, which we recommended FEMA disallow as ineligible and unsupported costs. In FY 2016, we found \$155.6 million², or 23 percent, in questioned costs out of the \$686 million that we audited, confirming that FEMA is not making progress managing disaster relief funds adequately (see table 1). During FYs 2009 to 2016, the average amount budgeted for the disaster relief fund exceeded more than \$10 billion per year, with FEMA grants comprising a large portion of that amount. Given that we continue to identify persistent problems throughout FEMA's grant process, we are concerned that billions of tax payer dollars remain at risk.

² This amount included \$149.2 million in questioned costs resulting from our 46 grant audits and \$6.4 million from one program audit, *FEMA Has No Assurance that Only Designated Recipients Received \$6.37 Million in Fuel*, OIG-16-04-D.



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Table 1: Questioned Costs from FYs 2009–2016 Audits

Fiscal Year	Amount Audited (billions)	Questioned Costs (millions)	Percentage of Questioned Costs to Amount Audited (millions)
2009	\$0.93	\$123	13%
2010	\$1.23	\$104	8%
2011	\$1.22	\$308	25%
2012	\$1.25	\$268	21%
2013	\$1.28	\$266	21%
2014	\$3.44	\$112	3%
2015	\$1.55	\$457	29%
2016	<u>\$0.69</u>	<u>\$156</u>	<u>23%</u>
Totals	<u>\$11.59</u>	<u>\$1,794</u>	<u>15%</u>

Source: Office of Inspector General (OIG) compilation and analysis of issued reports³

FEMA Does Not Hold Grant Recipients Accountable

FEMA still does not hold grant recipients accountable for properly managing disaster relief funds. During FY 2016, we recommended that FEMA disallow \$86.2 million in disaster-related costs due to noncompliance with Federal procurement regulations. We found instances where subgrantees did not allow for full and open competition; provide opportunities for disadvantaged firms (e.g., small, minority- and women-owned businesses) to bid on federally funded work; and used prohibited, cost inflationary contracts, such as those based on cost-plus-a-percentage-of-cost. As of April 8, 2017, FEMA officials determined that \$82.6 million, or 96 percent, of those costs could be reimbursed (see table 3). FEMA has the ability to hold grantees and subgrantees responsible, by not reimbursing questioned costs. However, in a vast number of instances, FEMA reimburses grantees and subgrantees notwithstanding an audit finding of unsupported or improper expenditures. In fact, from October 1, 2008 to September 30, 2016, our audits questioned \$549.1 million in Public Assistance grant costs for noncompliance with procurement regulations. FEMA officials subsequently ruled that \$507.0 million, or 92.3 percent, of those costs could be reimbursed.⁴

³ The source of information for all the tables in this report is the same; therefore, we cite the source only once.

⁴ The \$549.1 million does not include \$50.9 million of questioned costs that remain open and unresolved.



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Further, FEMA continues to remain ineffective at holding grant recipients accountable for adequately monitoring or providing technical assistance to subgrantees. 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). In FY 2016, 29 of our 46 grant audit reports contained recommendations addressing the lack of adequate oversight on the part of grant recipients to manage disaster relief grants and funds. This is the sixth consecutive year that we are reporting that many of our findings indicate that states, which are required to provide oversight of grant funds and subgrant activities, are not doing an adequate job of educating subgrantees and enforcing Federal regulations through effective and vigilant monitoring.

In FY 2016, we issued 58 audit reports on FEMA grants, programs, and operations funded from the Disaster Relief Fund. Our audit reports contained 128 recommendations and included \$315.8 million in potential monetary benefits. Our balanced approach, including proactive audits, continued to produce significant numbers of recommendations that prevent problems before they happen, rather than reporting problems after the money has already been spent. FY 2016's \$315.8 million of potential monetary benefits includes \$160.2 million in funds that FEMA could put to better use and \$155.6 million in costs we recommended FEMA disallow. Table 2 shows the monetary outcome of our FY 2016 closed audit report recommendations as of April 8, 2017.⁵

**Table 2: Monetary Outcome of FY 2016 Audit Report Recommendations
As of April 8, 2017**

Outcome	Amount
Questioned Costs Disallowed	\$ 15,937,602
Questioned Costs Allowed by FEMA	85,702,448
Cost Avoidances	160,207,387
Open Recommendations ⁶	<u>53,971,244</u>
Potential Monetary Benefits Reported for FY 2016	<u>\$315,818,681</u>

In 2016, we also conducted three audits assessing FEMA's initial response to major disasters. We concluded that FEMA's initial responses to these disasters were effective. However, FEMA's management responsibility merely begins with the initial disaster response. As already mentioned, FEMA still does not

⁵ Appendix A lists the status of questioned costs by FEMA region and state.

⁶ The \$53,971,244 in open recommendations consisted of \$53,479,571 in ineligible work or costs and \$491,673 in unsupported costs.



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sufficiently hold grant recipients accountable for improperly spending disaster relief funds.

**FEMA’s Continued Failure to Adequately Manage
Disaster Relief Grants and Funds**

We continue to find FEMA’s management of disaster relief grants and funds inadequate. Persistent problems such as improper contract costs and ineligible and unsupported expenditures are examples of this continued failure. In FY 2016, we found \$155.6 million, or 23 percent, in questioned costs out of the \$686 million in disaster relief funds we audited.

Additionally, FEMA still does not hold recipients accountable for properly managing disaster relief funds. As table 3 illustrates, as of April 8, 2017, FEMA allowed \$85.7 million of the \$155.6 million in ineligible and unsupported costs that we recommended FEMA disallow. Questioned costs totaling \$54.0 million remained open.

Table 3: Recommendations with Questioned Costs

Recommendations		Status of Recommendations As of April 8, 2017		
		Open (\$M)	Allowed ⁷ (\$M)	Disallowed (\$M)
Functional Areas Addressed by Recommendations	Amounts Questioned (\$M)			
Contract costs not in compliance with Federal procurement standards	\$86.2	\$3.6	\$82.6	\$0.0
Unauthorized project	\$47.3	\$47.3	\$0.0	\$0.0
Ineligible and unsupported costs	\$8.5	\$0.5	\$1.3	\$6.7
Duplicate benefits claimed by subgrantees	\$7.3	\$1.5	\$0.6	\$5.2
Lack of credible evidence to determine applicant’s eligibility	\$2.9	\$1.1	\$0.8	\$1.0
Unreasonable costs and credits	\$2.8	\$0.0	\$0.0	\$2.8
Miscellaneous recommendations	\$0.6	\$0.0	\$0.4	\$0.2
Totals	\$155.6	\$54.0	\$85.7	\$15.9

Of the \$85.7 million in ineligible and unsupported costs that FEMA allowed, \$82.6 million pertained to FY 2016 contract costs we recommended for disallowance for noncompliance with Federal procurement regulations. We

⁷ Of the \$85.7 million in FEMA allowed costs, \$82.6 million pertained to contract costs not in compliance with procurement standards; \$3.1 million pertained to allowed costs in other functional areas.



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found instances where subgrantees did not allow for full and open competition; provide opportunities for disadvantaged firms (e.g., small, minority- and women-owned businesses) to bid on federally funded work; and used prohibited, cost-inflationary contracts, such as those based on cost-plus-a-percentage-of-cost.

Although FEMA has the regulatory authority to enforce grant compliance under 44 Code of Federal Regulations (CFR) 13.43 and 2 CFR 215.6.2 by disallowing all or part of costs not in compliance, FEMA has limited authority to grant exceptions on a case-by-case basis under 44 CFR 13.6(c). FEMA's allowance of nearly all procurement costs we questioned for noncompliance with procurement requirements, in effect, constitutes an exception to an entire class of grants—an express power of the U.S. Office of Management and Budget, not FEMA, per 44 CFR 13.6(b).⁸

Further, FEMA continues to remain ineffective at holding grant recipients accountable for failing to provide adequate monitoring or technical assistance to subgrantees. 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). In FY 2016, 29 of our grant audit reports contained a total of 54 recommendations pertaining to the lack of adequate oversight on the part of grant recipients. Although FEMA has been prompt at taking action to address 49 of the 54 recommendations, FEMA's past history in addressing these recommendations provides little assurance that these problems will not be routinely identified in future audits.⁹

As table 4 illustrates, as of April 8, 2017, FEMA addressed 14 of our 15 recommendations directed at putting funds to better use. Twelve of the recommendations addressed specific instances where the states, as grantees, failed to properly monitor or provide technical assistance to subgrantees to ensure disaster assistance funds are properly used and managed.

⁸ Report OIG-16-126-D, *FEMA Can Do More to Improve Public Assistance Grantees' and Subgrantees' Compliance with Federal Procurement Rules*, September 2, 2016, addresses problems with FEMA's enforcement of subgrantees' compliance with Federal procurement requirements. This report is summarized on page 22 in the *Program Audits* section of this report.

⁹ The 54 recommendations consisted of 42 that directed grant recipients to provide various forms of assistance to subgrantees. Another 12 recommendations addressed specific instances where the states failed to properly monitor subgrantees to ensure disaster assistance funds were properly managed.



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Table 4: Recommendations Putting Funds to Better Use

Functional Areas Addressed by Recommendations	Number of Recommendations	Funds Put to Better Use	Status	
			Open	Closed
Grantees need to monitor subgrantees' procurement procedures	11	\$ 119,073,190		11
Take actions to protect against improper use of Disaster Relief funds	1	\$29,888,707	1	
Grantee needs to provide the subgrantee with technical assistance to ensure compliance with Federal regulations	1	\$10,360,695		1
Deobligate unneeded Federal funding	2	\$884,795		2
Totals	15	\$160,207,387	1	14

Additionally, FEMA addressed 37 of our 44 recommendations pertaining to grant management and administrative issues. Of the 44 recommendations, 42 directed grant recipients to provide various forms of assistance to ensure subgrantees properly manage disaster relief grants and funds.

Public Assistance and Hazard Mitigation Grant Audits

We continue to find problems with grant management, ineligible and unsupported costs, and noncompliance with Federal contracting requirements. In FY 2016, we issued 46 grant audits that contained 106 recommendations, resulting in \$309.4 million of potential monetary benefits.¹⁰ This amount included \$160.2 million that we recommended FEMA put to better use. It also included \$149.2 million in questioned costs that we recommended FEMA disallow as ineligible or unsupported.

In addition to FEMA, the states as the grantee are responsible for the day-to-day management of Public Assistance and Hazard Mitigation Grant Program grants and can have a major impact on preventing misuse of funds. Although FEMA reimburses the states to administer and oversee their disaster funds, we continued to identify problems with grantee oversight and day-to-day monitoring of Public Assistance and Hazard Mitigation Grant Program grants and funds. Improved grantee oversight is necessary to increase compliance with Federal regulations and decrease ineligible costs. In addition, better grant administration will help grantees more quickly identify unneeded and unused funding.

¹⁰ Eleven FY 2016 grant audit reports had no findings or reportable conditions.
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Table 5 categorizes our audit findings and the 106 recommendations into four broad types.

Table 5: 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	\$160,207,387
B. Ineligible Work or Costs ¹¹	33	147,155,715
C. Unsupported Costs	14	2,084,770
D. Grant Management and Administrative Issues	44	0
Totals	<u>106</u>	<u>\$309,447,872</u>

A. Funds Put to Better Use

The term “recommendation that funds be put to better use” means a recommendation that funds could be used more efficiently if management took corrective actions including reducing outlays, deobligating funds from programs or operations, implementing future cost avoidances through improvements related to programs or operations, and avoiding unnecessary expenditures noted in reviews of contracts or grant agreements.¹² As table 6 illustrates, we reported 12 instances of potential cost avoidances totaling \$129.4 million. We also reported three other instances where unused funds were at risk or subgrantees no longer needed obligated funding. For these three instances, we recommended that FEMA deobligate \$29.9 million in unused funds at risk for fraud, waste, and abuse and \$884,795 in unneeded funds.

Table 6: 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	12	\$ 129,433,885
2. Unused Funds at Risk	1	29,888,707
3. Unneeded Obligated Funds	<u>2</u>	<u>884,795</u>
Totals	<u>15</u>	<u>\$ 160,207,387</u>

¹¹ Ineligible work or costs includes \$432,000 from three audits that described the costs as ineligible but for reporting purposes were classified as funds put to better use because FEMA funding had not yet been obligated.

¹² *Inspector General Act of 1978*, as amended, section 5(f)(4).



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1. Cost Avoidance. We identified 12 instances of potential cost avoidance totaling \$129.4 million. In most of the instances totaling \$119.1 million, subgrantees did not have adequate procurement practices in place for awarding disaster-related contracts. For example, the City of Longmont, Colorado, did not have policies and procedures requiring it to take, at minimum, the six affirmative steps that 44 CFR 13.36(e) requires to assure the use of disadvantaged firms when possible. At the time of our audit, the City awarded \$13.8 million of the \$54 million FEMA obligated for the City's estimated contract costs. We did not question the contract costs the City had already awarded because it was using an electronic procurement solicitation system that provided notice to minority- and women-owned businesses. However, the system only partially satisfied one of the six affirmative steps intended to assure that the city would provide disadvantaged firms sufficient opportunities to bid on federally funded work as Congress intended. As a result of our audit, the City revised its policies and procedures to take all of the required six affirmative steps, thereby providing small, minority- and women-owned businesses, and labor surplus area firms sufficient opportunities to bid on federally funded work. Compliance with its new procedures should assist the City from improperly spending the remaining \$40.2 million FEMA awarded for contract costs. *Longmont and Colorado Officials Should Continue to Improve Management of \$55.1 Million FEMA Grant*, OIG-16-21-D.¹³

In another instance, the Town of Jamestown, Colorado lacked personnel with the necessary financial expertise to implement policies and procedures for managing its \$10.4 million FEMA grant award. The *Standards for Financial Management Systems* at 44 CFR 13.20(b) require, in part, that subgrantees maintain a financial management system to ensure reported costs are accurate, current, and complete; and maintain effective control of and accountability for subgrant assets. We found that the Town did not review about \$4.5 million of invoices for contract work the County incurred for debris removal and disaster-related repairs throughout the Town. We recommended that FEMA direct Colorado, as grantee, to provide the Town with technical assistance it may need to ensure compliance with Federal regulations for maintaining a financial management system, to avoid improperly spending the \$10.4 million that FEMA approved for disaster-related repairs. *Jamestown, Colorado, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its \$10.4 Million FEMA Grant*, OIG-16-35-D.

¹³ Appendix B lists the report number, disaster number, date issued, and title for each of the 46 grant reports we discuss in this report.



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2. Unused Funds at Risk. We reported one instance of unused funds at risk totaling \$29.9 million related to mismanagement of Hazard Mitigation Grant Program funds. FEMA obligated the funds for Mississippi's Coastal Retrofit Program following Hurricane Katrina. The goal of the Program was to help an estimated 2,000 homeowners strengthen their homes against wind damages in future disasters. Mississippi allowed one employee complete authority over the Program. According to Mississippi officials, the employee approved and influenced other State employees to process \$31.5 million in payments—\$1.6 million more than the entire \$29.9 million grant—using state funds for 945 of the estimated 2,000 homes within the project's scope. Mississippi contended that it completed work on the 945 homes and paid contractors \$31.5 million for that work, but did not provide substantial evidence to justify the increase in costs.

Mississippi only requested approximately \$958,000 in FEMA reimbursement because the employee did not allow a contracted accounting firm to reconcile payments of \$30.5 million to supporting invoices. Since the beginning of our audit in October 2015, we requested documentation to support the \$31.5 million Mississippi contends it spent on the Program. As of August 2016, we have only received documentation supporting the \$958,000 that Mississippi originally requested in FEMA reimbursement. Mississippi provided a spreadsheet detailing Program costs and stated that it is attempting to locate and assemble proper supporting documentation. According to 2 CFR Part 225, Appendix A, Section (C)(1)(j), to be allowable under Federal awards, costs must be adequately documented. We recommended that FEMA require Mississippi to 1) either deobligate or suspend all payments on the \$29.9 million from the Mississippi Coastal Retrofit Program, to ensure Mississippi cannot draw down Federal funds for the project until Mississippi can provide adequate documentation for all funds expended; and 2) provide a reasonable explanation of why less than half of the 2,000 homes have been retrofitted, while Mississippi contends it has spent more than the total \$29.9 million FEMA approved for the project. We also referred this matter to our OIG Office of Investigations. An investigation is currently ongoing. *FEMA Should Suspend All Grant Payments on the \$29.9 Million Coastal Retrofit Program Until Mississippi Can Properly Account for Federal Funds*, OIG-16-115-D.

3. Unneeded Obligated Funds. We reported two instances totaling \$884,795 for unneeded obligated funds. Federal appropriations law requires Federal agencies to deobligate funds when they are no longer needed or exceeded



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amounts obligated for a project.¹⁴ For example, we recommended that FEMA deobligate and put to better use \$791,175 in unneeded funds provided to the town of North Hempstead, New York. The Town completed authorized work on one project for \$791,175 less than the almost \$3.0 million FEMA estimated for the project. As a result of our audit recommendation, FEMA informed us in its formal comments to the report that it deobligated the \$791,175. *FEMA Should Recover \$9.9 Million of \$36.6 Million Awarded to the Town of North Hempstead, New York, for Hurricane Sandy Damages*, OIG-16-140-D.

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
- ensure better accountability over disaster assistance funds.

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

B. Ineligible Work or Costs

As table 7 illustrates, we reported 33 instances where we questioned \$147.1 million in costs as ineligible for FEMA reimbursement.

Table 7: Ineligible Work or Costs by Subtype

Subtypes of Ineligible Work or Costs	Number of Resulting Recommendations	Amounts
1. Contracting Practices	11	\$ 86,182,478
2. Unauthorized Project	1	47,299,126
3. Other Ineligible Work/Costs	<u>21</u>	<u>13,674,111</u>
Totals	<u>33</u>	<u>\$147,155,715</u>

¹⁴ For example, U.S. Government Accountability Office (GAO), B-286929, *Continued Availability of Expired Appropriation for Additional Project Phases* (2001); U.S. GAO, 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 U.S. GAO, B-321297, *Office of Natural Resources Revenue—Cooperative Agreements* (2011).



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1. Contracting Practices. We reported 11 instances totaling \$86.2 million where subgrantees did not comply with Federal procurement regulations for contracts. Noncompliance with Federal procurement regulations results in higher-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, minority- and women-owned businesses. 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.

For example, Cimarron Electric Cooperative in Kingfisher, Oklahoma, did not follow Federal procurement standards in awarding seven disaster-related contracts totaling \$52.2 million. We questioned all of the contract costs as ineligible except for nearly \$1 million Cimarron spent for exigent contract work to restore power to its customers. After restoring power, Cimarron continued to use noncompetitive contracts for work estimated to total \$51.2 million. Additionally, Cimarron did not take the required affirmative steps to ensure the use of small, minority- and women-owned businesses, and labor surplus area firms when possible. Federal procurement standards at 2 CFR Part 215 require that subgrantees perform procurement transactions in a manner to provide, to the maximum extent practical, open and free competition (2 CFR 215.43); and make positive efforts by taking specific steps to ensure the use of small, minority- and women-owned businesses, and labor surplus area firms when possible (2 CFR 215.44(b)). *FEMA Should Recover \$51.2 Million in Grant Funds Awarded to Cimarron Electric Cooperative, Kingfisher, Oklahoma, OIG-16-97-D.*

2. Unauthorized Project. We reported one instance involving an unauthorized project costing \$47.3 million. FEMA awarded the City of Louisville, Mississippi, \$47.3 million for a City-owned plywood facility destroyed by a tornado. FEMA approved the City's request to replace, rather than repair, its plywood factory to pre-disaster function, design, and capacity.¹⁵ Subsequently, the City chose to participate in the Public Assistance Alternate Procedures Pilot (PAAP) Program and use the eligible funds toward an alternate project.¹⁶ The PAAP Program allows consolidating facilities into a single project with no requirement to build to pre-disaster function, design, or capacity. Accordingly, the City submitted its request for a

¹⁵ 44 CFR 206.226(f) allows replacement of a facility if the cost to repair it exceeds 50 percent of the cost to replace it.

¹⁶ *The Sandy Recovery Improvement Act of 2013* (Public Law 113-2), amends Title IV of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (42 United States Code 5121 et seq.) (*Stafford Act*). Specifically, the law authorizes alternative procedures for the Public Assistance Program under sections 403(a)(3)(A), 406, 407 and 502(a)(5) of the *Stafford Act*.



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consolidated fixed estimate subgrant to FEMA and its proposed scope of work to redesign the new plywood facility.

FEMA approved the request and the City began work on the new plywood facility. However, FEMA neglected to prepare a project worksheet for the new scope of work. As a result, the project remained unauthorized and may not have complied with Federal environmental and historic preservation laws, which placed the City's Federal funding in jeopardy. About a month after we discussed these issues with FEMA officials, they approved the project's new scope of work contingent on the completion of the required environmental and historic preservation review. Until FEMA completes this Federal requirement, the project remains unauthorized and ineligible for \$47.3 million in disaster assistance funding. *FEMA Improperly Awarded \$47.3 Million to the City of Louisville, Mississippi*, OIG-16-119-D.

3. **Other Ineligible Work or Costs.** Table 8 lists other ineligible work or costs we questioned in FY 2016. Duplicate benefits, eligibility status, and excessive costs were the top three subtypes of other ineligible work or costs we questioned.

Table 8: Other Ineligible Work or Costs

Other Ineligible Work or Costs	Number of Resulting Recommendations	Amounts Questioned in Our Reports
Duplicate Benefits	9	\$ 7,334,871
Eligibility Status	1	2,914,357
Excessive Costs	5	2,836,273
Miscellaneous ineligible costs	<u>6</u>	<u>588,610</u>
Totals	<u>21</u>	<u>\$ 13,674,111</u>

We identified nine instances where subgrantees claimed \$7.3 million in project costs that duplicated benefits the subgrantees received from other forms of assistance. Section 312 of the *Stafford Act* 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 our report, *FEMA Should Recover \$9.9 Million of \$36.6 Million Awarded to the Town of North Hempstead, New York, for Hurricane Sandy Damages*, OIG-16-140-D, the Town of North Hempstead, New York, claimed \$3.2 million in duplicate costs for payments it made to three contractors to dispose of debris that other entities had brought to the town's landfill. However, the Town had already collected income for debris disposal from those entities when it accepted the debris at its landfill. In another report, the City of Louisville, Mississippi, advised FEMA that it had received \$1.5 million in funding from other Federal sources related to the City-owned plywood facility



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that had been destroyed by a tornado. However, FEMA did not reduce otherwise eligible costs by the \$1.5 million, which resulted in a potential duplication of benefits. *FEMA Should Recover \$25.4 Million in Grant Funds Awarded to Louisville, Mississippi, for an April 2014 Disaster*, OIG-16-143-D.

We also reported one instance where FEMA failed to properly validate an applicant's eligibility status for disaster funds estimated at \$3.5 million. In our report, *FEMA Should Recover \$3.4 Million of the \$3.5 Million Awarded to Hope Academy for Hurricane Katrina Damages*, OIG-16-135-D, FEMA determined that Hope Academy in D'Iberville, Mississippi, was eligible for Public Assistance as a private non-profit learning facility.¹⁷ Although Hope lost a 5,770 square-foot building situated on 0.66 acres of land, FEMA ultimately approved a new 13,319 square-foot building on 15.9 acres of land based almost completely on Hope's word that it serviced 90 students in grades K-12. Because Hope could not provide adequate documentation to support the number of students and grade levels it serviced, we recommended that FEMA disallow as *ineligible* building, site work, and land acquisition costs totaling \$2.9 million. We also questioned as *unsupported* \$491,673 that FEMA approved to replace building contents (see report section C, paragraph 2 that follows for additional details regarding the \$491,673 we questioned as unsupported).

We also reported five instances totaling \$2.8 million where subgrantees claimed excessive costs. For example, Nashville-Davidson County, Tennessee, claimed more than \$2.0 million of unreasonable costs for police vehicle costs. According to 2 CFR 225, Appendix A, section C(1)(a), costs must be reasonable to be allowable under a Federal award. Section C(2) defines a reasonable cost as one that, in nature and amount, does not exceed that which a prudent person would incur under the circumstances prevailing at the time. According to the *FEMA Schedule of Equipment Rates*, FEMA reimburses police vehicles used in patrolling activities at \$0.63 per mile and at \$18.00 per hour when used as barricades (stationary with engine running). Although the County used the police vehicles for patrolling activities, it calculated the cost at the \$18.00 hourly rate, which resulted in excessive or unreasonable costs. Using vehicles the County claimed for patrolling activities, we estimated that the County's claim for police vehicle use should have been \$2.0 million less than the \$4.0 million amount it claimed. Therefore, we questioned \$2.0 million as unreasonable. *FEMA Should Recover \$2.2 Million of \$27.2 Million in Public Assistance Grant Funds Awarded to Nashville-Davidson County, Tennessee, for May 2010 Flood Emergency Work*, OIG-16-112-D.

¹⁷FEMA has determined private non-profit organizations that own or operate facilities to provide education and other essential governmental services are eligible for financial assistance.



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C. Unsupported Costs

Our FY 2016 audits reported 14 instances of unsupported costs totaling \$2.1 million. 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.¹⁸ Also, 44 CFR 13.20(b)(6) lists specific examples of documentation — including, but not limited to, canceled checks, paid bills, payrolls, time and attendance records, and contracts — that auditors may accept as adequate to support accounting records.¹⁹

For example, in our report, *FEMA Should Recover \$9.9 Million of \$36.6 Million Awarded to the Town of North Hempstead, New York, for Hurricane Sandy Damages*, OIG-16-140-D, we reported that the Town of North Hempstead, New York, did not provide documentation adequate to support \$557,039 of its own (force account) equipment costs. In another instance, we reported that Hope Academy in D'Iberville, Mississippi, could not provide adequate documentation to support its claim for lost contents as Federal cost principles require. Hope officials alleged that they lost all of their records during Hurricane Katrina. However, they assembled a 15-page list of building contents they recalled losing and requested \$792,972 from FEMA for the lost items. Although Hope officials failed to provide any accounting records or other evidence to prove they owned these items before the disaster, FEMA approved \$491,673 of Hope's \$792,972 claim. Therefore, we questioned \$491,673 as unsupported costs for building contents. *FEMA Should Recover \$3.4 Million of the \$3.5 Million Awarded to Hope Academy for Hurricane Katrina Damages*, OIG-16-135-D.

D. Grant Management and Administrative Issues

Our reports included 44 grant management and administrative recommendations covering contracting practices, project costs and accounting, project management, and insurance recovery. Of the 44 recommendations, 22 addressed specific instances where states needed to inform, monitor, and assist subgrantees to comply with Federal grant requirements and procurement standards. 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

¹⁸ *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)

¹⁹ We cite these regulations as they were in effect at the time of the disaster reviewed in our reports and not generally.



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monitor subgrant activity to ensure compliance with applicable Federal requirements.²⁰

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). For example, the Town of Lyons, Colorado, needed ongoing assistance from Colorado and FEMA to provide reasonable assurance that it properly managed its subgrant activities. Although the Town received a \$36 million Public Assistance grant for damages from a September 2013 flood, it did not have an adequate understanding of Federal regulations and FEMA guidelines governing procurement standards, equipment costs, facility relocation and floodplains, and environmental considerations. We recommended FEMA should direct Colorado to continue to provide technical assistance and frequent monitoring to ensure the Town complies with all applicable Federal grant requirements. *Lyons and Colorado Officials Should Continue to Improve Management of \$36 Million FEMA Grant*, OIG-16-67-D.

We also reported other instances in which grantees needed to —

- take steps to ensure that subgrantees met *Single Audit Act* requirements,
- ensure that cost reimbursement claims were fully documented and eligible in accordance with FEMA guidelines,
- develop policies and procedures related to the duplication of monetary benefits and to ensure that duplicate proceeds are deducted from FEMA project costs, and
- ensure subgrantees provided credible evidence of eligibility for Public Assistance.

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 subgrantees have fiscal controls, accounting procedures, and project administration procedures to 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.

²⁰ 44 CFR 13.37(a)(2) and 44 CFR 13.40(a). We cite these regulations as they were in effect at the time of the disaster reviewed in our reports and not generally.



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Individual Assistance and Other Program Audits

We completed 12 audits not related to specific grants that contained 22 recommendations for improving FEMA programs or operations, and identified \$6.4 million in potential monetary benefits. Two audits involved FEMA's Individual Assistance Program. In three audits, we deployed staff to major disasters to assess FEMA's initial response to disasters. The remaining seven audits covered other FEMA programs or operations.

Individual Assistance Program Audits

FEMA's Individual Assistance Program provides individual and household disaster applicants financial assistance or direct services to help meet sustenance, shelter, and medical needs. Individual Assistance for home repairs is administered under the Individuals and Households Program. In our report, *FEMA Faces Challenges in Verifying Applicants' Insurance Policies for the Individuals and Households Program*, OIG-16-01-D, we reviewed FEMA's process for verifying applicants' insurance policies at the time of registration for the Individuals and Households Program for Hurricane Sandy. Section 408(i) of the *Stafford Act* requires FEMA to develop a verification process for the Individuals and Households Program that includes a database for minimizing risks of making duplicate payments and payments for fraudulent claims.

We found that FEMA did not use a database for verifying applicants' self-certifications. Using the National Insurance Crime Bureau database of private insurance claims, we identified 29,763 records where FEMA paid approximately \$250 million in homeowners' assistance to Hurricane Sandy applicants who made private homeowners' or automobile insurance claims. We reviewed 41 case files and found duplication or improper payments in 13 case files totaling \$187,892. We referred the case files to the FEMA Fraud Prevention and Internal Investigations Division and recommended that FEMA (1) make applicants aware of penalties for false statements, (2) use an insurance database to review high risk cases for possible duplication of benefits and recoup funds that should not have been paid, and (3) research options to use an already established database to determine, at time of application, whether applicants have private insurance coverage.

During our deployment to the 2015 California wildfire disaster, we notified FEMA of an issue that required its immediate attention. We observed that FEMA personnel at Disaster Recovery Centers did not properly safeguard personally identifiable information (PII) as Federal guidelines require. For example, we visited Disaster Recovery Centers in Middletown and San Andreas, California, and observed PII records in open, unsecured cardboard boxes and in file folders sitting on top of tables. The *Privacy Act of 1974* requires agencies



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to implement administrative, physical, and technical safeguards to ensure the security and confidentiality of records. The mishandling of PII increases the risk of identity theft and can result in substantial harm and inconvenience to individuals.

We also determined that some FEMA officials are not fully aware of Federal privacy standards. Moreover, FEMA management and trainers lacked an effective method to track employee compliance with privacy training or to promote privacy awareness at disaster relief sites. According to the DHS Privacy Office, *Guide to Implementing Policy*, Section 3.1 (June 2010), all FEMA staff shall be aware of and comply with the *Privacy Act*. In May 2013, we reported similar deficiencies that resulted in FEMA officials stating they would implement corrective actions, including conducting privacy compliance inspections at all disaster relief sites (*Federal Emergency Management Agency Privacy Stewardship*, OIG-13-87, issued May 1, 2013). We found that FEMA officials at Disaster Recovery Centers for the 2015 California wildfire disaster were not aware of any privacy compliance inspections conducted at this disaster. We recommended that FEMA ensure that disaster assistance personnel are aware of their responsibilities to safeguard PII, and create a system to document and enforce compliance with Federal standards. *FEMA Continues to Experience Challenges in Protecting Personally Identifiable Information at Disaster Recovery Centers*, OIG-16-102-D.

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 mispending disaster assistance funds.

In FY 2016, we completed three audits assessing FEMA's initial response to the October 2015 storms and flooding in South Carolina; the May 2015 storms, tornadoes, and flooding in Texas; and the September to October 2015 wildfires that occurred in Northern California.²¹ We deployed to the disaster sites shortly

²¹ Appendix C lists the report number, disaster number, date issued, and title for each of the 12 program audit reports we issued in FY2016.



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after the disaster declarations and concluded in our reports that FEMA's initial responses to these major 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.

For example, we reported that FEMA responded effectively to the 2015 South Carolina storms and flooding. FEMA completed all Preliminary Damage Assessments approximately 2 weeks after the declaration; overcame pressing challenges and sourcing decisions; and effectively coordinated its activities with Federal, State, and local partners. Within 2 months of the disaster declaration, FEMA had registered over 90,000 disaster survivors under FEMA's Individual Assistance Program, approved \$70 million in individual and household funds, completed 99 percent of housing inspections, opened 36 Disaster Recovery Centers,²² and completed 180 kickoff meetings. By deploying to the disaster shortly after the declaration, we provided FEMA and State officials, along with potential Public Assistance applicants, relevant and accurate information on our common audit findings. We emphasized the importance of proper accounting and procurement and retaining adequate support for expenses. *FEMA's Initial Response to the Severe Storms and Flooding in South Carolina*, OIG-16-53-D.

Other Program Audits

We also issued seven other program audit reports that contained 17 recommendations for improving FEMA programs and operations and recouping funds totaling \$6.4 million. The objectives of our program audits vary, but most program audits generally determine the efficiency and effectiveness of FEMA policies, procedures, and programs. In one report, FEMA asked us to review letters of undertaking with Hurricane Sandy applicants interested in participating in the Public Assistance Alternative Procedures Pilot Program, as well as the Program Guide. The letters outlined details of seven permanent work projects that would be completed under the pilot program, valued at more than \$4.6 billion. We found that FEMA's Program Guide for the pilot program and letters of undertaking provide acceptable guidance in most areas to ensure compliance with Federal rules and regulations. However, our review of the seven projects identified weaknesses in five areas of guidance.

For example, under FEMA's traditional Public Assistance grant program, FEMA reimburses Public Assistance applicants only for actual expenditures of eligible

²² A Disaster Recovery Center is a facility for applicants to obtain information about FEMA or other disaster assistance programs, such as small business loans, administered by the U.S. Small Business Administration.



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costs for each approved large project.²³ Under the Alternative Procedures Pilot Program, FEMA pays applicants a capped fixed-cost estimate for eligible costs for each approved large project, thereby potentially saving taxpayers significant amounts of money. In a fixed-cost estimate, the subgrantee bears the risk for project overrun. As a result, the subgrantee has an incentive to increase the estimate to cover unforeseen events or project overruns. By conducting independent estimates, FEMA may reduce this risk. Currently, FEMA only validates each fixed-cost estimate and, if requested by the subgrantee, obtains an independent expert panel validation. We did not consider FEMA's procedures for validating cost estimates submitted by subgrantees as rigorous as conducting its own independent estimate or having a qualified third party conduct an independent estimate.

At the time of our audit, FEMA had obtained independent validation for only one project. According to the independent validators' report, they received two estimates: the subgrantee's estimate valued at \$7.9 million, and FEMA's estimate valued at \$6.0 million. The independent validators' estimate was valued at \$6.1 million. Ultimately, the subgrantee agreed to a project cost \$1.8 million (or 19.2 percent) less than the original estimate. Given the results of the independent validators' estimate and the risk that subgrantees will overstate their estimates, FEMA must prudently balance the needs of the applicants while minimizing potential costs to the taxpayers. We believe that, to protect the Federal taxpayer, a more thorough review of the fixed-cost estimates is necessary, especially for projects that will cost the taxpayers tens, if not hundreds, of millions of dollars. Accordingly, we recommended that FEMA send all fixed-cost estimates valued greater than \$25 million received under the pilot program to the independent expert panel for its review. *Clearer Guidance Would Improve FEMA's Oversight of the Public Assistance Alternative Procedures Pilot Program*, OIG-16-03-D.

We also reported that FEMA has no assurance that mission-assigned fuel deliveries for New York went only to FEMA-designated recipients. In the aftermath of Hurricane Sandy, New York needed substantial amounts of fuel for critical power restoration and emergency public transportation activities. We reviewed the \$6.37 million FEMA paid the Defense Logistics Agency for 1.7 million gallons of fuel. Of this amount, we found incomplete and questionable supporting documentation for 1.1 million gallons of fuel deliveries valued at \$4.56 million. As a result, we could not verify that those receiving

²³ Repair projects are divided by dollar amount into small and large projects. A small project is any eligible work less than \$68,500, the threshold for small projects for Federal fiscal year 2014 (October 1, 2013–February 25, 2014). Since the *Sandy Recovery Improvement Act of 2013*, the threshold for Simplified Procedures has increased to \$120,000, with annual adjustments according to the Consumer Price Index. The Simplified Procedures threshold is effective for new declarations on or after February 26, 2014.



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this fuel had a FEMA-defined power restoration or emergency public transportation work need. Regarding the remaining \$1.81 million of fuel, it appears that New York retail gas stations received approximately \$1.48 million of the fuel for public distribution, and New Jersey received more than \$332,000 of the fuel. However, the mission assignment authorized the fuel for power restoration needs and emergency public transportation work in New York, not delivery to retail gas stations or to New Jersey recipients.

These conditions occurred because FEMA did not (1) require the Defense Logistics Agency to provide adequate documentation to support its billings or ensure fuel went to designated recipients, or (2) provide the Defense Logistics Agency with a clear, well-defined scope of work before fuel deliveries commenced as required by 44 CFR 206.7. Additionally, FEMA did not clarify who should receive the fuel until after the Defense Logistics Agency had delivered all the fuel. We recommended FEMA disallow and recover the \$4.56 million of unsupported costs paid to the Defense Logistics Agency and take steps to improve the effectiveness of FEMA mission assignments. We also recommended FEMA disallow and recover the \$1.81 million of *ineligible costs* paid to the Defense Logistics Agency for fuel that the Defense Logistics Agency delivered to unauthorized recipients outside the mission assignment's scope of work. *FEMA Has No Assurance that Only Designated Recipients Received \$6.37 Million in Fuel*, OIG-16-04-D.

FEMA also requested our assistance in determining whether its preliminary proposal to provide permanent or semi-permanent housing construction to the Oglala Sioux Tribe of the Pine Ridge Indian Reservation is consistent with Federal statutes and regulations and FEMA guidelines. We advised FEMA to (1) ensure the integrity of the Individual Assistance program by adequately documenting the facts and circumstances that justify its decision to provide permanent or semi-permanent housing construction to the Oglala Sioux Tribe; (2) ensure that its proposed actions are the most cost-effective solution to the Oglala Sioux Tribe's unique housing problems as compared to other alternatives; and (3) before providing funding, take reasonable steps to avoid duplicate benefits by ensuring applicants have exhausted all other sources of benefits, including HUD and the Bureau of Indian Affairs.²⁴ *FEMA's Plan to Provide Permanent or Semi-Permanent Housing to the Oglala Sioux Tribe of the Pine Ridge Indian Reservation in South Dakota*, OIG-16-05-D.

We also reported that FEMA did not effectively enforce subgrantees' compliance with Federal procurement rules and has allowed the vast majority of

²⁴ 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 program, insurance, or from any other source.



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procurement costs we questioned in our audits. Over a 6-year period ending September 30, 2014, our audits questioned \$352.3 million in Public Assistance grant costs for noncompliance.²⁵ However, FEMA officials subsequently ruled that \$321.7 million, or 91.3 percent, of those costs were eligible. We questioned these costs because Public Assistance subgrantees (local governments and nonprofit organizations) did not follow Federal rules in awarding contracts. Although FEMA has the regulatory authority to enforce grant compliance under 44 CFR 13.43 by disallowing all or part of costs not in compliance, FEMA has limited authority to grant exceptions on a case-by-case basis under 44 CFR 13.6(c). FEMA's acceptance of nearly all procurement costs we questioned for noncompliance with procurement requirements has, in effect, constituted an exception to an entire class of grants—an express power of the U.S. Office of Management and Budget (OMB), not FEMA, per 44 CFR 13.6(b). By allowing costs that are not compliant with procurement requirements, FEMA has not adequately upheld its responsibility to protect taxpayer funds and has weakened its ability to enforce good procurement practices.²⁶

We recommended that FEMA take proactive steps early in the Public Assistance process to: (1) better communicate that Federal funding is contingent on compliance with Federal regulation and that serious financial consequences could result from noncompliance; and (2) improve compliance with and develop tailored options to enforce Federal regulations early and consistently. *FEMA Can Do More to Improve Public Assistance Grantees' and Subgrantees' Compliance with Federal Procurement Rules*, OIG-16-126-D.

²⁵ The \$352.3 million did not include \$35 million of questioned costs that remained open and unresolved.

²⁶ We cite these regulations as they were in effect at the time of the disaster reviewed in our reports and not generally.



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Questioned Costs and Funds Put to Better Use

During FYs 2014 and 2015, our balanced approach, including proactive audits, 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. During FY 2016, our audits continued to produce a significant number of recommendations that put funds to better use before problems occur. FY 2016's \$315.8 million of potential monetary benefits includes \$160.2 million in funds that FEMA could put to better use and \$155.6 million in costs we recommended FEMA disallow.

Our early 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 shows a significant decrease in FY 2016 potential monetary benefits from the prior two years.²⁷ Although reported results for a single year do not necessarily establish a trend, they nevertheless do reinforce the expectation that our proactive audit approach and corrective recommendations, if implemented by the recipient or subrecipient, should result in consistently fewer questioned costs over time.

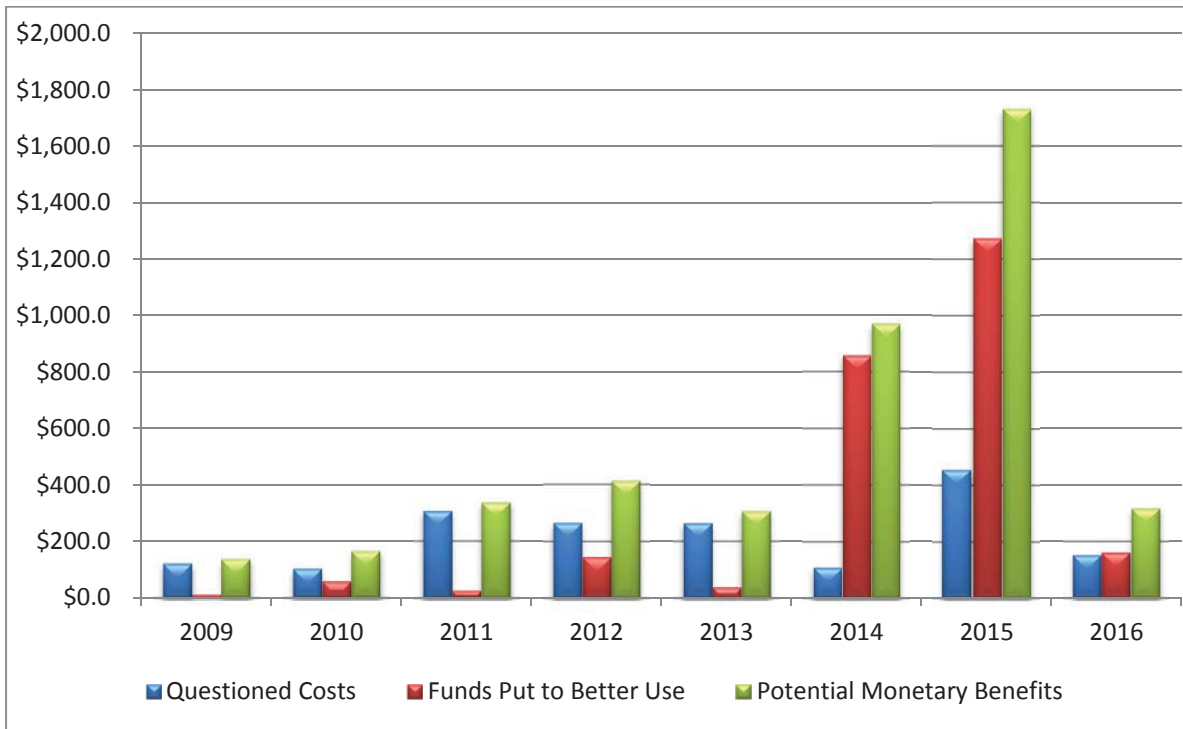
²⁷ For FY 2014, potential monetary benefits of \$860 million included \$812 million associated with one Hazard Mitigation Grant Program audit. For FY 2015, potential monetary benefits of \$1.73 billion included \$1.14 billion associated with one Public Assistance audit.



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**Figure 1: Potential Monetary Benefits from All Disaster Assistance Audits
FYs 2009–2016 (in millions)**



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.



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Conclusion

FEMA continues to face systemic problems and operational challenges, as the wide range of findings summarized in this report illustrates. We continue to identify FEMA's failure to adequately manage disaster relief grants and funds. Additionally, FEMA still does not hold grant recipients accountable for properly managing disaster relief funds.

Further, FEMA continues to remain ineffective at holding grant recipients accountable for failing to provide adequate monitoring or technical assistance to subgrantees. This is the sixth consecutive year that we are reporting that many of our findings and reportable conditions indicate that states, which are required to provide oversight of grant funds and subgrant activities, are not doing an adequate job of educating subgrantees and enforcing Federal regulations through effective and vigilant monitoring. 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). FEMA must 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. 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. Annually, we update our *Audit Tips for Managing Disaster-Related Project Costs* and provide copies to officials in FEMA Headquarters and Regional Administrators. We are currently updating our Audit Tips for FY 2017 and urge that FEMA direct its Regional Administrators to request FEMA grantees to provide copies as soon as they are available to every Public Assistance and Hazard Mitigation Grant Program applicant. Copies of our annual Audit Tips, along with copies of all audit reports we issue, are available at the following web address: <https://www.oig.dhs.gov/reports/audits-inspections-and-evaluations>



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Positive Steps FEMA Took in FY 2016

According to FEMA management they took several positive steps in FY 2016 to improve grant management and the efficiency and effectiveness of programs and operations. These improvements included the following:

- Continuing to make progress implementing a new delivery model to improve the accuracy, consistency, and efficiency of the PA grant process. As of the end of FY 2016, FEMA implemented the new PA delivery model in 10 disasters, trained more than 800 Federal officials on the new approach, and developed 60 position assist documents, templates, checklists, and other guidance.
- Establishing 26 objectives and metrics to evaluate the performance of the new model, which FEMA anticipates will reduce audit findings by providing greater technical assistance to applicants on the front end of the grant process, identifying and resolving potential issues earlier, and improving eligibility determinations through more standardized training and procedures.
- Advancing development of consistent, FEMA-wide guidance regarding management of grants, which includes enforcement of grant conditions such as compliance with Federal procurement requirements.
- Creating Region/Recipient/Subrecipient type analytic reports based upon OIG's procurement "capping" report, OIG-16-126-D, *FEMA Can Do More to Improve Public Assistance Grantees' and Subgrantees' Compliance with Federal Procurement Rules*, and sharing that information with hundreds of FEMA, recipient, and subrecipient personnel to raise awareness of past challenges.
- Holding 122 FY 2016 training sessions for 3,814 Federal, state, tribal, and local emergency management personnel in an effort to prevent future non-compliance with Federal procurement requirements.

Although these undertakings are directed at improving the management of disaster relief funds, FEMA and recipient performance, and the effective delivery of services to disaster survivors, our office has not audited these initiatives.



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Discussion with FEMA and Audit Follow-up

We provided a draft report to FEMA officials on July 28, 2017. FEMA subsequently provided technical comments, which we discussed with them on August 10 and September 7, 2017. We incorporated FEMA's comments, as appropriate, into this report. On September 9, 2017, FEMA provided a formal written response to our audit, which appears in its entirety as appendix D. This capping report contains no recommendations; therefore, we consider it closed.

The following summarizes FEMA's written comments and includes our responses.

In its response to our draft report, FEMA disagreed with our assessment that it waived questionable procurement costs that we recommended FEMA disallow for noncompliance with Federal regulations. We acknowledge that FEMA has limited authority under 44 CFR 13.6(c) to allow procurement costs that we question in our audits, and we have revised our final report accordingly. However, we believe that FEMA's practice of allowing the vast majority of procurement costs that we questioned in our audits is in effect an exception to an entire class of grants—an express power of the U.S. Office of Management and Budget, not FEMA. As stated in our report, by consistently reimbursing grantees and subgrantees for costs that are not compliant with procurement requirements, FEMA has not adequately upheld its responsibility to protect taxpayer funds and has weakened its ability to enforce good procurement practices.

FEMA's endnote 6 states that it identified errors and inconsistencies in reviewing the draft capping report. Our responses to FEMA's concerns follow.

- FEMA states that Table #1 of the capping report includes questioned costs from a FY 2016 program audit that should be excluded from the table to avoid erroneous comparisons with prior year reports. Report footnote 2 identifies the two components of FY 2016 questioned costs. Further, the capping report is a dynamic document that captures the results of our work, and we continue to improve and add to its format year to year as conditions dictate.
- FEMA incorrectly states that for three audit reports, OIG understates the FY 2016 total amount of disaster assistance funds audited. We verified that the report does not understate the amount of funds audited. In report OIG-16-125, *Long Beach City School District in New York Generally Accounted For and Expended FEMA Public Assistance Funds Properly*, FEMA asserts the amount audited was \$28.9 million; the report specifically states the team audited seven projects totaling \$26.5 million.



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In report OIG-16-133, *Louisiana Should Provide the Ouachita Parish Police Jury Assistance in Managing FEMA Grant Funds*, FEMA asserts the amount audited was \$3,722,500. OIG rounded that amount to \$3.7 million; the \$22,500 difference is .003percent of the \$680 million audited and does not affect the FY 2016 percentage of questioned costs. In report OIG-16-135, *FEMA Should Recover \$3.4 Million of the \$3.5 Million Awarded to Hope Academy for Hurricane Katrina Damages*, FEMA asserts the amount audited to be \$3,428,594. The actual amount audited (\$3,406,030) consists of the gross award amount (\$3,428,594) less insurance reductions of \$22,564.

- FEMA incorrectly states that for two audit reports, OIG overstated the reported amount of potential monetary benefits. We verified that the capping report does not overstate the amount of FY 2016 potential monetary benefits. For report OIG-16-21, *Longmont and Colorado Officials Should Continue to Improve Management of \$55.1 Million FEMA Grant Audit*, FEMA asserts the potential monetary benefit was \$40.2 million, not the \$41.5 million used by OIG. OIG closed the report recommendation with FEMA and the subgrantee agreeing to \$41.5 million in potential monetary benefits. For report OIG-16-118, *Wisner-Pilger Public Schools, Nebraska, Took Corrective Actions to Comply with Federal Grant Award Requirements*, FEMA asserts there was no potential monetary benefit; however, appendix B of OIG-16-118 shows a \$2.6 million potential monetary benefit.
- For report OIG-16-38, *Oakwood Healthcare System, Dearborn, Michigan, Needed Additional Assistance in Managing Its FEMA Public Assistance Grant Funding*, FEMA incorrectly states the OIG miscategorized a recommendation as a grant management and administration issue that should have been categorized as a questioned cost. The recommendation directed the grantee to correct hospital labor costs that were improperly supported. Hospital employees corrected the records during audit field work. The recommendation did not involve questioned costs and is strictly a management and administration issue.
- FEMA incorrectly states that the OIG chose not to report deobligations resulting from recommendations that put funds to better use. By not doing so, OIG credited FEMA only for deobligations resulting from recommendations that questioned costs. Capping report paragraph A.3, *Unneeded Obligated Funds*, does in fact appropriately credit FEMA for \$884,795 in deobligations resulting from recommendations that questioned costs (OIG-16-140, \$791,175; and OIG-16-09, \$93,620).



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- FEMA states that the capping report included \$432,000 in questioned costs that were originally classified as funds put to better use in three grant audit reports. The three audits reported the costs as ineligible questioned costs, but for reporting purposes were classified as funds put to better use because FEMA funding had not yet been obligated (see report footnote 11).

The Office of Emergency Management Oversight major contributors to this report are William H. Johnson, Director; Carlos Aviles and Anthony Colache, Audit Managers; Richard Kotecki, Auditor-in-Charge; Mark Lonetto, Mark Phillips, Kenneth Schoonover, and James Townsend, Auditors; and Stuart Josephs, Independent Referencer.

Please call me with any questions at (202) 254-4100, or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General, Office of Emergency Management Oversight, at (202) 254-4283.



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Appendix A

Status of FY 2016 Questioned Costs by FEMA Region and State

**Status of FY 2016 Questioned Costs
As of April 8, 2017**

FEMA Region	State/Territory	Questioned Costs by State	Status of Recommendations		
			Open	Disallowed	Allowed
II	NJ	\$364,364			\$364,364
	NY	\$16,130,813	\$668,430	\$9,605,308	\$5,857,075
	PR	\$1,566,764		\$39,645	\$1,527,119
IV	AL	\$1,431,714		\$542,097	\$ 889,617
	GA	\$411,929		\$411,929	
	MS	\$76,118,877	\$50,375,848	\$968,706	\$24,774,323
	TN	\$2,164,282	\$28,135	\$2,111,290	\$24,857
VI	NM	\$312,117			\$312,117
	OK	\$51,227,490		\$53,193	\$51,174,297
	TX	\$201,136		\$201,136	
VII	MI	\$130,089			\$130,089
VIII	CO	\$4,141,185	\$2,898,831	\$987,468	\$254,886
IX	CA	\$1,410,534		\$1,016,830	\$393,704
Totals		\$155,611,294	\$53,971,244	\$15,937,602	\$85,702,448



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Appendix B

FY 2016 OIG Disaster Grant and Subgrant Reports

The 46 grant audit reports listed below are related to specific grants and subgrants under the Public Assistance program and Hazard Mitigation Grant Program. The 46 grant audit reports involved 32 declared disasters and contained 106 recommendations, with potential monetary benefits of \$309.4 million.

FY 2016 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-16-09-D 11/19/2015	PA 1858	<i>FEMA Should Recover \$505,549 of \$3.3 Million in Public Assistance Grant Funds Awarded to DeKalb County, Georgia, for Damages from a September 2009 Flood</i>	\$3.3	\$1.4	\$505,549
2	OIG-16-12-D 11/30/2015	PA 1971	<i>The City of Birmingham, Alabama, Generally Managed FEMA Grant Funds for April 2011 Tornadoes and Severe Storms Properly</i>	\$13.2	\$11.3	\$257,344
3	OIG-16-21-D 1/21/2016	PA 4145	<i>Longmont and Colorado Officials Should Continue to Improve Management of \$55.1 Million FEMA Grant</i>	\$55.1	\$41.7	\$40,294,324
4	OIG-16-22-D 1/21/2016	PA 4159	<i>The City of Austin, Texas, Has Adequate Policies and Procedures to Comply with FEMA Public Assistance Grant Requirements</i>	\$7.2	\$1.8	\$201,136
5	OIG-16-23-D 1/26/2016	PA 1952	<i>FEMA Should Disallow \$1.2 Million of \$6.0 Million in Public Assistance Program Grant Funds Awarded to the City of San Diego, California</i>	\$6.0	\$4.0	\$1,163,225
6	OIG-16-24-D 1/27/2016	PA 1971	<i>FEMA Should Recover \$1.2 Million of \$10.1 Million in Grant Funds Awarded to Tuscaloosa, Alabama, for a 2011 Disaster</i>	\$40.4	\$4.8	\$1,174,370
7	OIG-16-33-D 1/29/2016	PA 4145	<i>Boulder, Colorado, Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant Funding</i>	\$19.0	\$9.1	\$0



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Appendix B (continued) FY 2016 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
8	OIG-16-35-D 2/2/2016	PA 4145	<i>Jamestown, Colorado, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its \$10.4 Million FEMA Grant</i>	\$10.4	\$3.3	\$10,360,695
9	OIG-16-36-D 2/2/2016	PA 4076	<i>The University of Wisconsin-Superior Effectively Managed FEMA Grant Funds Awarded for Severe Storms and Flooding in June 2012</i>	\$8.6	\$8.6	\$0
10	OIG-16-38-D 2/11/2016	PA 4195	<i>Oakwood Healthcare System, Dearborn, Michigan, Needed Additional Assistance in Managing its FEMA Public Assistance Grant Funding</i>	\$15.2	\$15.2	\$0
11	OIG-16-40-D 2/18/2016	PA 4229	<i>Colorado Springs Utilities, Colorado, Has Adequate Policies, Procedures, and Business Practices to Effectively Manage Its FEMA Public Assistance Grant Funding</i>	\$0.9	\$0.6	\$0
12	OIG-16-42-D 2/19/2016	PA 4229	<i>Colorado Springs, Colorado, Has Adequate Policies, Procedures, and Business Practices to Effectively Manage Its FEMA Public Assistance Grant Funding</i>	\$1.9	\$1.9	\$0
13	OIG-16-43-D 2/2/2016	PA 4017	<i>The Puerto Rico Electric Power Authority Effectively Managed FEMA Public Assistance Grant Funds Awarded for Hurricane Irene in August 2011</i>	\$8.0	\$7.3	\$0
14	OIG-16-52-D 2/21/2016	PA 4152	<i>FEMA Should Recover \$312,117 of \$1.6 Million Grant Funds Awarded to the Pueblo of Jemez, New Mexico</i>	\$1.6	\$0.9	\$312,117
15	OIG-16-60-D 4/6/2016	PA 4017	<i>FEMA Should Recover \$267,960 of \$4.46 Million in Public Assistance Grant Funds Awarded to the Municipality of Jayuya, Puerto Rico, for Hurricane Irene Damages</i>	\$4.5	\$3.5	\$267,960



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Appendix B (continued) FY 2016 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
16	OIG-16-63-D 4/12/2016	PA 1731	<i>San Bernardino County, California, Generally Accounted for and Expended FEMA Public Assistance Funds Properly</i>	\$16.5	\$14.3	\$247,309
17	OIG-16-66-D 4/20/2016	PA 4017	<i>FEMA Should Disallow \$1.30 Million of \$2.58 Million in Public Assistance Grant Funds Awarded to the Municipality of Villalba, Puerto Rico, for Hurricane Irene Damages</i>	\$2.6	\$2.5	\$1,298,804
18	OIG-16-67-D 4/20/2016	PA 4145	<i>Lyons and Colorado Officials Should Continue to Improve Management of \$36 Million FEMA Grant</i>	\$36.0	\$33.3	\$26,627,208
19	OIG-16-78-D 5/3/2016	PA 4145	<i>Colorado Should Provide the City of Evans More Assistance in Managing FEMA Grant Funds</i>	\$10.8	\$10.3	\$10,129,742
20	OIG-16-86-D 5/9/2016	PA 4136	<i>The West School Administration Effectively Accounted for the FEMA Emergency Grant Funds Awarded for the West, Texas Fertilizer Plant Explosion</i>	\$5.1	\$5.1	\$0
21	OIG-16-94-D 5/27/2016	PA 4165	<i>FEMA Held Augusta-Richmond County, Georgia, Accountable for Not Complying with Federal Contracting Requirements when Managing a 2014 Public Assistance Disaster Grant</i>	\$12.9	\$12.9	\$0
22	OIG-16-97-D 6/8/2016	PA 4109	<i>FEMA Should Recover \$51.2 Million in Grant Funds Awarded to Cimarron Electric Cooperative, Kingfisher, Oklahoma</i>	\$69.2	\$69.2	\$51,227,490
23	OIG-16-99-D 6/8/2016	PA 4158	<i>FEMA and California Need to Assist the City of Berkeley to Improve the Management of a \$12 Million FEMA Grant</i>	\$12.2	\$1.3	\$8,367,654



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Appendix B (continued) FY 2016 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
24	OIG-16-103-D 6/9/2016	PA 4240	<i>Lake County, California, Should Continue to Improve Procurement Policies, Procedures, and Practices</i>	\$25.0	\$18.0	\$16,506,222
25	OIG-16-104-D 6/10/2016	HMGF 1603 1607	<i>The Office of Community Development Paid Most Contractors in a Timely Manner for Hazard Mitigation Work on Louisiana Homes</i>	\$702.9	\$0 ²⁸	\$0
26	OIG-16-107-D 6/30/2016	PA 4176	<i>The Baldwin County Commission Effectively Managed FEMA Grant Funds Awarded for Damages from Spring 2014 Storms</i>	\$7.4	\$5.1	\$0
27	OIG-16-110-D 7/7/2016	PA 4131	<i>Minneapolis Park and Recreation Board, Minneapolis, Minnesota, Generally Accounted For and Expended FEMA Grant Funds Properly</i>	\$2.4	\$2.4	\$0
28	OIG-16-112-D 7/15/2016	PA 1909	<i>FEMA Should Recover \$2.2 Million of \$27.2 Million in Public Assistance Grant Funds Awarded to Nashville-Davidson County, Tennessee, for May 2010 Flood Emergency Work</i>	\$69.8	\$19.4	\$2,164,282
29	OIG-16-114-D 8/2/2016	PA 4183	<i>The Village of Pilger, Nebraska, Took Corrective Actions to Comply with Federal Grant Award Requirements</i>	\$5.6	\$5.4	\$1,381,560
30	OIG-16-115-D 8/10/2016	HMGF 1604	<i>FEMA Should Suspend All Grant Payments on the \$29.9 Million Coastal Retrofit Program Until Mississippi Can Properly Account for Federal Funds</i>	\$29.9	\$29.9	\$29,888,707
31	OIG-16-116-D 8/11/2016	PA 4250	<i>City of Hazelwood, Missouri, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its Federal Grant</i>	\$3.3	\$3.3	\$0

²⁸ We audited the timeliness of contractor payments and did not verify the validity of costs claimed; consequently the amount audited is \$0.



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Appendix B (continued) FY 2016 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-16-117-D 8/12/2016	PA 4086	<i>Ocean County, New Jersey, Generally Accounted for and Expended FEMA Public Assistance Funds Properly</i>	\$105.0	\$80.1	\$364,364
33	OIG-16-118-D 8/16/2016	PA 4183	<i>Wisner-Pilger Public Schools, Nebraska, Took Corrective Actions to Comply with Federal Grant Award Requirements</i>	\$7.9	\$7.9	\$2,626,623
34	OIG-16-119-D 8/16/2016	PA 4175	<i>FEMA Improperly Awarded \$47.3 Million to the City of Louisville, Mississippi</i>	\$51.7	\$47.3	\$47,299,126
35	OIG-16-120-D 8/17/2016	PA 4250	<i>Phelps County, Missouri, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its \$1.97 Million FEMA Grant</i>	\$2.0	\$2.0	\$185,089
36	OIG-16-121-D 8/19/2016	PA 4138	<i>Washington County, Florida, Effectively Managed FEMA Public Assistance Grant Funds Awarded for a July 2013 Flood</i>	\$13.9	\$3.6	\$0
37	OIG-16-122-D 8/19/2016	PA 4258	<i>Portland, Oregon, Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant Funding</i>	\$11.0	\$0.2	\$0
38	OIG-16-124-D 9/1/2016	PA 4179	<i>Nebraska Public Power District Properly Managed FEMA Grant Funds Awarded for May 2014 Storms</i>	\$7.6	\$7.2	\$0
39	OIG-16-125-D 9/2/2016	PA 4085	<i>Long Beach City School District in New York Generally Accounted For and Expended FEMA Public Assistance Funds Properly</i>	\$35.5	\$26.5	\$668,430
40	OIG-16-132-D 9/9/2016	PA 4136	<i>FEMA Miscalculated the 50 Percent Rule when Deciding to Replace School Buildings after the West, Texas Explosion</i>	\$63.4	\$60.1	\$0
41	OIG-16-133-D 9/9/2016	PA 4263	<i>Louisiana Should Provide the Ouachita Parish Police Jury Assistance in Managing FEMA Grant Funds</i>	\$3.7	\$3.7	\$3,722,500



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Appendix B (continued)

FY 2016 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
42	OIG-16-135-D 9/19/2016	PA 1604	<i>FEMA Should Recover \$3.4 Million of the \$3.5 Million Awarded to Hope Academy for Hurricane Katrina Damages</i>	\$3.5	\$3.4	\$3,406,030
43	OIG-16-136-D 9/22/2016	PA 4240	<i>Calaveras County, California, Needs Additional State and FEMA Assistance in Managing Its \$10.8 Million FEMA Grant</i>	\$10.8	\$10.8	\$10,846,666
44	OIG-16-137-D 9/23/2016	PA 4250	<i>City of Eureka, Missouri, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its \$1.5 Million FEMA Grant</i>	\$1.5	\$1.5	\$1,461,000
45	OIG-16-140-D 9/26/2016	PA 4085	<i>FEMA Should Recover \$9.9 Million of \$36.6 Million Awarded to the Town of North Hempstead, New York, for Hurricane Sandy Damages</i>	\$36.6	\$18.5	\$9,882,749
46	OIG-16-143-D 9/29/2016	PA 4175	<i>FEMA Should Recover \$25.4 Million in Grant Funds Awarded to Louisville, Mississippi, for an April 2014 Disaster</i>	\$61.7	\$57.3	\$25,413,721

FY 2016 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 (millions)	Potential Monetary Benefit
PA	44	29	\$0.89	\$650.0	\$279,559,165
HMGP	2	3	\$0.73	\$29.9	\$29,888,707
Totals	46	32	\$1.62	\$679.9	\$309,447,872

Copies of the audit reports we issued in FY 2016 are available at the following web address: <https://www.oig.dhs.gov/reports/audits-inspections-and-evaluations>



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Appendix C FY 2016 OIG Disaster Program Audit Reports

	Report Number	Disaster Number	Date Issued	Title
Individual Assistance Program Audits				
1	OIG-16-01-D	NA	10/6/2015	<i>FEMA Faces Challenges in Verifying Applicants' Insurance Policies for the Individuals and Households Program</i>
2	OIG-16-102-D	4240	6/9/2016	<i>FEMA Continues to Experience Challenges in Protecting Personally Identifiable Information at Disaster Recovery Centers</i>
FEMA's Initial Disaster Responses				
3	OIG-16-53-D	4241	3/21/2016	<i>FEMA's Initial Response to the Severe Storms and Flooding in South Carolina</i>
4	OIG-16-85-D	4223	5/9/2016	<i>FEMA's Initial Response to the 2015 Texas Spring Severe Storms and Flooding</i>
5	OIG-16-106-D	4240	6/27/2016	<i>FEMA Was Generally Effective in Its Initial Response to the Severe Wildfires in California</i>
Other Program Audits				
6	OIG-16-03-D	NA	10/27/2015	<i>Clearer Guidance Would Improve FEMA's Oversight of the Public Assistance Alternative Procedures Pilot Program</i>
7	OIG-16-04-D	4085	11/2/2015	<i>FEMA Has No Assurance that Only Designated Recipients Received \$6.37 Million in Fuel</i>
8	OIG-16-05-D	NA	11/5/2015	<i>FEMA's Plan to Provide Permanent or Semi-Permanent Housing to the Oglala Sioux Tribe of the Pine Ridge Indian Reservation in South Dakota</i>
9	OIG-16-109-D	NA	7/1/2016	<i>Audit Tips For Managing Disaster-Related Project Costs</i>
10	OIG-16-126-D	NA	9/2/2016	<i>FEMA Can Do More to Improve Public Assistance Grantees' and Subgrantees' Compliance with Federal Procurement Rules</i>
11	OIG-16-127-D	NA	9/2/2016	<i>FEMA Can Enhance Readiness with Management of Its Disaster Incident Workforce</i>
12	OIG-16-139-D	NA	9/27/2016	<i>FEMA Should Implement Consistent Joint Field Office Guidance</i>



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Appendix D
FEMA's Comments

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



**Homeland
Security**

MEMORANDUM FOR: John E. McCoy II
Assistant Inspector General
Integrity and Quality Oversight

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

DAVID R Digitally signed by
BIBO JR DAVID R BIBO JR
Date: 2017.09.09
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SUBJECT: Management's Response to OIG Draft Report: "Summary and Key Findings of Fiscal Year 2016 FEMA Disaster Grant and Program Audits" (Project No. G-17-011-EMO-FEMA)

Thank you for the opportunity to review and comment on this draft report (Fiscal Year [FY] 2016 Capping 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.

Even as we focus on lifesaving and life-sustaining response and recovery efforts ongoing in Texas and the Southeastern United States in response to Hurricanes Harvey and Irma, FEMA expresses its strong commitment to addressing OIG's concerns summarized in this FY 2016 Capping Report, including identifying and addressing root causes that may contribute to these concerns. FEMA must serve disaster survivors as consistently, effectively, and efficiently as possible, while being accountable stewards of taxpayer dollars. This includes working collaboratively with our partners at the State, Tribal, Territorial, and local level to improve the collective capability and capacity for proper grant management and strong oversight. FEMA is instilling a culture of continuous improvement and has a number of on-going and planned initiatives underway to improve the delivery of assistance and reduce the risk of findings like those summarized in the report.

Although not a focus of OIG's draft report, FEMA believes it is important to recognize the many positive trends that have emerged since the publication of OIG's FY 2015 Capping Report:

- **Questioned Costs Decreased:** Both the amount and the percentage of audit amount questioned decreased from FY 2015 to FY 2016 – from \$457 million to \$156 million and from 29 to 23 percent, respectively.
- **Potential Monetary Benefit (PMB) Decreased:** As reflected in Figure 1, PMB decreased in FY 2016 by more than \$1.4 billion, from \$1.734 billion in FY 2015 to \$309.4 million during FY 2016. PMB was \$971.8 million in FY 2014. FEMA recognizes that this number can be affected dramatically by a single large audit report in a given year, but believes this merits mention nevertheless.



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Appendix D FEMA's Comments

- **Audits with No Recommendations Increased:** Of the 46 FY 2016 grant audit reports published, 11 (24 percent) had no recommendations, marking the third consecutive year that the percentage of the reports published with no recommendations increased.¹
- **Responsiveness to Recommendations Remained Strong:** Forty-two (91 percent) of the 46 FY 2016 grant audits are closed as of this letter, which includes 22 (48 percent) that were closed upon the issuance of the individual OIG reports.
- **Funds Put to Better Use (FPTBU) Decreased:** As illustrated in Figure 1, the FPTBU percentage decreased from 82.4 percent in FY 2015 to 24 percent in FY 2016.

Figure 1: OIG Grant Audit Potential Monetary Benefits by Finding Type (FYs 2009-2016)



* Federal share is \$240 million. As reflected in footnote 3, FEMA estimates that the total grant audit PMB for FY 2016 could be as low as \$306.1 million (\$237.5 million Federal share).

FEMA disagrees with OIG's characterization and presentation of certain information in the draft report, even though the report does not include any new recommendations. Specifically:

- **FEMA Does Not Waive Procurement Requirements:** The draft report incorrectly describes FEMA actions associated with the enforcement of procurement requirements as granting "waivers." FEMA exercises its discretionary enforcement authority on a case-by-case basis as provided for in Federal regulation.² It is also important to note that in the cases characterized as a waiver, OIG found FEMA's actions sufficient to close the associated OIG audit recommendations.
- **Incorrect Presentation of Questioned Cost Resolution:** In Table 2, Table 3, and Appendix A of the draft report, OIG presents the Status of Recommendations with Questioned Costs as either "Open," "Waived," or "Disallowed." FEMA believes OIG's use of the term "Waived" rather than "Allowed" is inconsistent with past practice and inaccurately represents FEMA's action. For example, as reflected in the draft report and OIG's FY 2015 Capping Report, instances associated with unsupported costs were



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Appendix D FEMA's Comments

questioned by OIG and later remedied through the production of various forms of “documentation – including canceled checks, paid bills, payrolls, time and attendance records, and contracts.” As part of an audit corrective action process, a subrecipient could later produce acceptable documentation and resolve the questioned cost. If that occurred, FEMA would allow the costs but would not be waiving the requirement. However, in the draft report, OIG categorizes the allowance of such documented costs as a “Waiver.”

FEMA appreciates OIG mentioning the steps FEMA has taken—and is taking—to improve performance. Doing so provides important context for OIG’s findings because of the natural, yet significant, lag time between audit reporting and the positive results of such efforts.³ FEMA looks forward to OIG’s independent review and validation of these initiatives, including:

- Continuing to make progress implementing a new delivery model to improve the accuracy, consistency, and efficiency of the PA grant process. As of the end of FY 2016, FEMA implemented the new PA delivery model in 10 disasters, trained more than 800 Federal officials on the new approach, and developed 60 position assist documents, templates, checklists, and other guidance. FEMA has established twenty-six objectives and metrics to evaluate the performance of the new model and anticipates it will reduce audit findings by providing greater technical assistance to applicants on the front end of the grant process, identifying and resolving potential issues earlier, and improving eligibility determinations through more standardized training and procedures.
- Advancing development of consistent, FEMA-wide guidance regarding management of grants, which includes enforcement of grant conditions such as compliance with federal procurement requirements.
- Creating Region/Recipient/Subrecipient type analytic reports based upon OIG’s Procurement Capping Report, OIG-16-126-D, “FEMA Can Do More to Improve Public Assistance Grantees’ and Subgrantees’ Compliance with Federal Procurement Rules,” and sharing that information with hundreds of FEMA, Recipient, and Subrecipient personnel to raise awareness of past challenges.⁴
- Holding 122 FY 2016 training sessions for 3,814 Federal, State, Tribal, and Local emergency management personnel in an effort to prevent future non-compliance with federal procurement requirements.⁵

All of these initiatives are directed at improving the management of disaster relief funds, FEMA and recipient performance, and the effective delivery of services to disaster survivors. FEMA is committed to continuing to improve the delivery of its disaster assistance while ensuring good stewardship or taxpayer dollars.

FEMA previously provided technical comments regarding errors and inconsistencies in the draft report for OIG consideration and, while most have been corrected some remain.⁶

Thank you for the opportunity to review and comment on this draft report. Please feel free to contact Gary McKeon, Director of FEMA’s 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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Appendix D

FEMA's Comments

Endnotes

¹ The FY 2013 rate was 5 percent, FY 2014 rate was 16 percent, and FY 2015 rate was 22 percent.

² See 44 Code of Federal Regulations (C.F.R.) § 13.43 (applying to State and Local Governments until December 25, 2014); 2 C.F.R. § 215.62 (applying to Institutes of Higher Education, Hospitals, and Non-Profits until December 25, 2014); and 2 C.F.R. § 200.338 (applying to all grant recipients/subrecipients on or after December 26, 2014).

³ Of OIG's FY 2016 "Early Warning Audits," 37 percent are for disasters declared three or more years ago. Findings from OIG-16-126-D, "FEMA Can Do More to Improve Public Assistance Grantees' and Subgrantees' Compliance with Federal Procurement Rules" involved disasters declared as early as 2004, with the most recent occurring in 2012.

⁴ FEMA presented the reports to 190 subrecipient representatives attending a Los Angeles County emergency management training. This was done in conjunction with PDAT training and a DHS OIG audit trends brief.

⁵ Since its inception in 2014, FEMA's PDAT has trained 10,444 FEMA, State, Tribal, DHS OIG, Private Non-Profit, Local Emergency Management personnel and prospective/actual Applicants through during 350 training sessions.

⁶ FEMA notes the following errors and inconsistencies within OIG's draft report:

- Within Table 1 (Questioned Costs) of the draft report, OIG included a program audit (OIG-16-04). For consistency with prior capping reports, the program audit Questioned Costs and corresponding amount audited should be excluded or properly annotated to avoid erroneous comparisons.
- Within OIG's data, the "amount audited" was understated for OIG-16-125 by \$2.4 million; OIG-16-133 by \$22,500; and OIG-16-135 by \$22,600.
- PMB was overstated for OIG-16-21 by \$1.2 million and OIG-16-118 by \$2.6 million.
- The Questioned Cost was overstated for OIG-16-21 (Recommendation 2) by \$1.2 million.
- The PMB and FPTBU were overstated for OIG-16-118 (Recommendation 1) by \$2.6 million.
- OIG considered OIG-16-38 Recommendation 2 (\$517,740) to be a Grant Management and Administrative Issues recommendation. FEMA, however, categorized this recommendation as a questioned cost recommendation due to unsupported costs. FEMA (in agreement with OIG) resolved this recommendation upon report issuance.
- As shown in Table 6 (page 9), Cost Avoidance is a subtype of FPTBU, and only represents a percentage of the FPTBU PMB. Additionally, FPTBU is defined to include deobligation of funds (*see* Inspector General Act of 1978, as amended, section 5(f) (4)). In the draft report, OIG chose not to include deobligations as a means to resolve FPTBU recommendations, resulting in OIG crediting FEMA only for deobligations on questioned cost recommendations.
- Within Table 4 (Recommendations Putting Funds to Better Use) and Table 6 (Funds Put to Better Use by Subtype) OIG did not note that FEMA deobligated the full amount associated with unneeded obligated fund findings for OIG-16-09 Recommendation 1 (\$93,620) and for OIG-16-140 Recommendation 5 (\$791,175). For OIG-16-120 (Recommendation 1), OIG reclassified as Ineligible Questioned Costs \$130,000 that had previously been classified as FPTBU (Cost Avoidance) within the final report and OIG's Semiannual Report to Congress. Similarly, for OIG-16-52 (Recommendation 1) and OIG-16-78 (Recommendation 1), OIG reclassified as Ineligible Questioned Costs \$243,000 and \$59,000 that had previously been classified as FPTBU (Cost Avoidance) within the final report and OIG's Semiannual Report to Congress.



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Appendix E Objectives, Scope, and Methodology

The objectives of this audit were to (1) compile and summarize 58 disaster-related audit reports OIG issued in FY 2016, (2) analyze frequently reported audit findings in those reports, and (3) quantify persistent and systemic issues impacting FEMA. The 58 FY 2016 reports included 46 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 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 12 program audits each had unique objectives and scopes.

The scope of this audit covered 58 disaster-related audit reports OIG issued in FY 2016, and included trend analyses compiled from previous years' disaster related audits. The 46 grant audits were of grantees and subgrantees awarded FEMA Public Assistance and Hazard Mitigation Grant Program funds for 32 presidentially declared disasters that occurred between August 2005 and April 2016 in 21 states, and 1 U.S. Territory. The grantee and subgrantees we audited received awards totaling \$1.62 billion for debris removal; emergency protective measures; or permanent repair, restoration, and replacement of damaged facilities. We audited \$686 million of the \$1.62 billion, or 42 percent of the amounts FEMA awarded to recipients. Appendix B summarizes the 46 grant audit reports and provides a link to our web page where copies of all OIG reports are available. Appendix C summarizes the 12 program audit reports.

To accomplish our objectives, we compiled and summarized 58 disaster assistance reports issued in FY 2016; 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 58 FY 2016 grant audit reports as of April 8, 2017; 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 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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Department of Homeland Security

Appendix E (continued)

We conducted this performance audit between December 2016 and February 2017 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 58 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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