OFFICE OF INSPECTOR GENERAL

# Lessons Learned from Previous Audit Reports Related to California's Practice of Managing Public Assistance Grant Funds

Homeland Security

August 14, 2018
OIG-18-74

# DHS OIG SPECIAL REPORT

## *Lessons Learned from Previous Audit Reports Related to California's Practice of Managing Public Assistance Grant Funds*

**August 14, 2018**

## Why We Did This Special Report

This is a Department of Homeland Security Office of the Inspector General special report regarding challenges the Federal Emergency Management Agency (FEMA) may face from California's practices of managing and overseeing Public Assistance grant funds awarded to subrecipients recovering from California's wildfires, mudslides, flooding, landslides, and mud and debris flows that occurred between 2017 and 2018.

## What We Recommend

This special report contains no recommendations. FEMA officials did not provide comments in response to this report.

**For Further Information:**
Contact our Office of Public Affairs at (202) 981-6000, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

## What We Found

FEMA needs to continue providing technical assistance to and monitoring of California's Public Assistance grant funding management. This helps avoid the risk of exposing millions of taxpayer dollars to fraud, waste, or mismanagement and violating the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*. In doing so, FEMA can assist California in providing reasonable, but not absolute assurance that Public Assistance subgrant funds are spent in accordance with Federal regulations and FEMA guidelines.

From October 1, 2013 through October 31, 2017, we issued 21 reports covering nine federally declared disasters in California. FEMA paid California over $30 million to manage and monitor Public Assistance subgrants awarded under the nine declared disasters. However, California inadequately monitored the subrecipients' activities, which contributed to the issues we identified in our prior reports. In addition to California's inadequate grant management, the other issues we identified in our prior reports included subrecipients' improper procurement, and unsupported or ineligible costs claimed.

These reports included 12 grant management findings and 40 recommendations, including 26 recommendations for questioned costs of $183.2 million. We determined that FEMA will likely face similar challenges pertaining to California's practices of monitoring subgrant activities during the recovery from seven major disasters declared between February 2017 and January 2018.

**OFFICE OF INSPECTOR GENERAL**
Department of Homeland Security

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

August 14, 2018

MEMORANDUM FOR: Jeffrey Byard
Associate Administrator
Office of Response and Recovery
Federal Emergency Management Agency

FROM: Sondra F. McCauley
Acting Assistant Insp

SUBJECT: Special Report: *Lessons Learned from Previous Audit Reports Related to California's Practice of Managing Public Assistance Grant Funds*

For your information is our final *Special Report: Lessons Learned from Previous Audit Reports Related to California's Practice of Managing Public Assistance Grant Funds*. This report was prepared under the *Inspector General Act of 1978*, as amended, Section 2(2), to provide leadership, coordination, and guidance; promote economy, efficiency, and effectiveness; and prevent and detect fraud, waste, and mismanagement in FEMA's programs and operations.

From October 1, 2013 through October 31, 2017, we issued 21 reports covering nine federally declared disasters in California that included 12 grant management findings and 40 recommendations, including 26 recommendations for total questioned costs of $183.2 million. FEMA paid California over $30 million to manage and monitor Public Assistance subgrants awarded under the nine declared disasters. However, California inadequately monitored subrecipients' activities, which contributed to the issues we identified in our prior reports. In addition to California's inadequate grant management, the other issues we identified in our prior reports included subrecipients' improper procurement, and unsupported or ineligible costs claimed.

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

Please call me with any questions, or your staff may contact Patrick O'Malley, Acting Deputy Assistant Inspector General for Audits, at (856) 229-5105.

## Background

Under the Public Assistance program, the Federal Emergency Management Agency (FEMA) reimburses recipients for costs incurred in administering Public Assistance grants awarded to state, local, and tribal governments and certain types of private nonprofit organizations. As part of grant administration, grant recipients must provide guidance and monitor the activities of its subrecipients to ensure that they use disaster recovery funds for authorized purposes, and in compliance with Federal statutes, regulations, and the terms and conditions of the award.[1]

Federal regulations also require recipients to follow up and ensure that subrecipients take timely and appropriate action on all deficiencies pertaining to the Federal award detected through audits, investigations, on-site reviews, and other means.

Between February 2017 and January 2018, the President declared seven major California disasters[2] eligible for Public Assistance funding. FEMA expects to obligate hundreds of millions of dollars from the Disaster Relief Fund to fund Public Assistance subgrants awarded under the seven disasters. Additionally, California expects to be paid millions to administer these Federal grants.

These disasters include wildfires, mudslides, flooding, landslides, and mud and debris flows. Two of the seven declared disasters were historically devastating to California, including wildfires and mudslides that resulted in the loss of 65 lives, and destroyed 461,229 acres and an estimated 9,274 structures.

**Figure 1: Damaged Properties, Santa Rosa, California**

*Source:* DHS Office of Inspector General (OIG)

[1] See 2 Code of Federal Regulations (CFR) 200.331(d).
[2] See appendix A, table 2.

The seven major disaster declarations[3] will provide Individual Assistance,[4] Public Assistance,[5] and Hazard Mitigation to affected communities within the designated areas.[6]

## Prior Findings and Recommendations

From October 1, 2013 through October 31, 2017, we issued 21 reports covering nine federally declared disasters in California. These reports included 12 grant management findings and 40 recommendations, including 26 recommendations for total questioned costs of $183.2 million. FEMA paid California over $30 million to manage and monitor Public Assistance subgrants awarded under the nine declared disasters.

However, California inadequately monitored the subrecipients' activities, contributing to the issues we identified in our prior reports. FEMA is presently on target to pay California millions more to manage Federal disaster grants awarded to subrecipients under seven declared disasters signed by the President between February 2017 and January 2018. In addition to California's inadequate grant management, the other issues we identified in our prior reports included subrecipients' improper procurement, and unsupported or ineligible costs claimed.

### Grant Management

We reported 12 instances in which California did not provide adequate oversight and monitoring of subrecipients' day-to-day subgrant activities. These mismanagement issues led to subrecipients' improperly procuring disaster-related work, and requesting reimbursement for unsupported or ineligible costs.

According to the Code of Federal Regulations, California, as a FEMA grant recipient, must provide guidance and monitor the day-to-day activities of its subrecipients to ensure that they use disaster recovery funds for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the award.[7]

Consequently, we provided FEMA with 12 grant management findings and

[3] See table 2 in appendix A for more details on the seven disaster declarations.
[4] FEMA's Individual Assistance program provides housing assistance and assistance for medical, funeral, and transportation expenses to eligible individuals who, because of a federally declared major disaster or emergency, have necessary expenses and serious needs that insurance or other means does not cover.
[5] FEMA's Public Assistance program awards grants to state, local, and federally recognized tribal governments and certain private non-profit entities to assist them with the response to and recovery from federally declared disasters.
[6] Hazard mitigation is any sustained action taken to reduce or eliminate long-term risk to people and property from natural hazards and their effects.
[7] See 2 CFR 200.331(d).

made 14 recommendations aimed at improving California's practices of overseeing and monitoring Public Assistance subgrant awards. We also recommended that FEMA have California provide reasonable assurance that subrecipients would comply with all Federal subgrant regulations. However, the consistent reportable issues related to grant management identified in our prior reports indicate FEMA has not fully enforced the recommendations for California to improve its practices of overseeing subrecipients' day-to-day subgrant activities.

**Improper Procurement**

We reported eight instances in which we recommended FEMA disallow $148.5 million in ineligible contract costs because subrecipients did not always comply with Federal procurement regulations. These questionable costs resulted from a combination of procurement weaknesses, including subrecipients neglecting to —

- employ full and open competition when awarding disaster-related work;
- take all affirmative steps to ensure that small and minority firms, women's business enterprises, and labor surplus area firms receive sufficient opportunities to bid on federally funded work;
- perform cost or price analyses; and
- maintain an adequate contract administration system to ensure contractors performed in accordance with the terms, conditions, and specifications of their contracts.

We determined that these procurement-related issues resulted from California's inadequate monitoring of subrecipients' activities. Therefore, these failures in California's monitoring of subgrant activities led to our recommendations to FEMA to disallow $148.5 million in contract costs.

**Unsupported or Ineligible Costs**

We reported 18 instances in which we recommended FEMA disallow a total of more than $34.7 million of unsupported or ineligible costs, which subrecipients had claimed for Public Assistance funding. For example, we identified 15 instances in which subrecipients claimed a total of $34.5 million in ineligible costs, including costs for excessive landfill fees, preexisting damage, and excessive equipment rentals.

According to 2 CFR 200.403(g), costs must be adequately documented to be allowable under Federal awards. Additionally, we reported three instances totaling $232,340 in which subrecipients requested reimbursement for unsupported labor costs.

We determined that California, as grantee, did not ensure that subrecipients complied with all Federal grant standards as required under 2 CFR 200.331(d) and 3002.10. As a result, California approved the $34.7 million in unsupported or ineligible costs for reimbursement under the Public Assistance program. We recommended FEMA disallow these costs.

## Conclusion

As FEMA transitions to the recovery phase for the seven California major disasters declared by the President between February 2017 and January 2018, hundreds of millions of dollars will be obligated from the Disaster Relief Fund to fund Public Assistance subgrant awards. California, as FEMA's grantee, expects to receive millions of dollars from FEMA to manage, oversee, and monitor subgrant activities.

California did not provide adequate oversight and monitoring of subrecipients' day-to-day activities. As a result, FEMA will be at risk of exposing hundreds of millions of taxpayer dollars to potential fraud, waste, or mismanagement. FEMA must be proactive and provide additional technical assistance to California, and improve its monitoring of California's practices of managing Public Assistance grant funding. Additionally, FEMA can assist California in providing reasonable, but not absolute assurance that Public Assistance subgrant funds are spent in accordance with Federal regulations and FEMA guidelines.

## Objective, Scope, and Methodology

The purpose of this special report is to notify FEMA of the challenges it may face from California's practices of managing and overseeing Public Assistance grant funds awarded to subrecipients recovering from the seven major disasters declared between 2017 and 2018. This report describes lessons learned regarding findings and recommendations of grant management, improper procurement, and unsupported or ineligible costs we identified in previous subgrant audit reports covering nine federally declared disasters issued for California. To accomplish our objective, we compiled and summarized reportable issues pertaining to grant management, improper procurement, and unsupported or ineligible costs identified in reports issued for federally declared disasters in California during fiscal years 2014–2018; analyzed the findings and recommendations in those reports; and quantified the financial significance of those findings.

We conducted this work between December 2017 and January 2018. This report was prepared under the *Inspector General Act of 1978*, as amended, Section 2(2), to provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and mismanagement in,

such programs and operations. The work performed does not constitute an audit in accordance with generally accepted government auditing standards.

On July 23, 2018, FEMA official informed the DHS OIG that they reviewed the final report, and do not plan to provide any comments. This official also stated that FEMA plans to use the final report as lessons learned for California grant management guidance.

The Office of Audit major contributors to this report are: Humberto Melara, Director; Louis Ochoa, Audit Manager; Renee Gradin, Auditor-in-Charge; Victor Du, Auditor; Paul Sibal Auditor; Kirsten Teal, Independent Reference Reviewer; and Kevin Dolloson, Communications Analyst.

# Appendix A

**Table 1: Fiscal Years 2014 to 2018 Subgrant Reports**

| Fiscal Year Issued | Report Number | Grant Management | Unsupported/ Ineligible Cost | Improper Procurement | Total Questioned Cost |
|---|---|---|---|---|---|
| FY14 | OIG-14-03-D | | $ 213,574 | $ | $ 213,574 |
| FY14 | OIG-14-24-D | X | 26,100 | | 26,100 |
| FY14 | OIG-14-28-D | X | 295,220 | | 295,220 |
| FY14 | OIG-14-56-D | X | 99,215 | | 99,215 |
| FY14 | OIG-14-103-D | | | | - |
| FY14 | OIG-14-109-D | X | 16,733 | 241,755 | 258,488 |
| FY15 | OIG-15-35-D | X | 1,473 | 3,642,597 | 3,644,070 |
| FY15 | OIG-15-40-D | | 945,640 | | 945,640 |
| FY15 | OIG-15-92-D | | | | - |
| FY15 | OIG-15-126-D | X | | 994,224 | 994,224 |
| FY15 | OIG-15-135-D | X | | 973,778 | 973,778 |
| FY16 | OIG-16-23-D | X | 1,163,225 | | 1,163,225 |
| FY16 | OIG-16-63-D | | 247,309 | | 247,309 |
| FY16 | OIG-16-99-D | X | | | - |
| FY16 | OIG-16-102-D | | | | - |
| FY16 | OIG-16-103-D | | | | - |
| FY16 | OIG-16-106-D | | | | - |
| FY16 | OIG-16-136-D | X | | | - |
| FY17 | OIG-17-25-D | | 31,713,569 | | 31,713,569 |
| FY17 | OIG-17-44-D | X | | | - |
| FY18 | OIG-18-08 | X | | 142,669,989 | 142,669,989 |
| **Totals** | | | | | **$183,244,401** |
| **Recommendations** | | **14** | **18** | **8** | **40** |

See DHS OIG reports under the "Reports" tab at http://www.oig.dhs.gov/.

**Table 2: California Major Disaster Declarations (2017-2018)**

| Disaster Number | Declaration Date | Incident Type |
|---|---|---|
| 4353 | January 02, 2018 | Wildfires, Flooding, Mudflows, and Debris Flows |
| 4344 | October 10, 2017 | Wildfires |
| 4312 | May 02, 2017 | Flooding |
| 4308 | April 01, 2017 | Winter Storms, Flooding, and Mudslides |
| 4305 | March 16, 2017 | Winter Storms, Flooding, and Mudslides |
| 4302 | February 14, 2017 | Winter Storms |
| 4301 | February 14, 2017 | Winter Storms, Flooding, and Mudslides |

*Source:* FEMA

# Appendix B
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