

**Summary and Key Findings
of Fiscal Year 2017
FEMA Disaster Grant and
Program Audits**





DHS OIG HIGHLIGHTS

Summary and Key Findings of Fiscal Year 2017 FEMA Disaster Grant and Program Audits

September 5, 2018

Why We Did This Audit

This is our ninth 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 potential monetary benefits resulting from our recommendations.

What We Recommend

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

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

In fiscal year 2017, we issued 37 reports concerning Federal Emergency Management Agency (FEMA) grants, programs, and operations. The reports included 16 grant audits, 13 proactive audits, and 8 program audits. Our balanced audit approach continues to produce a significant number of recommendations that could put funds to better use before problems occur. We made 79 recommendations to FEMA that identified potential monetary benefits of nearly \$2.2 billion. Two recommendations from *FEMA Should Disallow \$2.04 Billion Approved for New Orleans Infrastructure Repairs*, OIG-17-97-D, July 24, 2017, accounted for \$2.04 billion of the potential monetary benefits identified. FEMA disagreed with the recommendations, and OIG appealed to the DHS Audit Follow-up and Resolution Official for resolution. On July 12, 2018, the DHS Resolution Official concluded that FEMA acted appropriately and within its authority when awarding the funds.

Collectively, our FY 2017 work shows that FEMA continues to face systemic problems and operational challenges, and fails to manage disaster relief grants and funds adequately. Furthermore, FEMA remains ineffective at holding grant recipients accountable for properly managing disaster relief funds and providing adequate monitoring of or technical assistance to subgrantees. We continue to identify problems such as improper contracting activities, and ineligible and unsupported expenditures.

FEMA Response

FEMA’s response is included in its entirety as appendix C.



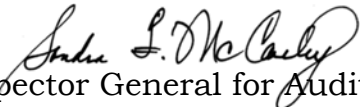
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Department of Homeland Security

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

September 5, 2018

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

FROM: Sondra F. McCauley 
Acting Assistant Inspector General for Audits

SUBJECT: *Summary and Key Findings of Fiscal Year 2017
FEMA Disaster Grant and Program Audits*

This report summarizes the results of audit reports we issued in fiscal year 2017 on Federal Emergency Management Agency (FEMA) grants, programs, and other operations funded from the Disaster Relief Fund. We issued 37 reports, which included 16 grant audits, 13 proactive audits, and 8 program audits.

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.

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

Please call me with any questions at (202) 981-6000, or your staff may contact Patrick O'Malley, Acting Deputy Assistant Inspector General for Audits, at (856) 229-5105.



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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 the Federal Emergency Management Agency (FEMA) in improving operations. The majority of our FEMA-related audits issued in FY 2017 focus on FEMA's Public Assistance program grants funded by the Disaster Relief Fund (DRF).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 major disasters.

Our annual summary is a consolidation of our findings and recommendations to highlight systemic issues of noncompliance and program inefficiencies that warrant FEMA management's attention. Although this 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 potential monetary benefits resulting from our recommendations. In the last 9 fiscal years, we audited grant funds totaling \$13.75 billion and reported potential monetary benefits of \$6.55 billion.

Results of Review

In FY 2017, 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 problems such as improper contract costs, and ineligible and unsupported expenditures.

In FY 2017, we identified \$2.08 billion in questioned costs, which represents 96 percent of the \$2.16 billion audited.² We issued 37 reports concerning FEMA grants, programs, and operations funded by the DRF. Specifically, we conducted 16 grant audits, 13 proactive audits, and 8 program audits. Of the

¹ The DRF is an appropriation against which FEMA can direct, coordinate, manage, and fund eligible response and recovery efforts associated with domestic major disasters and emergencies that overwhelm state resources, pursuant to the *Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act)*, Pub. L. No. 100-707 (1988) (codified as 42 United States Code (U.S.C. 5121 *et seq.*). Through the DRF, FEMA can fund authorized Federal disaster support activities as well as eligible state, territorial, tribal, and local actions, such as providing emergency protection and debris removal.

² Two recommendations from *FEMA Should Disallow \$2.04 Billion Approved for New Orleans Infrastructure Repairs*, OIG-17-97-D, July 24, 2017, accounted for \$2.04 billion of the potential monetary benefits identified. FEMA disagreed with the recommendations, and OIG appealed to the Department of Homeland Security Audit Follow-up and Resolution Official for resolution. On July 12, 2018, the DHS Resolution Official concluded that FEMA acted appropriately and within its authority when awarding the funds.



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37 total reports issued, 11 did not contain any findings or recommendations. The remaining 26 reports included findings and 79 recommendations to FEMA that identified potential monetary benefits of \$2.17 billion. Table 1 contains a summary of potential monetary benefits.

Table 1: FY 2017 Audit Activity and Results

Audit Activity	Reports Issued	# of Recs	Questioned Costs	Funds Put To Better Use	Potential Monetary Benefits
			(\$ millions)		
Grant Audits	16	54	\$2,082.7	\$8.8	\$2,091.5
Proactive Audits	13	21	-	\$73.3	\$73.3
Program Audits	8	4	-	-	-
Totals	37	79	\$2,082.7	\$82.1	\$2,164.8

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

Grant Audits

During FY 2017, we issued 16 grant reports covering 16 declared disasters in 13 states. These disasters occurred between 2004 and 2015. Two of the grant reports contained no findings or recommendations. The remaining 14 reports contained 54 recommendations and identified \$2.1 billion in potential monetary benefits. This amount included \$8.8 million we recommended FEMA put to better use and \$2,082.7 million in questioned costs that included Ineligible Work and Costs and Unsupported Costs, which we recommended FEMA disallow. Table 2 summarizes the status of the recommendations.

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



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Table 2: FY 2017 Grant Audits – Status of Recommendations as of October 1, 2017

Nature of Finding	Issued	FEMA Concurrency		Status	
		Yes	No	Open	Closed
Funds Put to Better Use	9	9	0	5	4
Ineligible Work or Costs	23	21	2	12	11
Unsupported Costs	4	4	0	3	1
Grant Management and Administration	19	19	0	9	10
Total	55⁴	53	2	29	26

Note: Two of the 12 open Ineligible Work or Costs recommendations are unresolved. All other open recommendations are resolved.

Nature of Findings Included in Potential Monetary Benefits

Funds Put To Better Use

The term “funds put to better use” refers to funds that could be used more efficiently if management took corrective actions including reducing outlays, deobligating funds from programs or operations, avoiding future costs through improvements related to programs or operations, and avoiding unnecessary expenditures noted in reviews of contracts or grant agreements.⁵ The most frequent funds put to better use findings were for lack of subrecipient policies, procedures, and business practices for compliance with Federal procurement regulations, interest earned on Federal funds, and unused funding.

Ineligible Work or Costs

FEMA regulations and policy establish four mechanisms to determine eligibility for disaster assistance. The four mechanisms are Applicant, Facility, Work, and Cost. All components must be determined eligible for FEMA to award funds for public assistance. Ineligible work or costs comprised the majority of the costs we questioned and two findings questioning the eligibility of work accounted for most of these questioned costs. In FY 2017, our most frequent findings were ineligible costs as a result of noncompliant contracting practices.

⁴ One recommendation from a grant report included two actions. For reconciliation purposes, we have accounted for these actions as if they were separate recommendations.

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



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Unsupported Costs

Federal cost principles require that subgrantees adequately document claimed costs under Federal awards.⁶ Also, 44 Code of Federal Regulation (CFR) § 13.20(b)(6) lists specific examples of documentation⁷ that auditors may accept as adequate to support accounting records.⁸ Without adequate documentation, FEMA has no assurance that costs are valid and eligible, thereby resulting in questioned costs.

Grant Management and Administration

These findings are generally administrative in nature. Federal regulations establish uniform administrative rules for grants and procedures for Public Assistance Grant Program project administration. These rules and procedures require grantees and subgrantees to have fiscal controls, accounting procedures, and project administration procedures. With these procedures in place, grantees and subgrantees can accurately report grant and subgrant financial and project status, and trace expenditures to a level that ensures they have not violated applicable statutes in using funds. Additionally, they can adhere to *Stafford Act* requirements and the specific provisions of applicable Federal regulations when administering Public Assistance Grant Program grants.

The report *FEMA Should Disallow \$2.04 Billion Approved for New Orleans Infrastructure Repairs*, OIG-17-97-D, July 24, 2017, contributed significantly to the total potential monetary benefits reported. This report's conclusion was that FEMA should not have awarded funds for repairs to the New Orleans infrastructure because neither FEMA nor the subgrantees showed that the damages were eligible for disaster assistance.

FEMA awarded the City of New Orleans (City) and the Sewerage and Water Board of New Orleans (S&W Board) \$785 million to repair damages to the New Orleans infrastructure (water, sewer, and drainage systems and roads) following Hurricane Katrina. In 2013, the City and S&W Board presented a \$2.03 billion proposal to complete repairs to the City's infrastructure. In July 2016, FEMA approved an additional \$1.25 billion and awarded two alternative procedures projects to complete the repairs. Even though FEMA attributed the

⁶ *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR pt. 225); *Cost Principles for Educational Institutions* (2 CFR pt. 220); and *Cost Principles for Non-Profit Organizations* (2 CFR pt. 230)

⁷ Examples of documentation include but are not limited to canceled checks, paid bills, payrolls, time and attendance records, and contracts.

⁸ We cite these regulations as they were in effect at the time of the disasters discussed in many of our reports.



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water distribution system damages directly to Hurricane Katrina in 2005, we concluded that FEMA did not have sufficient evidence to support its conclusion. Evidence shows that the infrastructure was old and in poor condition prior to the hurricane.

Eligibility for FEMA funding requires that the damages be the direct cause of the declared disaster, and it is the applicant's responsibility to show that the damages are disaster related. New Orleans' water system was very old, in poor condition prior to Hurricane Katrina, and leaking badly, with "unaccounted for water," a rough barometer of the health of the system, at three and a half times the national average. Two thirds of the system was at or past its useful life, and one third was close to 100 years old. The road and pavement structure was in a similar condition. When Hurricane Katrina struck, 62 percent of the roads were past their design life.

Because FEMA and the subgrantees failed to demonstrate Hurricane Katrina caused the infrastructure damages, we recommended that FEMA deobligate the initial award of \$785 million and deobligate the additional \$1.25 billion awarded to the applicants. FEMA disagreed with our recommendations. However, we maintain that FEMA did not have sufficient evidence to support its conclusion. The recommendations for this report were sent for resolution to the Department of Homeland Security Under Secretary for Management, serving as the Audit Follow-up and Resolution Official. On July 12, 2018, the Under Secretary for Management concluded that FEMA acted appropriately and within its authority when awarding the funds.

Proactive Audits

Proactive audits assess whether subrecipients have the capacity to account for and spend Federal funds responsibly before the funds are spent.⁹ We conducted these audits early in the Public Assistance program process to identify areas where the grant recipient may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines. Undergoing an audit early in the grant cycle allows grant recipients the opportunity to correct noncompliance before they spend the majority of their grant funding, and to supplement deficient documentation or locate missing records early in the recovery process.

⁹ In December 2014, FEMA adopted 2 CFR Part 200, or the "Super Circular," for disasters declared on or after December 26, 2014. For disaster declarations before December 26, 2014, 44 CFR Part 13 continues to apply to state and local governments. The Super Circular replaced "grantee" and "subgrantee" with "recipient" and "subrecipient."



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During FY 2017 we issued 13 proactive audit reports. Ten of these reports contained 21 recommendations and identified \$73.3 million in funds that could be put to better use in cost avoidances. The remaining three reports did not contain any findings or recommendations. All 13 reports covered disasters declared between 2014 and 2016. Table 3 summarizes the status of recommendations in proactive audit reports issued in FY 2017.

Table 3: FY 2017 Proactive Audits – Status of Recommendations as of October 1, 2017

Nature of Finding	Issued	FEMA Concurrence		Status	
		Yes	No	Open	Closed
Funds Put to Better Use	8	8	0	1	7
Grant Management and Administration	18	16	2	7	11
Total	26¹⁰	24	2	8	18

Note: All open recommendations are resolved.

Lack of subrecipient policies, procedures, and business practices for complying with Federal regulations was the most common deficiency contributing to funds put to better use findings during our proactive audits. The most common grant management and administration issue was the need for the grantee to provide more support, assistance, and oversight to the subgrantee.

Program Audits

The objectives of our program audits vary, but program audits generally evaluate aspects of FEMA policies, procedures, and programs. In 2017, we issued eight program audit reports that included:

- three audits of FEMA programs;
- two verification reviews;
- two advisory reviews; and
- a report titled *Audit Tips for Managing Disaster-Related Project Costs*.¹¹

Two reports contained four recommendations designed to improve FEMA programs. Table 4 summarizes the status of recommendations for program audit reports issued in FY 2017. The other six reports did not include any recommendations.

¹⁰ Five recommendations from our proactive grant audit reports identified two actions. For reconciliation purposes, we have accounted for these actions as if they were separate recommendations.

¹¹ OIG-17-120-D, September 2012



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Table 4: FY 2017 Program Audits – Status of Recommendations as of October 1, 2017

Nature of Finding	Issued	FEMA Concurrency		Status	
		Yes	No	Open	Closed
Recommendations designed to improve FEMA programs	4	4	0	4	0

Note: All open recommendations are resolved.

Verification Reviews

Audit follow-up is an integral part of good management and is a shared responsibility of agency management officials and auditors. Verification reviews are an important part of our audit follow-up responsibilities. Corrective action taken by management on resolved findings and recommendations is essential to improving Government operations. As part of the verification process, we evaluate progress on selected audit recommendations, including whether FEMA completed corrective actions as reported.

In the *Verification Review: FEMA’s Lack of Process for Tracking Public Assistance Insurance Requirements Places Billions of Tax Dollars at Risk*, OIG-17-50-VR, June 9, 2017, we assessed FEMA’s progress in implementing two recommendations from our report, *FEMA’s Process for Tracking Public Assistance Insurance Requirements*, OIG-12-18, December 16, 2011. We concluded that FEMA did not implement our recommendations and suspended improvements to existing information technology systems. We consider these recommendations critical to the success of any effort to manage the public assistance insurance requirement. Without a reliable system to track insurance information, FEMA is at risk of providing duplicate assistance in violation of the *Stafford Act*. Based on the results of our review, we changed the status of the two recommendations to open and unresolved. A status of unresolved means that a management decision has not been received by OIG or, if received, has not been agreed to by OIG.¹²

Management Alerts

Management Alerts are notifications used to inform senior FEMA managers of conditions that pose an immediate and serious threat of fraud, waste, or abuse within agency programs. These alerts, usually triggered by findings from the audit, inspection, and investigative work, may also contain recommendations to correct the identified concerns.

¹² Department of Homeland Security, Instruction No. 077-01-001, *Instruction on Follow-up and Resolution for Office of Inspector General Report Recommendations*, p. 3 (January 31, 2011)



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In the report *Management Alert – Observations and Concerns with FEMA's Housing Assistance Program Efforts for Hurricane Harvey in Texas*, OIG-17-121-MA, September 29, 2017, we identified challenges and risks that FEMA and Texas faced in providing housing assistance to survivors of Hurricane Harvey. Hurricane Harvey made landfall in Texas, causing catastrophic flooding and widespread destruction along much of Texas' Gulf Coast. FEMA estimated 119,000 residential structures suffered significant water damage. At the time our report was released, FEMA estimated its Direct Housing Assistance (DHA) Program costs (section 408, only)¹³ would reach approximately \$1 billion.

On September 22, 2017, FEMA and the State of Texas General Land Office (Texas) signed an intergovernmental service agreement (agreement) that required Texas to develop a project management plan to assist FEMA in the delivery of direct housing and direct permanent housing construction assistance. This plan, to be completed within 10 business days following execution of the agreement, must be approved by FEMA and Texas.

The agreement did not clearly define FEMA's and Texas' responsibilities for monitoring and overseeing the DHA program. Additionally, the agreement did not specifically outline FEMA's duty to monitor and conduct quality assurance activities to ensure Texas' implementation of the DHA program is efficient and effective. Texas' project management plan should also define specific certifications and credentialing criteria applicable to Texas' use of contractors and building inspectors.

The agreement required Texas to comply with Federal procurement regulations 2 CFR § 200.317 through 2 CFR § 200.326, and Texas' emergency procurement laws. However, the procurement-related issues identified in several prior audit reports highlight our concerns about grant subrecipients complying with Federal procurement requirements. Noncompliance with Federal procurement standards often results in high-risk contracts that can lead to excessive and ineligible costs ultimately passed on to U.S. taxpayers.

To reduce the potential for fraud, waste, and abuse while ensuring eligible disaster survivors receive much needed housing assistance, FEMA must ensure Texas' project management plan includes sufficient monitoring and oversight controls — especially for time and materials contracts. In addition, FEMA must ensure Texas officials fully understand their grant management

¹³ Under section 408 of the *Stafford Act*, displaced individuals and those whose primary residences were rendered uninhabitable as a result of the disaster may be eligible to receive direct housing assistance.



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responsibilities as well as their duty to adhere to Federal procurement requirements before awarding any disaster-related contract.

Conclusion

Collectively, our FY 2017 work shows that FEMA continues to face systemic problems and operational challenges, as the variety of findings summarized in this report illustrates. FEMA continually fails to manage disaster relief grants and funds adequately. Furthermore, FEMA remains ineffective at holding grant recipients accountable for properly managing disaster relief funds and providing adequate monitoring or technical assistance to subgrantees. Since FY 2010, we have consistently reported 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.

This report, like our previous “capping” reports, provides an opportunity for FEMA officials to examine regulations, policies, and procedures and assess the need for change based on our recurring 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. We also believe that future subgrantees of FEMA Public Assistance Grant Program funds would benefit from our findings and recommendations. This report contains no recommendations.

We annually update our *Audit Tips for Managing Disaster-Related Project Costs* (“audit tips”) and provide copies to FEMA Headquarters and Regional Administrators. We encourage FEMA to direct its Regional Administrators to request FEMA grantees to provide copies of our “audit tips” to every Public Assistance Grant Program applicant.

Management Comments and OIG Analysis

FEMA affirmed that it is committed to addressing OIG’s concerns summarized in the FY 2017 Capping Report and emphasized that strengthening grants management is an agency priority included in its FY 2017–22 Strategic Plan. We have included a copy of the FEMA management comments in their entirety in appendix C. We also received technical comments to the draft report and made revisions to the report as appropriate.

FEMA noted that it has a number of initiatives underway to improve the delivery of disaster assistance and reduce the risk of findings like those summarized in the report, yet its response did not include a detailed description of its planned efforts to reach this goal. Rather, FEMA highlighted



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that the number of OIG recommendations has been consistently decreasing since 2014. We caution FEMA in using the number of recommendations as an indicator of progress because some of our reports, such as recommendation follow-up reviews, may not result in additional recommendations. We urge FEMA to continue to focus its efforts on correcting the issues identified and preventing reoccurrence in the future. To this end, FEMA should continue to send proposed plans of action to OIG to facilitate resolution of open recommendations.

FEMA identified six initiatives that it claims were addressed in FY 2017 and believes that this information provides important context for the OIG findings. The initiatives, FEMA states, are directed at improving the management of disaster relief funds. Since we did not conduct any audit work on any of these initiatives during FY 2017, we are unable to validate FEMA's assertions or the statistical data FEMA provided.

In its response, FEMA also raised questions regarding the timing of our work during FY 2017. FEMA noted that our FY 2017 grant audits covered disasters declared between 2004 and 2015. This is due to the fact that FEMA awarded additional funds associated with 2005 Hurricanes Katrina and Rita in July 2016 — 12 years after the disaster.

We encourage FEMA to continue to take action on its commitment to strengthen grants management, including creating a plan that will identify root causes and identify solutions that are specific, viable, and can be implemented and managed to help prevent recurring problems similar to those included in this report.

Objectives, Scope, and Methodology

The objectives of this project were to compile and summarize 37 disaster-related audit reports OIG issued in FY 2017; review frequently reported audit findings in those reports; and quantify persistent and systemic issues impacting FEMA. The 37 FY 2017 reports consist of 16 grant audit reports, 13 proactive audit reports, and 8 program audit reports. The objective of our grant audits was to determine whether the grantees and subgrantees accounted for and expended FEMA funds according to Federal regulations and FEMA guidelines. Proactive audits assessed whether subrecipients had the capacity to account for and spend Federal funds responsibly. The eight program audits each had unique objectives and scopes.

The scope of this effort covered 37 disaster-related audit reports OIG issued in FY 2017. The 16 grant audits were of grantees and subgrantees awarded FEMA Public Assistance Grant Program funds that covered 16 declared disasters in



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13 states occurring between 2004 and 2015. The grantees and subgrantees we audited received awards totaling \$2.31 billion for debris removal; emergency protective measures; or permanent repair, restoration, and replacement of damaged facilities. We examined \$2.16 billion of the \$2.31 billion, or 94 percent, of the amounts FEMA awarded to recipients.

The 13 proactive audits covered recipients and subrecipients who anticipated receiving FEMA Public Assistance Grant Program funds for 11 declared disasters that occurred in 8 states between 2014 and 2016. The recipients and subrecipients anticipated receiving awards of \$416.4 million for debris removal; emergency protective measures; or permanent repair, restoration, and replacement of damaged facilities. Proactive audits assess whether subrecipients have the capacity to account for and spend Federal funds responsibly. As such, they are conducted early in the Public Assistance program process to identify areas where the grant recipient may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines.

Appendix A lists the 16 grant audit reports and the 13 proactive audit reports analyzed for this report. Appendix B lists the eight program audit reports. All of these reports are available on our website at <https://www.oig.dhs.gov/reports/audits-inspections-and-evaluations>.

To accomplish our objectives, we compiled and summarized 37 disaster-related audit reports issued in FY 2017; reviewed 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; and performed other procedures we considered necessary to accomplish our objectives.

We conducted this review between September and November 2017 pursuant to the *Inspector General Act of 1978*, as amended. This review was not conducted according to generally accepted government auditing standards.

The Office of Audits major contributors to this report are Yesi Starinsky, Director; D. Kaye McTighe, Director; John McPhail, Supervisory Program Analyst; Corneliu Buzesan, Program Analyst; Dana Smith, Independent Referencer; and Kevin Dolloson, Communications Analyst.



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Appendix A FY 2017 OIG Disaster Grant and Proactive Audit Reports

Grant Audits

OIG-17-06-D	<i>FEMA Should Recover \$1.8 Million of \$5.5 Million in Public Assistance Grant Funds Awarded to Columbia County, Florida, for Tropical Storm Debby Damages</i>	11/2/2016
OIG-17-07-D	<i>FEMA Should Recover \$2.4 Million in Investment Gains Pennsylvania Improperly Earned on Federal Disaster Funds</i>	11/8/2016
OIG-17-17-D	<i>Omaha Public Power District in Nebraska Generally Accounted for and Expended FEMA Grant Funds Properly</i>	1/4/2017
OIG-17-18-D	<i>FEMA Should Disallow \$2.0 Million of \$3.59 Million Awarded to Stratford, Connecticut</i>	1/9/2017
OIG-17-20-D	<i>FEMA Should Disallow \$577,959 of \$2.9 Million Awarded to Puerto Rico Aqueduct and Sewer Authority for Hurricane Irene Damages</i>	1/10/2017
OIG-17-21-D	<i>Perth Amboy, New Jersey, Effectively Managed FEMA Grant Funds Awarded for Hurricane Sandy Damages</i>	1/12/2017
OIG-17-25-D	<i>Victor Valley Wastewater Reclamation Authority in Victorville, California, Did Not Properly Manage \$32 Million in FEMA Grant Funds</i>	1/24/2017
OIG-17-41-D	<i>Aiken County, South Carolina, Effectively Managed FEMA Grant Funds Awarded for Severe 2014 Winter Storm</i>	3/1/2017
OIG-17-46-D	<i>Minneapolis Park and Recreation Board Did Not Follow All Federal Procurement Standards for \$5.1 Million in Contracts</i>	3/16/2017
OIG-17-77-D	<i>FEMA Should Disallow \$1.5 Million in Grant Funds Awarded to Hays County, Texas</i>	6/22/2017
OIG-17-93-D	<i>FEMA Should Recover \$3.9 Million of \$13.2 Million in Grant Funds Awarded to the Borough of Lavallette, New Jersey</i>	7/5/2017
OIG-17-97-D	<i>FEMA Should Disallow \$2.04 Billion Approved for New Orleans Infrastructure Repairs</i>	7/24/2017
OIG-17-102-D	<i>Audit of FEMA Public Assistance Grant Funds Awarded to the City of Pensacola, Florida</i>	8/16/2017



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Appendix A (cont.)

Grant Audits

OIG-17-106-D	<i>Audit of FEMA Public Assistance Grant Funds Awarded to Downe Township, New Jersey</i>	9/19/2017
OIG-17-117-D	<i>Audit of FEMA Grant Funds Awarded to the Roman Catholic Diocese of Brooklyn, New York</i>	9/29/2017
OIG-17-118-D	<i>FEMA Should Disallow \$246,294 of \$3.0 Million in Public Assistance Grant Funds Awarded to Lincoln County, Missouri</i>	9/29/2017

Proactive Audits

OIG-17-19-D	<i>Western Farmers Electric Cooperative, Oklahoma, Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant</i>	1/10/2017
OIG-17-34-D	<i>Columbia County Roads Department, Oregon, Needs Continued State and FEMA Assistance in Managing Its FEMA Grant</i>	2/1/2017
OIG-17-35-D	<i>Escambia County, Florida, Has Adequate Policies, Procedures, and Business Practices to Effectively Manage FEMA Grant Funds Awarded to Replace Its Central Booking and Detention Center</i>	2/6/2017
OIG-17-44-D	<i>Management Advisory - CalRecycle, a California State Agency, Needs Assistance to Ensure that \$230 Million in Disaster Costs Are Valid</i>	3/6/2017
OIG-17-48-D	<i>Iron County Forestry and Parks Department, Wisconsin, Needs Assistance and Monitoring to Ensure Proper Management of Its FEMA Grant</i>	3/20/2017
OIG-17-57-D	<i>Colorado County, Texas, Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant</i>	5/4/2017
OIG-17-62-D	<i>Texas Should Continue to Provide Deweyville Independent School District Assistance in Managing FEMA Grant Funds</i>	5/24/2017
OIG-17-66-D	<i>Milwaukie, Oregon, Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant Funding</i>	6/6/2017



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Appendix A (cont.)

Proactive Audits

OIG-17-79-D	<i>Linn County Road Department, Oregon, Has Sufficient Policies, Procedures, and Business Practices to Manage Its FEMA Grant Funding</i>	6/22/2017
OIG-17-83-D	<i>Fort Bend County, Texas, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its FEMA Grant</i>	6/28/2017
OIG-17-95-D	<i>Williamsburg Regional Hospital, South Carolina, Generally Accounted for and Expended FEMA Grant Funds Awarded for Emergency Work Properly</i>	7/6/2017
OIG-17-105-D	<i>St. Johns County, Florida, Could Benefit from Additional Technical Assistance and Monitoring to Ensure Compliance with FEMA Grant Requirements</i>	9/19/2017
OIG-17-113-D	<i>The Covington County Commission Needs Additional Assistance in Managing a \$5.4 Million FEMA Grant from Winter 2015 Storms and to Save Millions in the Future</i>	9/29/2017



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Appendix B FY 2017 OIG Disaster Program Audit Reports

OIG-17-13-D	<i>Summary and Key Findings of Fiscal Year 2015 FEMA Disaster Grant and Program Audits</i>	11/29/2016
OIG-17-16-VR	<i>Verification Review of Larimer County, Colorado, OIG Audit Report (OIG-15-34-D)</i>	1/4/2017
OIG-17-27-MA	<i>Management Advisory Report: Review of FEMA Region IV Strategic Source IDIQ Contract for Office Supplies</i>	1/23/2017
OIG-17-38-D	<i>FEMA Needs to Improve Its Oversight of the Sheltering and Temporary Essential Power Pilot Program</i>	2/10/2017
OIG-17-50-VR	<i>Verification Review: FEMA's Lack of Process for Tracking Public Assistance Insurance Requirements Places Billions of Tax Dollars at Risk</i>	6/9/2017
OIG-17-108-D	<i>FEMA Should Strengthen Its Policies and Guidelines for Determining Public Assistance Eligibility of Private Non-Profit Schools</i>	9/20/2017
OIG-17-120-D	<i>Audit Tips for Managing Disaster-Related Project Costs</i>	9/29/2017
OIG-17-121-MA	<i>Management Alert - Observations and Concerns with FEMA's Housing Assistance Program Efforts for Hurricane Harvey in Texas</i>	9/29/2017



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Appendix C
FEMA's Response to Report

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



FEMA

July 13, 2018

MEMORANDUM FOR: John E. McCoy II
Assistant Inspector General for Audits

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

DAVID R
BIBO JR
Digitally signed by
DAVID R. BIBO JR
Date: 2018.07.13
17:13:40 -04'00'

SUBJECT: Management's Response to OIG Draft Report:
"Summary and Key Findings of Fiscal Year 2017 FEMA
Disaster Grant and Program Audits" (Project No. G-18-002-
EMO-FEMA)

Thank you for the opportunity to review and comment on this draft report (Fiscal Year [FY] 2017 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 critical recovery efforts continue following the unprecedented 2017 hurricane season and the California wildfires, FEMA remains committed to addressing OIG's concerns summarized in the FY 2017 Capping Report, including identifying and addressing root causes that may contribute to these concerns. The 2018-2022 FEMA Strategic Plan establishes the strengthening of grants management as an agency priority (see Objective 3.4). FEMA recognizes it must serve disaster survivors as consistently, effectively, and efficiently as possible, while being accountable stewards of taxpayer dollars at the same time. This includes (1) working collaboratively with partners at the state, local, tribal, and territorial levels to strengthen grant management and oversight, and (2) instilling a culture of continuous improvement. FEMA has a number of initiatives underway to improve the delivery of disaster assistance and reduce the risk of findings like those summarized in the report, which we were pleased to note did not identify any systemic or significant fraud.

It is important to note that OIG's FY 2017 Capping Report was heavily weighted by the findings and recommendations in one report: OIG-17-97, an audit of the City of New Orleans (CNO) and the Sewerage and Water Board of New Orleans (S&W Board). FEMA

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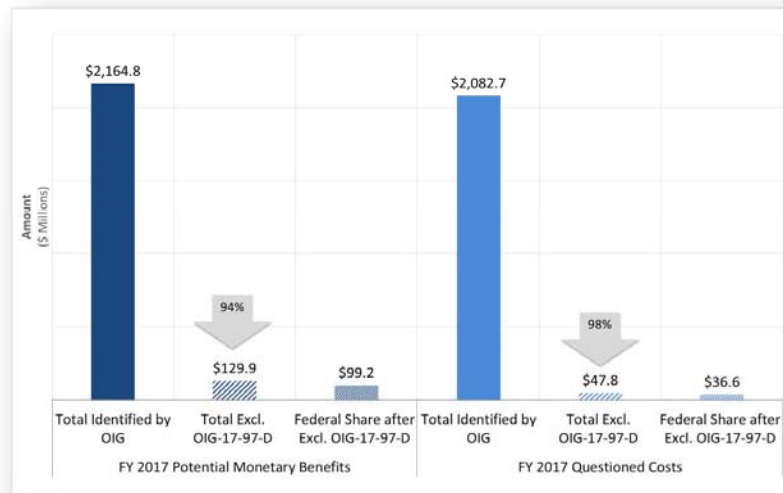


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did not concur with these findings and recommendations. On July 12, 2018, the Under Secretary for Management, as the Audit Follow-up and Resolution Official for the Department, concluded that FEMA acted appropriately and within its authority when awarding these funds to the CNO and S&W Board to complete infrastructure repairs related to Hurricanes Katrina and Rita, thus resolving these disagreements.

As depicted in Figure 1, based on the Under Secretary for Management's decision, the FY 2017 Capping Report questioned cost (QC) figure should be \$47.8 million (federal share \$36.6 million) and the FY 2017 potential monetary benefits (PMB) figure should be \$129.9 million (federal share \$99.2 million). These figures are considerably lower than those reported in prior capping reports. Notwithstanding these significantly lower figures, FEMA remains committed to continuing to strengthen grants management.

Figure 1: Revised FY 2017 Potential Monetary Benefits and Questioned Costs



FEMA is also pleased to note the following as relates to the FY 2017 Capping Report:

- **More Audits with No Recommendations:** Of the 37 FY 2017 audit reports, 11 (30 percent) had no recommendations, two percentage points above FY 2016. This trend has been consistently observed in recent years (28 percent in FY 2016, 27 percent in FY 2015, and 16 percent in FY 2014).
- **Strong Responsiveness to Recommendations:** As of June 29, 2018, 30 (81 percent) of the 37 total FY 2017 OIG audit reports are closed and 24 (83 percent) of the 29 grant audit reports (traditional and proactive) are closed, with OIG agreement. This included 10 grant audit reports that were closed upon the publication of the individual OIG reports.



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In addition to the CNO audit, the FY 2017 Capping Report references specific audit reports for which FEMA believes additional context is helpful. Specifically:

- **OIG-12-18** – “FEMA’s Process for Tracking Public Assistance Insurance Requirements,” dated December 16, 2011.
 - **OIG** noted that, as a result of a FY 2017 verification review, it reopened two previously-closed **OIG-12-18** recommendations (pertaining to FEMA’s tracking of Public Assistance insurance requirements). On February 2, 2018, FEMA sent **OIG** a proposed plan of action to facilitate the resolution of these two recommendations, and is currently awaiting **OIG**’s reply on how both parties can move forward to resolve and close these recommendations.
- **OIG-17-121-MA** – “Management Alert - Observations and Concerns with FEMA’s Housing Assistance Program Efforts for Hurricane Harvey in Texas,” dated September 29, 2017.
 - FEMA recognizes work remains to be done to build state and local government capacity to plan for and execute post-disaster housing functions typically performed by FEMA. Based on lessons learned from Hurricane Harvey, FEMA is developing a multi-year plan to strengthen state and local governments’ ability to deliver post-disaster direct housing by developing guidance and training. FEMA is also working to encourage state and local governments to use Emergency Management Performance Grants, Continuous Training Grants, and other FEMA/DHS grants to build post-disaster housing capacity through planning, training, and exercises.

FEMA appreciated **OIG**’s highlighting in prior year capping reports selected steps FEMA had taken during those years to improve performance; however, we understand that **OIG** will not be including this information in the FY 2017 Capping Report. We believe that including this information provides important context for **OIG**’s findings because of the natural, yet significant, lag time between audit reporting and the results of corrective actions.¹ Listed below find many of the steps relevant to FY 2017 reporting that FEMA has taken. We look forward to **OIG**’s independent review and validation of these initiatives, which are intended to help strengthen grants management.

- Implementing the new Public Assistance (PA) delivery model nationwide to improve the accuracy, consistency, and efficiency of the PA grant process. As of the end of FY 2017, FEMA implemented the new PA delivery model in 13 new disasters, trained more than 1,700 Federal and 226 state, local, tribal, and territorial officials on the new approach, and updated or developed 120 position assist documents, templates, checklists, and other guidance.
- Processing 970 grants (about \$125 million in grants) through the new PA delivery model, with a goal of improving program accuracy, consistency, and efficiency.
- Evaluating progress against 26 objectives and metrics to evaluate the performance of the new PA delivery model, which FEMA anticipates will reduce audit findings by providing greater technical assistance to applicants on



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the front end of the grant process, identifying and resolving potential issues earlier, and improving eligibility determinations through more standardized training and procedures.

- Holding a PA Workshop during which representatives from states, FEMA Regional Offices, and FEMA Headquarters discuss PA subject matter including recent OIG grant audit findings.
- Hiring 250 PA reservists and integrated them into field operations.
- Holding 153 FY 2017 training sessions for 3,681 federal, state, tribal, and local emergency management personnel in an effort to prevent future non-compliance with federal procurement requirements.

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

Again, thank you for the opportunity to review and comment on this draft report. Technical comments for this draft report were previously provided under separate cover. 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.

ⁱ During FY 2017, OIG published final grant audit reports linked to disasters declared between 2004 and 2015. OIG-17-97-D (CNO S&W), which accounts for 98 percent of OIG's reported FY 2017 QC and 94 percent of OIG's reported FY 2017 PMB, was an audit associated with the 2005 Hurricanes Katrina and Rita (DR-1603 and DR-1607, respectively) from almost 13 years ago. Of OIG's FY 2017 grant audits (traditional and proactive), 15 (52 percent) of 29 are for disasters declared three or more years prior to final grant audit report publication.



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Appendix D
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