Office of Inspector General
Auditing FEMA Disaster Grants

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Office of Emergency Management Oversight

New England Intergovernmental Audit Forum
North Conway, New Hampshire
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Overview

- DHS OIG Organization
- Emergency Management Oversight Mission
- Fiscal Year 2012 Production
- Fiscal Year 2012 Results
- Objective for Fiscal Year 2012 Capping Report
- Summary of Findings & Recommendations
- Ineligible Work or Costs
- Funds Put To Better Use
- Unsupported Costs
- Grants Management and Administrative Issues
- Conclusion
- Questions

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EMO Organization

Assistant Inspector General
John V. Kelly

Acting Deputy Assistant Inspector General
Tonda Hadley

Administrative Support

HQ Audit Division

Western Regional Division
(FEMA Regions IX and X)
Humberto Melara

Central Regional Division
(FEMA Regions V – VIII)
Tonda Hadley

New Orleans Field Office

Eastern Regional Division
(FEMA Regions I – IV)
C. David Kimble

Puerto Rico Field Office

Biloxi Field Office

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Emergency Management Oversight (EMO)

Mission –

- Provide aggressive and ongoing audit effort to ensure that disaster relief funds are spent appropriately;
- Identify fraud, waste, and abuse as early as possible;
- Keep Congress, the Secretary, the Administrator of FEMA and others fully informed on problems relating to disaster operations and assistance programs;
- Focus on prevention through review of internal controls and monitoring; and
- Advise DHS and FEMA officials on contracts, grants, and purchase transactions before they are approved.
OIG Commitments to Agency

- Conduct our work thoroughly, objectively, considering Agency perspectives, and minimizing disruptions of Agency work.
- Keep Agency advised of our findings on a timely basis.

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Emergency Management Oversight Team (EMOT)

- Deploy early on during major disasters
- Provide an objective and independent observation of national disaster-related activities
- Detect and prevent fraud, waste, and abuse
- Coordinate with other federal agencies, state and local audit organizations, as well as the Government Accountability Office

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OIG Audit Process

How do we select who to audit?

- Congressionally Mandated
- Current or Potential Dollar Magnitude
- Congressional Requests, or Requests from FEMA and State officials
- Reports of Allegations of Impropriety
Audit Objective

Are costs claimed under the award eligible and allowable under federal regulations and DHS/FEMA guidelines?
Questions the Audit Seeks to Answer

- Are activities allowed under the grant program and approved scope of work?
- Are costs supported by adequate documentation?
- Are costs necessary and reasonable?
Audit Criteria
(Non-exclusive)

- Robert T. Stafford Disaster Relief and Emergency Assistance Act
- OMB Circulars (Cost Principles & Administrative Requirements) e.g. A-21, A-97, A-122, A-133, FAR, etc.
- FEMA Publications/Guidelines
Fiscal Year 2012 Production

October 1, 2011 to September 30, 2012

- 59 FEMA disaster grant audit reports
- Funds awarded January 2004 to December 2009
- Representing 31 Presidentially-declared disasters
  - Spanning 16 States & 1 U.S. Territory
- Objective: To determine whether grantees and subgrantees accounted for and expended FEMA funds according to Federal regulations and FEMA guidelines.

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Fiscal Year 2012 Results

October 1, 2011 to September 30, 2012

- $1.25 billion (82%) audited of $1.52 billion awarded to 59 grantees/subgrantees.
- 187 recommendations.
- $415.6 million potential monetary benefits.
- 33% of audit total in potential monetary benefits. FY 2011 – 28%; FY 2010 – 13%; FY 2009 – 15%
  - FY increase due in part to increases in Funds Put To Better Use

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# Summary of Findings & Recommendations

<table>
<thead>
<tr>
<th>Types of Findings</th>
<th># of Resulting Recommendations</th>
<th>$’s Questioned in our Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ineligible Work or Costs</td>
<td>85</td>
<td>$246,475,048</td>
</tr>
<tr>
<td>Funds Put to Better Use</td>
<td>25</td>
<td>147,698,246</td>
</tr>
<tr>
<td>Unsupported Costs</td>
<td>26</td>
<td>21,418,885</td>
</tr>
<tr>
<td>Grants Management and Administrative Issues</td>
<td>51</td>
<td>0</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>187</strong></td>
<td><strong>$415,592,179</strong></td>
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</table>
## Ineligible Work or Costs

<table>
<thead>
<tr>
<th>Subtypes of Ineligible Work or Costs</th>
<th># of Resulting Recommendations</th>
<th>$’s Questioned in our Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Responsibility</td>
<td>3</td>
<td>$ 98,197,351</td>
</tr>
<tr>
<td>Project Cost Estimating</td>
<td>4</td>
<td>31,099,228</td>
</tr>
<tr>
<td>Contracting Practices</td>
<td>10</td>
<td>21,746,755</td>
</tr>
<tr>
<td>Other Ineligible Work/Costs</td>
<td>68</td>
<td>95,431,714</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>85</strong></td>
<td><strong>$246,475,048</strong></td>
</tr>
</tbody>
</table>
Legal Responsibility

- We questioned $98.2 million.

- Federal regulation requires that subgrantees be legally responsible for the damaged facility in order to be eligible for Federal disaster assistance.

- FEMA and grantee officials should not rely on the subgrantee’s verbal representations.
  - Relying on subgrantee’s word, rather than legal documentation, to determine ownership provides no assurance that Federal funds are going to an eligible entity.

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Project Cost Estimating

- **$31.1 Million** questioned costs for incorrectly estimated and calculated project costs

- Three instances involved FEMA’s misapplication of the “50 Percent Rule” to determine project eligibility and replace damaged facilities.
  - These resulted from FEMA’s reliance on inaccurate documentation provided by subgrantees.
  - In one case FEMA approved an ineligible HMGP project, because neither FEMA nor the grantee reviewed the Benefit/Cost Analysis.
Contracting Practices

- We questioned $21.7 million.
- Non-compliance with federal procurement regulations often results in high-risk contracts with excessive costs.
- Full & open competition...
  - Allows all qualified bidders to participate; and
  - Discourages and prevents favoritism, collusion, fraud, waste, and abuse.
Contracting Practices (continued)

- We generally do not question contracting practices & costs during the exigency period.
- However, non-compliance after exigency remains a major concern.
- FEMA has remedies for non-compliance with applicable procurement statues and regulations.
  - However, FEMA seldom holds grantees/subgrantees accountable for non-compliance and seldom disallows improper contract costs.
Contracting Practices (continued)

- For improper contract costs, FEMA cites that it has authority to reimburse for the reasonable cost of eligible work.
  - Consequently, grantees and subgrantees have little or no incentive to follow procurement regulations.
- Under certain conditions, the Stafford Act and Federal regulations allow agencies to grant exceptions to Federal administrative requirements for grants.
- OMB allows this only on a case-by-case basis. But only OMB may grant exceptions for classes of grants or grantees.
  - Clearly OMB’s intent was not for Federal agencies to routinely make exceptions to procurement standards.
### Other Ineligible Work or Costs

<table>
<thead>
<tr>
<th>Types of Ineligible Work or Costs</th>
<th># of Resulting Recommendations</th>
<th>$’s Questioned in our Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative allowance/overhead</td>
<td>2</td>
<td>$45,590,364</td>
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<tr>
<td>Insurance proceeds misapplied /misallocated</td>
<td>9</td>
<td>37,026,250</td>
</tr>
<tr>
<td>Excessive or unreasonable costs</td>
<td>10</td>
<td>4,504,274</td>
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<tr>
<td>Duplicate Costs</td>
<td>8</td>
<td>3,774,597</td>
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<tr>
<td>Outside FEMA-approved scope</td>
<td>8</td>
<td>1,052,809</td>
</tr>
<tr>
<td>Miscellaneous ineligible charges</td>
<td>31</td>
<td>3,483,420</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>68</strong></td>
<td><strong>$95,431,714</strong></td>
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# Funds Put To Better Use

<table>
<thead>
<tr>
<th>Subtypes of Funds Put To Better Use</th>
<th># of Resulting Recommendations</th>
<th>$’s Questioned in our Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Cost Estimating</td>
<td>4</td>
<td>$ 84,419,152</td>
</tr>
<tr>
<td>Unused Obligated Funds</td>
<td>15</td>
<td>46,064,102</td>
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<tr>
<td>Funding From Other Agency</td>
<td>4</td>
<td>15,019,249</td>
</tr>
<tr>
<td>Miscellaneous Causes</td>
<td>2</td>
<td>2,195,743</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>25</strong></td>
<td><strong>$147,698,246</strong></td>
</tr>
</tbody>
</table>
Funds Put To Better Use (continued)

- Deobligating unneeded funds sooner would…
  - Release funds to cover cost overruns on other projects;
  - Help close out subgrantees’ claims;
  - Provide a more accurate status of program costs; and
  - Be consistent with appropriations law.

- Grantees can improve their monitoring by ensuring that unneeded funds are identified and returned to FEMA as soon as practicable.
Unsupported Costs

- We reported **26** instances in which subgrantees did not adequately support costs claimed.
- Our questioned costs totaled **$21.4 million**.
- Unsupported costs resulted because subgrantees…
  - had not established fiscal and accounting procedures that would allow us to trace expenditures, and
  - did not maintain accounting records that were supported by source documents.

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Grants Management and Administrative Issues

- Our reports included 51 grants management and administrative recommendations covering project accounting, general grants management, contracting practices, contract billings, and project costs.
  - 8 instances of improper project accounting.
  - 28 instances in which grantee management could be improved.
Grants Management and Administrative Issues (continued)

- Federal regulations establish uniform administrative rules for grants and procedures for PA and HMGP project administration.

- Federal regulations require…
  - States, as grantees, and subgrantees
    - Have fiscal controls,
    - Accounting procedures, and
    - Project administration procedures.
Conclusion

- This report marks the 4th consecutive year that we have summarized the results of our grant audits.
  - The goal is to identify systemic problems
- Grantees and subgrantees did not always properly account for and expend FEMA PA and HMGP program funds.
- Federal regulations require states, as grantees, to oversee subgrant activities and ensure that subgrantees are aware of and follow Federal regulations.
- Our findings indicate that states should do a better job of educating subgrantees and enforcing Federal regulations.
Conclusion (continued)

- It is FEMA’s responsibility to hold states accountable for proper grant administration, especially with regard to contracting practices.

- Although FEMA has the authority to waive certain administrative requirements, it should not be standard practice.
Conclusion (continued)

- As we previously stated in our FY 2011 Capping Report, FEMA should use the remedies specified in Federal regulations to...
  - Hold grantees and subgrantees accountable for material noncompliance with Federal statutes and regulations, and
  - Demand that grantees and subgrantees properly account for and expend FEMA funds.
FEMA should consider requesting states to…
- Evaluate their capabilities to effectively administer FEMA PA and HMGP grants,
- Identify gaps inhibiting effective grant and subgrant management and program and project execution, and
- Identify opportunities for FEMA technical assistance such as training and project monitoring.

Because PA and HMGP projects often take years to complete, constant grantee monitoring is critical to ensure subgrantees’ compliance throughout the life of the projects.
Conclusion (continued)

- This report provides a means for FEMA to…
  - Examine its regulations, policies, and procedures, and assess the need for changes;
  - Inform grantees of activities that should be avoided or implemented; and
  - Share this report with grantees as a reminder of their grant management responsibilities.
- Given the Federal government’s trillion-dollar annual budget deficit, all Federal agencies need to minimize Federal outlays whenever possible.

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- Email: DHSOIGHOTLINE@dhs.gov
- Or write: DHS Office of Inspector General
  - Attention: Office of Investigations – Hotline
  - 245 Murray Drive SW, Building 410
  - Washington, DC 20528

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Questions