

INTERNAL CONTROLS OVER HURRICANE SANDY DISASTER RELIEF

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U.S. GOVERNMENT
ACCOUNTABILITY OFFICE

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Discussion Topics

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- Background Information
- GAO's Review of Agencies' Internal Control Plans
 - ▣ Compliance with OMB Guidance
- GAO's Conclusions Following Review of Plans/Guidance
 - ▣ Linkage to Known Control Risks
 - ▣ Criteria and Justification for Significant Decisions
 - ▣ Opportunity for Proactive Approach
- Other GAO Work Related to Hurricane Sandy



Disaster Relief Appropriations Act, 2013

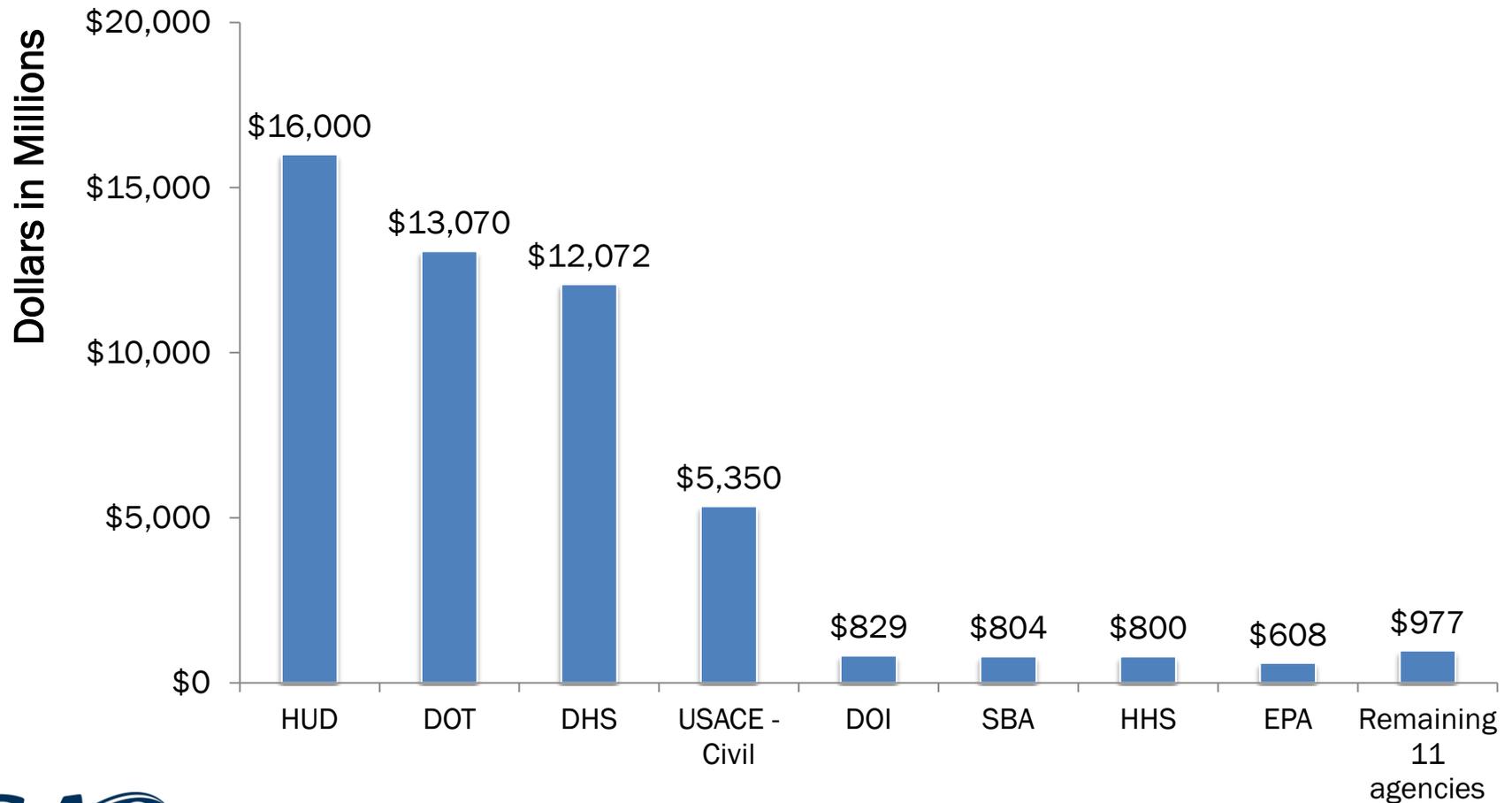
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- Enacted January 29, 2013
- Provided approximately \$50 billion in supplemental appropriations (before sequestration) for expenses related to the consequences of Hurricane Sandy
- Funding provided to 61 programs or appropriation accounts at 19 federal agencies



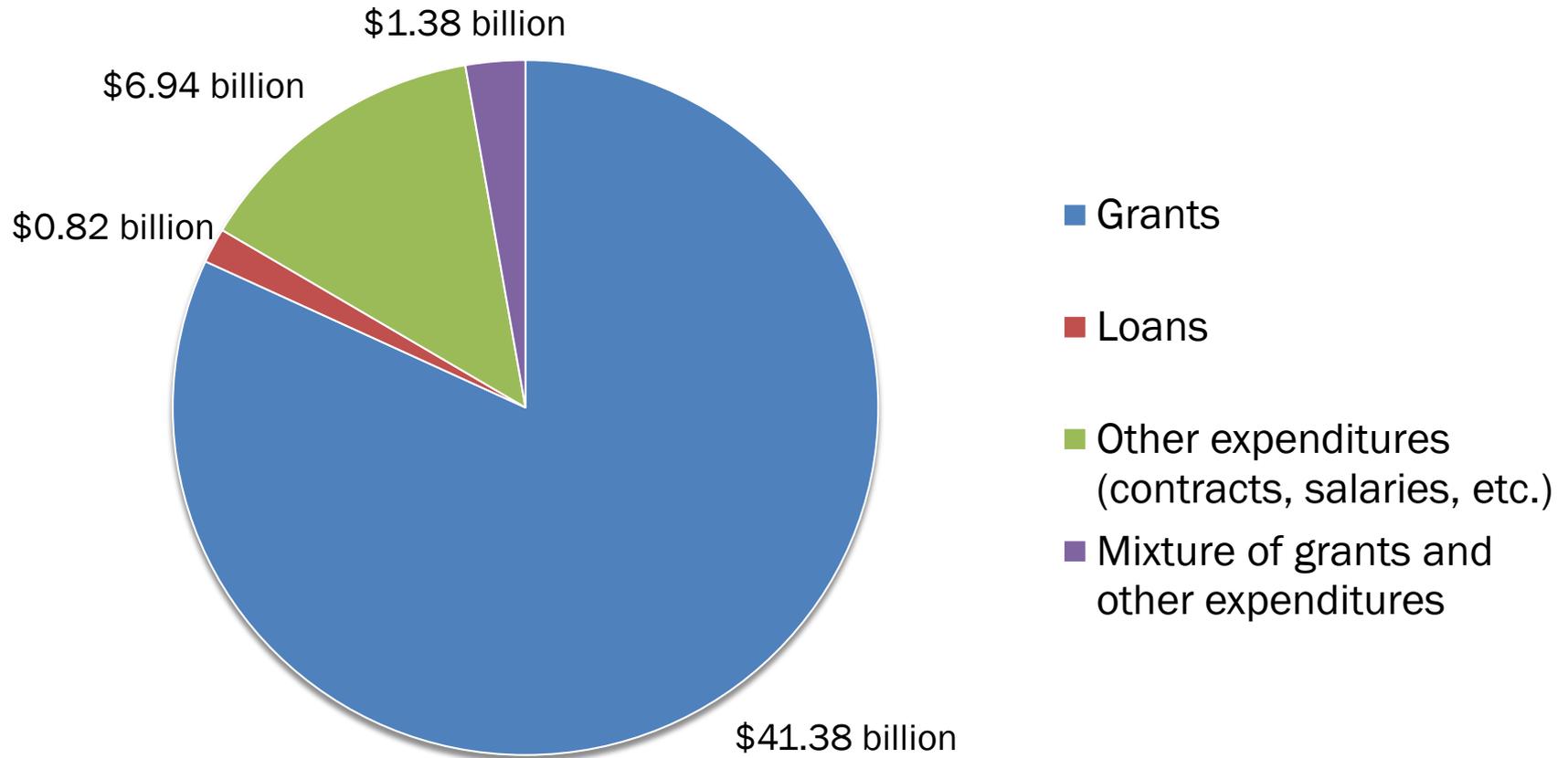
Distribution of Appropriations Provided by the Disaster Relief Act

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Types of Expenditures Authorized under the Disaster Relief Act

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Note: Amounts do not reflect reductions due to subsequent sequestration.

Disaster Relief Appropriations Act, 2013

– Agency Internal Controls

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- ❑ Required each agency receiving funding to develop internal control plans for the supplemental appropriations by March 31, 2013
- ❑ Required the Office of Management and Budget (OMB) to develop guidance for agencies to develop the internal control plans
- ❑ Required GAO to review the internal control plans prepared by each agency receiving funding by June 30, 2013



Hurricane Sandy Task Force

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- ❑ Established through Executive Order 13632 on December 7, 2012
- ❑ Responsible for identifying opportunities for agencies to work together to support recovery from Hurricane Sandy and to promote strong accountability of the funds
- ❑ Issued the *Hurricane Sandy Rebuilding Strategy* on August 19, 2013



OMB Memorandum M-13-07

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- OMB issued its guidance on March 12, 2013
 - ▣ Memorandum M-13-07, *Accountability for Funds Provided by the Disaster Relief Appropriations Act*

- Directed each of the 19 agencies to prepare a Sandy disaster relief internal control plan with specific program details using an OMB template



OMB Memorandum M-13-07

ATTACHMENT
Sandy Relief Internal Control Plan

Date:
Agency:

Please submit one internal control plan for the agency as a whole with program details provided in the table below.

Using the table below, describe the incremental risks identified with each program administering Sandy recovery funding as well as the internal control strategy (specific policies and procedures enhancements) for mitigating each of these risks. Note that the risk assessment should reflect the agency strategy on reducing improper payments, promoting effective grants management, and ensuring the integrity of acquisitions. Further, the plans should address efforts to conduct additional levels of review, increase monitoring and oversight of grant recipients, enhance collaboration with the inspector general community, expedite review and resolution of audit findings, and adopt improper payments management protocol.

Program Name	Funded Activities	Risks Associated with Funded Activities	Mitigation Strategy
Program Name	Provide a brief description of the actions being taken by the program in response to Sandy.	Provide a description of incremental risks ⁶ associated with the actions being taken in response to Sandy.	Provide a description of actions being taken to address the increased risk identified, including governance structure, policies and procedures, communication strategies, and monitoring and oversight mechanisms.

⁶ If incremental risks are not identified, management can also describe how risks are accepted and managed as part of ongoing monitoring activities.

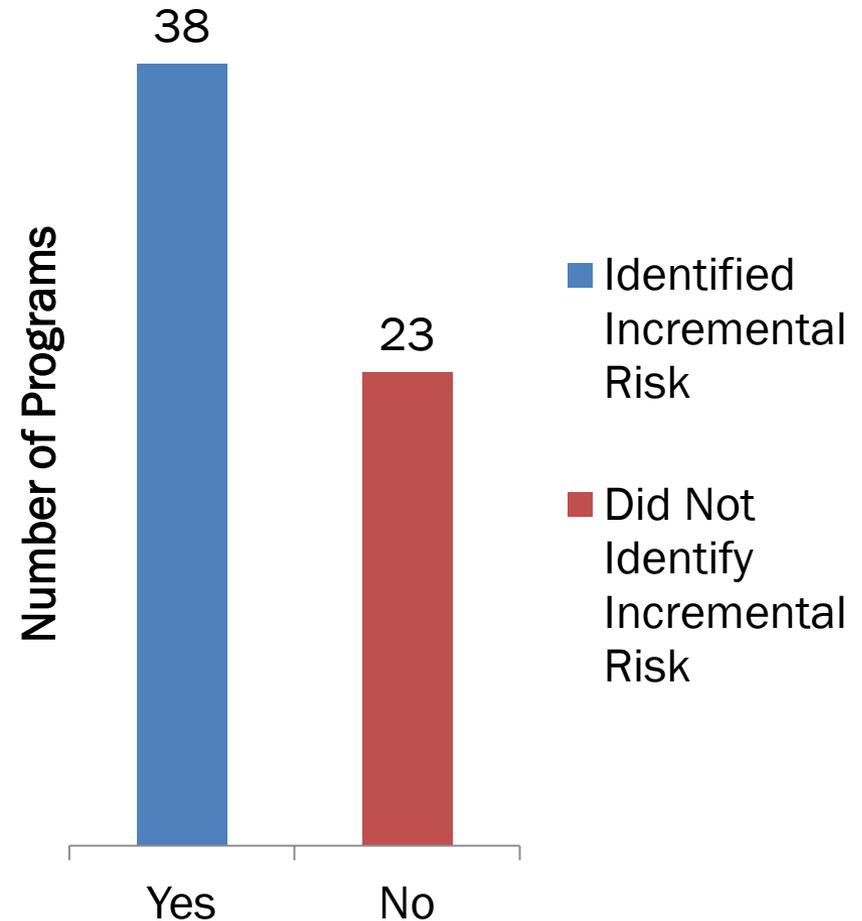
Source: OMB Memorandum M-13-07.



OMB Memorandum M-13-07

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- M-13-07 directed agencies to describe the *additional internal controls* to mitigate the *incremental risks* related to Hurricane Sandy funding
- Of the 61 programs, 38 identified incremental risk related to their Hurricane Sandy funding



OMB Memorandum M-13-07

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- Provides a focus on three major areas:
 - Additional internal controls for Sandy-related activities based on the following;
 - Conducting additional levels of review
 - Increasing monitoring and oversight of grantees
 - Collaboration with the Inspector General community
 - Expediting review and resolution of audit findings
 - Improper payments protocol; and
 - Management of unexpended grant funds.



GAO's Scope and Methodology

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- GAO reviewed:
 - ▣ Agencies' Sandy disaster relief internal control plans
 - ▣ OMB Memorandum M-13-07
 - ▣ Prior GAO and Inspector General reports related to programs receiving Sandy disaster relief funding
 - ▣ Standards for Internal Control in the Federal Government

- GAO also met with OMB and agencies to discuss the development and implementation of M-13-07.



Conducting Additional Levels of Review

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Requirement: Agencies shall adopt more expansive review procedures, as appropriate, to scrutinize the following items. To ensure a higher degree of accountability, each agency shall include senior-level officials in these reviews, as appropriate.

Item for more expansive review	Required of	Exception to requirement
a. Award decisions	Programs that identified incremental risk	Not required if agency determines that it is not appropriate
b. Payment transactions		
c. Other critical process elements that impact the use of Disaster Relief Act funds		



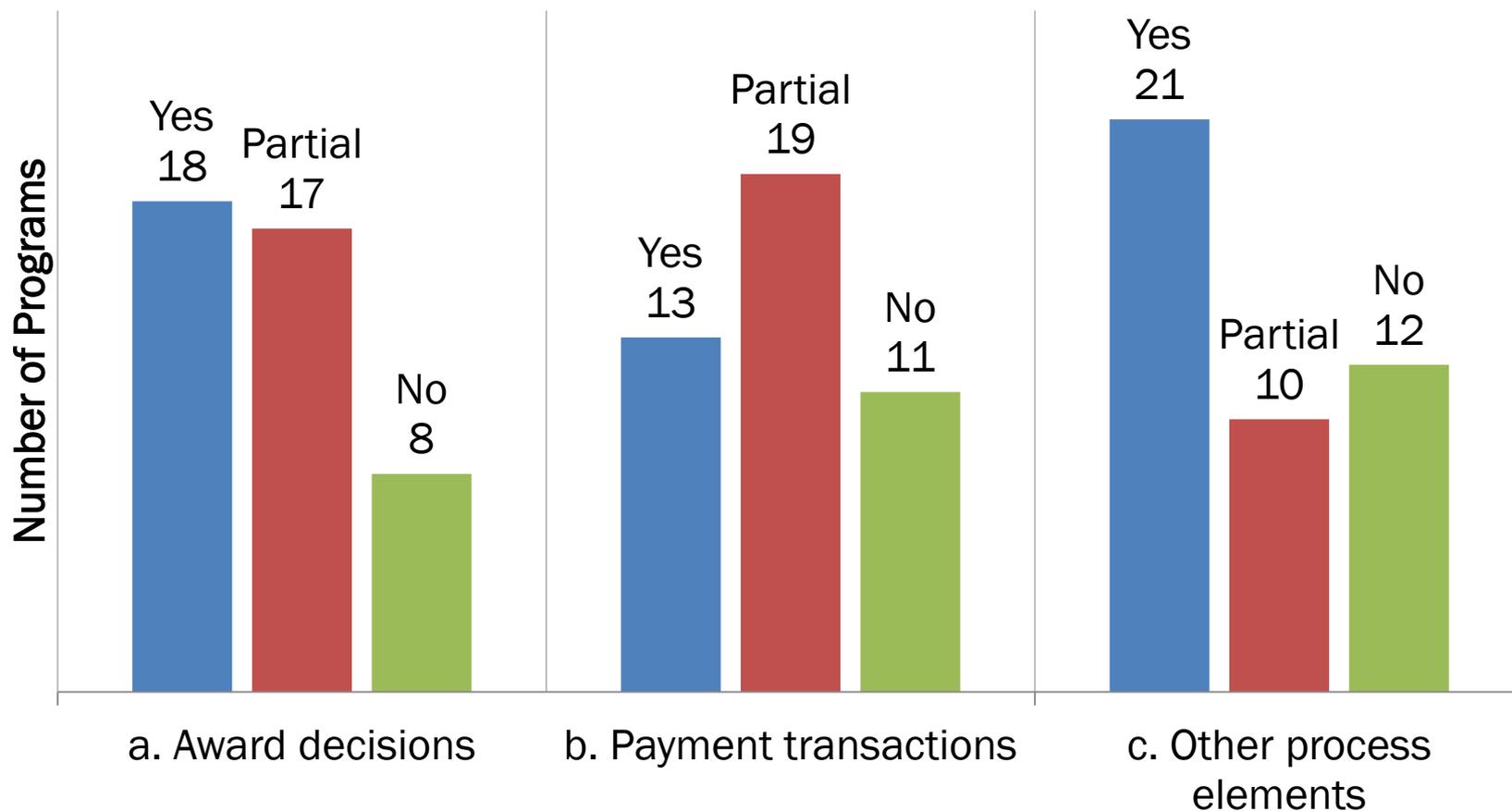
Conducting Additional Levels of Review

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- Our review found that agencies' discussion of conducting additional levels of review for programs that identified incremental risk related to Sandy activities varied.
 - However, it is not clear from the Sandy disaster relief internal control plans whether these agencies determined that additional levels of review were not necessary for these programs.
 - Additionally, some agencies also discussed conducting additional levels of review for certain programs for which they did not identify incremental risk in their Sandy disaster relief internal control plans.



Conducting Additional Levels of Review



Note: A "partial" response indicates that the agency described an existing, not additional, review process to satisfy the intent of the requirement.

Conducting Additional Levels of Review

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- Examples in agencies' Sandy disaster relief internal control plans
 - One agency planned to establish an executive council to make final decisions on project selection for its Hurricane Sandy funding.
 - One agency planned to establish a program management council that would review Sandy programs at key decision points, such as contract award, and assess performance in terms of cost, schedule, and technical achievement.
 - One agency planned to establish a team of senior agency representatives to coordinate the full range of Sandy-related deliverables, from tracking obligations to reporting.



Increasing Monitoring and Oversight of Grant Recipients

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Requirement: To the extent appropriate to mitigate risk and to the extent possible under budgetary constraints, agencies shall increase the following monitoring and oversight mechanisms for grant recipients.

Monitoring and oversight mechanism	Required of	Exception to requirement
a. Increased frequency and specificity of grantee reporting	Grant programs that identified incremental risk	Not required if agency determines that it is not appropriate or possible under budgetary constraints
b. Additional site visits		
c. Additional technical assistance and training for grant recipients		



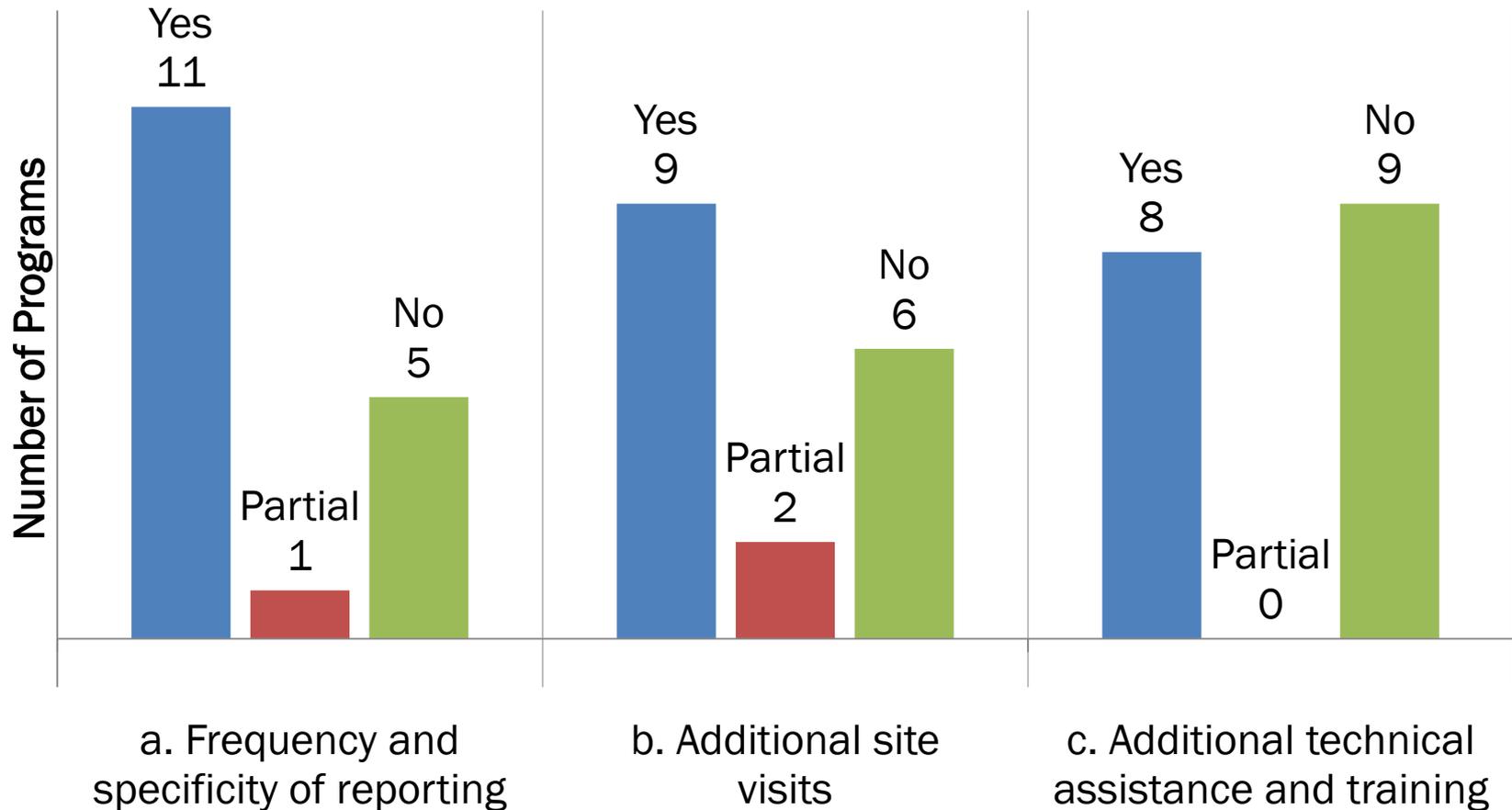
Increasing Monitoring and Oversight of Grant Recipients

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- Our review found that agencies' discussion of increasing monitoring and oversight of grant recipients varied.
- Certain agencies did not discuss additional monitoring and oversight of grant recipients for some grant programs.
 - However, it is not clear from the Sandy disaster relief internal control plans whether these agencies determined that increasing monitoring and oversight of grant recipients was not necessary for these programs or not possible under budgetary constraints.



Increasing Monitoring and Oversight of Grant Recipients



Note: A "partial" response indicates that the agency described an existing, not additional, mechanism for grantee oversight to satisfy the intent of the requirement.

Increasing Monitoring and Oversight of Grant Recipients

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- Examples in agencies' Sandy disaster relief internal control plans
 - One agency planned to increase oversight of Hurricane Sandy grantees by requiring financial and milestone progress reports on a monthly basis, rather than quarterly as required of other grantees.
 - One agency planned to hire term-staff to provide additional monitoring, technical assistance, and oversight of grantees.



Continuing Collaboration with the Inspector General Community

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Requirement	Required of	Exception to requirement
To identify and mitigate potential risk, agencies shall continue early and frequent engagement with Inspectors General to discuss issues affecting the Disaster Relief Act's disaster-related programs and activities.	Programs that identified incremental risk	No exception



Continuing Collaboration with the Inspector General Community

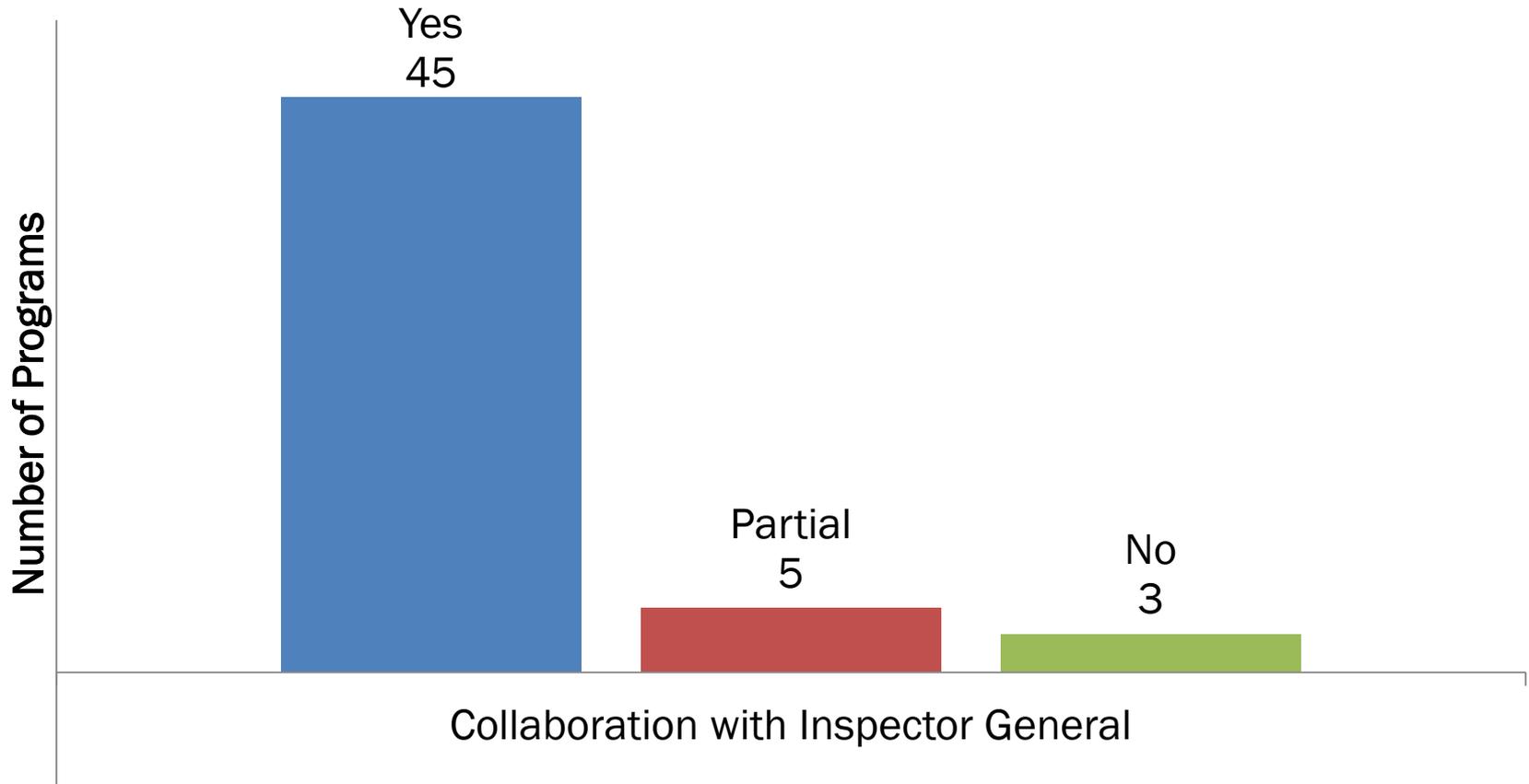
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- Our review found that agencies discussed collaboration with their agency's Inspector General for most programs.
- While the requirement applied to the 38 programs that identified incremental risk, 15 programs that did not identify incremental risk also discussed continuing collaboration with their agency's Inspector General in their Sandy disaster relief internal control plans.



Continuing Collaboration with the Inspector General Community

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Note: A "partial" response indicates that the agency described its process for general collaboration with the agency's Inspector General but did not explain how this collaboration would involve Hurricane Sandy funding.

Continuing Collaboration with the Inspector General Community

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- Examples in agencies' Sandy disaster relief internal control plans
 - One agency noted that it planned to hold monthly meetings with its IG to discuss ongoing audits and foster additional coordination through participation in program conferences and training.
 - One agency planned to provide a monthly report summarizing Sandy funding to its IG.



Expediting Review and Resolution of Audit Findings

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Requirement	Required of	Exception to requirement
Agencies shall resolve all audit findings (GAO, IG, single audit) within 6 months after completion of the audit to the extent practicable.	Programs that identified incremental risk	Not required if agency determines it to not be practicable
Agencies should avoid granting extension requests for audit report submissions.	Grant programs that identified incremental risk	No exception
Agencies should explore the feasibility of conducting additional audit activities to review internal control procedures prior to funding the activity.	Grant programs that identified incremental risk	Not required if agency determines it to not be feasible



Expediting Review and Resolution of Audit Findings

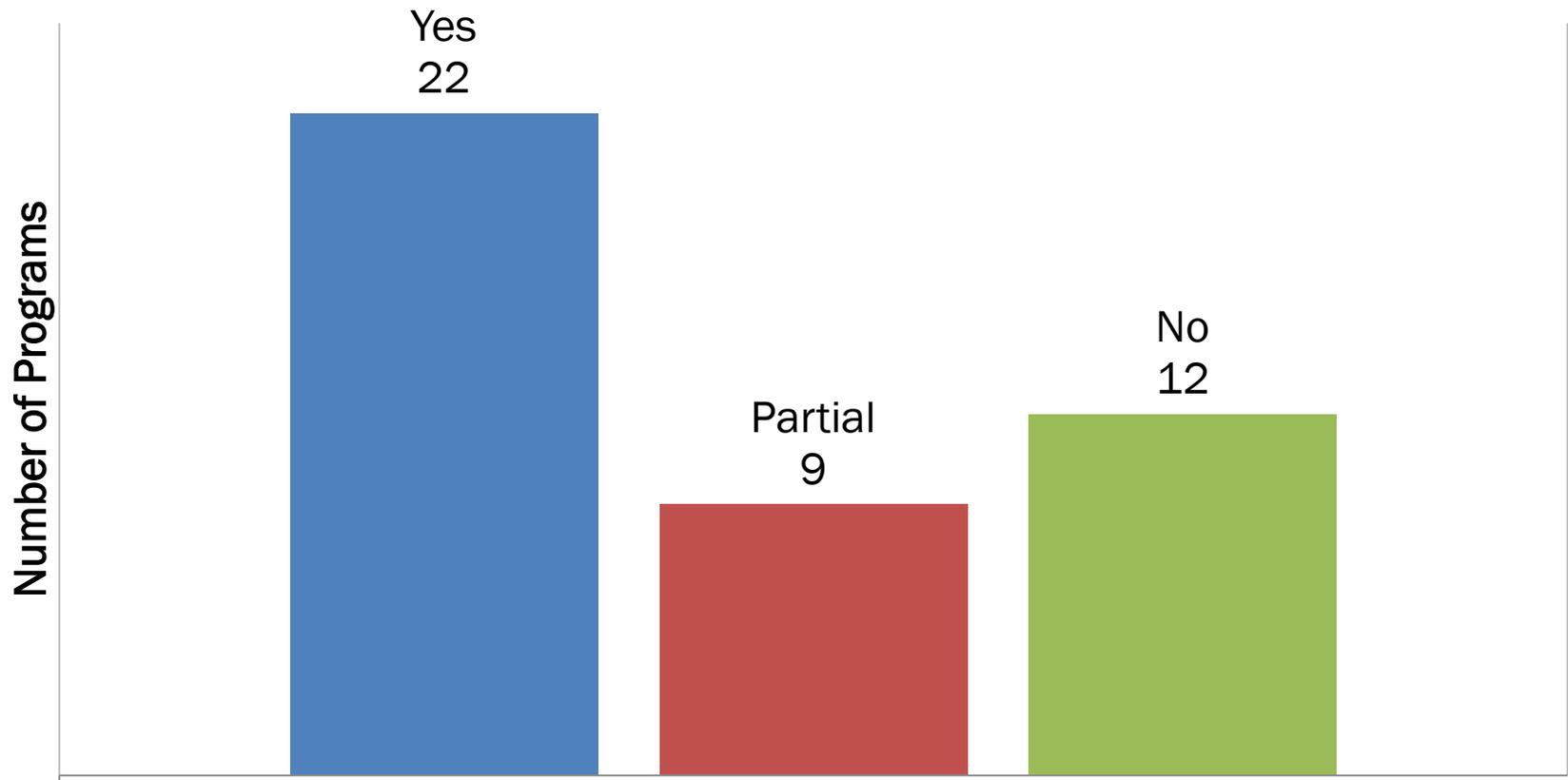
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- Our review found that agencies' discussion of expediting review and resolution of audit findings varied.
- For most grant programs, agencies did not discuss avoiding granting extension requests for audit report submission and exploring the feasibility of conducting additional audit activities prior to funding the activity.
 - However, it is not clear from the Sandy disaster relief internal control plans whether or not agencies determined that these additional audit activities prior to funding the activity would not be feasible.



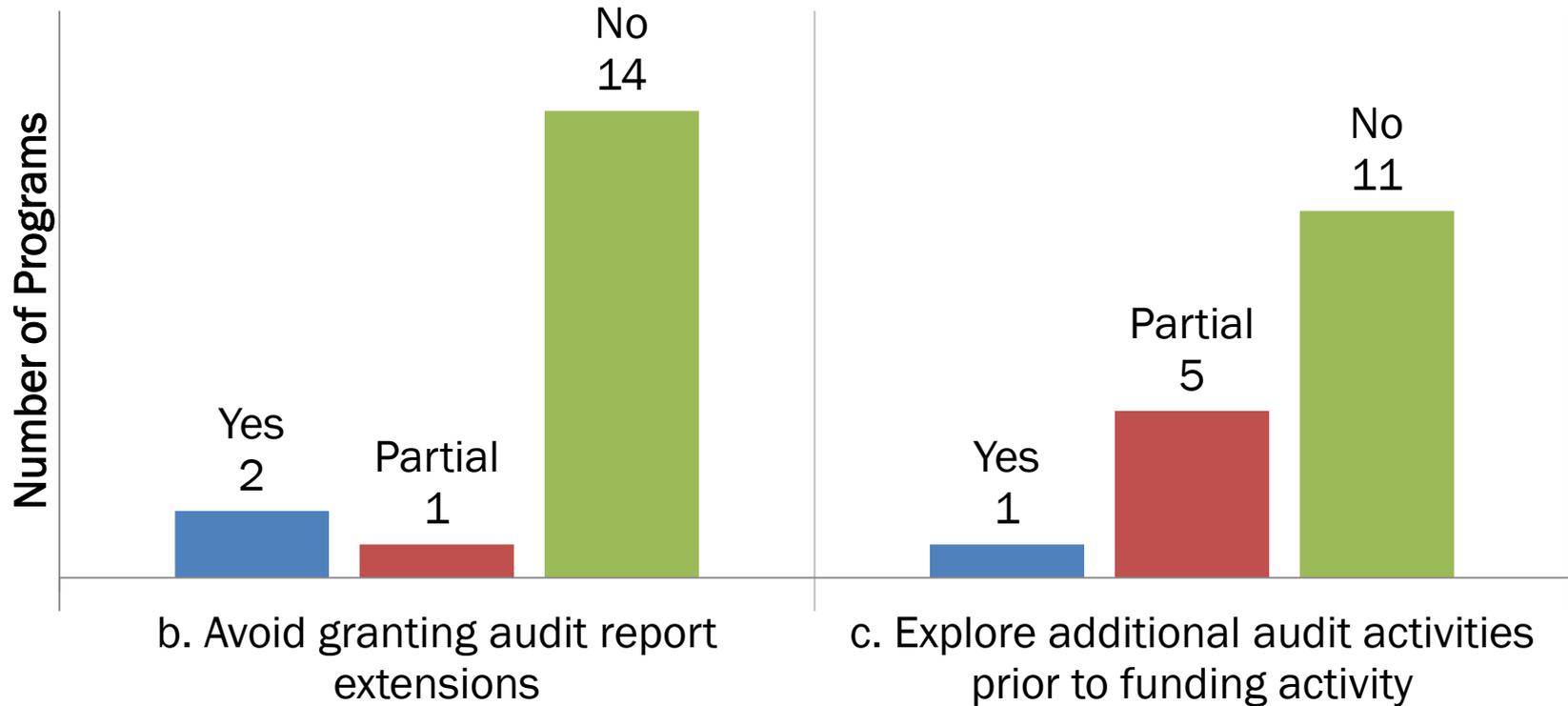
Expediting Review and Resolution of Audit Findings

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a. Resolve audit findings within 6 months

Expediting Review and Resolution of Audit Findings



Note 1: A "partial" response for (b) indicates that the agency described its existing processes for processing grantee audit reports but did not specifically mention avoiding extension requests.

Note 2: A "partial" response for (c) indicates that the agency described an existing, not additional, procedure to review grantee internal controls prior to funding the activity to satisfy the intent of the requirement.

Adopting Improper Payments Management Protocol

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Requirement	Required of	Exception to requirement
<p>Agencies shall manage Sandy-related funding with the same discipline and rigor as programs traditionally designated as high-risk for improper payments. All federal programs or activities receiving funds under the Act are automatically considered susceptible to significant improper payments, regardless of any previous improper payment risk-assessment results, and are required to calculate and report an improper payment estimate.</p>	<p>All programs receiving funding under the Disaster Relief Act</p>	<p>No exception</p>



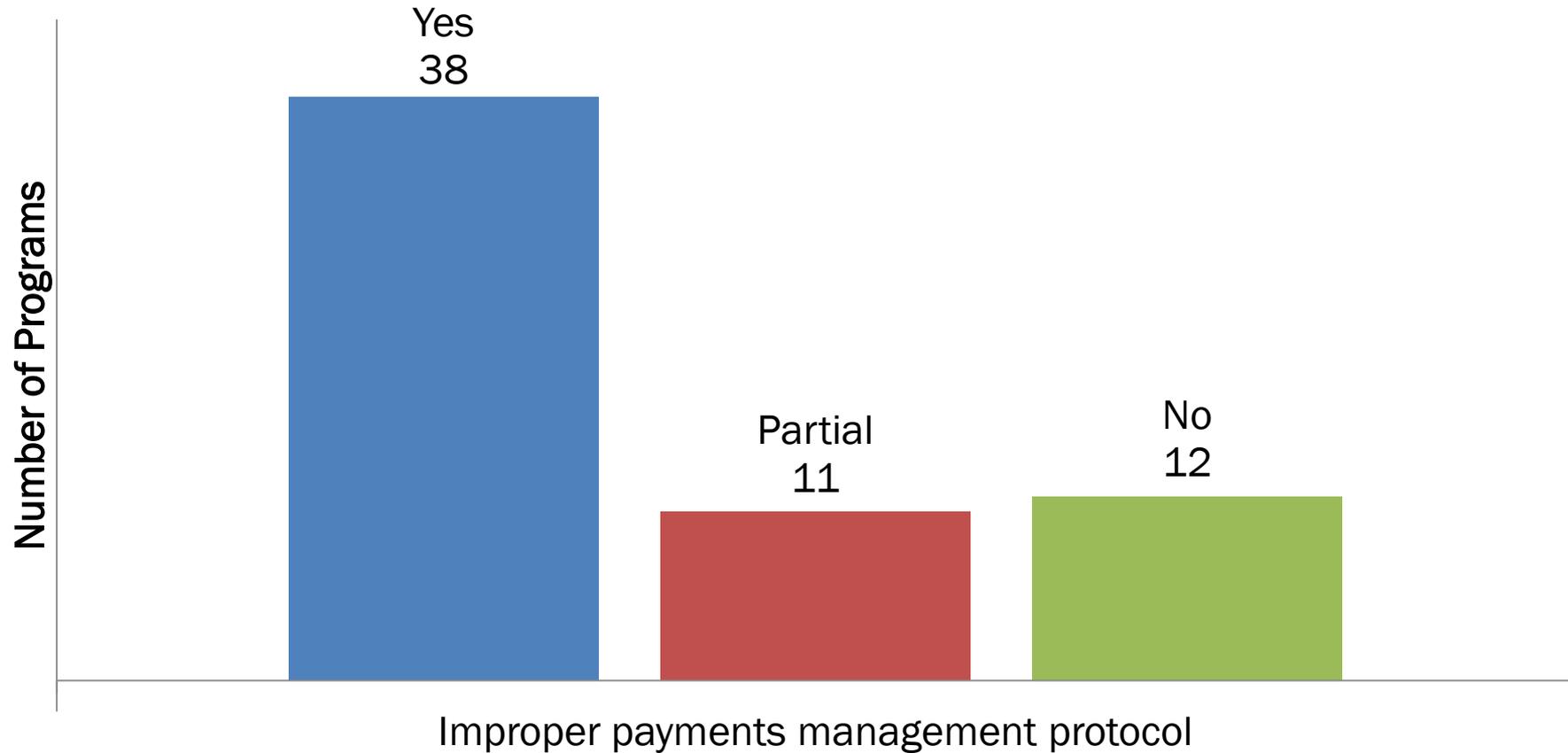
Adopting Improper Payments Management Protocol

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- Our review found that:
 - Agencies discussed developing a sampling methodology to produce and report an estimate of improper payments in the fiscal year 2014 reporting period for 38 programs.
 - Agencies discussed improper payments, but did not discuss producing and reporting an estimate of improper payments, for 11 programs.
 - Agencies did not discuss improper payments for 12 programs.

Adopting Improper Payments Management Protocol

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Management of Unexpended Grant Funds

Requirement:	Required of:	Exception to Requirement:
<p>All awards under the Disaster Relief Act must require grantees to expend award funds within the 24-month period following the agency's obligation of those funds.</p> <p>Each agency shall require grantees to return to the agency any funds not expended within the 24-month period following the agency's obligation of funds for the grant.</p> <p>Agencies shall ensure that each proposed grant activity has clear timelines for execution within and completion within the statutory period available for grantee expenditure.</p>	<p>All grant programs</p>	<p>May not be required if agency obtains waiver from OMB</p>
<p>Each agency must ensure that any requests to waive or extend this period are limited to only those activities that are long-term by design, where it is impracticable to expend funds within the 24-month period and achieve program missions.</p>	<p>All grant programs</p>	<p>May not be required if agency does not plan to apply for waiver from OMB</p>



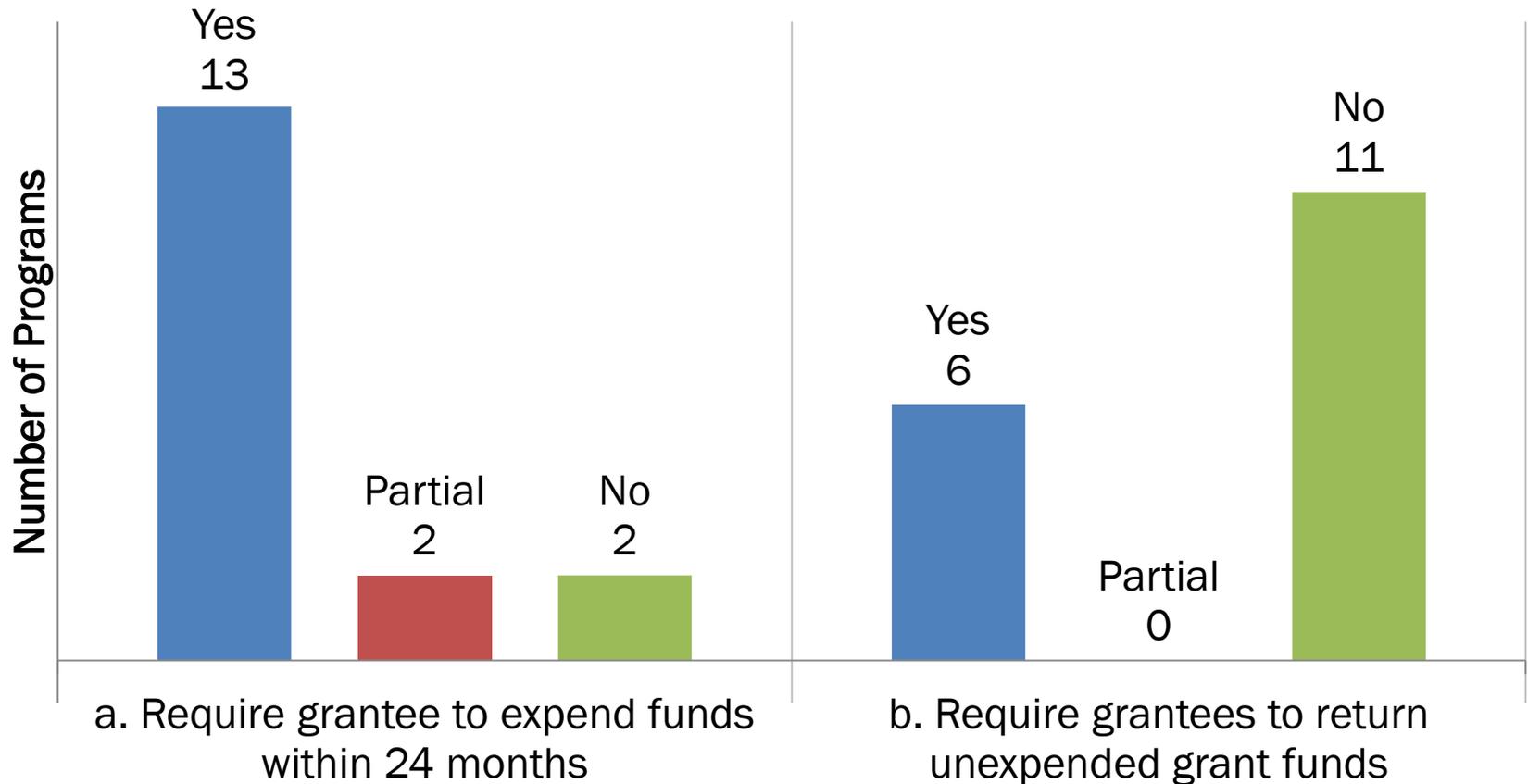
Management of Unexpended Grant Funds

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- Our review found that some agencies did not address OMB's four requirements related to the management of unexpended grant funds for all grant programs.
 - However, it is not clear whether all of these four requirements apply to each grant program because agencies may be planning to request waivers of the 24-month expenditure requirement for certain of their grant programs.

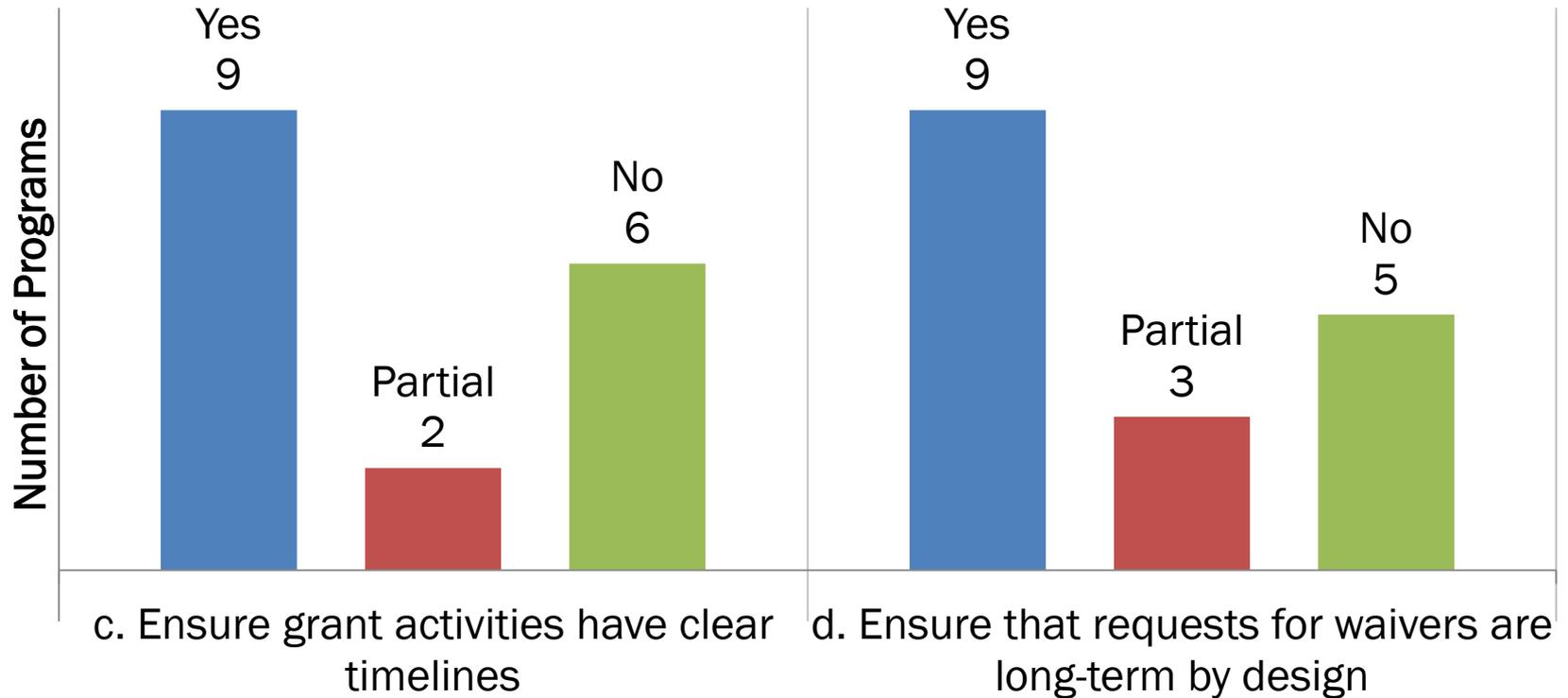


Management of Unexpended Grant Funds



Note: A "partial" response for (a) indicates that the agency discussed the 24-month expenditure requirement but did not indicate that this requirement applied to all grant funds.

Management of Unexpended Grant Funds



Note: A “partial” response for (c) indicates that the agency discussed timely completion but did not discuss clear timelines for execution of each grant activity.

A “partial” response for (d) indicates that the agency discussed applying for waivers from OMB but did not discuss how it will ensure that requests are limited to activities that are long-term by design.

Potential Improvements to Guidance

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GAO's review of the Sandy disaster relief internal control plans and related OMB guidance identified opportunities for improving OMB guidance to assist agencies in designing internal control plans for future disaster relief funding.

- Linkage to known control risks and internal controls
- Specific criteria and justification for significant decisions
- Standard guidance for internal controls over disaster relief funding



Linkage to Known Control Risks and Internal Controls

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- M-13-07 directed agencies to describe *incremental risks*.
- The incremental risks identified in agencies' internal control plans are a subset of the complete set of risks related to programs receiving Sandy disaster relief funding.
- Therefore, the Sandy disaster relief internal control plans did not identify all risks related to this funding.
 - For example, one agency reporting that it will expend its Sandy disaster relief funds through contracts did not identify any incremental risks.
 - Our review of prior GAO, IG, and financial statement audit reports found significant risks related to this agency's contract management.



Linkage to Known Control Risks and Internal Controls

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Standards for Internal Control in the Federal Government

- The Green Book states that:
 - internal control should provide for an assessment of the risks the agency faces from external and internal sources
 - management needs to comprehensively identify risks.

Agencies' Internal Control Plans

- The Hurricane Sandy disaster relief internal control plans, as provided, were not effective for providing comprehensive oversight of Sandy disaster relief funds because they were not comprehensive and did not document the entire set of risks related to programs receiving Sandy disaster relief funding.



Specific Criteria and Justification for Significant Decisions

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- OMB M-13-07 provided agencies flexibility in deciding whether they needed to design additional internal controls.
 - ▣ *Agencies shall adopt more expansive review procedures, **as appropriate...***
 - ▣ ***To the extent appropriate to mitigate risk and to the extent possible under budgetary constraints,** agencies shall increase the frequency and specificity of grantee reporting...*



Specific Criteria and Justification for Significant Decisions

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- OMB M-13-07 did not provide criteria for determining “appropriateness” or “budgetary constraints.”
- Further, M-13-07 did not require agencies to document their rationales for not designing additional controls.
- Because of this, the extent to which agencies considered the need for these additional internal controls is not apparent from the Sandy disaster relief internal control plans.



Need for Standard Guidance

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Timeframe of the Guidance

January 29, 2013

The Disaster Relief Act is enacted.



February 19, 2013

OMB sends CFO community advance notice of its impending guidance.



March 12, 2013

OMB issues its guidance, M-13-07.



March 31, 2013

Agencies are required to submit their internal control plans.

Need for Standard Guidance

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Response vs. Controls

- By March 31, 2013, agencies reported that they had already obligated approximately \$4.6 billion.
- Following a disaster, decision-makers face a tension between the demand for rapid response and recovery assistance—including assistance to victims—and implementing appropriate controls and accountability mechanisms.
- The risk for fraud and abuse grows when billions of dollars are being spent quickly.



Need for Standard Guidance

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Recent Increase in Disasters

- In the 2013 high-risk series, GAO reported that the United States Global Change Research Program has observed that the impacts and costliness of weather disasters will increase in significance, as what are considered “rare” events become more common and intense due to climate change.
- The growing number of disaster declarations—98 in fiscal year 2011 compared with 65 in 2004—has contributed to higher federal disaster costs.
- These impacts pose significant financial risks for the federal government, which owns extensive infrastructure, insures property through federal flood and crop insurance programs, provides technical assistance to state and local governments, and provides emergency aid in response to natural disasters.



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Proactive Approach to Establishing Agency Disaster Related Internal Controls

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- M-13-07 represents an important step in the right direction, but establishing more robust internal control guidance that would be applied to future disaster relief funding would allow agencies to proactively identify risks and develop internal controls prior to receiving disaster relief funding.
- This can help ensure that internal controls designed for disaster relief funding are timely implemented for all related funding.
- Further, linking the additional risks identified in incremental plans to the complete set of risks and related internal controls can help agency management and external entities to provide effective oversight of the funds.



Other GAO Work Related to Hurricane Sandy

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- GAO currently has two other engagements related to Hurricane Sandy on:
 - ▣ FEMA's National Flood Insurance Program; and
 - ▣ DOT's Federal Transit Administration Emergency Relief Program.

- In addition, GAO is beginning work related to Hurricane Sandy in the following areas:
 - ▣ FEMA's Individual and Household Assistance Program;
 - ▣ FEMA's implementation of the Post-Katrina Emergency Management Reform Act;
 - ▣ SBA's Small Business Disaster Loan Program; and
 - ▣ Other recovery and mitigation efforts.



Ongoing GAO Work - FEMA

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- GAO will examine the FEMA National Flood Insurance Program (NFIP) to provide an overview of key aspects of the program, including:
 1. financial condition;
 2. community and property owner participation;
 3. flood mapping;
 4. flood mitigation efforts;
 5. workforce planning and contractor oversight;
 6. information management; and
 7. relevant program changes in the Biggert-Waters Act.



Ongoing GAO Work - DOT

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- GAO will examine DOT's Federal Transit Administration (FTA) Emergency Relief Program to determine:
 1. what progress DOT has made obligating and expending the surface transportation funds;
 2. the extent to which FTA's emergency relief program is addressing Hurricane Sandy damage and how its eligibility rules are similar to and different from programs in the Federal Highway Administration and FEMA; and
 3. the extent to which FTA and FEMA have coordinated their roles and responsibilities when providing disaster assistance.



Questions?

- Hurricane Sandy Internal Control Review
 - ▣ Berri Davis, Financial Management and Assurance, davisbh@gao.gov

- Other Ongoing GAO Work
 - ▣ Stephen Caldwell, Homeland Security and Justice, caldwells@gao.gov