

# Office of Inspector General Summary of FY15 Audits of Disaster Relief Fund Grants, Programs, and Operations

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NY-NJ Intergovernmental Audit Forum  
September 29, 2016



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# Overview

- DHS OIG
- EMO Reorganization and Mission
- Life Cycle Audit Approach
- Fiscal Year 2015 Production/Results
- Potential Monetary Benefits – FYs 2009-2015
- Objective for Fiscal Year 2015 Capping Report
- Grant Audits
- Program Audits
- Conclusion
- Questions

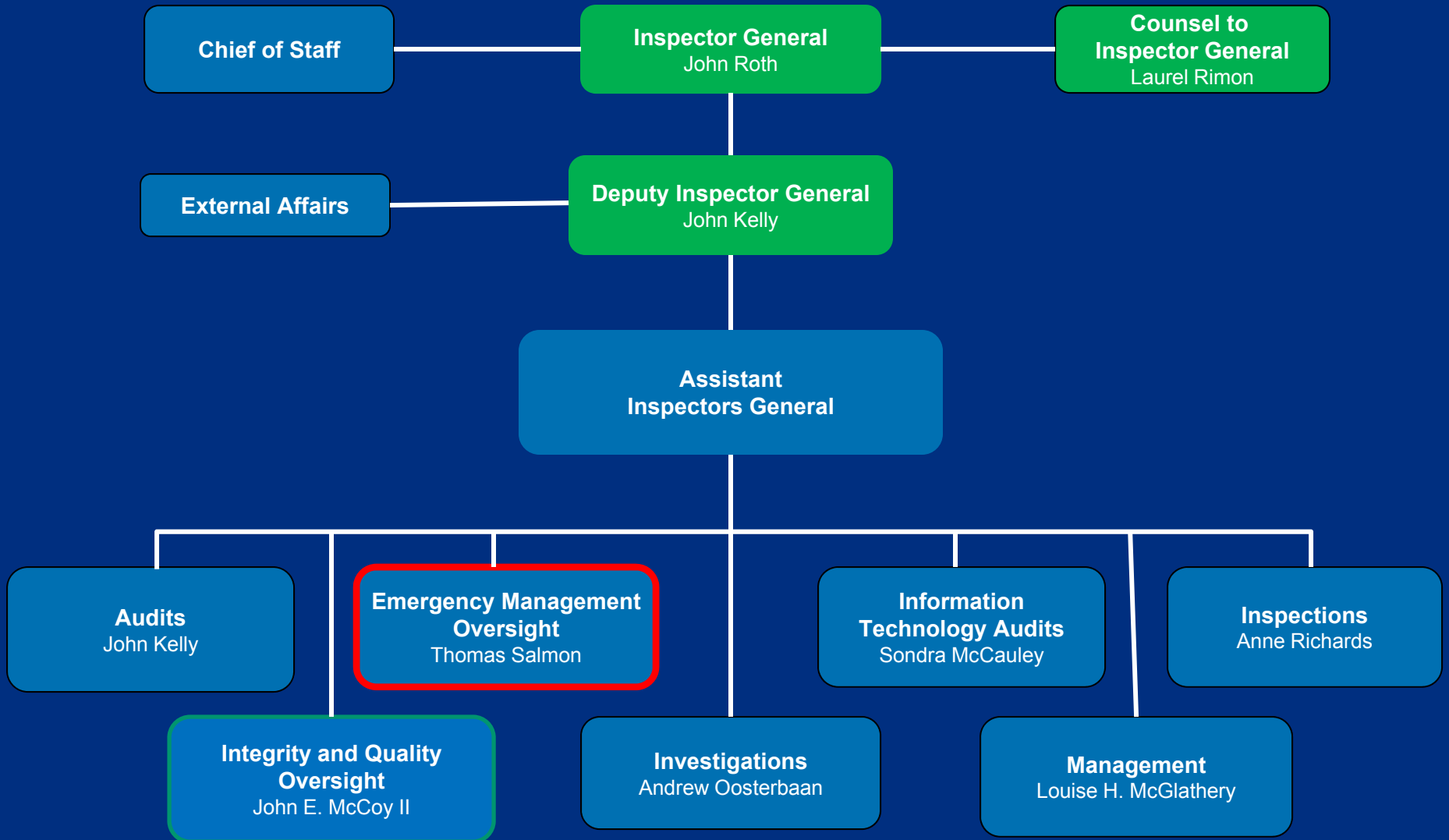


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# DHS OIG



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# Emergency Management Oversight Reorganization

- Better match resources to regional disaster activities;
- Balance & improve project and staff management;
- Maintain both quantity and quality of EMO work products.

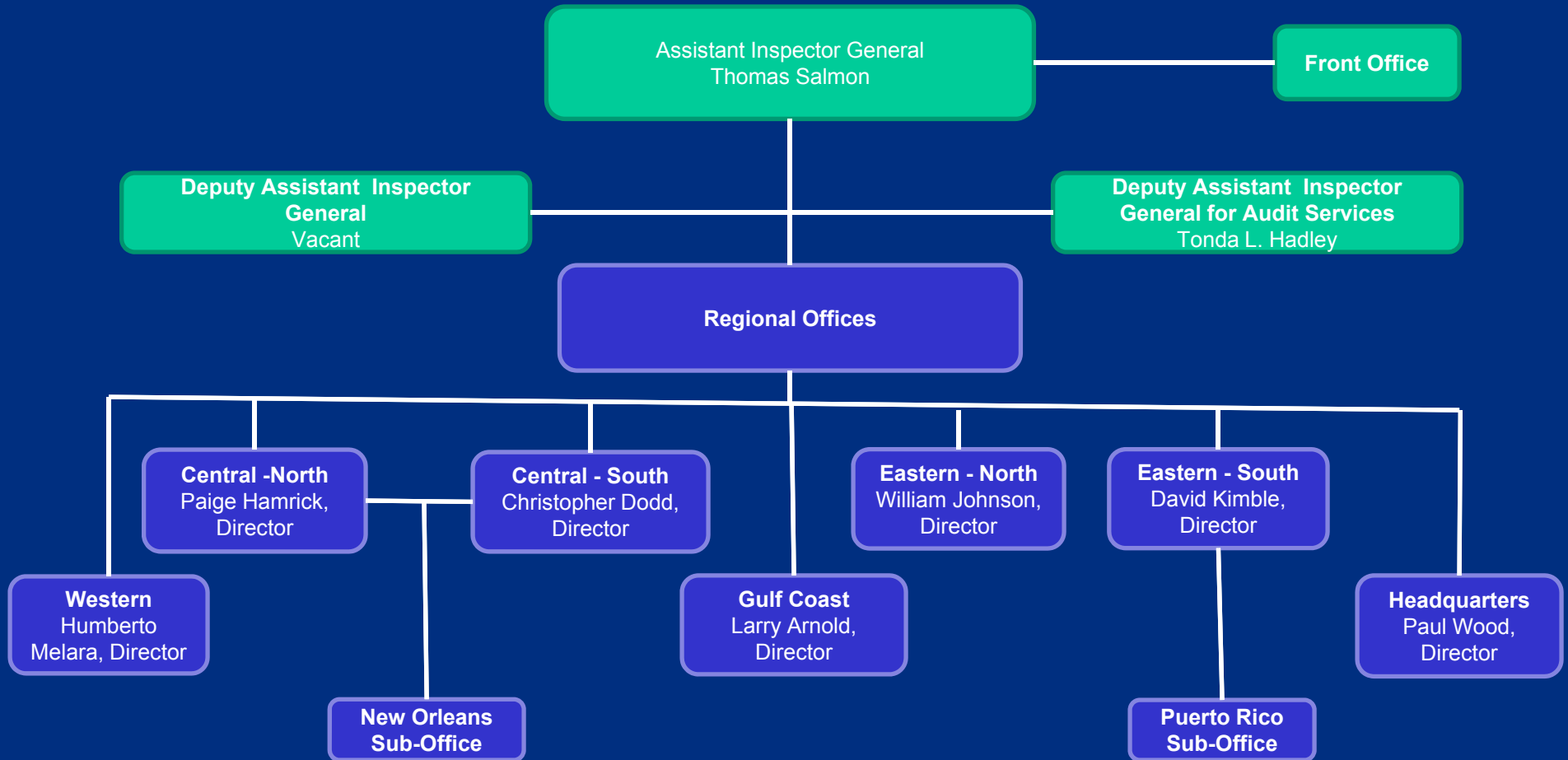


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# Emergency Management Oversight



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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.



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# Office of Inspector General

- Proactive Life Cycle Audit Approach
  - ✓ Focuses on Public Assistance Grant phases
    - Response,
    - Recovery, and
    - Close Out.
  - ✓ Proactive approach includes 4 types of audits
    - Deployment audits,
    - Capacity audits,
    - Early warning audits, and
    - Traditional audits after project completion.



# Office of Inspector General

## ➤ Life Cycle Audit Approach (Continued)

### ✓ Deployment Audits

- Occur during response to a disaster
- FEMA averages 50 to 60 disasters each year
- Audit teams will deploy to about 5 disaster each year
- Do not have sufficient resources to do more



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- Life Cycle Audit Approach (Continued)
  - ✓ Capacity Audits
    - Occur during the recovery phase
    - About 20 audits annually
    - Shortly after subgrantees selections
    - Focus on subgrantee capacity to
      - Account for FEMA funds
      - Procure contracts properly
      - Comply with insurance requirements



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- Life Cycle Audit Approach (Continued)
  - ✓ Capacity Audit Recommendations
    - Provide subgrantee greater oversight
    - Seldom question costs
  
  - ✓ States have the primary responsibility for oversight of subgrantees



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## ➤ Life Cycle Audit Approach (Continued)

### ✓ Early Warning Audits

- During the recovery phase
- About 20 audits early in recovery process
- Focus on subgrantee
  - Initial compliance with CFRs
  - Early detection of non compliance should enable subgrantees to get into compliance



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# Office of Inspector General

- Life Cycle Audit Approach (Continued)
  - ✓ Early Warning Audits Recommendations
    - Address deficiencies while they can be corrected
    - Provide subgrantee greater oversight
  - ✓ Again, States have the primary responsibility for oversight of subgrantees



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- Life Cycle Audit Approach (Continued)
  - ✓ Traditional Disaster Grant Audits
    - During the close out/completion phase
    - About 20 audits after project completion, perhaps closed
    - Gauge the effectiveness of grantee and subgrantee compliance



# Fiscal Year 2015 Production

October 1, 2014 to September 30, 2015

- **63** audit reports on FEMA grants, programs and operations funded from the Disaster Relief Fund:
  - **55** grant audits included FEMA PA and HMGP awards
    - Funds awarded **\$2.81 billion**
  - Representing **49** Presidentially-declared disasters
  - Objective: To determine whether grantees and subgrantees accounted for and expended FEMA funds according to Federal regulations and FEMA guidelines
- **8** program audits each with unique objectives and scopes



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# Fiscal Year 2015 Results

October 1, 2014 to September 30, 2015

- **\$1.55 billion (55%)** audited of **\$2.81 billion** awarded to **24** grantees/**55** subgrantees
- **154** recommendations
- **\$1.736 billion** in potential monetary benefits
  - **\$1.734 billion** in grant audits
  - **\$1.6 million** in program audits



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# Potential Monetary Benefits from FYs 2009–2015 Grant Audits

Capping Report Number	Fiscal Year	Amount Audited (billions)	Potential Monetary Benefits (millions)	Percentage of Potential Monetary Benefits to Amount Audited
DS-11-01	2009	\$0.93	\$ 138.4	15%
DD-11-17	2010	\$1.23	\$ 165.3	13%
OIG-12-74	2011	\$1.22	\$ 336.9	28%
OIG-13-90	2012	\$1.25	\$ 415.6	33%
OIG-14-102-D	2013	\$1.28	\$ 307.8	24%
OIG-15-144-D	2014	\$3.44	\$ 971.7	28%
OIG-16-xxx-D	2015	<u>\$1.55</u>	<u>\$1,734.3</u>	112%
	Totals	<u>\$10.90</u>	<u>\$4,070.0</u>	37%



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# EMO Production & Results FY14 vs FY15

Metrics	FY14	FY15
Reports Issued	61	63
No. of Disaster Declarations	34	49
No. of States/Territories	16/1	24
No. of grantees/subgrantees	49	55
Total Award	\$4.0 billion	\$2.8 billion
Total Audited	\$3.44 billion	\$1.55 billion
Percent Audited	85%	55%
No. of Recommendations	159	154
Potential Monetary Benefits	\$971.7 million	\$1.73 billion
Percent of Potential Monetary Benefits	28%	112%



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# *Capping Report: FY 2015 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*

The objectives of this capping report were to identify frequently reported audit findings and quantify the financial significance of these findings.



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# Grant Audits - Summary of Findings & Recommendations

Types of Findings	# of Resulting Recommendations	\$'s Questioned in our Reports
Funds Put to Better Use	17	\$1,276,845,196
Ineligible Work or Costs	60	443,783,478
Unsupported Costs	16	13,678,473
Grants Management and Administrative Issues	<u>61</u>	<u>0</u>
<b>Totals</b>	<b><u>154</u></b>	<b><u>\$1,734,307,147</u></b>



# Grant Audits - Funds Put To Better Use

Subtypes of Funds Put To Better Use	# of Resulting Recommendations	\$'s Questioned in our Reports
Cost Avoidance	10	\$ 1,248,633,082
Unused Obligated Funds	6	13,408,651
<b>Unused Funds at Risk</b>	<u>1</u>	<u>14,803,463</u>
<b>Totals</b>	<u><b>17</b></u>	<u><b>\$1,276,845,196</b></u>



# Cost Avoidance

- We reported 10 instances totaling \$1.249 billion.
- Majority of funds identified related to insurance adjustments applied against PA funds awarded to applicants who had insurance coverage.
- FEMA insurance specialists routinely waiving the requirement to obtain and maintain insurance for future disasters
- Ensuring applicants obtain insurance could save taxpayers \$1 billion because private insurance, rather than FEMA, would pay for future damages



# Unused Obligated Funds

- We reported 6 instances totaling \$13.4 million of unneeded obligated funds, including:
  - \$2.5 million—a district completed authorized work for less than the original estimate, but the unneeded Federal funds remained obligated.
  - \$4.5 million— a hospital completed authorized work but did not provide the state an updated cost reconciliation. The project cost underrun remained unidentified and over obligated on FEMA records.



# Unused Funds at Risk

- We reported one instance totaling \$14.8 million related to mismanagement of FEMA disaster relief funds at a NFP hospital
- The hospital spent \$17.6 million of \$32.4 million it received from FEMA to pay for items unrelated to the hurricane damage it sustained.
- We recommended FEMA disallow as ineligible the \$17.6 million the hospital already spent, and deobligate the remaining \$14.8 million in unused funds at risk for fraud, waste, and abuse



# Unused Obligated Funds (continued)

- Deobligating unneeded funds in a more timely manner can...
  - release funds to cover cost overruns on other projects;
  - aid FEMA in closing projects throughout the life of the subgrant, rather than after subgrantee completed all work;
  - provide a more accurate status of program costs for a disaster; and
  - be consistent with Federal appropriations law.
- Grantee can also improve their monitoring efforts by identifying unneeded funds and returning them to FEMA as soon as practicable after subgrantees complete projects.





# Ineligible Work or Costs

Subtypes of Ineligible Work or Costs	# of Resulting Recommendations	\$'s Questioned in our Reports
Duplicate Funding	13	\$200,083,929
Contracting Practices	14	126,512,795
Other Ineligible Work/Costs	<u>33</u>	<u>117,186,754</u>
<b>Totals</b>	<b><u>60</u></b>	<b><u>\$443,783,478</u></b>



# Duplicate Funding

- We questioned \$200 million in 13 instances.
- The *Stafford Act* states that an entity cannot receive Federal financial assistance for any loss for which it has received financial assistance for the same purpose from any other source.
- In 10 of the 13 instances, subgrantees claimed \$179.3 million in duplicate benefits for project costs that insurance covered.



# Contracting Practices

- We questioned \$126 million in 14 instances.
- Non-compliance with Federal procurement regulations results in high-risk contracts that potentially cost taxpayers millions of dollars in 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 did not question contracting practices or costs associated with exigencies, except for mark-ups on cost-plus-percentage-of-cost contracts.
- Types of improper contracting practices identified included -
  - Prohibited cost-plus-percentage of cost contracts;
  - Lack of full and open competition; and
  - Lack of affirmative steps to assure the use of minority or women-owned businesses enterprises when possible.



# Other Ineligible Work or Costs

Types of Ineligible Work or Costs	# of Resulting Recommendations	\$'s Questioned in our Reports
Housing construction costs	2	\$ 60,016,453
Mismanaged Federal funds	2	21,311,652
Outside FEMA-approved scope of work	4	10,022,673
Extended period of performance	1	8,230,969
Estimated/calculated costs	5	8,034,120
Contractor billings	6	6,025,659
Direct administrative costs	1	2,272,675
Miscellaneous ineligible costs	<u>12</u>	<u>1,272,553</u>
<b>Totals</b>	<b><u>33</u></b>	<b><u>\$117,186,754</u></b>



# Other Ineligible Work or Costs

- We reported 2 instances totaling \$60 million where the subgrantee did not comply with Federal requirements for rebuilding homes damaged or destroyed by hurricane.
  - For example, the subgrantee acquired and removed destroyed homes and replaced them with homes at new sites not subject to such damage. However, the Department claimed \$34.6 million of ineligible construction costs when it failed to complete FEMA demolition and deed restriction requirements.
- We reported 4 instances totaling \$10 million where subgrantees claimed project costs that FEMA did not authorize in the scope of work.
  - For example, the subgrantee built housing units for a non-FEMA project in conjunction with building other housing units under a FEMA-funded program. The subgrantee claimed \$7.54 million in FEMA funds for costs allocable to non-FEMA project. 2 CFR Part 225 requires costs to be allocable to a Federal award to be eligible for reimbursement.



# Unsupported Costs

- We questioned **\$13.7 million** of unsupported costs in **16** instances.
- We questioned these costs because subgrantees did not maintain adequate accounting records or provide document sufficient for us to confirm whether costs were valid or otherwise allowable under Federal awards.
- Federal cost principles require subgrantees adequately document claimed costs under Federal awards.
- 44 CFR 13.20(b)(6) lists specific examples of documentation—including canceled checks, paid bills, payrolls, time and attendance records, and contracts—that auditors may accept as adequate to support accounting records.



# Grants Management and Administrative Issues

- Our reports included **61** grants management and administrative recommendations covering project accounting, general grants management, contracting practices, contract billings, and project costs.
- Federal regulations require states, as grantees, to:
  - (1) ensure that subgrantees are aware of Federal regulations;
  - (2) manage the day-to-day operations of subgrant activity and monitor subgrant activity to ensure compliance with applicable Federal requirements.
- During the 5-year period ending September 30, 2015, FEMA paid grantees \$522 million to manage and administer disasters.





# Grants Management and Administrative Issues (continued)

- Our grant management recommendations included the need to:
  - improve oversight of subgrantees' accounting of direct administrative costs;
  - provide project applications within required deadlines;
  - submit closeout documentation for projects as soon as practicable; and
  - reconcile all project costs.



# 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 to have fiscal controls, accounting procedures, and project administration procedures that provide FEMA reasonable assurance that grantees and subgrantees can:
  - accurately report grant and subgrant financial and project status;
  - trace expenditures to a level that ensures they have not violated applicable statutes in using funds; and
  - adhere to *Stafford Act* requirements and the specific provisions of applicable Federal regulations when administering PA program and HMGP grants.



# Program Audits

- **8** Program Audits that were not related to specific grants –
  - **3** audits were deployments to major disasters to assess FEMA's initial response to disasters.
  - **1** audit related to technical assistance we provided during a disaster deployment.
  - **4** audits covered other FEMA programs and operations.
- **6** recommendations for improving FEMA programs and operations



# Initial Disaster Deployments

- Following a major disaster, FEMA must not only take decisive actions responding to the event and initiating recovery efforts, but also protect taxpayer dollars.
- To assist FEMA in this challenge, we deploy staff to disasters to:
  - Evaluate FEMA's operations.
  - Assessed FEMA's disaster response and recovery activities while they happen.
  - Improve the quality of our recommendations.
- We concluded in our reports that –
  - FEMA's disaster responses were proactive and effective; and
  - FEMA overcame challenges while effectively coordinating with other Federal agencies and state and local governments.



# Assistance Provided During Deployment

- FEMA requested our assistance to ensure compliance with Public Assistance requirements regarding the eligibility of up to \$100 million in damages to an airport runway safety area.
- Many questions about whether the declared disaster caused the damages. 44 CFR 206.223 states that an item of work must be the result of the disaster event to be eligible for FEMA Public Assistance.
  - We advised FEMA take steps to determine whether the damage to the runway safety area at Yeager Airport is the direct result of the disaster, and, if so, that a duplication of benefits does not occur.
  - Section 312 of the *Stafford Act* states that no entity will receive assistance for any loss for which it has received financial assistance from any other source.



# Other Program Audits

- 4 reports with 6 recommendations for improving FEMA programs and operations and for recouping funds
- Program audit objectives vary — generally to determine the efficiency and effectiveness of FEMA policies, procedures and programs.
- For example, we determined that FEMA officials' building selection for the New Jersey Joint Field Office (JFO) was not cost effective because they waited until after Hurricane Sandy struck and then rushed to a selection decision.
- In addition, FEMA could have done more to minimize JFO lease costs as staffing levels decreased. By moving to a more appropriately sized building once staff levels declined as anticipated, FEMA could have saved approximately \$1.5 million.



# Conclusion

- This report marks the **7th** consecutive year that we have summarized the results of our grant audits.
  - FEMA still faces systemic problems and operational challenges.
  - Our report recommendations offer FEMA opportunities to implement effective solutions to problems and challenges.
  - Although, by necessity, our reports focus on problems, we also recognize the exceptional work that FEMA, state and local emergency management officials continue to perform in responding to and recovering from disasters.



# Conclusion

- FEMA took actions in response to our recommendations:
  - As of June 1, 2016, FEMA has taken proactive actions sufficient to close 128 of 154 recommendations, with the remaining 26 being resolved pending FEMA's completion of planned actions.
  - During FY 2015, FEMA took sufficient action to close 158 open recommendations from audit reports issued in FYs 2009 through 2014.
  - In closing these recommendations, FEMA deobligated \$555.8 million in public assistance funds and acknowledged cost avoidances totaling \$1.3 billion.
  - FEMA has implemented several other initiatives to address many of the issues identified in our reports, such as FEMA's New Public Assistance Delivery Model; and Grants Management Modernization Program.





# Conclusion

- Many of our findings and reportable conditions indicate that:
  - States should do a better job of educating subgrantees and enforcing Federal regulations through effective and vigilant monitoring.
  - FEMA should consider using remedies available in Federal regulations to :
    - hold grantees and subgrantees accountable for material noncompliance with Federal statutes and regulations.
    - demand grantees and subgrantees properly account for and expend FEMA funds.



# Conclusion

- FEMA has the responsibility to hold states accountable for proper grant administration, especially with regard to contracting practices.
- Our new proactive audits will continue to highlight potential compliance issues early in the grant process to help ensure that subgrantees correct noncompliance problems early in the grant cycle.



# Conclusion

- This report provides a starting point for FEMA officials to examine regulations, policies, and procedures and assess the need for changes based on the recurring nature of our findings.
- FEMA officials should also provide this report to state emergency management officials to increase their awareness of problematic grant and subgrant activities and best practices for protecting the taxpayers' investment in disaster relief and preparedness.



# Questions



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