

**FEMA Should Recover  
\$32.4 Million in Grant Funds  
Awarded to Riverside General  
Hospital, Houston, Texas**





# DHS OIG HIGHLIGHTS

## *FEMA Should Recover \$32.4 Million in Grant Funds Awarded to Riverside General Hospital, Houston, Texas*

**September 17, 2015**

### **Why We Did This**

Riverside General Hospital (Riverside) received a \$32.4 million award from the Texas Division of Emergency Management (Texas), a Federal Emergency Management Agency (FEMA) grantee, for damages resulting from Hurricane Ike in September 2008. At FEMA's request, we audited \$32.4 million, or 100 percent of the grant award.

### **What We Recommend**

FEMA should disallow \$17.6 million and deobligate the remaining \$14.8 million in grant funds. FEMA and Texas should also suspend all grant activities until Riverside can account for its expenditures. Texas should also strengthen its oversight of Public Assistance grant recipients.

#### **For Further Information:**

Contact our Office of Public Affairs at (202) 254-4100, or email us at [DHSOIG.OfficePublicAffairs@oig.dhs.gov](mailto:DHSOIG.OfficePublicAffairs@oig.dhs.gov)

### **What We Found**

Riverside's misuse of Federal funds did not end in 2012 with the indictment and departure of its Chief Executive Officer and others on charges of bilking Medicare out of \$158 million. Following the indictments, Riverside's remaining management continued to misuse and mismanage Federal funds—this time, FEMA funds. By 2013, Texas had advanced \$17.6 million of the \$32.4 million FEMA grant to Riverside. Riverside alleged that it spent \$13.2 million of the \$17.6 million received for disaster expenses. However, Riverside completely disregarded Federal grant requirements, and Texas did not adequately monitor Riverside's grant activities. In fact, Riverside spent \$7.9 million to fund its hospital operations and other unverifiable items. Further, Riverside awarded \$12.2 million in disaster-related contracts without competition and did not always account for or support the grant funds. Therefore, we question the entire \$32.4 million grant award, including \$17.6 million in advanced funds and \$14.8 million in unused funds.

In 2014, opposing parties in a civil suit agreed that an appointed committee would operate the hospital. Riverside closed its last two facilities in late 2014 and surrendered its operating licenses. As of April 2015, Riverside was no longer operational and did not employ staff.

### **FEMA Response**

FEMA officials generally agreed with our findings and recommendations. FEMA's written response is due within 90 days.



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528

September 17, 2015

MEMORANDUM FOR: George A. Robinson  
Regional Administrator, Region VI  
Federal Emergency Management Agency

FROM: John V. Kelly  
Assistant Inspector General  
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Recover \$32.4 Million in Grant Funds  
Awarded to Riverside General Hospital, Houston, Texas*  
Audit Report Number OIG-15-149-D

At the request of FEMA Region VI, we audited Public Assistance grant funds awarded to Riverside General Hospital (Riverside) in Houston, Texas. The Texas Division of Emergency Management (Texas), a FEMA grantee, awarded Riverside \$32.4 million for damages resulting from Hurricane Ike, which made landfall in September 2008. The award provided 100 percent Federal funding for emergency work and 90 percent Federal funding for permanent work. We audited 30 projects totaling \$32.4 million, or 100 percent of the award (see appendix A, table 3). As of October 2014, Riverside had completed work on eight large projects.

### **Background**

Riverside opened in 1927 as the first nonprofit acute care hospital for African-American patients in Houston, Texas (see figure 1). Riverside granted African-American physicians the rights to admit patients. The hospital later established Houston's first nursing school dedicated to training African-Americans to become nurses. Riverside has offered inpatient and outpatient psychiatric, detoxification, and substance abuse care primarily to minorities and the medically underserved citizens of Harris County and neighboring counties.



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**Figure 1: Riverside's Main Campus**



Source: DHS Office of Inspector General (OIG) site visit on November 3, 2014

Hurricane Ike's high winds, heavy rain, and flooding caused extensive damage to Riverside's main campus and three offsite locations. The damages required emergency protective measures and campus-wide building repairs and replacement. Riverside completed some repairs; however, in the following years, Riverside encountered severe financial challenges, well beyond those the storm caused, that played a key role in its inability to recover fully from the disaster (see figure 2).

**Figure 2: Unfinished Repairs at Riverside's Main Campus**



Source: DHS OIG site visit on November 3, 2014

Notably, in 2012, the U.S. Department of Justice (DOJ) indicted Riverside's Chief Executive Officer and arrested the assistant administrator with schemes perpetrated to defraud Medicare. As a result, the Centers for Medicare and Medicaid Services suspended payments to Riverside pending the outcome of the Federal indictments.



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After the indictment of Riverside's Chief Executive Officer, Riverside's remaining leadership managed the hospital's operations and its disaster recovery projects. In the spring of 2014, opposing parties in a civil suit agreed to an appointment of a three-person committee to operate the embattled hospital. However, only one of the committee members (the former Lead Representative) assumed managing control over the hospital's day-to-day operations.<sup>1</sup> As a result, Riverside's remaining senior leadership resigned. The committee's primary purpose was to assist Riverside in obtaining grants and loans to stabilize its financial situation. Later that year, a Federal jury convicted Riverside's Chief Executive Officer, his son, and several co-conspirators on charges of defrauding Medicare of approximately \$158 million in false claims for mental health treatment.

Riverside has not completed its hurricane-related repairs. Although it has not received funding for the full award amount of \$32.4 million, Riverside did not use all of the \$17.6 million it did receive on disaster-related expenses. In addition, Riverside's FEMA-funded bank accounts are empty. Further, there remains considerable doubt regarding whether the hospital can continue as a going concern. At the time of our field work, Riverside did not have the liquidity to cover its day-to-day expenses, much less its 10 percent non-FEMA cost-share for disaster recovery repairs.<sup>2</sup> Riverside's financial condition has drastically declined, in large part, since Centers for Medicare and Medicaid Services suspended payments. Further, its unaudited 2013 financial statement revealed Riverside had millions in negative net worth.

In late 2014, Riverside closed its last two facilities and surrendered its hospital operating licenses. Riverside once employed up to 250 people at its four locations. However, as of April 2015, Riverside no longer employed staff at any of its locations. Subsequently, Riverside's former Lead Representative notified Texas officials of its plan to sell the hospital system to another healthcare provider by summer 2015. At our exit conference, Riverside's Board of Directors notified our office that the committee's appointment expired April 2015 and the former Lead Representative was no longer in charge of the hospital. Before the committee's appointment, Riverside's Board of Directors

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<sup>1</sup> From 2008 to 2015, Riverside designated the former Lead Representative, a contract consultant, as its primary agent to handle its FEMA disaster grants. During this timeframe (primarily from 2014 to 2015), the former Lead Representative also assumed the lead role of the three-person committee. Riverside authorized the Lead Representative to represent and act for the hospital in all dealings with Texas and FEMA for all matters pertaining to disaster assistance and to ensure its compliance with applicable Federal regulations and guidelines.

<sup>2</sup> Liquidity is the measure used to determine whether an organization has available cash or assets to meet immediate or short-term obligations.



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was responsible, in part, for the hospital's governance as stipulated in its articles of incorporation and by-laws. Riverside's eight-member Board of Directors has since regained operating control and has no plans to sell the hospital system.

### **Results of Audit**

Riverside did not account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. Riverside did not comply with Federal grant requirements when it spent \$17.6 million of the \$32.4 million FEMA grant it received from Texas.<sup>3</sup> Riverside's management misused \$7.9 million in FEMA grant money to pay the hospital's normal operating expenses and other unverifiable items. For example, it used these funds to pay for its annual audit, legal fees, Federal taxes, insurance, gift cards, a new grant management system, and fire alarm repairs—all unrelated to the 2008 hurricane damage. In addition, Riverside alleged that it spent \$13.2 million of the \$17.6 million received for disaster expenses. However, Riverside did not always account for or support project expenses and noncompetitively awarded \$12.2 million in contracts for building repairs, demolition, and emergency protective measures after the exigent period. Further, Riverside did not properly disburse the disaster money it received to its vendors as close as feasibly possible to the receipt of the funds. Instead, Riverside used the funds to pay non-disaster related expenses.

Although Riverside clearly paid millions in disaster recovery costs, Texas and FEMA should not provide the hospital any increased funding or reimburse the hospital for any further costs until the hospital returns the money it used for hospital operations and can fully account for and support its disaster-related expenditures. In addition, Riverside's poor financial accounting system, inability to manage grant funds, and questionable future puts its remaining obligated funds at risk for fraud, waste, and abuse. Therefore, we question the entire award of \$32.4 million, including \$17.6 million in advanced funds and \$14.8 million in unused funds that remain obligated.

These findings resulted from Riverside's mismanagement and complete disregard of Federal regulations and FEMA guidelines. However, Texas officials could have identified these problems sooner and reduced financial losses. Texas officials should have more aggressively monitored Riverside in the years

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<sup>3</sup> The \$17.6 million in funds Riverside received included \$190,788 in payments for small project obligations.



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following Hurricane Ike and should have required supporting documentation before disbursing funds.

Because Riverside officials misused Federal funds, FEMA should consider Riverside as a high-risk applicant and impose strict requirements on the grant award. FEMA should also pursue administrative actions to suspend and debar Riverside's former Lead Representative for his role in the mismanagement of FEMA funds from receiving future Department of Homeland Security grant awards.

**Finding A: Mismanagement and Misuse of FEMA Grant Funds**

Riverside mismanaged and could not fully support the \$17.6 million of FEMA grant funds it received from Texas. Specifically, Riverside used \$7.9 million to pay operating expenses and other unverifiable items with no connection to the disaster. This left \$9.7 million that Riverside potentially could have spent on damages caused by Hurricane Ike. However, Riverside reimbursed some of the misused \$7.9 million back into its FEMA accounts and asserted it spent \$13.2 million of the \$17.6 million it received on disaster-related costs.<sup>4</sup> Thus, Riverside received over \$4 million in excess of its alleged disaster-related expenses. In addition, Riverside could not support or account for more than \$4 million of the \$13.2 million. Therefore, based on our analysis of its records, Riverside received over \$4 million, and possibly up to \$9 million, in unneeded advanced FEMA funds from Texas.

***Misuse of FEMA Funds***

According to 44 CFR 206.223(a)(1), an item of work must be "required as the result of the major disaster event" to "be eligible for financial assistance." Therefore, normal operating expenses are not eligible. However, from 2009 to 2014, Riverside used FEMA funds to pay for its normal operations. Despite opening three bank accounts solely for FEMA funds, Riverside transferred monies or directly paid for \$7.9 million in normal operating expenses and other unverifiable items from its FEMA bank accounts. Table 1 provides a list of non-disaster related activities that Riverside paid for with FEMA funds, including the purchase of three certificates of deposit (CDs) the hospital used as collateral for securing loans.<sup>5</sup>

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<sup>4</sup> According to Riverside's FEMA-funded bank statements, Riverside reimbursed \$2.9 million to these accounts.

<sup>5</sup> We could not determine all specific transactions comprising the account balances or confirm whether Riverside returned all the cash to the bank accounts because Riverside's accounting records were incomplete. Riverside's accounting system revealed numerous transactions and



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**Table 1: Examples of Non-Disaster Related Disbursements**

Activity Expense	Amount
Loans issued to Riverside	\$ 2,783,804
Transfers to its operating account for unknown reasons	2,410,741
Certificates of deposit*	425,000
Legal fees**	351,799
Transfers to its operating account for expenses related to hospital administration and management	259,976
2009 to 2011 Single Audit fees	51,000
Internal Revenue Service tax levy	43,510
Commercial insurance premiums	25,541
Purchase of gift cards	24,609
Purchase of a grant management system	17,983
Repair and inspection of fire alarms	3,845
Miscellaneous adjustments to expense account***	1,475,531
<b>Total</b>	<b>\$7,873,339</b>

*Source: Riverside's accounting records and OIG analysis*

\* Although Riverside's accounting records show the hospital used \$425,000 to buy CDs, we obtained evidence from its external auditor showing that Riverside purchased three CDs totaling \$1,015,000. Riverside used the CDs as collateral to secure bank loans.

\*\* Riverside's accounting records and bank statements showed that it paid back a portion of the expenses to its FEMA-funded bank accounts.

\*\*\* Riverside adjusted its FEMA accounts numerous times by adding or subtracting expenses/reimbursements without a detailed description or documentation. As a result, we could not determine the nature of these costs.

Riverside officials said this occurred because its former Chairman of the Board obtained permission from FEMA to use Federal funds as working capital. However, FEMA officials told us that they would never have given such permission. During field work, Riverside officials admitted they were aware Riverside should not have used FEMA funding for operations and said they planned to pay FEMA back once Riverside obtained a bank loan.

Riverside's external auditor discovered that Riverside's consultant and former Lead Representative authorized the purchase of the CDs using FEMA funds. In its response to the 2012 audit report, Riverside officials said, "it was misguided by its FEMA consultant (former Lead Representative) and, therefore, misled as to this practice." Further, the Lead Representative also approved payments of

reversals between its main operating account and FEMA accounts. The accounting entries did not clearly describe the purpose of each transaction, making it extremely difficult to trace or follow the audit trail to validate the transactions. Therefore, we could not assess the full extent of misuse.



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other non-disaster related expenses as described in table 1. Importantly, the consultant remained in charge of the hospital as the Lead Representative from April 2014 to April 2015.

We notified both FEMA and Texas officials of Riverside's misuse of Federal funds. Both Texas and FEMA officials said they were not aware that Riverside had collateralized Federal funds to obtain loans. Both said Riverside should only have used disaster funds consistent with the objectives of the Federal award.

#### ***Unsupported Costs/Inadequate Project Accounting***

Federal regulations at 2 CFR 215.21(b)(1) and (2) require accounting records and source documentation to be accurate, current, and complete, and to identify adequately the source and application of funds for federally sponsored activities. In addition, according to FEMA's *Public Assistance Guide* (June 2007, p. 137), "The importance of maintaining a complete and accurate set of records for each project cannot be over-emphasized. Good documentation facilitates the project formulation, validation, approval, and funding processes. All of the documentation pertaining to a project should be filed with the corresponding PW [project worksheets] and maintained by the applicant as the permanent record of the project."

In this case, Riverside did not fully account for the \$17.6 million in FEMA grant funds it received from Texas. For example, Riverside asserted that it spent \$13.2 million of the \$17.6 million on disaster-related expenses. Riverside was able to provide cost documentation, such as invoices, cancelled checks, receipts, and some contracts for \$9.0 million of the \$13.2 million it alleges to have spent on disaster repairs. Of the remaining \$4.2 million unsupported costs, Riverside officials were unable to provide cost documentation for \$2.9 million and could not account for \$1.3 million on a project-by-project basis. Specifically, Riverside officials did not allocate its disaster expenses to a FEMA project, or they allocated expenses to a nonexistent project or to the wrong project. Likewise, Riverside did not associate its former Lead Representative's direct administrative costs to an individual project, as required.<sup>6</sup> Given these circumstances, we could not rely on Riverside's poor accounting system or cost records to validate disaster expenses.

These deficiencies occurred because Riverside maintained two methods of tracking disaster costs that did not reconcile to each other. Riverside created a

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<sup>6</sup> According to FEMA Policy 9525.9, dated March 12, 2008, direct administrative costs must be identified separately and assigned to a specific project.



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FEMA accounting code to track disaster expenses in its accounting system. However, the hospital did not track the expenses by project in this system. As a supplement, Riverside provided multiple spreadsheets with varying totals to show how much it spent for disaster repairs by project. We compared the accounting system entries and the spreadsheet analysis, and the totals did not reconcile.

Because of our audit, Riverside officials contacted vendors to obtain copies of cost records to support disaster expenses. During fieldwork, Riverside officials continued work to account for all disaster costs on a project-by-project basis. However, it is significant to note that only the former Lead Representative has sufficient knowledge of Riverside's FEMA projects to allocate the disaster-related expenses to the correct project.

### ***Cash Management***

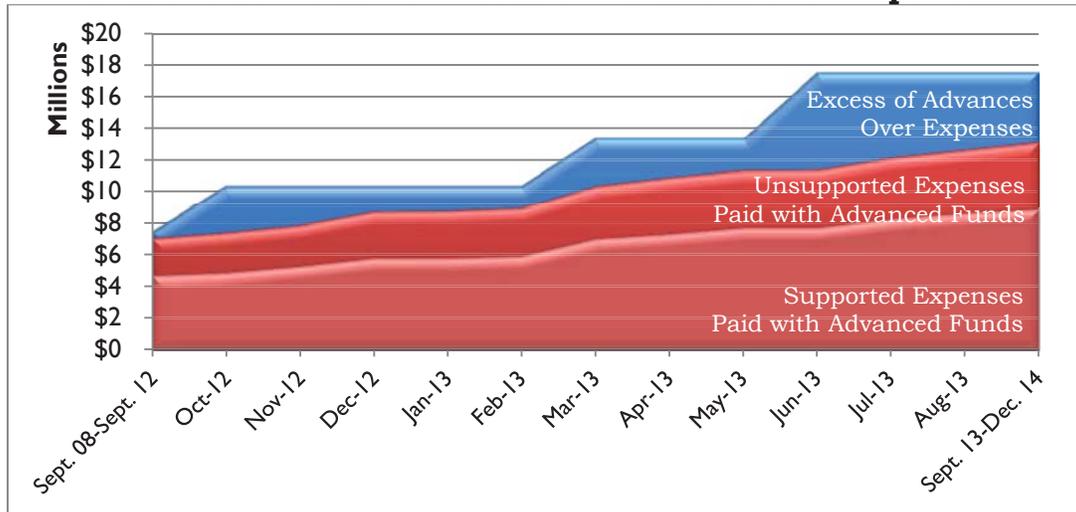
Riverside also failed to follow FEMA's limitation on only requesting disaster assistance advances and paying its disaster-related expenses within a reasonable amount of time. Federal regulation at 2 CFR 215.22 (b)(2) requires cash advances to be limited to the minimum amounts needed and to be timed according to the subgrantee's actual, immediate cash needs to carry out the purpose of the approved disaster-related projects. In other words, subgrantees should spend cash advances as soon as administratively feasible after they receive the funds. Chart 1 shows that Riverside consistently obtained cash advances from Texas that exceeded its immediate needs. Notably, the excess funds became more apparent after the Center for Medicare and Medicaid Services suspended payments to Riverside and the DOJ arrested and indicted members of Riverside's senior management in February and October 2012. As stated previously, Riverside used these excess funds to pay its hospital operations and other unverifiable items.



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**Chart 1: Cumulative Excess of Advances over Expenses\***



Source: Texas PaySys Report and Riverside Accounting Records

\* The gap between the excess of advances over expenses and the cumulative amount of expenses may be up to 10 percent greater than what the chart shows because of the 10 percent non-Federal cost share for permanent work.

We also noted that Riverside did not promptly pay its bills for disaster work even though the cumulative cash advances consistently exceeded the cost of disaster work. Using the *Prompt Payment Act* and 2 CFR 215.22(e)(1) as a guide, we consider 30 days to be a reasonable amount of time for Riverside to pay its creditors for work on its disaster-related projects. However, from 2012 to 2013, Riverside paid disaster vendors, on average, 143 days after the due date for 62 percent of the 151 invoices we sampled and reviewed.

### ***Noncompliance with Federal Procurement Requirements***

Riverside did not follow Federal procurement standards in awarding \$12.2 million to 66 contractors who allegedly worked on disaster-related contracts (2 CFR 215).<sup>7</sup> Among other things, Riverside did not maintain adequate procurement records documenting the basis for contractor selection, justification for lack of competition, or the basis for the award cost or price for its contracts. As a result, we were unable to determine whether open and free competition occurred or whether Riverside paid reasonable prices.

<sup>7</sup> The *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* at 2 CFR 215 (formerly known as Office of Management and Budget (OMB) Circular A-110) include applicable Federal procurement standards.



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For example, during our audit, Riverside officials could only provide contracts for six vendors with contract costs totaling \$6.7 million. Riverside could not provide evidence of adequate competition or cost or price analyses for these contracts. For the other 60 vendors, Riverside could only provide change orders for one vendor and no documentation for the others. Riverside officials only considered project management companies who had experience performing FEMA-related work, thereby limiting responsible sources that might have been able to compete for disaster awards. Further, the project management company solicited contract work for projects from vendors on a pre-bid list it developed for FEMA-funded disaster assistance work. While FEMA allows the use of pre-bid lists, FEMA and Federal regulations require the list to be current and include enough qualified sources for full and open competition.

Because Riverside did not maintain adequate records to document the basis for its contract awards, we could not fully assess the validity of the associated costs. Likewise, we were unable to determine whether competition occurred or whether all responsible sources were able to compete for the disaster contract awards. When competition does not occur, FEMA has little assurance that costs are reasonable or that small businesses, minority firms, and women's business enterprises have sufficient opportunities to bid on federally funded work.

### **Conclusion**

Because Riverside's senior management failed to properly account for disaster-related funding and obviously used at least some of that funding on non-disaster related expenditures to defraud the United States government, we are skeptical of Riverside's assertion that it spent \$13.2 million for disaster-related expenses. Riverside completely disregarded Federal regulations and guidelines when it decided to use FEMA funds to pay for normal operations and purchase CDs that became the hospital's collateral for securing loans. Further, Riverside's former Lead Representative authorized the use of FEMA monies to fund many of these non-disaster related items. The former Lead Representative not only worked on FEMA projects as the hospital's designated agent from 2008 to 2015 but also managed the hospital's day-to-day operations from April 2014 to April 2015.

### **Finding B: Grant Management Issues**

Texas did not effectively perform its grantee responsibilities. The severity of these findings occurred, in part, because Texas did not fully address the risk of advancing funds to grant applicants or adequately monitor Riverside's grant



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activities. As a result, Riverside was able to mismanage and misuse Federal funds for years without detection. Even after Texas recognized problems in 2011 and 2012, Texas's Houston office disbursed \$7.7 million to Riverside in 2013 against the direction of Texas officials in Austin. Texas management has taken action regarding the Houston-area employees responsible for the unauthorized disbursement and tightened controls over its grant management. However, it needs to do more to improve grant management.

#### ***Grantee Payment Advances***

From 2009 to 2013, Texas advanced \$17,562,212 in FEMA funds to Riverside without requiring supporting documentation to validate disaster-related expenses. In addition, Texas did not ensure Riverside established advanced payment procedures to meet the requirements of 2 CFR 215.22(b). Per the regulation, subgrantees can receive funds in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and disbursement. If subgrantees cannot meet 2 CFR 215.22(b) requirements, then reimbursements for eligible costs should follow 2 CFR 215.22(e), which requires payments on a cost reimbursement basis. Texas did not have policies and procedures in place to follow up with Riverside to ensure Riverside spent the advanced funds timely, in compliance with Federal regulations, and within the projects' approved scope of work.

#### ***Grantee Monitoring***

In its FEMA-State Agreement, Texas agreed to "comply with the requirements of laws and regulations found in the *Stafford Act* and 44 CFR." Federal regulation at 44 CFR 13.40(a) requires the grantee to manage and monitor subgrant activities to ensure compliance with applicable Federal requirements. Because it was Texas's responsibility to manage and monitor Riverside's projects, Texas should have taken action much sooner to ensure that Riverside complied with Federal regulations.

Texas also did not adequately monitor Riverside's subgrant activities, such as conducting site visits, reviewing subgrantee audit reports, validating work completion, and assessing compliance with Federal regulations. For example, Texas did not take actions after it received Riverside's 2010 Single Audit report



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that disclosed Riverside misused FEMA funds to pay for day-to-day operations.<sup>8</sup>

Texas only decided to suspend payments in November 2012 after learning about the DOJ's criminal investigation of the hospital's Chief Executive Officer and co-conspirators and their subsequent indictments. Although Texas suspended payments to Riverside, Texas waited over 7 months (until June 2013) to demand that Riverside provide documentation supporting the FEMA disaster assistance funds it received. Texas officials requested documentation again in October 2013 after Riverside's 2012 audited financial statements disclosed it misused FEMA funds again to pay for daily operations. Despite several requests, Riverside failed to provide Texas the requested supporting documentation. Eight months later, Texas officials met with Riverside's newly appointed three-member committee to discuss the suspension of the advances and other issues related to grant administration.

If Texas had adequate policies and procedure in place to monitor Riverside's activities, Texas could have reduced the loss of funds as early as 2011 when it could have taken action on Riverside's initial misuse of Federal funds. Importantly, the FEMA-State Agreement requires Texas to notify OIG of any suspected fraud indicators. However, we were only aware of Riverside's suspicious activity after FEMA requested this audit.

Texas officials acknowledged they did not have adequate grant management procedures in place until 2013 to address subgrantees' Single Audit findings. Texas officials also said reviewing quarterly progress reports to monitor subgrantee progress has been difficult because of the number of disasters and grant recipients they manage. Texas officials said their focus has been on ensuring subgrantees submit completed quarterly progress reports rather than verifying their accuracy and identifying potential problems.

To its credit, Texas has taken some steps to strengthen its controls over cash disbursements. For example, Texas's 2014 Administrative Plan now requires subgrantees to submit supporting documentation before receiving advances or reimbursements. Further, Texas is conducting conferences with other state agencies and local emergency managers to educate them on the Federal regulations such as maintaining an accurate accounting system that accounts for expenses on a project-by-project basis. Texas has also started developing policies and standard operating procedures to better monitor subgrantees.

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<sup>8</sup> Pursuant to the *Single Audit Act* and OMB Circular A-133 (Federal Register June 27, 2003, and June 26, 2007), a non-Federal entity must have a Single Audit performed when it has expended \$500,000 or more of Federal funds in a single fiscal year.



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From September 2008 to June 2015, FEMA paid Texas \$61.6 million in management and administrative funds to manage the \$2.2 billion in disaster funds for Hurricane Ike recovery. Although we did not assess the reasonableness of these management costs, FEMA is paying Texas to manage this disaster, and FEMA should continue to work with Texas to develop and implement additional measures to reduce the risk of program misuse and better manage its responsibilities under this grant.

### **Finding C: Special Award Conditions**

FEMA should consider Riverside as a high-risk applicant and direct Texas to impose special conditions on Riverside's grant award. According to 2 CFR 215.14, an awarding agency may impose special award conditions through additional requirements as needed to an applicant if the agency determines that an applicant—

- has a history of poor performance, or
- is not financially stable, or
- has a management system that does not meet Federal standards, or
- has not conformed to terms and conditions of previous awards, or
- is otherwise not responsible.

The findings in this report clearly demonstrate that Riverside meets most of these criteria. Consequently, FEMA should consider Riverside a high-risk applicant, impose special conditions on Riverside's grant award, and use all available legal remedies to protect taxpayers.

### **Conclusion**

Riverside's mismanagement and misuse of FEMA funds demonstrates its complete disregard for Federal regulations and FEMA guidelines. As a result, we have no assurance Riverside's incurred disaster-related costs are reasonable or valid. Further, the hospital is financially unstable, leaving its future uncertain. Consequently, FEMA should consider Riverside as a high-risk applicant and ensure that Texas imposes special award conditions through additional requirements as needed to ensure Riverside's compliance with Federal grant regulations. FEMA should also pursue administrative actions to suspend and debar Riverside's former Lead Representative for his role in the mismanagement of FEMA funds from receiving future DHS grant awards (2 CFR 215.14, 215.61, 180.630, and 180.800 (a) and (b)). The Department of Defense, through the Department of the Air Force, has almost finalized its



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process of debarring Riverside and its officials for defrauding the Federal Government, but it did not include Riverside's former Lead Representative.

Riverside's mismanagement of this grant occurred, in part, because Texas did not monitor Riverside's activities. Texas has taken steps toward improving its monitoring and has implemented controls over advancing funds to subgrantees. Texas officials should continue to strengthen their oversight of subgrantees and take aggressive action when they suspect problems.

### **Recommendations**

We recommend that the FEMA Regional Administrator, FEMA Region VI:

**Recommendation 1:** Disallow as ineligible \$17,562,212 (\$15,894,114 Federal share<sup>9</sup>) in advanced funds unless Riverside, working with FEMA and Texas, properly accounts for and provides adequate documentation to support eligible expenditures (finding A).

**Recommendation 2:** Deobligate the remaining grant fund balance of \$14,803,463 (\$13,323,117 Federal share<sup>10</sup>) and put those funds to better use unless Riverside cooperates with FEMA and Texas to correct the deficiencies identified in this report (finding A).

**Recommendation 3:** Pursue administrative actions to suspend and debar Riverside's former Lead Representative for his role in the mismanagement of FEMA funds from receiving future Department of Homeland Security grant awards (finding A).

**Recommendation 4:** Direct Texas to complete its development and implementation of additional measures to improve monitoring of all subgrantees (finding B).

**Recommendation 5:** Consider Riverside as a high-risk applicant and direct Texas to impose special award conditions through additional requirements as needed to ensure Riverside's compliance with Federal grant regulations (finding C).

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<sup>9</sup> The Federal share for this disaster is 100 percent for emergency work (debris removal and emergency protective measures) and 90 percent for permanent work. Based on Riverside's alleged disaster expenses, only about \$881,234 was for emergency work. We estimated the Federal share of the \$17,562,212 to be \$15,894,114 (90 percent of \$16,680,978 plus 100 percent of \$881,234).

<sup>10</sup>We assume that any additional funding would be for permanent work funded at 90 percent.



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### Discussion with FEMA and Audit Follow-up

We discussed the results of our audit with FEMA, Texas, and Riverside officials during our audit and included their comments in this report, as appropriate. We also briefed FEMA of our audit findings on April 27, 2015. We provided a draft report in advance to FEMA, Texas, and Riverside officials and discussed it at exit conferences with FEMA on July 9, 2015, with Texas on July 24, 2015, and with Riverside on August 5, 2015. We considered their comments in developing our final report and incorporated their comments as appropriate.

During our field work, Riverside provided comments on our findings and recommendations. After our exit conference, Riverside's Board members said that they could not agree or disagree with our findings, conclusions, and recommendations because they do not have access to the records we reviewed during the audit and, therefore, cannot provide a true, accurate, and complete response. The Board members said the former Lead Representative has unauthorized possession of the hospital's supporting documentation for its disaster-related expenses. They have requested the former Lead Representative return the records to the hospital, but he has been unresponsive. Additionally, the Board members said they needed time to meet with their new project manager to understand why the *Stafford Act* does not allow for the expenses listed under the misuse of FEMA funds. Nevertheless, the Board members emphasized they will continue to work with Texas, FEMA, and our office to support all its disaster expenses.

FEMA Region VI officials agreed with our findings and recommendations and provided a written response, which we have included in its entirety as appendix B.<sup>11</sup> Texas officials also generally agreed with our findings but reserved final comments until after we issue our final report.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include the contact information for responsible parties and any other supporting documentation necessary to inform us about the status of the recommendations. Please email a signed pdf copy of all responses and closeout request to [Christopher.Dodd@oig.dhs.gov](mailto:Christopher.Dodd@oig.dhs.gov). Until we

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<sup>11</sup> In its response, FEMA Region VI addresses Riverside General Hospital as "Riverside Community Health System" because we used that name in our draft report to FEMA based on information we received during audit field work. However, at our exit conference, Riverside's Board of Directors informed us that they had not authorized the name change, and the hospital's legal name remains as Riverside General Hospital.



## **OFFICE OF INSPECTOR GENERAL**

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receive and evaluate your response, we will consider the recommendations open and unresolved.

The Office of Emergency Management Oversight major contributors to this report are Christopher Dodd, Director; Chiquita Washington, Audit Manager; Irasema Medina, Auditor-in-Charge; and Christina Sbond, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Christopher Dodd, Director, Central Regional Office - South, at (214) 436-5200.



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### Appendix A

#### Objective, Scope, and Methodology

We audited FEMA Public Assistance grant funds awarded to Riverside (Public Assistance Identification Number 201-UFGXI-00). Our audit objective was to determine whether Riverside accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines. Texas awarded Riverside \$32.4 million for damages resulting from Hurricane Ike, which occurred on September 13, 2008. The award provided funding for 17 large projects and 13 small projects at a 100 percent Federal share for emergency work and 90 percent Federal share for permanent work.<sup>12</sup> As of October 27, 2014, the cut-off date of the audit, Riverside asserted it spent \$13,175,751 for project costs, and Texas had advanced Riverside \$17,562,212. Insurance did not cover any of the projects because Riverside did not have coverage for windstorm and flood. Table 3 describes the projects we audited, the funds Riverside received from Texas, amounts put to better use, and amounts Riverside asserted it expended.

We interviewed FEMA, Texas, and Riverside officials; gained an understanding of Riverside's method of accounting and procurement for disaster-related costs; reviewed Riverside's procurement policies and procedures; reviewed applicable Federal regulations and FEMA guidelines; reviewed and traced financial transactions from Riverside's FEMA accounts to its operating accounts; reviewed DOJ records; reviewed Riverside's 2012 external auditor's financial statement analysis; reviewed 2009 to 2012 Single Audit reports; and performed other procedures considered necessary to accomplish our objective.

As a part of our standard auditing procedures, we notified the Recovery Accountability and Transparency Board of all large contracts awarded under the grant and convicted employees to determine whether the contractors were debarred or whether there were any indications of other issues related to those contracts that would indicate fraud, waste, or abuse. We received and reviewed the Recovery Accountability and Transparency Board's analysis, and we have taken any additional actions we deemed necessary. Riverside's accounting records and controls were in disarray, and Riverside could not find important supporting documentation for its disaster expenses. However, we did not perform a detailed assessment of Riverside's internal controls over its grant

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<sup>12</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$60,900.



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### **Appendix A (continued)**

activities. Assessment of Riverside's internal controls was not necessary to accomplish our audit objective.

We conducted this performance audit between October 2014 and August 2015 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.



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**Appendix A (continued)**

**Table 3: Projects Audited, Advanced Funds,  
Funds Put to Better Use, and Incurred Expenses**

<b>Project Number/Category of Work<sup>13</sup></b>	<b>Funds Awarded by FEMA</b>	<b>Funds Advanced by Texas</b>	<b>Expenditures According to Riverside</b>	<b>Funds Put to Better Use</b>
1432-E	\$ 2,069	\$ 1,862	\$ 0	\$ 207
1460-B	35,578	35,578	0	0
1740-B	2,734	2,734	0	0
1940-B	76,110	57,083	0	19,027
3811-A	7,174	7,174	0	0
4744-B	38,738	38,738	0	0
5438-E*	0	125,000	0	(125,000)
6077-E	1,743,214	1,163,681	2,712,587	579,533
6224-E*	0	225,000	82,983	(225,000)
7523-E	199,817	134,876	27,278	64,941
8370-E	211,854	143,002	343,373	68,852
9122-E	23,049	20,744	0	2,305
12545-E	2,816	2,534	0	282
12722-E	9,219	8,297	0	922
13111-E	162,173	109,467	154,897	52,706
13117-E	1,970,527	1,007,140	2,142,971	963,387
13211-E	296,517	209,536	149,341	86,981
14183-B*	0	18,405	0	(18,405)
14309-E	21,806,858	10,900,000	3,601,974	10,906,858
14339-E	580,326	391,720	286,371	188,606
14352-E	1,775,691	534,359	6,040	1,241,332
14565-E	60,802	54,722	10,865	6,080
14624-E	481,830	254,499	12,950	227,331
14631-E	335,720	226,611	333,066	109,109
15013-E	272,482	183,780	372,658	88,702
15067-B	971,007	872,907	881,234	98,100
15754-E	1,233,723	832,763	515,482	400,960
15819-E	22,670	0	9,554	22,670
15820-E	18,405	0	251,486	18,405
15821-E	24,572	0	1,926	24,572
Unknown	0	0	1,278,715	0
<b>Totals</b>	<b>\$32,365,675</b>	<b>\$17,562,212</b>	<b>\$13,175,751</b>	<b>\$14,803,463</b>

Source: FEMA project worksheets, Texas PaySys Report, and Riverside accounting records

\*Texas advanced funding before FEMA deobligated these three projects to zero. FEMA obligated Projects 5438 and 6224 as large projects before it deobligated the projects to zero.

<sup>13</sup> FEMA classifies disaster-related work by type: debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C through G).



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**Appendix B**

**FEMA Region VI Audit Response**

U.S. Department of Homeland Security  
FEMA Region VI  
FRC 800 North Loop 288  
Denton, TX 76209-3698



**FEMA**

August 12, 2015

MEMORANDUM FOR: Christopher Dodd, Director  
Central Regional Office - South  
Office of Inspector General

FROM: George A. Robinson  
Regional Administrator *George A. Robinson*

SUBJECT: Response to DRAFT Report and Exit Conference  
*FEMA Should Recover \$32.4 Million in Grant Funds Awarded to  
Riverside Community Health System, Houston, Texas*  
Audit Job Code: OIG-14-060

Thank you for the opportunity to comment on the DRAFT Office of Inspector General (OIG) Audit Report, *FEMA Should Recover \$32.4 Million in Grant Funds Awarded to Riverside Community Health System, Houston, Texas*. This DRAFT was discussed at our recent exit conference conducted with your staff on July 9, 2015, and this response provides your office with additional detail. We recognize the need to continue to improve our processes, including addressing the recommendations raised in this report. The following is our preliminary written response to the five recommendations, of which FEMA concurs with all five.

**Recommendation #1:** *Disallow as ineligible \$17,562,212 in advanced funds unless Riverside, working with FEMA and Texas, properly accounts for and provides adequate documentation to support eligible expenditures (finding A).*

**Response:** Concur - FEMA agrees with this recommendation. FEMA will work with the state and Riverside General Hospital to review the documentation for the grant funds received by the applicant providing the applicant the opportunity to furnish additional documentation that may support their claim. The audit points out that \$9.7 million could have potentially been spent on disaster-related costs; therefore, every effort will be made to identify reasonable, eligible, disaster related expenditures. The applicant continues work to account for all disaster costs on a project-by-project basis.

**Recommendation #2:** *Deobligate the remaining grant fund balance of \$14,803,463 and put those funds to better use unless Riverside cooperates with FEMA and Texas to correct the deficiencies identified in this report (finding A).*

**Response:** Concur - FEMA agrees with the recommendation to deobligate the remaining grant fund balance of \$14,803,463, should the applicant be uncooperative with FEMA and the state in

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Department of Homeland Security

**Appendix B (continued)**

Christopher Dodd  
August 12, 2015  
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correcting the deficiencies the audit identifies. FEMA will support the state in its efforts to determine the amount of FEMA funding the applicant used for hospital operations and if any of the remaining grant funds can be used to complete eligible disaster-related damages.

**Recommendation #3:** *Direct Texas to recover the \$17,562,212 if FEMA disallows the advanced funds as ineligible. If FEMA does not disallow the \$17,562,212, then direct Texas to recover the \$4,386,461 in excess of advances over expenses and \$4,201,029 in unsupported costs and costs not accounted for on a project-by-project basis (finding A).*

**Response:** Concur - FEMA agrees with the recommendation to disallow the advanced funds if the FEMA/state review reveals the funding was ineligible. If we disallow the advanced funding, we will review the \$4,386,461, in excess advances over expenses and the \$4,201,029, in unsupported costs and costs not accounted for on a project-by-project basis identified in the audit and determine if those funds should be recovered.

**Recommendation #4:** *Pursue administrative actions to suspend and debar Riverside's former Lead Conservator/REMA designated agent for his role in the mismanagement of FEMA funds from receiving future Department of Homeland Security grant awards (finding A).*

**Response:** Concur - FEMA agrees with the recommendation to pursue suspension and debarment of Riverside's Lead Conservator from receiving future Department of Homeland Security grant awards. The Department of Defense (DOD) has initiated the debarment process for Riverside and several of its officials. Once completed, the debarments will be implemented by all federal agencies, including FEMA.

**Recommendation #5:** *Direct Texas to complete its development and implementation of additional measures to improve monitoring (finding B).*

**Response:** Concur - FEMA agrees with the recommendation for Texas to complete the development and implementation of measures to improve the monitoring of the day-to-day activities of subgrantees to ensure compliance with applicable federal requirements. Texas officials acknowledged they did not have adequate grant management procedures in place until 2013 to address subgrantees' Single Audit findings.

The audit states that to its credit, Texas has taken some steps to strengthen its controls over cash disbursements. Texas is now conducting conferences with state and local emergency managers to educate them on federal regulations such as maintaining an accurate accounting system that accounts for expenses on a project-by-project basis. Texas is also developing policies and standard operating procedures to better monitor subgrantees.

FEMA will support Texas as they continue to improve their monitoring, implementation of controls over advancing funds, and the oversight of subgrantees.

When the final report is released by your office, we will provide a response in the form of a corrective action plan to include target completion dates for each recommendation. We ask that



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

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**Appendix B (continued)**

Christopher Dodd  
August 12, 2015  
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this memorandum be included as an attachment to the final report when it is distributed and published on the OIG website. If you have any questions concerning our response, please contact this office at the address above.

cc: W. Nim Kidd, TDEM  
Gregory Eaton, FEMA R6-REC  
Mark Price, FEMA R6-REC  
Jill Igert, FEMA R6-ORA  
Christian Montz, FEMA R6-GM  
Kathy Hill, FEMA OCFO  
Gary McKeon, FEMA OPPA-ALO  
Kent Baxter, FEMA R6-ORA



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**Appendix C**

**Potential Monetary Benefits**

**Table 4: Summary of Potential Monetary Benefits**

<b>Type of Potential Monetary Benefit</b>	<b>Amounts</b>	<b>Federal Share</b>
Questioned Costs – Ineligible	\$ 17,562,212	\$ 15,894,114
Questioned Costs – Unsupported	0	0
Funds Put to Better Use	<u>14,803,463</u>	<u>13,323,117</u>
<b>Totals</b>	<b><u>\$32,365,675</u></b>	<b><u>\$29,217,231</u></b>

Source: OIG analysis of report findings



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**Appendix D**

**Report Distribution**

**Department of Homeland Security**

Secretary  
Chief of Staff  
Chief Financial Officer  
Under Secretary for Management  
Chief Privacy Officer  
Audit Liaison, DHS

**Federal Emergency Management Agency**

Administrator  
Chief of Staff  
Chief Financial Officer  
Chief Counsel  
Chief Procurement Officer  
Director, Risk Management and Compliance  
Audit Liaison, FEMA Region VI  
Audit Liaison, FEMA (Job Code G-14-060)

**Office of Management and Budget**

Chief, Homeland Security Branch  
DHS OIG Budget Examiner

**Recovery Accountability and Transparency Board**

Director, Investigations

**Congress**

Congressional Oversight and Appropriations Committees



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Department of Homeland Security

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**Appendix D (continued)**

**External**

Assistant Director of Emergency Management, Texas Department of Public Safety  
Deputy Assistant Director Response, Texas Division of Emergency Management  
Deputy Assistant Director Recovery, Mitigation, Standards, Texas Division of Emergency Management  
Chief of Staff, Texas Department of Public Safety  
Executive Assistant, Texas Division of Emergency Management  
Texas Legislative Auditor  
Board of Directors, Riverside General Hospital