

**FEMA Should Suspend All
Grant Payments on the
\$29.9 Million Coastal
Retrofit Program Until
Mississippi Can Properly
Account for Federal Funds**





DHS OIG HIGHLIGHTS

FEMA Should Suspend All Grant Payments on the \$29.9 Million Coastal Retrofit Program Until Mississippi Can Properly Account for Federal Funds

August 10, 2016

Why We Did This Audit

Mississippi received a \$29.9 million Hazard Mitigation grant from the Federal Emergency Management Agency (FEMA) for the state's Coastal Retrofit Program (Program). The goal of the Program was to help 2,000 Mississippi homeowners strengthen their homes against wind damages in future disasters. We received complaints that the state was mishandling Federal funds for this Program.

What We Recommend

FEMA should suspend all grant payments for the \$29.9 million Program until Mississippi can properly account for Federal funds.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

Mississippi did not provide proper oversight of a \$29.9 million grant for the Hazard Mitigation Program. As a result, FEMA has no assurance that Mississippi properly accounted for and expended Federal funds. Specifically, Mississippi—

- allowed one employee complete authority over the Program, which influenced the approval of completion of work and payments to contractors;
- contends it has spent \$31.5 million in state funds to complete work on 945 of the estimated 2,000 homes but has claimed only \$957,776 for FEMA reimbursement; and
- has not provided documentation to support \$30.5 million paid to contractors.

FEMA Response

FEMA officials agreed with our findings and recommendations. Appendix C includes FEMA's written response in its entirety.



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Department of Homeland Security

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

August 10, 2016

MEMORANDUM FOR: Gracia Szczech
Regional Administrator, Region IV
Federal Emergency Management Agency
Thomas M. Salmon

FROM: Thomas M. Salmon
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Suspend All Grant Payments on the
\$29.9 Million Coastal Retrofit Program Until Mississippi
Can Properly Account for Federal Funds*
Audit Report Number OIG-16-115-D

The purpose of this memorandum is to advise you of significant issues we identified relative to Hazard Mitigation Grant Program (HMGP) funds the Federal Emergency Management Agency (FEMA) obligated for Mississippi's Coastal Retrofit Program (Program). FEMA awarded a \$29.9 million grant to the Mississippi Emergency Management Agency (Mississippi or MEMA), a FEMA grantee, following Hurricane Katrina, which occurred in August 2005. The goal of the Program is to help an estimated 2,000 homeowners strengthen their homes against wind damages in future disasters. The award provided 90 percent FEMA funding.

Mississippi contends it has spent \$31.5 million in state funds to complete work on 945 of the estimated 2,000 homes, but has claimed only \$957,776 for FEMA reimbursement.

Background

On August 29, 2005, the President declared a major disaster in Mississippi for damages from Hurricane Katrina. Section 404 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, Public Law 93-288, as amended, authorizes cost-effective hazard mitigation measures "which substantially reduce the risk of future damage, hardship, loss, or suffering in any area affected by a major disaster." As a result of Hurricane Katrina, FEMA approved \$29.9 million, with a 90 percent Federal share of \$26.9 million for the Program.

The goal of the Program is to help homeowners strengthen their homes to mitigate against wind damages from future disasters. FEMA approved the Program in May 2011. The first home retrofit started in February 2012, with plans to retrofit



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2,000 homes in the lower 6 counties of Mississippi, with initial retrofitting confined to the lower 3 counties of Hancock, Harrison, and Jackson. We received allegations of possible irregularities within the Program, which led us to conduct this audit.

Results of Audit

Mississippi did not provide proper oversight of \$29.9 million in HMGP funds approved for the Program. As a result, FEMA has no assurance that Mississippi properly accounted for and expended Federal funds. Specifically, Mississippi—

- allowed one employee complete authority over the Program, which influenced the approval of completion of work and payments to contractors;
- contends it has spent \$31.5 million in state funds to complete work on 945 of the estimated 2,000 homes but has claimed only \$957,776 for FEMA reimbursement; and
- has not provided documentation to support \$30.5 million paid to contractors for the 945 homes.

Therefore, FEMA should take the actions necessary to protect against the improper use of Disaster Relief funds. For example, FEMA should either deobligate or, at minimum, suspend payments on the \$29.9 million approved for the Program, unless Mississippi can provide adequate documentation for all funds expended and assurance that the scope of work is complete and in compliance with Federal regulations and FEMA guidelines.

Lack of Proper Oversight

Mississippi did not ensure separation of duties—a basic tenet of internal control—over \$29,888,707 of HMGP funds for the Program. The *Mississippi Agency Accounting Policies and Procedures Manual*, Sub-Section 30-30-30, defines segregation of duties as an internal control activity to “reduce the risk of error and fraud by requiring that more than one person completes a particular fiscal process.” Mississippi allowed one employee complete authority over the Program, which influenced approval of completion of work and authorization of payments to contractors. Although Mississippi became aware of improper oversight as early as December 2014, it did not take any actions to stop or mitigate the problem until February 2016—after we initiated this audit and we had preliminary discussions with them on our findings. Federal regulations at 44 Code of Federal Regulations (CFR) 13.40(a) require grantees to manage the day-to-day operations of grant and subgrant activity to ensure compliance with applicable Federal requirements and achievement of performance goals.



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Before September 2012, the Mississippi Department of Finance (DFA) was responsible for managing the Program as MEMA's subgrantee. DFA allowed one of its employees total control over the Program, which, in our opinion, created a breakdown in Mississippi's accounting controls. In September 2012, this employee, along with responsibility for the Program, transferred to MEMA. While working for DFA and MEMA, according to Mississippi officials, this employee approved and influenced other State employees to process \$31,475,706 in payments—more than the amount of the grant—using state funds for 945 of the estimated 2,000 homes within the project's scope. In addition, according to MEMA officials, these actions may have circumvented the State's accounting controls.

Mississippi has only requested \$957,776 in FEMA reimbursement because the employee did not allow a contracted accounting firm to reconcile payments of \$30,517,930 in invoices. However, no one above the employee's authority questioned the situation. Finally, in February 2016—after we initiated this audit—the newly appointed Executive Director of MEMA took actions to improve program oversight by firing several employees, securing program records, and coordinating with the Mississippi State Attorney General's Office. According to MEMA officials, key MEMA personnel within the state payment process, allowed payments without following state accounting procedures and, thus, created an absence of internal controls and eventually led to the firing of those key MEMA personnel. However, our audit and MEMA contacting the Mississippi State Attorney General's Office creates doubt about the stability of the State's oversight of the Program.

Completion of Only 945 of the Estimated 2,000 Homes

MEMA contends that it completed work on 945 homes—less than half of the 2,000 homes estimated in the project's approved scope of work—and paid contractors \$31,475,706 for that work. This amount is \$1,586,999 more than the entire \$29,888,707 grant. According to the approved scope of work, retrofitting each home against wind damage would cost \$14,944 on average (\$29,888,707 divided by 2,000). However, according to MEMA, retrofitting the 945 homes has cost \$33,308 on average (\$31,475,706 divided by 945), a 123 percent increase over the original estimate. MEMA did not provide any substantial evidence to justify the increase in costs. Further, the one employee who had complete control of the Program would not allow us or Mississippi officials access to the contractors' invoices totaling \$30,517,930. The lack of access to documents prompted us to question MEMA and other Mississippi officials and led the newly appointed Executive Director of MEMA to contact the Mississippi State Attorney General's Office.



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Lack of Proper Documentation

MEMA has not provided adequate documentation to support an estimated \$30,517,930 paid to contractors. It provided a spreadsheet detailing Program costs and stated that it is attempting to locate and assemble proper supporting documentation. According to 2 CFR Part 225, Appendix A, Section (C)(1)(j), to be allowable under Federal awards, costs must be adequately documented. The *Mississippi Agency Accounting Policies and Procedures Manual*, Sub-Section 11.20-10, states that a payment voucher “must have the original invoice or the copy that reads ‘customer copy’ stapled to it. DFA may waive, under certain circumstances, the requirement that an original invoice be submitted.” To process payments, MEMA and FEMA established procedures to make payments in batches (increments of homes completed). MEMA contends it completed 945 homes as of May 2015, representing 39 batches for an estimated \$31,475,706. However, MEMA provided Mississippi and us only 4 batches (12 homes) of invoices valued at \$957,776. Also, according to DFA financial payment records, as of May 2016, MEMA only expended \$20,449,692 for the Program, not \$31,475,706. Of the \$957,776, representing the 4 batches, \$640,267 represented actual retrofit work on homes, the remaining \$317,509 represented temporary employees’ salaries (\$213,734) and administrative costs (\$103,775) such as supplies, rent, utilities, and travel. Because Mississippi has begun to investigate the Program and locate and assemble proper supporting documentation, the remaining 35 batches of invoices, representing \$30,517,930 in payments, are under strict control of MEMA. Since the beginning of our audit in October 2015, we requested documentation to support the \$31,475,706 Mississippi contends it spent on the Program; and, to date, we have only received documentation supporting \$957,776.

Summary

Based on the following concerns and irregularities with the Coastal Retrofit Program, Mississippi cannot provide reasonable assurance that it has properly accounted for and expended Program funds in accordance with Federal regulations and FEMA guidelines:

- Mississippi lacks oversight to ensure separation of duties; however, according to the newly appointed Executive Director of MEMA, the issue is being addressed;
- only 945 of the estimated 2,000 homes are complete, still costing an estimated \$31,475,706, although DFA financial records show only \$20,449,692; and
- Mississippi has not provided documentation to support \$30,517,930.



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The \$29,888,707 is still obligated and available to Mississippi and MEMA for drawdown and reimbursement at any time. Therefore, we recommend that FEMA deobligate or suspend the entire \$29,888,707 until Mississippi provides proper oversight of the Program and reasonable assurance that Federal funds can be properly accounted for and expended in accordance with Federal regulations and FEMA guidelines.

Recommendations

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation 1: Take the actions necessary to protect against the improper use of Disaster Relief funds. For example, FEMA should either deobligate or suspend all payments on the \$29,888,707 (Federal share \$26,899,836) from Project 485, the Mississippi Coastal Retrofit Program, to ensure Mississippi cannot draw down Federal funds for the Project until Mississippi can provide adequate documentation for all funds expended.

Recommendation 2: Require Mississippi to assure FEMA that the scope of work is complete and in compliance with Federal regulations and FEMA guidelines.

Recommendation 3: Require Mississippi to provide a reasonable explanation of why less than half of the 2,000 homes have been retrofitted, while Mississippi contends it has spent more than the total \$29,888,707 FEMA approved for the Project.

Recommendation 4: Suspend all payments on the \$176,446 Mississippi expects to receive for management and administrative costs (direct or indirect) related to Project 485, the Mississippi Coastal Retrofit Program to ensure Mississippi cannot draw down Federal funds for the Project until Mississippi can provide the three items listed previously.

Discussion with Management and Audit Follow-up

We discussed the results of our audit with Mississippi and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference on June 17, 2016. FEMA officials concur with our findings and recommendations.

FEMA officials provided a written response on July 14, 2016, agreeing with our findings and recommendations (see Appendix C). FEMA expects to complete its proposed corrective actions to address our recommendations by March 31, 2017. Therefore, we consider the report recommendations to be resolved but open. We



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will close the recommendations when we receive and review documentation that FEMA has completed its proposed corrective actions. Please email closeout documentation and request to larry.arnold@oig.dhs.gov.

The Office of Emergency Management Oversight major contributors to this report are Larry Arnold, Director; John Skrmetti, Audit Manager; Mary James, Auditor-in-charge; Alfonso Dallas, Auditor; Rickey Smith, Auditor; J. Hugh Dixon, Auditor; and Sean Forney, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Larry Arnold, Director, Gulf Coast Regional Office, at (228) 822-0387.



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Appendix A

Objective, Scope and Methodology

We audited FEMA HMGP funds awarded to MEMA (Hazard Mitigation Assistance Identification Number 000-U0220-00). Our audit objective was to determine whether MEMA accounted for and expended FEMA HMGP funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number 1604-DR-MS, and for the HMGP Coastal Retrofit Program. MEMA received a HMGP award of \$29,888,707 (Federal share \$26,899,836) from Mississippi. The award provided 90 percent FEMA funding for Project 485, HMGP Mississippi Coastal Retrofit Program, to help homeowners strengthen their homes to mitigate against wind damages from future disasters.

Our audit covered the period August 29, 2005, through October 26, 2015, the cutoff date of our audit. The award provided 90 percent Federal funding for Project 485. We audited Project 485 totaling \$29,888,707 under the HMGP Mississippi Coastal Retrofit Program. As of October 26, 2015, MEMA had only submitted a cost claim of \$957,776 for reimbursement, although according to MEMA officials, all work was completed.

To accomplish our objective, we interviewed FEMA, Mississippi, and MEMA officials; gained an understanding of MEMA's method of accounting for disaster-related costs and its procurement policies and procedures; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary under the circumstances to accomplish our audit objective. We did not perform a detailed assessment of MEMA's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between October 2015 and June 2016, under the authority of the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards.¹ 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.

¹ The audit started on October 26, 2015; however, a higher priority project delayed it in January 2016. The audit restarted in March 2016.



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Appendix B

Potential Monetary Benefits

Table 1: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Amount	Federal Share
Questioned Cost - Ineligible	\$ 0	\$ 0
Questioned Cost - Unsupported	0	0
Funds Put to Better Use (Cost Avoidance)	29,888,707	26,899,836
Totals	\$29,888,707	\$26,899,836

Source: Office of Inspector General analysis of report findings



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Appendix C




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

**Homeland
Security**

JUL 14 2016

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

FROM: Gracia B. Szczech 
Regional Administrator
FEMA Region IV

SUBJECT: Management's Response to OIG Draft Report: "FEMA Should
Suspend all Grant Payments on the \$29.9 Million Coastal
Retrofit Program until Mississippi Can Properly Account for
Federal Funds"
(Project No. OIG-16-XX-D)

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

FEMA Region IV provided technical comments on June 26, 2016, to the OIG Audit team. Those comments are not repeated in this response.

The draft report contained two recommendations (with multiple sub-recommendations) with which the Department concurs. Please see the attached for our detailed response to each recommendation.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.



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Appendix C (continued)

**Attachment: DHS Management Response to Recommendations
Contained in OIG-16-XX-D**

Recommendation 1: “Take the actions necessary to protect against the improper use of the Disaster Relief funds. For example FEMA should either deobligate or suspend all payments on the \$29,888,707 (Federal share \$26,899,836) from Project 485, the Mississippi Coastal Retrofit Program, to ensure Mississippi cannot draw down Federal funds for the Project until Mississippi can provide . . . adequate documentation for all funds expended.”

Response: Concur. FEMA Region IV will suspend all payments to project DR-1604-MS-0485 until the Mississippi Emergency Management Agency (MEMA) can provide adequate documentation for the funds expended. The FEMA Region IV Mitigation Division, Hazard Mitigation Assistance Branch has begun discussions with MEMA to formulate a process in which MEMA will not drawdown funds for any batch until the documentation for the batch has been reviewed by MEMA’s independent auditor, where they will determine eligibility and then submit the documentation to FEMA Region IV for review. Once FEMA Region IV has determined a batch to be eligible, then MEMA can draw down the funds for that batch. There are 39 batches in the project with 3 already completed prior to the audit. Estimated Completion Date (ECD): The current Period of Performance for this subgrant is December 31, 2016 with a liquidation period until March 31, 2017. All actions related to this subgrant should be completed by that time.

Recommendation 2: Require Mississippi to “provide assurances to FEMA that the scope of work is complete and in compliance with Federal regulations and FEMA guidelines.”

Response: Concur. Verification that the scope of work has been completed and compliant with Federal regulations and FEMA guidelines is a standard requirement during subgrant closeout. FEMA Region IV will require this certification with the submittal of each batch that is submitted for drawdown and at project closeout. Estimated Completion Date (ECD): The current Period of Performance for this subgrant is December 31, 2016 with a liquidation period until March 31, 2017. All actions related to this subgrant should be completed by that time.

Recommendation 3: Require Mississippi to “provide a reasonable explanation of why less than half of the 2,000 homes have been completed, while Mississippi contends it has spent more than the total \$29,888,707 FEMA approved for the Project.”

Response: Concur. As each batch is submitted for review and drawdown the costs associated with that batch will be reviewed. The original scope of work was written to



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Appendix C (continued)

retrofit up to 2,000 homes. Verification of the scope of work for this project will be determined through FEMA Region IV's eligibility process, actual cost vs. projected cost will help inform why less than the original 2,000 properties projected was not accomplished. Estimated Completion Date (ECD): The current Period of Performance for this subgrant is December 31, 2016 with a liquidation period until March 31, 2017. All actions related to this subgrant should be completed by that time.

Recommendation 4: "Suspend all payments on the \$176,446 Mississippi expects to receive for management and administrative costs (direct or indirect) related to Project 485, the Mississippi Coastal Retrofit Program to ensure Mississippi cannot draw down Federal funds for the Project until Mississippi can provide the three items listed above."

Response: Concur. As payments are authorized by FEMA Region IV for drawdown, administrative funds are automatically calculated by the NEMIS grants system at the appropriate amount. Estimated Completion Date (ECD): The current Period of Performance for this subgrant is December 31, 2016 with a liquidation period until March 31, 2017. All actions related to this subgrant should be completed by that time.



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Appendix D

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