



### Why This Matters

Federal Emergency Management Agency (FEMA) obligates an average of \$10 billion in Disaster Relief Funds annually. Correctly applying FEMA's 50 Percent Rule to repair or replacement decisions can be very difficult and susceptible to errors. Our audits have demonstrated that millions of dollars are at risk from incorrect 50 Percent Rule decisions. FEMA officials in Hurricane Sandy recovery have made 15 repair or replace decisions that resulted in 8 replacement decisions with estimated costs totaling \$3.5 million. Although still developing new policies, FEMA approved these eight Hurricane Sandy replacement projects without a clear 50 Percent Rule policy.

### DHS Response

We discussed the results of our audit with FEMA officials during our audit and included their comments in this report, as appropriate. We also provided a draft of our preliminary findings in advance to FEMA officials and discussed it with FEMA officials on January 16 and February 7, 2014. FEMA officials generally agreed with our findings and recommendations.

### For Further Information:

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

## FEMA's Progress in Clarifying its "50 Percent Rule" for the Public Assistance Grant Program

### What We Determined

We audited the Federal Emergency Management Agency's (FEMA) progress in clarifying its "50 Percent Rule" used to make repair-versus-replacement decisions in the Public Assistance grant program. While FEMA is making progress in clarifying the rule, it has not yet published a draft revised policy. Our previous audits have disclosed significant problems with FEMA's 50 Percent Rule policy. In response to a previous report, FEMA's Administrator said, "We agree with the OIG that FEMA's current policy and methods for implementing the 50 Percent Rule are in need of significant review and revision" and said that FEMA would reprioritize and accelerate a thorough review of the 50 Percent Rule policy. Our objective also included determining any potential impact on Hurricane Sandy repair-versus-replacement decisions if FEMA does not clarify its "50 Percent Rule." As of April 2014, FEMA officials in New York and New Jersey had made eight replacement decisions with estimated costs totaling \$3.5 million for Hurricane Sandy. FEMA approved these eight replacement projects without a revised 50 Percent Rule policy. FEMA recognizes the challenges involved with the 50 Percent Rule and plans to revise its policy. We continue to support FEMA's plans to develop improved policies, review standards, and training programs.

### What We Recommend

We recommend to the Assistant Administrator, FEMA Recovery Directorate:

Recommendation #1: Complete the revision to FEMA's 50 percent repair or replace rule policy to clarify the rule and address the concerns we identify in this report.

Recommendation #2: Develop a formal 50 percent repair or replace rule training program and establish minimum training, education, and experience levels for all FEMA staff and contractors preparing or reviewing 50 percent repair or replace rule calculations.

Recommendation #3: Consider amending Federal regulation to increase the 50 percent replacement threshold and include all retenant costs to make the decision more closely aligned with the decision's cost effectiveness.

Recommendation #4: Until FEMA finalizes its 50 percent repair or replace rule policy revisions, request the OIG's assistance to perform a preliminary audit of 50 percent repair or replace rule decisions for projects that exceed \$5 million.