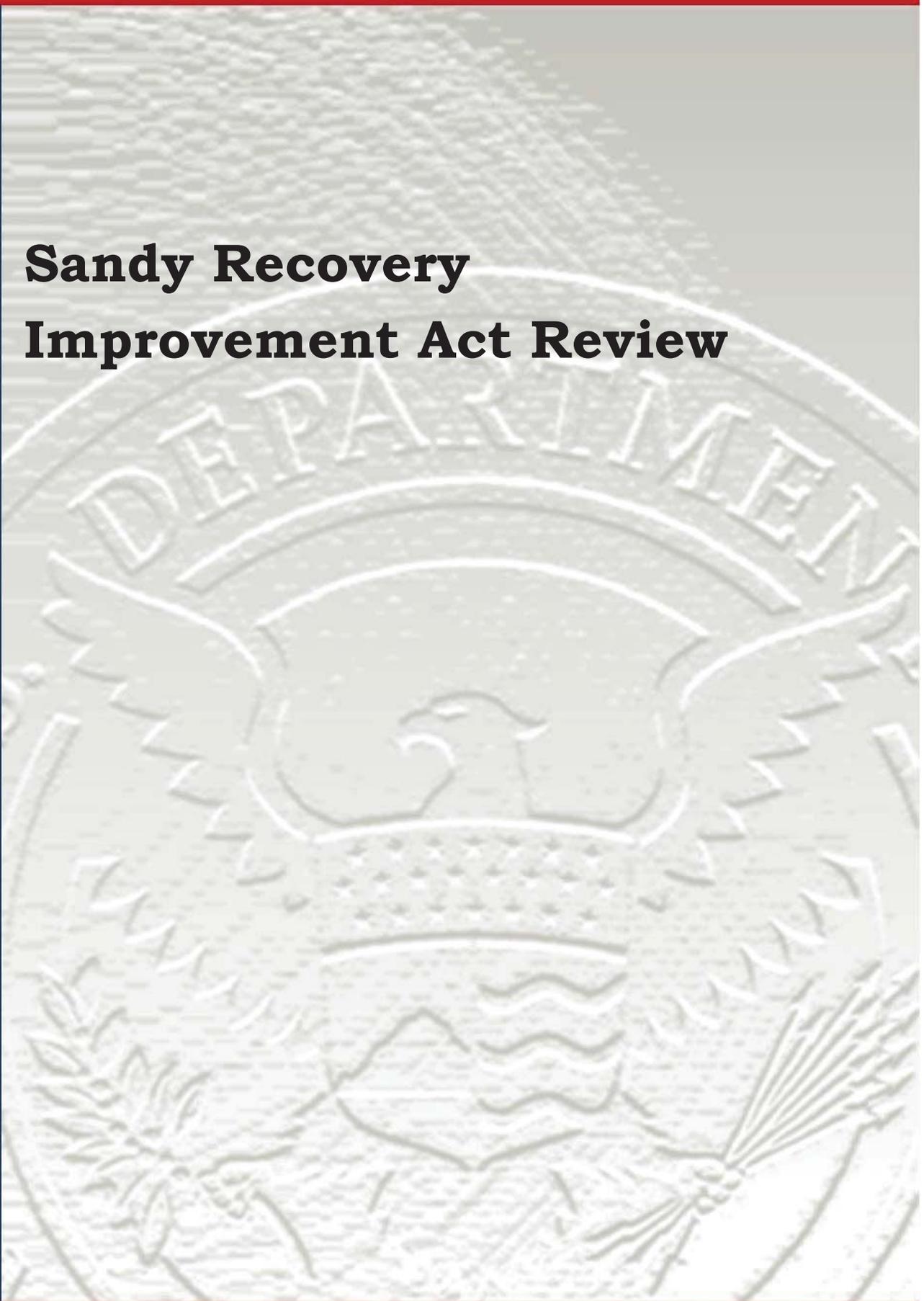


**OFFICE OF INSPECTOR GENERAL**

# **Sandy Recovery Improvement Act Review**



Homeland  
Security

**June 1, 2018  
OIG-18-66**



# DHS OIG HIGHLIGHTS

## *Sandy Recovery Improvement Act Review*

June 1, 2018

### **Why We Did This Report**

As part of the *Sandy Recovery Improvement Act* (SRIA), Congress tasked the Department of Homeland Security Office of Inspector General with preparing a report assessing the effectiveness of the Federal Emergency Management Agency's (FEMA) Public Assistance (PA) program's alternative procedures pilot program.

### **What We Recommend**

We made two recommendations to FEMA that, when implemented, should ensure that the objectives of the pilot program are met.

#### **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)

### **What We Found**

Congress enacted SRIA due to general concerns that recovery from Hurricane Sandy would suffer delays and bureaucratic burdens that inhibit recovery. In July 2017, FEMA reported that it awarded 252 projects under the PA alternative procedures pilot program valued at \$11.9 billion, with just 26 of those projects (10.32 percent) closed. Because so few projects have closed, we cannot assess the program's successes, failures, strengths, or weaknesses at this time.

We reviewed three obligated projects, valued at \$1.3 billion, to determine whether FEMA followed its guidance for validating subrecipients' estimates. FEMA's guidance outlines the process used to review and validate cost estimates submitted by subrecipients to FEMA for permanent work under the pilot program. In the course of our limited testing, we found FEMA did not sufficiently document its actions to validate subrecipient estimates to ensure the costs were reasonable.

We plan to reassess the pilot program in the future to determine whether FEMA is following its policies and procedures; and to determine whether the pilot program is improving the PA program.

### **FEMA Response**

FEMA concurred with both recommendations and described corrective actions it is taking, or plans to take, to address them.



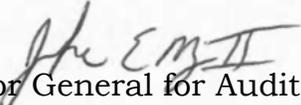
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Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

JUNE 1 2018

MEMORANDUM FOR: Alex Amparo  
Assistant Administrator for Recovery  
Federal Emergency Management Agency

FROM: John E. McCoy II   
Assistant Inspector General for Audits

SUBJECT: *Sandy Recovery Improvement Act Review*

For your action is our final report, *Sandy Recovery Improvement Act Review*. The report identifies actions the Federal Emergency Management Agency (FEMA) can take to enhance the *Sandy Recovery Improvement Act* (SRIA) Public Assistance (PA) alternative procedures pilot program's overall effectiveness. We incorporated the formal comments provided by your office.

The report contains two recommendations aimed at improving the program's overall effectiveness. Your office concurred with both recommendations. Based on information provided in your response to the draft report, we consider both recommendations open and resolved. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendations. The memorandum should be accompanied by evidence of completion of the corrective actions. Please send your response or closure request to [OIGAuditsFollowup@oig.dhs.gov](mailto:OIGAuditsFollowup@oig.dhs.gov).

Consistent with our responsibility under the *Inspector General Act of 1978*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.



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### Background

The *Sandy Recovery Improvement Act of 2013* (Public Law 113–2), which amends Title IV of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (42 United States Code (U.S.C.) 5121 et seq.) was signed into law on January 29, 2013. The law authorizes FEMA to develop alternative procedures for its PA program, which provides disaster relief to states, counties, cities, and other local governments, as well as some nonprofit organizations. SRIA authorizes FEMA to implement alternative procedures through a pilot program. The pilot program applies to large permanent work projects in any major disaster declared on or after May 20, 2013. It also applies to large permanent work projects in major disasters declared prior to that date if construction for the project has not yet begun. The program will remain in place until FEMA promulgates and adopts revised regulations that reflect the program changes the law authorizes. Currently, there is no set end-date for the pilot. As of July 2017, FEMA had 252 permanent work projects, valued at \$11.9 billion in the pilot program.

Congress enacted SRIA due to general concerns that the recovery from Hurricane Sandy would suffer delays and bureaucratic burdens that inhibit recovery.

According to the House of Representatives Report No. 113-732 for the *FEMA Reauthorization Act of 2013*, “SRIA grants FEMA greater flexibility in use of Federal funds and in turn allows the agency to reduce the administrative burden and cost to all parties.”<sup>1</sup>

The pilot program’s alternative procedures for permanent work projects aim to:

- reduce the costs to the Federal Government of providing public assistance;
- increase flexibility in the administration of such assistance;
- expedite the provision of assistance to recipients and subrecipients; and
- provide financial incentives and disincentives for timely and cost-effective completion of a project.

The method FEMA uses to pay applicants for disaster recovery differs significantly between the pilot program and the traditional PA program. Under the pilot program, FEMA pays applicants based on a fixed estimate of eligible costs. With its traditional PA program, FEMA reimburses subrecipients for actual expenditures of eligible costs for each approved project.

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<sup>1</sup> H.R. Rep. No. 113-732, pt. 1, at 11 (2015).



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Congress tasked the DHS Office of Inspector General (OIG) with assessing the effectiveness of FEMA's alternative procedures pilot program. In that request, Congress directed OIG to address the following six specific areas:

1. whether the alternative procedures helped to improve the general speed of the disaster recovery;
2. the accuracy of the estimates relied upon;
3. whether the financial incentives and disincentives were effective;
4. whether the alternative procedures were cost effective;
5. whether the independent expert panel, established to review and validate cost estimates, was effective; and
6. recommendations for whether the alternative procedures should be continued and any recommendations for changes to the alternative procedures.<sup>2</sup>

### Results of Review

In July 2017, FEMA reported that it awarded 252 projects under the PA alternative procedures pilot program valued at \$11.9 billion, with just 26 of those projects (10.32 percent) closed. During our fieldwork, we gained access to FEMA's grant management system of record and reviewed supporting documentation for the project worksheets in our scope to determine if FEMA followed its criteria when validating cost estimates. However, FEMA did not sufficiently document actions that it took to validate subrecipient cost estimates to ensure costs are reasonable. Of the three obligated projects we reviewed during our fieldwork, we did not find evidence that FEMA completed the required steps identified to validate the reasonableness of subrecipient cost estimates. FEMA indicated that one of the projects in our scope had, in fact, been reviewed and validated by members of its cost estimating team, however, the evidence of that review was not annotated in the system of record. Following its guidance and properly incorporating the validated cost estimates into its system of record will help to ensure that the objectives of the pilot program are met.

The 252 projects represent permanent work grants awarded to 132 subrecipients. Because so few projects have closed, we cannot assess the program's successes, failures, strengths, or weaknesses at this time.

We plan to reassess the pilot program in the future to determine whether FEMA is following its policies and procedures and whether the pilot program is improving the public assistance program.

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<sup>2</sup> 42 U.S.C. § 5189(h)(2) (2013).



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### **FEMA Can Improve Its Documentation of Action Taken to Validate Subrecipient Estimates**

FEMA should ensure that it properly documents the actions it takes to validate subrecipient-provided estimates. The *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work*<sup>3</sup> requires FEMA to review subrecipients' estimates for validation purposes. Version 3 of the Guide mandates that FEMA conduct the review according to procedures outlined in the *Public Assistance Alternative Procedures Pilot Program: Validation of Subgrantee-Provided Cost Estimates Job Aid* (May 20, 2013) (Job Aid). Within the Job Aid, there are six steps for validating subrecipients' cost estimates, which are as follows:

- Step 1. Review the scope of work and cost estimate to verify that only eligible items are included;
- Step 2. Determine whether unit costs are from an approved source of industry standard information;
- Step 3. Determine the components of unit costs;
- Step 4. Validate the cost estimate for completeness and reasonableness;
- Step 5. Incorporate the validated cost estimate into the subgrant; and
- Step 6. Return cost estimates that cannot be validated to the subrecipient for revision.

We reviewed three obligated projects, valued at \$1.3 billion, to determine whether FEMA followed its guidance for validating subrecipients' estimates. In the course of our limited testing, we found FEMA did not sufficiently document its actions to validate subrecipient estimates to ensure the costs were reasonable.

Because the pilot program is based on estimates, following the guidance outlined in the Job Aid will help ensure that FEMA meets the objectives of the pilot program.

### **Conclusion**

Because so few projects have closed, we cannot assess the program's successes, failures, strengths, or weaknesses at this time. Nevertheless, FEMA needs to improve its documentation of the actions it takes to validate subrecipient estimates for projects that are included in its PA alternative

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<sup>3</sup> FEMA, *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work* (Version 3) (March 29, 2016); FEMA, *Public Assistance Alternative Procedures Pilot Program – Permanent Work Standard Operating Procedures* (December 19, 2013) (“Version 2”).



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procedures pilot program. Following the guidance in the *FEMA Validation of Subgrantee-Provided Cost Estimates Job Aid* will increase the likelihood of the program meeting its objectives.

### Recommendations

**Recommendation #1:** We recommend the FEMA Assistant Administrator for Recovery ensure FEMA documents properly the actions it takes to validate subrecipient estimates for alternative procedures program projects.

**Recommendation #2:** We recommend the FEMA Assistant Administrator for Recovery ensure appropriate controls are in place to obtain completeness and reasonableness of cost estimates for future implementation of the alternative procedures program.

### Management Comments and OIG analysis

During the review, we discussed our results with FEMA personnel responsible for the pilot program. We provided a draft report to FEMA and discussed our findings at an exit conference on January 8, 2018. FEMA officials concurred with our findings. FEMA provided a formal written response on March 26, 2018. This document is included in appendix A.

**Recommendation 1. Concur.** FEMA will update the *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work* (March 29, 2016) to include the required steps it must take to document properly its actions, in order to validate subrecipient-provided cost estimates for PA alternative procedures program permanent work projects. Estimated completion date (ECD) is September 30, 2018.

**OIG Analysis:** FEMA's proposed actions are responsive to this recommendation. This recommendation is resolved and will remain open until FEMA provides the updated *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work* (March 29, 2016), including the required steps FEMA must take to document properly its actions in order to validate subrecipient-provided cost estimates for PA alternative procedures program permanent work projects.

**Recommendation 2. Concur.** FEMA asserts that Version 3 of FEMA's *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work* contains appropriate controls to assure completeness and reasonableness of cost estimates. FEMA requests that we close this recommendation.



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**OIG Analysis:** Version 3 of FEMA's *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work* identifies controls that, if followed, should obtain completeness and reasonableness of cost estimates. This recommendation is resolved and will remain open until we see evidence that FEMA is actively following and documenting the controls identified in Version 3 of the Guide.

### Objective, Scope, and Methodology

The Department of Homeland Security Office of Inspector General was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978* (5 U.S.C. app. 3 (1978)).

Congress tasked OIG with submitting a report that assessed the effectiveness of FEMA's SRIA alternative procedures pilot program. Our objective was to address the following six specific areas:

- whether the alternative procedures helped to improve the general speed of the disaster recovery;
- the accuracy of the estimates relied upon;
- whether the financial incentives and disincentives were effective;
- whether the alternative procedures were cost effective;
- whether the independent expert panel, established to review and validate cost estimates, was effective; and
- recommendations for whether the alternative procedures should be continued and any recommendations for changes to the alternative procedures.

We reviewed FEMA guidance for the pilot program as defined in the:

- *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work (Version 3)* (dated March 29, 2016);
- *Public Assistance Alternative Procedures Pilot Program – Permanent Work Standard Operating Procedures (“Version 2”)* (dated December 19, 2013);
- *Public Assistance Alternative Procedures Pilot Program Validation of Subgrantee-Provided Cost Estimates Job Aid* (dated May 20, 2013); and
- *CEF for Large Projects Instructional Guide V2.1* (dated September 2009).

Additionally, we reviewed DHS-OIG audit reports, congressional reports, and FEMA quarterly reports. In February 2017, FEMA issued a *Public Assistance Alternative Procedures Program Evaluation Report*. During our fieldwork, we requested FEMA provide us an update on SRIA project data from that report, to ensure we had the latest data available. In July 2017, FEMA reported that 252 projects were under the SRIA pilot program valued at \$11.9 billion, with 26 of those projects (10.32 percent) closed. The 26 projects are valued at less than



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\$21 million. As of December 22, 2017, a FEMA official reported that based on their data pull from October 3, 2017, it still had 252 obligated projects in the pilot program. We also identified FEMA's process, which was used to review and validate subrecipients' cost estimates for permanent work under the pilot program, as a potential risk area.

Since the majority of the projects remained open at the time of our fieldwork, we selected a stratified sample from the 252 obligated projects by value:

- less than \$10 million, which resulted in 168 projects valued at \$210 million;
- greater than \$10 million and less than \$500 million, which resulted in 79 projects valued at \$6.1 billion; and
- greater than \$500 million, which resulted in 5 projects valued at \$5.6 billion.

We then judgmentally selected one obligated project from each strata, resulting in three projects totaling \$1.3 billion. Based on our review, interviews with FEMA officials, and the testing of the three projects, we believe the data is sufficiently reliable to support our conclusions.

We interviewed FEMA headquarters and regional personnel, and personnel from state agencies to understand their opinions on the pilot program.

We conducted this review under the authority of the *Inspector General Act of 1978*, as amended, and according to the *Quality Standards for Inspection and Evaluation*, issued by the Council of the Inspectors General on Integrity and Efficiency.



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**Appendix A**  
**FEMA Comments to the Draft Report**

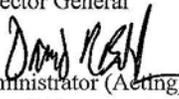
U.S. Department of Homeland Security  
Washington, DC 20528



**Homeland  
Security**

MAR 26 2018

MEMORANDUM FOR: John E. McCoy II  
Assistant Inspector General (Acting)  
Office of Emergency Management Oversight  
Office of Inspector General

FROM: David Bibo   
Associate Administrator (Acting)  
Office of Policy & Program Analysis

SUBJECT: Management's Response to OIG Draft Report: "Sandy Recovery  
Improvement Act Review"  
(Project No. OIG-17-089)

Thank you for the opportunity to review and comment on this Draft Report. The Federal Emergency Management Agency (FEMA) appreciates the work of the Department of Homeland Security (DHS) Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

FEMA agrees with the OIG's determination that an assessment of the strengths and weaknesses of the Public Assistance (PA) alternative procedures pilot program is premature at this time. We appreciate that the OIG plans to reassess the pilot program in the future.

FEMA recognizes the critical importance of documenting the actions that FEMA takes to validate subrecipient-provided cost estimates for PA alternative procedures program permanent work projects. To address the OIG's recommendation that FEMA ensure proper documentation of such actions, FEMA will update the *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work* to ensure proper documentation.

FEMA also recognizes the importance of ensuring that appropriate controls are in place to assure completeness and reasonableness of cost estimates for future implementation of the alternative procedures program. Through the controls described in Version 3 of the *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work* (March 29, 2016), FEMA has ensured that appropriate controls are in place to assure completeness and reasonableness of cost estimates for future implementation of the PA alternative procedures program.

The Draft Report contained two recommendations with which FEMA concurs. Attached please find our detailed response to each recommendation.



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Again, thank you for the opportunity to review and comment on this Draft Report. Technical comments were provided under a separate cover. Please contact Gary McKeon, Director of FEMA's Audit Liaison Office (ALO), at 202-646-1308 with any questions or concerns. We look forward to working with you again in the future.

Attachment



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### Attachment: Management Response to Recommendations Contained in OIG-17-089 Draft Report

**Recommendation 1:** We recommend that the FEMA Assistant Administrator for Recovery ensure FEMA properly documents the actions that it takes to validate subrecipient estimates for alternative procedures program projects.

**Response:** Concur. FEMA will update its *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work* to include required steps that FEMA must take to properly document its actions to validate subrecipient-provided cost estimates for PA alternative procedures program permanent work projects.

Estimated Completion Date: 9/30/18

**Recommendation 2:** We recommend that the FEMA Assistant Administrator for Recovery ensure appropriate controls are in place to assure completeness and reasonableness of cost estimates for future implementation of the alternative procedures program.

**Response:** Concur. Through the controls described in Version 3 of FEMA's *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work* (March 29, 2016), FEMA has ensured that appropriate controls are in place to assure completeness and reasonableness of cost estimates for future implementations of the PA alternative procedures program:

- All subrecipient-provided cost estimates must be prepared by a professionally licensed engineer or other estimating professional (mutually agreed upon by FEMA and the subrecipient), who must certify that a cost estimate was prepared according to applicable standards of care for estimating construction costs.
- FEMA will direct all project estimates with an estimated Federal share of \$25 million or greater to an independent expert panel for cost validation review.
- FEMA will review all subrecipient-provided cost estimates for validation purposes. FEMA will conduct this review according to the procedures outlined in the *Public Assistance Alternative Procedures Pilot Program Validation of Subrecipient-Provided Cost Estimates Job Aid*.

FEMA requests that the OIG close this recommendation. FEMA has ensured that appropriate controls are in place to assure completeness and reasonableness of cost estimates for future implementation of the alternative procedures program.

The following relevant documentation was provided on March 20, 2018:

- Version 3 of FEMA's *Public Assistance Alternative Procedures Pilot Program Guide for Permanent Work* (March 29, 2016)
- FEMA's *Public Assistance Alternative Procedures Pilot Program Validation of Subrecipient-Provided Cost Estimates Job Aid* (May 20, 2013)



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**Appendix B**  
**Office of Audits Major Contributors to This Report**

William Johnson, Director  
Carlos Aviles, Audit Manager  
Anthony Colache, Audit Manager  
John Jadick, Auditor-in-charge  
Mark Lonetto, Auditor  
Jason Jackson, Program Analyst  
Kevin Dolloson, Communications Analyst  
Hope Franklin, Independent Referencer



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