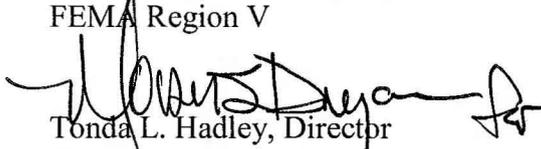




**Homeland
Security**

June 25, 2010

MEMORANDUM FOR: Andrew Velasquez III, Regional Administrator
FEMA Region V

FROM: 
Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *Management Issues Identified During Hazard Mitigation
Grant Audits In the State of Ohio*
Audit Report Number DD-10-11

We audited Hazard Mitigation Grant Program (HMGP) funds awarded to the City of Kettering, Ohio (Report Number DD-09-14), the City of North Royalton, Ohio (Report Number DD-10-7), and the City of Bucyrus, Ohio (Report Number DD-10-09), between March 2009 and April 2010. During these audits, we identified conditions that warranted further examination.

We conducted this performance audit under the authority of 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 and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We interviewed FEMA and state officials; reviewed National Emergency Management Information System information, management reports, and project records; and performed other auditing procedures we considered necessary to accomplish the audit objectives. We did not assess the adequacy of internal controls applicable to these grant activities because it was not necessary to accomplish our audit objectives. We did, however, gain an understanding of FEMA's adherence to HMGP regulations and guidelines.

BACKGROUND

FEMA provides HMGP grants on a cost-shared basis to eligible applicants within a federally declared state to implement measures designed to reduce the loss of life and property from natural disasters. FEMA's eligibility criteria requires that an applicant have a FEMA-approved hazard mitigation plan and that projects be cost effective, comply with environmental and historic preservation requirements, and provide a long-term beneficial impact. Eligible applicants include

state and local governments, certain private non-profit organizations and institutions, and Indian tribes or tribal organizations.

As a result of four major disasters declared by the President between August 2003 and August 2007 in the State of Ohio, the cities of Kettering, North Royalton, and Bucyrus applied for and received HMGP grant awards from the Ohio Emergency Management Agency (OEMA), a FEMA grantee, between January 2005 and February 2009.¹ These grant awards were for eight mitigation projects that FEMA approved to: (1) acquire properties subject to flooding, (2) fund a storm-water drainage project, or (3) retrofit properties (see Exhibit).

RESULTS OF AUDIT

OEMA did not always comply with FEMA guidelines when aggregating properties into HMGP projects because FEMA Region V did not enforce its guidelines. As a result, certain properties did not meet HMGP eligibility requirements. Additionally, FEMA and the state did not meet all required project submission and approval timeframes, which delayed the obligation of project funds and the implementation of approved mitigation work.

Finding A: Property Aggregation Program Controls

OEMA did not aggregate cost-effectiveness calculations for the City of Bucyrus projects 1484-13R or 1720-7R according to FEMA guidelines outlined in FEMA's August 12, 1994, Technical Bulletin "The Mathematics of Aggregating Benefit-Cost Ratios." Further, FEMA Region V did not enforce this program control during its review and approval of these projects. Property aggregation is the process of combining two or more structures or mitigation projects into a single cost-effectiveness calculation. If the net benefit-to-cost ratio is greater than one, properties that may not be individually cost effective may be included in the mitigation project. Subgrantees use this approach to avoid a pattern of "checker boarding" in a neighborhood in which the applicant wants to acquire properties. FEMA's aggregation guidelines are an effective program control to minimize the "checker boarding" of properties within a hazard area. At the same time, FEMA's guidelines prevent the "cherry picking" of properties outside a hazard area that are not in proximity of the other structures or mitigation projects.² FEMA guidelines state that properties to be included in an aggregated cost-effectiveness calculation should be in proximity of each other and should be within the same relative elevation. That requirement is an effective program control to ensure that all properties are within a hazard area and subject to the same vulnerabilities.

In project 1484-13R, FEMA approved six properties for acquisition based on an aggregated cost-effectiveness calculation. One property was located approximately a mile away from the other five and was on a different street. In project 1720-7R, FEMA approved 17 properties for acquisition based on an aggregated cost-effectiveness calculation. Of the 17 properties, 3 were located outside the floodplain and the other 14 properties were located over a mile away and within a floodplain. FEMA funded the acquisition of the three properties located outside the floodplain for over

¹ The four major disasters declared were 1484-, 1519-, 1580-, and 1720-DRs-OH.

² Checker boarding and cherry picking are common FEMA terms associated with aggregating benefit cost ratios. Cherry picking occurs when the applicant includes properties in a mitigation project that FEMA does not consider "sensibly related." According to FEMA, properties in different neighborhoods "cannot be combined logically." As a result, cherry picking increases the risk for HMGP funds to be misapplied to purchase properties that may not be cost effective.

\$217,000, although OEMA estimated the combined project benefit to be \$139.³ Therefore, the inclusion of these three properties was not consistent with FEMA's aggregation guidelines.

FEMA Region V officials told us that they approved these projects because their practice was to allow the aggregation of any property within the jurisdictional limits of the subgrantee. Thus, FEMA did not limit aggregated cost-effective calculations to the same neighborhood or same general elevation as required by FEMA guidelines.

Finding B: Project Submittal Timeframes

OEMA did not submit four of the eight projects we audited within the required or extended project submittal timeframe. According to 44 CFR 206.436(d), the state must submit all HMGP applications to FEMA within 12 months of the date of the disaster declaration or request that the application timeframe be extended by 30- to 90-day increments not to exceed 180 additional days. However, FEMA Region V accepted project applications from OEMA for North Royalton that exceeded the 18-month extended deadline by 98 days for project 1580-12R, 309 days for project 1580-16R, 323 days for project 1580-17R, and 253 days for project 1519-14R. OEMA officials told us that, although they requested extensions for project application timeframes, they did not have documentation to support their requests. FEMA Region V officials said that FEMA headquarters verbally approved OEMA's extension requests. Accepting late project applications results in delays in project approval, which in turn delays the implementation or completion of proposed mitigation work.

Finding C: Project Approval Timeframes

FEMA did not approve three of the eight projects we audited within the required project approval timeframe. According to FEMA's Hazard Mitigation Grant Program Desk Reference, "within twenty-four months of the disaster declaration, FEMA will make determinations on all applications, and will complete all obligations for approved applications."⁴ FEMA Region V exceeded the 24-month, or extended deadline to obligate funds by 87 days for project 1580-16R; 261 days for project 1580-17R; and 9 days for project 1519-14R. FEMA Region V officials considered the 24-month project approval timeframe a goal because this requirement is not a federal regulation. As a result, FEMA did not obligate project funds in a timely manner, which in turn delayed the implementation of approved mitigation work.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region V:

³ These properties were in the area of the five properties acquired under project 1484-13R. In our report, *City of Bucyrus, Ohio DD-10-09*, we concluded that project 1484-13R was not cost-effective and recommended that all claimed costs be disallowed.

⁴ The Hazard Mitigation Grant Program Desk Reference provides comprehensive information about FEMA's Hazard Mitigation Grant Program (HMGP); increase awareness of the HMGP as an integral part of statewide hazard mitigation efforts; and encourage deeper commitments and increased responsibilities on the part of all states and communities to reduce damage and losses from natural disasters. Federal regulations do not address project approval timeframes; therefore, we used criteria contained in the HMGP Desk Reference.

1. Enforce FEMA's policy for aggregating HMGP projects.
2. Enforce provisions of 44 CFR 206.436(d) and (e), and require that all applications be submitted to FEMA within 12 months of the disaster declaration date (or 18 months with extensions).
3. Obligate HMGP funds within 24 months from the date of the declaration or develop and implement procedures to extend this timeframe, if necessary.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the audit results with FEMA on June 3, 2010. FEMA generally agreed with the audit results. Please advise this office by August 24, 2010, of the actions planned or taken to implement our recommendations, including target completion dates. Significant contributors to this report were Moises Dugan, William Haney, William Lough, Jacob Farias, and Lori Smith. Should you have any questions concerning this report, please contact me, or your staff may contact Moises Dugan, Audit Manager, at (214) 436-5200.

cc: Audit Liaison, FEMA (Job Code DG9C06)
Audit Liaison, FEMA Region V

**Schedule of Audited Projects
State of Ohio
FEMA Disaster Numbers 1484-, 1519-, 1580-, and 1720-DRs-OH**

City	Disaster Numbers	Project Numbers	Project Types	Award Amount	Questioned Costs
Kettering OIG Report DD-09-14	1484	17R	Acquisition	\$2,014,000	\$ 0
North Royalton OIG Report DD-10-07	1519 1580	14R 12R, 16R, 17R	Acquisition Retrofit Drainage	2,040,472	0
Bucyrus OIG Report DD-10-09	1484 1720	13R 3R, 7R	Acquisition Retrofit	<u>2,599,099</u>	<u>496,427</u>
Totals	4	8	3	<u>\$6,653,571</u>	<u>\$496,427</u>