

**Early Warning Audit of
FEMA Public Assistance
Grants to Lee County,
Florida**





OFFICE OF INSPECTOR GENERAL

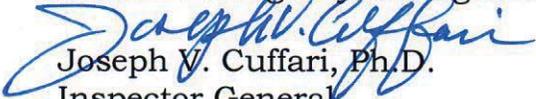
Department of Homeland Security

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

July 15, 2020

MEMORANDUM FOR: The Honorable Pete T. Gaynor
Administrator
Federal Emergency Management Agency

FROM:


Joseph V. Cuffari, Ph.D.
Inspector General

SUBJECT: *Early Warning Audit of FEMA Public Assistance Grants to Lee County, Florida*

Attached for your information is our final report, *Early Warning Audit of FEMA Public Assistance Grants to Lee County, Florida*. We incorporated the formal comments from the Federal Emergency Management Agency in the final report. The report contains nine recommendations aimed at improving FEMA's management of Public Assistance (PA) program grant funds awarded to disaster areas. Your office concurred with all nine recommendations.

Based on information provided in your response to the draft report, we consider recommendations 1 through 9 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 agreed-upon corrective actions and of the disposition of any monetary amounts. Please send your response or closure request to OIGAuditsFollowup@oig.dhs.gov.

Consistent with our responsibility under the *Inspector General Act*, 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 Sondra McCauley, Assistant Inspector General for Audits, at (202) 981-6000.

Attachment

cc: Gracia B. Szczech, Regional Administrator, Region IV, FEMA



DHS OIG HIGHLIGHTS

Early Warning Audit of FEMA Public Assistance Grants to Lee County, Florida

July 15, 2020

Why We Did This Audit

The DHS Office of Inspector General contracted with Cotton & Company LLP to conduct an audit to determine whether FEMA ensured that Florida (the recipient) and Lee County (the subrecipient) established and implemented policies, procedures, and practices to account for and expend PA grant funds awarded to disaster areas in accordance with Federal regulations and FEMA guidance.

What We Recommend

We made nine recommendations that, when implemented, should improve Lee County, Florida's management of FEMA PA funds.

For Further Information:

Contact our Office of Public Affairs at (202) 981-6000, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

Cotton & Company LLP found that FEMA did not ensure that Lee County, Florida (the County) established and implemented policies, procedures, and practices to account for and expend Public Assistance (PA) program grant funds awarded to disaster areas in accordance with Federal regulations and FEMA guidance. Specifically, the County:

- requested FEMA funding for \$1,062,234 in unsupported force account labor, equipment, and materials;
- was unable to provide supporting documentation for \$16,210 in costs incurred to operate an emergency shelter;
- did not maintain adequate documentation to support \$267,452 in costs incurred for road repair services;
- did not include all required provisions in its contracts to obtain disaster recovery services related to Hurricane Irma; and
- had not evaluated the risk of subrecipients' noncompliance with Federal requirements, obtained subrecipient audit reports, or developed plans for monitoring subrecipients.

These deficiencies occurred because the County did not always have adequate policies, procedures, and practices in place. Because of these deficiencies, there is an increased risk that PA programs were mismanaged and that funds were used for unallowable activities.

FEMA Response

FEMA concurred with our nine recommendations. We included a copy of FEMA's management comments in their entirety in appendix B.



Answers Questioned

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Ms. Sondra F. McCauley
Assistant Inspector General for Audits
Office of Inspector General
U.S. Department of Homeland Security

Dear Ms. McCauley:

Cotton & Company LLP performed an early warning audit of FEMA Public Assistance (PA) subgrants awarded to Lee County, Florida (the County) for damages resulting from Hurricane Irma. We performed the audit in accordance with our Task Order No. HSIQAQ-17-A-00003, dated September 26, 2018. Our report presents the results of the audit and includes recommendations to help improve FEMA's management of the audited PA subgrants.

We conducted our audit in accordance with applicable *Government Auditing Standards*, 2011 revision (the *Standards*). The audit was a performance audit, as defined by Chapter 6 of the *Standards*, and included a review and report on program activities with a compliance element. Although the audit report comments on costs claimed by the County, we did not perform a financial audit, the purpose of which would be to render an opinion on the County's financial statements or on the funds claimed in the Financial Status Reports submitted to the Department of Homeland Security (DHS).

This report is intended solely for the use of the DHS Office of Inspector General and DHS management and is not intended to be, and should not be relied upon by anyone other than these specified parties.

We appreciate the opportunity to have conducted this audit. Should you have any questions or need further assistance, please contact us at (703) 836-6701.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael W. Gillespie".

Michael W. Gillespie, CPA, CFE
Partner

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Abbreviations

CFR	Code of Federal Regulations
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FY	Fiscal Year
FDEM	Florida Division of Emergency Management
OIG	Office of Inspector General
PA	Public Assistance
PW	Project Worksheet

Background

The *Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1988*, as amended, 42 U.S. Code (U.S.C.) 5121-5207 (Stafford Act) authorizes the Public Assistance (PA) program. Following a major Presidential disaster declaration, the Stafford Act authorizes the Federal Emergency Management Agency (FEMA) to provide PA funding for disaster relief to state, local, and tribal governments and certain non-profit organizations. The Stafford Act, among other things, authorizes PA grants for:

- Assistance for debris removal (Category A);
- Emergency protective measures (Category B); and
- Assistance for the repair, restoration, and replacement of damaged facilities (Categories C-G), including certain hazard mitigation measures.

Florida's Lee County (the County) comprises the Cape Coral–Fort Myers, Florida Metropolitan Statistical Area. Its population as of the 2010 census was 618,754. On September 10, 2017, Hurricane Irma struck the County as a Category 2 storm with maximum sustained winds of 89 miles per hour (mph). The hurricane caused an estimated \$857 million in damages to the County. On September 10, 2017, the President issued a major disaster declaration for the State of Florida.

FEMA disburses PA funds to the Florida Division of Emergency Management (FDEM). Under its agreement with FEMA, FDEM, as the recipient, is responsible for leading, managing, and driving the overall disaster recovery process for the State of Florida. FDEM in turn passes funds to local subrecipients. Per Federal grant requirements, FDEM is responsible for monitoring these subrecipients to ensure that they manage PA funds appropriately, in accordance with FEMA program guidance and other Federal grant requirements.

As of February 21, 2020, the County had submitted 20 Project Worksheets (PWs)¹ to FEMA, requesting a total of \$42,180,481 in PA funding. FEMA obligated \$38,126,549 for 17 of the 20 projects.

Cotton & Company LLP (referred to as “we” in this report) was engaged by the Department of Homeland Security (DHS), Office of Inspector General (OIG) to conduct a performance audit of FEMA PA subgrant funds awarded to the County for damages resulting from Hurricane Irma. The overall objective of this audit was to determine whether FEMA ensured that Florida (the recipient) and the County (the subrecipient) established and implemented policies, procedures, and practices to account for and expend PA grant funds awarded

¹ A Project Worksheet is the primary form used to document the location, damage description and dimensions, scope of work, and cost estimate for each project (Public Assistance Program and Policy Guide, April 2017, p.164).

for damages caused by Hurricane Irma in accordance with Federal regulations and FEMA guidance.

We designed this performance audit to meet the objectives identified in the Objective, Scope, and Methodology section of this report. Appendix A provides additional detail regarding the objective, scope, and methodology of this audit. We conducted the audit in accordance with Generally Accepted Government Auditing Standards, issued by the Government Accountability Office. We communicated the results of our audit and the related findings and recommendations to the County, FDEM, FEMA, and the DHS OIG.

Results of Audit

FEMA did not ensure that Lee County, Florida (the County) established and implemented policies, procedures, and practices to account for and expend Public Assistance (PA) program grant funding in accordance with Federal regulations and FEMA guidance. Our audit identified the following findings, summarized in table 1:

Table 1: Results of Audit

No.	Finding	Questioned Costs
1	The County was unable to support the allocability of all costs submitted for reimbursement.	\$1,062,324
2	The County did not maintain adequate documentation to support costs incurred for emergency services.	16,210
3	The County did not maintain documentation to support that costs incurred for road repair were reasonable and allowable.	267,452
4	The County’s contracts did not contain all required Code of Federal Regulations (CFR) provisions.	-
5	FDEM’s subrecipient monitoring process needs improvement.	-
	Total	\$1,345,986

Source: Cotton & Company LLP audit testing of County documentation. These findings are discussed in greater detail below.

Finding 1 – The County Was Unable to Support the Allocability of All Costs Submitted for Reimbursement

The County internally reconciled its reimbursement requests to its supporting documentation and determined that it 1) did not have sufficient documentation available to support the allocability of all force account costs incurred on its disaster recovery work, and 2) incorrectly allocated unrelated contract costs to Project 5762. The County determined that it lacked adequate documentation

of force account hours because personnel did not record their time properly when participating on disaster recovery tasks. Further, in responding to a FEMA Request for Information (RFI), the County determined that it had erroneously included and incorrectly charged Project 5762 for \$67,899 in costs incurred. The County stated that it intends to cancel its outstanding funding requests for the \$994,425 in unsupported force account costs and the \$67,899 in incorrectly allocated contract costs (total of \$1,062,234). However, it has not yet provided documentation to support that it has done so.

The County has policies, procedures, and business practices in place for recording force account labor and contract costs. However, at the time the County submitted the FEMA claim, it was not aware that it was required to document a description of the work performed to support force account hours. In addition, County officials stated that they did not receive proper and consistent guidance from FEMA during the PW review process. County representatives stated that FEMA experienced frequent personnel turnover, and when FEMA personnel did provide guidance, it was generally verbal and often inconsistent.

According to 2 Code of Federal Regulations (CFR) §200.403, *Factors affecting allowability of costs*:

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

...

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto...*
- (g) Be adequately documented.*

FEMA's Public Assistance Program and Policy Guide (PAPPG) Chapter 3, II. *Project Formulation*, D. *Develop Project Cost*, requires the Applicant's cost estimate to contain "a level of detail sufficient for FEMA to validate that all components correspond with the agreed-upon Statement of Work (SOW)...."

PAPPG Chapter 3, II. *Project Formulation*, Table 10, *Documentation to Support Costs Claimed*, states that force account labor documentation should include a "description of work performed with [a] representative sample of daily logs/activity reports, if available."

Conclusion

The County requested FEMA funding for \$994,425 in unsupported force account labor, equipment, and materials, as follows in table 2:

Table 2: Unsupported Force Account

Project #	Total Project Cost	Force Account Portion of Project	Federal Share of Force Account
7273	\$13,587,543	\$504,418	\$453,976
6366	107,964	17,788	16,009
7326	18,858,256	35,724	32,152
6655	5,354,100	240	216
6936	73,367	44,256	44,256
6247	343,086	427	427
6882	136,743	25,929	23,336
6854	25,603	8,817	7,935
5762	538,991	356,826	321,143
Total	\$39,025,653	\$994,425	\$899,450

Source: Spreadsheet provided by the County on May 28, 2019

In addition, the County determined that it had erroneously included and incorrectly charged Project 5762 for \$67,899 (Federal share \$61,109) in costs incurred under an unrelated contract.

Recommendations

Recommendation 1: We recommend that the Regional Administrator, FEMA Region IV, work with the State of Florida to ensure that the County's funding and/or reimbursements for the above projects is properly reduced by \$899,450 for unsupported force account costs and \$61,109 for unallocable contract costs.

Recommendation 2: We recommend that the Regional Administrator, FEMA Region IV, provide additional technical assistance and monitoring for the County's projects, to provide FEMA with reasonable assurance that the County properly accounts for force account costs, including retaining supporting documentation.

Finding 2 – The County Did Not Maintain Adequate Documentation to Support Costs Incurred for Emergency Services

The County was unable to provide adequate documentation to support all costs incurred for emergency services under Project 6683. Specifically, the County was unable to provide supporting documentation for \$11,890 in costs incurred to operate an emergency shelter. The County has a lease agreement that allows it to use an arena in Estero, Florida as a shelter during public emergencies. As part of this agreement, the County is responsible for reimbursing the arena for the cost of operating the shelter during such emergencies. The arena invoiced the County for \$77,487 in costs incurred to operate the shelter during Hurricane Irma, and the County included this invoice in its funding request for Project 6683. We reviewed the invoice and

noted that it did not include any documentation to support a lump-sum charge of \$10,000 for labor costs incurred by nine employees, as well as an additional \$1,000 for payroll taxes. The invoice also did not include any receipts to support \$890 in costs incurred to purchase supplies. Therefore, we questioned the \$11,890 charged to Project 6683.

The County did not require the arena to provide documentation such as payroll records, timesheets, and receipts for items purchased to support that the costs were necessary and reasonable and were related to the disaster event. The County was aware of FEMA's documentation requirements but elected not to request the missing documentation from the arena because the County knew that the arena was reluctant to disclose proprietary payroll information. The County believed that the invoiced charges were reasonable based on the number of days the shelter was open.

In addition, the County was unable to provide adequate documentation to support \$4,320 in costs incurred for emergency response services related to the Lee County Public Safety Radio System as a result of Hurricane Irma. The County obtained these services through an existing contract with a communications equipment provider under which the County was responsible for reimbursing the contractor's costs for any emergency response services provided. The contractor invoiced the County for \$34,221 in costs incurred for emergency response services provided in September 2017 as a result of Hurricane Irma, and the County included this invoice in its request for reimbursement from FEMA. We reviewed the invoice and the supporting documentation and noted that the contractor did not provide activity records to support \$4,320 in labor costs billed for emergency services staff. Specifically, the contractor billed the County for labor hours incurred by two employees for whom there were no activity logs, including \$2,880 for 16 hours of work performed by one staff member to support the County's emergency recovery efforts, and \$1,440 for 8 hours of work performed by another staff member to deliver specialized test equipment.

The contractor did not retain activity logs for the emergency services staff and therefore did not provide this documentation to support its invoices. The County was aware of FEMA's documentation requirements but accepted the contractor's invoice because it was aware that the contractor had needed to respond quickly to provide communication services during the emergency situation.

According to 2 CFR 200.302 *Financial management*:

(b) ...The financial management system of each non-Federal entity must provide for the following:

...

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information

pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

According to 2 CFR 200.403, *Factors affecting allowability of costs:*

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles....

(g) Be adequately documented.

Conclusion

The County requested FEMA funding for \$16,210 in unsupported contract costs for Project 6683 (\$11,890 plus \$4,320).

Recommendations

Recommendation 3: We recommend that the Regional Administrator, FEMA Region IV, work with the State of Florida to determine the allowability of the unsupported costs of \$16,210 for Project 6683 and collect any amounts that are determined to be unallowable.

Recommendation 4: We recommend that the Regional Administrator, FEMA Region IV, work with the State of Florida to adequately review costs and ensure that the request for funding includes sufficient supporting documentation before approving the costs for FEMA reimbursement.

Finding 3 – The County Did Not Maintain Documentation to Support That Costs Incurred for Road Repair Were Reasonable and Allowable

The County did not maintain adequate documentation to support \$267,452 in costs incurred for road repair services under Project 6683. The County obtained these services through purchase orders that it issued under two pre-existing contracts for roadway construction work on an as-needed basis. We reviewed the contract terms, the purchase orders, and the contractor invoices and noted that the scope of work and the billing method specified in the purchase orders and the contractor invoices did not agree with the contract terms. The County was unable to provide any documentation to support that the rates and services billed were reasonable and in accordance with the contract terms and conditions. Specifically:

- In April 2017, the County entered into a unit-price contract to obtain road repair services, including minor paving, drainage, and concrete improvements. On September 12, 2017, the County issued a \$93,440

purchase order under this contract to obtain services related to the temporary repair of shell roads. However, on October 5, 2017, the contractor submitted a \$93,440 invoice for stone hauling and placement performed on a time-and-materials basis, including expenses related to labor, materials, and subcontract costs.

- In May 2017, the County entered into a second unit-price contract to obtain road repair services, including minor paving, drainage, and concrete improvements. On November 8, 2017, the County issued a \$174,012 purchase order under this contract to obtain services related to the temporary repair of shell roads. However, on September 30, 2017 (39 days before the County issued the purchase order), the contractor submitted a \$174,012 invoice for work performed on several roads on a time-and-materials basis, including expenses related to labor, equipment, and stone.

Both contracts require that all project pricing be determined using the rates set forth in the contract fee schedule, which establishes unit prices based on individual items of work provided. The contract fee schedule did not contain billing rates for labor and equipment, and the contractors' invoices did not include sufficient identifying information to enable us to determine whether the contractors had invoiced the stone at the unit prices established in the contract fee schedule.

Both contracts state that "no changes to this Agreement or the performance contemplated hereunder will be made unless the same are in writing and signed by both the Contractor and the County" and that the County "will not pay for any additional service, work performed or product provided before a written amendment to this Agreement." The May 2017 contract further states that "a purchase order must be issued by the County before commencement of any work or purchase of any goods related to this agreement." The purchase orders and contractor invoices did not comply with these contract terms. The County thus allowed the contractor to work without approved funding.

According to 2 CFR 200.403, *Factors affecting allowability of costs*:

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles....

(g) Be adequately documented.

According to 2 CFR 200.404, *Reasonable costs*:

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances

prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

(a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.

(b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.

(c) Market prices for comparable goods or services for the geographic area.

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

The County did not have an adequate invoice review process in place, as evidenced by the fact that it reviewed the contractor billings and approved them even though the billings did not comply with the contract terms. The State of Florida and FEMA did not provide sufficient and consistent oversight, technical assistance, and monitoring to ensure that the County had a proper contracting process in place.

Conclusion

The County charged Project 6683 for \$267,452 in road repair costs (\$93,440 plus \$174,012) that the contractors did not bill in accordance with contract terms and that were not supported by adequate documentation, making the costs ineligible for grant funding.

Recommendations

Recommendation 5: We recommend that the Regional Administrator, FEMA Region IV, work with the State of Florida to determine the eligibility of the contract costs and disallow these costs if the contractors did not bill the costs in accordance with contract terms and did not adequately support the billings.

Recommendation 6: We recommend that the Regional Administrator, FEMA Region IV, provide additional technical assistance and monitoring for the County's projects, to provide FEMA with reasonable assurance that the County properly accounts for contract costs, including obtaining and retaining supporting documentation.

Finding 4 – The County's Contracts Did Not Contain All Required Code of Federal Regulations (CFR) Provisions

The County did not include all required provisions in its contracts to obtain disaster recovery services related to Hurricane Irma for Project 6683.

Specifically, the County omitted:

- The Contract Work Hours and Safety Standards Act provision from the May 2017 contract for road repair services; this provision is required under 2 CFR Part 200, Appendix II (E).
- The Equal Employment Opportunity provision from the April 2017 contract for road repair services; this provision is required under 2 CFR Part 200, Appendix II (C).

The County did not have adequate internal controls in place to ensure that all of its contracts contained all required CFR provisions before executing the contracts and requesting that FEMA reimburse the related costs. The County was not aware that it was required to include these provisions in its contracts prior to the disaster event. In addition, FEMA did not provide specific training on contract compliance.

According to 2 CFR Part 200, Appendix II (C), *Equal Employment Opportunity*:

...all contracts that meet the definition of "federally assisted construction contract" in 41 CFR Part 60-1.3 must include the equal opportunity clause provided under 41 CFR 60-1.4(b), in accordance with Executive Order 11246, "Equal Employment Opportunity" (30 FR 12319, 12935, 3 CFR Part, 1964-1965 Comp., p. 339)....

According to 2 CFR Part 200, Appendix II (E), *Contract Work Hours and Safety Standards Act*:

...all contracts awarded by the non-Federal entity in excess of \$100,000 that involve the employment of mechanics or laborers must include a provision for compliance with 40 U.S.C. 3702 and 3704, as supplemented by Department of Labor regulations (29 CFR Part 5).

Conclusion

If the County doesn't include all required provisions in its contracts, contractors may not be aware of the need to comply with Federal employment requirements.

Recommendations

Recommendation 7: We recommend that the Regional Administrator, FEMA Region IV, work with the State of Florida to educate the County representatives on including the required CFR provisions in their contracts and to increase monitoring to ensure compliance with related Federal provisions.

Finding 5 – FDEM's Subrecipient Monitoring Process Needs Improvement

The Florida Division of Emergency Management's (FDEM's) subrecipient monitoring process needs improvement. Specifically, FDEM had not evaluated the risk of subrecipients' noncompliance with Federal requirements, obtained subrecipient audit reports, or developed plans for monitoring subrecipients. The State of Florida's fiscal year (FY) 2018 Single Audit reported significant noncompliance with respect to FDEM's subrecipient monitoring. Instead of evaluating risk, FDEM relied on 100 percent validation of subrecipients' costs prior to reimbursement and monitoring of subrecipients' quarterly reports to minimize the risk of noncompliance. However, we identified a number of costs that were not supported as allowable and allocable although FDEM had reimbursed these costs to the subrecipient. Therefore, FDEM's cost-validation process is not consistently effective.

FDEM representatives provided information regarding the status of actions that FDEM has taken to implement a subrecipient monitoring program. FDEM established a Compliance Unit that will oversee subrecipient risk assessments, monitor, and obtain and review Single Audit reports. In addition, FDEM developed a standard operating procedure (SOP) for the subrecipient compliance program that is awaiting final management approval. For the 2017/2018 fiscal year, FDEM pulled reports from its Florida PA system of record to identify the population of audits and is in the process of reviewing those reports. For current and future years, FDEM purchased an audit tracking module as part of its grants management software package.

According to 2 CFR 200.331, *Requirements for pass-through entities*:

All pass-through entities must:

...(b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraphs (d) and (e) of this section, which may include consideration of such factors as:

- (1) The subrecipient's prior experience with the same or similar subawards;*
 - (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F - Audit Requirements of this part, and the extent to which the same or similar subaward has been audited as a major program;*
 - (3) Whether the subrecipient has new personnel or new or substantially changed systems; and*
 - (4) The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).*
- (d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:*
- (1) Reviewing financial and performance reports required by the pass-through entity.*
 - (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.*
 - (3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by § 200.521 Management decision.*
- ... (f) Verify that every subrecipient is audited as required by Subpart F - Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements.*
- (g) Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records.*

FDEM did not assess the risk of noncompliance, nor did it review subrecipients' Single Audit reports and follow up on the audit findings. FDEM's policies and procedures did not adequately address Federal Uniform Guidance requirements for evaluating and monitoring subrecipients. FDEM had alternative procedures for monitoring subrecipients that it considered sufficient to minimize the risk of noncompliance, including validating all costs reported by subrecipients prior to reimbursement and reviewing the quarterly reports submitted to FDEM.

FEMA approved FDEM's 2017 PA Administrative Plan, which detailed FDEM's administrative processes for managing FEMA's PA program funding. However, the plan did not include steps to meet the requirements of 2 CFR 200.331.

Conclusion

Without reviewing subrecipient audit reports, evaluating the risk of noncompliance, and developing monitoring plans, the grantee increases the risk of undetected significant deficiencies and grant noncompliance. The FY 2018 Single Audit report stated that in FY 2018, FDEM was responsible for 1,068 active large projects related to 19 declared disasters with obligations totaling \$896,642,516.

Recommendations

Recommendation 8: We recommend that the Regional Administrator, FEMA Region IV, assess the status and adequacy of FDEM's corrective actions with respect to establishing a subrecipient monitoring program and reviewing subrecipient Single Audit reports.

Recommendation 9: We recommend that the Regional Administrator, FEMA Region IV, amend the approved PA Administrative Plan to reflect the processes that FDEM has implemented to strengthen its subrecipient monitoring.

FEMA Comments and OIG Analysis

FEMA provided its written response to this report on May 22, 2020. FEMA concurred with all nine recommendations and provided a completion date of May 31, 2021 for all the recommendations. If implemented, FEMA's actions will satisfy the intent of each of the recommendations. We summarized FEMA's comments below and included a copy of their comments in their entirety in appendix B.

Recommendation 1. FEMA Region IV will review the applicable documentation and will make reductions to the approved subgrant if the County cannot provide sufficient documentation demonstrating the eligibility of its force account and allocability of contract costs.

Recommendation 2. FEMA Region IV will work with the State to provide additional technical assistance and monitoring for the County's projects.

Recommendation 3. FEMA Region IV will work with the State to determine the allowability of the unsupported costs related to Project 6683.

Recommendation 4. FEMA Region IV will work with the State to ensure that FEMA PA grant requests for reimbursement are adequately reviewed before payments are processed.

Recommendation 5. FEMA Region IV will work with the State to determine the eligibility of the contract costs and any potential disallowances of these costs.

Recommendation 6. FEMA Region IV will provide additional technical assistance and monitoring for the County's projects.

Recommendation 7. FEMA Region IV will work with the State to educate County representatives regarding the inclusion of required contract provisions and to increase monitoring to ensure compliance with related Federal provisions.

Recommendation 8. FEMA Region IV will assess the status and adequacy of the State's corrective actions with respect to establishing a subrecipient monitoring program and reviewing subrecipient Single Audit reports.

Recommendation 9. FEMA Region IV will work with the State to amend its approved PA Administrative Plan to reflect the processes implemented to strengthen its subrecipient monitoring.

Appendix A

Objective, Scope, and Methodology

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*.

Cotton & Company performed an early warning audit of FEMA Public Assistance (PA) subgrants awarded to Lee County, Florida (the County) for damages resulting from Hurricane Irma. The overall objective of the audit was to determine whether FEMA ensured that recipients and subrecipients established and implemented policies, procedures, and practices to ensure that they accounted for and expended PA grant funds awarded to disaster areas in accordance with Federal regulations and FEMA guidance. We conducted this performance audit to identify areas of non-compliance with grant requirements where Federal disaster funding may be at risk and where the subrecipient may need additional technical assistance or monitoring to ensure compliance.

Our audit scope included a review of FEMA and the State of Florida's policies, procedures, and practices for ensuring that subrecipients account for and expend PA grant funds in accordance with Federal regulations and FEMA guidance. We reviewed the subrecipient's policies, procedures, and business practices for accounting for and expending grant funds, as well as contracting for grant funds awarded or that may be awarded. Our audit scope also included determining whether the subrecipient's policies, procedures, and business practices enable the subrecipient to account for and expend FEMA grant funds according to Federal regulations and FEMA guidance. We conducted interviews with FEMA, State, and subrecipient officials. We reviewed documents that support the eligibility of the subrecipient, the projects, and the claimed project costs.

We did not place any significant reliance on the data from FEMA's computerized information system because we compared FEMA's obligated costs to State payments and subgrantee claimed costs. We also verified that the payments and claimed costs were supported by source documents.

We conducted this performance audit between February and December 2019 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.

Appendix B FEMA Comments to the Draft Report



U.S. Department of Homeland Security
3003 Chamblee-Tucker Rd
Atlanta, GA 30341

FEMA

May 22, 2020

MEMORANDUM FOR: Joseph V. Cuffari
Inspector General

FROM: Gracia B. Szczech 
Regional Administrator
FEMA Region IV

SUBJECT: Management Response to Draft Report: "Early Warning Audit
of FEMA Public Assistance Grants to Lee County Florida"
(Project No. 19-011-AUD-FEMA)

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

FEMA remains committed to supporting our state, local, and tribal partners in strengthening areas within the Public Assistance program, including avoiding the possibility for the potential of duplication of benefits in the future. FEMA will continue its review to assure expenditures of Disaster Relief funds are managed appropriately.

The draft report contained nine recommendations with which FEMA concurs pending additional review. Please see the attached for our detailed response to each of the recommendations.

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.

Attachment

**Attachment: FEMA Management Response to Recommendations
Contained in OIG-19-011-AUD-FEMA**

OIG recommended that the Regional Administrator, FEMA Region IV:

Recommendation 1: Work with the State of Florida to ensure that the County's funding and/or reimbursements for the above projects is properly reduced by \$899,450 for unsupported force account costs and \$61,109 for unallocable contract costs.

Response: Concur. FEMA Region IV will review the documentation currently on file and will work with the State of Florida and the County to acquire any additional documentation. To the extent permitted by Section 705 of the Stafford Act, FEMA will make reductions to the approved subgrant as necessary if the County is unable to provide sufficient documentation demonstrating the eligibility of its force account costs and allocability of contract costs. Expected Completion Date (ECD): 05/31/2021.

Recommendation 2: Provide additional technical assistance and monitoring for the County's projects, to provide FEMA with reasonable assurance that the County properly accounts for force account costs, including retaining supporting documentation.

Response: Concur. FEMA Region IV will work with the State of Florida to provide additional technical assistance and monitoring for the County's projects. ECD: 05/31/2021.

Recommendation 3: Work with the State of Florida to determine the allowability of the unsupported costs of \$16,210 for Project 6683 and collect any amounts that are determined to be unallowable .

Response: Concur. FEMA Region IV will work with the State of Florida to determine the allowability of the unsupported costs related to Project 6683 to the extent permitted by Section 705 of the Stafford Act. ECD: 05/31/2021.

Recommendation 4: Work with the State of Florida to adequately review costs and ensure that the request for funding includes sufficient supporting documentation before approving the costs for FEMA reimbursement.

Response: Concur. FEMA Region IV will work with the State of Florida to ensure that requests for reimbursement of FEMA Public Assistance grants are adequately reviewed before payments are processed. ECD: 05/31/2021.

Recommendation 5: Work with the State of Florida to determine the eligibility of the contract costs and disallow these costs if the contractors did not bill the costs in accordance with contract terms and did not adequately support the billings.

Response: Concur. FEMA Region IV will work with the State of Florida to determine the eligibility of the contract costs and any potential disallowances of these costs, to the extent permitted by Section 705 of the Stafford Act. ECD: 05/31/2021.

Recommendation 6: Provide additional technical assistance and monitoring for the County's projects, to provide FEMA with reasonable assurance that the County properly accounts for contract costs, including obtaining and retaining supporting documentation.

Response: Concur. FEMA Region IV will work with the State of Florida to provide additional technical assistance and monitoring for the County's projects. ECD: 05/31/2021.

Recommendation 7: Work with the State of Florida to educate the County representatives on including the required CFR provisions in their contracts and to increase monitoring to ensure compliance with related Federal provisions.

Response: Concur. FEMA Region IV will work with the State of Florida to educate the County representatives regarding the inclusion of the required contract provisions in accordance with 2 C.F.R. Part 200 and to increase monitoring to ensure compliance with related Federal provisions. ECD: 05/31/2021.

Recommendation 8: Assess the status and adequacy of FDEM's corrective actions with respect to establishing a subrecipient monitoring program and reviewing subrecipient Single Audit reports.

Response: Concur. FEMA Region IV will assess the status and adequacy of the State's corrective actions with respect to establishing a subrecipient monitoring program and reviewing subrecipient Single Audit reports. ECD: 05/31/2021.

Recommendation 9: Amend the approved PA Administrative Plan to reflect the processes that FDEM has implemented to strengthen its subrecipient monitoring.

Response: Concur. FEMA Region IV will work with the State of Florida to amend their approved PA Administrative Plan to reflect the processes that the State has implemented to strengthen its subrecipient monitoring. ECD: 05/31/2021.

Appendix C
Summary of Potential Monetary Benefits

Finding	Types of Potential Monetary Benefit	Amount²	Federal Share³
1, 3	Questioned Costs – Ineligible	\$335,351	\$328,561
1, 2	Questioned Costs – Unsupported	\$1,010,635	\$915,660

Source: Cotton & Company LLP analysis of the County’s claimed costs

² Ineligible costs include \$67,899 (Note 1) and \$267,452 (Note 3). Unsupported costs include \$994,425 (Note 1) and \$16,210 (Note 2).

³ Ineligible costs include \$61,109 (Note 1) and \$267,452 (Note 3). Unsupported costs include \$899,450 (Note 1) and \$16,210 (Note 2).

Appendix D

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