

**Assessment of FEMA's
Public Assistance
Alternative
Procedures Program**





OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, D.C. 20528 / www.oig.dhs.gov

July 13, 2022

MEMORANDUM FOR: The Honorable Deanne Criswell
Administrator
Federal Emergency Management Agency

FROM: Joseph V. Cuffari, Ph.D. **JOSEPH V CUFFARI**
Inspector General

SUBJECT: *Assessment of FEMA's Public Assistance Alternative Procedures Program*

Digitally signed by
JOSEPH V CUFFARI
Date: 2022.07.13
10:32:24 -04'00'

Attached for your action is our final report, *Assessment of FEMA's Public Assistance Alternative Procedures Program*. We incorporated the formal comments provided by your office.

The report contains two recommendations aimed at improving the Public Assistance Alternative Procedures program. 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 within 30 days so that we may close the recommendations. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions.

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 Bruce Miller, Deputy Inspector General of Audits, at (202) 981-6000.

Attachment



DHS OIG HIGHLIGHTS

Assessment of FEMA's Public Assistance Alternative Procedures Program

July 13, 2022

Why We Did This Audit

Title IV of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended by the *Sandy Recovery Improvement Act of 2013*, requires the Department of Homeland Security Office of Inspector General to assess the effectiveness of the Federal Emergency Management Agency's (FEMA) Public Assistance Alternative Procedures (PAAP) for permanent work projects.

What We Recommend

We made two recommendations to enhance overall PAAP program effectiveness.

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

We assessed the effectiveness of FEMA's PAAP for permanent work projects. Specifically, we assessed whether PAAP sped disaster recovery, increased the accuracy of cost estimates to restore facilities, improved the effectiveness of financial incentives and disincentives, the cost effectiveness of PAAP, and whether the PAAP independent expert panel was effective. As a result of our assessment, we determined:

- Using obligation time to measure the speed of recovery and excluding Puerto Rico and U.S. Virgin Islands projects, which took significantly longer, FEMA took only slightly longer on average (35 days) to obligate funds for projects using PAAP than for those using standard procedures.
- PAAP cost estimates provided adequate resources to restore damaged facilities.
- According to applicants using PAAP, the incentives outweighed the disincentives, PAAP helped their communities' recovery, and most would use PAAP again.
- PAAP's reduced cost tracking and reporting requirements lessened applicants' administrative burden, and flexibilities in rebuilding allowed for more resilient facilities, leading to potential cost savings.
- FEMA officials said the independent expert panel was critical in attaining agreement on cost estimates.

In summary, we determined that FEMA is working toward achieving PAAP program goals but should incorporate lessons learned from using PAAP in Puerto Rico and assess potential improvements proposed by applicants.

FEMA Response

FEMA concurred with both recommendations. Appendix B contains FEMA's response in its entirety. The recommendations will remain open pending evidence to support completion of the corrective actions.



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Abbreviations

FCE	fixed cost estimate
FEMA	Federal Emergency Management Agency
PAAP	Public Assistance Alternative Procedures
SRIA	<i>Sandy Recovery Improvement Act of 2013</i>
U.S.C.	United States Code



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Background

Under the *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (Stafford Act),¹ the Federal Emergency Management Agency's (FEMA) Public Assistance program provides Federal assistance to states, tribes, territories, and local governments, as well as certain nonprofit organizations, for communities to respond to and recover from major disasters or emergencies. Section 406 of the Stafford Act provides for the repair, restoration, reconstruction, or replacement of public facilities damaged or destroyed by a major disaster.

Due to concerns that recovery from Hurricane Sandy² would suffer the same delays and bureaucratic burdens that inhibited recovery following Hurricane Katrina in 2005, Congress enacted the *Sandy Recovery Improvement Act of 2013* (SRIA).³ SRIA amended the Stafford Act by adding Section 428, which authorizes FEMA to develop alternative procedures for Public Assistance permanent work projects.⁴ These procedures are referred to as Public Assistance Alternative Procedures (PAAP). Funding for PAAP projects is based on the estimated cost to restore the facility to its pre-disaster design and function while meeting compliance with current codes and standards. For large projects under Section 406 standard procedures, initial obligations may be made based on estimates, but final financial reconciliation is based on actual costs.

Using PAAP for projects offers the following flexibilities:

- If the actual project cost is less than the estimated cost, applicants may use excess funds for certain FEMA-approved eligible activities. Under Section 406 standard procedures, excess funds cannot be used and must be deobligated.
- Applicants are not required to track costs of specific work items or facilities.
- Cost estimates are based on pre-design function, but applicants do not have to rebuild facilities back as they existed prior to the disaster.

¹ 42 United States Code (U.S.C.) 5121 et seq.

² Hurricane Sandy was the most destructive and strongest hurricane of the 2012 Atlantic hurricane season (October 22–29, 2012), and the fourth most expensive storm in the Nation. Sandy, a Category 3 storm with winds up to 115 mph, killed more than 140 people and caused close to \$70 billion in damages.

³ Pub. L. No. 113-2, Jan. 29, 2013.

⁴ The procedures FEMA developed apply to large permanent work projects only. For fiscal year 2021 disasters, a project was considered large if its total estimated cost exceeded \$132,800. Thresholds are adjusted each year. For example, for FY 2013 the threshold was \$67,500, for FY 2017 it was \$123,100, and for FY 2022, the amount was adjusted upward to \$139,800.



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As of May 13, 2021, FEMA had obligated funds for 15,603 large permanent work projects. Of those projects, 13,509 (86.6 percent) followed Section 406 procedures and 2,094 (13.4 percent) followed PAAP.

Section 428 mandates that the Office of Inspector General assess the effectiveness of PAAP for permanent work projects. The goals of PAAP are 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 an applicant; and
- provide financial incentives and disincentives for timely and cost-effective completion of a project.

Our objective was to determine the extent to which the goals of the PAAP⁵ program were met in accordance with legislation and FEMA guidelines since the program's inception in 2013. We addressed six questions in the mandate pertaining to FEMA's implementation of the alternative procedures:

1. whether the alternative procedures improved the general speed of disaster recovery;
2. whether the estimates relied upon were accurate;
3. whether the financial incentives and disincentives were effective;
4. whether the alternative procedures were cost effective;
5. whether the independent expert panel was effective; and
6. whether the alternative procedures should be continued and any recommendations be made for changes to the alternative procedures.

⁵ PAAP also includes alternative procedures for debris removal projects. We limited our review to the permanent work procedures.



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Results of Audit

We assessed FEMA's PAAP for permanent work projects. Specifically, we assessed whether PAAP sped disaster recovery, increased the accuracy of cost estimates to restore facilities, improved the effectiveness of financial incentives and disincentives, the cost effectiveness of PAAP, and whether the independent expert panel was effective. As a result of our assessment, we determined:

- Using obligation time to measure the speed of recovery and excluding Puerto Rico and U.S. Virgin Islands projects, which took significantly longer, FEMA took only slightly longer on average (35 days) to obligate funds for projects using PAAP than for those using standard procedures.
- PAAP cost estimates provided adequate resources to restore damaged facilities.
- According to applicants using PAAP, the incentives outweighed the disincentives, PAAP helped their communities' recovery, and most would use PAAP again.
- PAAP's reduced cost tracking and reporting requirements lessened applicants' administrative burden, and flexibilities in rebuilding allowed for more resilient facilities, leading to potential cost savings.
- FEMA officials said the independent expert panel was critical in attaining agreement on cost estimates.

In summary, we determined that FEMA is working toward achieving PAAP program goals but should incorporate lessons learned from using PAAP in Puerto Rico and assess potential improvements proposed by applicants.

Assessment of Public Assistance Alternative Procedures

We addressed six questions in the SRIA mandate pertaining to FEMA's implementation of PAAP. Specifically:

1. Did the alternative procedures improve the general speed of disaster recovery?
2. Were the estimates relied upon accurate?
3. Were the financial incentives and disincentives effective?
4. Were the alternative procedures cost effective?
5. Was the independent expert panel effective?



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6. Should the PAAP program be continued, and do we have any recommendations for changes?

Using PAAP and Speed of Recovery

Recovery can be defined as the completion of project work to address damage caused by a disaster. Each disaster is unique, and the ability of applicants to complete their recovery projects in a timely manner can be impacted by the magnitude of the damage suffered and the applicants' project management capabilities and experience. For instance, the exceptionally severe damage Puerto Rico and the U.S. Virgin Islands suffered following Hurricanes Maria and Irma in 2017 likely hampered the islands' recovery efforts.

Because lengthy obligation delays would likely hinder speedy recovery, we assessed the time it took FEMA to obligate funds for the 15,603 individual large projects⁶ related to disasters declared from January 2013 to May 2021. Specifically, for these years, we compared the time FEMA took to obligate funds after the disaster was declared for projects that used PAAP against the time it took to obligate funds for projects that followed Section 406 procedures. In comparing obligation times for these 15,603 large projects, we determined that FEMA took, on average, more than twice as long to obligate funds for the PAAP projects (845 days) as compared to the Section 406 projects (411 days). Although applicants' choice of procedures may have contributed to projects' speed of recovery, other factors may have affected recovery speed as well.

Through our analysis we determined that applicants were more likely to choose PAAP for their larger, more expensive projects. The average Federal contribution for PAAP projects in our scope was \$8.52 million — 12 times the \$710,000 average for Section 406 projects. Consequently, the extra time it took applicants to complete their PAAP projects might be at least partially because they were larger and likely more complex.

When considering variables that might affect a project's completion time, we found that FEMA's funding obligation times increased significantly for projects in Puerto Rico and the U.S. Virgin Islands.⁷ Excluding these projects, the average increase in the time before funds were obligated for PAAP projects, as opposed to Section 406 projects, was not significant — only 35 days. This represents a 9 percent increase in obligation time from 380 days for Section 406 projects compared to 415 days for PAAP projects. When solely reviewing PAAP projects for Puerto Rico, FEMA took 1,043 days on average to obligate

⁶ Because PAAP is available only for large projects, we limited our assessment of Section 406 projects to those that qualified as large.

⁷ All projects in Puerto Rico and U.S. Virgin Islands from 2013 through 2020 relate to the 2017 Hurricanes Irma and Maria.



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funds. Section 406 projects there took even longer, 1,114 days. For the U.S. Virgin Islands, the average obligation time was 947 days for PAAP projects and 872 days for Section 406 projects. The comparatively longer obligation times for Puerto Rico and U.S. Virgin Islands projects may be partially attributable to:

- Puerto Rico's decision to use PAAP for all its Hurricane Maria qualifying projects,⁸ and
- the exceptionally severe damage Puerto Rico and the U.S. Virgin Islands suffered, which hampered the islands' recovery efforts.

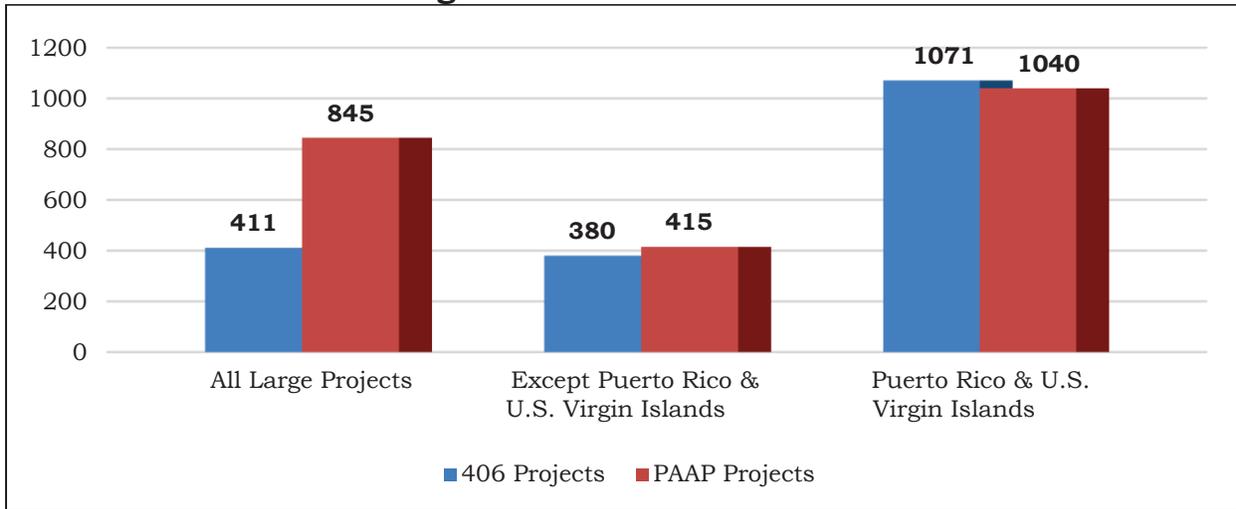
To put this in context, from 2013 through 2020 there was a total of 2,094 PAAP projects in the United States and its territories. Of that number, 69 percent (or 1,442 projects) were in Puerto Rico and the U.S. Virgin Islands. Figure 1 details the average time during that period that FEMA took to obligate funds for PAAP projects versus Section 406 projects. The figure shows that nearly the entire difference in time before obligation of funds between PAAP and Section 406 can be attributed to Puerto Rico and the U.S. Virgin Islands. Figure 2 provides the average number of days FEMA took to obligate funds by year for PAAP versus Section 406 projects.

⁸ PAAP was initially used for all large permanent work projects in Puerto Rico resulting from Hurricane Maria. Beginning in January 2020, this was limited to vital services projects only. In January 2022, PAAP was no longer required for vital services projects. However, a project would continue under PAAP if the applicant had already agreed to a fixed cost estimate.



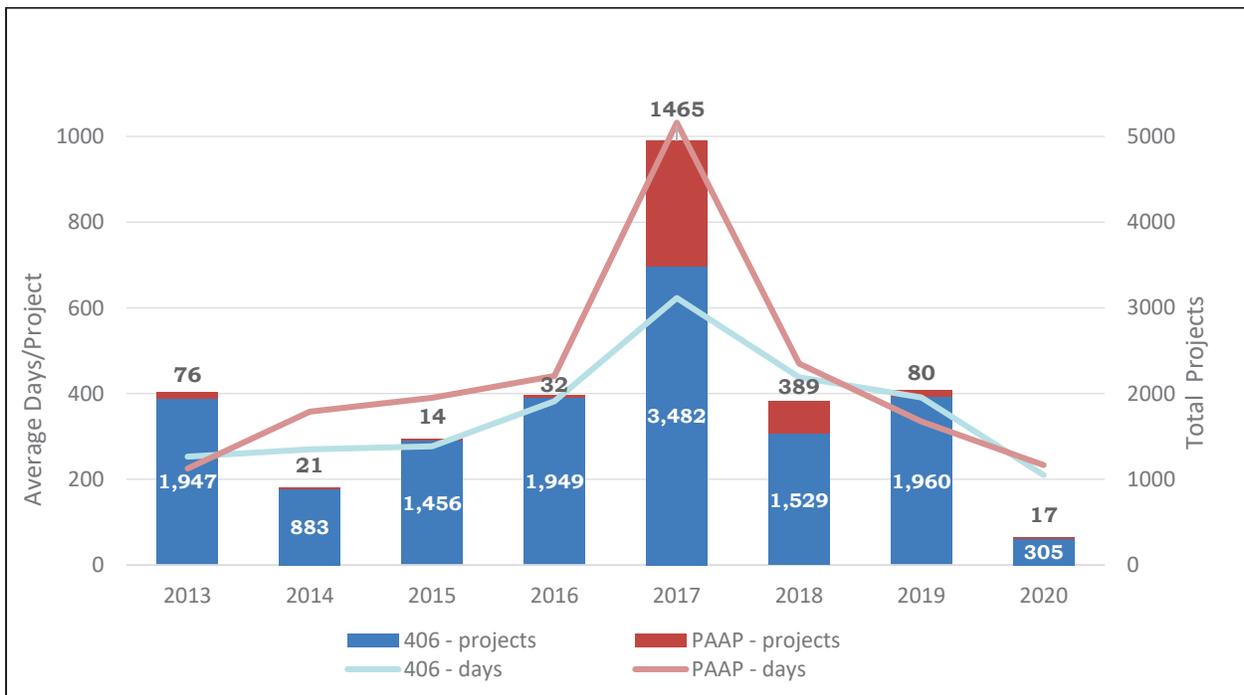
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Figure 1. Average Number of Days from Declaration Date to Initial Obligation for Section 406 Projects versus PAAP Projects for Disasters Declared from 2013 through 2020



Source: DHS OIG analysis of FEMA data for projects for which funds had been obligated as of May 13, 2021

Figure 2. Average Days to Obligation Compared to Total Project Volume, by Year for Disasters Declared from 2013 through 2020



Source: DHS OIG analysis of FEMA data for projects for which funds had been obligated as of May 13, 2021



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Finally, we noted that PAAP projects may have experienced increases in obligation times due to the provision in Section 428 that the applicant is responsible for any project cost exceeding the cost estimate. Specifically, applicants may have taken additional time to agree to the fixed cost estimates (FCE), which must occur before FEMA obligates funds because any differences between the cost estimates and actual construction costs are the applicants' responsibility.

Accuracy of Restoration Cost Estimates

We determined that the FCEs applicants relied on were sufficiently accurate to provide Federal assistance to restore the damaged facilities to their pre-disaster conditions. FEMA caps the amount of funding it obligates for PAAP projects based on the FCE to restore a damaged facility to its pre-disaster design and function, in accordance with eligible codes and standards. After FEMA approves an FCE, an applicant can change the scope of work, but FEMA will not provide additional funding for increased costs resulting from these changes.

Based on our review of the documentation for all 148 PAAP projects from 2013 through 2020 that were closed⁹ by May 13, 2021, FEMA obligated adequate Federal assistance to applicants to restore the damaged facilities. For these 148 closed projects, we compared the final FCE with the reported actual cost of the project. Of the 148 projects:

- The actual cost of 44 projects (30 percent) was less than the FCE. The decrease in cost from the FCE was due to one applicant not completing the Hazard Mitigation proposal, another using a more effective method to repair the facility, and several whose actual costs were less than the FCE.
- The actual cost of 74 projects (50 percent) matched the FCE. For 54 of the projects, this resulted from the FCEs for those projects not being agreed on until after the applicants had completed the work using existing funding. FEMA based the FCEs on the actual cost. The data we obtained for the remaining 20 projects showed neither higher nor lower costs.

⁹ A PAAP project is closed when (1) the applicant certifies that all work has been completed and provides a final reported cost to show it used the funds in accordance with the eligibility criteria; (2) the applicant certifies that all costs are associated with the approved project and that the applicant completed the work in accordance with FEMA regulations and policies; and (3) FEMA completes the necessary review and adjustment to close out the project.



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- The actual cost of 30 projects (20 percent) exceeded the FCE. The additional costs were due to applicants deciding to improve their damaged facility or apply the funds to a different project, as permissible under PAAP.

Table 1 provides information about the 148 closed PAAP projects we reviewed.

Table 1. Accuracy of Closed PAAP Project Estimates for Disasters Declared from 2013 through 2020

Estimate Accuracy	Number of Projects	Project Amount	Federal Share Obligated	Fixed Cost Estimate	Total Actual Cost	Under Section 428 Estimate	Over Section 428 Estimate
Cost Under	44	\$44,059,877	\$33,044,908	\$55,913,712	\$44,819,488	\$11,094,223	
Cost Match	74	\$97,075,315	\$72,806,486	\$97,075,315	\$97,075,315		
Cost Over	30	\$23,062,803	\$17,297,102	\$23,000,319	\$39,342,277		\$16,341,958
Totals	148	\$164,197,995	\$123,148,496	\$175,989,346	\$181,237,080	\$11,094,223	\$16,341,958

Source: DHS OIG analysis of FEMA data for projects for which funds had been obligated as of May 13, 2021

Effectiveness of Financial Incentives and Disincentives

To gauge their effectiveness, we considered whether the PAAP financial incentives and disincentives successfully encouraged use of PAAP for permanent work. Specifically, PAAP applicants told us that they believed the incentives of using PAAP outweighed the disincentives. Overall, 14 of 18 applicants (77 percent) we surveyed indicated they would use PAAP again. We interpret the 77 percent positive response rate as an indication that the financial incentives and disincentives were generally effective for these applicants.

According to FEMA officials, the primary incentives for using PAAP are the flexibility in how awarded funds may be used and reduction in the applicant’s administrative burden. If the actual cost to complete a project is less than the approved FCE, the applicant may use the excess funds for FEMA-approved expenditures rather than return them to FEMA for deobligation. In addition, applicants are not limited to using funds strictly to return a facility to its pre-disaster condition. They may elect to share funds across all their PAAP projects, including hazard mitigation, as part of their construction plans and alter the scope of construction to modify facilities from their pre-disaster condition, such as improving the design or location.



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Ultimately, this allows applicants using PAAP to rebuild or replace facilities and reallocate funds to better suit the current environment of their communities and improve resiliency. Finally, applicants using PAAP are not required to track costs for specific work items or facilities or obtain FEMA approval for most change orders, which reduces the administrative workload and subsequently lowers the costs of administering the award.

Effectiveness of Public Assistance Alternative Procedures

For our evaluation of PAAP's cost effectiveness, we assessed the benefits and potential cost savings resulting from PAAP flexibilities. For example, applicants stated they reduced their administrative burden by not having to continually track and report project costs to FEMA, which they found beneficial. Under PAAP, applicants are only required to document the final construction cost totals at the end of construction for FEMA verification. Also, FEMA officials stated when applicants use PAAP, FEMA's administrative costs associated with its review of applicants' project change orders should also be reduced.

Applicants also responded that a positive aspect of using PAAP is that they could choose not to rebuild back to pre-disaster design. Applicants further commented that using PAAP allowed them to build more resilient structures, which may mitigate damage to a facility during future disasters. This, in contrast to building back to original specifications, adds more resilient attributes to the facility, which an applicant would, under Section 406, have to find additional sources to fund. According to one applicant, "The PAAP program improved the effectiveness of our recovery, and very likely helped to expedite and reduce administrative overhead on over \$34 million worth of projects."

PAAP limits the Federal Government contribution to a project to costs agreed upon in the FCE. Under Section 406, an applicant may be awarded additional funds if the actual construction cost exceeds the original amount estimated. By contrast, under PAAP the Government will not provide funds for additional costs incurred during construction.



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Effectiveness of Independent Expert Panel

A FEMA official stated FEMA did not significantly use the independent expert panel for PAAP projects. PAAP provides for an independent, third-party panel¹⁰ of cost estimating experts to review project cost estimates. An applicant may request an independent validation of the cost estimate if the estimated Federal share is at least \$5 million. If the Federal share estimate is \$25 million or greater, FEMA will automatically send the estimate to an expert panel for review.

We reviewed all 27 projects that the independent expert panel reviewed and determined that, in each case, the panel did not identify significant errors that required changes to the cost estimates. Even though FEMA did not extensively use the independent expert panel, FEMA officials stated, when used, it was critical in attaining cost estimate agreements to move the recovery process forward.

Continuance of Public Assistance Alternative Procedures and Recommendations for Changes

Applicants indicated in survey responses that using PAAP was beneficial for their communities' recoveries. Despite some instances resulting in higher final costs than original estimates, applicants generally indicated that they would use PAAP again. For example, one applicant who experienced significant construction costs that exceeded the initial estimate stated, "[B]asically, the [alternative procedures] allowed and incentivized a very clean and efficient disaster recovery process so we could maximize the value created by every dollar. But it left us needing to look for other ways to complete the project through the entire recovery cycle. Even with that said, we would do it again and advocate it to any community wanting to build back better, and not to pre-disaster."

Other applicants supported PAAP but proposed some improvements. For example, they suggested PAAP policies:

- be less bureaucratic and more flexible pertaining to approvals on the use of funds,

¹⁰ According to FEMA, since the enactment of the SRIA in 2013, FEMA almost exclusively used the United States Army Corps of Engineers Center of Excellence to provide an Expert Panel Review for Section 428 projects as required by FEMA policy or as requested by FEMA or Public Assistance applicants. However, from 2017 to 2019, for disasters in Puerto Rico and the U.S. Virgin Islands, FEMA used RAND Corporation and engineers in Puerto Rico to provide expert panel review.



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- provide a mechanism to increase the FCEs under specific conditions (such as unique conditions or one-time events), and
- standardize the application process to require the same data for all the projects (i.e., maps, coordinates, complete estimates, and budget).

FEMA headquarters officials indicated that changes made to the overall program from inception to the current version of FEMA's *Public Assistance Program and Policy Guide* V4 reflect FEMA's dedication to continual improvement.

Recommendations

Recommendation 1: We recommend the FEMA Associate Administrator of the Office of Response and Recovery assess issues pertaining to the use of Public Assistance Alternative Procedures for projects in Puerto Rico resulting from Hurricanes Irma and Maria and incorporate lessons learned into Section 428 procedures for future disasters.

Recommendation 2: We recommend the FEMA Associate Administrator of the Office of Response and Recovery assess whether it can or should change aspects of the PAAP program in response to suggestions raised by applicants.

FEMA Management Comments and OIG Analysis

FEMA concurred with both recommendations. Appendix B contains a copy of FEMA's response in its entirety. We also received technical comments and incorporated changes to the report where appropriate. A summary of FEMA's responses to the recommendations and our analysis follows.

FEMA Response to Recommendation 1: Concur. FEMA's Office of Response and Recovery continues to monitor the use of PAAP, including considering issues pertaining to its use in Puerto Rico's recovery following Hurricanes Irma and Maria. FEMA is conducting bi-weekly meetings with staff in Puerto Rico and Region 2 to discuss challenges and issue resolution related to Puerto Rico's recovery, especially related to using Section 428 Alternative Procedures. FEMA's Public Assistance Division is actively conducting its standard review process of all policy language in the Public Assistance Program Policy Guide, including a review of the policy language for Section 428 Alternative Procedures. This process will also include a period for public comment, estimated to occur by July 2023, which will allow the public to provide suggestions related to Public Assistance policy language and guidance. The Public Assistance Division expects to issue Version 5 of the Public Assistance



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Program Policy Guide by the end of 2023. Estimated Completion Date: December 29, 2023.

OIG Analysis: FEMA's corrective action is responsive to the recommendation. The recommendation will remain open and resolved until FEMA provides an updated version of the publicly issued Public Assistance Program Policy Guide to show that corrective actions are completed.

FEMA Response to Recommendation 2: Concur. Currently, FEMA's Public Assistance Division is conducting its standard review process of all policy language in the Public Assistance Program Policy Guide, which includes a review of the policy language for Section 428 Alternative Procedures. As part of this review, FEMA will consider what, if any, changes should be made to PAAP guidance based on issues raised by applicants, as identified in this report. The process also allows the public to provide suggestions related to Public Assistance policy language and guidance, which FEMA estimates to occur by July 2023. The FEMA Public Assistance Division expects to issue Version 5 of the Public Assistance Program Policy Guide by the end of 2023. Estimated Completion Date: December 29, 2023.

OIG Analysis: FEMA's corrective action is responsive to the recommendation. The recommendation will remain open and resolved until FEMA provides an updated version of the publicly issued Public Assistance Program Policy Guide to show that corrective actions are completed.



Appendix A

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*.

We reviewed PAAP for the repair, restoration, and replacement of damaged facilities contained in Section 428 of Title IV of the Stafford Act.¹¹

Our audit objective was to determine the extent to which PAAP met the goals set forth in Section 428 and did so in accordance with legislation and FEMA guidelines since the alternative procedures were made available in 2013. Section 428(h) directs us to submit a report assessing the effectiveness of those alternative procedures.

To accomplish our objective, we reviewed applicable Federal regulations and FEMA guidelines in effect since the alternative procedures were introduced. Additionally, we interviewed:

- FEMA headquarters officials,
- officials at the FEMA offices for the three regions in which the alternative procedures were most used, and
- representatives from two recipients (Mississippi and Puerto Rico) and 13 applicants.

Our audit scope included all large permanent projects related to disasters declared from 2013 through 2020. For each project, we determined how long FEMA took to obligate funds after the disaster declaration. We used these results to compare the average obligation time for PAAP projects versus those completed using the standard Section 406 procedures. Additionally, we judgmentally selected 50 PAAP projects, including the 12 largest projects, 19 Puerto Rico projects, and 19 from the rest of the United States. We sent a questionnaire to each of the recipients and applicants for the selected projects to obtain their feedback about using PAAP. To evaluate the accuracy of the PAAP project cost estimates, we compared the original estimate to the actual project cost reported for all completed large projects from 2013 through 2020.

We assessed the internal controls significant to the audit objective, audit risk, and the potential for fraud. This included FEMA's control environment, risk assessment, control activities, information and communication, and monitoring controls. We designed our audit procedures to include steps to mitigate the

¹¹ 42 U.S.C. § 5189f.



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risks that we identified. Specifically, we included steps to perform substantive testing of FEMA's policies and procedures covering the PAAP projects we reviewed.

We assessed the reliability of computer processed data to determine accuracy and completeness by:

- comparing data drawn from FEMA's Grants Manager system and Emergency Management Mission Integrated Environment system at different points in time,
- submitting questionnaires to and conducting interviews of FEMA personnel from the Recovery Analytics Division to obtain an understanding of the systems from which the data was extracted, and
- tracing a judgmental sample of data elements from these systems to information contained in the corresponding project files.

We determined the data was sufficiently reliable for our purposes.

We conducted this audit between May 2020 and May 2022 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.



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Appendix B
FEMA Comments to the Draft Report

U.S. Department of Homeland Security
Washington, DC 20472



FEMA

June 24, 2022

MEMORANDUM FOR: Joseph V. Cuffari, Ph.D.
Inspector General

FROM: Cynthia Spishak
Associate Administrator
Office of Policy and Program Analysis

SUBJECT: Management Response to Draft Report: “Assessment of FEMA’s Public Assistance Alternative Procedures Program” (Project No. 20-028-AUD-FEMA)

CYNTHIA SPISHAK
Digitally signed by CYNTHIA SPISHAK
Date: 2022.06.24 15:52:10 -0400

Thank you for the opportunity to 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 is pleased to note that the OIG acknowledged FEMA’s achievement of many Public Assistance Program’s Alternative Procedures (PAAP) goals related to the repair, restoration, and replacement of permanent work projects. Specifically, the OIG noted that: (1) PAAP’s reduced reporting and cost tracking requirements lessened applicants’ administrative burden; (2) the flexibilities in rebuilding afforded by PAAP to applicants resulted in more resilient facilities leading to potential cost savings; (3) PAAP cost estimates provided adequate resources to applicants for restoration of damaged facilities; and (4) applicants found that the effective incentives of using PAAP for permanent work projects outweighed the disincentives.

FEMA developed the PAAP to maximize the ability of applicants to drive their own recovery, and PAAP provides numerous opportunities and benefits, such as flexibility to build back better than what existed prior to the disaster, share funds across all projects, use excess funds to reduce risk and improve future disaster operations, and apply cost-effective hazard mitigation to replacement projects.¹ As of June 9, 2022, FEMA has obligated \$31.45 billion in funding for permanent work projects using PAAP, of which \$18.46 billion has been obligated in Puerto Rico, and \$817.92 million has been obligated

¹ PA Program and Policy Guide (PAPPG) (Version 4) (June 1, 2020), at page 141.
https://www.fema.gov/sites/default/files/documents/fema_papng-v4-undated-links_policy_6-1-2020.pdf



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in the U.S. Virgin Islands. Thus far, applicants have also completed 3,547 permanent work projects using PAAP.

As the OIG draft report acknowledged, Hurricanes Irma and Maria created exceptionally severe damage in Puerto Rico and the U.S. Virgin Islands in 2017. This included island-wide impacts to major critical infrastructure systems. In response, Congress granted FEMA broad authority under the Bipartisan Budget Act of 2018 to support the reconstruction of critical infrastructure to industry standards, without regard to pre-disaster condition, provided that funding was capped under Section 428 alternative procedures.² In addition, at the request of the Governor of Puerto Rico, all large project permanent work projects were initially funded pursuant to Section 428.³ Consequently, FEMA's implementation of PAAP in Puerto Rico and the U.S. Virgin Islands was unlike PAAP implementation in disasters elsewhere, dealing with unique challenges and scale of impact.

FEMA remains committed to efficiently providing effective Public Assistance (PA) Program funding to applicants who are rebuilding after a disaster, and enacting mitigation measures ahead of the next disaster. Accordingly, FEMA continues to work with both territories to make progress toward recovery, as part of FEMA's mission to help survivors and communities before, during, and after disasters and pursuant to FEMA's duty to be responsible stewards of taxpayer funding.

The draft report contained two recommendations, with which FEMA concurs. Enclosed, find FEMA's detailed response to each recommendation. FEMA previously submitted technical comments addressing accuracy, contextual, and other issues under a separate cover for OIG's consideration.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you again in the future.

Enclosure

² Bipartisan Budget Act of 2018, Pub. L. No. 115-123, § 20601, 132 Stat. 64 (2018).

³ Puerto Rico: Amendment No. 5 to Notice of a Major Disaster Declaration, 82 Fed. Reg. 53,514 (Nov. 2, 2017) (amending the notice of a major disaster for the Commonwealth of Puerto Rico (FEMA-4339-DR), dated September 20, 2017, and related determinations).



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Enclosure: Management Response to Recommendations Contained in 20-028-AUD-FEMA

OIG recommended that the FEMA Associate Administrator of the Office of Response and Recovery (ORR):

Recommendation 1: Assess issues pertaining to the use of Public Assistance Alternative Procedures for projects in Puerto Rico resulting from Hurricanes Irma and Maria and incorporate lessons learned into Section 428 procedures for future disasters.

Response: Concur. FEMA ORR continues to monitor the use of PAAP and consider issues pertaining to its use in Puerto Rico's recovery following Hurricanes Irma and Maria. For example, on February 10, 2020, FEMA issued updated guidance in "Public Assistance Alternative Procedures (Section 428) Guide for Permanent Work FEMA-4339-DR-PR (Puerto Rico Hurricane Maria)."⁴ This allowed for making awards for permanent work projects on the basis of fixed estimates to provide for the timely or cost-effective completion of work, as well as consolidation of funds associated with fixed-cost subawards across all the facilities of a Recipient or Subrecipient based upon the agreed-upon cost estimates. Further, FEMA PA leadership conducts bi-weekly meetings with FEMA staff in Puerto Rico and Region 2 to discuss challenges and issue resolution related to Puerto Rico's recovery, including those related to the use of the Section 428 Alternative Procedures.

Currently, FEMA PA is actively conducting its standard review process of all policy language in the PAPPG, including a review of the policy language for Section 428 Alternative Procedures. As part of this review, FEMA will consider what, if any, changes should be made to PAAP guidance based on lessons learned in Puerto Rico. The process will also include a period for public comment, estimated to occur by July 2023, which will allow the public to provide suggestions related to PA policy language and guidance. The FEMA PA Division expects to issue Version 5 of the PAPPG by the end of 2023. Estimated Completion Date (ECD): December 29, 2023.

Recommendation 2: Assess whether it can or should change aspects of the PAAP program in response to suggestions raised by applicants.

Response: Concur. Currently, FEMA PA is conducting its standard review process of all policy language in the PAAPG, which will include review of the policy language for Section 428 Alternative Procedures. As part of this review, FEMA will consider what, if any, changes should be made to PAAP guidance based on issues raised by applicants, as identified in this report. The process also includes a period for public comment, estimated to occur by July 2023, which will allow the public to provide suggestions related to PA policy language and guidance. The FEMA PA Division expects to issue Version 5 of the PAPPG by the end of 2023. ECD: December 29, 2023.

⁴ Public Assistance Alternative Procedures (Section 428) Guide for Permanent Work FEMA-4339-DR-PR (Puerto Rico Hurricane Maria) dated February 10, 2020. Disaster Specific Guidance: 2017 Hurricane Guidance (Harvey, Irma, and Maria). <https://www.fema.gov/assistance/public-policy-guidance-fact-sheets>



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Appendix C
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