Department of Homeland Security
Office of Inspector General

Capping Report: FY 2013 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits

OIG-14-102-D

June 2014

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

JUN 10 2014

MEMORANDUM FOR: Joseph Nimmich
Associate Administrator, Response and Recovery
Federal Emergency Management Agency

FROM: John V. Kelly
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Capping Report: FY 2013 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*

Attached for your information is our final letter report, *Capping Report: FY 2013 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*. This capping report summarizes the results of the Federal Emergency Management Agency's (FEMA) Public Assistance (PA) program and Hazard Mitigation Grant Program (HMGP) grant and subgrant audits we performed during fiscal year (FY) 2013.

We discussed this report with representatives from FEMA's Office of the Associate Administrator, Response and Recovery, and Office of Assistant Administrator, Recovery, on May 9, 2014. Although our conclusion offers FEMA several suggestions for improving PA and HMGP program grant administration, this report contains no formal recommendations. Therefore, we consider this report closed and require no further actions from FEMA.

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

Major contributors to this report are Christopher Dodd, Acting Director; Paige Hamrick, Supervisory Auditor; Jacob Farias, Auditor-in-Charge; and Patti Smith, Senior Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Tonda L. Hadley, Deputy Assistant Inspector General for Audit Services, Office of Emergency Management Oversight, at (214) 436-5200.

Attachment

Background

This is the fifth annual Capping Report we have issued that summarizes the results of the PA program and HMGP grant and subgrant audits we conducted throughout the year. Each year, our audits reveal significant issues representing millions of dollars in findings and recommendations to FEMA. We focus our audits on FEMA's PA and HMGP grant funds, which are funded from the Disaster Relief Fund.[1] The PA program and HMGP provide a means for response, recovery, and mitigation from disasters. Through the PA program, FEMA provides grants to State, tribal, and local governments, and certain types of private nonprofit organizations so that communities can quickly respond to and recover from major disaster or emergency declarations. FEMA's HMGP provides recovery from a declared disaster by also providing grants to State, tribal, and local governments, and certain types of private nonprofit organizations to implement long-term hazard mitigation measures after a major disaster declaration.

Throughout the year, we issue our reports to the respective FEMA Regional Administrators. However, we issue the Capping Report, a consolidation of all findings and recommendations, to FEMA headquarters to highlight and inform FEMA about significant issues and trends in noncompliance that warrant attention. As table 1 shows, the reports also emphasize the total resulting potential monetary benefits of the questioned costs and recommendations.

Table 1. Potential Monetary Benefits from FY 2009–2013

Report Number	Fiscal Year	Amount Audited (billions)	Potential Monetary Benefits (millions)	Percentage of Potential Monetary Benefits to Amount Audited
DS-11-01	2009	$0.93	$138.4	15%
DD-11-17	2010	$1.23	$165.3	13%
OIG-12-74	2011	$1.22	$336.9	28%
OIG-13-90	2012	$1.25	$415.6	33%
OIG-14-102-D	2013	$1.28	$307.8	24%
	Total	$5.91	$1,364.0	23%

Historically, we have focused on auditing FEMA's PA and HMGP grant funds after the subgrantees received and spent the funds. Our future focus will not only include this traditional review of spent funding, but will also include reviewing the grants earlier in

[1] The Disaster Relief Fund (DRF) is an appropriation against which FEMA can direct, coordinate, manage, and fund eligible response, recovery, and mitigation efforts associated with domestic major disasters and emergencies that overwhelm State resources pursuant to the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*. Through the DRF, FEMA can fund authorized Federal disaster support activities as well as eligible State, territorial, tribal, and local actions, such as providing emergency protection and debris removal. The DRF has been averaging about $10 billion a year.

the process before subgrantees spend the grant funds. This new approach will allow us to determine potential findings and issues earlier in the process and help prevent subgrantees from misspending Federal funds.

FEMA acknowledged that our capping reports are particularly valuable and has implemented corrective measures to address issues we identified in our past audit reports. Recognizing that applicant noncompliance with Federal procurement regulations continues to be a significant source of findings and questioned costs, FEMA has developed and is implementing a new Procurement Disaster Assistance Team. This Team will provide assistance to applicants before they award contracts to reduce procurement violations and help ensure applicants spend Federal funds efficiently, effectively, and in compliance with applicable Federal procurement standards.

According to FEMA, the Procurement Disaster Assistance Team will: provide just-in-time and steady-state training; develop guidance on Federal procurement requirements; review applicant procurement policies and procedures; and review proposed applicant procurement actions to advise FEMA Public Assistance officials as to whether those actions comply with Federal procurement requirements. FEMA is also revising its policy on insurance to ensure applicants obtain and maintain the correct type and amount of insurance. Obtaining and maintaining correct insurance will reduce reliance on Federal assistance in future disasters because applicants will have proper insurance coverage. FEMA plans to complete a revision of the draft policy in 2014.

Finally, the FEMA Recovery Directorate plans to establish a section dedicated to overseeing, coordinating, implementing, responding to, and learning from our audits. FEMA has already completed a 3-year retrospective analysis of our audits to help set policy priorities, and anticipates standing up the new section before the end of FY 2014.

Results of Review

Of the 59 grant audit reports we issued in FY 2013, 54 reports contained 261 recommendations resulting in potential monetary benefits of $307.8 million.[2] This amount included $266.2 million in questioned costs we recommended FEMA disallow because the costs were ineligible or unsupported, and $41.6 million in unused funds we recommended FEMA deobligate and put to better use. The $307.8 million in potential monetary benefits represents 24 percent of the $1.28 billion we audited.

As stated in our four previous capping reports, we continue to find problems with grant management and accounting, ineligible and unsupported costs, and noncompliance with Federal contracting requirements. A significant issue this year was insufficient insurance required to protect grant recipients from future losses. We also noted a sharp increase in questioned costs for ineligible contracting procedures.

As discussed in this report, ineligible costs occurred for numerous reasons. However, States, as grantees, are generally responsible for the day-to-day monitoring of FEMA PA and HMGP grants. While we did not attribute a dollar amount that could be saved by better grant management, it should undoubtedly improve subgrantees' compliance with Federal regulations and FEMA guidelines and reduce the ineligible costs we identify in our audits over time. Also, the amount of unneeded funding would decrease sharply if FEMA and grantees more closely managed grant funding and deobligated unneeded funds faster. Table 2 categorizes our audit findings and the 261 recommendations into four broad types.

Table 2. Potential Monetary Benefits by Finding Type

Types of Findings	Number of Resulting Recommendations	Amounts Questioned in Our Reports
A. Ineligible Work or Costs	120	$242,604,029
B. Funds Put to Better Use	22	41,598,649
C. Unsupported Costs	37	23,619,229
D. Grant Management and Administrative Issues	82	0
Totals	**261**	**$307,821,907**

[2] Five FY 2013 disaster grant audit reports had no findings or reportable conditions. The OIG's Office of Emergency Management Oversight also issued 13 program audit reports to FEMA that contained 20 recommendations, resulting in potential monetary benefits of an additional $179 million.

A. Ineligible Work or Costs

As table 3 illustrates, we questioned $242.6 million in costs as ineligible for FEMA reimbursement.

Table 3. Ineligible Work or Cost by Type

Subtypes of Ineligible Work or Costs	Number of Resulting Recommendations	Amounts Questioned in Our Reports
1. Contracting Practices	30	$130,245,816
2. Insufficient Insurance	3	83,679,242
3. Legal Responsibility	2	7,560,185
4. Other Ineligible Work/Costs	85	21,118,786
Totals	**120**	**$242,604,029**

1. Contracting Practices. We reported 30 instances totaling $130.2 million where subgrantees did not comply with Federal procurement regulations for contracts. Noncompliance with Federal procurement regulations results in high-risk contracts that potentially cost taxpayers millions of dollars in excessive costs. Further, it often precludes open and free competition to all qualified bidders, including small businesses, minority-owned firms, and women's business enterprises. In addition, open and free competition helps to discourage and prevent favoritism, collusion, fraud, waste, and abuse.

   We considered the exigencies that often arise after a disaster occurs and, as a general rule, did not question contracting practices or costs associated with those exigencies. For example, in Audit Report DD-13-11,[3] Tulane University did not always follow Federal procurement standards in awarding $230.1 million in contracts it used for disaster work.[4] Tulane awarded $205.4 million to its primary contractor using a noncompetitive, cost-plus-percentage-of-cost contract that included $35 million in excessive and prohibited markups on cost.

   Federal regulations prohibit cost-plus-percentage-of-cost contracts because they provide a disincentive for contractors to control costs—the more contractors charge, the more profit they make. However, because exigent circumstances existed at the time Tulane awarded the $205.4 million contract, we did not question the majority of

[3] Appendix A lists the report number, disaster number(s), date issued, and title for each of the 59 disaster grant reports we discuss in this report.
[4] Procurement standards in 44 Code of Federal Regulations (CFR) Part 13 apply to State, tribal, and local governments, while procurement standards in 2 CFR Part 215 apply to institutions of higher education, hospitals, and other nonprofit organizations.

contract costs, but we did question the $35 million in excessive and prohibited markups on cost.

In Audit Report OIG-13-23, we identified $39.4 million in contract costs where Erie County, New York, awarded contracts in a manner that limited competition and disregarded Federal procurement standards at 44 Code of Federal Regulations (CFR) 13.36. For instance, the County did not provide full and open competition or perform a cost or price analysis to establish reasonable prices, and failed to demonstrate that it took the required affirmative steps to assure, when possible, that minority firms, women's business enterprises, and labor surplus area firms were used.

2. Insufficient Insurance. We reported three instances totaling $83.7 million where subgrantees did not obtain and maintain sufficient flood insurance required as a condition for receiving Federal disaster assistance. Section 311 of the *Robert T. Stafford Disaster Relief and Emergency Act*, Public Law 93-288, 42 U.S.C §5154, as amended, (Stafford Act) requires recipients of disaster assistance to obtain and maintain such types of insurance "as may be reasonably available, adequate, and necessary, to protect against future loss" to "any property to be replaced, restored, repaired, or constructed with such assistance."

   FEMA's *Public Assistance Guide* (FEMA 322, October 1999, p. 97) states that (1) as a condition for receiving public assistance for a facility, an applicant must obtain and maintain insurance to cover that facility for the hazard that caused the damage; and (2) such coverage must, at minimum, be in the amount of the estimated eligible project costs for that structure before any reduction. Having insufficient insurance coverage is not only a violation of Federal regulations and FEMA policy, but it puts subgrantees at risk of not having adequate protection the next time disaster strikes.

   In Audit Report DD-13-01, we questioned $62.39 million of $69.67 million FEMA obligated under two projects for the Regional Transit Authority (New Orleans, Louisiana). The Authority was unable to prove that its insurance policy provides the minimum amount of insurance required for FEMA funding to replace buses, repair and refurbish street cars, and purchase additional buses. At the time of the disaster, the Authority carried an insurance policy for vehicles with a $3 million per-occurrence limit. We requested that the Authority provide us with information and documentation for all of its insurance policies. In response, the Authority provided us with an insurance policy for vehicles that increased the per-occurrence limit to $15 million, which was still $54.67 million less than the $69.67 million required minimum. However, Authority officials advised us that the $15 million per-occurrence policy had expired and they provided us with a new insurance policy. The Authority believes the new policy is sufficient to cover FEMA-funded buses and other vehicles. However, the only amount listed in the new policy is $10 million for liability coverage. The policy does not state how much insurance is provided for comprehensive coverage on a pre-occurrence basis or otherwise. Therefore, we questioned the $62.39 million for insufficient insurance coverage.[5]

3. Legal Responsibility. We reported two instances where grantees awarded subgrantees $7.6 million under projects for which they were not legally responsible. Federal regulation 44 CFR 206.223(a)(3) requires the subgrantee to be legally responsible for the facility to be eligible for Federal disaster assistance. Further, according to the *Public Assistance Guide* (FEMA 322, October 1999, p. 25), an eligible applicant must be legally responsible for the damaged facility at the time of the disaster. If the applicant is the lessee (tenant), facility repairs are not eligible unless the lease specifically states that the lessee is responsible for the repairs.

   For example, in Audit Report DD-13-05, we questioned $7.55 million the Audubon Commission incurred for work related to properties that it did not own and was not legally responsible to repair. FEMA and grantee officials should verify legal responsibility for the facility through legal documents. According to Audubon officials, neither FEMA nor the grantee ever requested copies of the lease agreement or other documents to determine legal responsibility. Identifying the legal responsibility ensures that FEMA and grantee officials work with the proper entity in providing the assistance that the entity seeks.

4. Other Ineligible Work or Costs. Table 4 lists other ineligible work or costs we questioned in FY 2013. Insurance proceeds and project accounting were the top two types of ineligible work or costs we questioned.

Table 4. Other Ineligible Work or Costs by Type

Other Ineligible Work or Costs	Number of Resulting Recommendations	Amounts Questioned in Our Reports
Insurance proceeds misapplied/misallocated	13	$ 4,783,737
Project accounting	3	3,921,914
Ineligible force account labor/equipment	16	2,162,941
Non-disaster related costs	7	1,741,044
Outside FEMA-approved scope	9	1,705,786
Duplicate costs	6	1,275,990
Other Federal funding available	5	196,449
Miscellaneous ineligible costs	26	5,330,925
Totals	**85**	**$21,118,786**

[5] We questioned the net amount of $62.39 million ($69.67 million minus $7.28 million), because we questioned $7.28 million as unused funding in another finding.

We reported 13 instances totaling $4.8 million where subgrantees and FEMA did not correctly apply or allocate insurance proceeds. Federal regulations at 44 CFR 206.250(c) require FEMA to deduct actual or anticipated insurance recoveries that apply to eligible costs from project awards. This action prevents subgrantees from receiving duplicate benefits for losses, which Section 312 of the *Stafford Act* prohibits. For example, in Audit Report DD-13-01, we questioned $1.7 million as ineligible because the Regional Transit Authority had not completed allocation of its insurance proceeds. As a result, the amounts FEMA estimated and approved for certain projects were too high. FEMA should have completed its insurance review and allocated $1.7 million in applicable insurance proceeds.

We also questioned $949,378 as ineligible in Audit Report DA-13-10 because the City of Gulfport, Mississippi's claim included $949,378 of debris removal costs that homeowners' insurance or other funding may have covered. According to Section 312(a) of the *Stafford Act*, applicants may not use FEMA funds for expenditures recoverable from another program, insurance, or any other source. Also, FEMA Policy 9523.13, *Debris Removal from Private Property*, Section VII(C), requires that State and local governments take reasonable steps to verify that insurance coverage or any other source of funding does not exist for debris removal from private property. The City did not take required steps to (1) determine whether the homeowners actually received insurance proceeds or other funding to cover the debris removal work and (2) if so, obtain such proceeds to reduce claimed project costs.

Although subgrantees are responsible for reporting insurance proceeds, FEMA is responsible for completing an insurance review to determine insured losses. Completing this review prevents FEMA from over obligating Federal funds that it could otherwise put to better use.

Another substantial amount of questioned costs resulted from subgrantees not properly accounting for project costs. We reported three instances totaling $3.9 million where subgrantees did not account for costs on a project-by-project basis or account for FEMA-eligible disaster work. For example, in Audit Report DD-13-06, we questioned $2.3 million because Cameron Parish, Louisiana, did not account for project management costs on a project-by-project basis. Federal regulations at 44 CFR 206.205(b)(1) require the grantee to make an accounting to FEMA's Regional Director of eligible costs for each approved large project.

B. Funds Put to Better Use

As table 5 illustrates, we reported 22 instances where subgrantees no longer needed project funding, or where FEMA funded ineligible activities, and recommended that FEMA deobligate $41.6 million and put those funds to better use.

Table 5. Funds Put to Better Use by Type

Subtypes of Funds Put to Better Use	Number of Resulting Recommendations	Amounts Questioned in Our Reports
1. Unused Obligated Funds	14	$18,700,682
2. Ineligible Project	1	13,786,951
3. Unapplied Donations and Credits	1	5,495,000
4. Miscellaneous[6]	6	3,616,016
Totals	**22**	**$41,598,649**

1. Unused Obligated Funds. The majority of recommendations we made for funds put to better use related to unused obligated funds. According to 44 CFR 206.205(b)(1), the grantee shall account for eligible costs for each large project and certify to FEMA that the reported costs were for eligible disaster work as soon as practicable after the subgrantee has completed the approved work and requested payment. Further, the grantee should inform FEMA when it will not use a significant amount of obligated funding.

   For example, in Audit Report DA-13-02, we recommended that FEMA deobligate and put to better use $2.0 million in unused funds. The Town of Dauphin Island, Alabama, had completed all authorized work under the projects 2 to 3 years earlier; yet, $2.0 million in unneeded funds remained obligated. Additionally, in Audit Report DS-13-08, we recommended that FEMA deobligate and put to better use $1.1 million in unneeded funding. Pima County, Arizona, no longer needed this funding because it had completed the projects for less than the original estimated cost.

   Deobligating unneeded funds sooner would (1) release funding to cover cost overruns on other projects associated with the disaster, (2) aid in closing out the applicant's grant award because FEMA could close out projects throughout the life of the grant, rather than after the applicant completed all work, (3) provide a more accurate status of program costs for a disaster, and (4) be consistent with appropriation law that requires obligations in FEMA's accounting system be supported by bona fide needs. Grantees can improve their monitoring efforts by identifying unneeded funds and returning them to FEMA as soon as practicable after subgrantees complete projects.[7]

[6] Includes $2.0 million we reported as funds put to better use in DA-13-03 that we should have reported as ineligible.
[7] OIG Management Report OIG 10-49, *Opportunities to Improve FEMA's Disaster Closeout Process*, discusses several reasons for delays in the disaster closeout process. The report attributed delays to grantee staff shortages, inexperienced staff, conflicting priorities, and a need for closure incentives.

2. Ineligible Project. In Audit Report DD-13-09, we recommended FEMA deobligate and put to better use $13.8 million because FEMA headquarters approved a project that was not eligible according to Federal regulations for inactive facilities. We agreed with FEMA Region VII's denial of the costs to repair an inactive hydroelectric plant. However, FEMA headquarters overturned the Region's decision and approved the costs because it relied on what we determined to be inaccurate information the City of Cedar Rapids, Iowa, included in its official appeal documents to FEMA headquarters. FEMA headquarters interpreted the information to be sufficient for the facility to meet the exceptions for inactive use in FEMA regulations and guidance. FEMA did not concur with our determination that the information the City provided on appeal was inaccurate. Generally, when we identify ineligible projects, we recommend FEMA disallow the costs. However, in this instance, the City planned to use the funds on an alternate project to build a parking garage; therefore, the City had not started repairs on the hydroelectric plant and thus had not incurred or claimed any costs. Accordingly, we recommended FEMA deobligate the unused funds and put them to better use, rather than disallow costs because the City had not yet claimed costs.

3. Unapplied Donations and Credits. In Audit Report DD-13-11, we identified $5.5 million in unapplied donations and credits. Tulane University did not account for a $3.5 million discount and a $2.0 million donation—both received from its primary contractor. According to 2 CFR Part 220, Appendix A, Section C.1 and C.5, to be allowable, costs must be net of applicable credits. Tulane officials agreed with our recommendation and said they were confident that they would have identified the credits during the finalization of its cost submissions and would have then reduced its overall FEMA claim by the amount of these credits.

4. Miscellaneous. The remaining $3.6 million related to funding for work subgrantees did not perform and interest subgrantees earned on advanced funds.

C. Unsupported Costs

Our FY 2013 disaster grant audit reports questioned $23.6 million for 25 instances where subgrantees did not adequately support costs claimed or to be claimed. For example, in Audit Report OIG-13-23, we reported that Erie County, New York, did not support $9.0 million in costs. Additionally, in Audit Report DA-13-10, we reported that the City of Gulfport, Mississippi, did not support $5.7 million of contract costs.

According to 44 CFR 13.20(b)(2), grantees and subgrantees must maintain records that adequately identify the source and application of funds they receive for financially assisted activities. Additionally, 44 CFR 13.20(b)(6) provides a list of specific source documentation, including cancelled checks, paid bills, payrolls, time and attendance records, and contracts that is acceptable as supporting documentation for accounting records. Federal cost principles reinforce these requirements by stating that grant recipients must adequately document claimed costs.[8]

Unsupported costs resulted because subgrantees (1) had not established fiscal and accounting procedures that would allow us to trace expenditures to confirm that subgrantees used Federal funds according to applicable laws, regulations, and FEMA policy or (2) did not maintain adequate accounting records. Further, the grantee did not always verify that costs subgrantees claimed met the standards for financial management or ensure that its subgrantees were aware of and followed record retention and access requirements.

D. <u>Grant Management and Administrative Issues</u>

Federal regulations require states, as grantees, to (1) ensure that subgrantees (such as cities and school districts) are aware of Federal regulations and (2) manage the day-to-day operations of subgrant activity and monitor subgrant activity to ensure compliance with applicable Federal requirements.[9] Our reports included 82 grant management and administrative recommendations covering project accounting, general grant management, contracting practices, contract billings, and project costs. According to FEMA officials, FEMA pays States, as grantees, an average of $143 million per year to manage public assistance grants.[10]

We reported instances in which grantees could improve grant management. In some instances, grantees needed to (1) establish policies for recognizing direct administrative costs that are unreasonable or unnecessary, (2) submit FEMA quarterly reports with financial information in accordance with FEMA's *Public Assistance Guide* (FEMA 322), (3) submit closeout documentation for projects as soon as practicable, and (4) develop and implement oversight procedures to improve their monitoring of subgrantees. We also reported instances of improper project accounting where subgrantees did not account for disaster expenditures on a project-by-project basis. Failure to perform project-by-project accounting increased the risk of duplicating disaster expenditures among projects.

Federal regulations establish uniform administrative rules for grants and procedures for PA and HMGP project administration. These rules and procedures require grantees and subgrantees have fiscal controls, accounting procedures, and project administration procedures to provide FEMA assurance that grantees and subgrantees (1) accurately

---

[8] *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR, Part 225); *Cost Principles for Educational Institutions* (2 CFR, Part 220); and *Cost Principles for Non-Profit Organizations* (2 CFR, Part 230).
[9] 44 CFR 13.37(a)(2) and 44 CFR 13.40(a), respectively.
[10] Five year average (FY 2009–FY 2013) based on State management and administrative costs. Source: FEMA's Chief Financial Officer.

report grant and subgrant financial and project status, (2) trace expenditures to a level which ensures that use of funds does not violate applicable statutes, and (3) adhere to *Stafford Act* requirements and the specific provisions of applicable Federal regulations when administering PA program and HMGP grants.

Conclusion

This is the fifth consecutive year that we summarized the results of our PA and HMGP grant audits in hopes of identifying systemic problems. Our reports examined activities spanning many years and many declared disasters. Although our reports focus on problems we identify, it is important to recognize the exceptional work that FEMA and State and local emergency management officials continue to perform in responding to disasters and getting recovery money to those who need it. However, grantees and subgrantees did not always properly account for and expend FEMA PA program and HMGP funds. Federal regulations for grant administration require states, as grantees, to oversee subgrant activities and ensure that subgrantees are aware of and follow Federal regulations designed to ensure financially assisted activities comply with applicable laws and regulations. Many of our findings and reportable conditions indicate that states should do a better job of educating subgrantees and enforcing Federal regulations.

It is FEMA's responsibility to hold states accountable for proper grant administration, especially with regard to contracting practices. We questioned $108 million more in contract costs in FY 2013 than in FY 2012, mostly because grantees are not ensuring that subgrantees are aware of requirements for complying with Federal procurement regulations.

Although FEMA has the authority to waive certain administrative requirements, it should not be standard practice to allow noncompetitive and cost-plus-percentage-of-cost contracts even when the costs are reasonable.[11] Given the Federal government's $17 trillion debt and last year's $680 billion-dollar annual budget deficit, all Federal agencies need to minimize Federal outlays whenever possible. As we stated in our FY 2012 Capping Report, FEMA should continue to use the remedies specified in Federal regulations to (1) hold grantees and subgrantees accountable for material noncompliance with Federal statutes and regulations and (2) demand grantees and subgrantees properly account for and expend FEMA funds.

Additionally, FEMA should consider requesting that grantees (1) evaluate their capabilities to administer FEMA PA program and HMGP grants, (2) identify gaps inhibiting effective grant and subgrant management and program and project execution, and (3) identify opportunities for FEMA technical assistance, such as training

[11] 44 CFR 13.6 and 2 CFR 215.4

and project monitoring. Finally, because PA and HMGP projects often take years to complete, constant grantee monitoring is critical to ensure that subgrantees follow applicable laws, regulations, and policies throughout the life of the projects.

This report provides a means for FEMA to (1) examine its regulations, policies, and procedures and assess the need for changes based on the recurring nature of our findings and (2) inform state emergency management officials of grant and subgrant activities they should avoid or implement. Providing this report to PA and HMGP program grantees will enable them to better ensure that subgrantees follow all laws, regulations, policies, and procedures and properly account for and expend FEMA funds.

Starting in FY 2014, we have begun to focus more of our audits on recent disasters to identify the progress grantees and subgrantees have made in complying with Federal regulations and improving overall grant management. Because we have already identified these problems and provided recommendations in prior capping reports, this report does not include any recommendations.

Appendix A
FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audit Reports Issued in FY 2013

	Report Number	Program	Disaster Number(s)	Date Issued	Title	Amount Awarded ($M)	Amount Audited ($M)	Potential Monetary Benefit
1	DA-13-01	PA	1866	11/2/2012	FEMA Should Deobligate $226,096 of Unneeded Public Assistance Grant Funds Awarded to the Town of Dauphin Island, Alabama – Tropical Storm Ida	$2.5	$1.4	$226,096
2	DA-13-02	PA	1789, 1797	11/6/2012	FEMA Should Recover $2.8 Million of Public Assistance Grant Funds Awarded to the Town of Dauphin Island, Alabama – Hurricanes Gustav and Ike	$5.5	$5.3	$1,976,460
3	DA-13-03	PA	1604	11/6/2012	FEMA Should Recover $5.3 Million of Public Assistance Grant Funds Awarded to the University of Southern Mississippi – Hurricane Katrina	$41.1	$12.2	$5,277,317
4	DA-13-04	PA	1609	11/20/2012	FEMA Should Recover $7.7 Million of Public Assistance Grant Funds Awarded to the City of Lake Worth, Florida – Hurricane Wilma	$12.4	$10.4	$7,682,532
5	DA-13-05	PA	1851	11/20/2012	FEMA Should Recover $2.2 Million of Public Assistance Grant Funds Awarded to Memphis Light, Gas and Water Division – Severe Weather, June 2009	$7.9	$7.9	$2,218,464
6	DA-13-06	PA	1605	11/20/2012	FEMA Should Recover $894,764 of Public Assistance Grant Funds Awarded to Dauphin Island, Alabama – Hurricane Katrina	$4.6	$4.4	$894,764
7	DA-13-07	PA	1745	11/20/2012	FEMA Should Recover $701,028 of Public Assistance Grant Funds Awarded to Memphis Light, Gas and Water Division – Severe Weather February 2008	$3.2	$3.2	$701,028
8	DA-13-08	PA	1545, 1561	12/4/2012	FEMA Should Recover $470,244 of Public Assistance Grant Funds Awarded to the City of Lake Worth, Florida – Hurricanes Frances and Jeanne	$12.2	$10.8	$470,244

Appendix A (continued)
FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audit Reports Issued in FY 2013

	Report Number	Program	Disaster Number(s)	Date Issued	Title	Amount Awarded ($M)	Amount Audited ($M)	Potential Monetary Benefit
9	DA-13-09	PA	1604	2/15/2013	FEMA Should Recover $1.9 Million of Public Assistance Grant Funds Awarded to Hancock County Utility Authority – Hurricane Katrina	$2.9	$2.3	$1,902,506
10	DA-13-10	PA	1604	2/22/2013	FEMA Should Recover $8.5 Million of Public Assistance Grant Funds Awarded to the City of Gulfport, Mississippi, for Debris Removal and Emergency Protective Measures – Hurricane Katrina	$233.9	$55.5	$8,483,138
11	DA-13-11	PA	1862	3/12/2013	FEMA Should Recover $131,064 From a $3.0 Million Public Assistance Grant Awarded to the City of Norfolk, Virginia, for Tropical Storm Ida and a Nor'easter	$3.0	$1.2	$131,064
12	DA-13-12	PA	1761	3/15/2013	FEMA Should Recover $34,219 From a $3.0 Million Public Assistance Grant Awarded to Bibb County, Georgia	$3.0	$2.8	$34,219
13	DA-13-13	PA	1604	3/15/2013	FEMA Should Recover $3.2 Million of Public Assistance Grant Funds Awarded to Moss Point School District – Hurricane Katrina	$24.8	$17.4	$3,210,547
14	DA-13-14	PA	1761	4/4/2013	The City of Macon, Georgia, Successfully Managed FEMA Public Assistance Funds Awarded for Severe Storms in May 2008	$3.9	$3.5	$0
15	DA-13-15	HMGP	1604	5/21/2013	Contract Dispute Delaying Hurricane Shelters at George County, Mississippi: Interim Report on FEMA Hazard Mitigation Grant Program Funds Awarded to George County, Mississippi	$4.1	$3.4	$0
16	DA-13-16	PA	1609	6/4/2013	FEMA Should Recover $129,248 of Public Assistance Grant Funds Awarded to City of Palm Beach Gardens, Florida – Hurricane Wilma Activities	$3.3	$2.5	$129,248

Appendix A (continued)
FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audit Reports Issued in FY 2013

	Report Number	Program	Disaster Number(s)	Date Issued	Title	Amount Awarded ($M)	Amount Audited ($M)	Potential Monetary Benefit
17	DA-13-17	PA	1604	6/7/2013	FEMA Should Recover $3.5 Million of Public Assistance Grant Funds Awarded to the City of Gautier, Mississippi – Hurricane Katrina	$5.3	$4.6	$3,462,415
18	DA-13-18	PA	1539	6/5/2013	FEMA Should Recover $4.1 Million of Public Assistance Grant Funds Awarded to Orlando Utilities Commission – Hurricane Charley	$17.1	$12.8	$4,067,504
19	DA-13-19	PA	1545, 1561	6/11/2013	FEMA Should Recover $401,046 of Public Assistance Grant Funds Awarded to the City of Palm Beach Gardens, Florida – Hurricanes Frances and Jeanne	$5.6	$4.3	$401,046
20	DA-13-20	PA	1818	6/18/2013	FEMA Should Recover $3.8 Million of Public Assistance Grant Funds Awarded to Kenergy Corporation, Henderson, Kentucky	$31.2	$31.2	$3,772,496
21	DA-13-21	PA	1785	7/9/2013	Palm Beach County, Florida, Appropriately Expended $4.8 Million of FEMA Public Assistance Funds Awarded for Beach Renourishment Activities Under Tropical Storm Fay	$5.1	$4.8	$0
22	DA-13-22	PA	1545	7/10/2013	FEMA Should Recover $1.6 Million of Public Assistance Grant Funds Awarded to Palm Beach County, Florida – Hurricane Frances	$40.1	$24.7	$1,595,744
23	DA-13-23	PA	1609	7/10/2013	FEMA Should Recover $4.9 Million of Public Assistance Grant Funds Awarded to Palm Beach County, Florida – Hurricane Wilma	$31.7	$18.2	$4,875,233
24	DA-13-24	PA	1561	7/10/2013	FEMA Should Recover $951,221 of Public Assistance Grant Funds Awarded to Palm Beach County, Florida – Hurricane Jeanne	$47.9	$29.2	$951,221

Appendix A (continued)
FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audit Reports Issued in FY2013

	Report Number	Program	Disaster Number(s)	Date Issued	Title	Amount Awarded ($M)	Amount Audited ($M)	Potential Monetary Benefit
25	DA-13-25	PA	1557, 1587, 1649	9/5/2013	Pennsylvania Department of Conservation and Natural Recourses Appropriately Expended $33.6 Million of FEMA Public Assistance Funds	$33.6	$27.7	$0
26	DA-13-26	PA	1539	9/5/2013	FEMA Should Recover $234,034 of Public Assistance Grant Funds Awarded to City of Daytona Beach, Florida – Hurricane Charley	$3.0	$1.9	$234,034
27	DA-13-27	PA	1545	9/5/2013	FEMA Should Recover $209,170 of Public Assistance Grant Funds Awarded to City of Daytona Beach, Florida – Hurricane Frances	$2.6	$1.8	$209,170
28	DA-13-28	PA	1818	9/13/2013	Big Rivers Electric Corporation Meets FEMA's Eligibility Requirements for Participating in the Public Assistance Program	$1.8	$1.8	$0
29	DD-13-01	PA	1603	11/14/2012	Regional Transit Authority Needs To Insure Equipment or Forgo $62 Million in FEMA Public Assistance Funds, New Orleans, Louisiana	$122.4	$86.3	$71,459,638
30	DD-13-02	PA	1792	1/3/2013	FEMA Public Assistance Grant Funds Awarded to St. John the Baptist Parish, Louisiana	$5.9	$5.9	$955,617
31	DD-13-03	PA	1800	1/4/2013	Ottawa Illinois Elementary School District Should Obtain Required Flood Insurance or FEMA Should Disallow $14 Million in Public Assistance Grant Funds	$16.3	$16.2	$13,958,266
32	DD-13-04	PA	1771	1/14/2013	FEMA Improperly Applied the 50 Percent Rule in Its Decision To Pay for the Replacement of the Martinsville High School, Martinsville, Illinois	$13.5	$13.5	$11,516,752
33	DD-13-05	PA	1603	1/25/2013	FEMA Should Disallow $7.6 Million in Public Assistance Grant Funds Awarded to the Audubon Commission, New Orleans, Louisiana	$12.3	$12.3	$7,552,785

Appendix A (continued)
FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audit Reports Issued in FY2013

	Report Number	Program	Disaster Number(s)	Date Issued	Title	Amount Awarded ($M)	Amount Audited ($M)	Potential Monetary Benefit
34	DD-13-06	PA	1607	2/27/2013	FEMA Should Recover $6.7 Million of Ineligible or Unused Funds Awarded to Cameron Parish, Louisiana, for Hurricane Rita	$63.2	$45.6	$6,709,371
35	DD-13-07	PA	1603, 1786, 1792	2/27/2013	FEMA Should Recover $881,956 of Ineligible Funds and $862,983 of Unused Funds Awarded to St. Charles Parish School Board, Luling, Louisiana	$6.2	$6.2	$1,744,939
36	DD-13-08	PA	1741	4/16/2013	FEMA Should Disallow $4.1 Million of the $48.5 Million Public Assistance Grant Awarded to ARK Valley Electric Cooperative, Kansas	$48.5	$48.5	$4,056,999
37	DD-13-09	PA	1763	5/1/2013	FEMA Should Recover $13.8 Million in FEMA Public Assistance Funds Awarded to Cedar Rapids, Iowa, for Ineligible Hydroelectric Plant	$330.0	$330.0	$13,786,951
38	DD-13-10	HMGP	NA	5/3/2013	FEMA Region VI Should Ensure the Cost Effectiveness of Texas Hazard Mitigation Grant Projects	$0	$0	$0
39	DD-13-11	PA	1603	8/15/2013	FEMA Should Recover $46.2 Million of Improper Contracting Costs from Federal Funds Awarded to the Administrators of the Tulane Educational Fund, New Orleans, Louisiana	$291.9	$230.1	$46,175,527
40	DD-13-12	PA	1603	8/22/2013	FEMA Should Recover $1.7 Million of Public Assistance Grant Funds Awarded to Audubon Commission, New Orleans, Louisiana	$12.3	$12.3	$1,885,903
41	DD-13-13	HMGP	1606	9/10/2013	Comal County Understated Project Cost in Its Hazard Mitigation Grant Program Project Application	$0	$0	$0
42	DD-13-14	PA	1819	9/20/2013	FEMA Should Recover $7.5 Million of the $43.2 Million Public Assistance Grant Awarded to Craighead Electric Cooperative Corporation, Arkansas	$43.2	$43.2	$7,451,721
43	DD-13-15	PA	1603, 1607	9/26/2013	State of Louisiana Needs a Strategy To Manage Hurricane Katrina and Rita Public Assistance Grants More Effectively	$0	$0	$0

Appendix A (continued)
FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audit Reports Issued in FY2013

	Report Number	Program	Disaster Number(s)	Date Issued	Title	Amount Awarded ($M)	Amount Audited ($M)	Potential Monetary Benefit
44	DS-13-01	PA	1646	11/14/2012	The California Department of Parks and Recreation Sacramento, California, Successfully Managed FEMA's Public Assistance Grant Funds	$1.0	$1.0	$254,145
45	DS-13-02	PA	1628	12/27/2012	The Town of San Anselmo, California, Did Not Properly Account for and Expend FEMA's Public Assistance Grant Funds	$1.6	$1.6	$1,599,777
46	DS-13-03	PA	1577	1/3/2013	The City of San Buenaventura, California, Did Not Properly Account for and Expend FEMA Public Assistance Grant Funds	$2.3	$1.4	$1,603,650
47	DS-13-04	PA	1663	3/8/2013	FEMA Should Disallow $21,113 of the $654,716 in Public Assistance Grant Funds Awarded to the Alaska Department of Natural Resources, Wasilla, Alaska	$1.0	$0	$21,133
48	DS-13-05	PA	1628	3/27/2013	The California Department of Parks and Recreation Did Not Account for or Expend $1.8 Million in FEMA Grant Funds According to Federal Regulations and FEMA Guidelines	$8.0	$2.7	$1,780,249
49	DS-13-06	PA	1669	4/5/2013	FEMA Improperly Applied the 50 Percent Rule in Its Decision To Pay the Alaska Department of Natural Resources To Replace a Damaged Bridge	$1.3	$1.0	$398,186
50	DS-13-07	PA	1557	4/9/2013	LA County Charges FEMA for Unauthorized Fringe Benefits Costs: Second Interim Report on FEMA PA Grant Funds	$54.9	$54.9	$111,835
51	DS-13-08	PA	1660	4/16/2013	FEMA Needs To Deobligate $1.1 Million in Unneeded Funding and Disallow $52,812 in Unsupported Costs Associated with the FEMA PA Grant Awarded to Pima County, Arizona	$7.5	$6.4	$1,176,377

Appendix A (continued)
FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audit Reports Issued in FY2013

	Report Number	Program	Disaster Number(s)	Date Issued	Title	Amount Awarded ($M)	Amount Audited ($M)	Potential Monetary Benefit
52	DS-13-09	PA	1663	4/30/2013	The Alaska Department of Transportation and Public Facilities, Central Region, Did Not Properly Account for and Expend $1.5 Million in FEMA Public Assistance Grant Funds	$1.9	$1.9	$1,456,170
53	DS-13-10	PA	1577	6/11/2013	Unneeded Funding and Management Challenges Associated with the FEMA Grant Awarded to Los Angeles County, California: Third Interim Report	$54.9	$54.9	$2,441,506
54	DS-13-11	PA	1577	7/18/2013	Los Angeles County, California, Did Not Properly Account For and Expend $3.9 Million in FEMA Grant Funds for Debris-Related Costs	$54.9	$54.9	$3,942,409
55	DS-13-12	PA	1577	9/9/2013	Los Angeles County, California, Did Not Properly Account for or Expend About $14,000 in FEMA Grant Funds	$54.9	$54.9	$13,543
56	DS-13-13	PA	1628	9/20/2013	The City of Pacifica, California, Generally Followed Regulations for Spending FEMA Public Assistance Funds	$2.9	$2.8	$101,335
57	DS-13-14	PA	1640	9/24/2013	FEAM Should Recover $4.2 Million of Public Assistance Grant Funds Awarded to the Department of Design and Construction, Honolulu, Hawaii	$4.2	$4.2	$4,208,399
58	OIG-13-23	PA	1665	3/29/2013	FEMA Should Recover $48 Million of Public Assistance Grant Funds Awarded to Erie County, New York – Severe Weather October 2006	$55.4	$53.0	$48,465,416
59	OIG-13-25	PA	1857	1/29/2013	Erie County, New York, Generally Followed Regulations for Spending Public Assistance Grant Funds for Flooding in August 2009	$10.2	$1.5	$86,818

Appendix A (continued)
FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audit Reports Issued in FY2013

	Program	Disaster Number(s)	Amount Awarded ($B)	Amount Audited ($B)	Potential Monetary Benefit
Sub-Totals	PA 56	PA 36	PA $1.694	PA $1.273	PA $307,821,907
	HMGP 3	HMGP 2	HMGP $4.1(M)	HMGP $3.4(M)	HMGP $0
Totals	59	38	$1.7	$1.28	$307,821,907

Copies of the audit reports we issued in FY 2012 are available at the following web address:
http://www.oig.dhs.gov/index.php?option=com_content&view=article&id=63&Itemid=33.

Appendix B
Objectives, 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*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the Department.

The objectives of this report were to identify FY 2013 frequently reported audit findings and quantify the financial significance of these findings. In FY 2013, we issued 59 audit reports on grantees and subgrantees awarded FEMA PA and HMGP funds between August 2004 and December 2009 resulting from 38 presidentially declared disasters in 21 states.[12] The objective of those 59 audits was to determine whether the grantees and subgrantees accounted for and expended FEMA funds according to Federal regulations and FEMA guidelines. Our HMGP audit objectives also included determining whether the projects met FEMA eligibility requirements and project management complied with applicable regulations and guidelines. We reviewed audit findings and recommendations made to FEMA officials as they related to the PA and HMGP program funds that FEMA awards to State, local, and tribal governments, and eligible nonprofit organizations. Appendix A lists the 59 audit reports and provides a link to our web page where copies are available.

Our PA and HMGP audits covered subgrantees that had (1) completed all FEMA-approved work and reported final costs to the grantee, which in turn had requested final FEMA payment; (2) completed all work and reported final costs to the grantee that had not yet requested final FEMA payment; (3) completed selected projects but had not reported final project costs to the grantee; or (4) projects in progress or projects that had not yet started. The subgrantees we audited received awards totaling $1.7 billion for debris removal; emergency protective measures; or permanent repair, restoration, and replacement of damaged facilities. We audited $1.28 billion of the $1.7 billion, or 75 percent of the amounts awarded to the recipients audited.

We conducted this performance audit between October 2013 and May 2014 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 during this audit and during the 59 performance audits provides a reasonable

[12] Of the 59 audits, 13 were audits of subgrantees that suffered damage from Hurricane Katrina declared in August 2005.

basis for our findings and conclusions based upon our audit objectives. We conducted these audits according to the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disasters. Our review included analyses of (1) findings and recommendations in our FY 2013 grant audit reports and (2) applicable Federal regulations, Office of Management and Budget grant and audit guidance, and FEMA PA and HMGP guidance applicable to the conditions noted. We did not assess the adequacy of the internal controls applicable to grant activities because it was not necessary to accomplish our audit objective.

Appendix C
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
Deputy Chief of Staff
Chief Financial Officer
Under Secretary for Management
General Counsel
Executive Secretary
Director, GAO/OIG Liaison Office
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs
Director of Local Affairs, Office of Intergovernmental Affairs
Audit Liaison, DHS
Chief Privacy Officer

Federal Emergency Management Agency

Administrator
Associate Administrator, Response and Recovery
Chief of Staff
Chief Financial Officer
Chief Counsel
Director, Risk Management and Compliance
Director, Program Analysis and Evaluation Division
Audit Liaison (G-14-001)

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Senate Committee on Appropriations, Subcommittee on Homeland Security
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations, Subcommittee on Homeland Security
House Committee on Homeland Security
House Committee on Oversight and Government Reform
House Committee on Transportation and Infrastructure

ADDITIONAL INFORMATION

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General (OIG) Office of Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov, or follow us on Twitter at: @dhsoig.

OIG HOTLINE

To expedite the reporting of alleged fraud, waste, abuse or mismanagement, or any other kinds of criminal or noncriminal misconduct relative to Department of Homeland Security (DHS) programs and operations, please visit our website at www.oig.dhs.gov and click on the red tab titled "Hotline" to report. You will be directed to complete and submit an automated DHS OIG Investigative Referral Submission Form. Submission through our website ensures that your complaint will be promptly received and reviewed by DHS OIG.

Should you be unable to access our website, you may submit your complaint in writing to:

> Department of Homeland Security
> Office of Inspector General, Mail Stop 0305
> Attention: Office of Investigations Hotline
> 245 Murray Drive, SW
> Washington, DC 20528-0305

You may also call 1(800) 323-8603 or fax the complaint directly to us at (202) 254-4297.

The OIG seeks to protect the identity of each writer and caller.