December 7, 2012

MEMORANDUM FOR: Deborah Ingram
Assistant Administrator
Recovery Directorate

FROM: D. Michael Beaud
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: FMA’s Sheltering and Temporary Essential Power Pilot Program

Attached for your information is our final letter report, FMA’s Sheltering and Temporary Essential Power Pilot Program.

In response to Hurricane Sandy, our office has initiated several rapid response audits and reviews. We discussed the results of this audit with FMA officials during the course of the audit. We also provided a discussion draft report to FMA on December 3, 2012. The report does not contain any recommendations; therefore, you do not need to provide our office with a written response.

Consistent with our responsibility under the Inspector General Act, we are providing 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.

Please call me with any questions, or your staff may contact John Kelly, Deputy Assistant Inspector General, Office of Emergency Management Oversight, at (202) 254-4100.

Attachment
Background

On October 29, 2012, Hurricane Sandy made landfall, affecting coastal and inland communities resulting in loss of life, major flooding, structural damage, and power loss to more than 8.5 million homes and businesses (directly affecting more than 17 million individuals). A dangerous snowstorm followed 9 days later, causing additional damage and power outages. Thirteen days after Hurricane Sandy’s landfall, 166,649 residential customers across three States - New York, New Jersey, and Connecticut - remained without power, in large part because of damage to their electrical systems, which prevented the electric utility companies from restoring power to their homes. Without additional government assistance, many of these homes could be without power during winter months, thus creating an immediate and undue threat to public health and safety.

In response to this need, the Federal Emergency Management Agency (FEMA) established the Sheltering and Temporary Essential Power (STEP) pilot program, enabling residents to return to or remain in their homes as a form of shelter while permanent repairs are completed. This program will reduce the number of people in shelters or in the Transitional Shelter Assistance Program.

The need for innovative FEMA programs and alternative housing solutions has been the subject of past congressional testimony. On July 8, 2009, Department of Homeland Security Inspector General Richard Skinner testified before the Committee on Homeland Security, U.S. House of Representatives, that the task of repairing and restoring housing stock is one of the most important challenges facing FEMA and its response and recovery partners following a catastrophic disaster, and that all other housing decisions and programs hinge on that single variable. Developing alternative housing options in response to catastrophic disasters is important for a number of reasons, but a key one is the cost of the current approach to post-disaster housing. FEMA does not have sufficient tools, operational procedures, and legislative authorities to promote the cost-effective repair of housing stocks, which would increase the amount of housing available and likely limit increases in the cost of housing, particularly rental rates.

Results of Audit

FEMA’s STEP pilot program is consistent with the authorities granted to the agency by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) in assisting jurisdictions to perform activities that are essential in saving lives, protecting public health and safety, and protecting property. In carrying out this program, FEMA needs to address the vulnerabilities that are present whenever large sums of money are
disbursed in a new and unique manner. The current situation requires increased vigilance to monitor the expenditure of public funds.

The Stafford Act Provides FEMA the Flexibility to Implement STEP

Section 403 of the Stafford Act authorizes FEMA to take emergency protective measures to save lives and property (Category B), as part of its public assistance program. The purpose of the STEP pilot program is “to assist State, local, and Tribal governments in performing work and services essential to saving lives, protecting public health and safety, and protecting property.” FEMA intends STEP to provide essential power and repairs to affected residences, thereby reducing the demand for other shelter options and allowing people to return to or remain in their homes. This program is for residential properties only, and will provide a maximum of $10,000 per residential unit to repair such items as electric meters, blown-out doors and windows, and damaged plumbing. Our Office of General Counsel has reviewed FEMA’s guidance regarding the STEP pilot program and agreed that it is an appropriate use of public assistance funds. Additionally, given the facts and circumstances surrounding Hurricane Sandy, the program may substantially reduce the overall long-term costs associated with sheltering and disaster housing.

New Pilot Programs Are Vulnerable to Fraud, Waste, and Abuse

Introducing new assistance or pilot programs entails start-up risks that require robust internal controls to avoid problems involving the expenditure of public funds. The Office of Inspector General and the Government Accountability Office, as well as FEMA internal assessments, have identified needed improvements to the internal controls of the individual and public assistance programs.

FEMA, in carrying out its mission to support citizens and first responders, disburses billions of dollars annually to assist disaster survivors. This mission exposes FEMA to potential fraud, waste, and abuse in the execution of routine disaster assistance programs. During the implementation of a pilot program such as this one, the risks of fraud, waste, and abuse are exacerbated. Consequently, this pilot program requires increased vigilance in order to monitor the expenditure of public funds, including the need for competitive bidding and for monitoring the costing of single-family and multifamily unit price differentials, quality of workmanship, liability of workmanship, duplication of benefits, and long-term impact. As part of our legislative mandate to review selective FEMA programs, we may look at FEMA’s internal controls over the STEP pilot program at a future date.
Conclusion

We determined that FEMA’s actions in promulgating this pilot program are consistent with the authorities granted by the Stafford Act. Given the number of individuals affected by Hurricane Sandy, FEMA needs to maintain strong internal controls. We commend FEMA for its rapid response in designing this urgently needed program less than a month after Hurricane Sandy devastated communities on the Atlantic coast. If successful, the program can provide the assistance necessary to save lives, protect public health and safety, and protect property. Nevertheless, FEMA needs to be mindful of the vulnerabilities associated with implementing pilot programs and to institute adequate internal controls to protect against those vulnerabilities.
Appendix A
Objectives, Scope, and Methodology

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (Public Law 107-296) by amendment to the Inspector General Act of 1978. 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 objective of this review was to determine whether FEMA’s actions in promulgating the STEP pilot program were consistent with the authorities granted by the Stafford Act, and if so, what issues FEMA may need to address while implementing this pilot program. We conducted this review applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of our fieldwork. We interviewed FEMA officials and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the agency’s internal controls applicable to grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between November 15 and 27, 2012, pursuant to the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.
Appendix B
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The OIG seeks to protect the identity of each writer and caller.