

**Testimony of Inspector General
John Roth**

**Before the Committee on
Homeland Security and
Governmental Affairs**

**Subcommittee on Federal
Spending Oversight and
Emergency Management**

United States Senate

**“FEMA: Assessing Progress,
Performance, and Preparedness”**





DHS OIG HIGHLIGHTS

FEMA: Assessing Progress, Performance, and Preparedness

April 12, 2016

Why We Did This

We conducted an audit to determine whether the Federal Emergency Management Agency (FEMA) implemented permanent changes to its oversight of its Homeland Security Grant Program (HSGP) as a result of our recurring recommendations.

What We Recommend

We made numerous recommendations to FEMA in the reports discussed in this testimony.

For Further Information:

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What We Found

From fiscal years 2009–2014, FEMA allocated \$7.6 billion in HSGP funds to assist grantees with preparing states for terrorist attacks, major disasters, and other emergencies. During the same time period, we issued 58 HSGP audit reports containing 490 recommendations, 448 of which addressed recurring issues affecting multiple grantees.

FEMA has not adequately analyzed recurring Office of Inspector General recommendations to make permanent changes that will improve its oversight of HSGP. This occurred because FEMA has not clearly communicated internal roles and responsibilities, and does not have policies and procedures for conducting substantive trend analysis of audit recommendations. FEMA has agreed to develop and implement a comprehensive plan for conducting ongoing analysis of recurring HSGP audit recommendations.

Without such analysis, FEMA risks being unable to proactively solve systemic problems and may miss opportunities to improve its management and oversight of HSGP.

DHS Response

FEMA has concurred with our recent recommendations made to improve the oversight and operation of HSGP.



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Good afternoon Chairman Paul, Ranking Member Baldwin, and Members of the Subcommittee. Thank you for inviting me to discuss critical management and oversight of preparedness grants at the Federal Emergency Management Agency (FEMA). My testimony today will focus on audit work we have conducted on management of preparedness grants, the status of our recommendations, and our continued audit efforts in this area.

FEMA Preparedness Grants

FEMA's Homeland Security Grant Program (HSGP) grants assist states in preparation for terrorist attacks, major disasters, and other emergencies. FEMA is responsible for partnering with states to coordinate grants, training, and exercises to help ensure preparedness. Specifically, FEMA's HSGP provides funds to state, territorial, local, and tribal governments to enhance their ability to prepare for, prevent, protect against, respond to, and recover from terrorist attacks, major disasters, and other emergencies. HSGP is comprised of three interconnected grant programs: State Homeland Security Program (SHSP), Urban Areas Security Initiative (UASI), and Operation Stonegarden (OPSG). Together, these grant programs fund a range of preparedness activities, including planning, organization, equipment purchases, training, exercises, and management and administration.

HSGP plays an important role in the implementation of the National Preparedness System by supporting the building, sustainment, and delivery of core capabilities essential to achieving the National Preparedness Goal of a secure and resilient nation. From fiscal years (FY) 2009–2014, FEMA allocated \$7.6 billion in HSGP funds to assist grantees with achieving program goals.

Results of OIG Audits and Our Recommendations

DHS OIG has conducted an extensive number of audits of SHSP and UASI grants to determine whether states, urban areas, and territories implemented their HSGP grants efficiently and effectively, achieved program objectives, and spent funds according to grant requirements. From FYs 2009–2014, we completed 58 audits of states and territories, which were awarded SHSP and UASI grant funds totaling approximately \$4.8 billion.

In most instances, with some notable exceptions, the states and urban areas administer the grants effectively and in conformance with Federal law. However, as with any large, diverse program, we continued to identify issues in the awarding and expenditure, monitoring, and management of the grants.



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- *Poor metric development:* We found that many states did not develop fully measurable and achievable goals and objectives. Rather, many had very broad-based goals and objectives, with no timelines for completion and few concrete measures to determine if the goals and objectives were met. Without specific goals and objectives, the grantees and FEMA will not be able to determine whether the money is well spent and whether it is accomplishing the goals of the program. For example, South Dakota prepared two strategic plans for the periods covering FYs 2010–2012 and FYs 2012–2014; however, neither plan contained goals, objectives, or a baseline that could be easily measured to address significant threats and vulnerabilities. [South Dakota's Management of Homeland Security Grant Program Awards for Fiscal Years 2010 Through 2012](#) (OIG-14-89, May 2014).
- *Incomplete or non-existent assessments of risks and capabilities:* To help make smart decisions on how best to use their grant funds, states annually assess the unique risks to preparedness they face and develop appropriate capability targets to address them. This allows states to estimate the resources needed to account for the impacts of anticipated and unanticipated threats and hazards while also providing a basis for tracking progress in achieving its capability target. Without this information, states may not be able to make informed decisions on how to most effectively invest their preparedness grant funds. For example, in FY 2012, Alaska's assessment did not include capability targets, which compromised the state's ability to measure the impact of its grant spending on its preparedness capabilities. [Alaska's Management of Homeland Security Grant Program Awards for Fiscal Years 2010 Through 2012](#) (OIG-14-62, April 2014).
- *Untimely obligation of funds:* States are required to award the funds on a timely basis. According to Federal law and FEMA guidance, at least 80% of the grant funds must be allocated within 45 days of the FEMA award. We have had a number of instances in which months, and sometimes more than a year, would pass without the funds being awarded. If the funds are not obligated in a timely manner, it reduces the state's ability to prevent, protect against, and respond to acts of terrorism. For example, during FYs 2008–2011, Massachusetts did not obligate any of its grant awards to subgrantees within the required 45 days. The obligations ranged from 44 to 472 days late. [Massachusetts' Management of Homeland Security Grant Program Awards for Fiscal Years 2008 Through 2011](#) (OIG-13-44, February 2013).



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- *Insufficient management controls:* States are required to monitor subgrantees' activities to ensure compliance with applicable Federal requirements. This should include communicating regularly; conducting site visits where appropriate; and establishing regular, periodic reporting requirements. A state can retain up to 5 percent of the grant funds to pay for oversight and management in order to implement an effective oversight program. It is important for the state to have proper management controls in place to ensure that the money is spent in accordance with the grant agreement and in compliance with Federal law. However, we have found a number of instances in which the state had not adequately managed the grant process, leading to a lack of assurance that the funds are being spent wisely. For example, North Dakota did not adequately monitor subgrantee activities even though it had written procedures in place for monitoring. Our assessment found that during calendar years 2010–2013, none of the state's 23 largest subgrantees were scheduled for on-site monitoring visits. [North Dakota's Management of Homeland Security Grant Program Awards for Fiscal Years 2010 Through 2012](#) (OIG-14-90, May 2014).
- *Improper expenditures:* Our audits have found examples of improper expenditures. These grants are awarded so that states and local agencies can prevent, prepare for, protect against, and respond to acts of terrorism, major disasters, and other emergencies. However, we found that grant funds were not always spent for their intended purposes or well supported. For example, we reported in FY 2009 that one California subgrantee spent almost \$600,000 for digital audio recorders and installed new video and audio devices in witness interview rooms. However, officials confirmed that the purpose of this expenditure was to improve law enforcement practice — not terrorism prevention, response, or disaster preparedness. [The State of California's Management of State Homeland Security Program Grants Awarded During Fiscal Years 2004 through 2006](#) (OIG-09-33, February 2009).

FEMA's Management of the HSGP Program

While FEMA has worked to improve its grant processes and oversight, challenges to developing permanent changes to fundamentally improve HSGP oversight remain. In our March 2016 audit report [Analysis of Recurring Audit Recommendations Could Improve FEMA's Oversight of HSGP](#) (OIG-16-49), we reported that FEMA had not adequately analyzed recurring OIG recommendations to implement permanent changes to improve the oversight of



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HSGP. In other words, we have continued to audit state grants and have found similar problems in the manner in which the states are administering the grants, yet FEMA has not taken the lessons from those audits to create a systemic and institutional change in the manner in which it oversees the program. FEMA simply tracks specific audit recommendations — but has not taken the extra step of proactively analyzing the audits to discover trends, engage in a root cause analysis, and implement corrective action over the entire program, rather than state by state. Thus, FEMA and the states are repeating the same mistakes over and over again, and we cannot be assured that the money is being spent appropriately.

Of our 490 audit recommendations resulting from 58 audits of states and territories from FYs 2009–2014, 448 (91 percent) recommendations identified similar challenges year after year. Of these 448 recurring recommendations:

- 115 were related to strategic planning.
- 333 were related to program oversight.¹

We also found that FEMA had not implemented permanent changes to its oversight of HSGP based on recurring OIG recommendations. FEMA's corrective actions to resolve 361 of the 448 recurring recommendations reflected actions specific to individual grantees and did not provide overarching improvements to the program as a whole. FEMA resolved the remaining 87 recurring recommendations with corrective actions reflecting permanent changes to HSGP. Specifically, FEMA cited implementation of a revised strategic planning risk assessment process to resolve 83 of the 115 strategic planning recommendations. However, FEMA only resolved 4 of the 333 recommendations related to program oversight — less than 2 percent — through permanent changes to the HSGP. This shows a troubling lack of commitment to program oversight.

Office of Management and Budget (OMB) Circular A-50 (revised) requires that agencies shall “provide for periodic analysis of audit recommendations, resolution, and corrective action, to determine trends and system-wide problems, and to recommend solutions.” FEMA implements OMB Circular A-50 through various directives, missions, and charters; for example, FEMA guidance assigns responsibility for analyzing audit recommendations, determining trends and system-wide problems, and recommending solutions.

However, we believe that there are certain barriers preventing FEMA from engaging in the kind of substantive review of the program that is necessary:

¹ See appendix A for recurring HSGP recommendations and FEMA corrective actions.



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- *Roles not clearly delineated:* FEMA's Audit Liaison Office and Grant Operations Audit Resolution Branch are both responsible for analyzing trends in recommendations from Government Accountability Office (GAO) and OIG audits of HSGP. However, neither component is performing this function because FEMA has not clearly communicated these internal roles and responsibilities and also has no policies and procedures for conducting any substantive analysis of HSGP audit recommendations.
- *Incomplete understanding of responsibilities:* Audit Liaison Office officials stated that OMB A-50's scope is limited to FEMA's internal audit follow-up procedures (e.g., monitoring, tracking, reporting on audit status) and does not extend to the programmatic aspects of audit recommendations. According to an OMB official, however, the application of OMB A-50 includes analyzing audit recommendations to determine substantive trends, which is synonymous with performing a root-cause analysis.
- *Lack of policies and procedures:* FEMA's Audit Resolution Branch has no written policies or procedures for performing substantive trend analyses of audit recommendations. While FEMA maintains that it did conduct analyses of recurring recommendations in 2011 and 2014, it was unable to demonstrate that those informal reviews resulted in any substantive programmatic improvements to HSGP.

According to OMB A-50, audit follow-up is an integral part of good management and essential for improving the effectiveness and efficiency of government operations. Furthermore, reliance on audit findings or recommendations alone often leads to incomplete corrective actions. Without sufficiently analyzing audit findings and recommendations, FEMA risks being unable to proactively solve systemic problems and may miss opportunities to improve its management and oversight of HSGP.

Similar Issues With Another FEMA-Run Program, the National Flood Insurance Program

Other recent audits reflect FEMA's poor management of similar programs. For example, in March of this year we published a review of FEMA's Write Your Own (WYO) program under the National Flood Insurance Program (NFIP). The NFIP provides flood insurance for purchase to property owners against the risk of property damage or loss resulting from floods occurring in the United States. As part of the NFIP, the WYO program began in 1983 as a cooperative arrangement between FEMA and the private insurance industry. It allows



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participating property and casualty insurance companies to write and service FEMA's Standard Flood Insurance Policy in their own names. The program is massive: For flood events occurring between October 2012 and December 2014 — roughly two years — the WYO companies received 162,500 claims and paid *\$7.8 billion* to policyholders.

Unfortunately, FEMA does not provide adequate oversight of the WYO program under NFIP. We found that FEMA is not using the results from its Financial Control Plan reviews (which are designed to account for and ensure appropriate spending of taxpayer funds) to make program improvements. As with the HSGP, FEMA does not use the results of its reviews to design or implement program improvements. As a result, FEMA management acknowledges that NFIP has no consistent or reliable method to identify systemic problems or recognize patterns from warning signs.

We also found additional issues with FEMA's management of this multi-billion dollar program. For example:

- FEMA is not performing adequate oversight of its reimbursement for insurance company expenses, known as Special Allocated Loss Adjustment Expenses (SALAE), for adjusters, appraisers, litigation and experts, such as engineers. We looked at a sample of 182 policies with expert expenses. Of these policies, *91percent* of the expert expenses sampled (166 policies) were not adequately supported.
- FEMA does not have adequate internal controls to provide proper oversight of the appeals process. FEMA has an appeals process as required by the regulations; however, the process is not documented and relies heavily on the WYO companies' participation in the appeals review. Additionally, FEMA did not use the appeals process to help identify improvements that could be made

These conditions exist because FEMA does not have adequate guidance, resources, or internal controls. As a result of this inadequate oversight, FEMA is unable to ensure that WYO companies are properly implementing NFIP and is unable to identify systemic problems in the program. Furthermore, without adequate internal controls in place, as with FEMA's management of the HSGP grants, FEMA's NFIP funds may be at risk for fraud, waste, abuse, or mismanagement. [*FEMA Does Not Provide Adequate Oversight of Its National Flood Insurance Write Your Own Program*](#), (OIG 16-47, March 2016).



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Moving Forward

Given the risks and expense of the Department's FEMA preparedness grants, we have continued our audit efforts in this area. For example, we recently conducted a risk-based analysis² to determine the highest priority grantees for our next HSGP audits. To do this, we compiled key data from all prior HSGP audit reports that we issued from FY 2006 through FY 2015. These reports contained more than 600 separate recommendations. We then developed several risk factors that we weighted and applied to each grantee to generate a numeric score reflecting its order of priority from highest to lowest. These risk factors included the number of prior audits, the length of time since the last audit, the amounts of grant awards and costs questioned, the number of open audit recommendations, and the incidence of any recurring areas of concern.

Each grantee's numeric score determined its final ranking, with the highest scores representing the most appropriate subjects for a future audit. We determined that Texas presented the highest risk for the mismanagement of HSGP funds. We have already begun work to audit the use of HSGP funds in Texas. Because our scoring methodology is designed to incorporate the results of any additional audits as they are completed, our on-going grant audit priorities will be updated as new information becomes available.

Independent of our analysis, FEMA recently expressed concerns regarding New Mexico's management of its HSGP; accordingly, we will soon initiate a follow-up audit of the state's management of its HSGP grant funds. In addition, we recently began audit work on the Operation Stonegarden program to determine the extent to which there is sufficient oversight of the grant program to ensure the awarded funds are properly administered and spent effectively.

FEMA has agreed to develop and implement a comprehensive plan for conducting ongoing analysis of recurring HSGP audit recommendations. This plan will include clearly delineated roles and responsibilities along with policies and procedures for determining trends and system-wide problems, as well as recommending solutions to improve oversight of HSGP. It expects to complete this plan by December 2016.

Without sufficiently analyzing audit findings and recommendations, FEMA may not be able to develop proactive solutions to recurring and systemic problems, resulting in missed opportunities to improve the management and oversight of its HSGP.

² See appendix B for the results of the risk assessment to determine HSGP audit priorities.



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Mr. Chairman, this concludes my prepared statement. I welcome any questions you or other Members of the Subcommittee may have.



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Appendix A

Recurring HSGP Recommendations and FEMA Corrective Actions

Categories of Recurring Recs	No. of Recurring Recs	No. of Recurring Recs Resolved Through a Permanent Change to HSGP	FEMA's Corrective Actions Reflecting Permanent Changes to HSGP
STRATEGIC PLANNING			
Strategic Goals & Objectives	61	49	(1) Resolved 83 recommendations through implementation of Threat Hazard Identification and Risk Assessment.
Preparedness Capabilities & Assessments	54	34	
Sub-total	115	83	
PROGRAM OVERSIGHT			
Grant Allocation, Obligation & Expenditure	59	2	(2) Resolved one recommendation by giving grantees more flexibility to spend award balances, (3) Resolved one recommendation by requiring grantees to certify pass-through of local award shares within 45 days.
Sub-grantee Monitoring	75	2	(4) Resolved two recommendations through implementation of advanced programmatic monitoring of higher-risk grantees.
Financial Management, Reporting & Costs	93	0	N/A
Procurement & Property	106	0	
Sub-total	333	4	
TOTAL	448	87	

Source: DHS OIG



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Appendix B
Results of Risk Assessment to Determine HSGP Audit Priorities

Risk, High to Low	State
1	Texas
	Puerto Rico
2	Guam
3	Washington, D.C.
4	Maryland
	Missouri
	South Carolina
	West Virginia
	Hawaii
5	Mississippi
	California
6	U.S. Virgin Islands
	Nevada
	Oklahoma
	Tennessee
7	Iowa
	Illinois
	Indiana
8	Louisiana
	Minnesota
	Rhode Island
	Wisconsin
	Massachusetts
	Montana
	Oregon
Connecticut	
9	Alabama
	American Samoa
	Virginia
10	Arkansas
	Kentucky
	New Mexico
	Colorado
	Georgia

Source: DHS OIG analysis