

**Management Alert – FEMA
Faces Significant Challenges
Ensuring Recipients Properly
Manage Disaster Funds**





DHS OIG HIGHLIGHTS

Management Alert – FEMA Faces Significant Challenges Ensuring Recipients Properly Manage Disaster Funds

December 22, 2017

Why We Did This Alert

This is a Department of Homeland Security Office of Inspector General (DHS OIG) management alert regarding the Federal Emergency Management Agency's (FEMA) challenges with internal controls related to grant management and oversight of disaster funds. This alert describes FEMA's internal control weaknesses and the effects of FEMA's ineffective response to improve its internal controls, based on prior DHS OIG reports and DHS Independent Auditors' financial statement audit reports addressing proper grant management (see appendix B).

What We Recommend

This alert contains no recommendations.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

FEMA is currently responding to three of the most catastrophic disasters in U.S. history. Although the full toll is unknown, FEMA identified \$31.5 billion in estimated damages from Hurricanes Harvey, Irma, and Maria that may result in billions of obligated FEMA funds (see table 1). Because of the high dollar amount in disaster funds likely awarded and the history of audit questioned costs for FEMA disaster funds, FEMA's inadequate grant management poses a significant risk to taxpayer dollars.

We identified issues in our previous reports that demonstrate FEMA's ongoing issues with ensuring disaster grant recipients and subrecipients comply with Federal regulations and FEMA guidelines. Specifically, FEMA faces significant challenges in ensuring its grant recipients properly manage FEMA disaster funds. This alert highlights the significant deficiencies with FEMA's internal controls and its lack of enforcement of Federal requirements.

As FEMA moves forward with its recovery efforts, it must hold recipients accountable for proper grant management. FEMA must implement and use effective controls to overcome existing problems with managing and monitoring funds for disaster response and recovery.

FEMA Response

This alert does not contain any recommendations; therefore, no further action is required by FEMA.



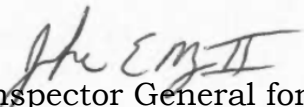
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Department of Homeland Security

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

DEC 20 2017

MEMORANDUM FOR: Jeffrey Byard
Associate Administrator
Office of Response and Recovery
Federal Emergency Management Agency

FROM: John E. McCoy II 
Acting Assistant Inspector General for Audits

SUBJECT: *Management Alert – FEMA Faces Significant Challenges
Ensuring Recipients Properly Manage Disaster Funds*

Attached is our final report, *Management Alert – FEMA Faces Significant Challenges Ensuring Recipients Properly Manage Disaster Funds*. This alert was prepared under the *Inspector General Act of 1978*, as amended, and, more specifically, Section 2-2 to provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and abuse in, such programs and operations.

This alert describes the Federal Emergency Management Agency's (FEMA) internal control weaknesses and the effects of FEMA's ineffective response to improve its internal controls based on prior DHS Office of Inspector General (OIG) reports and DHS Independent Auditors' financial statement audit reports. We are providing FEMA leadership this alert to reemphasize the challenges that FEMA will face in ensuring its grant recipients and subrecipients properly manage FEMA disaster funds during the recovery phases of Hurricanes Harvey, Irma, and Maria.

This alert contains no recommendations. However, it emphasizes that FEMA must implement and use effective controls to overcome ongoing problems that FEMA and its recipients have had in managing and monitoring grant awards for disaster response and recovery.

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 Paul Wood, Acting Deputy Assistant Inspector General for Audits, at (202) 254-4100.

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Background

On August 25, 2017, Hurricane Harvey made landfall along the Texas coast as a Category 4 hurricane causing catastrophic flooding and widespread destruction. In some locations, storm-related rainfall exceeded 50 inches along with wind speeds of 130 mph. The hurricane’s effects resulted in approximately 200,000 homes damaged or destroyed. Nearly 2 weeks later, Hurricane Irma devastated the Caribbean region as a Category 5 hurricane, before making landfall in Florida as a Category 4 hurricane. Soon after, Hurricane Maria hit the same Caribbean region as a Category 4 hurricane. Media outlets reported more than 260 individuals lost their lives to these three disasters and the hurricanes displaced more than a million residents from their homes.

FEMA awards disaster response and recovery funds to grant recipients, which include state, tribal, and local governments, and certain types of private nonprofit organizations to help recover from major disasters. On average, FEMA awards more than \$11 billion each year in disaster assistance and preparedness grants. As of December 15, 2017, FEMA estimated a total of \$31.5 billion in disaster damages resulting from Hurricanes Harvey, Irma, and Maria (see table 1). Importantly, FEMA damage estimates and disaster obligations will likely increase as FEMA, state, and local authorities make a full assessment of damages from Hurricanes Harvey, Irma, and Maria.

Table 1: 2017 Major Disasters and FEMA Obligations

Disaster	Estimated Damages per FEMA (in Billions)	FEMA Share Obligated (in Millions)
Hurricane Harvey	\$ 8.6	\$ 502.3
Hurricane Irma	2.2	35.2
Hurricane Maria	20.7	566.4
Totals	\$ 31.5	\$ 1,103.9

Source: Emergency Management Mission Integrated Environment (EMMIE), FEMA’s grants processing system

The majority of our disaster grant audits focus on grants funded by the Disaster Relief Fund under FEMA’s Public Assistance (PA) program and Hazard Mitigation Grant Program (HMGP).¹ Each year, our reports identify issues with the management of millions of dollars in Federal funds allocated for disaster assistance and recovery efforts. From fiscal years 2009 to 2017, our reports provided more than 1,400 recommendations to disallow unsupported and

¹ The Disaster Relief Fund (DRF) is an appropriation against which FEMA can direct, coordinate, manage, and fund eligible response and recovery efforts associated with domestic major disasters and emergencies that overwhelm state resources pursuant to the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, Public Law 93-288, as amended, 42 United States Code (U.S.C.) 5121 *et seq.*



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ineligible costs, put funds to better use, and improve grant management oversight of disaster funds. We concluded these issues continue, in part, because FEMA does not adequately manage disaster funds or hold grant recipients accountable for properly managing disaster funds. Moreover, our audits only represent an average of 17 percent of the Disaster Relief Fund awarded each year. Therefore, it is imperative that FEMA implements and uses adequate internal controls to ensure proper grant management and prevent fraud, waste, and abuse of taxpayer dollars invested in disaster relief and recovery.

Grant Management and Internal Control Weaknesses

FEMA does not effectively hold grant recipients accountable for proper grant management. This occurs because FEMA does not have effective policies, procedures, and controls in place. Federal regulations require FEMA to manage and administer its disaster awards in a manner that ensures the FEMA programs performed and funds spent are in full accordance with Federal requirements.² However, the findings repeatedly identified in our disaster grant reports show that grant recipients and subrecipients continue to mispend disaster funds and fail to adhere to Federal regulations and FEMA policies.

FEMA's controls for grant oversight include periodic site visits, daily contact with recipients, quarterly progress and financial report reviews and meetings, and grant closeout reviews. Over the last 6 years, in their financial audit reports, DHS Independent Auditors identified multiple internal control weaknesses related to FEMA's grant management, such as:

- not maintaining central oversight over its regional offices, ineffectively communicating policies and procedures with its regional offices, and lacking effective policies and procedures related to grant management;
- not ensuring recipients comply with the *Single Audit Act*; and
- not effectively reconciling grantee (recipient) quarterly performance reports to FEMA's systems.

Additionally, DHS Independent Auditors reported that FEMA did not implement effective monitoring procedures over its grant activities from fiscal years 2011 to 2016. This finding shows that FEMA was aware of its grant management issues and did not take effective actions to strengthen its internal controls.

Our reports indicate FEMA has not made progress in managing disaster funds. Over a 9-year period, we recommended that FEMA disallow \$3.92 billion, or 27 percent, of the \$14.31 billion that we audited as ineligible and unsupported costs (see table 2).

² See 2 Code of Federal Regulations (CFR) 200.300(a).
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**Table 2: Public Assistance and Hazard Mitigation Grant Program
Questioned Costs from Fiscal Years 2009 to 2017**

Fiscal Year	Amount Audited (in Billions)	Questioned Costs (in Billions)	Percentage of Questioned Costs
2009	\$0.93	\$0.12	13%
2010	1.20	0.14	12%
2011	1.32	0.34	26%
2012	1.57	0.27	17%
2013	1.29	0.27	21%
2014	3.44	0.11	3%
2015	1.64	0.46	28%
2016	0.67	0.13	19%
2017³	<u>2.25</u>	<u>2.08</u>	<u>92%</u>
Totals⁴	\$14.31	\$3.92	27%

Source: DHS OIG compilation and analysis of issued reports

Our reports often attributed subrecipients’ noncompliance with Federal regulations to the recipient’s lack of management and monitoring of subrecipients’ grant activities. Grant recipients are responsible for ensuring “compliance with Federal statutes, regulations, and the terms and conditions of the subaward” and can have a major impact on preventing misuse of funds.⁵ From fiscal years 2010 to 2015, FEMA officials reported they paid recipients \$522 million to manage and administer disaster grants. Still, FEMA, as the Federal awarding agency, holds the ultimate responsibility to monitor the Federal grants it awards and the recipient’s use of Federal awards.⁶

Although FEMA can hold noncompliant recipients and subrecipients responsible by not reimbursing questioned costs, it granted exceptions to requirements—particularly procurement requirements—under Federal regulations.⁷ For example, over an 8-year period ended September 30, 2016, FEMA officials subsequently ruled that \$507 million, or 92 percent, out of the

³ We based fiscal year 2017 figures on our review of DHS OIG reports issued from October 1, 2016, to September 15, 2017.

⁴ The totals for amounts audited and questioned in this report may vary from data reported in our *Summary and Key Findings of Fiscal Year 2016 FEMA Disaster Grant and Program Audits*, OIG-18-06, issued October 27, 2017, because audit teams used different scopes and methodologies to compile totals from audit reports issued (see appendix A for explanation of the methodology used). Despite variations in scopes and methodologies used, we determined the data presented is fair and reasonable.

⁵ See 2 CFR 200.331(d).

⁶ See 31 U.S.C. § 7504(a)(1).

⁷ See 44 CFR 13.6(c), 2 CFR 215.4, and 2 CFR 200.102(b). It is important to note 44 CFR 13.6(b) authorizes U.S. Office of Management and Budget (OMB), not FEMA, to grant exceptions to an entire class of grants. We reported on this issue in *FEMA Can Do More to Improve Public Assistance Grantees’ and Subgrantees’ Compliance with Federal Procurement Rules*, OIG-16-126-D, issued September 2, 2016.



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\$549 million in procurement cost questioned as ineligible in our audits were eligible for FEMA funding. FEMA officials allowed the noncompliant costs because they deemed the contract costs were reasonable and eligible. Without consistent enforcement of Federal regulations and FEMA policies, recipients and subrecipients have less incentive to comply.

Conclusion

FEMA faces significant challenges ensuring its grant recipients properly manage Federal disaster funds. It should increase oversight by proactively engaging with grant recipients to improve management and guidance of subrecipients. Given the devastation of recent hurricane disasters, FEMA may potentially deplete its resources. Without continued efforts to strengthen internal controls, FEMA's oversight problems will continue to place Federal funds intended to meet the needs of survivors at risk.

The Office of Audits major contributors to this alert are Chiquita Washington, Audit Manager; Kathy Hughes, Audit Manager; Christina Sbong, Auditor-in-Charge; Heather Hubbard, Auditor; Lena Stephenson-George, Auditor; Thomas Hamlin, Communications Analyst; and Corneliu Buzesan, Independent Reference Reviewer.



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Appendix A

Objective, Scope, and Methodology

Our objective was to emphasize to FEMA leadership the significant deficiencies with FEMA's internal controls and its lack of enforcement of Federal requirements related to proper grant management and oversight of disaster funds. To accomplish our objective, we reviewed FEMA's presentation on *Audit Tips For Managing Disaster-Related Project Costs*, issued September 2017, FEMA grant audit reports issued by the DHS OIG including the *Independent Auditors' Report on DHS' Financial Statements and Internal Control over Financial Reporting* for FY 2011 to 2016, *Major Management and Performance Challenges* for FY 2012 to 2016, and other relevant DHS OIG disaster grant audit reports applicable to grant management. Additionally, we reviewed the *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (as amended), United States Code, Federal Appropriations Law, Federal regulations, the Government Accountability Office's *Standard for Internal Control in the Federal Government*, and FEMA's standard operating procedures for applicable criteria related to the management of Federal grants.

Table 2 data includes slight variations from figures reported in our *Summary and Key Findings of Fiscal Year 2016 FEMA Disaster Grant and Program Audits*, OIG-18-06, issued October 27, 2017. This occurred because audit teams used different scopes and methodologies to compile audited and questioned totals reported in issued audit reports. For this alert, we used the following methodology to calculate total amounts audited and questioned from 2009 to 2017:

- consistent use of gross and net obligated amounts or preliminary damage estimates, where applicable;
- elimination of duplicate amounts audited and questioned for multi-phased audits;
- classification of potential monetary benefits by category;
- inclusion of all questioned costs in fiscal year 2010; and
- inclusion of expanded audit scope amounts to determine the audited totals.

This alert was prepared under the *Inspector General Act of 1978*, as amended, and, more specifically, Section 2-2 to provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and abuse in, such programs and operations. The work performed in this review does not constitute an audit in accordance with generally accepted government auditing standards.



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Appendix B

Prior DHS OIG Reports on Major Management and Performances Challenges, FEMA's Internal Controls, and Other Relevant DHS OIG Reports Related to Grant Management⁸

Prior DHS OIG Reports on Major Management and Performance Challenges:

- *Major Management and Performance Challenges Facing the Department of Homeland Security* (OIG-17-08, November 2016),
<https://www.oig.dhs.gov/sites/default/files/assets/2017/OIG-17-08-Nov16.pdf>
- *Major Management and Performance Challenges Facing the Department of Homeland Security* (OIG-16-07, November 2015),
<https://www.oig.dhs.gov/assets/Mgmt/2016/OIG-16-07-Nov15.pdf>
- *Major Management and Performance Challenges Facing the Department of Homeland Security* (Revised) (OIG-15-09, February 2015),
https://www.oig.dhs.gov/assets/Mgmt/2015/OIG_15-09_Nov14.pdf
- *Major Management and Performance Challenges Facing the Department of Homeland Security* (OIG-14-17, December 2013),
https://www.oig.dhs.gov/assets/Mgmt/2014/OIG_14-17_Dec13.pdf
- *Major Management and Performance Challenges Facing the Department of Homeland Security* (Revised) (OIG-13-09, December 2012),
https://www.oig.dhs.gov/assets/Mgmt/2013/OIG_13-09_Dec12.pdf
- *Major Management and Performance Challenges Facing the Department of Homeland Security* (Revised) (OIG-12-08, November 2011),
https://www.oig.dhs.gov/assets/Mgmt/OIG_12-08_Nov11.pdf

Prior DHS OIG Reports on Independent Auditors' Reports:

- *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting* (OIG-17-12, November 2016),
<https://www.oig.dhs.gov/sites/default/files/assets/2017/OIG-17-12-Nov16.pdf>
- *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting* (OIG-16-06, November 2015),
<https://www.oig.dhs.gov/assets/Mgmt/2016/OIG-16-06-Nov15.pdf>

⁸ DHS OIG reports can be found under the "Reports" tab at <http://www.oig.dhs.gov/>.
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Appendix B (continued)

Prior DHS OIG Reports on Major Management and Performances Challenges, FEMA's Internal Controls, and Other Relevant DHS OIG Reports Related to Grant Management

- *Independent Auditors' Report on DHS' FY 2014 Financial Statements and Internal Control over Financial Reporting* (OIG-15-10, November 2014), https://www.oig.dhs.gov/assets/Mgmt/2015/OIG_15-10_Nov14.pdf
- *Independent Auditors' Report on DHS' FY 2013 Financial Statements and Internal Control over Financial Reporting* (OIG-14-18 Revised, December 2013), https://www.oig.dhs.gov/assets/Mgmt/2014/OIG_14-18_Dec13.pdf
- *Independent Auditors' Report on DHS' FY 2012 Financial Statements and Internal Control over Financial Reporting* (OIG-13-20, November 2012), https://www.oig.dhs.gov/assets/Mgmt/2013/OIG_13-20_Nov12.pdf
- *Independent Auditors' Report on DHS' FY 2011 Financial Statements and Internal Control over Financial Reporting* (OIG-12-07, November 2011), https://www.oig.dhs.gov/sites/default/files/assets/Mgmt/OIG_12-07_Nov11.pdf

Prior DHS OIG Capping Reports for Emergency Management Oversight:

- *Summary and Key Findings of Fiscal Year 2016 FEMA Disaster Grant and Program Audits* (OIG-18-06-D, October 2017), <https://www.oig.dhs.gov/sites/default/files/assets/2017-11/OIG-18-06-Oct17.pdf>
- *Summary and Key Findings of Fiscal Year 2015 FEMA Disaster Grant and Program Audits* (OIG-17-13-D, November 2016), <https://www.oig.dhs.gov/sites/default/files/assets/2017/OIG-17-13-D-Dec16.pdf>
- *Summary and Key Findings of Fiscal Year 2014 FEMA Disaster Grant and Program Audits* (OIG-15-146-D, September 2015), <https://www.oig.dhs.gov/assets/GrantReports/2015/OIG-15-146-D-Sep15.pdf>
- *Capping Report: FY 2013 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits* (OIG-14-102-D, June 2014), https://www.oig.dhs.gov/assets/GrantReports/2014/OIG_14-102-D_Jun14.pdf



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Appendix B (continued)
Prior DHS OIG Reports on Major Management and Performances Challenges, FEMA's Internal Controls, and Other Relevant DHS OIG Reports Related to Grant Management

- *Capping Report: FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits* (OIG-13-90, May 2013),
https://www.oig.dhs.gov/sites/default/files/assets/Mgmt/2013/OIG_13-90_May13.pdf
- *Capping Report: FY 2011 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits* (OIG-12-74, April 2012),
https://www.oig.dhs.gov/sites/default/files/assets/Mgmt/2012/OIG_12-74_Apr12.pdf
- *Capping Report: FY 2010 FEMA Public Assistance Grant and Subgrant Audits* (DD-11-17, August 2011),
https://www.oig.dhs.gov/sites/default/files/assets/GrantReports/OIG_DD-11-17_Aug11.pdf
- *Capping Report: FY 2009 FEMA Public Assistance Grant and Subgrant Audits* (DS-11-01, December 2010),
https://www.oig.dhs.gov/sites/default/files/assets/GrantReports/OIG_DS-11-01_Dec10.pdf



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Appendix C
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