

**THE PATH TO EFFICIENCY:  
MAKING FEMA MORE EFFECTIVE FOR  
STREAMLINED DISASTER OPERATIONS**

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**HEARING**

BEFORE THE

SUBCOMMITTEE ON EMERGENCY  
MANAGEMENT, INTERGOVERNMENTAL RELATIONS,  
AND THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON  
HOMELAND SECURITY AND  
GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

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JULY 24, 2014  
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**THURSDAY, JULY 24, 2014**

U.S. SENATE,  
SUBCOMMITTEE ON EMERGENCY MANAGEMENT,  
INTERGOVERNMENTAL RELATIONS,  
AND THE DISTRICT OF COLUMBIA,  
OF THE COMMITTEE ON HOMELAND SECURITY  
AND GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:30 p.m., in room SD-342, Dirksen Senate Office Building, Hon. Mark Begich, Chairman of the Subcommittee, presiding.

Present: Senator Begich.

**OPENING STATEMENT OF SENATOR BEGICH**

Senator BEGICH. Thank you all very much for being here. I appreciate it. Thank you for coming this afternoon. Again, this is the Subcommittee on Emergency Management, Intergovernmental Relations, and the District of Columbia. I will call the meeting to order.

For the last year-and-a-half, this Subcommittee has examined a number of critical issues affecting the emergency management community. Today, we are here to assess FEMA's progress in its efforts to balance timely disaster response and recovery with good stewardship of the taxpayers' money.

For example, since 2009, the DHS Inspector General (IG) has documented the ongoing problem with the management of disaster recovery spending, identifying \$1.36 billion in potential cost savings. Within these IG audits, they have identified almost \$276 million in wasteful ineligible disaster recovery spending from 2009 to 2013.

Finally, this Subcommittee has reviewed the IG and the Government Accountability Office (GAO's) reports on the Federal Emergency Management Agency (FEMA) workforce. FEMA's workforce is the greatest asset. The knowledge, skills, and expertise of FEMA's workforce are critical to successfully working with disaster survivors, State, local, and Tribal Governments. Yet, challenges such as staff that lack the necessary qualifications and training can result in inconsistent application of FEMA's recovery policies. This can lead to misspent wasteful spending and slower recovery. It is

paramount that FEMA's workforce be properly trained in order to save taxpayer money.

Since the massive flooding that resulted from the ice breakup on the Yukon last year, the Village of Galena, Alaska, has been on the front lines of major FEMA response. Hundreds of FEMA responders have been tasked with helping Galena rebuild. But, we do not expect every visitor to our State to fully understand the unique nature of life in rural Alaska. Responders must be able to adapt. Swift and efficient recovery cannot be supported by a workforce that lacks experience with Tribal communities or has not planned for high shipping costs and economic impact of increasing barge traffic along the river.

These are a few of the issues from this Subcommittee's research that appear to be ongoing challenges. I am looking for further in-depth conversation with our witnesses. We also will hear from FEMA about the steps they are taking to fix these longstanding issues.

Today, we will hear from the Department of Homeland Security (DHS) Inspector General, FEMA's Associate Administrator for Response and Recovery, and the GAO. We will also get the perspective from outside government from an economist who specializes in the economics of natural hazards. I look forward to an informative dialogue on the lessons learned, the improvements made, and examples of best practices in efficiency and performance that can be applied to FEMA.

Again, I want to thank all of you for being here today, and I would like to go down the line here. I will introduce each one, and then if you could give your testimony. And, again, all written material will be, as requested, in the record, and I appreciate your time here.

The first is the Honorable John Roth. He is the Inspector General for the U.S. Department of Homeland Security. Mr. Roth.

**TESTIMONY OF HON. JOHN R. ROTH,<sup>1</sup> INSPECTOR GENERAL,  
U.S. DEPARTMENT OF HOMELAND SECURITY**

Mr. ROTH. Thank you, Chairman Begich, and thank you very much for inviting me here today.

My testimony today will focus on some high-risk management challenges that we have identified in our recent audit reports and in our ongoing work with regards to FEMA. I will also discuss our new, more proactive approach to audits designed to identify problems earlier in the disaster recovery cycle.

As I know you are keenly aware, FEMA faces a daunting task: To be ready for anything, anywhere in the United States and its Territories. FEMA's Public Assistance Program is immense, with FEMA reporting over 100,000 applicants with projects worth approximately \$50 billion. FEMA has obligated about \$10 billion annually from the Disaster Relief Fund (DRF) to deal with these disasters. This does not count Hurricane Sandy, which will cost the Fund many more billions of dollars.

We audit about \$1.2 billion of these costs each year. We have determined that, generally, communities improperly spend about 23

<sup>1</sup> The prepared statement of Mr. Roth appears in the Appendix on page 25.

percent of the grant funds that we audit. Therefore, we estimate for this year, our Disaster Grant Audits will identify or prevent about \$300 million in improperly spent disaster assistance.

Attached to my testimony today is our most recent Capping Report, summarizing the work we have done in fiscal year (FY) 2013. As we have in the past, 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.

In the past, my office has focused much of its efforts on auditing past transactions. This, as you note, has led to more than a billion dollars in questioned costs and funds put to better use. Unfortunately, once that money is spent, it is often too late to recover the funds or correct the underlying problems.

Therefore, we are in the process of transitioning to a more balanced audit portfolio approach. Our new proactive approach is in four phases.

First, we deploy our Emergency Management Oversight Teams. These teams accompany FEMA during the initial response to Presidentially declared disasters. We expect to do about five of those this year.

Second, we anticipate conducting about 20 Capacity Audits early in the recovery phase, before applicants have spent significant amounts of Federal funding. These audits will assess whether communities and other applicants have the capacity to properly administer the grant funds. Our recommendations will focus on correcting weaknesses to prevent applicants from mispending Federal funds before they are spent.

Third, we anticipate conducting about 20 Early Warning Audits later in the recovery phase. These audits will determine whether applicants are, in fact, accounting for and expending FEMA grant funds correctly. The early reporting of noncompliance should enable communities to take actions to correct or at least mitigate the financial impact of noncompliance.

And then, last, we anticipate conducting about 20 traditional Disaster Grant Audits. We typically perform these audits once the applicant completes most of the disaster work.

Thus, under our new approach, fewer than a third of our audits would be considered to be traditional audits done after the money was spent, and the bulk of our work is done to try to prevent mispending of FEMA funds.

I am encouraged by the fact that FEMA officials have implemented corrective measures to address issues we identified in our past reports. FEMA recognizes that applicant noncompliance with Federal procurement standards continues to be a significant source of findings and questioned costs.

As a result, FEMA has developed and is implementing a new Procurement Disaster Assistance Team. The team will provide assistance to applicants in advance of contract awards to reduce procurement violations.

Additionally, FEMA's Recovery Directorate plans to establish a section dedicated to responding to, implementing, and learning

from the Office of Inspector General (OIG) audits. FEMA has already completed a 3-year look-back analysis of our audits to help set policy priorities and plans to activate the new section by the end of this fiscal year.

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

Senator BEGICH. Thank you very much.

Let me move to the next speaker, if I can, Joseph Nimmich, who is the Associate Administrator for Response and Recovery at the Federal Emergency Management Agency, which is part of the Department of Homeland Security.

**TESTIMONY OF JOSEPH NIMMICH,<sup>1</sup> ASSOCIATE ADMINISTRATOR, OFFICE OF RESPONSE AND RECOVERY, FEDERAL EMERGENCY MANAGEMENT AGENCY, U.S. DEPARTMENT OF HOMELAND SECURITY**

Mr. NIMMICH. Good afternoon, Chairman Begich. Thank you for the opportunity to testify before you today.

I appreciate the oversight that this Committee provides. Your guidance, along with the recommendations of the Government Accountability Office and the DHS Inspector General, reinforces FEMA's ability to provide critical service to the American people while eliminating waste, fraud, and abuse. You are the voice of those we serve, and your findings enable us to better meet the critical needs of survivors, States, Tribes, and local communities to prepare for, protect against, respond to, recover from, and mitigate the impacts of disasters.

Increased efficiency is a worthwhile goal for any and all organizations and we are committed at FEMA to streamlining our processes to improve the services we provide. While the challenge of increased efficiency crosses all sectors, it is important to realize the unique challenges associated with the rapid delivery of lifesaving and life sustaining services in disasters.

Many of the issues raised by this Committee are symptoms of more systemic problems. I want to assure you that we are committed to addressing the underlying causes and not just the symptoms. With a firm understanding of these issues, FEMA is developing solutions to our most significant challenges. We continue to seek ways to be more efficient stewards of appropriated resources. But, we must balance that need with the need to quickly and directly provide services to disaster survivors to help them recover and rebuild.

FEMA's reforms are focused in three major areas: Building the capacity, competency, and capability of FEMA's workforce; the consistency and complexity of FEMA's business processes; and the ability to use information and data for rapid situational awareness and effective decisionmaking. I would like to take a moment to talk about each of these in greater detail.

FEMA is focused on its workforce and better managing, training, and equipping each member. Much of what the IG and the GAO indicate as improper cost or contracting procedures are sympto-

<sup>1</sup> The prepared statement of Mr. Nimmich appears in the Appendix on page 63.



matic of a disaster workforce that has not received the training and tools it needs to perform to its full potential and provide grantees critical information at the time of decision.

As a case in point, in the last 3 years of IG Capping Reports, the IG identified a systemic problem in sub-grantee contracting procedures. We identified the root cause of these discrepancies and implemented improved training and workforce oversight to correct the issues. To address the immediate needs of local communities, FEMA implemented a Temporary Response Team of contract attorneys to deploy within the first 48 hours of a disaster to support grantees and sub-grantees to ensure their actions are consistent with the Federal Acquisition Regulations (FAR). This will eliminate the problem of deobligating funds well after the event.

Through the new FEMA Qualifications Standards and Cadre Management System, we will institute a more permanent fix, ensuring that each employee is provided the training and experience necessary to perform their job while holding them accountable to provide disaster survivors accurate information to rebuild their future.

Workforce development takes time, but good management and accountability cannot wait. We are committed to making clear policy-driven decisions that are correct the first time.

To better allocate resources, FEMA is strengthening the connection between strategy, budget, and execution through a comprehensive resource management system. FEMA is increasing its focus on performance metrics and linking performance allocations to outcomes to ensure the most effective use of the funds provided.

The recently released FEMA Strategic Plan for 2014 to 2018 provides aggressive performance goals for each of the 16 key priority outcomes the plan requires. The Strategic Plan reaffirms FEMA's commitment to its guiding principles and sets new priorities designed to strengthen its organizational foundation. The plan focuses on getting back to basics, streamlining policies, improving our information technology (IT) systems and security, and strengthening the workforce. Building on a solid foundation will enable FEMA to identify additional efficiencies and ensure issues identified today do not become tomorrow's challenges.

FEMA is committed to addressing the need for effective data management analytic capability by making our IT systems more capable, secure, and resilient. The better use of data analytics will provide early reliable basis for decisions. Better business systems will provide consistency and transparency.

We continue to make extensive efforts to address and improve our programs and ensure they are efficient, effective, and meeting the critical needs of survivors.

Mr. Chairman, on behalf of Administrator Fugate and the entire FEMA leadership team, I want to thank the Committee for your focus on these important issues and the opportunity to testify before you today, and I look forward to any questions you or the Committee may have.

Senator BEGICH. Thank you very much.

The next person we have on the list is Mr. Christopher Currie. He is the Director of Homeland Security and Justice Issues at the U.S. Government Accountability Office.

**TESTIMONY OF CHRISTOPHER CURRIE,<sup>1</sup> ACTING DIRECTOR,  
HOMELAND SECURITY AND JUSTICE ISSUES, U.S. GOVERN-  
MENT ACCOUNTABILITY OFFICE**

Mr. CURRIE. Chairman Begich, thank you very much for the opportunity to be here today to discuss ways to strengthen FEMA disaster operations.

Mr. Chairman, today, FEMA's preparedness, response, and recovery missions are larger, more expensive, and more complex than ever before, and the future is not looking any easier. Extreme and rare weather events are now expected to be the norm and it is very difficult for FEMA to budget and manage in such an uncertain and reactive environment.

While FEMA cannot control disasters or always predict them, it can work to make sure programs are more effective and efficient. In the years since Hurricane Katrina, FEMA has made much progress in responding to disasters. However, we have also reported on areas where it could continue to improve. This afternoon, I would like to drill down into two of those areas.

The first area is FEMA's administrative costs, or what it costs FEMA to deliver disaster assistance to State and local communities. Examples of this include salaries, travel, and other support costs for FEMA employees deployed to disaster locations, and rent and other costs for operating its joint field offices in these locations.

As disaster costs have risen, so have these costs. In September 2012, we found that average administrative cost percentages had doubled in the last 20 years for disasters of all sizes. To put this in terms of real dollars, our analysis shows that of the \$95 billion spent on major disasters from 2004 to 2013, \$12.7 billion, and that is about 13 percent, were FEMA's administrative costs.

Recognizing these rising costs, FEMA issued guidance and targets for managing administrative costs in 2010. However, we found that FEMA did not require these targets to be met and 37 percent of disasters exceeded those targets. As an example, for large disasters costing between \$500 million and \$5 billion, FEMA's target for administrative costs is between 8 and 12 percent of disaster spending. However, 4 out of every 10 disasters we looked at had costs above 12 percent.

Now, we recommended that FEMA implement required goals for administrative costs and monitor how well they achieve these goals. As of this month, FEMA was still considering options for addressing this recommendation, but has taken it very seriously. While it is difficult to control the overall costs of disasters, it will be important for FEMA to monitor its own costs to ensure that it is as efficient as possible.

The second area I would like to discuss is opportunities to strengthen FEMA's workforce. The increasing number, size, and complexity of disasters requires a larger Federal disaster workforce. During Hurricane Sandy, more than 17,000 Federal personnel, including more than 7,000 FEMA staff, were sent to the affected area in one of the largest deployments ever. FEMA's after-action report self-identified that workforce readiness for an event like Hurricane Sandy was a challenge.

<sup>1</sup>The prepared statement of Mr. Currie appears in the Appendix on page 76.

Just as examples, just prior to Hurricane Sandy, FEMA found that 28 percent of its disaster positions were vacant. Also, deploying so many staff nearly exhausted the number of available personnel. According to FEMA, a month into the response, by November 2012, it had only 355 of its almost 7,000 total reservists—that is 5 percent—available to deploy, because the others were either already deployed or not available for deployment.

We have also reported on broader human capital issues at FEMA and have made a number of recommendations. For example, we found that FEMA could better collect and analyze agency-wide workforce and training data and recommended they develop mechanisms to do that.

Regarding its Disaster Reserve workforce, we have also recommended that FEMA better define its criteria for hiring and compensating these employees and ensure that they are qualified. Also, we have recommended they better monitor how these employees implement disaster assistance policies across the country to ensure consistency.

FEMA has made progress in addressing our recommendations and has efforts underway to strengthen how it manages its personnel. As part of our ongoing work for you, we will continue to evaluate these efforts.

This completes my prepared remarks. I would be pleased to answer any questions you have.

Senator BEGICH. Thank you very much.

Next, we have Daniel Sutter, a Professor of Economics at Troy University. Please.

**TESTIMONY OF DANIEL SUTTER,<sup>1</sup> PROFESSOR OF ECONOMICS, JOHNSON CENTER FOR POLITICAL ECONOMY, TROY UNIVERSITY**

Mr. SUTTER. Chairman Begich, thank you for the invitation to discuss the need to make FEMA more efficient for effective disaster response. I appreciate the opportunity to testify today.

The enormous generosity of Americans is never more evident than in the aftermath of natural disasters, and naturally, some of this assistance will be channeled through the Federal Government. Today, I would like to make three points about increasing efficiency in disaster response.

First, FEMA currently assists with many smaller events, which threatens the availability of assistance when most needed.

Second, the damage threshold for Federal assistance should be raised and tied to per capita personal income to avoid FEMA having to respond to so many smaller disasters.

Third, a more thorough assessment of the potential for State and local governments to respond should inform the establishment of a new threshold for Federal assistance.

I would like to expand on each of these points. First, the point about minor disasters dissipating resources. Too many events are being declared major disasters. Presidents have declared an average of 60 major disasters per year since 1996, an average of more than one per week. The GAO has found that 36 percent of these

<sup>1</sup> The prepared statement of Mr. Sutter appears in the Appendix on page 90.

declarations between 2004 and 2011 involve less than \$10 million in Federal assistance, demonstrating that these weekly disasters do include some relatively small events. These events dissipate FEMA's resources and energy.

Disasters with total assistance under \$50 million have distressingly high administrative costs, as the GAO has shown, at an average of 20 percent, compared with 12 to 13 percent for larger disaster declarations. And, administrative costs exceeded total Federal assistance for 12 recent smaller disasters. We pay a high price for having FEMA assist with these relatively small events.

Second, the public assistance damage threshold should be raised. FEMA public assistance to State and local governments introduces third-party payment to disaster response. Third-party payment is well known to increase costs due to the problem of moral hazard. Rising administrative costs, improper payments, identified by the Office of Inspector General, and the professionalization of State and local emergency management in pursuit of Federal disaster assistance, as noted by the GAO, all reflect, I think, this third-party cost inflation. Third-party payment should be avoided whenever possible, and by limiting FEMA assistance to truly major or unanticipated disasters would allow this.

The low damage threshold FEMA uses to evaluate Governors' requests enables the declaration of small events as major disasters. FEMA set a threshold of \$1 per capita for statewide damages in 1986 and has adjusted this for inflation since 1999. The threshold for public assistance should have been tied to per capita income since 1986, consistent with the normalization of disaster losses by natural hazards researchers. The GAO found that 44 percent of all declared disasters between 2004 and 2011 would not have met an income-adjusted threshold.

Third, I think the Federal assistance should be based on a better assessment of State and local capability. FEMA set the \$1 per capita threshold somewhat arbitrarily in 1986, so a significant revision need not be tied to this baseline.

A more thorough assessment of the potential for State and local governments to respond to disasters should be undertaken. Financial instruments allow State and local governments to tap into private sector capital and to cover disaster losses. For instance, public assistance covers several categories of costs, including property and equipment, debris removal, and emergency protective measures. Adequate insurance can cover the property and equipment losses, increasing government's ability to meet any disaster.

Furthermore, new financial instruments, like weather derivatives and catastrophe bonds, have emerged since 1986. Although primarily to date used by businesses or insurers to help manage weather and catastrophe risk, these financial instruments could help state and local governments pay for personnel expenses, debris removal, and other costs. Establishing a damage threshold in consideration of the financial instruments now available to State and local governments would help ensure that Federal assistance is available and there when truly needed after major disasters or unexpected disasters.

By avoiding third-party cost inflation and providing better incentives for State and local governments to prepare, a reduced Federal role will also help stem rising disaster costs for the Nation.

Thank you, Senator Begich, and I want to thank again the Committee for the opportunity to testify today.

Senator BEGICH. Thank you very much. I made some notes. I want to come back to you with some questions, but you bring up some intriguing ideas.

Let me first start, with you, Chris, and that is it was interesting, your data points in regards to administrative costs and what you are seeing, or the growth in it. I guess one of the questions, first, is in 2010, you had mentioned the targets that were set or agreed to, and they were not mandatory, but they were targets or goals. And, you had indicated about 37 percent of them exceeded those targets in some form or another.

What was the main cause, if you can recall, what forced them to exceed that, I guess? What was the driver? For example, if I can pause you for a second, I know in Alaska, in a rural area, you will have some unusual shipping costs, air costs, barge costs. But, was there a common denominator in that, or——

Mr. CURRIE. Chairman Begich, we have not actually looked at the common denominators, but you are absolutely right. I mean, each disaster in and of itself is very different. So, each disaster has its own story as to why it costs what it costs.

I did want to say that these costs are not requirements. FEMA does not require them because they want to allow flexibility for the Federal Coordinating Officers——

Senator BEGICH. Right.

Mr. CURRIE [continuing]. To make the decisions they need to make in that case of a disaster. But, I think one of the causes, obviously, is the rising number of personnel that are required to respond to these disasters——

Senator BEGICH. Because the disasters are bigger, or that is what we are doing?

Mr. CURRIE. I think it is both, sir. I think, obviously, in the case of, Hurricane Sandy, FEMA deployed more than 7,000 people. That is travel. That is lodging costs. That is very expensive.

Senator BEGICH. Yes.

Mr. CURRIE. But, also, the assistance that is being provided is much greater, even in smaller disasters. And, I would also argue, in smaller disasters, you do not have the economies to scale that you have in larger disasters. So, it is common to see administrative costs be much higher as a percentage in those smaller disasters, as well.

Senator BEGICH. You heard the commentary just at the end here regarding maybe raising those thresholds. Did you look at any of that kind of information, of what impact that would have, or——

Mr. CURRIE. Oh, on administrative costs, sir?

Senator BEGICH. No. Raising the thresholds on what kind of disaster——

Mr. CURRIE. Oh, right. Absolutely. We have an extensive body of work on that, and our position is that FEMA has not adjusted the per capita indicator to account for inflation and personal income, and had they done that, it would be much higher than it is today.

And, if that had been the case, then many of the smaller disasters may have not been declared.

However, I think what is very important is—and what we have advocated for—is that FEMA take into account other factors besides the per capita indicator. Every State is very different and has a different way of responding to disasters and different capabilities.

So, in Alaska, for example, the costs of getting the assistance to where it needs to get may be much higher—

Senator BEGICH. Right.

Mr. CURRIE [continuing]. And that could be something that needs to be factored into the decision of when a disaster is declared.

Senator BEGICH. Again, I do not mean to monopolize your time, but I want other people to be thinking about these answers as I am walking through them with you. You are the front-end person. For example, would it be logical to say, here is some baseline—maybe it is income, maybe it is per capita—but then look at more regional and the impacts.

For example, in Alaska, going to Galena is not like going from here to Baltimore.

Mr. CURRIE. Right.

Senator BEGICH. So, you have a different kind of impact. If you are going to move people there, it could take you three plane trips, if the weather is good, to get you there. Or, you might end up moving equipment by a barge rather than a truck.

Mr. CURRIE. Right.

Senator BEGICH. Do you think there is a formula that should be looked at instead of a one-size-fits-all? Even though in a lot of cases FEMA has flexibility, is it to say, here is our baseline that we really need to be focused on to raise this threshold of what we consider a disaster, but keeping in mind that even though it may be a—like, Galena, to a lot of others, might have been a small disaster, but for the community, it wiped it out. So, in their view, it was big. So, do you think there is a way to have some sort of formula in there? And, then, I am going to jump down the row here. But, do you—

Mr. CURRIE. I think that has been the goal, sir, with the per capita indicator, is to have a baseline. And, what we have argued is that, not that the per capita indicator is bad, but—

Senator BEGICH. By itself, it is bad.

Mr. CURRIE. Well, by itself, exactly—

Senator BEGICH. Right.

Mr. CURRIE [continuing]. It is bad. And, the fact that, by itself, it has not been adjusted to take into account other factors. But, certainly, FEMA could take into account many other factors if it chose to do so. I know it is considering options, because we actually recommended that they do this and we have an open recommendation. I know they are—

Senator BEGICH. When did you recommend that?

Mr. CURRIE. This was in 2012.

Senator BEGICH. OK. Let me ask John, and then I am going to go to you, Joe, in a second. Do you want to respond? You heard the conversation here to those questions, and I have some other more specific for you, but do you have any thought about that as you looked at doing an IG report and what that means and the impacts of small versus larger disasters?

Mr. ROTH. Right. I mean, certainly, as far as the threshold for a Presidential declaration, we have done some work on that, also, in 2012. Very similar results to GAO——

Senator BEGICH. OK.

Mr. ROTH [continuing]. That it has not been indexed for inflation, that it has resulted, of course, in a creep up of the number of Presidentially declared disasters, which, of course, then increases the size of the Disaster Relief Fund.

Senator BEGICH. Right.

Mr. ROTH. I think we ought to recognize that the statute does not require a specific formula. It simply requires FEMA to analyze whether or not the States have the capacity to respond——

Senator BEGICH. To deal with it.

Mr. ROTH [continuing]. To a specific disaster. The rule of thumb has been the amount of damage that has occurred as a result of the disaster, but certainly factoring in things like the cost of recovery for a disaster could be one of the factors that they look at.

Senator BEGICH. OK. Joseph, do you want to——

Mr. NIMMICH. Yes, sir. Well, first——

Senator BEGICH. I wanted to give them an opportunity to lay it down for you, and then maybe you could respond to it.

Mr. NIMMICH. Thank you, Senator, and first——

Senator BEGICH. Daniel set it up, so I think——

Mr. NIMMICH [continuing]. We need to be very specific here that the threshold is not the only element that is considered. The 44 CFR requires several elements, and some of which you have described, Senator, in terms of the effect on the community. Some of the issues with raising the threshold indicators involves the dynamic between rural States and larger States that have larger capacity.

We are, in fact, as a result of the GAO audit and the IG audits, looking at and working with States at the moment to be able to identify what is the right set of criteria, but it is a multiple set of criteria. The Stafford Act prohibits a formula. The threshold is just one indicator. There are disasters that have been denied even though a State may have made the threshold because other factors indicated that it was well within the State's capabilities.

Senator, one of the things that we really need to understand, there has been a drive for States to be able to get more disasters, that States have had difficulty during the last several years with the economy to be able to get that.

Senator BEGICH. Got you.

Mr. NIMMICH. What we are——

Senator BEGICH. Do you think that is one of the drivers, that they saw——

Mr. NIMMICH. Sir, a lot has to do with population shift, the infrastructure that is being developed. There are multiple factors that go into it. Some of it, you heard, the severity of storms.

FEMA is working very closely with the States to have non-Stafford Act capabilities. There is an awful lot that the National Voluntary Organizations Active in Disasters (VOADs), the voluntary organizations, that other agencies provide short of a Stafford Act. The goal has always been to try to get to a Stafford Act declaration because that opens up the DRF. But, we are really working with

States now to be able to identify where they have capability that they can use, both from the Federal Government, voluntary organizations, and their own, to be able to reuse grants and other capabilities that we take the drive away.

We are also looking at what are those initial indicators for the threshold, and then the obligations that actually come in long afterwards to see if, in fact, the thresholds, while may appear low, are really, because of the way we assess damage, really are a right level, or are we finding that States are trying to get to that threshold in order to get there—

Senator BEGICH. Got you.

Mr. NIMMICH [continuing]. But when we see the obligations later, they are much lower. All of these are being taken into consideration as we move toward a proposal that GAO has asked for. We owe GAO an answer by the spring of 2015—

Senator BEGICH. OK.

Mr. NIMMICH [continuing]. And we are moving in that direction, but we are consulting with the National Emergency Management Association (NEMA). We need to consult with the Tribes and other people that have implications now that they may not have had before.

Senator BEGICH. Let me, if I can, I am going to jump back to you, John, if that is OK? I am going to move around a little bit here. But, one of the things in our analysis, we found 40 open disasters, some 10 years old, or 12 of the disasters declared before 1999. I am assuming—and this actually kind of goes back to one of the things Christopher said on administrative costs—the longer these are open, there is an accumulation of administrative costs, operational costs just to maintain these open accounts.

Is there something that FEMA could do better to—I know when I was mayor and we had things that were—I mean, if we had grants, and sometimes they were obligated but unobligated, we would look at these projects and determine if they are reality or not, or if what is happening is a department—in my case as mayor—a department is stretching the money in order to take off their two points or three points for administrative overhead and then say, “Oh, we are working on it still,” and, really, they will never have enough money to do it, or they have done it and they are just waiting for other claims that might come forward.

What is your thought here? Is there something more we could be doing, or FEMA could be doing, and, it is always hard when you have a community who has this money sitting there to say, you have not used it in 15 years. And, they will always—I know this as a mayor—you are always going to have a reason why it still should stay there.

Mr. ROTH. You raise very good points. We are doing an audit on this very specific issue, a systemic audit to understand the root causes of this. I will say that when we do an audit and we see unobligated funds that we do not think there is a likelihood of expenditure on, we will advise or recommend to FEMA that they deobligate the money, put it back into the DRF so it can be used—

Senator BEGICH. And, that is in process now, that review you just described—



Mr. ROTH. Correct.

Senator BEGICH [continuing]. Or is it something you do on a regular basis, or is it just something that you have added in?

Mr. ROTH. Both.

Senator BEGICH. OK.

Mr. ROTH. So, in any audit that we do of any project, if we see money that is unlikely to be spent, we recommend that it be deobligated, first thing. Second——

Senator BEGICH. Can I pause you there on that——

Mr. ROTH. Of course.

Senator BEGICH. Do you go back and see what FEMA's compliance to that is on that kind of recommendation, what their percentage of compliance is?

Mr. ROTH. Yes. We track every recommendation that we do. We do followups with FEMA over time——

Senator BEGICH. What would you say on that one, for example, is it 20 percent of the time they take that recommendation, 100 percent of the time, or——

Mr. ROTH. Off the top of my head, I would not be able to give you an answer.

Senator BEGICH. Could you provide that for us?

Mr. ROTH. Absolutely.

Senator BEGICH. I would just be curious, because that is an interesting recommendation. If you say, here is this money, you view it as not usable, I am assuming, then, FEMA always has the opportunity to put their reason why they still need to keep it, but, I would be curious on those recommendations.

But, then you had a second piece. I did not mean to interrupt you.

Mr. ROTH. Certainly. And, then, we are doing a systemic audit to look at the root causes of this.

Senator BEGICH. Good.

Mr. ROTH. That is currently in process. And, I guess my third point here would be that, The way the system works is that you have grantees, who are the States, and then you have sub-grantees, who are these localities. Neither the State nor the sub-grantee have any inherent interest in turning that money back.

Senator BEGICH. No, I know this. [Laughter.]

Mr. ROTH. And, the States, as the entities that are supposed to be administering these, I think we ought to be a little more——

Senator BEGICH. Aggressive.

Mr. ROTH [continuing]. Aggressive in ensuring that they are looking at these projects, actively managing the projects, and they get FEMA money to do that management, and recommending when there are projects that need to be closed out, that we close them out.

Senator BEGICH. I am going to one more, and again, I want to keep a little flexibility here for folks to respond and so forth, but I want to get a couple more questions in and watch our time at the same time.

In doing our research, one thing that we noted was the DHS OIG website does not have a data system that provides either Congress or the general public kind of what comprehensive records, status and recommendations. Can you tell me, is there something that

you could do—and when I say “you,” your agency—do to make that more transparent, at least to Congress so we have better access, and obviously a broader perspective, to the public. What would you recommend, or are there thoughts that are in process now, that you are looking at this issue? And, you know what I am referring to is the transparency of this.

Mr. ROTH. I do, and, in fact, I saw that in the staff report—

Senator BEGICH. Right.

Mr. ROTH [continuing]. That was issued. I think that is a very good point—

Senator BEGICH. Good.

Mr. ROTH [continuing]. And, candidly, it is one I had not thought of.

Senator BEGICH. OK. So, it is one that seems reasonable?

Mr. ROTH. Absolutely, and so I have directed my staff to start to take a look at these issues—

Senator BEGICH. OK.

Mr. ROTH [continuing]. And to ensure that we do a little better on metrics, making those metrics public—

Senator BEGICH. Good.

Mr. ROTH [continuing]. As far as the number of recommendations, the age of the recommendations, and what specific—

Senator BEGICH. And what is the status?

Mr. ROTH [continuing]. Whether they have been closed out, whether FEMA agrees—

Senator BEGICH. Right.

Mr. ROTH [continuing]. Disagrees with the recommendations.

Senator BEGICH. Will you let the Committee know if you have some challenges in trying to—if there is something that is coming up that you think we could be helpful in helping make that happen. I think that is a great the more people know that, obviously, Committee, but the public understand, because I think as we continue to have—and I think it was very clear by almost everyone here, the testimony of the amount and the size of these disasters are increasing, and some of the calls we start to get now are, well, what happened to such and such grant, and I understand there was an audit, and then they say, well, what happened to that, and more access is better. So, if there is anything we can assist in that, but I think it is great you are looking at this.

Mr. ROTH. I could not agree more. Thank you, Senator.

Senator BEGICH. You bet.

Let me, if I can, Joe, you heard the conversation in regards to the disasters that have open-ended, pre-1999, so forth, long-term ones. Give me your thought on that response. Do you agree with the IG in regards to how you can handle these, or what we can do better? The other audit they are doing, which will, hopefully—it will be very interesting to see is there, again, a common denominator? What is the root problem of these? Are they independently very different or is there something across the board? Can you give me some comment.

Mr. NIMMICH. So, sir, some of the disasters that are open for 10 years have reasons that they are open for 10 years, and sometimes it is litigation and other issues that are going on. Of those that are open over 10 years, there are three significant ones. The vast ma-

jority, I would say, the highest percentage of the costs or obligated money—unobligated money—exist around the 9/11 disaster, exist around the 1994 earthquake, and exist around Hurricane Irene, the first one back in the 1990s. So, these three disasters——

Senator BEGICH. Can I pause you on that?

Mr. NIMMICH. Yes, sir.

Senator BEGICH. I recognize those are major ones, but at some point, you have to close them out. I mean, that, to me——

Mr. NIMMICH. So, that comes to the issue, Senator, which is it is a joint issue on closing it out. Now, you mentioned the fact that management costs continue.

Senator BEGICH. Right.

Mr. NIMMICH. There is a ceiling on the management costs, a certain threshold that they stop at a certain point unless they ask for an extension or an increase in those management costs.

Senator BEGICH. Have you ever granted them on those three big ones?

Mr. NIMMICH. I cannot answer that, sir. We can answer it for the record.

Senator BEGICH. I would like that.

Mr. NIMMICH. So, once the management costs reach a threshold—but, this is a joint effort. The States need to provide the information so we can close out each of those, and there may be only specific project work items that are inside there, that we are looking for that information to be able to close it out.

Senator BEGICH. How do you incentivize the States to do that, because I am going to be very blunt with you. As a former mayor, a city of 300,000 people, a billion-dollar budget, we covered 1,900 square miles of city, if there is no incentive, I am going to keep that on the books, because—there are a lot of reasons why I will keep it on the books. One, it helps my balance sheet, to be frank with you, when I am doing bonding and other things. I have all this money sitting there. That is one little piece. But, the second is, I do not want to give it back to you. If I give it back, I will never see it again.

So, what is the incentive to tell the States—or the locales, but in most cases States—to get off the dime and close it out and do their work?

Mr. NIMMICH. So, Senator, you used the right word, “incentive,” because most everything that has been proposed for close-outs—and, I need to make the point that since 2011, Administrator Fugate has had us focus on this and we have returned tens of millions of dollars each year and have closed out over 50 percent of the open——

Senator BEGICH. Open disasters.

Mr. NIMMICH [continuing]. Disasters. But, there are still quite a few, as you know.

Senator BEGICH. Right.

Mr. NIMMICH. So, incentives are tough. Most of what everybody proposes are disincentives, either termination at a certain period in time, which may not be the correct answer if, in fact, you have valid project works that are open. And, prior to the Sandy Recovery Improvement Act (SRIA), sir, the repairs had to be done, and we are working on repairs over time. Some of the road repairs, some

of the repairs that we are looking at can take 10 years or 12 years to actually make, until we have adjusted the final costs.

So, incentives are the right way to go. It is a real challenge when you are offering a State or a sub-grantee some additional money that they do not need to have for the repair of that issue. Again, with the pre-SRIA requirements that are in the legislation, we really do not have a way of doing that. So, we are open to suggestions on incentives.

Senator BEGICH. Good.

Mr. NIMMICH. The reality is, there are some disincentives we could put into the program. As you well know, States do not want to see disincentives in terms of losing money that they may actually be able to use, even though it has taken a long time.

Senator BEGICH. Right, but we have disincentives in a lot of programs. The Highway Trust Fund money, if they do not use it, at a certain point, they can be deobligated very quickly, even if it is obligated. There are disincentives with the CDBG money. I mean, as a former mayor, I remember we had a goal. If we received these monies, we have to move them. And, disasters, in the moment, they are complicated, but once you get past the crisis moment, it is a project. There are timelines.

Mr. NIMMICH. It is a project, sir, but to put it in reference, FEMA is an insurance company, and every time you and the client deal with an insurance issue, there is always debate over what was covered, what should be covered, and some of those debates go on for a very long period of time.

Senator BEGICH. Let me just say, I had a small disaster in my house in Anchorage and the insurance company made sure I closed it out. So, the incentive was, we are closing it out. That was the incentive, so get my work done. Actually, we closed it out so fast that they had not done their final inspection and we got paid. So, that was good. But, this is an area we are interested in, because—

Mr. NIMMICH. Yes, sir. We look forward to working with the Committee on identifying ways to more rapidly close out disasters.

Senator BEGICH. OK, because it is an obvious thing what happens, is we hear from people and they go, 15 years, that money has been sitting there. What the heck is going on?

Daniel, I want to ask you a question. I thought it was interesting, and you called them weather derivatives and catastrophic bonds. Are most of those applied for by private corporations, not local governments or State governments?

Mr. SUTTER. Yes. Those financial instruments have been usually used either by companies or insurance companies.

Senator BEGICH. I kind of ask you this and maybe, Joseph, you can answer this, too—is there an opportunity to have a hybrid partnership, maybe that between local governments or State governments to utilize these kind of bonds in conjunction with disaster preparedness? I do not know the answer to this. I am just asking this question, because it would seem—I know when we did catastrophic liability issues within the city, we had a threshold covered out of our self-insurance fund, then we had another threshold that was insured, and then above that, another level.

Is that a model or an opportunity, I guess, to do some demonstration capacity projects in regards to these types of bonds with local governments or State governments? Who would like to—Daniel, maybe, and then Joseph.

Mr. SUTTER. I think that, certainly, there could be some hybrid or new types of instruments that might be derived. There could be some kind of cost sharing or self-insurance amongst different States that could seek to share some of these costs. I think, certainly, weather derivatives have a good possibility to use here, because they are used in some ways to substitute for insurance—

Senator BEGICH. Right.

Mr. SUTTER [continuing]. On things that would otherwise be hard to insure because they would be related to a business's cost.

Senator BEGICH. Got you.

Mr. SUTTER. So, by tying the payment to some measurable weather statistic, like heating degree days or inches of snowfall—

Senator BEGICH. Right.

Mr. SUTTER [continuing]. Or something like that—

Senator BEGICH. Rainfall, things like that.

Mr. SUTTER. Right. You can make a payment that is not so directly tied to a business's cost. So, I think they create quite a bit of potential for both States and local governments to be able to access money to help them rebuild or deal with a disaster response, costs, that were not available at the time of the passage of the Stafford Act.

Senator BEGICH. Very good. Joseph, any thought on that?

Mr. NIMMICH. Yes, sir. Well, both of those, you are identifying ways to reapply the risk back to the State as opposed to the Federal Government absorbing the risk.

Senator BEGICH. Right.

Mr. NIMMICH. So, these are significant changes that we would need to look at. There are other opportunities that people talk about in terms of being able to do this—a State deductible level, where the States, based on their GDP or so—

Senator BEGICH. Capacity—

Mr. NIMMICH [continuing]. Have a certain deductible that they do not get any resources until they have exceeded that deductible. There are multiple different ways of looking at this problem, but what we are really talking about is putting the risk back to the States that have the highest risk—

Senator BEGICH. Got you.

Mr. NIMMICH [continuing]. With the potential, I presume, of not including those very catastrophic events. So, the 9.0 earthquake in Alaska is not something that you are going to be able to insure against—

Senator BEGICH. Right.

Mr. NIMMICH [continuing]. But, certain other things, you are, some of the lower ones that we are looking at.

Senator BEGICH. Right.

Mr. NIMMICH. That is not how the program is currently configured.

Senator BEGICH. Understood.

Mr. NIMMICH. And, there are multiple discussions, and we can continue to look at alternatives, all of which would need to go through the regulatory process.

Senator BEGICH. I want to go back to one other part you brought up and that is the workforce. You talked about administrative costs, but also workforce and some of the issues I brought up, especially in rural communities. What are some of the things that you see that we could do to improve the workforce capacity? And, you mentioned an interesting comment here. I think it was you said, I forget which incident it was, but 5 percent of the reservists were available. I forget which incident that was, but that is not a ready workforce. So, is there something that we can do better, FEMA can do better? What is the piece here? And, you had mentioned they are working on this, but give me some thought there.

Mr. CURRIE. Yes, absolutely. The example—

Senator BEGICH. You understand the issue I am referring to.

Mr. CURRIE. Yes, sir. The example was in Hurricane Sandy—

Senator BEGICH. OK.

Mr. CURRIE [continuing]. Which, obviously, is a very extreme example—

Senator BEGICH. Right.

Mr. CURRIE [continuing]. But something that is well within what FEMA plans for. In fact, I think they even plan for having multiple events like that going on at a time and factor that into how ready they need to be.

I think FEMA—we have made recommendations in the past that they develop a comprehensive workforce plan and analysis. They have acted on those. I know they have contracted to actually complete those, and some of those are underway.

I think a big part is workforce training. FEMA has a very diverse and different workforce. They have permanent full-time people. They have FEMA Corps now. They have the Corps employees and they have reservists, all very different employees. For example, the reservists are not full-time FEMA employees.

Senator BEGICH. Right.

Mr. CURRIE. They are called up when they are needed. So, one challenge has been how do you train reservists when they are not actually deployed to a disaster, when they are off doing the other things that they do—

Senator BEGICH. Come to Alaska. We have one every week, it seems. [Laughter.]

Mr. CURRIE. So, FEMA recognizes these challenges, obviously, and they have taken steps. They have tried to better communicate with reservists when they are not actually deployed. They have sent them to the Emergency Management Institute, all those things to try to get them ready.

I think the other thing with the human capital area is qualification. This has been a perennial challenge in disasters. It was a huge problem in Hurricane Katrina. We reported on it. FEMA has made a lot of progress, but it was a challenge in Hurricane Sandy, making sure that the people you deploy, those thousands all at one time, they are in the right job and they have the training and they need to do the job right away.

Senator BEGICH. Joseph, any thought there?

Mr. NIMMICH. Sir, that is——

Senator BEGICH. I mean, you probably agree with what he is talking about.

Mr. NIMMICH. Well, it has been a challenge, but we are accepting the challenge——

Senator BEGICH. Good.

Mr. NIMMICH [continuing]. And working diligently on it. In terms of qualifications, it was just a month before Hurricane Sandy that FEMA implemented its FEMA Qualifications Standards, so that was a real challenge in being able to—none of that had taken effect.

Senator BEGICH. Right.

Mr. NIMMICH. And, quite frankly, those things do not change overnight. It takes a significant amount of time. But, I think the biggest step forward we are taking is realizing we have to put the infrastructure in place to manage the workforce. So, this past June, we created internally to FEMA the Cadre Management Program, which puts people in place to be able to engage each and every employee in that disaster workforce, whether they are a reservist or a Corps or a permanent workforce.

Senator BEGICH. So, it does not matter where they fall, just——

Mr. NIMMICH. If they are part of the disaster workforce and have identified that they have a skill set that needs to be used in that disaster——

Senator BEGICH. Right.

Mr. NIMMICH [continuing]. They have been contacted, and they have been contacted to look at what our systems say is their qualifications, their experience, the equipment they have, their availability, and in the future, we are going to add performance in from the last disaster. This is an opportunity——

Senator BEGICH. Can I ask you a question on that last piece?

Mr. NIMMICH. Yes, sir.

Senator BEGICH. So, that is basically saying you can then analyze did they perform to what we believed was their qualification——

Mr. NIMMICH. And, what do I need to provide them if they are not able to perform——

Senator BEGICH. Got you.

Mr. NIMMICH [continuing]. To what the skill set was, what did I lack in providing them so that I can get their skill sets up so the advice and the service that they provide to survivors in the State is right at the first time, so I am not making improper costs—thank you—— [Laughter.]

Mr. NIMMICH. Improper costs——

Senator BEGICH. The IG got right in there to make sure you had the right language. [Laughter.]

Mr. NIMMICH. Improper costs or contractual vehicles that were not in compliance with the Federal Acquisition Regulations. So, we are not only looking at it. We are doing something about that right now.

And, Senator, you hit the nail on the head. This is going to start allowing us to identify where our training gaps are and how we go about creating the infrastructure of training that we need so that

reservists do not wait 2 years to be contacted, and when they are called up, their experience and their knowledge is 2 years old—

Senator BEGICH. Got you.

Mr. NIMMICH [continuing]. That we are working with them on a regular basis.

Senator BEGICH. You had mentioned some ideas of how you are going to try to get some additional data and some other information. Do you believe the information systems that you have are adequate to meet the needs of what you want to do in trying to analyze—for example, this was a great example, workforce, the analytics that you want to do. From our information, it just seems that it is not as effective as it could be. Is there data that you think, or information systems that should be better designed for what you need, or what you have is adequate and you can work with what you have got?

Mr. NIMMICH. We have a wealth of data. We do not have the tools and the analytics to be able to make the knowledge we need out of some of that data.

Senator BEGICH. Got you.

Mr. NIMMICH. We have a lot of data. It is not always the right data, either, though. So, as a case in point, we should be able to use our own data and those of the Weather Service and other providers to us to be able to estimate damage far earlier in the process than we do so that we can respond faster, particularly if it is in individual systems.

Senator BEGICH. Why can you not do that right now?

Mr. NIMMICH. Sir, we do not have the skill sets that we are developing right now. We have taken on—

Senator BEGICH. Within personnel?

Mr. NIMMICH. Yes, sir.

Senator BEGICH. OK.

Mr. NIMMICH. Yes, sir. So, we are looking at the better skill sets and bringing in those people that have the skill sets to understand the data that goes behind the geospatial imagery—

Senator BEGICH. Yes.

Mr. NIMMICH [continuing]. That we need to be able to say what is going on. So, this morning, for the fires in Washington State, I can now see where every house has been destroyed, what houses are threatened if the fire changes course. So, I can anticipate, are they likely to be eligible for some assistance and be prepared to do that in a more rapid manner.

Senator BEGICH. Got you. So, with that kind of data, the question is, your personnel capacity is one of the areas in order to look at that and say, OK, we know, based on all the weather patterns and everything else, this area could get hit by this—I will use the fire as an example—fire disaster, and there are 72 homes. This is what we think the average valuations are. Here is the cost. Here is what we need to prepare for potential damage.

Mr. NIMMICH. So, in the tornadoes that hit Arkansas earlier this year, within 24 hours, we were able to estimate that they would exceed the thresholds and the other requirements for an individual assistance disaster, including the trauma, the number of lives lost, the significant damage to a specific small town, all of those thresholds they were meeting. So, we were able to work with them to get



a very rapid individual assistance declaration in place that the President approved, and within 48 hours after that, we were able to put money in people's accounts that they needed to buy food, to be able to pay for hotels, to be able to sustain their lives.

Senator BEGICH. And, your goal is to make that systemwide.

Mr. NIMMICH. My goal is that every survivor in this country gets the same service, whether they are in remote Alaska or whether they are in downtown Los Angeles.

Senator BEGICH. Very good. I just want to make sure I have covered what I want to cover. Let me back up. I am sorry, John, you are the center point for a moment here. I think you used the words—I may get this wrong, but back to basic plan, or getting to the basics. Do you think, as you work through that, within FEMA, you are going to identify—obviously, IG and GAO have identified areas—will you be able to identify the kind of resources or reallocation of resources that may be necessary to get to that core issue, or like we just talked about, the data inputs that you need to have so it is consistent nationwide, and do you think—I think I know the answer to this, so it is kind of a, I do not want to make it a softball—but, do you think you are going to have the resources within what you have, or do you think, at the end of the day, you are going to have to figure this out and know that there are some resources needed?

Mr. NIMMICH. So, as far as we—

Senator BEGICH. Does that make sense, what I am asking?

Mr. NIMMICH. Yes, sir. Absolutely. And, as we work through the process that we have put in place now to be able to look from our strategy and those goals that the strategy has down into the activities that we actually do and be able to equate those, too, we are looking for twofold. One is to be able to identify, whether we can meet those goals, and if not, do we need additional resources. But, also, the Administrator has made it very clear. We need to do less but better. Where are the areas that we do not have an impact from those resources on the outcomes we are trying to achieve, and where do I need to put those resources?

Senator BEGICH. Reassign.

Mr. NIMMICH. Yes, sir.

Senator BEGICH. And reallocate.

To the folks from the IG and the GAO, thank you for what you have done in helping us get some good information to the staff who, I am a big believer—in this Committee as well as my other Committee I chair over in Commerce, we spend a lot of time on oversight. I think the Senate, to be very frank with you, does not do enough. We do it when there is a disaster, all right. When there is a crisis, pick the Committee, whatever Committee you want, when there is something bad happening, like, it is only now we have realized there is something wrong with the Department of Veterans Affairs (VA), which actually the IG and others have done reports on the VA for the last decade and a half, but that is another story, but it is only now that people realize.

So, I thank you for participating in this. To the staff, I want to thank you for the report, because it really helps us go after these issues and look at \$1.1-plus billion dollars of some that may be wasteful, some may not be. Some may be issues that we need to

work on. But, also to drill down, I think as you said it, John, to what are the systemic issues here. What is the root problem of some of these, because it is great to get a report, but if we do not go one more step down, then we are on to the next report or the next issue.

And, as you are doing this, the recommendations to me are always important, because if you are making these recommendations and then 5 years go by, something bad happens, FEMA is in here, we are railing on them, and then we go, well, wait a second, and you will politely say—and I know that you will politely say, well, actually, in 2009, we recommended A, B, C, and because we did not do oversight.

So, what I am hopeful of, that this is the beginning of a continual effort, as we have done already on FEMA, following it, trying to push the envelope, trying to figure out how to make your business more efficient, how to make sure the reports that are being issued are being used in a way that really gets to the meat of this.

And, then, Daniel, your comments, try and be innovative in how to think beyond. I know in the city of Anchorage, we did several things around disaster relief that was different. We have private sector folks that work in our disaster relief program. They are actually from Sam's and Costco and others. Why? Because they are our storehouses. Why would we store all that stuff? It does not make any sense. They have the warehouses. They have logistics.

Or, another thing we did, we went on a program to make sure every city employee was trained in cardiopulmonary resuscitation (CPR). So, at a bare minimum—because, in a natural disaster, the odds are you are in your neighborhood. You cannot get police and fire fighters to it. First responders may not get there because the roads are out. So, if you have someone—and we had a 3,000-person workforce, the odds we would have someone in those communities if it was an off-hour work time that understood basic first aid and CPR. That was part of our emergency management plan in a broader sense and trying to think ahead rather than when the disaster occurs, clean it all up, and then move on to another thing.

So, I want to really say to the folks at FEMA, I think, as identified in the report, we have great assets over there, which are our personnel. We have some work to do to create some more training opportunities, create some more consistency, not only with the full-time, but part-times and the ones that are called up.

I think, on the money issue, we have to drill down and figure out what are systematic issues here. With the States, we have to create some incentives for them to get their work done, because I can tell you, you are right. Some of these projects get done, take a long time. But, I can also tell you, as a former mayor, you can get things done. We built a bridge in Minneapolis in a year and it was done. We can get things done if we put our minds to it, especially if there is a little incentive to, if you do not do it, you might end up not having that money.

And then, again, trying to figure out on the workforce, what more can we do here to make it the best quality workforce out there.

So, this is helpful. It helps us identify opportunities of savings, but also opportunities to improve the quality of delivery of service here. So, thank you very much for being here.

I may have some other questions. We will keep the record open for 15 days for other members who may have some information or questions they may have for you.

But, again, I want to thank you all for being here today and testifying in front of the Committee.

At this time, the Committee is adjourned.

[Whereupon, at 3:31 p.m., the Subcommittee was adjourned.]



# APPENDIX

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STATEMENT OF JOHN ROTH  
INSPECTOR GENERAL  
DEPARTMENT OF HOMELAND SECURITY

*BEFORE THE*

SUBCOMMITTEE ON EMERGENCY  
MANAGEMENT, INTERGOVERNMENTAL  
RELATIONS, AND THE DISTRICT OF  
COLUMBIA

COMMITTEE ON HOMELAND SECURITY  
AND GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

*CONCERNING*

THE PATH TO EFFICIENCY: MAKING  
FEMA MORE EFFECTIVE FOR  
STREAMLINED DISASTER OPERATIONS

July 24, 2014



Chairman Begich, Ranking Member Paul, and Members of the Subcommittee:

Thank you for inviting me here today to discuss the role my office plays in helping FEMA overcome or mitigate its ongoing challenges. We share FEMA's goal of reducing the risks these challenges present to FEMA's ability to prepare for, protect against, respond to, recover from, and mitigate against all hazards.

My testimony today will focus on some high-risk management challenges that we have identified in our recent audit reports and in our ongoing work at FEMA. I will also discuss our new, more proactive, audit business model designed to identify problems earlier in the disaster recovery cycle.

As you are keenly aware, FEMA faces a daunting task: to be ready for anything, anywhere in the United States and its territories. Whether it is flooding in Alaska, tornadoes in Kentucky, or hurricanes in the Gulf, FEMA must be ready to assist its response and recovery partners in saving lives and protecting property. Since the late 1980s, FEMA has experienced a dramatic rise in the number of declared disasters. In the 1980s, the President declared an average of only about 24 major disasters per year. That annual number has risen to an average of 65 major disasters in the last 10 years.

The amount FEMA spends on disaster response and recovery remains substantial. During fiscal years (FY) 2004–2011, the President received governors' requests for 629 disaster declarations and approved 539, or 86 percent. For these 539 disasters, FEMA obligated about \$80 billion, or about \$10 billion annually, from the Disaster Relief Fund. Hurricane Sandy, which made landfall in October 2012, will cost the fund many more billions of dollars.

To address this dramatic increase in declared disasters, both my office and the U.S. Government Accountability Office (GAO) issued reports assessing FEMA's disaster declaration process. These reports identified weaknesses in the damage assessment process that contributed to the increased number of declarations. The OIG report (OIG-12-79, issued May 2, 2012) concluded that FEMA has been using an outdated per capita amount as an indicator that a disaster might warrant Federal assistance. When FEMA selected the per capita amount of \$1 in 1986 based on the national per capita income; it did not initially adjust the amount annually for the changes in income. FEMA later began adjusting the amount based on inflation in 1999.

On September 12<sup>th</sup> of that same year, GAO similarly concluded that the Public Assistance per capita indicator used in FEMA's Preliminary Damage Assessment is artificially low because it does not fully reflect the rise in per capita personal income since 1986 (GAO-12-838, issued September 12, 2012). By primarily relying on an artificially low indicator, FEMA's recommendations to the President are based on damage estimates that do not comprehensively assess a jurisdiction's capability to respond to and recover from a disaster on its own. Given the Federal government's economic and budgetary constraints, we recommended that FEMA revise the Public Assistance Preliminary Damage Assessment process to estimate a disaster's magnitude and economic impact more realistically. Furthermore, we recommended the agency reassess the criteria used to measure a state's capacity to respond to a disaster to better reflect changing economic conditions. Although FEMA generally agreed with our findings, they have not taken action on our recommendations.

### **Auditing FEMA's Public Assistance Program**

Since Hurricane Katrina in 2005, FEMA has made significant improvements in its ability to lead the nation's response and recovery efforts. However, FEMA continues to experience challenges, especially in managing its Public Assistance program. According to FEMA, its Public Assistance program is immense with FEMA reporting over 100,000 applicants with projects worth approximately \$50 billion.<sup>1</sup> In the past, my office has focused much of its efforts on auditing past transactions. This has led to more than a billion dollars in questioned costs and funds put to better use. Unfortunately, once money is spent, it is often too late to recover the funds or correct the underlying problems.

Looking at the past is no longer enough. Since 2013, my office has transitioned to a more balanced audit portfolio approach. This approach addresses problems before grant applicants have spent the majority of taxpayer funds, while focusing on the root causes of problems. We designed our new audit business model to help FEMA and the states develop solutions early, not just deal with the aftermath of our audit reports. FEMA officials, for their part, have welcomed our new approach. They have actively engaged my staff in finding solutions and have responded by creating a unit in FEMA's Office of Assistant Administrator for Recovery to address the systemic issues we identify in our reports.

#### Life Cycle Audits

The Office of Inspector General's Office of Emergency Management Oversight (EMO) plans to complete 74 disaster assistance audits in FY 2014. This includes 63 FEMA Public Assistance and Hazard Mitigation Grant Program audits, and 11 audits of FEMA programs and operations. Each year, FEMA provides state and local governments about \$10 billion for disaster grants and other response and recovery operational needs. EMO audits about \$1.2 billion of these costs per year. Based on historical information, EMO has generally determined that communities improperly spent about 23 percent of the grant funds audited. Therefore, we estimate that our FY 2014 disaster grant audits will identify or prevent about \$300 million in improperly spent disaster assistance based on the grant funds audited.

We plan to continue our proactive approach that places greater emphasis on prevention and early detection, rather than reporting on improperly spent disaster assistance. This proactive audit approach mirrors the disaster assistance grant life cycle and has four phases.

- **Disaster Deployment Teams** -- The first phase includes audits that our Emergency Management Oversight Teams produce after they deploy to disasters. The teams accompany FEMA during its initial response to presidentially declared disasters. We expect to conduct about five of these deployments per year, depending on the number and severity of disasters that occur. The resulting audits assess FEMA's initial response to disasters and report weaknesses before they grow into significant problems.

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<sup>1</sup> <http://www.fema.gov/media-library/assets/documents/28344>, updated May 5, 2014.

For example, our recent disaster response report entitled *FEMA's Initial Response to the Oklahoma Severe Storms and Tornadoes* (OIG-14-50-D, issued March 19, 2014) concluded FEMA responded effectively to the massive tornado that devastated Moore, Oklahoma. This report identified FEMA's success in responding to the disaster as well as staffing challenges. Importantly, this work led to our reviews of FEMA Joint Field Office procurement advice (OIG-14-46-D, issued February 28, 2014), tornado safe room hazard mitigation measures, and FEMA's Reservist deployment and qualifications systems. The tornado safe room and qualification system reports should be issued soon.

- **Capacity Audits** -- We anticipate conducting about 20 "capacity audits" early in the recovery phase before applicants have spent significant amounts of Federal funding. These audits will assess whether communities and other applicants have established policies, procedures, and business practices to properly administer the grant funds. Our recommendations will focus on correcting weaknesses to prevent applicants from misspending Federal funds. Some communities will need additional FEMA and/or state assistance to ensure success.

Following Hurricane Sandy, we reviewed the policies, procedures, and business practices of subgrantees in both New York and New Jersey. For example, recently we issued the capacity report on the Village of Saltaire, New York (OIG-14-58-D, March 26, 2014), which concluded that the Village of Saltaire's policies, procedures, and business practices were adequate to account for and expend FEMA grant funds according to Federal regulations.

- **Early Warning Audits** -- We anticipate conducting about 20 "early warning audits" later in the recovery phase. These audits will determine whether applicants are, in fact, accounting for and expending FEMA grant funds correctly. The early reporting of non-compliance should enable communities to take actions to correct, or at least mitigate, the financial impact of non-compliance.

We recently issued Hurricane Sandy early warning audit reports on the debris removal activities of three New Jersey subgrantees – the Borough of Beach Haven, Little Egg Harbor Township, and Borough of Belmar (OIG-14-54, March 21, 2014; OIG-14-57, March 24, 2014; and OIG-14-72, April 22, 2014). In these audits we identified \$1.6 million of unneeded funds and some unsupported and ineligible costs out of the \$16.8 million in grants awarded. We recommended FEMA take action to deobligate the excess, unsupported or ineligible funding.

- **Traditional Audits** -- Finally, we anticipate conducting about 20 traditional disaster grant audits. We typically perform these audits after the applicant completes most disaster work. These audits serve two important roles. First, they assess whether communities complied with their financial and procurement responsibilities; and, second, they identify unspent funds that FEMA can deobligate and put to better use. For example, we issued a traditional audit report on funds awarded to St. Stanislaus College Preparatory school (OIG-14-95, issued May 22, 2014). This report identified \$8 million in contracts that did not comply with Federal contracting requirements.

In addition to the grant life cycle audits, we anticipate conducting about 11 program audits that typically identify the cause of systematic problems and recommend solutions.



This multi-step approach is more labor intensive, but should do a better job of helping local governments and non-profits properly spend disaster assistance grant funds. Overall, we look forward to working closely with senior FEMA officials to identify opportunities where our audits can help FEMA identify weaknesses before applicants misspend tax dollars.

#### *Sandy Recovery Improvement Act of 2013*

As part of our commitment to proactive audits, we also plan to review FEMA's implementation of some key provisions of the Sandy Recovery Improvement Act of 2013 (SRIA). The passage of SRIA represents the most significant change to FEMA's authorities since the Post-Katrina Emergency Reform Act of 2006. The law authorizes several significant changes to the way that FEMA delivers disaster assistance. Notably, SRIA provides FEMA with greater flexibility in administering its Public Assistance program. The goal of the increased flexibility is to reduce administrative burdens and overall costs if grant applicants accept funding based on fixed, capped estimates. The new law holds promise for simplifying a complex and administratively burdensome process; however, developing accurate construction estimates has, and will likely continue to pose challenges and risks.

FEMA recognizes that new programs expose FEMA to a higher degree of risk. As a result, FEMA has asked us to assess its Public Assistance alternative procedures pilot program for implementing SRIA. We will start this assessment in the coming months. Other changes include debris removal alternative procedures, a new dispute resolution process, and a reassessment of the small project threshold. FEMA is moving forward to implement these changes and we will explore other opportunities to assist FEMA officials in assessing how they implement these significant changes.

#### **Findings from Recent Audit Reports**

In recent years, my office has identified problems with public assistance, hazard mitigation, disaster workforce development, preparedness grants, and information technology. Our reports also identified internal control deficiencies that, in aggregate, represented a material weakness in information technology controls and financial system functionality at the Department-wide level.

#### *Public Assistance Grants*

For many years my office has identified significant problems with FEMA's Public Assistance grant program. Our most recent capping report of disaster grant audits summarizes the results of 59 audit reports we issued in FY 2013 (see attached). Those reports contained 261 recommendations resulting in potential monetary benefits of \$308 million. This amount included \$266 million in questioned costs that we recommended FEMA disallow because the costs were ineligible or unsupported, and \$42 million in unused funds that we recommended FEMA deobligate and put to better use. The \$308 million 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 the table below shows, these results are typical of years past.

**Potential Monetary Benefits from FYs 2009–2013**

Capping Report Number	FY	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%

**FEMA's Corrective Actions** -- FEMA officials have implemented corrective measures to address issues we identified in our past reports. FEMA recognizes that applicant noncompliance with Federal procurement standards continues to be a significant source of findings and questioned costs. As a result, FEMA has developed and is implementing a new Procurement Disaster Assistance Team. The team will provide assistance to applicants in advance of contract awards to reduce procurement violations. FEMA's goal is to help ensure that applicants comply with Federal procurement standards and spend Federal funds efficiently and effectively.

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 the Federal procurement requirements.

Finally, FEMA's Recovery Directorate plans to establish a section dedicated to responding to, implementing, and learning from our audits. FEMA has already completed a 3-year retrospective analysis of our audits to help set policy priorities and plans to activate the new section by the end of FY 2014.

**FEMA's Inherent Grants Management Challenges** -- FEMA's Public Assistance grant program is FEMA's largest disaster recovery program. It provides billions of dollars in recovery money annually to states, tribal and local governments, and qualifying non-profit organizations. However, complying with grant requirements is not easy. Further, the very people responsible for administering the program (subgrantees) are themselves disaster survivors, many with little or no experience managing Federal grants. States, which usually serve as grantees, often do not take an active role in helping the applicants administer the grants, leaving the applicants to manage the grants on their own. Some large organizations are very sophisticated and experienced, whereas smaller ones often struggle.

The conditions we report related to ineligible and unsupported costs and noncompliance with Federal contracting requirements occur for many reasons. However, better grant management

would undoubtedly improve subgrantees' compliance with Federal regulations and decrease ineligible costs. The amount of unneeded funding would also decrease sharply if FEMA and grantees more closely managed grant funds and deobligated unneeded funds faster.

**Cost Estimating Challenges** -- We have also identified significant problems with cost estimating under FEMA's "50 Percent Rule." We are working with FEMA headquarters to clarify its policy under the rule and will issue a report soon summarizing the key issues that need to be addressed. Applying FEMA's 50 percent repair or replace rule correctly can be very difficult and susceptible to error, misinterpretation, and manipulation. Our audit results have demonstrated that millions of dollars are at risk from incorrect decisions. In FYs 2012 and 2013, we recommended FEMA disallow over \$100 million of costs that resulted from questionable 50 percent rule decisions. In those audits, we recommended that FEMA should have paid \$226 million to repair facilities, instead of \$327 million to replace them. In our discussions with FEMA officials, they acknowledged the difficulties in reversing replacement decisions after they communicated those decisions to grant recipients. The Sandy Recovery Improvement Act's provision on alternative procedures provides FEMA with greater flexibility in providing applicants grants that have a defined fixed amount. Therefore, it is imperative for FEMA to be able to overcome its cost estimating challenges.

**Insurance Challenges** -- Our grant reports have typically identified problems with property insurance. In FY 2013 we reported three instances totaling \$84 million where subgrantees did not obtain and maintain sufficient flood insurance required as a condition for receiving Federal disaster assistance. Having insufficient coverage is not only a violation of Federal regulations and FEMA policy, but it also puts subgrantees at risk of not having adequate protection the next time disaster strikes. We have also encountered problems with how FEMA applies insurance proceeds to Public Assistance projects. FEMA is revising its policy on insurance to ensure applicants obtain and maintain the correct type and amount of insurance. Doing so will reduce applicants' reliance on Federal assistance in future disasters because they will have proper insurance coverage. FEMA plans to complete a revision of the draft policy in 2014.

#### Hazard Mitigation

We have been increasing our work on hazard mitigation in recent years and have identified some emerging issues. In our report *FEMA Region VI Should Ensure the Cost Effectiveness of Texas Hazard Mitigation Grant Projects* (DD-13-10, issued May 3, 2013), we audited \$68 million of FEMA Hazard Mitigation Grant Program funds awarded to four subgrantees in Texas. We questioned \$18 million, or 26 percent of the \$68 million. The majority of our questioned costs related to projects that were not cost-effective and, therefore, did not meet FEMA eligibility requirements. For example, one of the four subgrantees used an unapproved benefit/cost analysis methodology that did not factor in the net present value of future benefits as FEMA requires. Using an approved benefit/cost analysis methodology would have proven that the project was not cost effective.

In August 2012, we reported that FEMA has made progress in the hazard mitigation planning program since the passage of the Disaster Mitigation Act of 2000, as amended (*Survey of Hazard Mitigation Planning*, OIG-12-109, issued August 9, 2012). The program is designed to encourage state, tribal, and local jurisdictions to (1) identify the natural hazards that affect them and

(2) implement projects that will reduce losses from disasters, including development of land use and building code regulations. FEMA requires a state mitigation plan as a condition for receiving certain types of non-emergency disaster assistance, including funding for mitigation projects.

The program is voluntary, but all 50 states plus the District of Columbia and several territories have participated since its inception. More than 26,000 jurisdictions have also developed mitigation plans. Communities that participate comprise about 70 percent of the U.S. population. Despite the program's relative success, some communities have been reluctant to participate, particularly those in less populated areas that have not experienced recent disasters. FEMA is developing a system to monitor state, tribal, and local participation and to track planned or implemented mitigation projects.

#### Disaster Workforce Development

During our recent Emergency Management Oversight Team deployments between 2012 and 2013,<sup>2</sup> we discussed FEMA's disaster workforce with Joint Field Office officials. They told us they encountered significant problems obtaining enough qualified Reservists timely under the FEMA Qualification System process and that this impacted their ability to respond quickly and effectively to disasters.<sup>3</sup> (Reservists are FEMA employees who work intermittently in support of disaster operations.) We are currently assessing whether FEMA's Qualification System and Automated Deployment Database are effective in providing the requested number of qualified Reservists to disasters in a timely manner. We recognize that the transition to a fully qualified workforce will take time. Further, FEMA began implementing the FEMA Qualification System early while expecting to make course corrections along the way.

Strengthening workforce readiness has been an ongoing challenge for FEMA since Hurricane Katrina. In our report, *Federal Emergency Management Agency Needs To Improve Its Internal Controls Over the Use of Disaster Assistance Employees* (OIG-13-13, issued November 29, 2012), we reported that FEMA paid approximately 1,600 individuals \$36 million more than they would have received if FEMA had enforced its limitation on using Disaster Assistance Employees (now Reservists) no more than 18 months in a 2-year period.

#### Information Technology

In our *Information Technology Management Letter for the Federal Emergency Management Agency Component of the FY 2013 Department of Homeland Security Financial Statement Audit* (OIG-14-76, issued April 24, 2014), we reported that FEMA took corrective action to address prior year information technology control deficiencies. For example, FEMA made improvements over designing and implementing certain configuration management and security authorization controls over FEMA information systems. FEMA also strengthened and improved controls over vulnerability management and logical access controls.

<sup>2</sup> The Emergency Management Oversight Teams prepared the following four reports related to deployments: OIG-13-84 (DR-4080-LA), OIG-13-117 (DR-4086-NJ), OIG-13-124 (DR-4085-NY), and OIG-14-50-D (DR-4117-OK).

<sup>3</sup> The Emergency Management Oversight Teams deployed to Hurricane Isaac DR-4080-LA; Hurricane Sandy DR-4086-NJ and DR-4085-NY; Oklahoma Severe Storms and Tornadoes DR-4117-OK; Colorado Severe Storms, Flooding, Landslides, and Mudslides DR-4145-CO; and Washington Flooding and Mudslides DR-4168-WA.

However, during FY 2013, we continued to identify general information technology deficiencies related to controls over security management, access control, configuration management, segregation of duties, and contingency planning and associated general support system environments. Collectively, the information technology control deficiencies limited FEMA's ability to ensure that it maintained critical financial and operational data in such a manner to ensure confidentiality, integrity, and availability. In addition, these deficiencies negatively impacted FEMA's internal controls over financial reporting and its operations. We consider these deficiencies, in aggregate, to contribute to the information technology material weakness at the Department level under American Institute of Certified Public Accountants standards.

The majority of findings resulted from noncompliance with DHS Sensitive Systems Policy Directive 4300A, *Information Technology Security Program*, requirements and National Institute of Standards and Technology guidance. Specifically, the findings stemmed from:

1. Improper or incomplete security authorization activities and supporting artifacts and documentation;
2. Insufficient logging of system events and monitoring of audit logs;
3. Inadequately designed and ineffective access control policies and procedures relating to the management of logical access to financial applications, databases, and support systems;
4. Patch, configuration, and vulnerability management control deficiencies within systems;
5. Inadequately designed and ineffective configuration management policies and procedures; and
6. The lack of alternate processing capabilities.

These deficiencies may increase the risk that the confidentiality, integrity, and availability of system controls and FEMA financial data could be exploited. As a result, the deficiencies compromised the integrity of FEMA financial data that management uses and reports in FEMA's and the Department's financial statements.

Finally, in April 2011, we reported that FEMA's information technology systems did not support disaster response activities effectively.<sup>4</sup> At that time, FEMA did not have a comprehensive information technology strategic plan with clearly defined goals and objectives. Without this, the agency is challenged to establish an effective approach to modernizing its infrastructure and systems. As a result of the report, FEMA has taken corrective action including developing an information technology strategic plan and completing its enterprise systems inventory and agency-wide budget planning process. Although we have resolved most of the findings from this report, we continue to work with FEMA officials to address our concerns. Specifically, FEMA has yet to establish a consolidated modernization approach for its mission-critical information technology systems, to include DHS plans for integrated asset management, financial, and acquisition solutions.

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<sup>4</sup> *Federal Emergency Management Agency Faces Challenges in Modernizing Information Technology*, OIG-11-69, issued April 1, 2011.

**Conclusion**

I am excited about the OIG's plans for helping FEMA achieve its mission to assist the nation in responding to disasters. I am confident that our shift to a more balanced audit portfolio and greater emphasis on prevention will yield substantial benefits in the coming years.

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

Appendix

Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own, GAO-12-838, issued September 12, 2012.

Opportunities To Improve FEMA's Public Assistance Preliminary Damage Assessment Process, OIG-12-79, issued May 2, 2012.

High Risk Series, An Update; Government Accountability Office, February 2013, GAO-13-283.

FEMA's Initial Response to the Oklahoma Severe Storms and Tornadoes, OIG-14-50-D, issued March 19, 2014.

FEMA's Dissemination of Procurement Advice Early in Disaster Response Periods, OIG-14-46-D, issued February 28, 2014.

The Village of Saltaire, New York, Generally Managed FEMA's Public Assistance Funds Effectively, OIG-14-58-D, March 26, 2014.

FEMA Should Recover \$3.7 Million in Unneeded Funds and Review the Eligibility of \$344,319 of \$5.84 Million in Public Assistance Grant Funds Awarded to the Borough of Beach Haven, New Jersey, for Hurricane Sandy Debris Removal Activities, OIG-14-54, March 21, 2014.

FEMA Should Review the Eligibility of \$689,138 of \$5.57 Million in Public Assistance Grant Funds Awarded to Little Egg Harbor Township, New Jersey, for Hurricane Sandy Debris Removal Activities, OIG-14-57-D, March 24, 2014.

FEMA Should Review the Eligibility of \$523,007 of \$5.4 Million in Public Assistance Grant Funds Awarded to the Borough of Belmar, New Jersey, for Hurricane Sandy Debris Removal Activities, OIG-14-72-D, April 22, 2014.

FEMA Should Recover \$8.0 Million of \$26.6 Million in Public Assistance Grant Funds Awarded to St. Stanislaus College Preparatory School in Mississippi -- Hurricane Katrina, OIG-14-95-D, May 22, 2014.

Disaster Relief Appropriations Act, 2013, and Sandy Recovery Improvement Act of 2013 – P.L. 113-2.

Capping Report: FY 2009 Public Assistance Grant and Subgrant Audits, DS-11-01, December 02, 2010.

Capping Report: FY 2010 FEMA Public Assistance Grant and Subgrant Audits, DD-11-17, August 23, 2011.

Capping Report: FY 2011 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits, OIG-12-74, April 13, 2012.

Capping Report: FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits, OIG-13-90, May 21, 2013.

Capping Report: FY 2013 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits, OIG-14-102-D, June 10, 2014.

Appendix

FEMA Region VI Should Ensure the Cost Effectiveness of Texas Hazard Mitigation Grant Projects, DD-13-10, May 3, 2013.

Survey of Hazard Mitigation Planning, OIG-12-109, issued August 9, 2012.

Federal Emergency Management Agency Needs To Improve Its Internal Controls Over the Use of Disaster Assistance Employees, OIG-13-13, November 29, 2012.

FEMA's Initial Response to Hurricane Isaac in Louisiana Was Effective and Efficient, OIG-13-84, April 30, 2013.

FEMA's Initial Response in New Jersey to Hurricane Sandy, OIG-13-117, September 05, 2013.

FEMA's Initial Response in New York to Hurricane Sandy, OIG-13-124, September 26, 2013.

FEMA's Initial Response to the Oklahoma Severe Storms and Tornadoes, OIG-14-50-D, March 19, 2014.

Information Technology Management Letter for the Federal Emergency Management Agency Component of the FY 2013 Department of Homeland Security Financial Statement Audit, OIG-14-76, April 24, 2014.

Federal Emergency Management Agency Faces Challenges in Modernizing Information Technology, OIG-11-69, April 01, 2011.



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](http://www.oig.dhs.gov)

JUN 10 2014

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

**FROM:** John V. Keane  
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



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

## 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.<sup>1</sup> 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

<sup>1</sup> 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.



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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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 mispending 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.



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### 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.<sup>2</sup> 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
<b>Totals</b>	<b>261</b>	<b>\$307,821,907</b>

<sup>2</sup> 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.



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**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	<u>85</u>	<u>21,118,786</u>
<b>Totals</b>	<b><u>120</u></b>	<b><u>\$242,604,029</u></b>

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,<sup>3</sup> Tulane University did not always follow Federal procurement standards in awarding \$230.1 million in contracts it used for disaster work.<sup>4</sup> 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

<sup>3</sup> 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.

<sup>4</sup> 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.



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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



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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.<sup>5</sup>

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
<b>Totals</b>	<b>85</b>	<b>\$21,118,786</b>

<sup>5</sup> 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.





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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.



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**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 <sup>6</sup>	6	3,616,016
<b>Totals</b>	<b>22</b>	<b>\$41,598,649</b>

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.<sup>7</sup>

<sup>6</sup> Includes \$2.0 million we reported as funds put to better use in DA-13-03 that we should have reported as ineligible.

<sup>7</sup> 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.



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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



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records. Federal cost principles reinforce these requirements by stating that grant recipients must adequately document claimed costs.<sup>8</sup>

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. Grant Management and Administrative Issues**

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.<sup>9</sup> 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.<sup>10</sup>

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

<sup>8</sup> *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).

<sup>9</sup> 44 CFR 13.37(a)(2) and 44 CFR 13.40(a), respectively.

<sup>10</sup> Five year average (FY 2009–FY 2013) based on State management and administrative costs. Source: FEMA's Chief Financial Officer.



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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.<sup>11</sup> 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

<sup>11</sup> 44 CFR 13.6 and 2 CFR 215.4



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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.



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**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



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**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





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**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



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**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 Resources 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



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**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	1609, 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



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**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



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**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



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**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
<b>Totals</b>	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](http://www.oig.dhs.gov/index.php?option=com_content&view=article&id=63&Itemid=33).



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## **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.<sup>12</sup> 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

<sup>12</sup> Of the 59 audits, 13 were audits of subgrantees that suffered damage from Hurricane Katrina declared in August 2005.



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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.





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## **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 the full details of our other reports, please visit our website at [www.dhs.gov](http://www.dhs.gov).

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

#### OIG HOTLINE

To expedite the reporting of alleged fraud, waste, abuse or mismanagement, or any other kinds of criminal or noncriminal misconduct related to Department of Homeland Security (DHS) programs and operations, please visit our website at [www.dhs.gov](http://www.dhs.gov) and click on the red highlighted "Hotline" to report. You will be directed to complete and submit an automated DHS-OIG Investigation Referral Submission Form. Submission through our website ensures that your complaint will be promptly reviewed 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 2900  
Attention: Office of Investigations Hotline  
245 Murray Drive, SW  
Washington, DC 20528-0300

You may also call 1 (800) 323-8573 or fax the complaint directly to us at (202) 254-4297.

The OIG seeks to protect the identity of whistleblowers and users.

STATEMENT  
OF  
JOSEPH NIMMICH  
ASSOCIATE ADMINISTRATOR  
OFFICE OF RESPONSE AND RECOVERY  
FEDERAL EMERGENCY MANAGEMENT AGENCY  
U.S. DEPARTMENT OF HOMELAND SECURITY  
BEFORE  
THE  
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS  
SUBCOMMITTEE ON EMERGENCY MANAGEMENT, INTERGOVERNMENTAL  
RELATIONS, AND THE DISTRICT OF COLUMBIA  
U.S. SENATE  
WASHINGTON, D.C.  
**“THE PATH TO EFFICIENCY: MAKING FEMA MORE EFFECTIVE FOR  
STREAMLINED DISASTER OPERATIONS”**

Submitted  
By  
Federal Emergency Management Agency  
500 C Street, S.W.  
Washington, D.C. 20472

July 24, 2014

### **Introduction**

Good Afternoon Chairman Begich, Ranking Member Paul, and Members of the Subcommittee. My name is Joseph Nimmich, and I am the Associate Administrator for the Office of Response and Recovery (ORR) at the U.S. Department of Homeland Security's (DHS) Federal Emergency Management Agency (FEMA).

Thank you for the opportunity to discuss FEMA's efforts to make our programs and processes efficient to ensure we continue to meet our critical mission. The Agency continues to assess and evaluate on a recurring basis its resource alignment and usage to ensure we are focused on those programs that have the most significant impact on the Agency's ability to fulfill its overall mission. FEMA leadership across the Agency supports Secretary Johnson's "Strengthening Departmental Unity of Effort" initiative by actively participating in DHS- and Agency-wide formal engagements, such as Program and Budget Reviews (PBRs), weekly forums to improve internal collaboration, and inclusive strategic assessment and planning to consider the important questions about FEMA performance and overall effectiveness and efficiency.

Moreover, FEMA will continue to build on its successful past efforts to streamline and enhance current business processes, while using smart and innovative technologies, to better maximize the delivery of services and the efficient and effective use of available resources to achieve its five priorities:

1. Be survivor-centric in mission and program delivery;
2. Become an expeditionary organization;
3. Posture and build capability for catastrophic disasters;
4. Enable disaster risk reduction nationally; and
5. Strengthen FEMA's organizational foundation to invest in our workforce, work smarter through data analytics, streamline business processes, and align strategy, budget execution and performance.

The focus of the fifth priority is to ensure a system that fully supports smart and good business practices, consistent with the authorities and responsibilities enacted by the Congress. In addition FEMA's priorities are framed and guided by two critical imperatives: undertaking a whole community approach to emergency management; and fostering innovation and learning, which further enhance overall mission effectiveness and program efficiencies across all of FEMA through collaborative efforts.

### **Strategic Planning and Resource Alignment**

FEMA's senior leadership is focused on strengthening the connections among strategy, budget, execution and performance through a comprehensive resource management system. Through our PBR process, FEMA brings together these leaders, from its major programs and offices, to discuss and justify, in detail, how all available resources will be used to achieve our priorities.

Then FEMA conducts further assessments each fiscal quarter to assess and validate performance resources and identifies necessary changes to meet any gaps in mission execution. Through these efforts, FEMA identified and executed a number of organizational and programmatic changes to achieve overall efficiencies including: (a) consolidation of facilities within the National Capital Region (NCR) through workplace transformation; (b) strategically reducing non-disaster travel; (c) reducing the reliance on contracts through a more balanced workforce. These efficiencies have allowed FEMA to reinvest resources to maintain critical staffing levels and systems support.

Additionally, FEMA participates in the new DHS Secretary and Deputy Secretary-led senior leader forums and DHS's integrated program and budget review, and FEMA has a seat on the new DHS Joint Requirements Council to ensure we account for whole-of-Department priorities and considerations in our resource planning and execution.

#### **Disaster Operations**

FEMA has made several recent changes, many of them enabled by the authorities in the Sandy Recovery Improvement Act of 2013 (SRIA), that have reduced disaster management costs, improved the timing and execution of disaster services to better meet community needs and enhanced applicants' access to disaster grants.

#### ***Disaster Funds Management***

FEMA implemented a number of changes to enhance disaster funds management, while also improving the delivery of disaster services. For example, through the development and use of new technology, disaster survivors are now able to get timely information and register for eligible benefits online, including via mobile devices.

#### ***Streamlining Processes***

Through use of new authorities enacted under SRIA, FEMA is streamlining and enhancing the decision-making processes related to its Public Assistance and debris removal grants. This has led to a reduction in the administrative costs for the federal government as well as the applicants.

#### ***Increasing the Use of Virtual Joint Field Offices***

FEMA continues to examine and update its policies on overall disaster operations including increasing the use of Virtual Joint Field Offices (JFOs). These Virtual JFOs are staffed by employees from FEMA's regional offices, who bring a thorough knowledge of state, local, and tribal dynamics to their work. This knowledge serves to better guide disaster applicants through the grant process and makes the overall process more effective.

### ***Reducing Unspent Balances***

Finally, FEMA implemented new funds management techniques to reduce large unspent balances. These techniques, including Strategic Funds Management, require spend plans for every disaster, timelier reviews and adjustments of mission assignments based on actual requirements, and prioritization of the close-out of previous disasters. These Disaster Spend Plans not only have informed and improved disaster planning and decision-making, but have also created a stronger partnership with states, tribes and localities.

### **Non-Stafford Events and National Disaster Recovery Framework Successes**

Enhanced capability for recovery at the state, local, tribal and territorial level, along with well-organized federal support, is one of the most effective ways to increase the efficiency of disaster recovery. The National Disaster Recovery Framework (NDRF) describes roles and responsibilities and the capabilities needed across the whole community to lead, coordinate and support resolution of a wide range of challenges faced in recovering from disaster. It enables coordination and recovery planning at all levels of government before a disaster, and defines how we will work together, following a disaster, to best meet the recovery needs of individuals and communities.

The National Preparedness Goal established eight recovery core capabilities: Planning, Operational Coordination, Public Information, Housing, Economic, Health and Social Services, Infrastructure Systems, and Natural and Cultural Resources. These capabilities set more specific targets for the federal, state, local, tribal and territorial governments to address recovery from a whole community perspective, build new partnerships, and expand their planning horizons. These core capabilities are not exclusive to any single level of government or organization, but rather require the combined efforts of the whole community.

While Stafford Act assistance can address the key recovery and basic reconstruction needs after overwhelming events, other resources can also be used in non-Stafford events. The leadership, coordination structure, and partners needed to address these more holistic core capabilities in all manner of events requires a new approach – one espoused by the NDRF. States and localities have begun to take up this challenge.

The federal government has also been applying these core capabilities to better leverage resources already available across the federal family in a myriad of agencies. The six Recovery Support Functions outlined below, led by the Federal Disaster Recovery Coordinator (FDRC), comprise the federal coordination structure across the eight core capabilities and bring the full resources of the federal government.

- Community Planning and Capacity Building: Federal Emergency Management Agency
- Economic: U.S. Department of Commerce
- Health and Social Services: U.S. Department of Health and Human Services

- Housing: U.S. Department of Housing and Urban Development
- Infrastructure Systems: U.S. Army Corps of Engineers
- Natural and Cultural Resources: U.S. Department of Interior

Through application of the concepts and coordination under the NDRF, we are seeing increased efficiency and effectiveness as impacted communities are using a wider range of federal capabilities beyond what FEMA alone can provide. FEMA has begun developing a multi-year Regional All-Hazard Recovery planning effort to build more specific relationships and coordination expectations among the regional federal partners and their respective states. These plans will build further federal agency capability and involvement in recovery, but will also serve to increase states engagement with a wider range of potential recovery resources that may be applied after any event.

#### ***Role of Voluntary Organizations Active in Disaster***

Non-governmental organizations, such as the National Voluntary Organizations Active in Disaster, the American Red Cross and the Heritage Preservation National Task Force are standing members of the Recovery Support Functions (RSFs) and provide support during both non-Stafford Act events and Stafford Act events.

Since June of this year, FEMA Headquarters and Regional FEMA Voluntary Agency Liaisons have been activated to support the ongoing efforts regarding the unaccompanied children issues and coordinating with voluntary organizations such as Catholic Charities, American Red Cross, and many other organizations who are providing case management and social service assistance to the children in need.

#### ***Non-Stafford Assistance Examples***

The FDRC can play a key role in helping states manage non-Stafford Act events by offering consultation and facilitating engagement with partners. An FDRC can assist in identifying resources outside of FEMA available pre- or post- disaster. Federal presence, if warranted, is typically limited to technical assistance following non-Stafford Act events; however, a limited number of Federal agencies like the Small Business Administration (SBA) and the United States Department of Agriculture (USDA) maintain programs or authorities that can directly support the needs of impacted communities outside a Stafford Act declaration.

Several specific examples illustrate how the principles and approach espoused in the NDRF can be carried out in Non-Stafford Act events.

#### ***Harrisburg Illinois Tornadoes***

On February 29, 2012, severe storms and tornadoes affected several counties in Illinois, damaging an estimated 440 homes in the City of Harrisburg. It was determined that the event did not exceed the capabilities of the State of Illinois, and a Stafford Act declaration was not

granted. However, FEMA Region V Recovery Coordination staff deployed to provide technical assistance in support of State efforts to apply NDRF principles and concepts to identify and coordinate recovery assistance around the needs and goals of the impacted communities. On April 2, 2012, the Governor's office announced that \$13 million in state assistance was available to support recovery needs in the impacted communities. This package was made up of reprioritized existing state and federal programs and block-grants. Following the announcement, state agency representatives met in the affected communities to outline programmatic requirements, coordinate assistance, and support the development of a unified local recovery plan.

#### *National Drought Resilience Partnership*

The recent collaboration between federal agencies, state and local governments, and nongovernmental organizations to improve community preparedness and resilience to drought demonstrates the usefulness and flexibility of the NDRF when applied to Non-Stafford Act events. The Framework concepts and principles have supported a coordinated national response to drought since 2012. This support continues to the present with the establishment of the National Drought Resilience Partnership.

The FEMA Region IX Federal Disaster Recovery Coordinator utilized existing authorities to facilitate broad federal involvement, manage state and federal collaborative efforts, and brought back guidance from the National Drought Resilience Partnership. In addition, the Regional Recovery Coordination staff worked with the Regional Interagency Steering Committee (RISC) to hold a drought panel discussion between Nevada, Arizona and California at the RISC meeting.

#### *Moving Forward*

As part of a concerted effort to capitalize on these events, FEMA is integrating three best practices into preparedness efforts and the development of additional national guidance.

- Identification of traditional and non-traditional federal, state and tribal non-Stafford Act programs that can be used to support the needs of impacted communities. States benefit from an understanding of the wider range of agencies and partners that have resources available. Specifically, an understanding of how block-grants and other available federal programs may apply to recovery is essential when considering potential resources.
- A scalable, flexible, and adaptable support structure is crucial. Coordination requirements for current and potential support should be considered to ensure that the structures established are appropriately scaled. Localities must have their own partnerships and ability to conduct outreach to assistance sources.
- Recovery requires more than programmatic resources. Technical assistance that is available from non-Stafford federal programs, as well as through a variety of state, non-governmental and non-profit organizations is key, especially when a state, tribal, or local government does not meet the criteria for Stafford Act assistance.



### **Workforce Management**

FEMA's incident workforce must be appropriately staffed, trained, and equipped for rapid mobilization, deployment, and employment to provide expeditionary, survivor-centric support and to fulfill statutory requirements in the mitigation, response, and recovery mission areas of national preparedness. FEMA's workforce has one central goal – to ensure the Agency builds, sustains, and continuously improves its capability to prepare for, protect against, respond to, recover from, and mitigate all hazards. Managing our workforce well is vital to achieve this goal.

#### ***FEMACorps***

In the past two years, FEMA has strengthened its disaster workforce through a partnership with the Corporation for National and Community Service's AmeriCorps National Civilian Community Corps, to train and deploy FEMACorps members at disasters, as well as support overall readiness and preparedness. FEMACorps has been a success both in terms of its mission results, and in terms of managing and reducing disaster costs. FEMACorps also has increased the reliability and diversity of the disaster workforce, promoted an ethic of service, and expanded education and economic opportunity for young people.

#### ***Cadre Management***

FEMA has revamped its approach to cadre management by developing new governance mechanisms, policies, and clarified roles and responsibilities for the management and coordination of FEMA's operational cadres. FEMA's cadre management framework is designed to effectively maintain operational readiness on both the individual and collective level by drawing from five operating principles: Staffing Force Structure; Educating and Training Cadre Members; Qualifying Cadre Members; Equipping Cadre Members; and Performance Management.

#### ***FEMA Qualification System***

FEMA developed and implemented a new FEMA Qualification System (FQS), consistent with the Post-Katrina Emergency Management Reform Act of 2006, as part of a multi-faceted transformation effort to ensure that the Agency's incident workforce is credentialed and qualified. FQS establishes for all workforce positions minimum, consistent qualification standards, which FEMA employees achieve through experience, training, and demonstrated performance. FEMA regularly reviews and updates FQS based on changes to Agency policies and procedures.

#### ***Deployment***

FEMA deploys personnel based on requests submitted from an affected state, tribe or territory. FEMA is developing operational plans to serve as templates for future disasters. These templates, which are called force packages, will be customizable according to the needs and

requirements of the impacted state, local, tribal and territory. This approach allows FEMA to deploy in a targeted manner, thus ensuring efficient use of the personnel and resources, and ensuring the Federal Coordinating Officer (FCO) can focus on the unique tasks and personnel requirements of disaster management.

FEMA will incorporate detailed analysis of potential or actual impacts within the force packages. This analysis will help FEMA be more prepared to respond to an event. These force packages will be developed in coordination with FQS Certifying Authorities and Officials, FEMA Headquarters components, and FEMA's ten Regions.

#### **Non-Disaster Grants Management**

FEMA continues to focus on issuance and management of non-disaster grants. During the past two years, FEMA implemented enhanced controls over the review of extension requests, while continuing to prioritize the close-out of open grants. As a result of these efforts, FEMA reduced the balances of open non-disaster grants by nearly 50 percent. In addition, FEMA submitted a National Preparedness Grant Program legislative proposal in support of the President's budget to consolidate current state, local and tribal preparedness grant programs. This proposal would improve coordination among grantees, eliminate duplicative efforts and support the sustainment and development of the core capabilities described in the National Preparedness Goal.

#### **Joint Planning**

FEMA coordinates planning activities with other departments and agencies to align the federal support to states, localities, tribes and territories to respond to and recover from catastrophic incidents.

Planning has been improved at the national level and across all ten FEMA Regions through the employment of an "All-Hazards" planning construct pursuant to Presidential Policy Directive (PPD)-8 "National Preparedness." Federal Interagency Operations Plans (FIOP), which are single "All-Hazards" plans for the response and recovery mission areas, set forth the concepts of operations across the emergency and recovery support functions for routine and catastrophic hazard scenarios. FEMA coordinates the development of incident-specific annexes where necessary to address tasks and critical considerations for unique situations or requirements that would not otherwise be addressed in the "All-Hazards" plan. Each lead and supporting department and agency, including a multitude of FEMA programs, collaborates in a unified effort to reduce the development and maintenance of separate plans. A single five-year planning schedule enables FEMA to synchronize its planning efforts with other departments and agencies to ensure planning addresses the Strategic National Risk Assessment and regional Threat-Hazard-Identification-Risk-Analysis (THIRA).

Substantial improvements have been made in the integration of planning assumptions, concepts of operations and support requirements with FEMA's interagency partners. For example, the

Department of Defense's CONPLAN 3500, which outlines defense support to civilian authorities, is based on planning assumptions and requirements that are integrated with the FIOP for response. U.S. Northern Command (USNORTHCOM), through the Defense Coordinating Officers that operate at FEMA Regional Offices, is in the process of developing support playbooks for executing its roles and requirements identified in regional All Hazard Plans and associated incident-specific annexes. The most recent USNORTHCOM playbooks include those for the FEMA Region X Alaska Response Annex, Region IX and X Cascadia Subduction Zone Annexes and Region IX Southern California Earthquake. Future playbook initiatives will be tied to the Region IV, V, VI and VII New Madrid Seismic Zone earthquake annexes and the Region III and V improvised nuclear device response annexes.

Federal interagency planning has become more integrated across missions and hazard types, through the development of joint annexes to the response and recovery FIOPs. Recent collaborations include:

- Developing the Biological Incident Annex with the Department of Health and Human Services and the DHS Office of Health Affairs;
- Developing the Oil/Chemical Incident Annex with the Environmental Protection Agency and Coast Guard; and
- Developing the Nuclear/Radiological Incident Annex with the Nuclear Regulatory Commission, FEMA Radiological Emergency Preparedness Program, the Department of Energy and the Department of Defense.

The Emergency Support Function and Recovery Support Function Leadership Groups coordinate a collaborative planning effort that involves dozens of other departments and agencies, such as the Federal Bureau of Investigation and DHS Operations Coordination and Planning.

#### **Workplace Transformation Initiative**

FEMA is transforming its physical workspace, shrinking its facilities footprint, and emphasizing mobility, hoteling and telework for its employees as part of the Agency's Workplace Transformation initiative. FEMA began the process of workspace consolidation with the primary goal of providing a more collaborative and productive environment. This approach emphasizes flexible workspaces, in which our work is accomplished anywhere our team members are located, rather than in specific offices and cubicles. Technology, such as voice over internet protocol, wireless connectivity, enhanced conference bridge capabilities and boosted cellular signals, are being employed to facilitate collaboration.

The strategy includes an effort to reduce the number of office buildings FEMA leases in the National Capitol Region (NCR) from eight to three, reducing office space by hundreds of thousands of square feet and saving FEMA \$11.4 million annually by Fiscal Year (FY) 2016. As the NCR transformation is completed, FEMA also intends to review its footprint at the regional level.

FEMA was recognized by the Office of Management and Budget (OMB) as a leader for achieving space efficiency as a result of this effort. FEMA was also recognized by DHS for the use of telework.

### **Information Systems**

FEMA relies extensively on its information technology (IT) systems to perform its critical mission of leading America to prepare for, prevent, respond to, recover from, and mitigate against disasters. In turn, the country relies on FEMA to continue operations during all disasters and emergencies, including cyber events.

To make its systems more resilient and secure, the FEMA Office of the Chief Information Officer (OCIO) is executing a comprehensive FEMA-wide Cyber Security Resiliency Review, and is instituting numerous changes throughout FEMA. The goal of the effort is to strengthen the security and resiliency posture of FEMA's information technology environment. Some concerns identified during the review can be addressed quickly through policy and documentation updates or governance changes, while others will require additional planning and the reprioritization of funding.

Short term efforts, of which many have been completed, include:

- Aligning the Chief Information Security Officer and Office of Information Assurance as direct reports to the FEMA CIO in accordance with government and industry best practices;
- Continuing implementation of Personal Identity Verification cards for IT system access, which provides vetted federal employees and partners seamless and secure access to FEMA information systems and applications. While the Agency moved from zero percent compliance to 66 percent in a span of three months and met DHS's FY 2013 goal, we are focused on even greater compliance. This effort will further harden FEMA's network and hardware against unauthorized access;
- Altering FEMA's approach to system authorizations by incorporating program office leadership under a "Shared Accountability" model to ensure that FEMA IT systems are secure prior to deployment and operation, and that FEMA can make a balanced-risk decision between its security posture and mission enablement;
- Consolidating and validating FEMA's systems inventory, which requires documenting, verifying, and strengthening the security and resilience of FEMA's mission essential systems and applications; and
- Reviewing, revising, or developing security plans to clearly define each system's Federal Information Processing Standard Security Categorization and Authorization Status.

In FY 2014 the Chief Information Officer will stabilize FEMA IT, and over the next several years the CIO will lead an effort to optimize and transform FEMA IT to enable FEMA and the

whole community to support our citizens and first responders efficiently and effectively. Once fully implemented, OCIO's short term changes should immediately strengthen and streamline FEMA's IT security oversight and control processes. Intermediate and long-term efforts include:

- Continuing to consolidate and validate FEMA's systems inventory;
- Maintaining and strengthening the security posture of FEMA's authorized systems, particularly with respect to mission-critical systems that FEMA will rely on during a disaster or cyber event;
- Planning for and developing a comprehensive financial and grants system modernization plan.

With full implementation of these intermediate to long term efforts, FEMA systems will have a much higher degree of reliability, availability, and resiliency during a disaster or cyber event.

#### *Financial Systems Technology Refresh*

FEMA's Integrated Financial Management Information System (IFMIS) was at risk of failure due to outdated hardware and a 20-year old operating system. To mitigate the risk of failure, FEMA took steps to stabilize IFMIS as part of a "technology refresh." The refresh migrated IFMIS to a Linux operating system and web platform called WebIFMIS. The refresh added more memory to increase system capacity and accommodate more users. The system now includes additional redundancy that provides a new layer of protection against system failures. As a result of these efforts, FEMA has improved the security and resiliency posture of its core financial system. FEMA recognizes that additional vulnerabilities persist, and is working with DHS on permanent solutions. These include planning and developing a comprehensive financial system modernization plan. FEMA is also implementing interim enhanced applications to meet business needs, including an enhanced and significantly less costly budget management system, an improved property management system, an automated requisition system, and the new travel system referenced below.

#### *Concur Government Edition*

FEMA was the first DHS component to fully implement a new travel system that included all disaster travel and automated 80 percent of employee travel management, making the accounting and budgeting processes more efficient. Moving forward, all FEMA disaster travel will be processed through the Concur Government Edition (CGE) travel system. This system will process more than 160,000 vouchers per year for a total of \$275 million processed. And the estimated 10 to 15 full time employees who previously processed these vouchers manually will be reassigned to other important work. This could save an estimated \$1.2 million to \$1.8 million, potentially allowing FEMA to reinvest that savings to accomplish other priorities.

#### **Improved Audit Process and Results**

FEMA implemented several programmatic changes to improve the efficiency of the audit response and resolution process, including:

- Performed retrospective analysis of the findings from the past three years of public assistance audits to understand the full scope of issues and prioritize corrective actions;
- Established an Audit Response Unit within the Recovery Directorate to increase the Agency's capacity to respond to and implement the Office of Inspector General's (OIG) findings;
- Established Disaster Procurement Assistance Teams that deploy during disasters to provide just-in-time training and guidance during a disaster so that procurement related mistakes are reduced; and

FEMA Administrator Craig Fugate made audit resolution a priority, setting performance goals and requiring monthly reporting on audit resolution progress. FEMA is also investing in improved analytic capabilities across the Agency, while focusing on proper and responsible use of the Disaster Relief Fund.

In a concerted effort to improve internal controls and processes, FEMA:

- Offers policy and guidance material to grantees and sub grantees;
- Conducts quality assurance and quality control reviews with both an initial and final review of each project obligated;
- Conducts training courses for its staff as well as for our state and tribal partners;
- Uses process improvement modeling and analytic tools to mine audit findings to inform improved business practices and program management across FEMA; and
- Ensures FEMA's Audit Tracking and Analysis System is compliant with the OMB A-50, and that audit response management is timely, accurate, supports analytics, eliminates duplication and improves monitoring, tracking and reporting of data.

As a result of FEMA's efforts, FEMA reduced its two material weaknesses, which include grants management and information technology controls and system functionality, as part of the DHS annual Financial Statement Audit for Grants Management and Information Technology Controls and System Functionality to Significant Deficiencies. FEMA also positively contributed to DHS's first ever clean financial statements audit in 2013, through these efforts. FEMA has reduced the number of open OIG recommendations, closing out 1,712 recommendations since January 2012, while at the same time addressing \$1 billion in questioned costs. Eighty percent of questioned costs were identified as allowable costs, and the remaining 20 percent were disallowed and returned to the Disaster Relief Fund (DRF).

### **Conclusion**

FEMA is committed through its actions and its leadership to using, managing and maximizing its resources and its workforce to support the DHS Secretary's priorities and the expectations of the

American public. The Agency continues to achieve these goals by enhancing workforce capabilities, streamlining business processes and harnessing the benefits of improved information systems. Our strategic framework, our management approach and our culture of improvement demonstrates a commitment to better serve states, tribes, survivors and communities, who are our ultimate stakeholders.

We look forward to providing continued information to the Subcommittee to facilitate its critical oversight function and to working together to protect the nation.



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United States Government Accountability Office

Testimony before the Subcommittee on  
Emergency Management, Intergovernmental  
Relations, and the District of Columbia;  
Committee on Homeland Security and  
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## FEDERAL EMERGENCY MANAGEMENT AGENCY

### Opportunities to Achieve Efficiencies and Strengthen Operations

Statement of Chris Currie, Acting Director  
Homeland Security and Justice





July 24, 2014

## FEDERAL EMERGENCY MANAGEMENT AGENCY

### Opportunities to Achieve Efficiencies and Strengthen Operations

#### What GAO Found

GAO's recent and ongoing work examining the Federal Emergency Management Agency's (FEMA) administrative costs of providing disaster assistance highlights opportunities to increase efficiencies and potentially reduce these costs. In September 2012, GAO reported that FEMA's administrative costs for disaster assistance had doubled in size as a percentage of the overall cost of the disasters since fiscal year 1989, and often surpassed its targets for controlling administrative costs. GAO also concluded that FEMA's administrative costs were increasing for all sizes of disasters and for all types of disaster assistance. FEMA issued guidelines intended to improve the efficiency of its efforts and to help reduce administrative costs. However, FEMA did not make this guidance mandatory because it wanted to allow for flexibility in responding to a variety of disaster situations. In 2012, GAO recommended that the FEMA Administrator implement goals for administrative cost percentages and monitor performance to achieve these goals. However, as of June 2014, FEMA had not taken steps to implement GAO's recommendation. GAO's ongoing work indicates that FEMA is implementing a new system to, among other things, collect and analyze data on the administrative costs associated with managing disasters to enable managers to better assess performance. However, according to officials, FEMA is still working on systematically collecting the data. As a result, it is too early to assess whether this effort will improve efficiencies or reduce administrative costs.

GAO has also reported on opportunities to strengthen and increase the effectiveness of FEMA's workforce management. Specifically, GAO reviewed FEMA human capital management efforts in 2012 and 2013 and has made a number of related recommendations, many of which FEMA has implemented; some of which are still underway. For example, GAO recommended that FEMA identify long-term quantifiable mission-critical goals and establish a time frame for completing the development of quantifiable performance measures for workforce planning and training, establish lines of authority for agency-wide efforts related to workforce planning and training, and develop systematic processes to collect and analyze workforce and training data. FEMA concurred and is still working to address these recommendations. For example, FEMA's deployment of its disaster assistance workforce during the response to Hurricane Sandy revealed a number of challenges. In response, according to agency officials, FEMA is, among other things, analyzing its disaster assistance workforce structure to ensure the agency is capable of responding to large and complex incidents. GAO will continue to evaluate these efforts to assess their effectiveness.

In March 2011, GAO reported that FEMA could enhance the coordination of application reviews of grant projects across four of the largest preparedness grants (Urban Areas Security Initiative, State Homeland Security Program, Port Security Grant Program, and Transit Security Grant Program) which have similar goals, fund similar types of projects, and are awarded in many of the same urban areas. GAO recommended that FEMA coordinate the grant application process to reduce the potential for duplication. FEMA has attempted to use data to coordinate two programs and also proposed to consolidate its preparedness grant programs, but FEMA's data system has been delayed, and Congress did not approve FEMA's consolidation proposal for either fiscal year 2013 or 2014.

United States Government Accountability Office

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Chairman Begich, Ranking Member Paul, and Members of the Subcommittee:

I appreciate the opportunity to testify today about efforts by the Federal Emergency Management Agency (FEMA), a component of the Department of Homeland Security (DHS), to more efficiently lead the nation's efforts to prepare for, respond to, and recover from disasters. We have reported on a broad range of issues related to FEMA's programs and operations over the last decade and currently have ongoing work for this committee evaluating disaster administrative costs and workforce planning, as well as federal catastrophic response efforts, post-disaster mitigation, and states' disaster budgeting practices.

Large disasters are increasingly complex and costly. For example, in fiscal year 2014 Congress appropriated \$6.2 billion for FEMA's Disaster Relief Fund.<sup>1</sup> As we reported in 2012, FEMA obligated over \$80 billion in federal assistance for major disasters declared from fiscal years 2004 through 2011.<sup>2</sup> In addition, the increasing number and size of disasters require an increasingly large federal disaster assistance workforce. As we reported in April 2012, FEMA responded to more disasters in fiscal year 2011 than in any other year in its history when FEMA's disaster assistance workforce responded to 124 declared major disasters and emergencies. Then, in October 2012, Hurricane Sandy hit the East Coast and more than 17,000 federal personnel—including more than 7,500 FEMA staff—were deployed as part of one of the largest deployment of personnel ever. For fiscal year 2014, Congress appropriated \$1.5 billion for six FEMA preparedness grant programs.<sup>3</sup> As we reported last year, from fiscal years 2002 through 2013, the federal government appropriated

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<sup>1</sup>Pub. L. No. 113-76, 128 Stat. 5, 263 (2014).

<sup>2</sup>GAO, *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, GAO-12-838 (Washington, D.C.: Sept. 12, 2012).

<sup>3</sup>Pub. L. No. 113-76, 128 Stat. 5, 261 (2014). This is the total amount appropriated to the State and Local Programs account, which includes the State Homeland Security Program, Operation Stonegarden, Urban Areas Security Initiative, Intercity Passenger Rail – Amtrak Program, Port Security Grant Program and Transit Security Grant Program.

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about \$41 billion to a variety of DHS preparedness grant programs.<sup>4</sup> The larger number and size of disasters have required increasingly complex and costly FEMA operations and processes to prepare for and respond to these events, and increases the importance that FEMA operations are as efficient and effective as possible.

My testimony today discusses our previously published and ongoing work on opportunities to enhance efficiencies in FEMA's operations in the following areas: (1) disaster administrative costs, (2) workforce management, and (3) preparedness grant management.

This statement is based on our prior work issued from November 2008 to May 2014 related to FEMA's disaster administration, human capital management, and preparedness grants and selected updates.<sup>5</sup> To perform the work for these reports, we reviewed key federal documents and efforts such as FEMA's analyses and reports on these issues, analyzed data from FEMA and interviewed FEMA officials, analyzed information collected from other relevant agencies, and visited various locations. Further details on the scope and methodology of our previously issued reports are available within each of the published products. In addition, this statement includes preliminary observations from our ongoing work assessing the rising administrative costs of providing disaster assistance and FEMA workforce management efforts.<sup>6</sup> For the ongoing work, we are reviewing FEMA documents such as its administrative cost analyses and Strategic Human Capital Plan, among other things. We are also conducting our own analyses of FEMA data and interviewing FEMA and select state officials. We shared a copy of the new information in this statement with DHS officials.

The work upon which this testimony is based was conducted in accordance with generally accepted government auditing standards.

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<sup>4</sup>This total is based on Congressional Research Service data and our analysis, and includes Firefighter Assistance Grants and Emergency Management Performance Grants. See Congressional Research Service, *Department of Homeland Security Assistance to States and Localities: A Summary of Issues for the 111th Congress*, R40246 (Washington, D.C.: Apr. 30, 2010).

<sup>5</sup>See the related GAO products list at the end of this statement, and cited throughout this statement.

<sup>6</sup>We plan to issue a report with the results from this work in the fall of 2014.

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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Costs of Providing Disaster Assistance Have Increased, but FEMA Has Not Taken Recommended Action to Control Its Administrative Costs

We reported in September 2012 that FEMA's administrative costs had been increasing for all sizes of disasters.<sup>7</sup> According to FEMA, administrative costs include, among other things, the salary and travel costs for its disaster workforce, rent and security expenses associated with establishing and operating its field office facilities, and supplies and information technology support for its deployed staff. In September 2012, based on our analysis of 1,221 small, medium, and large federal disaster declarations during fiscal years 1989 through 2011, we found that the average administrative cost percentage for these disaster declarations doubled from 9 percent in the 1989-to-1995 period to 18 percent in the 2004-to-2011 period, as shown in table 1.

**Table 1: Average Administrative Cost Percentages for 1,221 Disaster Declarations during Fiscal Years 1989 through 2011**

Fiscal years that declaration was approved	Average administrative cost percentage
1989 to 1995	9
1996 to 2003	14
2004 to 2011	18

Source: GAO analysis of Federal Emergency Management Agency data | GAO-14-687T

We also found that the growth in administrative costs occurred for all types of disaster assistance, including those related to providing Individual Assistance, Public Assistance, and assistance for those

<sup>7</sup>GAO, *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, GAO-12-838 (Washington, D.C.: Sept. 12, 2012).

disasters that provided both Individual Assistance and Public Assistance.<sup>8</sup> As shown in table 2, since fiscal year 1989, administrative cost percentages doubled for disaster declarations with Individual Assistance only, quadrupled for declarations with Public Assistance only, and doubled for declarations with Public Assistance and Individual Assistance.

**Table 2: Average Administrative Cost Percentages by Type of Assistance during Fiscal Years 1989 through 2011**

Type of Assistance	1989 to 1995	1996 to 2003	2004 to 2011
Individual Assistance	17	27	34
Public Assistance	4	11	16
Individual and Public Assistance	9	14	18

Source: GAO analysis of Federal Emergency Management Agency data | GAO-14-687T

To address these rising costs, FEMA issued guidelines and targets intended to improve the efficiency of its efforts and to help reduce administrative costs. In November 2010, FEMA issued guidance on how to better control administrative costs associated with disaster declarations. The guide noted that incidents of similar size and type had witnessed growing administrative costs for 20 years, and that, in the past, little emphasis had been placed on controlling overall costs. The document provided guidance on how to set targets for administrative cost percentages, plan staffing levels, time the deployment of staff, and determine whether to use “virtual” field offices instead of physical field offices. However, in September 2012, we found that FEMA did not require that this guidance be followed or targets be met because the agency’s intent was to ensure that it was providing guidance to shape how its leaders in the field think about gaining and sustaining efficiencies in operations rather than to lay out a prescriptive formula. As a result, we concluded that FEMA did not track or monitor whether its cost targets were being used or achieved.

<sup>8</sup>The Individual Assistance program provides for the necessary expenses and serious needs of disaster victims that cannot be met through insurance or low-interest Small Business Administration loans. For example, FEMA may provide temporary housing assistance, counseling, unemployment compensation, or medical expenses incurred as a result of a disaster. The Public Assistance program provides for debris removal; emergency protective measures; and the repair, replacement, or restoration of disaster-damaged, publicly owned facilities and the facilities of certain private nonprofit organizations that provide services otherwise performed by a government agency.

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In September 2012, we also found that in many cases, FEMA exceeded its cost targets for administrative costs. Specifically, based on our analysis of the 539 disaster declarations during fiscal years 2004 through 2011, we found that 37 percent of the declarations exceeded the 2010 administrative cost percentage targets. Specifically:

- For small disaster declarations (total obligations of less than \$50 million), FEMA's target range for administrative costs is 12 percent to 20 percent; for the 409 small declarations that we analyzed, 4 out of every 10 had administrative costs that exceeded 20 percent.
- For medium disaster declarations (total obligations of \$50 million to \$500 million), the target range for administrative costs is 9 percent to 15 percent; for the 111 declarations that we analyzed, almost 3 out of every 10 had administrative costs that exceeded 15 percent.
- For large disaster declarations (total obligations greater than \$500 million to \$5 billion), the target range for administrative costs is 8 percent to 12 percent; for the 19 large declarations that we analyzed, about 4 out of every 10 had administrative costs that exceeded 12 percent.

As a result, in September 2012, we recommended that FEMA implement goals for administrative cost percentages and monitor performance to achieve these goals. However, as of July 2014, FEMA had not taken steps to implement our recommendation. In December 2013, FEMA officials stated that they are implementing a system called FEMASat to, among other things, collect and analyze data on the administrative costs associated with managing disasters to enable managers to better assess performance and progress within the organization. As part of the FEMASat effort, in 2012 and 2013, FEMA collected and analyzed data on the administrative costs associated with managing disasters. However, as of July 2014, FEMA is still working on systematically collecting the data and utilizing them to develop a model for decision making. As a result, it is too early to assess whether this effort will improve the efficiencies or reduce the cost associated with administering assistance in response to disasters.

As part of our ongoing work, we will be reviewing these efforts and working with FEMA to better understand the progress the agency has made in monitoring and controlling its administrative costs associated with delivery of disaster assistance and its efforts to decrease the administrative burden associated with its Public Assistance program.

## Opportunities to Increase the Effectiveness of FEMA's Workforce

We have also reported on opportunities to strengthen and increase the effectiveness of FEMA's workforce. More specifically, we previously reported on various FEMA human capital management efforts (as well as human capital management efforts across the federal government) and have made a number of related recommendations for improvement. FEMA has implemented some of these, but others are still underway. Specifically:

- In June 2011, we found that FEMA's Strategic Human Capital Plan did not define critical skills and competencies that FEMA would need in the coming years or provide specific strategies and program objectives to motivate, deploy, and retain employees, among other things.<sup>9</sup> As a result, we recommended that FEMA develop a comprehensive workforce plan that identifies agency staffing and skills requirements, addresses turnover and staff vacancies, and analyzes FEMA's use of contractors. FEMA agreed, and in responding to this recommendation, reported that it had acquired a contractor to conduct an assessment of its workforce to inform the agency's future workforce planning efforts.
- In April 2012, we found that FEMA had taken steps to incorporate some strategic management principles into its workforce planning and training efforts but could incorporate additional principles to ensure a more strategic approach is used to address longstanding management challenges.<sup>10</sup> Further, FEMA's workforce planning and training could be enhanced by establishing lines of authority for these efforts. We also found that FEMA had not developed processes to systematically collect and analyze agencywide workforce and training data that could be used to better inform its decision making. We

<sup>9</sup>GAO, *FEMA: Action Needed to Improve Administration of the National Flood Insurance Program*, GAO-11-297 (Washington, D.C.: June 9, 2011). In the aftermath of Hurricane Katrina, the federal government enacted the Post-Katrina Emergency Management Reform Act of 2006 (Post-Katrina Act), expanding FEMA's mission and responsibilities. The Post-Katrina Act was enacted as Title VI of the Department of Homeland Security Appropriations Act, 2007, Pub. L. No. 109-295, 120 Stat. 1355 (2006). Among other things, the Post-Katrina Act required FEMA to develop a strategic human capital plan that includes an assessment of the critical skills and competencies of FEMA's workforce and provide an action plan that includes workforce planning strategies and program objectives to train employees. 5 U.S.C. § 10102.

<sup>10</sup>GAO, *Federal Emergency Management Agency: Workforce Planning and Training Could Be Enhanced by Incorporating Strategic Management Principles* GAO-12-487 (Washington, D.C.: Apr 26, 2012).

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recommended that FEMA: identify long-term quantifiable mission-critical goals that reflect the agency's priorities for workforce planning and training; establish a time frame for completing the development of quantifiable performance measures related to workforce planning and training efforts; establish lines of authority for agency-wide workforce planning and training efforts; and develop systematic processes to collect and analyze workforce and training data. DHS concurred with all the recommendations and FEMA is still working to address them. For example, in April 2014, FEMA issued a notice soliciting contracting services for a comprehensive workforce structure analysis for the agency. As part of our ongoing review of FEMA's workforce management, we are gathering information on FEMA's other efforts to address our recommendations.

- In May 2012, we reported on the management and training of FEMA Reservists, a component of FEMA's workforce, referred to at that time as Disaster Assistance Employees (DAE).<sup>11</sup> Specifically, we found that FEMA did not monitor how the regions implement DAE policies and how DAEs implement disaster policies across regions to ensure consistency. While FEMA's regional DAE managers were responsible for hiring DAEs, FEMA had not established hiring criteria and had limited salary criteria. Regarding FEMA's performance appraisal system for DAEs, we found that FEMA did not have criteria for supervisors to assign DAEs satisfactory or unsatisfactory ratings. We also found that FEMA did not have a plan to ensure DAEs receive necessary training and did not track how much of the Disaster Relief Fund was spent on training for DAEs. We recommended, among other things, that FEMA develop a plan for how it will better communicate policies and procedures to DAEs when they are not deployed; establish a mechanism to monitor both its regions' implementation of DAE policies and DAEs' implementation of FEMA's disaster policies; establish standardized criteria for hiring and compensating DAEs; and establish a plan to ensure that DAEs have opportunities to participate in training and are qualified. DHS concurred with the recommendations and FEMA has taken steps to address several of them. For example, in June 2012, FEMA implemented a communication strategy with its reservist workforce that included video conferences, a web blog series, and a FEMA

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<sup>11</sup>GAO, *Disaster Assistance Workforce: FEMA Could Enhance Human Capital Management and Training* GAO-12-538, (Washington, D.C.: May 25, 2012).



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weekly bulletin sent to Reservists' personal email addresses, among other things. Also, in October 2012, DHS reported that FEMA had resolved the outstanding issues of inconsistent implementation of DAE policies by centralizing control over hiring, training, equipment, and deployment within a single headquarters-based office. FEMA is working to address our other recommendations, and we will continue to monitor its progress.

- In our March 2013 report, we examined how FEMA's reservist workforce training compared with training of other similar agencies, and the extent to which FEMA had examined these agencies' training programs to identify useful practices.<sup>12</sup> We found that FEMA had not examined other agencies' training programs, and therefore, we recommended that FEMA examine the training practices of other agencies with disaster reservist workforces to identify potentially useful practices; DHS concurred with our recommendation and described plans to address it. As part of our ongoing review, we are gathering information on FEMA's efforts to address our recommendation.

At the request of this committee, we are also currently assessing the impact of workforce management and development provisions in the Post-Katrina Act on FEMA's response to Hurricane Sandy. We also have plans to conduct additional work to assess the impact of a variety of other emergency management related provisions in the Post-Katrina Act (for example, provisions related to FEMA's contracting efforts, information technology systems, and disaster relief efforts). Among other things, the Post-Katrina Act directed FEMA to implement efforts to enhance workforce planning and development,<sup>13</sup> collaborate on developing standards for deployment capabilities, including credentialing of personnel,<sup>14</sup> and establish a surge capacity force (SCF) to deploy to natural and man-made disasters, including catastrophic incidents.<sup>15</sup> Some of these efforts were highlighted during Hurricane Sandy when FEMA executed one of the largest deployments of personnel in its history.

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<sup>12</sup>GAO, *FEMA Reservists: Training Could Benefit from Examination of Practices at Other Agencies*, GAO-13-250R, (Washington, D.C.: Mar. 22, 2013).

<sup>13</sup>5 U.S.C. §§ 10101-10106; 6 U.S.C. §§ 414-415.

<sup>14</sup>6 U.S.C. § 320.

<sup>15</sup>6 U.S.C. § 711.

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For example, the agency's response to Hurricane Sandy marked the first activation of the DHS SCF, with nearly 2,400 DHS employees deploying to New York and New Jersey to support response and recovery efforts. The agency also launched the new FEMA Qualification System (FQS) on October 1, 2012, just in time for FEMA employees' deployment to areas affected by Hurricane Sandy. In 2012, FEMA also created a new disaster assistance workforce component called the FEMA Corps. Forty-two FEMA Corps teams, consisting of approximately 1,100 members, were deployed to support Hurricane Sandy response and recovery efforts in the fall of 2012.

- FEMA's deployment of its disaster assistance workforce during the response to Hurricane Sandy revealed a number of challenges and, as a result, FEMA is analyzing its disaster assistance workforce structure to ensure the agency is capable of responding to large and complex incidents, as well as simultaneous disasters and emergencies. For example, FEMA reported that: before deployment for Hurricane Sandy, 28 percent of the staffing positions called for by FEMA's force structure analysis were vacant (approximately 47 percent of positions required by the force structure were filled with qualified personnel, and the remaining 25 percent were filled by trainees).
- Deployment of its disaster workforce nearly exhausted the number of available personnel. By November 12, 2012, FEMA had only 355 Reservists (5 percent) available for potential deployment: 4,708 (67 percent) were already deployed to ongoing disasters, and 1,854 (26 percent) were unavailable.<sup>16</sup>
- Its plans had not fully considered how to balance a large deployment of personnel and still maintain day-to-day operations.

As part of our ongoing work, we will be evaluating FEMA's efforts to address the challenges identified during the agency's response to Hurricane Sandy and assessing their impact. We will also determine what progress the agency has made in its workforce planning and development efforts.

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<sup>16</sup>According to FEMA, the high unavailability rate indicates that new leave policies established for the Reservist Program may not have been fully enforced prior to Hurricane Sandy.

## Opportunities to Increase the Efficiency of Preparedness Grant Administration

In March 2011, we reported on another area of opportunity for FEMA to increase the efficiency of its operations—the management of its preparedness grants.<sup>17</sup> We found that FEMA could benefit from examining its grant programs and coordinating its application process to eliminate or reduce redundancy among grant recipients and program purposes. As we again reported in February 2012, four of FEMA's largest preparedness grants (Urban Areas Security Initiative, State Homeland Security Program, Port Security Grant Program, and Transit Security Grant Program) which have similar goals, fund similar types of projects, and are awarded in many of the same urban areas, have application review processes that are not coordinated.<sup>18</sup>

In March 2014 in our annual update to our duplication and cost savings work in GAO's Online Action Tracker,<sup>19</sup> we reported that FEMA has attempted to capture more robust data from grantees during applications for the Port Security Grant Program and the Transit Security Grant Program—because applicants provide project-level data. However, applications for the State Homeland Security Grant Program and Urban Areas Security Initiative do not contain enough detail to allow for the coordinated review across the four grants, according to FEMA officials. FEMA intends to begin collecting and analyzing additional project-level data using a new system called the Non-Disaster Grants Management System (NDGrants).<sup>20</sup> However, FEMA officials said that implementation of NDGrants had been delayed until 2016 because of reduced funding.

<sup>17</sup>GAO, *Government Operations: Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: Mar. 1, 2011).

<sup>18</sup>GAO, *Homeland Security: DHS Needs Better Project Information and Coordination among Four Overlapping Grant Programs*, GAO-12-303, (Washington, D.C.: Feb. 28, 2012).

<sup>19</sup>See [http://www.gao.gov/duplication/action\\_tracker/FEMA\\_Grants/action1](http://www.gao.gov/duplication/action_tracker/FEMA_Grants/action1)

<sup>20</sup>GAO 2012 Annual Report: *Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue* GAO-12-342SP, (Washington, D.C., Feb 28, 2012.); annual update posted on March 6, 2014 see [http://www.gao.gov/duplication/action\\_tracker/Homeland\\_Security\\_Grants/action1#t=0](http://www.gao.gov/duplication/action_tracker/Homeland_Security_Grants/action1#t=0). NDGrants is a web-based system that supports the grants management lifecycle and is used by external stakeholders and grantees, via a public Web site, to apply for grants and monitor the progress of grant applications and payments and view related reports, and by the FEMA Grants Program Directorate, Program Support Division, via an internal Web site, for reviewing, approving, and processing grant awards.

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While implementing NDGrants should help FEMA strengthen the administration and oversight of its grant programs, a report released by the DHS Office of Inspector General (OIG) in May 2014<sup>21</sup> identified a number of information control system deficiencies associated with FEMA development and deployment of the NDGrants system that could limit the usefulness of the system.<sup>22</sup> Specifically, the OIG reported NDGrants system deficiencies related to security management, access control, and configuration management.<sup>23</sup> According to the OIG's report, DHS management concurred with the findings and recommendations in the report and plans to work with component management to address these issues. We will continue to monitor FEMA's implementation of the system as part of our annual update for our duplication and cost savings work.

FEMA has proposed, through the President's budget requests to Congress, to consolidate its preparedness grant programs to streamline the grant application process, responding to a recommendation we made in March 2011 by eliminating the need to coordinate application reviews.<sup>24</sup> Specifically, the fiscal years 2013, 2014, and 2015 President's budgets all proposed the FEMA-led National Preparedness Grant Program (NPGP). According to the proposal, FEMA planned to consolidate preparedness grant programs (excluding Emergency Management Performance grants and Fire grants) into a comprehensive NPGP. The NPGP would include four of the largest preparedness grants (Urban Areas Security Initiative, State Homeland Security Program, Port Security Grant Program, and Transit Security Grant Program). Congressional

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<sup>21</sup>Department of Homeland Security Office of Inspector General, *Information Technology Management Letter for the FY 2013 Department of Homeland Security's Financial Statement Audit*, (Washington, D.C.: May 16, 2014).

<sup>22</sup>These deficiencies are based on GAO's *Federal Information System Controls Audit Manual (FISCAM)*, GAO-09-232G, (Washington, D.C.: February 2009).

<sup>23</sup>Security management—controls that provide a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer-related security controls. Access control—controls that limit or detect access to computer resources (data, programs, equipment, and facilities) and protect against unauthorized modification, loss, and disclosure. Configuration management—controls that help to prevent unauthorized changes to information system resources (software programs and hardware configurations) and provide reasonable assurance that systems are configured and operating securely and as intended.

<sup>24</sup>GAO, *Government Operations: Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue* GAO-11-318SP, (Washington, D.C.: Mar 1, 2011.)

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committees, however, expressed concern that the consolidation plan lacked detail, and the NPGP was not approved for either fiscal year 2013 or 2014.<sup>25</sup> Nonetheless, FEMA again proposed the NPGP consolidation approach for 2015 providing additional details such as clarification and revised language relating to governance structures under the proposed program. In responding to questions submitted by the House Committee on Homeland Security's Subcommittee on Emergency Preparedness, Response and Communications in April 2014, FEMA officials reported that the NPGP would help increase the efficiency of preparedness grants by requiring fewer grants notices for staff to issue and fewer grants to award, and reduce processing time and monitoring trips due to the reduction in the number of grantees. If approved in the future, and depending on its final form and execution, we believe a consolidated NPGP could help reduce redundancies and mitigate the potential for unnecessary duplication and is consistent with our prior recommendation.

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Chairman Begich, Ranking Member Paul, and members of the subcommittee, this completes my prepared statement. I would be happy to respond to any questions you may have at this time.

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#### **GAO Contacts and Staff Acknowledgements**

If you or your staff members have any questions about this testimony, please contact me at (404) 679-1875 or [curriec@gao.gov](mailto:curriec@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Christopher Keisling, Assistant Director; Aditi Archer, Andrew Berglund, Jeffrey Fiore, Michelle R. Su, Tracey King, David Alexander, and Jessica Orr made contributions to this testimony.

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<sup>25</sup>S. Rep. No. 112-169, at 113 (2012).

**Statement of Dr. Daniel Sutter**  
**Before the Subcommittee on Emergency Management, Intergovernmental Relations, and**  
**the District of Columbia**  
**Of the Senate Homeland Security and Governmental Affairs Committee**  
**July 24, 2014**  
**The Path to Efficiency: Making FEMA More Effective for Streamlined Disaster**  
**Operations**

Chairman Begich, Ranking Member Paul, and Members of the Subcommittee. Thank you for the invitation to discuss the need to make FEMA more efficient for effective disaster response. I appreciate the opportunity to testify today.

The enormous generosity of Americans is never more evident than in the aftermath of natural disasters, and naturally some of this assistance will be channeled through the federal government. Stafford Act assistance to state and local governments and individuals must be allocated efficiently to ensure that intended beneficiaries receive maximum assistance possible. In addition, FEMA assistance should not disrupt the rebuilding and recovery process, undermine the incentive for individuals or local governments to prepare for and respond to disasters prudently, be used for political gain, or contribute to corruption.<sup>i</sup>

Today I'd like to outline three recommendations that can help increase efficiency in the use of disaster funding:

First, Congress should consider revising the definition or criteria for "major disaster" declarations; FEMA assistance with smaller events raises disaster costs and threatens the availability of assistance for those who need it most.

Second, Congress should consider significantly raising the damage threshold and tying it to per capita personal income in the future, to eliminate the problem of costly FEMA response to “small” disasters.

Third, a more thorough assessment of the potential for state and local governments to respond to disasters should inform the establishment of a new threshold for federal assistance.

An increase in the number of major disaster declarations, due to the designation of many “small” events being as major disasters, impedes FEMA’s response to major disasters. Presidents have declared an average of 60 major disasters per year since 1996, or more than one a week.<sup>ii</sup> Few Americans would likely use the term major disaster for a weekly event. Indeed, 36% of declarations between 2004 and 2011 involved less than \$10 million in Federal assistance, indicating that the “weekly” disasters include many relatively minor events.<sup>iii</sup> The damage threshold upon which FEMA makes recommendations on disaster requests should be raised significantly to ensure the availability of Federal assistance when truly needed, help stem rising disaster losses, and encourage state and local self-reliance for “ordinary” disasters.

#### MINOR DISASTERS DISSIPATE FEMA RESOURCES

In addition to offending the commonsense meaning of major disaster, minor disasters dissipate federal resources and divert FEMA’s energy. Disasters with total assistance under \$50 million have distressingly high administrative costs, at an average of 20%, compared with 12-13% for larger disaster declarations. Administrative costs exceeded total federal assistance for 12 small disasters.<sup>iv</sup> We pay a high price for FEMA assisting with relatively small events.

FEMA public assistance to state and local governments introduces to third party payment of disaster response and rebuilding costs. Third party payment is well-known to increase costs due to the problem of moral hazard. Third party payment cost inflation will affect disaster losses as assuredly as it does for the more familiar case of medical costs. Rising administrative costs, improper payments identified by the Office of the Inspector General, and disaster declarations which remain open for years are the most visible forms of third party payment cost inflation.<sup>v</sup> The GAO's observation that "enhanced capabilities and professionalization of state and local emergency management personnel ... has helped state and local officials better justify a request for federal disaster assistance"<sup>vi</sup> also reveals evidence of third party cost inflation. The best efforts of FEMA and the Office of the Inspector General can only limit moral hazard. Third party payment costs should be avoided whenever possible, and limiting FEMA assistance to truly major or unanticipated disasters allows this.

#### THE PUBLIC ASSISTANCE DAMAGE THRESHOLD SHOULD BE REVISED

The proximate cause of excessive disaster declarations is the low damage threshold FEMA uses to evaluate requests from governors. FEMA established a threshold of \$1.00 per capita in 1986, which was not adjusted at all until 1999, and adjusted since for inflation. It stands at \$1.39 for FY 2014. The threshold for public assistance should be tied to growth in per capita income, in line with the normalization of natural disaster losses by researchers for changes in population, inflation, and real income or wealth.<sup>vii</sup> FEMA's damage threshold is expressed per capita, rendering a population adjustment unnecessary. An adjustment based on (nominal) per capita income would control for inflation and real income. Adjusting based on (nominal) per capita person income since 1986 would have produced a threshold of \$3.57 in FY instead of \$1.35, and



44 percent of declared disasters between 2004 and 2011 would not have met the higher threshold.<sup>viii</sup> Resetting the threshold would largely eliminate the problem of small disasters.

The public assistance damage threshold could also be adjusted to a state's specific ability to pay for disaster losses. In essence, this would set a damage threshold for each state instead of one threshold for all states. State specific damage thresholds could be set based on state per capital personal income, Gross State Product, or Total Taxable Resources, consistent with matching rates for federal grant programs based on state income.<sup>ix</sup> The efficiency gains, however, will come from significantly raising the damage threshold and tying it to per capita personal income in the future; tailoring a significantly higher threshold for each state is secondary.

#### FEDERAL ASSISTANCE SHOULD BE BASED ON POTENTIAL STATE AND LOCAL RESPONSE ABILITY

FEMA should use a much higher damage threshold on disaster declaration recommendations. But the \$1.00 per capita threshold was arbitrarily set in 1986, and a significant revision need not be tied to an arbitrary baseline. A new threshold for federal assistance should be established based on a more thorough assessment of the potential for state and local governments to respond to disasters. Financial instruments, some of which did not exist in 1986, allow state and local governments to tap into private sector capital to cover disaster losses. The threshold for federal assistance should take this into account.

Public assistance covers losses to property and equipment, the costs of debris removal, and emergency protective measures. Adequate insurance can cover much of state and local governments' property and equipment losses, increasing their ability to meet any given disaster.

Insurance must be maintained on a structure rebuilt using FEMA public assistance,<sup>x</sup> and federal taxpayers should not bail out jurisdictions which fail to properly insure before a disaster.

New financial instruments like weather derivatives and catastrophe bonds have emerged since passage of the Stafford Act. Although primarily to date used by businesses or insurers to manage weather and catastrophe risk, these financial instruments could help state and local governments pay for personnel expenses, debris removal, and other response costs.

Establishing a damage threshold in consideration of the financial instruments now available to state and local governments would help ensure the availability of federal assistance when it is needed, namely for truly major or unexpected disasters. By avoiding the cost inflation due to third party payment and providing better incentives for state and local governments to prepare, a reduction in the federal role will also help stem rising disaster costs for the nation.

#### ABOUT THE AUTHOR

Daniel Sutter is the Charles G. Koch Professor of Economics with the Manuel H. Johnson Center for Political Economy at Troy University, and a Senior Affiliated Scholar with the Mercatus Center at George Mason University. He has authored or co-authored two books and more than two dozen academic papers on the economic and societal impacts of extreme weather and natural disasters. He holds a Ph.D. in economics from George Mason University and has previously taught at the University of Oklahoma and the University of Texas – Pan American.

<sup>i</sup> Communities often exhibit considerable resilience to natural disasters, as economists since Thomas Malthus and John Stuart Mill have observed. Two of the elements of disaster policy which can interfere with the natural forces of recovery are delay and uncertainty; see Emily Chamlee-Wright and Virgil Henry Storr, "Expectations of Government's Response to Disaster," *Public Choice*, 2010, Volume 144, pp. 429-458, Emily Chamlee-Wright, *The Cultural and Political Economy of Recovery: Social Learning in a Post-Disaster Environment*, 2010, Routledge Publishers, and Daniel J. Smith and Daniel Sutter, "Response and Recovery from the Joplin Tornado: Lessons Applied and Lessons Learned," *Independent Review*, 2013, Volume 18, pp. 165-188. On the influence of political factors in major disaster declarations, Thomas A. Garrett and Russell S. Sobel, "The Political Economy of FEMA Disaster Payments," *Economic Inquiry*, 2003, Volume 41, pp. 496-509, found that swing electoral states had a higher probability of receiving a disaster declaration and that the composition of Congressional oversight committees affected the amount of assistance, in a statistical analysis controlling for the severity of the disaster and other factors. Peter T. Leeson and Russell S. Sobel, "Weathering Corruption," *Journal of Law and Economics*, 2008, volume 51, pp. 667-681, found that the amount of FEMA disaster assistance a state receives was statistically associated with federal corruption convictions.

<sup>ii</sup> Author's calculations based on Federal Emergency Management Agency, "Disaster Declarations by Year," <http://www.fema.gov/disasters/grid/year>.

<sup>iii</sup> U.S. Government Accountability Office, *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, GAO-12-838, September 2012, Table 4, p. 22.

<sup>iv</sup> GAO-12-838, p. 40.

<sup>v</sup> GAO-12-838, Table 7, p. 41 notes that average administrative costs for disaster declarations have risen from 9% in 1989-1995 to 18% for 2004-2011. The Department of Homeland Security Office of Inspector General identified \$308 million in potential savings from audits of FEMA public assistance and hazard mitigation programs in 2013, and almost \$1.4 billion for 2009-2013; see *Capping Report: FY 2013 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-14-102-D, [http://www.oig.dhs.gov/assets/GrantReports/2014/OIG\\_14-102-D\\_Jun14.pdf](http://www.oig.dhs.gov/assets/GrantReports/2014/OIG_14-102-D_Jun14.pdf).

<sup>vi</sup> GAO-12-838, p. 11.

<sup>vii</sup> Damage normalizations are conducted to allow losses from historical disasters to be projected into the present day, to provide perspective on contemporary disaster losses. Clearly past damage amounts must be adjusted for inflation, but the normalizations also adjust for changes in population and either wealth or per capita income. The damage normalization method has been applied to hurricanes (R. A. Pielke, Jr., J. Gratz, C. Landsea, D. Collins, M. Saunders, and R. Musulin, "Normalized Hurricane Damage in the United States: 1900-2005," *Natural Hazards Review*, 2008, Volume 9, pp. 29-42), earthquakes (K. Vranes and R. A. Pielke, Jr., "Normalized Earthquake Damage and Fatalities in the United States, 1900-2005," *Natural Hazards Review*, 2009, Volume 10, pp. 84-101), floods (M. W. Downton, J. Z. B. Miller, and R. A. Pielke, Jr., "Reanalysis of the U.S. National Flood Loss Database," *Natural Hazards Review*, 2005, Volume 6, pp. 6-13), and tornadoes (H. E. Brooks and C. A. Doswell, "Normalized Damage from Major Tornadoes in the United States: 1890-1999," *Weather and Forecasting*, 2001, volume 16, pp. 168-176, and K. M. Simmons, D. Sutter, and R. A. Pielke, Jr., "Normalized Tornado Damage in the United States: 1950-2011," *Environmental Hazards*, 2013, Volume 12, pp. 132-147).

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viii GAO-12-838, p.27.

ix GAO-12-838, pp. 31-32.

\* Department of Homeland Security, Office of Inspector General, "FEMA Should Recover \$48.9 Million for Inadequate Insurance Coverage for Holy Cross School, New Orleans, Louisiana," OIG-14-10-D, November 2013, [http://www.oig.dhs.gov/assets/GrantReports/2014/OIG\\_SLP\\_14-10-D\\_Nov13.pdf](http://www.oig.dhs.gov/assets/GrantReports/2014/OIG_SLP_14-10-D_Nov13.pdf).

**“The Path to Efficiency: Making FEMA More Effective for Streamlined Disaster Operations.”**

**An Analysis  
by the Majority Staff of the  
Senate Subcommittee on Emergency Management, Intergovernmental Relations, and  
the District of Columbia  
Senate Homeland Security and Governmental Affairs Committee**

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## **Executive Summary**

FEMA, like all federal government agencies, faces the constant challenge to execute its missions as efficiently and effectively as possible. EMDC's goal is to identify where opportunities exist to find greater efficiencies in FEMA programs and systems.

### **FEMA's Key existing efficiency challenges**

This analysis examines several performance issues, as well as identifies FEMA-led quality management efforts that have resulted in improved performance and/or efficiency.

**Areas of Potential Costs Savings:** We have reviewed past work from the Government Accountability Office (GAO) and Department of Homeland Security's Office of Inspector General (DHS-OIG). A number of these audits have identified specific costs that their research identified as "ineligible" or "questioned." Below are some areas that we believe, with greater focus, could yield cost savings and reductions in waste:

- **Need for Improvements in FEMA Disaster Recovery Grant Spending:** The DHS-OIG has documented the ongoing problems with the management of disaster recovery spending, including accounting, ineligible and unsupported costs, and noncompliance with Federal contracting requirements. For example, the DHS-OIG reported around \$1.36 billion in such findings between fiscal years 2009 and 2013.<sup>1</sup> The DHS-OIG identified disaster grants management as a significant management challenge for FEMA, and annually publishes a summary of their recurring findings. For example, the DHS-OIG published 54 reports contained 261 recommendations resulting in potential monetary benefits of \$307.8 million for obligations during fiscal year 2013.<sup>2</sup>

According to FEMA, the agency has been addressing disaster recovery issues and the management of the Disaster Relief Fund (DRF), even prior to legislative changes under the Sandy Recovery Improvement Act of 2013. For example, by increasing the level of oversight of the status of mission assignments, contracts, and grants, FEMA was able to return over \$4.7 billion (as of September 27, 2011) in excess funds to the DRF since the beginning of FY 2010, according to FEMA.<sup>3</sup>

<sup>1</sup> U.S. 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, Washington, D.C.; June 10, 2014; OIG-13-90 *FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits* OIG-13-90, Washington, D.C.; May 2013; *Capping Report: FY 2011 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-12-74, Washington, D.C.; April 13, 2012; *Capping Report: FY 2010 FEMA Public Assistance Grant and Subgrant Audits*, DD-11-17, Washington, D.C.; Aug. 23, 2011; and *Capping Report: FY 2009 Public Assistance Grant and Subgrant Audits*, DS-11-01, Washington, D.C.; Dec. 2, 2010.

<sup>2</sup> U.S. 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, Washington, D.C.; June 10, 2014.

<sup>3</sup> Written Statement of Deputy Administrator Richard Serino, Federal Emergency Management Agency, before the U.S. Senate Committee on Homeland Security & Government Affairs' Ad Hoc Subcommittee on Disaster Recovery and Intergovernmental Affairs, Washington, D.C.; Oct. 20, 2011.

- **Improper Payments:** The DHS-OIG's audits have identified almost \$276 million of ineligible disaster recovery spending for fiscal years 2009 through 2013.<sup>4</sup> For example, the DHS-OIG audits during this period identified almost \$65 million in questioned costs that resulted from instances where subgrantees and FEMA did not correctly apply or allocate insurance proceeds.<sup>5</sup>

FEMA has demonstrated improvements in their error rates for disaster recovery activities such as Individuals and Households Program, Public Assistance program, and Disaster Relief Fund Vendor Payments, and payouts through FEMA's Federal Insurance and Mitigation Administration.<sup>6</sup> For example, improper payments through FEMA's Disaster Relief Fund Vendor Payments have reduced from 8.82 percent (over \$73 million) in fiscal year 2008, to 3.1 percent (\$23.3 million) in fiscal year 2012 disbursements.<sup>7</sup>

- **Closing Out Old Disasters:** Over 800 disasters are currently open with ongoing recovery and mitigation projects according to FEMA.<sup>8</sup> Moreover, there are currently 40 open disasters that are over 10 years old and represent tens of millions in unliquidated obligations to disasters going as far back as 1994.<sup>9</sup> For example, twelve of these disasters had been declared during or prior to 1999, accounting for almost \$60 million in yet unspent funds.<sup>10</sup> According to the DHS-OIG, funds obligated for disasters but not needed by FEMA grantees are not deobligated and released for other uses, and FEMA has "continued to incur additional administrative costs."<sup>11</sup> In addition, there is little compliance with existing laws that limit the time on recovery spending, according to the DHS-OIG.<sup>12</sup>

FEMA currently has a close-out team that is housed at FEMA headquarters with staff assigned from each FEMA region.<sup>13</sup> According to FEMA officials, this team convenes

<sup>4</sup> U.S. 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, Washington, D.C.; June 10, 2014; OIG-13-90 *FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits* OIG-13-90, Washington, D.C.; May 2013; *Capping Report: FY 2011 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-12-74, Washington, D.C.; April 13, 2012; *Capping Report: FY 2010 FEMA Public Assistance Grant and Subgrant Audits*, DD-11-17, Washington, D.C.; Aug. 23, 2011; and *Capping Report: FY 2009 Public Assistance Grant and Subgrant Audits*, DS-11-01, Washington, D.C.; Dec. 2, 2010.

<sup>5</sup> *Ibid.*

<sup>6</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>7</sup> *Ibid.*

<sup>8</sup> U.S. Department of Homeland Security, Office of the Inspector General, *Annual Performance Plan for Fiscal year 2014*, Washington, D.C.

<sup>9</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs analysis of FEMA Disaster Declarations Summary - Open Government Dataset: <http://www.fema.gov/media-library/assets/documents/28318?id=6292>; FEMA data *Un-Liquidated Obligations- Financial Information Tool*, as of May 27, 2014.

<sup>10</sup> *Ibid.*

<sup>11</sup> U.S. Department of Homeland Security, Office of the Inspector General, *Annual Performance Plan for Fiscal year 2014*, Washington, D.C.

<sup>12</sup> U.S. Department of Homeland Security, Office of the Inspector General, *Opportunities to Improve FEMA's Disaster Closeout Process* OIG-10-49, Washington, D.C.; Jan. 2010

<sup>13</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.



quarterly to monitor all open disasters and identifies on a weekly basis those contracts with no activity for over 90 days.<sup>14</sup> According to FEMA, there are 14 disasters of these 40 open disasters have \$0 unliquidated obligations but are still going through final financial processing.<sup>15</sup> Six of these disasters are over 15 years old.<sup>16</sup>

- **‘Obtain and Maintain’ Insurance Requirements:** FEMA’s information technology (IT) systems may limit the enforcement of statutory requirements to ensure that properties that received disaster relief now have insurance. For example, the DHS-OIG’s review of FEMA’s disaster recovery spending identified \$115 million in ineligible costs in its audits of fiscal year 2013 and 2011.<sup>17</sup>

FEMA has demonstrated improvements in their error rates for disaster recovery activities. For example, improper payouts through FEMA’s Federal Insurance and Mitigation Administration have reduced from 6.38 percent (over \$52 million) in fiscal year 2008, to less than 0.002 percent, or \$337,445 in fiscal year 2012 disbursements.<sup>18</sup> In addition, FEMA has undertaken a 2-year review of insurance issues and key policy questions to inform a policy on insurance that better and more consistently meets the needs of applicants, program staff, and other stakeholders.<sup>19</sup> They estimate publishing a draft policy in the Federal Register in August 2014, for public review and comment, with a final version Public Assistance Policy on Insurance by end of December 2014.<sup>20</sup>

**FEMA’s Need for Increasing Transparency-** In addition to the body of audits and research that have quantified possible financial savings or cost avoidance in FEMA’s disaster recovery business operations and programs, there are also several recurring issues of FEMA performance and program efficiency that have non-financial implications, or potential financial implications in the future.

- **IT Management:** FEMA’s Information technology (IT) systems play an integral role in helping FEMA fulfill its mission, but challenges exist. For example, the DHS-OIG released a 2011 report finding that the agency’s IT systems did not effectively support disaster response activities.<sup>21</sup>

<sup>14</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>15</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs analysis of FEMA Disaster Declarations Summary - Open Government Dataset: <http://www.fema.gov/media-library/assets/documents/28318?id=6292>; FEMA data *Un-Liquidated Obligations- Financial Information Tool*, as of May 27, 2014.

<sup>16</sup> Ibid.

<sup>17</sup> U.S. 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, Washington, D.C. June 10, 2014; and *Capping Report: FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-12-74, Washington, D.C.; April, 13, 2012.

<sup>18</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>19</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA officials re: Public Assistance Policy on Insurance, May 8, 2014.

<sup>20</sup> Ibid.

<sup>21</sup> Department of Homeland Security, Office of Inspector General, *The Federal Emergency Management Agency Faces Challenges in Modernizing Information Technology*, OIG-11-69, Washington, D.C.; Apr. 2011.

- **Increasing Administrative Costs:** FEMA's average administrative costs incurred under the Disaster Relief Fund have doubled, and administrative cost frequently exceeded FEMA's suggested targets.<sup>22</sup> GAO reported that FEMA's average administrative costs doubled from 9 to 18 percent during fiscal years 1989-2011, and these administrative cost percentages frequently exceeded FEMA's suggested targets.<sup>23</sup> For example, for small disaster declarations (total obligations of less than \$50 million), the target range for administrative costs is 12 percent to 20 percent,<sup>24</sup> while four out of every ten of these type of disasters had administrative costs that exceeded 20 percent, according to GAO.<sup>25</sup>
- **Need for Increased Transparency in Tracking Disaster Spending:** In a November 2013 Subcommittee hearing held on Superstorm Sandy recovery, we found multiple opportunities for improved tracking and analyzing of disaster spending.<sup>26</sup> The development of a platform for the sharing of data between FEMA, SBA, and HUD could facilitate the development of funds to address unmet needs in a more swift and efficient manner.
- **Data Sharing:** In September 2013, FEMA released a secure data sharing policy which seeks to enhance the delivery of federal and non-federal assistance to disaster survivors.<sup>27</sup> While we recognize that sharing data across service delivery partners (State, Tribal, local, and certain other quasi-governmental entities) is a necessary mechanism in the critical objective of preventing fraud, waste, and abuse; we are concerned with privacy and civil liberty protections of disaster survivors. We are concerned that current policy and procedures do not provide disaster survivors with a complete understanding of the ways in which their personal data could be used and shared.

<sup>22</sup> U.S. GAO, Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own, GAO-12-838, Washington, D.C.; Sept. 12, 2012.

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs hearing: 'One Year Later: Examining the Ongoing Recovery from Hurricane Sandy,' Washington, D.C.; Nov. 6, 2013.

<sup>27</sup> According to FEMA Recovery Policy 9420.1, 'Trusted Partners' is defined as: Any governmental or non-governmental entity described and defined in Routine Uses (H), (CT), or, in certain instances, (F) of the Disaster Recovery Assistance System of Records Notice. This policy breaks down Trusted Partners into the following groups: a) Other Federal Agencies, b) State and Tribal government, c) Local governments and Voluntary Organizations, d) Utility Companies, Hospitals, and Health Care Providers, e) Voluntary organizations able to provide durable medical equipment or assistive technology, f) Other entities able to provide durable medical equipment or assistive technology, and g) Private sector businesses that employ disaster survivors.

- Disaster Declaration Criteria:** In September 2012, GAO found that FEMA primarily relies on a state's per capita dollar amount of damage as the single metric to determine whether to recommend to the President that a jurisdiction receive a major disaster declaration.<sup>28</sup> GAO noted that this per capita indicator does not reflect the rise in (1) per capita personal income or (2) inflation from 1986 to 1999.<sup>29</sup> However, just adjusting the single per capita income threshold that FEMA now uses does not consider variations from state to state of states' capability to respond and recover, according to GAO.<sup>30</sup> In addition, an adjustment per capita damage indicator would also not adequately take into account unique needs and higher transportation costs to perform response and recovery activities in rural and insular locations.<sup>31</sup>
- Disaster Recovery Policies And Guidance: The "50 percent rule" Case Study:** The DHS-OIG's May 2013 report found that FEMA misapplied the '50 Percent Rule' to determine project eligibility for replacement of damaged facilities.<sup>32</sup> The 50 Percent Rule states that a facility is generally eligible for replacement when the estimated repair cost exceeds 50 percent of the estimated replacement cost.<sup>33</sup> The complexities of applying the 50 Percent Rule and a lack of adequate policies and procedures lead to incorrect decisions that cost FEMA millions of dollars.<sup>34</sup> FEMA has analyzed the DHS-OIG's audits and findings to identify a number of root causes for these cost estimates. According to FEMA officials, they estimate a completed draft policy in 2014 that will be available for leadership review.<sup>35</sup>

<sup>28</sup> GAO: Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own, GAO-12-838, Washington, D.C.; Sept. 12, 2012.

<sup>29</sup> Ibid.

<sup>30</sup> GAO: *Disaster Assistance: Improvement Needed in Disaster Declaration Criteria and Eligibility Assurance Procedures*, GAO-01-837; Washington, D.C.: Aug 31, 2001; and *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, GAO-12-838, Washington, D.C.; Sept. 12, 2012.

<sup>31</sup> Martin, Stephanie, Mary Killorin and Steve Colt, *Fuel Costs, Migration, and Community Viability*, Institute of Social and Economic Research, University of Alaska Anchorage, May 12, 2008; William D. Berry, Richard C. Fording and Russell L. Hanson, *An Annual Cost of Living Index for the American States, 1960-1995*, The Journal of Politics, Vol. 62, No. 2 pp. 550-567, May, 2000; also see <http://cost-of-living.findthebest.com>.

<sup>32</sup> According to Federal regulation 44 CFR 206.226(f)(1), 'A facility is considered repairable when disaster damages do not exceed 50 percent of the cost of replacing a facility . . . ' FEMA refers to this regulation as the '50 Percent Rule' and implements it according to its Disaster Assistance Policy 9524.4. This policy provides the decision-making tool to determine whether FEMA should fund the repair or replacement of a disaster-damaged facility.

<sup>33</sup> U.S. Department of Homeland Security, Office of Inspector General, *Capping Report: FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-13-90, Washington, D.C.; May 2013.

<sup>34</sup> Ibid.

<sup>35</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA officials, May 8, 2014; site visits and interviews per November 6th EMDC Subcommittee hearing: 'One Year Later: Examining the Ongoing Recovery from Hurricane Sandy,' Washington, D.C.; Oct. 31, 2013.

**Need to Improve FEMA's Workforce** - Since customer focus is critical to FEMA's mission, the agency's workforce is its greatest asset in working with disaster survivors, all levels of government, and the private and nonprofit sectors. Yet challenges exist which can result in misspent and wasteful spending and a slower recovery. Employing and empowering staff that lack necessary qualifications and training can result in inconsistent application of FEMA's recovery policies. For example, FEMA's workforce has historically received mixed grades in managing response and recovery efforts, and these complaints were still heard in recent disasters like Superstorm Sandy and in Galena, AK.<sup>36</sup>

FEMA is implementing its FEMA Qualifications Systems (FQS) to credential all employees in incident management or support positions.<sup>37</sup> The goal of FQS is to put the right people in the right job, which also means ensuring that each employee meets certain skills, credentials, experience, and up to date on needed training.<sup>38</sup>

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<sup>36</sup> Site visits and interviews per November 6th EMDC Subcommittee hearing: *'One Year Later: Examining the Ongoing Recovery from Hurricane Sandy,'* Washington, D.C.; Oct. 31, 2013.

<sup>37</sup> U.S. GAO, *Federal Emergency Management Agency: Workforce Planning and Training Could Be Enhanced by Incorporating Strategic Management Principles*, GAO-12-487. Washington, D.C.; Apr. 26, 2012.

<sup>38</sup> Department of Homeland Security, Federal Emergency Management Agency: *FEMA Strategic Plan: Fiscal Years 2011-2014*, FEMA P-806, Washington, D.C.; Feb. 2011.

### **Introduction / Scope of This Analysis**

The federal government faces the constant challenge to execute its missions as efficiently and effectively as possible, under the assumption that, “whatever government does, it should do it well”.<sup>39</sup> Congress and FEMA recognize that efficient government is vital, regardless of the fiscal climate. Further, as FEMA’s previous strategic plan acknowledged, “an efficient public sector using management best practices should produce cost savings as well as ensure the delivery of high-quality services to the Nation’s taxpayers.”<sup>40</sup>

Cost effectiveness is important objective, but only as a means to an end; and that end is “mission success.” Private sector businesses have a basic profit motivation to be efficient, whereby, if a business is inefficient it will risk going out of business. While government agencies do not go out of business, constrained and declining budgets motivate agencies to cut waste and try to deliver more with less.<sup>41</sup> Currently, federal government agencies have been operating under constantly shrinking pool of resources. Under such conditions, the way to get government projects prioritized is by demonstrating greater returns on investment.<sup>42</sup>

Congress has a critical oversight responsibility. In addition to our own oversight investigations, Congress relies on the work of the audits of the inspector generals and the GAO to identify when government agencies have failed to meet their objectives. This Subcommittee has a history of closely examining FEMA operations and activities. For example, in 2009 the Ad Hoc Subcommittee on Disaster Recovery under the leadership of Chairwoman Senator Mary Landrieu and Ranking Member Senator Lindsey Graham examined the deficiencies in federal disaster housing assistance, which included seven recommendations.<sup>43</sup> Current FEMA programs and practices reflect many of these recommendations, such as disaster case management and individual support program and a national post-disaster housing plan<sup>44</sup> which is reflected in the National Disaster Recovery Framework.<sup>45</sup>

The scope of this analysis will be to examine the efficiency and effectiveness of specific FEMA systems and programs. This analysis will consider FEMA’s role under the existing legislation that currently defines FEMA’s missions and programs (i.e.: the Robert T. Stafford Act, the Post-Katrina Emergency Management Reform Act of 2006). To perform this review, we focused on the period since the enactment and reorganization of roles and responsibilities under the Post-Katrina Emergency Management Reform Act of 2006.<sup>46</sup> We reviewed congressional oversight efforts such

<sup>39</sup> Indiana University, Center on Congress, <http://congress.indiana.edu/one-thing-we-can-agree-about-government>, Dec. 19, 2012.

<sup>40</sup> Department of Homeland Security, Federal Emergency Management Agency: *FEMA Strategic Plan: Fiscal Years 2011-2014*, FEMA P-806, Washington, D.C.; Feb. 2011.

<sup>41</sup> Gale, Sarah Fister, ‘Capital Gains: Facing public scrutiny and shrinking budgets, federal governments tap the private sector to bolster their project management’ PM Network, Aug. 2012.

<sup>42</sup> Ibid.

<sup>43</sup> U.S. Senate, Ad Hoc Subcommittee on Disaster Recovery, Committee on Homeland Security and Governmental Affairs, *Far From Home: Deficiencies in Federal disaster Housing Assistance After Hurricanes Katrina and Rita and Recommendations for Improvement*, 111<sup>th</sup> Congress, 1<sup>st</sup> Session, S. Prt. 111-7, Washington, D.C.; Feb. 2009.

<sup>44</sup> Ibid.

<sup>45</sup> Federal Emergency Management Agency, *National Disaster Recovery Framework: Strengthening Disaster Recovery for the Nation*, Washington, D.C.; Sept. 2011.

<sup>46</sup> P.L. 109-295.

as House and Senate hearings and appropriations reports, reports and audits by Government Accountability Office (GAO), the Department of Homeland Security's Office of Inspector General (DHS-OIG), the Congressional Research Service (CRS), the Recovery Act Board, and the Council of the Inspectors General on Integrity and Efficiency. In addition, we interviewed subject-matter experts in disaster management and FEMA programs.

## **Background**

The Federal Emergency Management Agency (FEMA) was originally created by executive order in 1979, which merged many of the separate disaster-related federal functions.<sup>47</sup> Staffs of entire offices were lifted out of their parent agencies – the departments of Defense, Commerce, Housing and Urban Development, and others – and brought together in a new agency as an effort to give states a one-stop-shopping at the federal level in case of disaster.<sup>48</sup> FEMA's statutory authority to provide disaster assistance comes from the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1988, as amended.<sup>49</sup> Following the terrorist attacks of September 11, 2001, the Homeland Security Act of 2002 realigned FEMA and made it part of the newly-formed Department of Homeland Security (DHS).<sup>50</sup> In 2006, the President signed into law the Post-Katrina Emergency Management Reform Act, which significantly reorganized FEMA and provided it substantial new authority to remedy gaps that became apparent in the response to Hurricane Katrina in August 2005.<sup>51</sup> FEMA employs a workforce of over 18,000 people, who are responsible for leading and supporting the nation in preparing for, protecting against, responding to, recovering from, and mitigating all hazards.<sup>52 53</sup>

Over the past six years FEMA's total enacted budget has fluctuated, in part, reflecting national catastrophic events that occurred (see Table 1). For example, between 2008 and 2009 FEMA decreased its total enacted budget by over \$10 billion and disaster relief fund by \$36 million but increased its salaries and expenses fund by \$210 million.<sup>54</sup> In 2010, FEMA increased its enacted budget by \$4.5 billion and the Disaster Relief Fund by \$312 million, but decreased its Salaries and Expenses fund by \$137 million.<sup>55</sup> Also, the Salaries and Expenses fund has decreased by \$76 million and \$62 million respectively, since FY2011.<sup>56</sup>

<sup>47</sup> Department of Homeland Security, Office of Inspector General, FEMA's Preparedness for the Next Catastrophic Disaster, OIG-08-34, Washington, D.C.; Mar. 28, 2008.

<sup>48</sup> Bosner, Leo, *FEMA and Disaster: A Look at What Worked and What Didn't From a FEMA Insider*, Truthout.org: <http://www.truth-out.org/sites/default/files/FEMA-and-Disaster-by-Leo-Bosner.pdf>

<sup>49</sup> The Stafford Act (P.L. 100-707) amended the Disaster Relief Act of 1974 (P.L. 93-288).

<sup>50</sup> P.L. 107-296.

<sup>51</sup> P.L. 109-295. Also see: <http://emilms.fema.gov/IS230c/FEM0101200.htm>

<sup>52</sup> U.S. Government Accountability Office, *Federal Emergency Management Agency: Workforce Planning and Training Could Be Enhanced by Incorporating Strategic Management Principles*, GAO-12-487; Washington, D.C.; Apr 26, 2012.

<sup>53</sup> In addition to permanent FEMA employees FEMA also employs intermittent, on-call employees, now called Reservists. As of April 2014, there are over 6,100 Reservists, who comprise the largest portion of the disaster workforce. In addition, FEMA employs over 3,000 full-time positions for two to four-years, as part of their Cadre of On-Call Response/Recovery Employees (CORE).

<sup>54</sup>

<sup>55</sup> U.S. Department of Homeland Security budget submissions for FY2010 through FY2015. (See Table 1)

<sup>56</sup> Ibid.

Table 1: FEMA Fiscal Year Budgets: Total, Disaster Relief Fund, and Salaries and Expenses  
(Dollars in Thousands)

FEMA	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Total budget	21,631,978	10,932,017	15,459,468	\$10,446,603	\$14,098,422	\$25,435,175
Salaries and Expenses	\$724,000	\$934,791	\$797,650	\$1,068,585	\$992,128	\$929,886
Disaster Relief Fund	\$1,324,000	1,288,000	1,600,000	2,523,343	7,076,000	6,653,117

Source: U.S. Department of Homeland Security budget submissions for FY2010 through FY2015

Current FEMA Administrator W. Craig Fugate understands that his agency's success depends on collaboration with many partners – state, local, territorial and tribal governments, the nonprofit and private sectors -- to ensure that all parties have a clear understanding of pre- and post-disaster roles and responsibilities.<sup>57</sup> Administrator Fugate noted in 2011, “The success and speed of recovery depends heavily on the ‘Whole of Community’ involvement, and FEMA is just one part of the team.”<sup>58</sup> The body of academic research on disaster management further describes the underlying nature of this intergovernmental relationship as defined by the actions of a fragmented network of different stakeholder groups who provide disaster recovery assistance. For example, Gavin and Birkland note that “members of this network include public sector organizations (federal, state, tribal, and local governments); quasi-governmental and nongovernmental organizations (community development corporations, homeowners’ associations, special service districts, regional planning organizations, professional associations, and colleges and universities); nonprofit relief organizations (nonprofits, community-based organizations, and foundations); private sector organizations (businesses and corporations, financial and lending institutions, insurance, and media); international relief organizations and nations; and emergent groups and individuals. These groups provide three types of resources: financial policy, and technical assistance.”<sup>59</sup>

FEMA recognizes that efficient government is vital, regardless of the fiscal climate. As FEMA's 2011 to 2014 strategic plan stated, “An efficient public sector that uses performance management best practices will ensure the delivery of high-quality services to the Nation's taxpayers as efficiently as possible.”<sup>60</sup> The goals and outcomes of high performance and efficient operations were also detailed throughout FEMA's 2014-2018 strategic plan.<sup>61</sup> Further, within FEMA's fiscal

<sup>57</sup> Statement of FEMA Administrator, Craig Fugate, before the U.S. House of Representatives, Committee on Transportation and Infrastructure, Subcommittee on Economic Development, Public Buildings, and Emergency Management, *Streamlining Emergency Management: Improving Preparedness, Response, and Cutting Costs*, Washington, D.C.; Oct. 13, 2011.

<sup>58</sup> Ibid.

<sup>59</sup> Smith, Gavin and Thomas Birkland, *Building a Theory of Recovery: Institutional Dimensions*, International Journal of Mass Emergencies and Disasters, Vol. 30, No. 2, Aug. 2012.

<sup>60</sup> Department of Homeland Security, Federal Emergency Management Agency: *FEMA Strategic Plan: Fiscal Years 2011-2014*, FEMA P-806, Washington, D.C.; Feb. 2011.

<sup>61</sup> Ibid.

year 2015 budget one priority listed is “Achieve Business and Management Excellence” which specifically states:

*“If we are to deliver effectively on our mission, FEMA must field a motivated, quality workforce supported by robust and agile business functions that are capable in the face of our greatest challenges. We will build a human capital system that can recruit, hire, train, and retain a quality workforce that meets our mission needs-both now and in the future. We will leverage technology to drive us forward in our capabilities and employ information technology systems that support a mobile workforce, enabling critical analysis, electronic record-keeping, and information sharing. Through work place transformation we will enhance the ability of employees to move seamlessly beyond a traditional office environment and into a range of mobile work settings for additional flexibility to achieve the mission.”<sup>62</sup>*

Also, as part of FEMA’s budget priorities, the agency is focusing on leveraging technology to drive the agency components and missions forward in its capabilities, and employ information technology systems that support critical analysis capabilities, electronic record-keeping, and information sharing.<sup>63</sup>

### **FEMA Is Constantly Challenged To Execute Its Missions as Efficiently and Effectively as Possible**

FEMA recognizes that efficient delivery of high-quality services to the Nation’s taxpayers is both possible and mission critical. We have noted that FEMA has made progress on issues identified by the GAO and DHS-OIG. For example, of the 87 recommendations the GAO made to FEMA between 2008 through 2012, FEMA has implemented 59 percent, while 29 percent remained open.<sup>64</sup>

There exist, however, some long-standing challenges of FEMA’s enterprise and its programs that the agency’s leadership continues to confront, as the accountability community and congressional oversight continue to identify sources of inefficiency and/or financial weakness. The sections below address agency-wide, operational challenges that are related to disaster response and recovery programs and FEMA’s mission support activities, that we believe are critical to enabling FEMA to realize both additional cost efficiencies as well as improvements to the agency’s customer-focused relationship with the State, local, territorial, and tribal actors, and other members of the ‘whole community.’

#### **Areas of Potential Costs Savings**

Below are some issues that we believe, with greater focus, FEMA could see cost savings and reductions in waste:

<sup>62</sup> Department of Homeland Security, Federal Emergency Management Agency: *Fiscal Year 2015 One-Time Exhibits Congressional Justification*. Washington, D.C.; Mar. 2014.

<sup>63</sup> Department of Homeland Security, *Federal Emergency Management Agency, Fiscal Year 2015 One-Time Exhibits, Congressional Justification*, Washington, D.C., Mar. 2014.

<sup>64</sup> Our analysis of GAO’s Status of Open Recommendations found 11 recommendations that were listed as ‘closed / not implemented’.



Need For Improvements in FEMA Disaster Recovery Grant Spending

In December 2013, the DHS OIG identified disaster grants management as a significant management challenge for FEMA.<sup>65</sup> The DHS-OIG has reported around \$1.36 billion in such findings between fiscal years 2009 through 2013.<sup>66</sup> Specifically, for the past five years the DHS OIG publishes a report summarizing their recurring findings from their audits of FEMA disaster recovery and mitigation grants (Summarized in table 2 below).<sup>67</sup> For example, in June 2014, the DHS-OIG published 54 reports contained 261 recommendations resulting in potential monetary benefits of \$307.8 million for obligations during fiscal year 2013.<sup>68</sup> Similarly, in May 2013, the DHS-OIG published 54 reports contained 187 recommendations resulting in potential monetary benefits of \$415.6 million for obligations during fiscal year 2012.<sup>69</sup>

In these reports DHS-OIG concluded each year that better management by FEMA could decrease ineligible costs by improving subgrantees' compliance with Federal regulations and FEMA guidelines. In addition, the amount of unneeded funding could decrease sharply if FEMA and grantees more closely managed grant funding and de-obligated unneeded funds faster.<sup>70</sup>

<sup>65</sup> U.S. Department of Homeland Security, Office of the Inspector General, *Major Management and Performance Challenges Facing the Department of Homeland Security*, OIG-14-17, Dec. 2013.

<sup>66</sup> U.S. 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, Washington, D.C.; June 10, 2014; OIG-13-90 *FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits* OIG-13-90, Washington, D.C.; May 2013; *Capping Report: FY 2011 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-12-74, Washington, D.C.; April 13, 2012; *Capping Report: FY 2010 FEMA Public Assistance Grant and Subgrant Audits*, DD-11-17, Washington, D.C.; Aug. 23, 2011; and *Capping Report: FY 2009 Public Assistance Grant and Subgrant Audits*, DS-11-01, Washington, D.C.; Dec. 2, 2010.

<sup>67</sup> Ibid.

<sup>68</sup> U.S. 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, Washington, D.C.; June 10, 2014.

<sup>69</sup> U.S. Department of Homeland Security, Office of Inspector General, *Capping Report: FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-13-90, Washington, D.C.; May 2013.

<sup>70</sup> U.S. Department of Homeland Security, Office of Inspector General, *Capping Report: FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-13-90, Washington, D.C.; May 2013.

**Table 2: DHS-OIG Findings: Audits of FEMA Public Assistance and Hazard Mitigation Grant and Subgrant, fiscal years 2013 through 2009.**

<b>Fiscal Year</b>	<b>DHS-OIG Findings (dollars)</b>
2013	\$307,821,907
2012	\$415,592,179
2011	\$336,890,664
2010	\$165,248,221
2009	\$138,436,081
<b>Total</b>	<b>\$1,363,989,052</b>

Source: EMDC Analysis of DHS-OIG reports<sup>71</sup>

#### FEMA's Progress

According to the DHS-OIG's 2014 report, FEMA acknowledged that the DHS-OIG's capping reports are particularly valuable and has implemented corrective measures to address issues identified in these past audits.<sup>72</sup> As a result, FEMA has developed and is implementing a new Procurement Disaster Assistance Team.<sup>73</sup> This Team will provide assistance to disaster recovery 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.<sup>74</sup> This Team will also 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.<sup>75</sup> Further, the FEMA Recovery Directorate plans to establish a section dedicated to overseeing, coordinating, implementing, responding to, and learning from DHS-OIG and GAO audits.<sup>76</sup> FEMA anticipates standing up the new section before the end of FY 2014.<sup>77</sup>

FEMA's current Chief Financial Officer (CFO) has been in the position since 2012. On April 2014, we discussed this component's cost efficiency efforts.<sup>78</sup> In this briefing the CFO noted progress through their implementation of the CFO's Strategic Funds Management review process.<sup>79</sup>

<sup>71</sup> U.S. 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, Washington, D.C.; June 10, 2014; OIG-13-90 *FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits* OIG-13-90, Washington, D.C.; May 2013; *Capping Report: FY 2011 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-12-74, Washington, D.C.; April 13, 2012; *Capping Report: FY 2010 FEMA Public Assistance Grant and Subgrant Audits*, DD-11-17, Washington, D.C.; Aug. 23, 2011; and *Capping Report: FY 2009 Public Assistance Grant and Subgrant Audits*, DS-11-01, Washington, D.C.; Dec. 2, 2010.

<sup>72</sup> U.S. 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, Washington, D.C.; June 10, 2014

<sup>73</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Response and Recovery officials, May 8, 2014.

<sup>74</sup> Ibid.

<sup>75</sup> Ibid.

<sup>76</sup> Ibid.

<sup>77</sup> U.S. 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, Washington, D.C.; June 10, 2014.

<sup>78</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>79</sup> Ibid.

According to the FEMA CFO, the Strategic Funds Management review is FEMA's process for obligating Public Assistance project funding based on a subgrantee's schedule to execute the eligible work.<sup>80</sup> This process is designed to apply additional project management steps and link them to a spend plan so that obligates funds for eligible subgrantee projects to meet the project schedule.<sup>81</sup> Historically, FEMA has obligated full Public Assistance or Hazard Mitigation project funding as soon as a Project Worksheet is prepared, reviewed, and approved; even when the subgrantee does not expect to expend the funds for an extended period of time.<sup>82</sup> Strategic Funds Management is designed to allow FEMA to rapidly review projects to identify disaster related damage and prepare an eligible scope of work, and then approve Project Worksheets and obligate funding consistent with the Disaster Relief Fund appropriation process and in coordination with the subgrantee's readiness to carry out the project in accordance with the project schedule.<sup>83</sup>

#### Recommendation

We believe that improved training of both FEMA's workforce and disaster grantees and subgrantees –as well as those private sector contractors who locals hire to support their recovery efforts - are critical to reducing these costs in future disasters. FEMA also needs to improve its outreach tools to states which play a critical role in disaster grant management.

#### Improper Payments

The Improper Payments Information Act of 2002<sup>84</sup> and its successor the Improper Payments Elimination and Recovery Act of 2010,<sup>85</sup> along with the Office of Management and Budget's (OMB) implementing guidance,<sup>86</sup> require Federal agencies to annually review all programs and activities to identify those that are 'high risk' or susceptible to 'significant improper payments.' For each program identified as susceptible, Federal agencies are required to report the annual amount of estimated improper payments, along with steps taken and actions planned to reduce them, to the President and the Congress.<sup>87</sup>

FEMA procedures define "improper payments" as: "Any payment that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative or other legally applicable requirements. An improper payment includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received, and any payment that does not account for credit for applicable discounts."<sup>88</sup>

<sup>80</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>81</sup> Ibid.

<sup>82</sup> Federal Emergency Management Agency, *Strategic Funds Management – Implementation Procedures for the Public Assistance Program*, SOP 9570.24, Washington, D.C.; Dec. 21, 2012.

<sup>83</sup> Ibid.

<sup>84</sup> Pub. L. No. 107-300.

<sup>85</sup> Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010).

<sup>86</sup> OMB Memoranda M-03-132, and OMB Circular A-136.

<sup>87</sup> The Improper Payments Elimination and Recovery Act of 2010 (IPERA)(P.L. 111.202), amended the IPIA to require agencies to increase their diligence in reducing improper payments. IPERA defines high risk programs as having estimated error amounts above \$10 million with an error rate above 2.5% or having an estimated error amount above \$100 million (at any error rate).

<sup>88</sup> Ibid.

Given FEMA's definition above, the DHS-OIG's audits have identified over \$275 million of ineligible costs from FEMA disaster recovery spending for fiscal years 2009 through 2013.<sup>89</sup> For example, the DHS-OIG found almost \$65 million of questioned costs during this period, which resulted from costs covered by insurance where subgrantees and FEMA did not correctly apply or allocate insurance proceeds.<sup>90</sup> Although the subgrantee is responsible for reporting insurance proceeds, FEMA is responsible for completing an insurance review to determine insured losses, according to the DHS-OIG report.<sup>91</sup>

In addition, GAO has an ongoing review to determine the extent that FEMA has the controls to limit duplicate payments under their Individual Assistance program.<sup>92</sup> Additional research by GAO will enable us to determine FEMA's ability and limitations to enforce these provisions. In addition, DHS-OIG officials told us that FEMA has been selected every year and will be again next year based on the level of risk.<sup>93</sup> The DHS-OIG's methodology does not independently sample transactions; rather they compare FEMA's processes—and all DHS components' improper payment processes—against federal laws, regulations and the DHS Guidebook.<sup>94</sup> The DHS-OIG reported seeing a trend across the department of improvement in this area.<sup>95</sup>

In April 2014, the DHS-OIG released their latest review of DHS and its components' compliance with the Improper Payments Information Act.<sup>96</sup> The report noted that, DHS-wide, the Department has reduced its improper payment amount from \$222 million in FY 2011 to \$178 million in FY 2013, since the implementation of the Act.<sup>97</sup> The report also noted that DHS components over the past year have closed many of the open recommendations from prior reports.<sup>98</sup>

We have reviewed improper payment issues over a number of years. In October 2011, this Subcommittee examined the issue as part of its efforts to examine front-end quality controls and

<sup>89</sup> U.S. 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, Washington, D.C.; June 10, 2014; OIG-13-90 *FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits* OIG-13-90, Washington, D.C.; May 2013; *Capping Report: FY 2011 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-12-74, Washington, D.C.; April 13, 2012; *Capping Report: FY 2010 FEMA Public Assistance Grant and Subgrant Audits*, DD-11-17, Washington, D.C.; Aug. 23, 2011; and *Capping Report: FY 2009 Public Assistance Grant and Subgrant Audits*, DS-11-01, Washington, D.C.; Dec. 2, 2010.

<sup>90</sup> *Ibid.*

<sup>91</sup> *Ibid.*

<sup>92</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from U.S. GAO officials, Apr. 24, 2014.

<sup>93</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from DHS-OIG officials, Mar. 14, 2014.

<sup>94</sup> *Ibid.*

<sup>95</sup> *Ibid.*

<sup>96</sup> Department of Homeland Security, Office of Inspector General, *Department of Homeland Security's FY 2013 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-14-64, Washington, D.C.; Apr. 14, 2014.

<sup>97</sup> Department of Homeland Security, Office of Inspector General, *Department of Homeland Security's FY 2013 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-14-64, Washington, D.C.; Apr. 14, 2014.

<sup>98</sup> Department of Homeland Security, Office of Inspector General, *Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-12-48, issued Mar. 2012; and *Department of Homeland Security's FY2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-13-47, Washington, D.C.; March 2013.

business practices at FEMA that mitigate waste, reduce errors, fraud, and abuse, and ensure greater efficiency in the agency's disaster response and recovery activities.<sup>99</sup> At the hearing, FEMA stated that these efforts resulted in a reduction in the improper payment rate from 14 percent in the aftermath of Hurricane Katrina to 0.3 percent in fiscal year 2010.<sup>100</sup>

#### *FEMA's Progress*

We discussed improper payments with FEMA's Chief Financial Officer (CFO) in April 2014.<sup>101</sup> The CFO's office provided us with results of improper payment error rate testing for FEMA spending between 2008 and 2012, across 9 programs selected for testing by DHS. All FEMA programs that the agency is required to test demonstrated lower percentages of improper payment error rates, according to the FEMA CFO.<sup>102</sup> Of particular interest to us are the error rates associated with disaster recovery activities, such as Individuals and Households Program, Public Assistance program, and Disaster Relief Fund vendor payments, which have all seen reduced error rates during this time period.<sup>103</sup> Notably, the Individuals and Household Program had an error rate of 6.28% (about \$56 million) when tested for spending on Hurricanes Gustav and Ike; but due to its low error rate of 0.3 percent since 2010, the programs received a waiver from testing for fiscal year 2012.<sup>104</sup> Another notable area of reduction is under the Federal Insurance and Mitigation Administration, which had an improper payment rate of 6.3 percent (\$52 million) in fiscal year 2008, but has reduced that rate to 0.02 percent by fiscal year 2012.<sup>105</sup>

Further, CRS noted that Congress was concerned about improper payments in the aftermath of Superstorm Sandy. As part of the fiscal year 2013 supplemental funding for Superstorm Sandy (P.L. 113-2), and Senate-passed H.R. 1 included a provision that designated all programs and activities funded through the legislation as 'susceptible to significant improper payments' under the provisions of the Improper Payments Information Act of 2002 (IPIA). This designation requires federal agencies to estimate the annual amount of improper payments made under the program and submit the estimates to Congress annually.<sup>106</sup>

Additionally, for programs that have estimated improper payments that exceed \$10 million, the federal agency is required to develop a report that identifies the causes and corrective actions the agency will take to reduce the improper payments.<sup>107</sup> According to the FEMA CFO, fiscal year

<sup>99</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, 'Accountability at FEMA: Is Quality Job #1?' Washington, D.C., October 20, 2011.

<sup>100</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs Holds Hearing on Oversight of the Federal Emergency Management Agency, Washington, D.C.; Oct. 20, 2011.

<sup>101</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>102</sup> Ibid.

<sup>103</sup> Ibid.

<sup>104</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>105</sup> Ibid.

<sup>106</sup> Congressional Research Service, *FY2013 Supplemental Funding for Disaster Relief*, R42869; Washington, D.C.; Feb. 19, 2013.

<sup>107</sup> Ibid.

2013 spending under the Individuals and Household Program will be again reviewed because of Superstorm Sandy recovery spending.<sup>108</sup> We will be interested in those results.

#### Recommendation

FEMA needs to ensure its disaster workforce is properly trained as well prioritizing this issue within its policies. Further, FEMA should include in its measures of improper payment error rates to those categories of ineligible expenses identified by DHS-OIG audits.

#### Closing Out Old Disasters

Ongoing disaster recovery and mitigation operations are commonly referred to by FEMA as “open” disasters. Currently, there are 40 open disasters that are over 10 years old, which include tens of millions in unliquidated obligations to disasters going as far back as 1994, according to FEMA’s data.<sup>109</sup> Twelve of these disasters had been declared during or prior to 1999, accounting for almost \$60 million in yet unspent funds.<sup>110</sup> The oldest open disaster—the Northridge Earthquake which occurred twenty years ago—still represents almost \$60 million in unliquidated obligations.<sup>111</sup> According to FEMA’s data, there are 14 disasters of these 40 open disasters have \$0 unliquidated obligations but are still going through final financial processing.<sup>112</sup> FEMA provided us with the reasons why these are still not closed out: for 5 of these disasters, FEMA is still recovering improperly spent funds (or ‘billed for collections’) from the applicants or sub-applicants; for 7 of these open disasters, final paperwork is pending; and one open disaster has ‘small projects’ still open.<sup>113</sup>

In January 2010, the DHS-OIG reported that FEMA lacked an agency-wide internal control environment with effective leadership and priority for timely closeout.<sup>114</sup> According to the DHS-OIG, funds obligated for disasters but not needed by FEMA grantees are not de-obligated and released for other uses. In addition, unnecessary administrative costs associated with monitoring and oversight of open disasters adds to the disaster price tag. This report noted that there is little

<sup>108</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>109</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs analysis of FEMA Disaster Declarations Summary - Open Government Dataset: <http://www.fema.gov/media-library/assets/documents/28318?id=6292>; FEMA data *Un-Liquidated Obligations- Financial Information Tool*, as of May 27, 2014. Note: The 9/11 attack in New York, New York is also a disaster that is over 10 years old and represents \$805 million of the total of unliquidated obligations, but due to the unique nature of many of the recovery and mitigation projects, we have excluded it from our analysis.

<sup>110</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs analysis of FEMA Disaster Declarations Summary - Open Government Dataset: <http://www.fema.gov/media-library/assets/documents/28318?id=6292>; FEMA data *Un-Liquidated Obligations- Financial Information Tool*, as of May 27, 2014.

<sup>111</sup> Ibid.

<sup>112</sup> Ibid.

<sup>113</sup> FEMA’s policy defines small projects as ‘...eligible work, either emergency or permanent, costing from \$1,000 to \$68,500 (\$68,500 is the threshold for small projects for Federal fiscal year 2014, and adjusted annually). As a result of the Sandy Recovery Improvement Act of 2013 (P.L. 113-2) the threshold has been raised for Simplified Procedures, raising the threshold to \$120,000, and adjusting annually for CPI. For more info see <http://www.fema.gov/public-assistance-frequently-asked-questions#Q21>

<sup>114</sup> U.S. Department of Homeland Security, Office of the Inspector General, *Opportunities to Improve FEMA’s Disaster Closeout Process* OIG-10-49, Washington, D.C.; Jan. 2010.

compliance with existing laws that aim to limit the length of time a disaster can remain open.<sup>115</sup> The DHS-OIG's analysis of open disasters found at that time 744 declared disasters with open FEMA/State Agreements and unliquidated obligation balances at the time of publication.<sup>116</sup> Further, this report identified almost \$500 million in unliquidated obligations for disasters that had been declared prior to 1999.<sup>117</sup>

The Congressional Research Service (CRS) has also reviewed the disaster closeout process within FEMA, noting that terminations of Stafford Act recovery projects are not subject to strict deadlines.<sup>118</sup> The requirements to 'close out' a major disaster are established in 44 C.F.R. 13.50. Disasters and emergencies are considered "closed" when all of the applicant's projects are completed and the applicant's administrative allowance expenses have been reconciled to supporting documentation.<sup>119</sup> CRS noted, in general, "Public Assistance (PA) grant projects and Hazard Mitigation grant projects (HMPG) take the longest to complete. Typically, major infrastructure projects take years to complete."<sup>120</sup> Both the PA and HMPG have a common closeout sequence such that, individual projects are managed by applicants (normally the state) and each project is separately closed by FEMA and the state when all of the costs associated with the project have been reconciled with supporting documentation.<sup>121</sup>

Subject-matter experts that we interviewed for this analysis noted that the current disaster recovery process does not incentivize states, subgrantees or their contractors to quickly complete their participation in recovery efforts; in fact, the opposite occurs. Firms supporting state and local recovery efforts are incentivized to drag out the length of recovery projects in order to maximize their revenues.<sup>122</sup>

The DHS-OIG's January 2010 report also noted that FEMA lacked an agency-wide internal control environment with effective leadership and priority for timely closeout.<sup>123</sup> FEMA's weak controls over disaster closeouts allow disasters to stay open for a considerable length of time after the disaster recovery effort has been completed, according to the DHS-OIG.<sup>124</sup> Specifically, the DHS-OIG cited FEMA's lack of a centralized process for closing out disasters, as the control for closing out disaster resided mostly within each of the 10 regional offices rather than in headquarters.<sup>125</sup> According to the DHS-OIG, FEMA could improve their processes in order to better determine what projects could be de-obligated and made available for use in other disaster relief activities.<sup>126</sup> The

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<sup>115</sup> Ibid.

<sup>116</sup> Ibid. DHS-OIG analysis of FEMA data as of September 30, 2008.

<sup>117</sup> Ibid.

<sup>118</sup> Congressional Research Service, *Federal Emergency Management: A Brief Introduction*, R42845 Washington, D.C.; November 30, 2012.

<sup>119</sup> Ibid.

<sup>120</sup> Ibid.

<sup>121</sup> Ibid.

<sup>122</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from disaster management subject-matter experts, Jan 13, 2014; Feb. 21, 2014.

<sup>123</sup> U.S. Department of Homeland Security, Office of the Inspector General, *Opportunities to Improve FEMA's Disaster Closeout Process* OIG-10-49, Washington, D.C.; Jan. 2010.

<sup>124</sup> Ibid.

<sup>125</sup> Ibid.

<sup>126</sup> Ibid.

DHS-OIG recommended a leadership team that would prioritize closeouts, and other recommendations for implementing consistent procedures across all disaster closeouts.<sup>127</sup> For 2014, the DHS-OIG has planned work to review the 804 disasters that are currently open, to determine how many projects are open and can be closed based on FEMA policy.<sup>128</sup> Specifically, they will identify the unliquidated obligation balances of open projects, to determine their program eligibility and the extent these can be closed out in a timely manner so that unliquidated obligations are returned to the disaster relief fund.<sup>129</sup>

#### *FEMA Progress*

This Subcommittee previously examined the issue of close outs as part of an October 2011 hearing.<sup>130</sup> At this hearing FEMA's Deputy Administrator testified that the Agency had been addressing these issues since 2009, in order to improve how FEMA manages the Disaster Relief Fund (DRF).<sup>131</sup> Agency efforts included steps to change how DRF resources were expended and improved closeout process for older disasters so updated funds could be brought back to the DRF. As a result, FEMA was able to recover more than \$4.7 billion in unobligated funds, according to the Deputy Administrator's testimony.<sup>132</sup> Similarly, the FEMA Administrator testified before the House of Representatives that FEMA has put additional mechanisms in place to reduce costs and identify funds that could be de-obligated and returned to the DRF.<sup>133</sup> The agency focused on improving the accuracy of their estimates of resource needs for catastrophic disasters by regularly reviewing spending reports, according to the FEMA Administrator.<sup>134</sup> Each catastrophic disaster team is required to prepare monthly spend plans that project resource needs for the current and succeeding year.<sup>135</sup> These teams also work with state partners to identify priorities and plan for resource needs. Actual expenses are then compared to projections to identify variances and the reasons for those variances.<sup>136</sup>

In May 2014, we met with FEMA officials to determine what processes the agency uses to close out open disasters.<sup>137</sup> FEMA currently has a close-out team that is housed in FEMA headquarters and designated staff from each FEMA region.<sup>138</sup> According to FEMA officials, this team convenes quarterly to monitor all open disasters and identifies on a weekly basis those contracts with no

<sup>127</sup> Ibid.

<sup>128</sup> U.S. Department of Homeland Security, Office of the Inspector General, Annual Performance Plan for Fiscal year 2014, Washington, D.C.

<sup>129</sup> Ibid.

<sup>130</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, 'Accountability at FEMA: Is Quality Job #1?' Washington, D.C., Oct. 20, 2011.

<sup>131</sup> Written Statement of Deputy Administrator Richard Serino, Federal Emergency Management Agency, before the U.S. Senate Committee on Homeland Security & Governmental Affairs' Ad Hoc Subcommittee on Disaster Recovery and Intergovernmental Affairs, Washington, D.C.; Oct. 20, 2011.

<sup>132</sup> Ibid.

<sup>133</sup> Statement of FEMA Administrator, Craig Fugate, before the U.S. House of Representatives, Committee on Transportation and Infrastructure, Subcommittee on Economic Development, Public Buildings, and Emergency Management, *Streamlining Emergency Management: Improving Preparedness, Response, and Cutting Costs*, Washington, D.C.; Oct. 13, 2011.

<sup>134</sup> Ibid.

<sup>135</sup> Ibid.

<sup>136</sup> Ibid.

<sup>137</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Response and Recovery officials, May 8, 2014.

<sup>138</sup> Ibid.



activity for over 90 days.<sup>139</sup> According to FEMA officials, this headquarters close out team has closed out 471 open disasters, and returned \$500 million back to the Disaster Relief Fund in unspent disaster mission assignments.<sup>140</sup>

#### Recommendation

We recommend that FEMA identify incentives to close out old disasters in order to minimize the administrative costs of keeping these open. Such incentives should include enforcing compliance with existing laws that aims to limit the length of time a disaster can remain open.

We are encouraged that the DHS-OIG has planned work to review the currently open disasters to determine how many projects are open and can be closed based on FEMA policy. To support this Subcommittee's oversight efforts, we would benefit that this audit includes detailed information on the unliquidated obligation balances of open projects and other detailed information to augment our understanding of the extent that certain disasters—or specific projects or activities within this inventory of open disasters—can be closed out in a timely manner so that unliquidated obligations are returned to the disaster relief fund.

#### 'Obtain and Maintain' Requirements under the Stafford Act

Our research and discussions with subject-matter experts has identified follow-up questions as to the extent FEMA is able to use its disaster recovery data to monitor the existence of any requirement to 'obtain and maintain' insurance as a result of receiving previous federal disaster assistance, as per Section 311(b) of the Stafford Act.<sup>141</sup> In December 2011, the DHS-OIG reviewed the strengths and weaknesses of FEMA's processes for tracking public assistance insurance requirements.<sup>142</sup> This applies to both the Public Assistance (PA) program as well as individuals' benefits under the Individual Assistance (IA) program (as per the NFIP Reform Act of 1994).<sup>143</sup> The Stafford Act, as originally written, contains a requirement for insurance coverage that if enforced, is intended to go a long way in incentivizing individuals, and state and local government to protect themselves against hazards.<sup>144</sup> This insurance requirement is meant to act as a driver for the property owner to take measures that reduce their risk. If a property owner knows that they may be on the hook for damages that do not exceed their insurance deductible, mitigation activities to lessen the risk of damage may be more attractive.<sup>145</sup>

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<sup>139</sup> Ibid.

<sup>140</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Response and Recovery officials, May 8, 2014.

<sup>141</sup> Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended, Public Law 93-288, as amended, 42 U.S.C. 5121 et seq.; (42 U.S.C. 5154).

<sup>142</sup> Department of Homeland Security, Office of Inspector General, *FEMA's Process for Tracking Public Assistance Insurance Requirements*, OIG-12-18, Washington, D.C.; Dec. 16, 2011

<sup>143</sup> Ibid.

<sup>144</sup> See: Department of Homeland Security, Office of Inspector General, *FEMA's Process for Tracking Public Assistance Insurance Requirements*, OIG-12-18, Washington, D.C.; Dec. 16, 2011. This report notes that that implementing regulations concerning this Stafford Act provision are in the Code of Federal Regulations (C.F.R.) Title 44, Part 206.

<sup>145</sup> Ibid.

When reviewing a project proposal, FEMA is required to conduct an insurance review in order to identify whether the applicant has received funding for the damaged facility in the past. In order to conduct a thorough review, one must search three databases, each with their own limitations.<sup>146</sup>

The implementation of ‘*obtain and maintain*’ provision has also been reviewed by the DHS-OIG in December 2011.<sup>147</sup> Their 2011 report noted issues related to insurance requirements have existed as far back as 2001.<sup>148</sup> According to the DHS-OIG, FEMA officials have acknowledged the possibility of duplicative payments but without the tools to accurately identify these instances, it can be hard to quantify the impact of these shortfalls.<sup>149</sup> However, the DHS-OIG was able to identify about \$83.7 million in ineligible costs in its audits of fiscal year 2013 disaster spending and \$31.5 million in its audits of 2011 spending.<sup>150</sup>

We are concerned that FEMA’s legacy of IT systems have not incorporated and maintained data over the duration of the ‘*obtain and maintain*’ insurance requirement to ensure that these properties are being identified, especially if such properties have changed hands. As of 2011, FEMA still lacked the ability to simultaneously compare fields across the various systems and due to varying search field classifications.<sup>151</sup> According to the DHS-OIG’s report, FEMA cannot reliably search based on a specific facilities name or address.<sup>152</sup> This is critical for identifying potential duplication of benefits for a specific location. Incorrect GPS coordinates, gaps in address details, and incorrect coding of insurance information all contribute to incomplete and ineffective databases, as the report noted.<sup>153</sup> If these systems do not support disaster recovery and are not integrated long after these challenges were first identified, FEMA must be held accountable for this lapse in compliance with statute and regulation.<sup>154</sup>

Additionally, the DHS-OIG’s 2011 report pointed out two other continuing performance challenges:

- *Compliance with Insurance Requirements Has the Potential to Hold Up Disaster Close Outs:* FEMA regulations implementing the Stafford Act set an 18 month timeline for the close out of large projects.<sup>155</sup> The DHS-OIG’s assessment of the compliance with insurance requirements revealed that many projects staying open, on average, 60 months.<sup>156</sup> This delay could result in

<sup>146</sup> Ibid.

<sup>147</sup> Ibid.

<sup>148</sup> Ibid.

<sup>149</sup> Ibid.

<sup>150</sup> U.S. 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, Washington, D.C. June 10, 2014; and *Capping Report: FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-12-74, Washington, D.C.; April, 13, 2012.

<sup>151</sup> OIG-12-18, Washington, D.C.; Dec. 16, 2011.

<sup>152</sup> Ibid.

<sup>153</sup> Ibid.

<sup>154</sup> Ibid.

<sup>155</sup> 44 CFR § 206.204 Project performance Accessed: 7/2/14 via: <http://www.law.cornell.edu/cfr/text/44/206.204>. Time limits for project completion begin on the disaster declaration date: Emergency work must be completed within – 6 months; Permanent work must be completed within – 18 months. For extenuating circumstances or project requirements beyond the applicant’s control, the Grantee may extend the emergency work deadline an additional 6 months and the permanent work deadline an additional 30 months on a project by project basis. FEMA may also extend the time limits when sufficient justification is submitted.

<sup>156</sup> Ibid.

increased administrative costs for FEMA as well as additional costs to the grantee and subgrantees.<sup>157</sup>

- *FEMA's Public Assistance Program May Affect Incentives to Carry Insurance:* The DHS-OIG's report stated that disincentives to carry insurance may also exist; for example, the Public Assistance program pays the full cost of repairs to an applicant's building the first time it is damaged which tends to make buying insurance less of a priority.<sup>158</sup> FEMA has recognized this challenge as far back as 2000.<sup>159</sup> However, FEMA had not issued a final rule addressing the identified deficiencies at the time of this audit.<sup>160</sup> According to the DHS-OIG, FEMA had explained that action on these issues had not occurred because regulatory review and rulemaking involving other programs had taken precedence.<sup>161</sup>

GAO has an ongoing review of FEMA's Individuals and Households Assistance program in the aftermath of Superstorm Sandy. Specifically, GAO's current review will examine the extent that FEMA's internal controls are designed to limit fraud, waste and duplicate payments, which would include FEMA's ability to identify those individuals and properties that have received prior federal disaster assistance and would be required to obtain and maintain insurance at the time Superstorm Sandy.<sup>162</sup>

#### FEMA's Progress

We discussed this with FEMA officials, who noted that their Recovery Directorate is facilitating the development of a Public Assistance policy on insurance to guide decision-making, set expectations, and more effectively implement the statutes and regulations that require applicants to obtain and maintain insurance as a condition of grant assistance.<sup>163</sup> During this briefing, FEMA indicated that they have undertaken a 2-year review of insurance issues and key policy questions to inform a policy on insurance that better and more consistently meets the needs of applicants, program staff, and other stakeholders.<sup>164</sup> FEMA's *Team (in)Sure!* project team has analyzed and addressed three key decision points in recommendations:

- Determining the type and extent of insurance an applicant is required to obtain and maintain;
- The extent that applicants comply with their insurance requirements;
- Reductions to assistance based on the applicant's insurance coverage or requirements.<sup>165</sup>

<sup>157</sup> Ibid.; also see, *Opportunities to Improve FEMA's Disaster Closeout Process* (OIG-10-49), January 2010.

<sup>158</sup> Department of Homeland Security, Office of Inspector General, *FEMA's Process for Tracking Public Assistance Insurance Requirements*, OIG-12-18, Washington, D.C.; Dec. 16, 2011.

<sup>159</sup> See Federal Register (65 FR 58720) on October 2, 2000.

<sup>160</sup> Department of Homeland Security, Office of Inspector General, *FEMA's Process for Tracking Public Assistance Insurance Requirements*, OIG-12-18, Washington, D.C.; Dec. 16, 2011.

<sup>161</sup> Ibid.

<sup>162</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from U.S. GAO officials, Feb. 12, 2014.

<sup>163</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA officials re: Public Assistance Policy on Insurance, May 8, 2014.

<sup>164</sup> Ibid.

<sup>165</sup> Ibid.

According to FEMA officials, they estimate publishing a draft policy in the Federal Register in August 2014, for public review and comment, with a final version Public Assistance Policy on Insurance by end of December 2014.<sup>166</sup>

During our discussion with FEMA officials, they noted that FEMA is developing an information technology tool that will be able to automatically collect the needed supporting data from its existing systems.<sup>167</sup> Currently, there is no centralized automated tool to reliably perform this data collection task. Further, FEMA officials noted that State insurance commissions could be an important partner in FEMA's efforts to effectively implement 'obtain and maintain' insurance requirements.<sup>168</sup> FEMA officials noted, however, that many state insurance commission offices do not collect and maintain this type of data, nor is there a state-level database.<sup>169</sup> This data limitation raises questions as to what extent states build and maintained the capabilities needed to manage the shared responsibility of disaster recovery, as well as what ways can FEMA improve accountability and efficiency of federal disaster recovery spending.

#### Recommendation

We are concerned with the lack of progress made in addressing the issues first identified in 2001 and believes allowing compliance issues to continue contributes to ongoing inefficiencies. Further, we recognize that implementing this Stafford Act provision can be best accomplished through an effective partnership between FEMA and the States, which may identify additional implementation issues that this Subcommittee may need to consider. We recognize FEMA's efforts to improve its policy and tracking system, but believe these early efforts need to be significantly enhanced.

#### Are We Prepared To Recover?

While FEMA has demonstrated some improvements to its systems and program, our analysis of a larger body of audits and reports on disaster recovery lead us to the broader question: are we as a Nation prepared to recover?

Efficient and effective disaster recovery may be one of the more challenging and long-standing issues FEMA faces. The nation's 'recovery capabilities' have been identified as one of the key areas in need of improvement.<sup>170</sup> In addition, recurring DHS-OIG audit findings raise questions as to what extent states have built and maintained the capabilities needed to manage the shared responsibility of disaster recovery, as well as the ways FEMA can further ensure accountability and efficiency of federal disaster recovery spending.<sup>171</sup>

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<sup>166</sup> Ibid.

<sup>167</sup> Ibid.

<sup>168</sup> Ibid.

<sup>169</sup> Ibid.

<sup>170</sup> U.S. Department of Homeland Security, Federal Emergency Management Agency, *National Preparedness Report*, Washington, D.C.; Mar. 30, 2012

<sup>171</sup> See: U.S. Department of Homeland Security, Office of the Inspector General, *Major Management and Performance Challenges Facing the Department of Homeland Security*, OIG-14-17, Dec. 2013; and *Capping Report: FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-13-90, Washington, D.C.; May 2013.

Congress, as part of the FY2012 appropriations process also identified this issue.<sup>172</sup> For example, the House committee report stated that FEMA must improve the quality and timeliness of project worksheets for public assistance grants, as well as improve the process for sharing that information with regional offices, FEMA headquarters, and the Office of Management and Budget (OMB).<sup>173</sup> Doing so would improve FEMA's management of the DRF and its assistance programs.

The Appropriations committee report mandated FEMA work with the Homeland Security Studies and Analysis Institute to review the project worksheet process and flow of information, and provide a report to the Committees no later than May 1, 2012.<sup>174</sup> Specifically, Congressional Appropriators requested a review on how to improve the collection and sharing of grant information between the regions, FEMA headquarters, and OMB.<sup>175</sup> Additionally, the review was to include a delineation of the time that an application, or its appeal, currently spends at each office and stage of the process including the a) joint field office, b) FEMA regional office, c) FEMA headquarters, d) DHS, and e) OMB; this review also sought to identify ways to streamline the information and reduce the time needed to adjudicate applications.<sup>176</sup>

Again, for the past five federal fiscal years, the DHS-OIG has published reports summarizing the findings from their individual audits of disaster grantees and subgrantees.<sup>177</sup> The DHS-OIG has noted that Federal regulations require States, as grantees, (1) to ensure that subgrantees (such as cities, school districts, etc.) are aware of requirements that Federal regulations impose on them and (2) to manage and monitor the day-to-day operations of subgrantees' activity ensure compliance with applicable Federal requirements.<sup>178</sup> Recurring problems found grantees needed to:

- "[E]stablish policies for recognizing direct administrative costs that are unreasonable or unnecessary,
- submit FEMA quarterly reports with financial information in accordance with FEMA's Public Assistance Guide (FEMA 322),
- submit closeout documentation for projects as soon as practicable,
- develop and implement oversight procedures to improve its monitoring of subgrantees."<sup>179</sup>

These recurring audit findings raise questions as to what extent states have built and maintained the capabilities needed to manage the shared responsibility of disaster recovery, as well as what ways can FEMA further ensure accountability and the effectiveness of federal disaster recovery spending. These performance limitations in the disaster recovery process were also documented in the Hurricane Sandy task force report, which recommended, "Disaster recovery efforts should account for the temporary staffing needs of Federal agencies and State and local governments who conduct

<sup>172</sup> U.S. Senate, 112th Congress, 1<sup>st</sup> session. Military Construction And Veterans Affairs And Related Agencies Appropriations Act, 2012; Conference Report To Accompany H.R. 2055. Report 112-331, Washington, D.C.; Dec. 15, 2011.

<sup>173</sup> Ibid.

<sup>174</sup> Ibid.

<sup>175</sup> Ibid.

<sup>176</sup> Ibid.

<sup>177</sup> U.S. Department of Homeland Security, Office of the Inspector General, *Major Management and Performance Challenges Facing the Department of Homeland Security*, OIG-14-17, Dec. 2013

<sup>178</sup> Ibid.

<sup>179</sup> Ibid.

reviews and permitting of Federal disaster recovery projects.”<sup>180</sup> Further, the Sandy Task Force report also recommended that the federal government “[W]ork with States and local jurisdictions to consider funding strategies and raise awareness about the need to fill Local Disaster Recovery Manager positions.”<sup>181</sup>

A recent version of the National Preparedness Report found that disaster recovery-focused core capabilities are an area for improvement nation-wide.<sup>182</sup> The Recovery mission area core capabilities center on helping disaster-affected communities rebuild infrastructure, provide adequate long-term housing, preserve community services, restore health and social services, promote economic development, and restore natural and cultural resources.<sup>183</sup> Until recently, the Recovery mission area lacked the national structure and cohesive planning approaches employed across other mission areas, such as Protection and Response.<sup>184</sup> The National Preparedness Report found that three of the four lowest-assessed capabilities fall within the Recovery mission area—Economic Recovery, Natural and Cultural Resources, and Housing.<sup>185</sup> States indicated that they were less than halfway to achieving their desired capability levels in these three critical recovery functions.<sup>186</sup>

The National Preparedness Report recognized that the recent release of the National Disaster Recovery Framework (NDRF) is an important milestone in enhancing the national approach to long-term recovery.<sup>187</sup> The National Disaster Recovery Framework defines how federal agencies will more effectively organize and operate to promote effective recovery and support states, tribes, and other jurisdictions affected by a disaster.<sup>188</sup> Further, when FEMA reviewed state preparedness reports to develop the National Preparedness Report, they found that two of the lowest priority capabilities identified across state reports again fall within the Recovery mission area (Health and Social Services and Natural and Cultural Resources). This result is due to the fact that states are prioritizing other core capabilities over disaster recovery, according to this report.<sup>189</sup> FEMA’s disaster recovery grant programs (Public Assistance, Individual Assistance and Hazard Mitigation) provide grants to states and, through them, to sub-applicants for individual restoration projects (buildings, vehicles, roads, etc.).<sup>190</sup> Other sections of this analysis have documented past work that has identified challenges such as the lack sufficient numbers of trained and experienced staff at all

<sup>180</sup> U.S. Government: *Hurricane Sandy Rebuilding Strategy: Stronger Communities, A Resilient Region*, Recommendation #10, Washington, D.C.; Aug. 2013.

<sup>181</sup> U.S. Government: *Hurricane Sandy Rebuilding Strategy: Stronger Communities, A Resilient Region*, Recommendation #57, Washington, D.C.; Aug. 2013.

<sup>182</sup> U.S. Department of Homeland Security, Federal Emergency Management Agency, *National Preparedness Report*, Washington, D.C.; Mar. 30, 2012. Presidential Preparedness Directive 8 tasks DHS to prepare the National Preparedness Report (NPR), an annual report summarizing the progress made toward building, sustaining, and delivering the 31 core capabilities described in the National Preparedness Goal. The NPR also addresses several reporting requirements from the Post-Katrina Emergency Management Reform Act of 2006.

<sup>183</sup> U.S. Department of Homeland Security, Federal Emergency Management Agency, *National Preparedness Report*, Washington, D.C.; Mar. 30, 2012.

<sup>184</sup> *Ibid.*

<sup>185</sup> *Ibid.*

<sup>186</sup> *Ibid.*

<sup>187</sup> *Ibid.*

<sup>188</sup> *Ibid.*

<sup>189</sup> *Ibid.*

<sup>190</sup> U.S. Department of Homeland Security, Federal Emergency Management Agency, *Public Assistance Applicant Handbook*, FEMA P-323, Washington, D.C.; March 2010.

levels, and the lack of information and poor communication among FEMA, state, and local personnel hampered projects.

*DHS-OIG's Life-Cycle Audits*

The DHS-OIG also recognized this state/local recovery capability problem and is moving toward a 'Life-Cycle audit approach' to better identify the source of problems and more targeted solutions.<sup>191</sup> We support this effort between FEMA and the DHS-OIG to fix potential issues on the front-end of the disaster grant process. The DHS-OIG is working with FEMA and expanding their audit efforts on prevention and monitoring, including advising States, locals, tribes, etc., on proper contracting and financial management controls.<sup>192</sup>

According to the DHS-OIG, their office will perform 4 types of audits:

- o Deployment audits to monitor FEMA's immediate disaster response efforts
- o Capacity audits to assess financial management infrastructure such as internal controls and procurement processes grantees/subgrantees (i.e.: State, local, tribal, etc.).
- o Early-warning audits for early-detection of non-compliance with FEMA and Federal policies.
- o Close-out/completion audits, which are the DHS-OIG's current process of after-the-fact reviews of grantee and subgrantee spending.<sup>193</sup>

**FEMA's Need for Greater Clarity and Transparency: Findings and Recommendations:**

In addition to the body of audits and research that have quantified possible financial savings or cost avoidance in FEMA disaster recovery business operations and programs, there are also several recurring issues of FEMA performance and program efficiency that have non-financial implications, but may have financial implications down the road.

Information Technology Management

The Post-Katrina Emergency Management Reform Act also strengthened FEMA by providing it with new responsibilities, capabilities, and resources, including provisions to enhance information technology (IT) management.<sup>194</sup> Specifically, section 640 required FEMA to take steps to improve and update its IT systems in coordination with the Department of Homeland Security's (DHS) Chief Information Officer (CIO).<sup>195</sup> As the full Committee stated, "IT systems play an integral role in helping FEMA fulfill its mission, including efficiently tracking and monitoring a well-trained agency's disaster workforce, ensuring individual payments to disaster survivors are appropriately served, and recovery projects are eligible as well as on-time and on-budget."<sup>196</sup> However, if they

<sup>191</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing by the Department of Homeland Security's Office of Inspector General, April 28, 2014.

<sup>192</sup> Ibid.

<sup>193</sup> Ibid.

<sup>194</sup> P.L. 109-295, Sec. 604.

<sup>195</sup> Ibid.

<sup>196</sup> Senate Homeland Security and Governmental Affairs Committee, letter to The Honorable W. Craig Fugate, Administrator, Federal Emergency Management Agency, May 28, 2014.

are not properly managed, FEMA will struggle to do this.<sup>197</sup> Moreover, reliable IT systems will better enable FEMA to apply cutting-edge analytics and move the agency into a ‘data-driven’ disaster management organization.

Our review has identified some issues that remain a challenge and require additional attention. FEMA has faced a number of challenges in IT management in recent years. In 2011, for example, the DHS-OIG released a report that detailed a number of shortcomings, finding that the agency’s IT systems did not effectively support disaster response and recovery activities.<sup>198</sup> The DHS-OIG listed the following key issues:

- Existing information technology systems did not support disaster response activities effectively.
- FEMA did not have a comprehensive information technology strategic plan with clearly defined goals and objectives or guidance for program office initiatives.
- FEMA has not completed its efforts to document the agency’s enterprise architecture. Specifically, the office does not have a complete, documented inventory of its systems to support disasters.
- FEMA program and field offices continue to develop information technology systems independently of the office and have been slow to adopt the agency’s standard information technology development approach.<sup>199</sup>

The DHS-OIG report noted, “Without these critical elements, the agency is challenged to establish an effective approach to modernize its information technology infrastructure and systems. As a result, systems are not integrated, do not meet user requirements, and do not provide the information technology capabilities agency personnel and its external partners need to carry out disaster response and recovery operations in a timely or effective manner.”<sup>200</sup>

#### FEMA’s Progress

FEMA has taken some steps to address these problems. For example, in line with recommendations from the DHS OIG, the agency has developed a comprehensive IT strategic plan, and it has established a comprehensive enterprise IT systems inventory.<sup>201</sup> The full Committee noted that “FEMA has also hired a new Chief Information Officer (CIO) who has worked to improve coordination between FEMA headquarters and the regional offices, an effort he plans to continue.”<sup>202</sup>

Overall, the FEMA CFO pointed to \$48 million in cost avoidance over the past 18 months, as part of DHS’s Financial Modernization initiative.<sup>203</sup> The FEMA CFO noted that stabilizing FEMA’s

<sup>197</sup> Ibid.

<sup>198</sup> Department of Homeland Security, Office of Inspector General, *The Federal Emergency Management Agency Faces Challenges in Modernizing Information Technology*, OIG-11-69, Washington, D.C.; Apr. 2011.

<sup>199</sup> Ibid.

<sup>200</sup> Ibid.

<sup>201</sup> Senate Homeland Security and Governmental Affairs Committee, letter to The Honorable W. Craig Fugate, Administrator, Federal Emergency Management Agency, May 28, 2014.

<sup>202</sup> Ibid.

<sup>203</sup> Federal Emergency Management Agency, *Strategic Priority 5: Achieve Business and Management Excellence*, briefing from FEMA Office of Chief Financial Officer to Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs staff, Apr. 29, 2014.



core financial system (IFMIS) has been a priority.<sup>204</sup> As a result of a ‘technology refresh,’ FEMA’s core financial system is now not at risk of shutdown and can be updated to meet new and unexpected Treasury reporting requirements.<sup>205</sup> In addition, FEMA now leverages automated document systems to be paperless and support workflow electronically, instead of paper forms. Other specific efficiencies in this area include the elimination of a costly and ineffective budget system with an off-the-shelf system at about \$60,000; the annual operating cost for the former system was from \$1-2 million, according to the FEMA CFO.<sup>206</sup>

Another example of FEMA’s progress toward data-driven decision making, according to FEMA officials, is FEMA’s development of a Force Planning Model to provide FEMA leadership with an analytical method to frame policy.<sup>207</sup> This tool for FEMA leadership is designed to right-size the size and composition of a disaster workforce. FEMA’s Force Planning Model support FEMA’s capability to respond to disasters by better identifying personnel staffing requirements as well as training and equipment costs.<sup>208</sup> This analysis will discuss FEMA’s Force Planning Model in greater detail below.

Overall, the FEMA CFO points to \$48 million in cost avoidance over the past 18 months, as part of DHS’s Financial Modernization initiative.<sup>209</sup> The FEMA CFO noted that stabilizing FEMA’s core financial system (IFMIS) has been a priority.<sup>210</sup> As a result of a ‘technology refresh,’ FEMA’s core financial system is now not at risk of shutdown and can be updated to meet new and unexpected Treasury reporting requirements.<sup>211</sup> In addition, FEMA now leverages automated document systems to be paperless and support workflow electronically, instead of paper forms.<sup>212</sup> Other specific efficiencies in this area include the elimination of a costly and ineffective budget system with an off-the-shelf system at about \$60,000; the annual operating cost for the former system was from \$1-2 million, according to the FEMA CFO.<sup>213</sup>

#### Recommendation

We encourage FEMA to prioritize its IT improvements as its systems play an integral role in FEMA’s mission success. Having the requisite data is essential for planning purposes. Further, GAO is planning a review of FEMA’s IT systems conformance to provisions under the Post-Katrina

<sup>204</sup> Ibid.

<sup>205</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>206</sup> Federal Emergency Management Agency, *Strategic Priority 5: Achieve Business and Management Excellence*, briefing from FEMA Office of Chief Financial Officer to Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs staff, Apr. 29, 2014.

<sup>207</sup> Federal Emergency Management Agency, FEMA Force Planning Executive Summary, June 2014; and FEMA Disaster Workforce Model: Senate Staff Briefing, June 3, 2014.

<sup>208</sup> Federal Emergency Management Agency, FEMA Force Planning Executive Summary, June 2014.

<sup>209</sup> Federal Emergency Management Agency, *Strategic Priority 5: Achieve Business and Management Excellence*, briefing from FEMA Office of Chief Financial Officer to Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs staff, Apr. 29, 2014.

<sup>210</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>211</sup> Ibid.

<sup>212</sup> Ibid.

<sup>213</sup> Federal Emergency Management Agency, *Strategic Priority 5: Achieve Business and Management Excellence*, briefing from FEMA Office of Chief Financial Officer to Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs staff, Apr. 29, 2014.

Act. This GAO review should consider assessing the data quality and reliability in order to efficiently and effectively support disaster management operations.

Administrative Costs are increasing under the Disaster Relief Fund (DRF)

FEMA's administrative costs for disaster response and recovery have been increasing. In September 2012, GAO reported that FEMA's average administrative costs doubled from 9 to 18 percent during fiscal years 1989-2011, and these administrative cost percentages frequently exceeded FEMA's suggested targets.<sup>214</sup> According to GAO's report, FEMA provided guidance for administrative cost targets but does not assess how well the targets were achieved.<sup>215</sup> Examples of administrative costs include the salary and travel costs for the disaster reserve workforce, rent and security expenses associated with each FEMA Joint Field Offices facilities, supplies and information technology support for JFO staff.<sup>216</sup> According to FEMA officials, the agency's administrative costs are primarily due to activities at JFOs; however, administrative costs can also be incurred at FEMA regional offices, headquarters, and other locations.<sup>217</sup>

According to GAO:

- For small disaster declarations (total obligations of less than \$50 million), the target range for administrative costs is 12 percent to 20 percent; four out of every ten of these type of disasters had administrative costs that exceeded 20 percent.<sup>218</sup>
- For medium disaster declarations (total obligations of \$50 million to \$500 million), the target range for administrative costs is 9 percent to 15 percent; almost three out of every ten had administrative costs that exceeded 15 percent.<sup>219</sup>
- For large disaster declarations (total obligations greater than \$500 million to \$5 billion), the target range for administrative costs is 8 percent to 12 percent; while over four out of every ten of these type of disasters had administrative costs that exceeded 12 percent.<sup>220</sup>

According to GAO's 2012 report, while FEMA is working on actions to improve efficiencies in delivering disaster assistance, the agency does not plan to set goals or track performance for administrative costs.<sup>221</sup> GAO concluded that "adopting administrative cost percentage goals and measuring performance against these goals would help provide FEMA with additional assurance that it is doing its utmost to deliver disaster assistance in an efficient manner."<sup>222</sup> In our interviews

<sup>214</sup> U.S. GAO, *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, GAO-12-838, Washington, D.C.; Sept. 12, 2012.

<sup>215</sup> Ibid.

<sup>216</sup> Ibid.

<sup>217</sup> Ibid. According to FEMA policy, Event Level 1 declarations—with projected obligations of \$500 million to \$5 billion—have an administrative cost percentage target range of 8 percent to 12 percent of total obligations. Event Level 2 declarations—with projected total obligations from \$50 million to \$500 million—have a target range of 9 percent to 15 percent. Event Level 3 declarations—with projected obligations of less than \$50 million—have a target range of 12 percent to 20 percent.

<sup>218</sup> Ibid. GAO noted that they analyzed 409 small-sized declarations.

<sup>219</sup> Ibid. GAO noted that they analyzed 111 medium-sized declarations.

<sup>220</sup> Ibid. GAO noted that they analyzed 19 large declarations. Two of the 19 large disaster declarations had projected obligations over \$5 billion, which is above the dollar range that FEMA uses to define large declarations. GAO included them in the group of large declarations.

<sup>221</sup> Ibid.

<sup>222</sup> Ibid.

of subject-matter experts in disaster management, one disaster management organization noted that there are often inconsistencies in federal reimbursement decisions, which further burdens many applicants as these costs can be substantial during the disaster recovery phase.<sup>223</sup>

GAO is currently working on a follow-up review of administrative costs incurred by states and their subgrantees (localities and contractors) to determine the magnitude of these costs and the extent that FEMA is working to control them.<sup>224</sup> One of the underlying issues in the rise of administrative costs is FEMA's ability to monitor and manage their data.<sup>225</sup> GAO's ongoing work will identify FEMA's ability (and limitations) to use the extensive amounts of disaster recovery project information.<sup>226</sup>

#### FEMA's Progress

Over the past several years, FEMA has focused on enhancing its overall fiscal stewardship of disaster spending in order to reduce costs and improve efficiency in the Disaster Relief Fund (DRF). The most significant management process that FEMA has instituted is the greater reliance of project management "spend plans."<sup>227</sup> According to the FEMA's Chief Financial Officer, these spend plans have improved the ability to estimate future resource needs.<sup>228</sup> Program and financial components work together to project monthly and yearly needs and evaluated results on a monthly basis.<sup>229</sup> These spend plans are also a key piece of FEMA's monthly congressionally required DRF report of actual and estimated costs.<sup>230</sup>

Other disaster management procedures FEMA identified include 'right-time and 'right-size' funding and active management of contracts and mission assignments to match resource needs with obligations.<sup>231</sup> During the first 90 days of FEMA's response to Superstorm Sandy, for example, mission assignment costs were reduced from \$1 billion to \$500 million using these project management techniques, according to the FEMA CFO.<sup>232</sup> According to the FEMA CFO, FEMA quickly began evaluating the obligated amounts vs. the actual need and began identifying and de-obligating excess obligations during the first month and a half of the disaster.<sup>233</sup> As of February 2014 FEMA had returned approximately \$511M with over \$400M being returned within 6 months of the declaration, according to the FEMA CFO.<sup>234</sup> Also, analysis of administrative costs is being

<sup>223</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from disaster management subject-matter expert, Feb. 21, 2014.

<sup>224</sup> Ibid.

<sup>225</sup> Ibid.

<sup>226</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from U.S. GAO officials, May, 6, 2014.

<sup>227</sup> Ibid.

<sup>228</sup> Ibid.

<sup>229</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>230</sup> Ibid.

<sup>231</sup> Federal Emergency Management Agency, *Strategic Priority 5: Achieve Business and Management Excellence*, briefing from FEMA Office of Chief Financial Officer to Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs staff, Apr. 29, 2014.

<sup>232</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA Office of Chief Financial Officer, Apr. 29, 2014.

<sup>233</sup> Ibid.

<sup>234</sup> Ibid.

performed to identify opportunities for cost management improvement, especially in terms of information technology, use of physical space, and overtime.<sup>235</sup>

Recommendation

We recognize FEMA's efforts to further emphasize project management spend plans, and encourage additional quality management best practices be put into use throughout the entire life of an open disaster. We believe that FEMA could find additional cost efficiencies by identifying the significant differences between planned project performance and costs versus ongoing project performance and costs, as GAO's 2012 report concluded.<sup>236</sup>

Need for Increased Transparency in Tracking Disaster Spending

FEMA maintains data systems including National Emergency Management Information System (NEMIS) and the Emergency Management Mission Integrated Environment (EMMIE) that manages all current and past disaster project information for the agency's Public Assistance, Individual Assistance, and Hazard Mitigation (HMGP) disaster grant programs.<sup>237</sup>

It appears, however, that leveraging these information systems may still be limited. For example, an April 2011 DHS-OIG audit concluded that FEMA's existing technology systems do not support disaster response activities effectively, noting "systems are not integrated, do not meet user requirements, and do not provide the information technology capabilities that agency personnel and external partners need to carry out disaster response and recovery operations in a timely or effective manner."<sup>238</sup> In addition, subject-matter experts from one organization we spoke with noted that "while the tools are already in place at FEMA and serve important functions throughout the recovery cycle, the data stored on these systems is not being fully leveraged to provide Federal, state, and local personnel with the information they need to reduce risk and build greater resilience in the wake of disaster."<sup>239</sup>

Moreover, FEMA is not the only federal agency that states, locals, tribes, territories and individuals and businesses receive support from after a disaster. In April 2009, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) identified 240 eligible federal programs that may provide assistance to affected individuals, states, localities, nonprofit organizations, businesses, and

<sup>235</sup> Federal Emergency Management Agency, *Strategic Priority 5: Achieve Business and Management Excellence*, briefing from FEMA Office of Chief Financial Officer to Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs staff, Apr. 29, 2014.

<sup>236</sup> U.S. GAO, *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, GAO-12-838, Washington, D.C.; Sept. 12, 2012.

<sup>237</sup> The earliest is the Automated Disaster Assistance Management System (ADAMS), followed by the National Emergency Management Information System (NEMIS) and the Emergency Management Mission Integrated Environment (EMMIE); FEMA began the EMMIE pilot on select disasters between December 18, 2007, and July 14, 2008, and used it for all disasters starting with disaster declaration number 1778, declared on July 24, 2008. For more information see Department of Homeland Security, Office of Inspector General, *FEMA's Process for Tracking Public Assistance Insurance Requirements*, OIG-12-18, Washington, D.C.; Dec. 16, 2011.

<sup>238</sup> Department of Homeland Security, Office of Inspector General, *Federal Emergency Management Agency Faces Challenges in Modernizing Information Technology*, OIG-11-69, Washington, D.C.; April 2011.

<sup>239</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from disaster management subject-matter expert, Feb. 21, 2014.

other public entities.<sup>240</sup> In August 2013, the Sandy Rebuilding Strategy recommended improved data sharing between federal agencies that administer disaster recovery programs in order to move federal funds more quickly post-disaster.<sup>241</sup> In particular, considering the Stafford Act's duplication of benefits requirements, the Sandy Task Force recommended the development of a platform for the sharing of data between FEMA, the Small Business Administration (SBA), and the U.S. Department of Housing and Urban Development (HUD) in order to assist CDBG-DR grantees by more quickly and efficiently deploying funds to assist households and businesses with unmet recovery needs.<sup>242</sup> In addition, the Recovery Accountability and Transparency Board testified at this Subcommittee's Sandy recovery hearing that there are multiple areas that could enhance reporting that would lead to improved tracking and analyzing of disaster supplemental spending.<sup>243</sup> Those areas include (1) consistent data definitions for place of performance, (2) edit checks of ZIP+4 codes, (3) a unique funding identifier, and (4) sub-recipient information.<sup>244</sup>

#### Recent IT Legislative Improvements

It is important to note here that legislation recently passed by Congress will have far-reaching effects on federal agencies and hundreds of thousands of recipient of federal funds – grantees, contractors, universities, nonprofits, states and localities. The Digital Accountability and Transparency Act (DATA Act) gives agencies three years to implement a set of new reporting requirements to track federal spending, but it will be unbelievably complex – requiring changes in federal regulations, and in the written terms of every federal grant, contract and loan agreement of \$25,000 or more.<sup>245</sup> These changes will likely cascade to agreements between states and localities with their subgrantees and subcontractors, as well. Initial reviews by experts on performance note that this new law could be implemented effectively.<sup>246</sup> There was virtually unanimous bipartisan support for the legislation in Congress, as well as key support and involvement from internal and external stakeholders to this issue. While the new law contains no dedicated funding, the responsibility for implementation of the data collection and reporting is being placed in the Department of Treasury where it can be integrated into the overall financial management framework for the federal government.<sup>247</sup> Treasury will integrate implementation into a broader framework it is developing to follow the entire 'life cycle of federal spending.'<sup>248</sup>

<sup>240</sup> U.S. Department of Homeland Security, Office of Inspector General, *Compendium of Disaster Assistance Programs*, OIG-09-49, Washington, D.C.; Apr. 3, 2009.

<sup>241</sup> Hurricane Sandy Rebuilding Task Force, *Hurricane Sandy Rebuilding Strategy: Stronger Communities, A Resilient Region*, Washington, D.C.; Aug. 2013.

<sup>242</sup> The Honorable Shaun Donovan, Secretary, United States Department of Housing and Urban Development (HUD), Response to Questions for the Record, Subcommittee on Emergency Management, Intergovernmental Relations, and the District of Columbia, Of the U.S. Senate Committee on Homeland Security and Governmental Affairs, 'One Year Later: Examining the Ongoing Recovery From Hurricane Sandy,' Washington, D.C.; Nov. 6, 2013.

<sup>243</sup> The Honorable Kathleen S. Tighe, Chairwoman, Recovery Accountability and Transparency Board, Response to Questions for the Record, Subcommittee on Emergency Management, Intergovernmental Relations, and the District of Columbia, Of the U.S. Senate Committee on Homeland Security and Governmental Affairs, 'One Year Later: Examining the Ongoing Recovery From Hurricane Sandy,' Washington, D.C.; Nov. 6, 2013.

<sup>244</sup> Ibid.

<sup>245</sup> P. L. 113-101.

<sup>246</sup> Kamensky, John, *Here's Why DATA Act Implementation May Be Successful*, Government Executive, May 6, 2014.

<sup>247</sup> Ibid.

<sup>248</sup> Ibid.

This initiative builds on past work by the Government Accountability and Transparency Board. The Board “has already begun to develop a roadmap to develop unique identification standards for each transaction, focusing on grants and contracts --which account for one-third of total spending each year.”<sup>249</sup> One expert noted ‘while the opportunities for success are good, the real challenge will be not to just comply with the law, but to actually act on its intent’ – to increase transparency, improve performance, and change the culture in agencies.<sup>250</sup>

#### Recommendations

FEMA needs to continue to work with its partner agencies (such as SBA, HHS, HUD, etc.) and the Recovery Board to identify additional transparency in its contracts and acquisition spending to both Congress and the public. One potential fix is to have FEMA consider ways to better leverage existing data that track both the applicants and properties that are at the highest risk. This should involve breaking down “information silos” within FEMA that prevent information from being shared across the agency to entities tasked with assisting the public. This may significantly reduce costs in the short term, and also reduce long-term spending by identifying properties that incur the highest recurring losses.

We recommend that FEMA recognizes their ability to use the historical disaster recovery data the agency has collected should be a next-generation asset. This should be an effective tool for planning and managing future disaster recovery operations such as, predicting the extent of communities’ needs for FEMA’s Individual Assistance (IA) and/or Public Assistance (PA) programs, and the needed staffing to do a certain jobs, thus this is an opportunity for FEMA to capture greater efficiency and improve performance. Using this past data more effectively can potentially save the Agency taxpayer money in helping improve their planning efforts and make data-driven decisions.

We have observed that the DHS OIG does not currently have a data system that provides either Congress or the general public with accurate records on the status of the implementation of open recommendations.<sup>251</sup> For Congress to comprehensively perform its oversight functions it is important that congressional subcommittees such as this one can monitor the results of DHS OIG audit recommendations to verify that the recommended actions are being taken and, to the extent possible, that the desired results are being achieved. Moreover, we view an agency’s accountability and quality management as a larger system that relies on internal and external stakeholders contribute both directly and indirectly to ensure that FEMA’s products and services are efficient and effective.<sup>252</sup>

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<sup>249</sup> Ibid.

<sup>250</sup> Kamensky, John, *Here’s Why DATA Act Implementation May Be Successful*, Government Executive, May 6, 2014.

<sup>251</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing by the Department of Homeland Security’s Office of Inspector General, May 29, 2014.

<sup>252</sup> The general research on total quality management recognizes a “three-spheres” approach that encompasses quality management, quality assurance, and quality control. For additional examples see <https://services.online.missouri.edu/exec/data/courses/2392/public/lesson01/lesson01.aspx>; or FEMA, Risk MAP program Quality Assurance Management Plan process, <http://www.fema.gov/risk-mapping-assessment-planning>.

#### FEMA's Secure Data Policy

In September 2013, FEMA developed a policy for secure data sharing.<sup>253</sup> FEMA will share FEMA-collected disaster assistance data (FEMA Recovery Data) with its 'Trusted Partners' in a secure and expedient manner.<sup>254</sup> Sharing seeks to: (1) enhance partners' abilities to make well-informed and rapid decisions based upon sound data, and (2) enable the delivery of additional, non-federal assistance to disaster survivors.<sup>255</sup> FEMA Recovery Data may include Personally Identifiable Information (PII) and Sensitive Personally Identifiable Information (SPII).<sup>256</sup> As such, it will only be shared as authorized by the Privacy Act and FEMA's relevant public notice.<sup>257</sup> FEMA will only share PII with Trusted Partners when authorized by either the head of the Individual Assistance Division or the Federal Coordinating Officer, as part of a disaster operation.<sup>258</sup>

While we recognize the need for increased transparency in tracking disaster spending—as discussed above—we reviewed FEMA's current data sharing policy and has voiced concerns. We recognize that sharing data with State, Tribal, and certain other quasi-governmental entities is a necessary mechanism to preventing fraud, waste, and abuse, and support FEMA in that effort. We also we also recognize that such efficiencies can be captured through additional inter-departmental and intergovernmental data sharing. This Congress expects FEMA will share information with State and Tribal governments, as expressed in section 408(f)(2) of the Stafford Act, to ensure that all necessary State or Tribal aid is provided to the disaster survivor.<sup>259</sup> However, we believe that individuals' civil liberties and privacy rights are also paramount, and are thus concerned that current FEMA policy and procedures do not provide disaster survivors with a full and complete understanding of the ways in which FEMA will use and share personal information about them. We believe it is unreasonable for a disaster survivor to have to contact FEMA and wade through government bureaucracy for a full explanation of how their personal information could be used.

#### Recommendation

We believe that FEMA should immediately provide an option for disaster survivors to opt-out of their data being shared with organizations and entities beyond those clearly identified in the Stafford Act section 408(f)(2). In addition, FEMA should provide clear guidelines to the public on how the information is being distributed to the third-party entities.

<sup>253</sup> Federal Emergency Management Agency, Recovery Policy 9420.1. *Secure Data Sharing*, Washington, D.C.; Sep. 9, 2013.

<sup>254</sup> According to FEMA Recovery Policy 9420.1, 'Trusted Partners' is defined as: Any governmental or non-governmental entity described and defined in Routine Uses (H), (CT), or, in certain instances, (F) of the Disaster Recovery Assistance System of Records Notice. This policy breaks down Trusted Partners into the following groups: a) Other Federal Agencies, b) State and Tribal government, c) Local governments and Voluntary Organizations, d) Utility Companies, Hospitals, and Health Care Providers, e) Voluntary organizations able to provide durable medical equipment or assistive technology, f) Other entities able to provide durable medical equipment or assistive technology, and g) Private sector businesses that employ disaster survivors.

<sup>255</sup> Ibid.

<sup>256</sup> Ibid.

<sup>257</sup> Ibid.

<sup>258</sup> FEMA Recovery Policy 9420.1.

<sup>259</sup> Subcommittee on Emergency Management, Intergovernmental Relations, and the District of Columbia, correspondence to The Honorable W. Craig Fugate Administrator, Federal Emergency Management Agency, Feb. 7, 2014.

#### Disaster Declaration Criteria

In September 2012, GAO found that FEMA primarily relied on a single metric to determine whether to recommend to the President that a jurisdiction receive public assistance (PA) funding: the per capita dollar amount of damage for a state, since it was created in 1986.<sup>260</sup> GAO noted that this per capita indicator does not reflect the rise in (1) per capita personal income or (2) inflation from 1986 to 1999.<sup>261</sup> GAO's analysis of FEMA's anticipated obligations for 508 declarations with PA during fiscal years 2004-2011 shows that either 44 percent or 25 percent may not have met the indicator if it had been adjusted for increases in personal income and inflation since 1986 – depending on whether one updates per capita personal income or inflation.<sup>262</sup> In May 2012, the DHS Office of Inspector General reached a similar conclusion based on its analysis.<sup>263</sup>

In GAO's 2012 study, they identified other measures of fiscal capacity, such as total taxable resources, that could be more useful in determining a jurisdiction's ability to pay for damages to public structures.<sup>264</sup> GAO recommended that FEMA develop a methodology that provides a more comprehensive assessment of a jurisdiction's capability to respond to and recover from a disaster without federal assistance.<sup>265</sup> This should include one or more measures of a jurisdiction's fiscal capacity, and consideration of the jurisdiction's response and recovery capabilities; if FEMA continues to use the existing per capita damage indicator, it should adjust the indicator for inflation.<sup>266</sup>

However, simply adjusting the single per capita income threshold that FEMA now uses does not consider variations from state to state of states' capability to respond and recover. For example, as GAO reported in 2001 and in 2012, per capita personal income is a relatively poor indicator of a jurisdiction's fiscal capacity because it does not comprehensively measure all income potentially subject to jurisdiction taxation and is not necessarily indicative of jurisdiction or local capability to respond effectively without federal assistance.<sup>267</sup>

In addition, an adjustment per capita damage indicator would also not adequately take into account unique needs and higher transportation costs to perform response and recovery activities, due to the remote distances as well as physical and seasonal challenges.<sup>268</sup> This is especially a challenge for states and territories outside of the Lower 48.<sup>269</sup> The DHS-OIG recently identified this issue in their

<sup>260</sup> GAO: Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own, GAO-12-838, Washington, D.C.; Sept. 12, 2012.

<sup>261</sup> Ibid.

<sup>262</sup> Ibid.

<sup>263</sup> Department of Homeland Security, Office of Inspector General, *Opportunities to Improve FEMA's Public Assistance Preliminary Damage Assessment Process*, OIG-12-709, Washington, D.C.; May 2, 2012.

<sup>264</sup> GAO-12-838, Washington, D.C.; Sept. 12, 2012.

<sup>265</sup> Ibid.

<sup>266</sup> Ibid.

<sup>267</sup> GAO: *Disaster Assistance: Improvement Needed in Disaster Declaration Criteria and Eligibility Assurance Procedures*, GAO-01-837; Washington, D.C.: Aug 31, 2001; and *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, GAO-12-838, Washington, D.C.; Sept. 12, 2012.

<sup>268</sup> Martin, Stephanie, Mary Killorin and Steve Colt, *Fuel Costs, Migration, and Community Viability*, Institute of Social and Economic Research, University of Alaska Anchorage, May 12, 2008; William D. Berry, Richard C. Fording and Russell L. Hanson, *An Annual Cost of Living Index for the American States, 1960-1995*, The Journal of Politics, Vol. 62, No. 2 pp. 550-567, May, 2000; also see <http://cost-of-living.findthebest.com>.

<sup>269</sup> Ibid.



June 2014 audit of FEMA's response to the Disaster in Galena, Alaska.<sup>270</sup> The DHS-OIG recognized the additional challenges to providing cost-effective ways to provide disaster response and recovery services to "nontraditional, remote, and inaccessible communities."<sup>271</sup> In addition, earlier GAO work has similarly identified these inequities in the variations between states in costs of providing program services, such as the formula currently used to distribute Health and Human Services' substance abuse grants.<sup>272</sup> Further, we also recognize that there is dissension within the emergency management community as to whether the current damage indicator is the best measure of a State's ability to recover without disaster assistance. All of these concerns could be addressed through a full, open discussion by Congress.

Revise and Clarify Disaster Recovery Policies and Guidance: The "50 Percent Rule" Case Study  
The DHS-OIG's 2013 report specifically called out problems in properly applying FEMA's 50 Percent Rule in determining whether to repair or replace a damaged facility.<sup>273</sup> Federal requirements (under the Code of Federal Regulations [CFR]) and FEMA guidelines pertaining to the 50 Percent Rule stipulates:

*"A facility is considered repairable when the disaster damages do not exceed 50 percent of the cost of replacing the facility to its pre-disaster condition, and it is feasible to repair the facility so that it can perform the function for which it was being used as well as it did immediately prior to the disaster. If a damaged facility is not repairable, approved restorative work may include replacement of the facility."*<sup>274</sup>

The complexities of applying the 50 Percent Rule and a lack of adequate policies and procedures, incorrect replacement decisions cost FEMA millions of dollars, according to the DHS-OIG.<sup>275</sup> For example, the DHS-OIG's May 2013 report found that FEMA misapplied the 50 Percent Rule to determine project eligibility and replaced damaged facilities.<sup>276</sup> The 50 Percent Rule states that a facility is generally "eligible for replacement when the estimated repair cost exceeds 50 percent of the estimated replacement cost."<sup>277</sup> In two of the instances when FEMA misapplied the 50 Percent Rule, FEMA relied on inaccurate documentation that the subgrantee provided.<sup>278</sup> In one example,

<sup>270</sup> Department of Homeland Security, Office of Inspector General, *FEMA's Response to the Disaster in Galena, Alaska*, OIG-14-106-D, Washington, D.C.; June 17, 2014.

<sup>271</sup> Ibid.

<sup>272</sup> GAO, *Maternal and Child Health: Block Grant Funds Should Be Distributed More Equitably*, HRD-92-5; Washington, D.C.: Apr 2, 1992; and *Worker and Family Assistance: Older Americans Act Funding Formula*, HEHS-96-137R; Washington, D.C.: Apr 24, 1996. Also see CRS, *Substance Abuse and Mental Health Services Administration (SAMHSA): Agency Overview and Reauthorization Issues*, R41477, Washington, D.C.; Nov 4, 2010. CRS notes that the SAMSA formula for calculating a state's block grant allocations takes into account three measures: (1) the population-at-risk in the state; (2) the costs of services in the state; and (3) the fiscal capacity of the state (PHSA Secs. 1918 and 1933).

<sup>273</sup> According to Federal regulation 44 CFR 206.226(f)(1), 'A facility is considered repairable when disaster damages do not exceed 50 percent of the cost of replacing a facility . . . ' FEMA refers to this regulation as the '50 Percent Rule' and implements it according to its Disaster Assistance Policy 9524.4. This policy provides the decision-making tool to determine whether FEMA should fund the repair or replacement of a disaster-damaged facility.

<sup>274</sup> 44 CFR 206.226(f)(1)-(2).

<sup>275</sup> U.S. Department of Homeland Security, Office of Inspector General, *Capping Report: FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-13-90, Washington, D.C.; May 2013.

<sup>276</sup> Ibid.

<sup>277</sup> Ibid.

<sup>278</sup> Ibid.

the DHS-OIG identified \$10.2 million as ineligible, as FEMA officials used incorrect square footage because using calculations provided by the school district that did not account for codes and standards.<sup>279</sup>

The DHS-OIG concluded that FEMA needs to ensure that PA and HMGP applicants spend Federal funds only on eligible projects.<sup>280</sup> In making project decisions that require careful calculations to determine project eligibility, the DHS-OIG found that FEMA and grantee officials should verify itemized costs and benefits needed to correctly implement FEMA calculation tools, such as the Cost Estimating Format and Benefit/Cost Analysis.<sup>281</sup> Further, the DHS-OIG recommended in 2013 that FEMA strengthen and clarify its disaster grant program policies and take steps to ensure that they are applied consistently in the field.<sup>282</sup> The DHS-OIG also recommended in their 2013 report that FEMA should also identify and help close gaps inhibiting effective disaster grant and subgrant management, and oversee grantees and subgrantees to ensure that they follow laws, regulations, and policies throughout the life of the projects.<sup>283</sup> FEMA agreed with the recommendations and stated it needs to develop improved policies, procedures, preparation and review standards, and training programs to prevent the misapplication of the 50 Percent Rule, and ensure more consistent application across all FEMA Regions.<sup>284</sup>

The DHS-OIG noted in its FY2013 management challenges report that FEMA agreed that the agency's current 50 Percent Rule policy and its implementation need significant revisions, and concurred that the DHS-OIG's audit observations showed the need for better policy, training, and oversight to prevent the misapplication of the 50 Percent Rule.<sup>285</sup>

According to subject-matter experts we spoke to, the 50 percent rule can have a significant impact on whether communities incorporate resilience into disaster recovery projects, since hazard mitigation and community resilience efforts are mostly performed as part of disaster recovery from a specific event rather than pre-disaster mitigation.<sup>286</sup> But as the length of disaster recovery slowly progresses, there is increasing pressure to rebuild to pre-disaster conditions rather than build back to withstand future events.<sup>287</sup>

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<sup>279</sup> Ibid.

<sup>280</sup> Ibid.

<sup>281</sup> Ibid.

<sup>282</sup> Ibid.

<sup>283</sup> Ibid.

<sup>284</sup> Ibid.

<sup>285</sup> U.S. Department of Homeland Security, Office of the Inspector General, *Major Management and Performance Challenges Facing the Department of Homeland Security*, OIG-14-17, Dec. 2013.

<sup>286</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from disaster management subject-matter experts, Jan. 13, 2014; Feb. 21, 2014.

<sup>287</sup> Ibid.

### FEMA's Progress

We discussed this with FEMA officials, who noted that their Recovery Directorate is reviewing all of its disaster recovery policies and guidance on a 3-year review cycle.<sup>288</sup> The goal is to develop and maintain a consolidated guidance that ensures greater consistency across its disaster recovery policies as well as policies that ensure a more consistent implementation by FEMA regions and its disaster recovery workforce.<sup>289</sup> FEMA's *Team (in)Sure!* project team has analyzed the DHS-OIG's audits and findings to identify a number of root causes for these cost estimates, such as inconsistent estimation methodology or the inclusion improper elements in a cost calculation, and inconsistencies internal oversight and review.<sup>290</sup> Another root cause FEMA identified was inconsistent consideration of floodplain management regulations and local building codes and standards.<sup>291</sup> FEMA officials noted that a critical part of improving FEMA performance is a function of FEMA's workforce quality; that the disaster recovery workforce has the proper qualifications and is up to date on training.<sup>292</sup> According to FEMA officials, they estimate a completed draft policy in 2014 that will be available for leadership review.<sup>293</sup>

### Recommendations

FEMA should explore the possibility of additional quality management steps such as preapproving project plans where possible. We believe that this could enhance the readiness of the rebuilding effort so that when a disaster occurs, the available mitigation funding may be dispersed more quickly to pre-approved projects. This step could reduce administrative and planning costs for jurisdictions, expedite the flow of mitigation funding after a disaster, and ultimately reduce the workload on FEMA personnel in the period after a disaster occurs. In addition, we encourage FEMA to further review and streamline all its policies and guidance. Further, as FEMA goes through its reviews, it needs to coordinate these revisions in concert with training program development needs, as well as coordinate these revisions in concert with the development of grantee/subgrantee outreach strategies and program.

### FEMA's Workforce – The Agency's 'Critical Infrastructure/Key Asset'

FEMA's goal of 'instituting workforce enhancement that will ensure FEMA employees are fully trained and equipped to perform their mission' was identified by FEMA senior leadership in December 2009 as one of three long-term priorities for the agency.<sup>294</sup> Based on this, FEMA leadership established five priorities designed to address the Agency's current and future challenges, which were articulated in the Administrator's Statement of Intent for FY 2012 - 2016.<sup>295</sup> Among these five priorities,

<sup>288</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA officials, May 8, 2014; site visits and interviews per November 6th EMDC Subcommittee hearing: 'One Year Later: Examining the Ongoing Recovery from Hurricane Sandy,' Washington, D.C.; Oct. 31, 2013.

<sup>289</sup> Ibid.

<sup>290</sup> Ibid.

<sup>291</sup> Ibid.

<sup>292</sup> Ibid.

<sup>293</sup> Ibid.

<sup>294</sup> Department of Homeland Security, Federal Emergency Management Agency: *FEMA Strategic Plan: Fiscal Years 2011-2014*, FEMA P-806, Washington, D.C.; Feb. 2011.

<sup>295</sup> Ibid.

*"FEMA must build, sustain, and improve its workforce and develop its current and future leadership. People are the backbone of any organization and FEMA is no exception. FEMA staff must have the tools they need to accomplish the mission. FEMA's ability to develop its workforce is the single most important driver of the Agency's future success"*<sup>296</sup>

Under the Stafford Act, FEMA has the authority to augment its permanent full-time staff with temporary personnel when needed, without regard to the appointment and compensation provisions governing Title 5 appointments of permanent full-time staff.<sup>297</sup> In April 2012, GAO reviewed FEMA's workforce planning and training efforts.<sup>298</sup> GAO noted that permanent full-time employees manage FEMA's day-to-day activities, and a portion of these employees are expected to deploy when a disaster is declared.<sup>299</sup> In addition to permanent FEMA employees FEMA also employs intermittent, on-call employees, now called Reservists. As of April 2014, there are over 6,100 Reservists, who comprise the largest portion of the disaster workforce; in addition, FEMA employs over 3,000 full-time positions for two to four-years, as part of their Cadre of On-Call Response/Recovery Employees (CORE).<sup>300</sup> All are activated to perform disaster activities directly related to specific disasters, emergencies, projects, or activities of a non-continuous nature.<sup>301</sup>

#### Workforce Issues Also Found in Recent Recovery Efforts

As a result of this Subcommittee's review of Hurricane Sandy recovery efforts, this Subcommittee received numerous reports of a lack of continuity of FEMA officials in the field, which led to inconsistency in FEMA policy interpretation and re-work, thus resulting in a slower disaster recovery.<sup>302</sup> In the review of the recovery from Superstorm Sandy, this Subcommittee heard mixed reviews for FEMA's workforce in managing Sandy response and recovery efforts.

State and local officials did acknowledge that there was an improvement in the federal efforts during the immediate response compared to previous disasters.<sup>303</sup> There also appeared to be a coordinated response between FEMA, states and locals, especially the advanced integration of FEMA officials who were all FEMA's top-tier people--many of whom had long-standing relationships with NY and NJ State and local officials.<sup>304</sup> However, these state and local officials also noted a lack of continuity of FEMA officials during the recovery process that led to

<sup>296</sup> Department of Homeland Security, Federal Emergency Management Agency: *FEMA Strategic Plan: Fiscal Years 2011-2014*, FEMA P-806, Washington, D.C.; Feb. 2011.

<sup>297</sup> 42 U.S.C. § 5149(b)(1). Under the provisions of Title 5 governing appointments in competitive service, recruitment of candidates is based on merit where selection is made after a fair and open competition assuring equal opportunity. The candidates are selected based on an application, interview process, and/or examination.

<sup>298</sup> U.S. GAO, *Federal Emergency Management Agency: Workforce Planning and Training Could Be Enhanced by Incorporating Strategic Management Principles*, GAO-12-487. Apr. 26, 2012.

<sup>299</sup> Ibid.

<sup>300</sup> Ibid.

<sup>301</sup> Ibid.

<sup>302</sup> Senate Subcommittee on Emergency Management, Intergovernmental Relations and the District of Columbia, *Staff Memo for November 6th EMDC Subcommittee hearing: 'One Year Later: Examining the Ongoing Recovery from Hurricane Sandy'*, Washington, D.C.; Oct. 31, 2013.

<sup>303</sup> Ibid.

<sup>304</sup> Ibid.

inconsistency in FEMA policy interpretation and duplication.<sup>305</sup> This was a common criticism of state and local officials working with federal recovery officials.<sup>306</sup>

Similarly, the full Senate Homeland Security and Governmental Affairs committee (HSGAC) hearing in March 2013<sup>307</sup> also noted issues including: (1) frequent turnover of FEMA personnel without sufficient transition periods for their replacements resulted in Federal officials who gave conflicting policy guidance, (2) FEMA officials from other parts of the country were not locally-known and did not have good working relationship or a practical working knowledge of the areas they were serving, and (3) rework that supersedes earlier decisions on assignments and recovery projects.<sup>308</sup> These issues also arose in the response to the 2013 Yukon River flooding in Galena, Alaska.<sup>309</sup>

Such issues of FEMA bureaucracy have been repeated time and again, going back to Hurricane Katrina response and before. For example, the fiscal year 2009 Senate appropriations report noted its concern that the agency was too reliant on temporary employees for its disaster recovery projects, creating a “lack of consistent decision-making and lack of reliable information for State and local governments.”<sup>310</sup> The Senate report cited “constant turnover in FEMA personnel results in poor transitions of project management from one individual to the next, and frequent overturning of previous decisions relied upon by local communities to make funding and planning decisions.”<sup>311</sup> The Appropriations Committee believed that such FEMA recovery employees—both permanent and reservists—would strongly benefit from training on FEMA policy and regulations to increase the consistency of their decision-making.<sup>312</sup>

Reports from other states and other disasters confirm these observations. The following 2010 article<sup>313</sup> distills these oft-described challenges during the disaster recovery process:

*“...In the wake of serious disasters, FEMA will initially deploy a cadre of disaster assistance reservists to help local officials take a first cut at establishing long-range recovery strategies and needs. They come in for two weeks and meet with local players. And then they leave, and someone else comes in and looks at paperwork and says, ‘Oh no, that’s not right.’ It’s very frustrating for local officials, and it’s one of the reasons that some disasters drag as long as they do. Everyone*

<sup>305</sup> Ibid.

<sup>306</sup> Senate Subcommittee on Emergency Management, Intergovernmental Relations and the District of Columbia, *Staff Memo for November 6th EMDC Subcommittee hearing: ‘One Year Later: Examining the Ongoing Recovery from Hurricane Sandy,’* Washington, D.C.; Oct. 31, 2013.

<sup>307</sup> U.S. Senate, Committee on Homeland Security and Governmental Affairs, *Hurricane Sandy: Getting the Recovery Right and the Value of Mitigation*, March 20, 2013; and Subcommittee on Emergency Management, Intergovernmental Relations, and the District of Columbia, Of the U.S. Senate Committee on Homeland Security and Governmental Affairs, *One Year Later: Examining The Ongoing Recovery From Hurricane Sandy*, Washington, D.C.; Nov. 6, 2013.

<sup>308</sup> Ibid.

<sup>309</sup> Federal Emergency Management Agency, Alaska Flooding (DR-4122).

<sup>310</sup> U.S. Senate, Committee on Appropriations, Department Of Homeland Security Appropriations Bill, 2009, 110th Congress, 2nd Session, Report 110-396, Washington, D.C.; June 2008.

<sup>311</sup> Ibid.

<sup>312</sup> Ibid.

<sup>313</sup> GOVERNING Institute, FEMA: *Making a Comeback: An invigorated FEMA is on the comeback trail. Do the federal agency’s local partners see any progress?* GOVERNING magazine. Washington, D.C., Aug. 2010.

*seems to have a story where FEMA circled back and said, 'Oops, there is something you missed here, do not pass go[.]'*<sup>314</sup>

An additional effect of these workforce challenges can be the lack of consistent application of FEMA's recovery policies. For example, this Subcommittee has heard that FEMA leadership may emphasize mitigation (Sec 404) in recovery projects, but field staff was reluctant to implement this option under the Stafford Act.<sup>315</sup> This has been a theme throughout its review of Sandy recovery and our ongoing discussions with subject-matter experts.<sup>316</sup>

Historically, FEMA's workforce has been a challenge for the agency, an area often-identified by congressional committees in the aftermath of Hurricane Katrina. For example, a 2009 Senate report found in the years preceding Hurricane Katrina FEMA had operated with a 15 to 20 percent vacancy rate; many positions cannot be filled because of budget shortages.<sup>317</sup> The report concluded 'Having enough qualified people to work in a disaster is a necessity for an effective response. FEMA's current surge-workforce system is plagued with problems that impeded the response.'<sup>318</sup> In 2009, Congressional appropriators recognized FEMA's post-Katrina efforts which doubled the agency's full-time equivalent positions.<sup>319</sup> Similarly, these issues were also identified by the Partnership for Public Service, who noted that FEMA had experienced years of plummeting workforce morale before the tragic consequences of Hurricane Katrina exposed its lack of operational capacity.<sup>320</sup> We recognize that FEMA's missions, program outcomes are customer-focused and require a workforce skilled, trained and focused on such external outcomes.

#### FEMA's Progress

- *FEMA Qualifications System (FQS)*--Under the Post-Katrina Act, FEMA is responsible for developing standards for deployment capabilities including credentialing of personnel likely to respond to natural disasters, acts of terrorism, and other man-made disasters.<sup>321</sup> In response, FEMA is implementing its FEMA Qualifications Systems (FQS) to credential all employees in incident management or support positions.<sup>322</sup> The goal of FQS is simple, to put the right people in the right job, ensuring that each employee must meet certain skills, credentials, experience and is up-to-date on needed training. FEMA's 2011-2014 strategic plan identified as one of its

<sup>314</sup> Ibid.

<sup>315</sup> Senate Subcommittee on Emergency Management, Intergovernmental Relations and the District of Columbia, site visits and interviews per November 6th EMDC Subcommittee hearing: *'One Year Later: Examining the Ongoing Recovery from Hurricane Sandy,'* Washington, D.C.; Oct. 31, 2013.

<sup>316</sup> Ibid.

<sup>317</sup> U.S. Senate, Ad Hoc Subcommittee on Disaster Recovery Committee, *Far From Home: Deficiencies in Federal Disaster Housing Assistance After Hurricanes Katrina and Rita and Recommendations for Improvement*, Washington, D.C.; Feb. 2009.

<sup>318</sup> Note: This issue was identified by congressional committees following Hurricane Katrina by the Ad Hoc Subcommittee on Disaster Recovery (Recommendation #5 Point #2: FEMA should have a well-trained catastrophic disaster reserve workforce - S Prt 111-7 February 2009), as well as the House Select Bipartisan Committee final report.

<sup>319</sup> U.S. Senate, Committee on Appropriations, Department Of Homeland Security Appropriations Bill, 2009, 110<sup>th</sup> Congress, 2<sup>nd</sup> Session, Report 110-396, Washington, D.C.; June 2008.

<sup>320</sup> Partnership for Public Service, *Toward Common Ends: The Foundation Sector and the Federal Government*, Washington, D.C. Jan. 20, 2011.

<sup>321</sup> 6 U.S.C. § 320.

<sup>322</sup> U.S. GAO, *Federal Emergency Management Agency: Workforce Planning and Training Could Be Enhanced by Incorporating Strategic Management Principles*, GAO-12-487. Washington, D.C.; Apr. 26, 2012.

five key outcomes: ‘Implement a performance-based qualification requirements system for all FEMA personnel participating in disaster response and recovery activities and a dynamic readiness measurement system for FEMA teams and deployable assets.’<sup>323</sup> According to FEMA’s FQS guidebook, the goal of the system is to standardize the qualifications for positions across the Agency so that an employee who is qualified to perform in a given disaster position in one FEMA Region will be prepared to perform in the same position in another Region.<sup>324</sup>

In May 2012, GAO reviewed the FEMA Qualification System (FQS), and found management controls and training could be strengthened.<sup>325</sup> The GAO report noted that FEMA has taken steps to enhance its management of the agency’s Reservists program, such as through the establishment of its FQS credentialing program.<sup>326</sup> This report further went on to recommend ways that FEMA’s human capital controls could be strengthened, as FEMA’s regional managers are responsible for hiring, but at that time FEMA did not have established hiring criteria and had limited salary criteria.<sup>327</sup> In addition, Reservists’ training was not consistent with key attributes of effective training and development programs.<sup>328</sup> For example, GAO identified the lack of a staff training plan which, at that time, FEMA did not have such a plan although this was an FQS requirement.<sup>329</sup> At the time of GAO’s review FEMA had announced plans to transform the program.<sup>330</sup> As FEMA’s effort was still in the early stages, it was too soon for GAO to fully evaluate the effectiveness of FEMA’s planned actions.<sup>331</sup> When DHS-OIG officials briefed HSGAC and EMDC staff in September 2013, they noted that their review of FEMA’s FQS system, the DHS-OIG found that FEMA’s personnel performance evaluation system was not yet linked to the FQS system in a way that would enable FEMA managers to appropriately assign high-performing staff to meet the needs of a given disaster.<sup>332</sup>

We met with FEMA officials in charge of managing the disaster workforce in order to identify the agency’s efforts to address what FEMA refers to as ‘cadre management.’<sup>333</sup> FEMA officials noted that cadre management is a higher priority and is now a full-time responsibility under FEMA’s Response and Recovery office.<sup>334</sup> FEMA officials stated that the newly-designed processes in their office enhance their ability to ensure that sufficient disaster staff is available, are appropriately and adequately educated, and trained, to effectively perform their functions,

<sup>323</sup> Department of Homeland Security, Federal Emergency Management Agency: *FEMA Strategic Plan: Fiscal Years 2011-2014*, FEMA P-806, Washington, D.C.; Feb. 2011.

<sup>324</sup> Department of Homeland Security, Federal Emergency Management Agency, *FEMA Qualification System Guide for Incident Management and Incident Support Positions*, Washington, D.C.; Fall 2012.

<sup>325</sup> U.S. GAO, *Disaster Assistance Workforce: FEMA Could Enhance Human Capital Management and Training*, GAO-12-538, Washington, D.C.; Jun. 1, 2012.

<sup>326</sup> Ibid.

<sup>327</sup> Ibid.

<sup>328</sup> Ibid.

<sup>329</sup> Ibid.

<sup>330</sup> Ibid.

<sup>331</sup> Ibid.

<sup>332</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing by DHS-OIG staff, Sept. 29, 2013.

<sup>333</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing by the FEMA Office of Response and Recovery officials, April 28, 2014.

<sup>334</sup> Ibid.

and ensure workforce competencies are maintained, sustained, aligned, and focused.<sup>335</sup> According to FEMA officials, these efforts have reduced overtime costs by about 50 percent.<sup>336</sup>

FEMA's focus on is currently reflected in the agency's 2014-2018 strategic plan, under the priority "Strengthen FEMA's Organizational Foundation."<sup>337</sup> Specifically, this strategic plan recognizes the need to "Build, manage, and strengthen the FEMA workforce" as one of its key objectives.<sup>338</sup>

- *FEMA's 'Force Planning' Analyses*--Further, FEMA officials are also focusing their efforts on 'workforce stabilization' to change the ratio of leaders, supervisors and specialists that are deployed to a disaster.<sup>339</sup> According to FEMA officials, their objective will be to increase the use of FEMA Corps teams, and greater shift the distribution of employee types across supervisory, management and specialists positions.<sup>340</sup> FEMA workforce data provided to this Subcommittee showed that the average composition of a disaster deployment has changed since For example, whereas the average disaster field office was composed of 36% of Chief and Directors, that percentage was 8% in 2013 disasters.<sup>342</sup> The composition of disaster Specialists have gone from 7% in 2011 to 66% in 2013.<sup>343</sup> Moreover, the composition of these specialists are made up of a lesser percentage of temporary Reservists, and a larger percent of Cadre of On-Call Response/Recovery Employees (CORE), who are full-time FEMA staff hired to work for a specific, limited period, between two to four years.<sup>344</sup> According to FEMA officials, these CORE employees are also making up a larger percentage of Chief, Directors and Managers at disasters.<sup>345</sup> Further, FEMA's goal under their Workforce Stabilization program is to reduce the overall costs, even while increasing the overall size of the disaster workforce.<sup>346</sup> According to FEMA's analysis, the agency would reduce its average hourly rate by almost 23 percent.<sup>347</sup>

Much of FEMA's disaster workforce improvements come from new planning tools available to FEMA leadership designed to sufficiently staff the number and composition of a disaster

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<sup>335</sup> Ibid.

<sup>336</sup> Ibid.

<sup>337</sup> Department of Homeland Security, Federal Emergency Management Agency: *FEMA Strategic Plan: Fiscal Years 2014-2018*, Washington, D.C.; July 2014.

<sup>338</sup> Ibid.

<sup>339</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing by the FEMA Office of Response and Recovery officials, April 28, 2014.

<sup>340</sup> Ibid.

<sup>341</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing by the FEMA Office of Response and Recovery officials, April 28, 2014.

<sup>342</sup> Ibid.

<sup>343</sup> Ibid.

<sup>344</sup> Federal Emergency Management Agency, *FEMA Force Planning Executive Summary*, June 2014; and FEMA Disaster Workforce Model: Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing by FEMA, June 3, 2014.

<sup>345</sup> Ibid.

<sup>346</sup> Federal Emergency Management Agency, *FEMA Force Planning Executive Summary*, June 2014; and FEMA Disaster Workforce Model: Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing by FEMA, June 3, 2014.

<sup>347</sup> Federal Emergency Management Agency, *FEMA Force Planning Executive Summary*, June 2014.



workforce, according to FEMA officials.<sup>348</sup> FEMA developed a Force Planning Model to provide FEMA leadership with an analytical method to frame policy.<sup>349</sup> Gives FEMA the capability to respond to disasters but also plan for personnel staffing requirements as well as training and equipment costs, according to FEMA.<sup>350</sup> According to FEMA, the Force Planning Model is statistically valid and grounded in 11 years of experience and data that will help serve as a foundation to studies such as FEMA's Strategic Workforce Planning Initiative and Congressional inquiries.<sup>351</sup> The model identifies FEMA's personnel needs with four disaster level events in descending order of severity resulting in personnel numbers required for FEMA to adequately respond to the projected event.<sup>352</sup> Thus, FEMA's workforce planning assumptions estimates that the agency's size should be able to annually respond to:

- One Level I Katrina event
- Three Level I events; two of which are concurrent
- 28 Level II events; 20 of which are concurrent
- 70 Level III events with the capability to support 30 Level III teams<sup>353</sup>

According to FEMA, their model then quantifies these 4 levels of event severity based on FEMA's historical from 1998 through 2008.<sup>354</sup> FEMA analysis further identified six factors that are the most relevant in determining the number of resources FEMA used in responding to disasters:

- people displaced;
- square miles affected;
- staff deployed;
- the number of Individual and Household Program awards;
- the number of mitigation projects; and
- the number of public assistance projects.<sup>355</sup>

The model used historical data from FEMA's Enterprise Data Warehouse and the Automated Deployment Database (ADD).<sup>356</sup> Joint Field Office (JFO) staff and various FEMA divisional staff leads provided additional data validation and verification.<sup>357</sup>

Further, FEMA officials with whom we spoke with also noted that during FEMA's response to Superstorm Sandy they contracted with Alabama state emergency management office to leverage this state agency's manpower and expertise to perform disaster recovery missions in New York.<sup>358</sup> This innovative effort leverages the capabilities that states and FEMA's preparedness grants have built, not unlike how FEMA deploys skilled teams under the *Urban Search and Rescue* program

<sup>348</sup> Ibid.

<sup>349</sup> Ibid.

<sup>350</sup> Federal Emergency Management Agency, FEMA Force Planning Executive Summary, June 2014; and FEMA Disaster Workforce Model: Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing by FEMA, June 3, 2014.

<sup>351</sup> Ibid.

<sup>352</sup> Ibid.

<sup>353</sup> Federal Emergency Management Agency, FEMA Disaster Workforce Model: Senate Staff Briefing, June 3, 2014.

<sup>354</sup> Ibid.

<sup>355</sup> Federal Emergency Management Agency, FEMA Force Planning Executive Summary, June 2014.

<sup>356</sup> Ibid.

<sup>357</sup> Ibid.

<sup>358</sup> Federal Emergency Management Agency, FEMA Disaster Workforce Model: Senate Staff Briefing, June 3, 2014

(USAR),<sup>359</sup> or through the Emergency Management Assistance Compact (widely known as “EMAC”).<sup>360</sup> We are encouraged by the efficient and effective use of these existing national capabilities, and suggests that FEMA further assess the advantages and limitation of expanding this arrangement.

#### Better Training Needed to Increase Efficiency and Performance

Better training across FEMA and at all levels could significantly save federal disaster expenditures. Prior to the establishment of FQS, GAO examined FEMA personnel challenges.<sup>361</sup> For example, in April 2012, GAO found that, while FEMA leadership is committed to effective workforce plans and training, it has not established specific long-term goals such as integrating agency-wide training efforts, and had not developed processes to systematically collect and analyze agency-wide workforce and training data.<sup>362</sup> This report noted that FEMA was taking steps to integrate its workforce planning and training efforts across the agency consistent with critical success factors for strategic workforce management.<sup>363</sup> The April 2012 report noted, for example, that FEMA’s leadership had demonstrated commitment to effectively plan for and train its workforce, although at that time it had not yet established specific long-term goals for these efforts.<sup>364</sup> GAO concluded that such goals and metrics would help ensure accountability for FEMA’s workforce planning and training.<sup>365</sup>

A GAO report in March 2013 identified some ongoing challenges to FEMA reservist training practices.<sup>366</sup> The report noted that FEMA had modified its training policies to now allow up to two weeks of Reservist training outside of deployments under the new Reservist program (FQS) since the start of fiscal year 2013.<sup>367</sup> But, the report also notes that factors such as the way in which FEMA funds its disaster program through the Disaster Relief Fund (DRF) have limited the agency’s ability to train its Reservists in advance of deployments to disasters. Under FEMA’s new Reservist program, Reservists are allowed to train at the Emergency Management Institute and in their homes (i.e.: web-based courses) during those times between disaster deployments.<sup>368</sup> FEMA officials acknowledged that having certain training courses take place in the midst of a disaster may not be feasible, such as intermediate- and advanced-level training.<sup>369</sup> This GAO review found that SBA, the Forest Service, and the Coast Guard each train their reservists in advance of deploying these

<sup>359</sup> Section 634, P.L. 109-295, 120 Stat. 1421, 6 U.S.C. 722.

<sup>360</sup> P.L. 104-321.

<sup>361</sup> U.S. GAO, *Federal Emergency Management Agency: Workforce Planning and Training Could Be Enhanced by Incorporating Strategic Management Principles*, GAO-12-487; Washington, D.C.; Apr 26, 2012; U.S. GAO, *FEMA Reservists: Training Could Benefit from Examination of Practices at Other Agencies*, GAO-13-250R; Washington, D.C.; Apr 22, 2013.

<sup>362</sup> U.S. GAO, *Federal Emergency Management Agency: Workforce Planning and Training Could Be Enhanced by Incorporating Strategic Management Principles*, GAO-12-487; Washington, D.C.; Apr 26, 2012.

<sup>363</sup> *Ibid.*

<sup>364</sup> *Ibid.*

<sup>365</sup> *Ibid.*

<sup>366</sup> U.S. GAO, *FEMA Reservists: Training Could Benefit from Examination of Practices at Other Agencies*, GAO-13-250R; Washington, D.C.; Apr 22, 2013.

<sup>367</sup> *Ibid.*

<sup>368</sup> *Ibid.*

<sup>369</sup> *Ibid.*

individuals to a disaster. For these agencies training funds are not dependent on whether reservists are deployed, thereby allowing more flexibility in when training may be provided.<sup>370</sup>

In February 2014, a DHS-OIG audit assessed the extent that FEMA accurately disseminated procurement information to potential applicants during the initial response phase.<sup>371</sup> One of the conclusions by the DHS-OIG is that FEMA should provide training to its employees to ensure they provide complete and accurate guidance on Federal procurement standards to potential applicants early in the disaster response period.<sup>372</sup> Their audit observed instances where FEMA personnel provided incomplete and, at times, inaccurate information to Public Assistance applicants regarding Federal procurement standards.<sup>373</sup> The audit further noted that similar instances have been occurring for several years.<sup>374</sup> The DHS-OIG noted that although the State is responsible for its applicants' compliance with Federal contracting regulations and guidelines, FEMA staff members also need to make sure they are not disseminating incomplete or inaccurate information to applicants.<sup>375</sup> As a result, the report recommends FEMA to "provide training to FEMA Joint Field Office Public Assistance and Office of the Chief Counsel staff on Federal procurement standards to ensure FEMA provides complete and accurate guidance to applicants consistent with 44 CFR 13.36 and 2 CFR 215.40 through 48."<sup>376</sup>

#### FEMA's Efforts

According to FEMA, they have ongoing efforts to better ensure that a larger percentage of technical specialists are deployed, and the right specialties are assigned only when needed and for the proper duration.<sup>377</sup> One of the outputs of their workforce planning tool is to establish a framework for training the workforce based on the FEMA Qualification System (FQS).<sup>378</sup> According to FEMA, these tools will provide the agency with an improved ability to plan and more efficiently align the personnel, equipment, and training costs for their entire Agency workforce.<sup>379</sup>

One example of FEMA's efforts to build a better disaster management nationally includes the establishment during 2014 of the National Emergency Management (EM) Leaders Academy.<sup>380</sup> The Leaders Academy is designed for current and emerging leaders with at least 3 years' experience in the emergency management community of practice.<sup>381</sup> The training audience includes government,

<sup>370</sup> Ibid.

<sup>371</sup> Department of Homeland Security, Office of Inspector General, *FEMA's Dissemination of Procurement Advice Early in Disaster Response Periods*, OIG-14-46-D, Washington, D.C.; Feb. 28, 2014.

<sup>372</sup> Ibid.

<sup>373</sup> Ibid.

<sup>374</sup> Department of Homeland Security, Office of Inspector General, *FEMA's Dissemination of Procurement Advice Early in Disaster Response Periods*, OIG-14-46-D, Washington, D.C.; Feb. 28, 2014.

<sup>375</sup> Ibid.

<sup>376</sup> Department of Homeland Security, Office of Inspector General, *FEMA's Dissemination of Procurement Advice Early in Disaster Response Periods*, OIG-14-46-D, Washington, D.C.; Feb. 28, 2014.

<sup>377</sup> Federal Emergency Management Agency, FEMA Disaster Workforce Model: Senate Staff Briefing, June 3, 2014.

<sup>378</sup> Ibid.

<sup>379</sup> Ibid.

<sup>380</sup> Federal Emergency Management Agency, National Emergency Training Center, *National Emergency Management (EM) Leaders Academy*, Bulletin No. 1059, May 6, 2014.

<sup>381</sup> Ibid.

non-profit voluntary organizations, and private sector leaders responsible for emergency management or homeland security.<sup>382</sup>

*Recommendations*

We recommend that FEMA further improve its workforce training to enhance their skills and abilities, especially in the area of project management best practices. As stated earlier, we believe that improved training for both FEMA's workforce and disaster grantees and subgrantees—as well as those private sector contractors who locals hire to support their recovery efforts - are critical to reducing these costs in future disasters.

Further, FEMA should examine and report to Congress on ways to ensure that the credentialing and qualifications standards that they are requiring of their own workforce are being matched by their counterparts at the grantee (state) and eligible subgrantee level (ie. local government, community nonprofits) and those private contractors who provide disaster recovery and mitigation project management services to these subgrantees.

Also, we recommend FEMA find ways to enhance its deployment planning process to further emphasize the need for deploying managers and workforce who have the experience working in those states with remote populations with limited transportation options and seasonal rebuilding challenges.

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<sup>382</sup> Ibid.

## **APPENDIX 1: Recommendations**

### **Areas of Potential Costs Savings**

We have reviewed past work from the Government Accountability Office (GAO) and Department of Homeland Security's Office of Inspector General (DHS-OIG). A number of these audits have identified specific costs that their research identified as "ineligible" or "questioned." Below are some areas that we believe, with greater focus, could yield cost savings and reductions in waste:

**Need for Improvements in FEMA Disaster Recovery Grant Spending:** The DHS-OIG has documented the ongoing problems with the management of disaster recovery spending, including accounting, ineligible and unsupported costs, and noncompliance with Federal contracting requirements.<sup>383</sup> The DHS-OIG reported around \$1.36 billion in such findings between fiscal years 2009 and 2013.<sup>384</sup>

**Recommendation:** We believe that improved training of both FEMA's workforce and disaster grantees and subgrantees –as well as those private sector contractors who locals hire to support their recovery efforts - are critical to reducing these costs in future disasters. FEMA also needs to improve its outreach tools to states which play a critical role in disaster grant management.

**Improper Payments:** The DHS-OIG's audits have identified almost \$276 million of ineligible disaster recovery spending for fiscal years 2009 through 2013.<sup>385</sup>

**Recommendation:** FEMA needs to ensure its disaster workforce is properly trained as well prioritizing this issue within its policies. Further, FEMA should include in its measures of improper payment error rates to those categories of ineligible expenses identified by DHS-OIG audits.

**Closing Out Old Disasters:** There are currently 40 open disasters that are over 10 years old and represent tens of millions in unliquidated obligations to disasters going as far back as 1994.<sup>386</sup> And, for example, twelve of these disasters had been declared during or prior to 1999, accounting for almost \$60 million in yet unspent funds.<sup>387</sup> According to the DHS-OIG, funds obligated for disasters but not needed by FEMA grantees are not deobligated and released for other uses, and FEMA has incurred additional administrative costs.<sup>388</sup> In addition, there is little compliance with existing laws that limit the time on recovery spending, according to the DHS-OIG.

<sup>383</sup> Ibid.

<sup>384</sup> Ibid.

<sup>385</sup> U.S. 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, Washington, D.C.; June 10, 2014; OIG-13-90 *FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits* OIG-13-90, Washington, D.C.; May 2013; *Capping Report: FY 2011 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-12-74, Washington, D.C.; April 13, 2012; *Capping Report: FY 2010 FEMA Public Assistance Grant and Subgrant Audits*, DD-11-17, Washington, D.C.; Aug. 23, 2011; and *Capping Report: FY 2009 Public Assistance Grant and Subgrant Audits*, DS-11-01, Washington, D.C.; Dec. 2, 2010.

<sup>386</sup> FEMA Disaster Declarations Summary - Open Government Dataset: <http://www.fema.gov/media-library/assets/documents/28318?id=6292> Note: The 9/11 attack in New York, New York is also a disaster that is over 10 years old and represents \$805 million of the total of unliquidated obligations, but due to the unique nature of many of the recovery and mitigation projects, we have excluded it from our analysis.

<sup>387</sup> Ibid.

<sup>388</sup> U.S. Department of Homeland Security, Office of the Inspector General, *Opportunities to Improve FEMA's Disaster Closeout Process* OIG-10-49, Washington, D.C.; Jan. 2010.

Recommendation: We recommend that FEMA identify incentives to close out old disasters in order to minimize the administrative costs of keeping these open. Such incentives should include enforcing compliance with existing laws that aims to limit the length of time a disaster can remain open.

We are encouraged that the DHS-OIG has planned work to review the currently open disasters to determine how many projects are open and can be closed based on FEMA policy. To support this Subcommittee's oversight efforts, we would benefit that this audit includes detailed information on the unliquidated obligation balances of open projects and other detailed information to augment our understanding of the extent that certain disasters—or specific projects or activities within this inventory of open disasters—can be closed out in a timely manner so that unliquidated obligations are returned to the disaster relief fund.

**Improve Enforcement of 'Obtain and Maintain' Insurance Requirements:** FEMA's information technology (IT) systems may limit the enforcement of statutory requirements to ensure that properties that received disaster relief now have insurance.<sup>389</sup> For example, the DHS-OIG's reviews of its disaster recovery identified \$115 million in ineligible costs in its audits of fiscal year 2013 and 2011 disaster spending.<sup>390</sup>

Recommendation: We are concerned with the lack of progress made in addressing the issues first identified in 2001 and believes allowing compliance issues to continue contributes to ongoing inefficiencies. Further, we recognize that implementing this Stafford Act provision can be best accomplished through an effective partnership between FEMA and the States, which may identify additional implementation issues that this Subcommittee may need to consider. We recognize FEMA's efforts to improve its policy and tracking system, but believe these early efforts need to be significantly enhanced.

#### *DHS-OIG's Life-Cycle Audits*

The DHS-OIG also recognized this state/local recovery capability problem and is moving toward a 'Life-Cycle audit approach' to better identify the source of problems and more targeted solutions.<sup>391</sup> We support this effort between FEMA and the DHS-OIG to fix potential issues on the front-end of the disaster grant process. The DHS-OIG is working with FEMA and expanding their audit efforts on prevention and monitoring, including advising States, locals, tribes, etc., on proper contracting and financial management controls.<sup>392</sup> According to the DHS-OIG, their office will perform 4 types of audits:

<sup>389</sup> See: Department of Homeland Security, Office of Inspector General, *FEMA's Process for Tracking Public Assistance Insurance Requirements*, OIG-12-18, Washington, D.C.; Dec. 16, 2011. This report notes that that implementing regulations concerning this Stafford Act provision are in the Code of Federal Regulations (C.F.R.) Title 44, Part 206.

<sup>390</sup> U.S. 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, Washington, D.C. June 10, 2014; and *Capping Report: FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-12-74, Washington, D.C.; April, 13, 2012.

<sup>391</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing by the Department of Homeland Security's Office of Inspector General, April 28, 2014.

<sup>392</sup> Ibid.

- Deployment audits to monitor FEMA's immediate disaster response efforts
- Capacity audits to assess financial management infrastructure such as internal controls and procurement processes grantees/subgrantees (i.e.: State, local, tribal, etc.).
- Early-warning audits for early-detection of non-compliance with FEMA and Federal policies
- Close-out/completion audits, which are the DHS-OIG's current process of after-the-fact reviews of grantee and subgrantee spending.<sup>393</sup>

#### **FEMA's Need for Increasing Transparency**

In addition to the body of audits and research that have quantified possible financial savings or cost avoidance in FEMA's disaster recovery business operations and programs, there are also several recurring issues of FEMA performance and program efficiency that have non-financial implications, or potential financial implications in the future.

**IT Management:** FEMA's Information technology (IT) systems play an integral role in helping FEMA fulfill its mission, but challenges exist. For example, the DHS-OIG released a 2011 report finding that the agency's IT systems did not effectively support disaster response activities.<sup>394</sup>

**Recommendation:** We encourage FEMA to prioritize its IT improvements as its systems play an integral role in FEMA's mission success. Having the requisite data is essential for planning purposes. Further, GAO is planning a review of FEMA's IT systems conformance to provisions under the Post-Katrina Act. This GAO review should consider assessing the data quality and reliability in order to efficiently and effectively support disaster management operations.

**Increasing Administrative Costs:** FEMA's average administrative costs incurred under the Disaster Relief Fund have doubled, and administrative cost frequently exceeded FEMA's suggested targets. GAO reported that FEMA's average administrative costs doubled from 9 to 18 percent during fiscal years 1989-2011, and these administrative cost percentages frequently exceeded FEMA's suggested targets.<sup>395</sup> For example, for small disaster declarations (total obligations of less than \$50 million), the target range for administrative costs is 12 percent to 20 percent.<sup>396</sup> According to GAO, four out of every ten had administrative costs that exceeded 20 percent.<sup>397</sup>

**Recommendation:** We recognize FEMA's efforts to further emphasize project management spend plans, and encourage additional quality management best practices be put into use throughout the entire life of an open disaster. We believe that FEMA could find additional cost efficiencies by identifying the significant differences between planned project performance and costs versus ongoing project performance and costs, as GAO's 2012 report concluded.<sup>398</sup>

<sup>393</sup> Ibid.

<sup>394</sup> Department of Homeland Security, Office of Inspector General, *The Federal Emergency Management Agency Faces Challenges in Modernizing Information Technology*, OIG-11-69, Washington, D.C.; Apr. 2011.

<sup>395</sup> U.S. GAO, *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, GAO-12-838, Washington, D.C.; Sept. 12, 2012.

<sup>396</sup> Ibid. GAO noted that they analyzed 409 small- sized declarations.

<sup>397</sup> Ibid.

<sup>398</sup> Ibid.

**Need for Increased Transparency in Tracking Disaster Spending:** A November 2013 Subcommittee hearing held on Superstorm Sandy recovery found multiple areas for improved tracking and analyzing of disaster spending.<sup>399</sup> The development of a platform for the sharing of data between FEMA, SBA, and HUD could facilitate the development of funds to address unmet needs in a more swift and efficient manner.

Recommendations: FEMA needs to continue to work with its partner agencies (such as SBA, HHS, HUD, etc.) and the Recovery Board to identify additional transparency in its contracts and acquisition spending to both Congress and the public. One potential fix is to have FEMA consider ways to better leverage existing data that track both the applicants and properties that are at the highest risk. This should involve breaking down "information silos" within FEMA that prevent information from being shared across the agency to entities tasked with assisting the public. This may significantly reduce costs in the short term, and also reduce long-term spending by identifying properties that incur the highest recurring losses.

We recommend that FEMA recognizes their ability to use the historical disaster recovery data the agency has collected should be a next-generation asset. This should be an effective tool for planning and managing future disaster recovery operations such as, predicting the extent of communities' needs for FEMA's Individual Assistance (IA) and/or Public Assistance (PA) programs, and the needed staffing to do a certain jobs, thus this is an opportunity for FEMA to capture greater efficiency and improve performance. Using this past data more effectively can potentially save the Agency taxpayer money in helping improve their planning efforts and make data-driven decisions.

We have observed that the DHS OIG does not currently have a data system that provides either Congress or the general public with accurate records on the status of the implementation of open recommendations.<sup>400</sup> For Congress to comprehensively perform its oversight functions it is important that congressional subcommittees such as this one can monitor the results of DHS OIG audit recommendations to verify that the recommended actions are being taken and, to the extent possible, that the desired results are being achieved. Moreover, we view an agency's accountability and quality management as a larger system that relies on internal and external stakeholders contribute both directly and indirectly to ensure that FEMA's products and services are efficient and effective.<sup>401</sup>

<sup>399</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs Subcommittee hearing: 'One Year Later: Examining the Ongoing Recovery from Hurricane Sandy,' Washington, D.C.; Nov. 6, 2013.

<sup>400</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing by the Department of Homeland Security's Office of Inspector General, May 29, 2014.

<sup>401</sup> The general research on total quality management recognizes a "three-spheres" approach that encompasses quality management, quality assurance, and quality control. For additional examples see <https://services.online.missouri.edu/exec/data/courses/2392/public/lesson01/lesson01.aspx>; or FEMA, Risk MAP program Quality Assurance Management Plan process, <http://www.fema.gov/risk-mapping-assessment-planning>.



**Data Sharing:** In September 2013, FEMA released a secure data sharing policy which seeks to enhance the delivery of federal and non-federal assistance to disaster survivors.<sup>402</sup> While we recognize that sharing data across service delivery partners (State, Tribal, local, and certain other quasi-governmental entities) is a necessary mechanism in the critical objective of preventing fraud, waste, and abuse; we are concerned with civil liberty protections of disaster survivors.<sup>403</sup> We are concerned that current policy and procedures do not provide disaster survivors with a complete understanding of the ways in which their personal data could be used and shared.

**Recommendation:** We believe that FEMA should immediately provide an option for disaster survivors to opt-out of their data being shared with organizations and entities beyond those clearly identified in the Stafford Act section 408(f)(2). In addition, FEMA should provide clear guidelines to the public on how the information is being distributed to the third-party entities.

**Disaster Recovery Policies And Guidance: The “50 percent rule” Case Study:** The DHS-OIG’s May 2013 report found that FEMA misapplied the ‘50 Percent Rule’ to determine project eligibility for replacement of damaged facilities.<sup>404</sup> The 50 Percent Rule states that a facility is generally eligible for replacement when the estimated repair cost exceeds 50 percent of the estimated replacement cost.<sup>405</sup> The complexities of applying the 50 Percent Rule and a lack of adequate policies and procedures lead to incorrect decisions that cost FEMA millions of dollars.<sup>406</sup> FEMA has analyzed the DHS-OIG’s audits and findings to identify a number of root causes for these cost estimates. According to FEMA officials, they estimate a completed draft policy in 2014 that will be available for leadership review.<sup>407</sup>

**Recommendation:** FEMA should explore the possibility of additional quality management steps such as preapproving project plans where possible. We believe that this could enhance the readiness of the rebuilding effort so that when a disaster occurs, the available mitigation funding may be dispersed more quickly to pre-approved projects. This step could reduce administrative and planning costs for jurisdictions, expedite the flow of mitigation funding after a disaster, and ultimately reduce the workload on FEMA personnel in the period after a disaster occurs.

<sup>402</sup> Federal Emergency Management Agency, Recovery Policy 9420.1. *Secure Data Sharing*, Washington, D.C.; Sep. 9, 2013.

<sup>403</sup> According to FEMA Recovery Policy 9420.1, ‘Trusted Partners’ is defined as: Any governmental or non-governmental entity described and defined in Routine Uses (H), (CT), or, in certain instances, (F) of the Disaster Recovery Assistance System of Records Notice. This policy breaks down Trusted Partners into the following groups: a) Other Federal Agencies, b) State and Tribal government, c) Local governments and Voluntary Organizations, d) Utility Companies, Hospitals, and Health Care Providers, e) Voluntary organizations able to provide durable medical equipment or assistive technology, f) Other entities able to provide durable medical equipment or assistive technology, and g) Private sector businesses that employ disaster survivors.

<sup>404</sup> U.S. Department of Homeland Security, Office of Inspector General, *Capping Report: FY 2012 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits*, OIG-13-90, Washington, D.C.; May 2013.

<sup>405</sup> Ibid.

<sup>406</sup> Ibid.

<sup>407</sup> Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery and Intergovernmental Affairs, briefing from FEMA officials, May 8, 2014; site visits and interviews per November 6th EMDC Subcommittee hearing: ‘One Year Later: Examining the Ongoing Recovery from Hurricane Sandy,’ Washington, D.C.; Oct. 31, 2013.

In addition, we encourage FEMA to further review and streamline all its policies and guidance. Further, as FEMA goes through its reviews, it needs to coordinate these revisions in concert with training program develop needs, as well as coordinate these revisions in concert with the development of grantee/subgrantee outreach strategies and program.

**Need to Improve FEMA's Workforce**

Since customer focus is critical to FEMA's mission, the agency's workforce is its greatest asset in working with disaster survivors, all levels of government, and the private and nonprofit sectors. Yet challenges exists which can result in misspent and wasteful spending and a slower recovery. Employing and empowering staff that lack necessary qualifications and training can result in inconsistent application of FEMA's recovery policies. For example, FEMA's workforce has historically received mixed grades in managing response and recovery efforts, and these complaints were still heard in recent disasters like Superstorm Sandy and in Galena, AK.

*Recommendations:* We recommend that FEMA further improve its workforce training to enhance their skills and abilities, especially in the area of project management best practices. As stated earlier, we believe that improved training for both FEMA's workforce and disaster grantees and subgrantees –as well as those private sector contractors who locals hire to support their recovery efforts - are critical to reducing these costs in future disasters.

Further, FEMA should examine and report to Congress on ways to ensure that the credentialing and qualifications standards that they are requiring of their own workforce are being matched by their counterparts at the grantee (state) and eligible subgrantee level (ie. local government, community nonprofits) and those private contractors who provide disaster recovery and mitigation project management services to these subgrantees.

Also, we recommend FEMA find ways to enhance its deployment planning process to further emphasize the need for deploying managers and workforce who have the experience working in those states with remote populations with limited transportation options and seasonal rebuilding challenges.

## **Appendix II– Methodology**

To perform this analysis, we focused on the period since the enactment and reorganization of roles and responsibilities under the Post-Katrina Emergency Management Reform Act.<sup>408</sup> We reviewed congressional oversight efforts such as hearing and appropriations reports, as well as reports and audits by GAO, DHS-OIG, CRS, Recovery Act Board, and the Council of the Inspectors General on Integrity and Efficiency. Specifically:

- Congressional hearings and congressional oversight and appropriations reports,
- GAO, DHS-OIG, CRS, Recovery Act Board, and the Council of the Inspectors General on Integrity and Efficiency
- Interviews with subject-matter experts in disaster management and FEMA programs
- Reviewed and analyzed research on efficiency and performance from organizations such as IBM Center for Business of Government, Project On Government Oversight, Project Management Institute, Governing Institute, Homeland Security Studies and Analysis Institute, Center for Effective Government, (formerly OMB Watch) Taxpayers for Common Sense, Mercatus Center.

In addition, we interviewed with subject-matter experts in disaster management and FEMA programs. We also interviewed FEMA officials and requested current documentation in order to capture the most recent status of FEMA efforts in addressing the issues and audit recommendations identified in this review. The FEMA officials that we met with as part of this effort include: Office of the Chief Financial Officer; Response and Recovery Directorate; the Office of Chief Information Officer/Mission Support Bureau; Protection and National Preparedness Directorate's Policy, Program Analysis, and International Affairs office.

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<sup>408</sup> P.L. 109-295.

### **U.S. Senate Committee on Homeland Security and Governmental Affairs**

The **Committee on Homeland Security and Governmental Affairs** is the Senate's primary oversight committee with broad jurisdiction over government operations generally and the Department of Homeland Security in particular.<sup>409</sup> Its primary responsibilities are to study the efficiency, economy, and effectiveness of all agencies and departments of the federal government; evaluate the effects of laws enacted to reorganize the legislative and executive branches of government; and study the intergovernmental relationships between the U.S. and states and municipalities, and between the U.S. and international organizations of which the U.S. is a member. The year after passage of the Homeland Security Act of 2002, the Committee's name changed from the Governmental Affairs Committee to the Homeland Security and Governmental Affairs Committee as its jurisdiction expanded to include homeland security issues. The Committee now oversees and receives legislation, messages, petitions, and memorials on all matters relating to the Department of Homeland Security, except for appropriations, the Coast Guard, the Transportation Security Administration, immigration, customs revenue, commercial operations, and trade.<sup>410</sup>

The Homeland Security and Governmental Affairs Committee have four subcommittees: Emergency Management, Intergovernmental Relations and the District of Columbia (EMDC); Permanent Subcommittee on Investigations (PSI); Financial and Contracting Oversight (FCO); and the Efficiency and Effectiveness of Federal Programs and the Federal Workforce (FPFW)<sup>411</sup>

The **Subcommittee on Emergency Management, Intergovernmental Affairs, and the District of Columbia** (EMDC) focuses on emergency management, disaster relief and issues relating to the oversight of the District of Columbia.<sup>412</sup> This Subcommittee is responsible for oversight of FEMA and all of its emergency management responsibilities, including preparation for, response to, recovery from and mitigation against natural and man-made disasters. The Subcommittee also reviews the administration of post-disaster relief funds and oversight of financial assistance programs, like homeland security grants. In addition to these responsibilities, this Subcommittee oversees the interrelationship between the Department of Homeland Security and states, localities and first responders in preventing and responding to natural disasters, terrorism, and other man-made disasters. The Subcommittee is also responsible for all matters regarding the oversight of the District of Columbia, including the District court system.<sup>413</sup> The Emergency Management, Intergovernmental Affairs, and the District of Columbia subcommittee became a full subcommittee in the 113<sup>th</sup> Congress. In prior Congresses, this Subcommittee's predecessors were organized as 'ad hoc' subcommittees, the Ad Hoc Subcommittee on Disaster Recovery and Intergovernmental Affairs,<sup>414</sup> and the Ad Hoc Subcommittee on Disaster Recovery,<sup>415</sup> respectively.

Mark Begich, Chairman

Rand Paul, Ranking Member

<sup>409</sup> U.S. Senate Committee on Homeland Security and Governmental Affairs; see:

<http://www.hsgac.senate.gov/about/jurisdiction>

<sup>410</sup> Ibid.

<sup>411</sup> Ibid.

<sup>412</sup> Subcommittee on Emergency Management, Intergovernmental Affairs, and the District of Columbia; see:

<http://www.hsgac.senate.gov/subcommittees/emdc/about>

<sup>413</sup> Ibid.

<sup>414</sup> <http://www.hsgac.senate.gov/subcommittees/disaster-recovery-and-intergovernmental-affairs/about>

<sup>415</sup> U.S. Senate, Ad Hoc Subcommittee on Disaster Recovery, Committee on Homeland Security and Governmental Affairs, *Far From Home: Deficiencies in Federal disaster Housing Assistance After Hurricanes Katrina and Rita and Recommendations for Improvement*, 111<sup>th</sup> Congress, 1<sup>st</sup> Session, S. Prt. 111-7, Washington, D.C.; Feb. 2009.

**Post-Hearing Questions for the Record: “The Path to Efficiency: Making FEMA More Effective for Streamlined Disaster Operations.”**  
**July 24, 2014.**

**Questions for John Roth, DHS Inspector General**

1. As we discussed during this hearing, can you provide this Subcommittee with statistics on FEMA’s compliance with DHS-OIG recommendations? This information should include the number of DHS-OIG recommendations to FEMA since fiscal year 2009, along with information such as (1) the age of these recommendations, (2) the number and percent (and dollar amount if applicable) that FEMA has implemented versus disagreed with the DHS-OIG, and (3) the number, dollar amount and percent of DHS-OIG questioned costs that FEMA has waived.
  - a. In addition, as I stated, we believe that if such information is publically available, it will enhance congressional oversight responsibilities as well as help promote FEMA’s follow-through of your recommendations. Have you considered adding such features to your public website or at least providing Congress with access to your internal recommendation tracking system? What budgetary, technological or legal challenges should we be aware of?

**Response**

We appreciated your suggestion during the hearing that we provide additional information about the status of open recommendations to the Congress and the public. To that end, we have added a feature to our public website that lists all open recommendations, their age, and the component involved. It is available from the front page of our website, <http://www.oig.dhs.gov/>, and a copy of it is attached. We have also broken out from that list all recommendations directed at FEMA. That is also attached. Additionally, our Semi Annual Report (SAR) to Congress provides information on OIG accomplishments, as required by the IG Act. Information reported in our SAR includes reports issued and a schedule of amounts due and recovered/deobligated during the time period.

In summary, from FYs 2009 through 2013, DHS OIG’s Office of Emergency Management Oversight (EMO) made 1,284 disaster-related recommendations to FEMA, including both administrative and financial recommendations. (This total does not include recommendations from our non-EMO audits, such as audits of FEMA’s State Homeland Security and Urban Areas Security Initiative grant programs, financial statements, and information technology policies and systems.) Administrative recommendations include improving policies, strengthening internal controls, and the like. Financial recommendations relate to ineligible/unsupported costs questioned and funds put to better use (FPTBU), such as deobligation of unused funds and cost avoidance. As the table below shows, as a result of EMO recommendations made in the last 5 FYs, DHS OIG has recovered \$245 million in questioned costs and \$250 million in FPTBU.

FY	Number	Questioned Cost	Recovered Cost	Percent	Funds Put to Better Use	Recovered FPTBU	Percent
2009	278	148,814,335	73,729,799	50%	19,607,308	15,794,010	81%
2010	244	128,775,743	60,252,805	47%	66,370,650	52,844,837	80%
2011	302	*983,868,591	69,508,099	*7%	28,599,547	20,445,551	71%
2012	210	279,205,200	32,377,963	12%	144,321,161	49,418,829	34%
2013	250	399,394,576	9,551,097	2%	128,962,450	111,072,582	86%
<b>TOTAL</b>	<b>1,284</b>	<b>\$1,940,058,445</b>	<b>\$245,419,763</b>	<b>13%</b>	<b>\$387,861,116</b>	<b>\$249,575,809</b>	<b>64%</b>

\*Note: In FY11, one recommendation questioned \$643,000,000 of ineligible costs, of which none was recovered. If not for that, the percent of recovered cost for FY11 would have been 20%, making the total percent of recovered cost 19%.

Regarding amounts of questioned costs that FEMA has waived, our systems do not track that specific information. However, our capping reports on disaster grant audits discuss the fact that FEMA frequently waives Federal procurement regulations and allows costs we question for non-compliance with those regulations. We are currently analyzing all EMO questioned costs related to procurement violations for FYs 2009-2013. We will issue our report in FY 2015, and it will quantify amounts FEMA allowed based on its waivers of Federal procurement regulations.

2. Your office is now using a “life-cycle approach” to its audits of FEMA activities in order to better identify the source of problems and more targeted solutions.
  - a. Please further describe what some of the “root causes” are that you are finding?
  - b. How is this approach coming along and has there been any proven results to date?

#### **Response**

Our life-cycle approach to audits is proving successful and has received numerous compliments from FEMA and the state/local governments and non-profit entities we audit. Receiving compliments and notes of appreciation from auditees is refreshing and, candidly, a new experience for us.

In FY 2014, we will issue about 65 reports related to FEMA’s use of the Disaster Relief Fund. These reports will include nine “capacity” and two “early warning” disaster grant audit reports with recommendations that, if implemented, will save over \$75 million in Federal funds. These early audits identify areas where FEMA subgrantees may need additional technical assistance or monitoring to ensure compliance with Federal regulations. In addition, by undergoing audits early in the grant cycle, subgrantees have the opportunity to correct non-compliance with Federal regulations before they spend the majority of their funding. It also allows them the opportunity to

supplement deficient documentation or locate missing documentation before too much time elapses.

The “root causes” of problems these early audits identify are very similar to those causes that traditional audits identify—chiefly the lack of sufficient knowledge, training, and oversight. The difference is that identifying the causes of problems early in the grant process allows us to help FEMA correct them, which results in *prevention* of fraud, waste, and abuse, rather than *detection* after the fact.

We are beginning to develop new performance measures, in addition to the amount of misspent money detected, to better measure the important contribution these audits make. Preventing fraud, waste, and abuse is far more efficient than trying to chase misspent money, and we believe it is important to ensure that this contribution gets measured in meaningful ways.

In addition to these early disaster grant audits, we have issued seven reports this year (listed below) that relate to our deployments to major disasters. These reports assess FEMA’s responses to disasters and identify areas where FEMA can improve its performance related to disaster response and recovery and mitigation of future disaster damages.

- FEMA Should Take Steps To Improve the Efficiency and Effectiveness of the Disaster Assistance Helpline for Disaster Survivors That Do Not Speak English or Spanish, OIG-14-118-D
  - FEMA’s Initial Response to the Colorado Flood, OIG-14-111-D
  - Mitigation Planning Shortfalls Precluded FEMA Hazard Mitigation Grants to Fund Residential Safe Room Construction During the Disaster Recovery Phase, OIG-14-110-D
  - FEMA’s Response to the Disaster in Galena, Alaska, OIG-14-106-D
  - FEMA’s Slab Removal Waiver in Oklahoma 4117-DR-OK, OIG-14-100-D
  - FEMA’s Initial Response to the Oklahoma Severe Storms and Tornadoes, OIG-14-50-D
  - FEMA’s Dissemination of Procurement Advice Early in Disaster Response Periods, OIG-14-46-D
3. A DHS-OIG January 2010 report identified problems in FEMA’s ability to close out disasters, and you noted that you will be updating this work. Our analysis found that there are 40 open disasters that are more than 10 years old, and 12 of these disasters had been declared before 1999. As we discussed, the longer these stay open the more administrative costs they incur. How can we be more efficient?
- a. Have you noticed a move in a positive direction with regards to FEMA’s ability to close out disasters sooner?

#### **Response**

We have a similar concern about the time disasters remain open. It has been 10 years since the infamous “Florida 4” and 9 years since Hurricanes Katrina and Rita ravaged Florida and the Gulf Coast. As you know, FEMA requires sub-grantees (applicants) to complete eligible work within

timeframes established by regulation. These timelines begin on the declaration date of the major disaster or emergency. The timelines correspond to type of work. They are 6 months for Debris Clearance and Emergency Protective Measures, and 18 months for Permanent Work. For Debris Clearance and Emergency Protective Measures, the State may grant up to an additional 6 months (for a total of 12 months) for the completion of Debris. For permanent work, the State may grant up to an additional 30 months (for a total of 48 months). If sub-grantees need additional time, the FEMA Regional Administrator can approve it.

Because many disasters exceed the above timeframes, we recently initiated an audit to determine the average timeframes it takes applicants to recover from disasters. If the average duration of a disaster differs significantly from the above-mentioned timeframes, we will likely recommend that FEMA take actions to (1) accelerate the disaster recovery period, and or (2) establish recovery timeframes that are more realistic.

We hope that this audit will give us some insight into the significance of the problem. We believe that the increased attention to this problem is creating awareness within FEMA of the necessity to close out disasters sooner. However, as you noted at the hearing, the current statutory and regulatory structure gives grantees and subgrantees little incentive to close out disasters in a timely manner.

4. In our analysis of FEMA's efficiency we identified the need for increased transparency in tracking disaster spending as a critical challenge facing FEMA. Are there any recommendations or legislative actions that can help improve the monitoring of contractors used by public assistance applicants?

**Response**

*American Recovery and Reinvestment Act (ARRA)* required ARRA grantees to report to the Recovery Accountability and Transparency Board the names of the contractors hired with ARRA funds. We believe that program has been a success and that a similar reporting requirement to FEMA or the OIG for Public Assistance sub-grantees would be beneficial. Such reporting would enable an analysis of disaster assistance contractors. That analysis should help identify disaster assistance contractors who have a history of poor performance and require closer monitoring.



**Post-Hearing Questions for the Record: “*The Path to Efficiency: Making FEMA More Effective for Streamlined Disaster Operations.*”**  
**July 24, 2014.**

**Questions for Joseph Nimmich, FEMA Associate Administrator**

1. Our analysis has identified almost \$276 million in wasteful spending on ineligible costs, according to DHS-OIG audits from 2013 to 2009. Many of these IG finding seem to be recurring each year.
  - To what extent are the root causes:
    - i. Lack of training of FEMA’s workforce?
    - ii. Information technology systems?
    - iii. Clear policies that states and locals can follow?
  - How is FEMA addressing these recurring problems?

**Responses:**

**A) To what extent are the root causes:**

The information provided in response to the root causes questions are from FEMA-wide Headquarters audits, assembled by FEMA’s Audit Liaison Office (ALO).

- i. Lack of training of FEMA’s workforce?

Approximately 6% of findings analyzed to date are related to training of FEMA’s workforce.

- FEMA is fully committed to and fully recognizes the importance of continually improving training provided to the disaster workforce. However, current open recommendations from FEMA-wide Headquarters audits show that 2.3% (20 out of 850 open recommendations) pertain to training issues: 6% (8 out of 143) are related to insufficient training or lack of training for FEMA personnel, and 1.8% (12 out of 677) are related to “Training/Exercises” defined as “FEMA’s staff and partners have been properly trained to administer FEMA’s programs, as well as having tested that knowledge through disaster simulations.”

- ii. Information technology systems?

Approximately 6% of findings analyzed to date are related to IT Systems.

- iii. Clear policies that states and locals can follow?

Approximately 39% of the findings analyzed to date are related to FEMA’s policy.

**B) How is FEMA addressing these recurring problems?****i. Lack of training of FEMA's workforce?**

In recent years, FEMA has undertaken a number of steps to ensure all FEMA employees have the training and experience required to successfully fulfill their disaster roles. The Agency established the FEMA Qualification System (FQS) in the fall of 2012 as part of a multi-faceted transformation effort to provide a credentialed and qualified disaster workforce. FQS defines the training and experience requirements of all Incident Management and Incident Support positions and it requires individuals to demonstrate performance prior to being certified as qualified in these positions. FQS ensures fair and objective qualification and training standards to strengthen the capabilities of the disaster workforce and effectively support response and recovery operations across 23 programs known as cadres.

FEMA has also taken significant steps to improve the management of its incident workforce. In November of 2013, the Agency convened an executive-level task force to conduct a complete review of FEMA's cadre management structure. This review led to the publication of new cadre management policy and doctrine, the establishment of an Incident Workforce Executive Steering Committee (IWESC), and the assignment of a cadre coordinator and additional support staff as required for every FQS cadre. Cadre coordinators are accountable for ensuring the readiness of incident workforce members, including training, equipment, and performance requirements. They are also accountable for ensuring cadre members have access to and are familiar with program-specific information required to effectively perform incident duties.

By the end of 2013, 72 percent of FEMA's incident workforce held an FQS Incident Management or Incident Support position. Of those employees, 28 percent were rated as trainees and 71 percent as qualified, increases from 2012 of 8 percent and 19 percent respectively. Additional gains will be achieved as FEMA's training facility capacity increases. Given the link to demonstrated performance during incidents, additional staff will achieve the necessary qualifications following their next disaster deployment.

Further, FEMA is working to reduce the incidence of procurement violations by establishing comprehensive training programs for FEMA employees and other stakeholders in Federal procurement standards that apply to disaster assistance applicants.

In April 2014, FEMA's Office of the Chief Counsel (OCC) established the Procurement and Fiscal Law Division's Procurement Disaster Assistance Team. The team has a cadre of deployable field attorneys whose primary mission is to ensure the uniform application by FEMA employees of the Federal procurement standards, to include 44 C.F.R. § 13.36, 2 C.F.R. § 215, and related FEMA policies and guidance. The deployable field attorneys support FEMA personnel by providing training and guidance to ensure a consistent understanding across the agency of federal procurement standards. In support of FEMA's field counsel, the team provides legal advice to Public Assistance officials on procurement matters.

On July 2, 2014, the Procurement Disaster Assistance Team released the first of a series of web-based trainings, available to FEMA staff and applicants, on procurements under grants ( <http://www.fema.gov/media-library/assets/documents/96773> ). The 40-minute block of instruction provides a high-level overview of the standards that apply to the full range of applicants—State, local, and Tribal governments, as well as private non profits—along with some “best practices” and illustrative examples of procurement-related findings from DHS OIG reports.

In addition, the Procurement Disaster Assistance Team assists disaster assistance applicants in understanding the requirements for procuring services using federal assistance. The Procurement Disaster Assistance Team supports applicants in a variety of ways, to include: providing just-in-time and steady-state training, as well as live training; developing guidance on federal procurement requirements; reviewing applicant procurement policies and procedures; and reviewing proposed applicant procurement actions to advise FEMA Public Assistance officials as to whether those actions comply with federal procurement requirements.

ii. Information technology systems?

FEMA is working to modernize its technology to better support disaster operations, and specifically grants management. Current grants management systems cannot provide the data needed to validate grantee eligibility or effectively monitor and manage grants. A business case is currently in development, led by the Office of the Chief Financial Officer (OCFO) and the Office of the Chief Information Officer (OCIO) that will define grants systems modernization strategy and implementation path. This effort is aligned with the FEMA IT Enterprise Systems and Technology Roadmap and is supported by FEMA’s active participation in the DHS Financial Assistance Segment Architecture Working Group, which is addressing financial systems modernization efforts.

As part of technology modernization, IT programs will provide real time training through intuitive system design and user interfaces, responsive help menus, and interactive job aids that can ensure users are able to effectively use FEMA-provided IT capabilities at the time the tools are needed.

Further, FEMA is implementing a new system for deploying and tracking the qualifications of its incident workforce. This new system, the Deployment Tracking System, will replace the Automated Deployment Database and will help ensure FEMA deploys a well-qualified workforce, one that has the training, skills, and experience required to rapidly and effectively respond to, recover from, and mitigate threats and hazards. Full operational capacity of this new system is anticipated on December 31, 2014.

iii. Clear policies that states and locals can follow?

FEMA's Recovery Directorate provides an example of how the agency is establishing more clearly defined policies can be seen in the work being done by FEMA's Recovery Directorate. Specifically, the Public Assistance Division is combining the Public Assistance Guide, Policy Digest, Debris Management Guide, Applicant Handbook, and all 9500 series policies into a consolidated Public Assistance guidance document. The final product will be a single comprehensive document currently set for completion July 1, 2015.

Publication of the guidance will accomplish the following:

- Consolidation of all policy and guidance into one document to improve consistency of application and program implementation.
- Eliminate duplication, redundancy, and inconsistency between policy documents.
- Simplify and clarify existing guidance and reduce misinterpretations to improve efficiency and effectiveness of field operations and reduce the number of appeals.
- Allow for a more streamlined approach to updating and maintaining the relevancy of policy.

2. Our analysis has noted that FEMA has instituted a greater reliance of project management "spend plans." Could you tell us how these spend plans have controlled costs and improved the ability to estimate future resource needs?
  - What are other management controls that FEMA is using to control costs under the disaster response and recovery missions?

**Response:** Over the past several years FEMA has focused on improving its disaster resource management. These efforts include both improving the projection of resource needs and managing disaster costs, as outlined below, in a more efficient and effective manner.

FEMA requires spend plans for all major disaster declarations and requires categorized month by month resource needs projections for the current fiscal year as well as life of disaster projections. Spend plans are updated on a monthly basis. In addition to providing projections of resource needs, spend plans provide the detail needed by leadership to determine program priorities and the status as well as necessity of administrative costs. This level of detail allows leadership to determine if communities' priorities are being met (e.g. Public Assistance by project) and if administrative costs are essential for the conduct of operations.

FEMA has also focused on controlling costs in the following ways.

1. Operating small disasters from established regional facilities (virtual disasters) to significantly reduce both facility and support personnel costs;
2. Operating multiple disasters out of the same facility;

3. Focusing on management of overtime in a more focused manner. Since 2011, FEMA has reduced per person, per pay period overtime at disaster field offices from 20 hours per pay period in 2011 to 6.5 hours per pay period in 2014; and
  4. Reducing telecommunication costs. Since 2013, FEMA has reduced telecommunications costs by over \$1M per month by strengthening management controls over wireline and wireless devices. For example, service for wireless devices that have no activity in 30 days is suspended.
3. As we discussed during this hearing, can you provide this Subcommittee with additional information on open disasters, specifically on the number of times (and the cost amount) for each open disaster that have reached their ceiling on management costs where FEMA has granted extensions or an increase in those costs, including a summary of FEMA's rationale.

**Response:** FEMA does not grant increases in the state management cost ceiling amounts. 44 CFR regulations for Major Declarations declared on or after November 13, 2007 authorize state management costs at rates of 3.34% for Public Assistance and 4.89% for Hazard Mitigation. Disasters which are open longer than 8 years require an approved extension for the use of the available funds up to the ceiling amount. Prior to November 13, 2007, regulations provided for state management funding through a sliding scale calculation which also did not allow the Agency to increase the ceiling amounts.<sup>1</sup>

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<sup>1</sup> Disasters that occurred prior to November 13, 2007 that are still open utilize this sliding scale calculation.

Questions from Chairman Begich

GAO

**1. As you know, FEMA's administrative costs for disasters have been increasing for the last several years.**

- a. What guidance or process, if any, has FEMA put in place to reduce the administrative costs of disasters?**

FEMA is taking several steps intended to reduce administrative costs for major disasters. In November 2010, FEMA officials created a management guide that outlined steps Federal Coordinating Officers (FCOs)<sup>1</sup> could take to better control administrative costs associated with major disasters while still achieving FEMA's mission. The guide noted that disasters of similar size and type had witnessed growing administrative costs over a 20-year period and that little emphasis had been placed on managing overall administrative costs. According to FEMA officials, the Office of Response and Recovery is responsible for establishing guidelines for administrative costs and ensuring that FCOs receive training on the guidelines. Since 2010, FEMA has initiated other efforts intended to better control administrative costs. For example, FEMA has begun conducting quantitative analyses under the agency's FEMASat program to study the drivers of administrative costs, and the implementation of alternative procedures to streamline the review and approval process for Public Assistance grants. Furthermore, in July 2014, FEMA issued its Strategic Plan for 2014-2018, which includes an objective to reduce the average annual percentage of administrative costs for field operations, as compared to total program costs, by 5 percentage points by the end of 2018. As part of our ongoing review of disaster administrative costs, we will be assessing FEMA's efforts to better manage and control these costs. We plan to report this information to you by November 2014.

- b. We understand that you are doing follow-up work on this issue – can you talk about what you've found to date?**

In September 2012, we reported that FEMA's average administrative cost percentage for major disasters doubled from 9 percent in the 1989-to-1995 period to 18 percent in 2004-to-2011 period.<sup>2</sup> Our follow-up work shows that FEMA's average administrative cost percentage was 18 percent during fiscal years 2012 and 2013, and thus, there has not been a significant change in FEMA's average administrative cost percentage since our previous report. Specifically, FEMA's administrative cost percentages for major disasters have doubled since fiscal year 1989, averaging 18 percent during fiscal years 2004 to 2013. In total, FEMA obligated \$12.7 billion for its administrative costs for major disasters declared during fiscal years 2004 to 2013. FEMA is taking various steps intended to reduce administrative costs, as described above. As part of our ongoing work, we will assess these efforts and what steps FEMA has taken to implement our September 2012 recommendations. For example, we recommended that FEMA implement goals for administrative cost percentages and monitor performance to achieve these goals. FEMA partially agreed with this recommendation, citing the

<sup>1</sup> An FCO is responsible for managing the FEMA's Joint Field Offices (JFOs), which serve to coordinate FEMA's response and recovery resources and activities in the affected state following a Presidential Disaster Declaration.

<sup>2</sup> GAO, *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, GAO-12-838 (Washington, D.C.: Sept. 12, 2012).

agency's need to first review and study the issue before implementing measures. As part of our ongoing work, we will determine the extent to which FEMA has further evaluated this issue and implemented our recommendation. We will also assess more current efforts, such as how FEMA plans to achieve the 5 percentage point reduction in its average annual percentage of administrative costs for field operations—articulated in its recently issued strategic plan. We plan to report this information to you by November 2014.

**2. You've reviewed FEMA's workforce management in 2012 and 2013, and your testimony notes that FEMA has followed a number of your recommendations. Based on our review of FEMA's efficiency challenges, we believe that FEMA should invest further in workforce training that is focused on reducing misspent and wasteful spending. Are there additional ways we can improve the quality of FEMA's workforce?**

Our prior human capital management recommendations focused on ways to improve FEMA's ability to assess and prioritize agency-wide workforce planning and training efforts in a comprehensive and integrated way. FEMA has addressed some of our past recommendations and is working to address others. For example, in May 2012, we recommended that FEMA establish to (1) a mechanism to monitor its regions' implementation of disaster assistance employee policies and procedures, and (2) the employees' implementation of FEMA's disaster policies and procedures.. FEMA resolved the issues of inconsistent implementation of these policies by centralizing control over hiring, training, equipment, and deployment within a single headquarters-based office. FEMA documented its centralization process in a management directive that converted the disaster assistance employees program to a new "disaster reservist" program that is managed through the centralized office. With this new management approach, FEMA is better positioned to monitor implementation of reserve program policies and procedures and ensure consistency.<sup>3</sup> In another report issued in March 2013, we recommended that FEMA examine the training practices of other agencies with disaster reservist workforces to identify potentially useful practices. FEMA has begun gathering information from other agencies to provide a basis for such an analysis.<sup>4</sup> In a third report issued in April 2012, we recommended that FEMA develop systematic processes to collect and analyze agency-wide training data. FEMA concurred and, as of September 2013, has begun to more systematically gather training information to implement an evaluation strategy.<sup>5</sup> Our current work is designed to assess the status of FEMA's efforts to respond to our recommendations, and how FEMA has implemented specific aspects of the Post-Katrina Emergency Reform Act related to the agency's ability to ensure a well-trained, professional disaster workforce. In addition, we are assessing the extent to which FEMA has mechanisms in place to assess the impact of the two new components of its disaster workforce—Department of Homeland Security Surge Capacity Force and FEMA Corps. As part of our on-going work, we plan to identify and potentially recommend additional ways to improve the quality of FEMA's workforce.

<sup>3</sup> GAO, *Disaster Assistance Workforce: FEMA Could Enhance Human Capital Management and Training*, GAO-12-538 (Washington, D.C.: May 25, 2012).

<sup>4</sup> GAO, *FEMA Reservists: Training Could Benefit from Examination of Practices at Other Agencies*, GAO-13-250R (Washington, D.C.: Mar. 22, 2013).

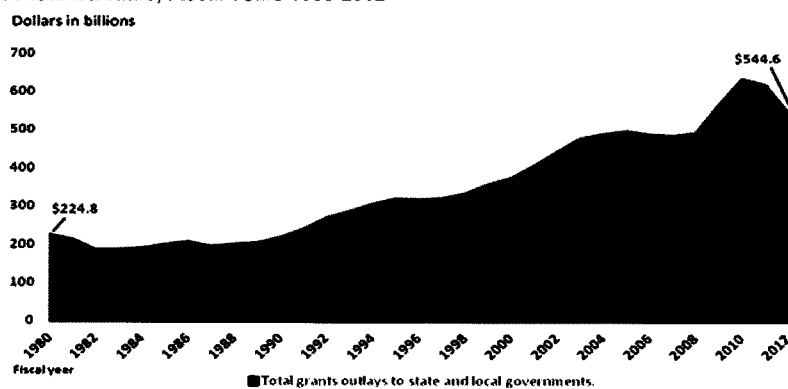
<sup>5</sup> GAO, *Federal Emergency Management Agency: Workforce Planning and Training Could Be Enhanced by Incorporating Strategic Management Principles*, GAO-12-487 (Washington, D.C.: Apr. 26, 2012).

**Question from Senator Pryor**

3. FEMA has a number of grant programs and there is little or no coordination of the review processes for applications. In your testimony, you mention that FEMA “could benefit from examining its grant programs and coordinating its application process to eliminate or reduce redundancy...” Are there other specific federal agencies that FEMA should look to be an example of how to streamline its preparedness grants? If so, please briefly describe the effectiveness of those federal agencies with streamlined grant procedures and the lessons for FEMA within those procedures.

We have not reported on specific agencies as models for effective grant streamlining, our work in this area has focused on government-wide initiatives and guidance. Because the federal government uses grants to achieve many national objectives by providing program funding to state and local governments, management of federal grants to state and local governments is a key issue that we monitor on an ongoing basis. According to the Office of Management and Budget (OMB), federal outlays for grants to state and local governments increased from \$91 billion in fiscal year 1980 (about \$225 billion in 2012 constant dollars) to about \$545 billion in fiscal year 2012. See figure 1.

**Figure 1: Total Federal Outlays for Grants to State and Local Governments, in 2012 Constant Dollars, Fiscal Years 1980-2012**



Source: GAO analysis of OMB data.

Streamlining federal grant procedures is a longstanding issue. The Federal Financial Assistance Management Improvement Act of 1999, among other things, required that federal agencies streamline processes, use common application systems, and consult with grantees.<sup>6</sup> We reported in April 2005, that grant making agencies had made progress in some areas of grant administration, for example, by developing a common plan for streamlining processes.<sup>7</sup> However, in 2005 we found that efforts toward common electronic systems for reporting

<sup>6</sup> Pub. L. No. 106-107, § 5, 113 Stat. 1486, 1487-88.

<sup>7</sup> GAO, *Grants Management: Additional Actions Needed to Streamline and Simplify Processes*, GAO-05-335, (Washington, D.C., Apr. 18, 2005).



financial and performance information had not been developed, further, individual agencies had not all reported on their progress annually, as required, among other things. We made five recommendations to OMB to improve its management of federal grants streamlining efforts and OMB took actions to implement each of the recommendations. After we issued our report, the National Grants Partnership<sup>8</sup> issued its own report in July 2005, building on our recommendations.<sup>9</sup> Table 1 summarizes the NGP's recommendations.

Table 1: Summary of Recommendations

Recommendation	Audience		
	OMB	Agencies	Grantees
Analyze all key modernization drivers: policy, people, process, and technology	•	•	
Stakeholders should focus on the business process of grant making before discussing information technology systems implementation or modernization	•	•	•
Understand the state of the custom, GOTS, and COTS grant management product offerings	•	•	•
Harmonize Federal financial assistance legislation	•	•	
Elevate grants streamlining to the President's Management Agenda	•		
Establish a Grants Ombudsman in the Office of Federal Financial Management within OMB and provide additional resources focused on Federal grants management	•		
Establish an overall Program Management Office to oversee grant streamlining initiatives and report to the Office of Federal Financial Management	•	•	
Create a Chief Grants Officer Council to address the unique processes and requirements of the grants management function and serve as an advisory body to the PMO	•	•	
Work in partnership with constituencies to develop a grants business process that is standardized across the grants enterprise	•	•	
Communicate the value of grants streamlining to non-Federal grantors	•	•	

<sup>8</sup> The National Grants Partnership was established in 2004 to bring together government and non-government individuals with an interest in improving the grants process in the United States. The Partnership provides to stakeholders a forum for discussion and research on grants administration issues.

<sup>9</sup> The National Grants Partnership, *White Paper Series, Accelerating Grants Streamlining: Furthering the Recommendations of the GAO Grants Streamlining Report*, (Washington, D.C., July 2005).

Adopt and collaboratively extend data standards such as the Uniform Financial Data Elements and Definitions (as proposed by the National Grants Partnership's Uniform Guidelines Project), and look for further data standard consolidation opportunities across all grant programs	•	•	•
Inventory existing back-office systems, identify overlaps, and consolidate similar functions. For example, Federal agencies can develop consolidated interfaces with Grants.gov, and use the "Apply" functionality as leverage to consolidate back-end business processes		•	•
Interact proactively, repeatedly, and regularly to better understand mutual concerns and experiences with grant programs		•	•
Consolidate State and local grantees' stovepiped grant offices			•

Source: The National Grants Partnership

Nonetheless, progress has been slow. As we reported in a May 2013 update, there have been a series of legislative- and executive-sponsored initiatives aimed at reforming aspects of the grants management life cycle.<sup>10</sup> For example, a new grants reform governance body, the Council on Financial Assistance Reform (COFAR), replaced two former federal boards—the Grants Policy Committee (GPC) and Grants Executive Board (GEB). The OMB created COFAR and charged it with identifying emerging issues, challenges, and opportunities in grants management and policy and providing recommendations to OMB on policies and actions to improve grants administration.

As we reported in May 2013, although COFAR has recently identified several high-level priority goals for 2013 through 2015, it has not yet released an implementation plan and agencies involved with current grants management reforms are not always clear on their roles and responsibilities for various streamlining initiatives which may cause such initiatives to languish. We recommended that the Director of OMB: (1) develop and make publicly available an implementation schedule that includes performance targets, goal leaders who can be held accountable for each goal, and mechanisms to monitor, evaluate, and report on results; (2) clarify the roles and responsibilities for various streamlining initiatives; and (3) develop an effective two-way communication strategy with relevant stakeholders. OMB generally concurred with our recommendations and described some actions it plans to take to address these recommendations such as using a more detailed project plan internally and scheduling outreach events with federal partners and members of the grantee community to address some of the challenges we found.

<sup>10</sup> GAO, *Grants Management: Improved Planning, Coordination, and Communication Needed to Strengthen Reform Efforts*, GAO-13-383 (Washington, D.C., May 23, 2013).