

DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

Review of FEMA Internal Controls for Funding Administrative Cost under State Management Grants



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Homeland Security

January 9, 2007

MEMORANDUM FOR: Margaret Young
Chief Financial Officer

John R. D'Araujo, Jr.
Director, Recovery Division

FROM: Matt Jadacki 
Deputy Inspector General
Office of Disaster Assistance Oversight

SUBJECT: *Review of FEMA Internal Controls for Funding
Administrative Cost under State Management Grants
Report Number OIG-07-21*

We performed a review of state management grants that FEMA awards to states for the administration of public assistance programs. The objective of the review was to determine the adequacy of FEMA controls for ensuring that funds awarded were for essential and reasonable grant management activities.

Under current FEMA policy, states can receive funding from two sources to cover operations associated with the administration of public assistance programs (emergency protective measures, debris removal, repair and restoration of buildings and other public facilities, etc.). States receive a statutory administrative allowance based on a sliding scale formula tied to the amount of public assistance awards, as well as state management administrative grants to cover needs that are unmet by the allowance. The latter form of assistance was the focus of this review.

To test FEMA controls, we selected management grants awarded to the States of Louisiana and Mississippi for Hurricane Katrina. As of May 31, 2006, FEMA awarded \$54 million in management grants to these states. We reviewed FEMA and state records related to these management grants, interviewed FEMA, state, and contractor officials, and applied other review procedures considered necessary under the circumstances.

The nature and brevity of this assignment precluded the use of our normal audit protocols. Therefore, we did not conduct the review according to generally accepted government auditing standards. Had we followed such standards, other matters may have come to our attention.

The review was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal government in the aftermath of Hurricanes Katrina and Rita. As such, a copy of the report has been forwarded to the PCIE Homeland Security Working Group, which is coordinating Inspectors' General review of this

important subject. This is the second report addressing administrative costs for public assistance program activities. The first report, GC-HQ-06-40, dated April 28, 2006, primarily addressed FEMA policy regarding statutory administrative allowances. In that report, we recommended that FEMA comply with the Disaster Mitigation Act of 2000 and establish a single funding rate for state administrative costs. We also recommended that, in the interim, FEMA improve controls over the statutory allowance. This report addresses improvements for state management grant controls.

RESULTS OF REVIEW

FEMA approved state management grants without a comprehensive grant management plan or written internal procedures for assessing the need for grant assistance. As a result, controls were not in place to evaluate the states' needs or to ensure that funds awarded were for bona fide grant management activities.

FEMA's response to report GC-HQ-06-40 addressed the above weaknesses in part. However, additional actions are needed.

State Management Grant Justification

The Louisiana Office of Homeland Security and Emergency Preparedness (grantee), received several awards totaling \$30 million. One of the awards (Project Worksheet 337), approved \$29 million for the retention of a consultant to support "...the existing state recovery staff in providing on-site project manager, grant management, project worksheet development, project applications, reports, audit and related field inspections." The approved scope of work indicated that the consultant would hire 160 individuals to perform these activities.

The Mississippi Emergency Management Agency (grantee), received two awards totaling \$23.4 million to pay regular salary costs of its own disaster recovery staff and for consultant services. Of this amount, \$20.8 million was designated for consultants to assist the State in project development, coordination with FEMA and sub-grantees, and for accounting support to sub-grantees. The approved scope of work indicated that the consultants would hire 77 individuals to perform these services.

Federal regulation (44 CFR 206.207) requires state grantees to develop a state administrative plan for public assistance programs with procedures for accomplishing various grant management functions and for determining its staffing and budgetary needs. The plans must identify grant management procedures for damage assessments, applicant briefings, processing appeals, financial management, procurements, monitoring, and determining staffing needs.

The administrative plans for Louisiana and Mississippi contained limited procedures for several functions, but none for financial management, monitoring, procurement, or staffing. Also, there were no requirements for nor did the plans address estimated workloads for grant management functions or the staff resources for those functions. As a result, management grants were not justified by a thorough analysis of grantees' needs.

In response to report GC-HQ-06-40, FEMA's Recovery Division stated that it developed and begun implementing new procedures to assist grantees in preparing public assistance administrative plans. The new procedures provide a more detailed listing of responsibilities states assume as grantees and require states to develop procedures for each function, determine the number of positions needed for each function, and justify staffing levels. These procedures, if followed, should address the concerns of this finding. Therefore, we consider this finding resolved and closed.

Request for State Management Grants

Over 90 percent, or \$50 million, of the state management grant awards was used to hire contractors to assist the state grantees with their grant administration functions. FEMA Response and Recovery Policy 9525.11 state that, "Reasonable costs of contractors performing eligible Grantee functions in managing the Public Assistance Program are eligible as State Management Administrative Costs." The policy also references U.S. Office of Management and Budget (OMB) Circular A-87, 2 CFR Part 225.

FEMA's Office of the Chief Financial Officer (CFO) uses the general principles contained in OMB Circular A-87 as the primary criteria for reviewing and approving, or disapproving, state management grant proposals. The Circular identifies the standards for determining allowable costs under Federal grants and the types of costs that are allowable and unallowable.

While the Circular is a useful tool for a general evaluation of the costs under state management grants, it does not identify grant management functions or other programmatic factors to consider when reviewing state management grant proposals. Without a clear delineation of eligible grant management functions for use during the FEMA review process, the potential exists for the approval of non-essential or questionable activities.

RECOMMENDATION

We recommend that the CFO, in coordination with the Director of the Recovery Division, develop procedures (using the listing of eligible grant management responsibilities compiled by the Recovery Division) for the review of state management administrative cost grant proposals to ensure that funding is approved only to meet essential and reasonable grant management needs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

On August 16, 2006, we submitted a draft report to the CFO for comment. On September 7, 2006, the CFO advised that they would withhold comments pending receipt of the final report.

Please advise us within thirty days of actions taken or planned to implement the recommendation. Should you have any questions concerning this report, please contact Gary J. Barard at (404) 488-0286.

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