



Department of Homeland Security Office of Inspector General

Opportunities to Improve FEMA's Disaster Closeout Process





Homeland
Security

January 27, 2010

Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports published as part of our oversight responsibilities to promote economy, effectiveness, and efficiency within the department.

This report addresses opportunities to improve FEMA's process for closing out declared disasters and reporting on the status of recovery efforts. We contracted with the independent public accounting firm Foxx & Company to perform the audit. The contract required that Foxx & Company perform its audit according to generally accepted government auditing standards. Foxx & Company identified areas where FEMA's disaster closeout process could be improved. The report contains seven recommendations addressed to the Administrator, Federal Emergency Management Agency.

Foxx & Company is responsible for the attached auditor's report, dated December 15, 2009, and the conclusions expressed in the report.

The recommendations herein have been developed with the best knowledge available to our contractor. We hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General



December 15, 2009

Mr. Matt Jadacki
Deputy Inspector General for Office of Emergency Management Oversight
Office of Inspector General
Department of Homeland Security
245 Murray Drive, SW, Building 410
Washington, DC 20528

Dear Mr. Jadacki:

Foxx & Company performed an audit of FEMA's disaster closeout process. The audit was performed according to Task Order No. TPDFIGBPA070007, dated September 30, 2008.

This report presents the results of the audit and includes recommendations to help improve the timeliness of FEMA's disaster closeouts and its reporting on the status of disaster recovery activities.

Our audit was conducted according to applicable *Government Auditing Standards*, July 2007 revision. The audit was a performance audit as defined by Chapter 1 of the *Standards*, and included a review and report of program activities with a compliance element. We did not perform a financial audit, the purpose of which would be to render an opinion on the agency's financial statements.

We appreciate the opportunity to have conducted this audit. Should you have any questions, or if we can be of any further assistance, please call me at (513) 639-8843.

Sincerely,

Foxx & Company

Martin W. O'Neill
Partner

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Abbreviations

CFR	Code of Federal Regulations
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FOUO	For Official Use Only
GAO	Government Accountability Office
HMGP	Hazard Mitigation Grant Program
HMTAP	Hazard Mitigation Technical Assistance Program
NEMIS	National Emergency Management Information System
PA	Public Assistance/Public Assistance Grant Program
OIG	Office of Inspector General
SOP	standard operating procedure
TAC	Technical Assistance Contract
USC	United States Code

OIG

*Department of Homeland Security
Office of Inspector General*

Executive Summary

Foxx & Company audited the Federal Emergency Management Agency's process for closing declared disasters. The audit assessed aspects of the process including the agency's policies, internal controls, and practices. It focused on determining whether the agency was closing disasters in a timely manner. The audit fieldwork was completed in June 2009.

Improvements are needed to close disasters in a timely manner and to reduce administrative costs associated with disasters that should have been closed sooner. An agency-wide internal control environment with effective leadership and priority did not exist for timely closeout. As a result, disasters, programs, and projects stayed open unnecessarily for long periods of time. Headquarters and regional management officials need to emphasize the need for timely closeouts of disasters. The emphasis on closing disasters depends on the interests and priorities of individual management officials throughout the Federal Emergency Management Agency.

Delays in closing disasters start at the grantee level and continue through final processing at agency headquarters. Several opportunities exist to improve the closeout process and expedite the release of unneeded obligations resulting in timely disaster closures. The opportunities include establishing time standards for the process, developing a system to track the progress of closeouts, ensuring that Technical Assistance Contracts are reconciled in a timely manner, closing FEMA/State Agreements when the state has completed its disaster recovery activities, establishing cost-beneficial "floors" for expenditure reconciliations, and establishing a system for communicating disaster closeout best practices throughout the agency.

We are making seven recommendations to strengthen the internal control environment and improve key aspects of the agency's process for closing disasters. The Federal Emergency Management Agency's response is summarized and evaluated in the body of this report and included in its entirety as Appendix D.

Background

The Federal Emergency Management Agency (FEMA) was created in 1979 by Executive Order as an independent agency for the centralization of emergency functions. FEMA's mission is to lead the effort to manage federal response and recovery efforts following any national incident. On March 1, 2003, FEMA became part of the Department of Homeland Security (DHS).

When natural disasters occur, it is the responsibility of the local community and then the state to respond. When their combined efforts are not sufficient to respond effectively to the direct results of the disaster, the Governor may request federal assistance. The *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (Public Law 93-288), as amended (*Stafford Act*), governs assistance. The *Stafford Act* (42 USC 5122) authorizes the President to provide assistance to individuals, state and local governments, and certain private nonprofit organizations to help them respond to and recover from a disaster. The *Stafford Act* also authorizes funds for hazard mitigation.

The Code of Federal Regulations (CFR), Chapter 1 Part 13, establishes the requirements for FEMA to follow in awarding grants to states and other grantees under FEMA/State Agreements. The requirements for closeouts are contained in 44 CFR 13.50. FEMA and other federal agencies and departments are to follow the *Standards for Internal Control in the Federal Government* GAO/AIMD-00-21.3.1 (11/99). These standards state that internal controls should provide reasonable assurance that an agency's objectives for the effectiveness and efficiency of operations, including the use of the entity's resources, are achieved.

After the President declares a disaster, obligations are made in the Disaster Relief Fund based on estimated expenses. A disaster can have many categories of expenses, including contracts, grants, and administrative costs. Major infrastructure repairs (such as those to bridges, roads, and public buildings) may require years to complete. According to FEMA procedures, disaster closeout occurs once the FEMA/State Agreement has been completed and closed, and all expenses and grants have been disbursed and reconciled.

Types of Disaster Declarations

Presidential declarations can include declarations for major disasters, emergencies, and fires. Each type of declaration has its own requirements and types of assistance.

Major Disaster Declaration: A major disaster can include any natural catastrophe (including hurricane, tornado, storm, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, or drought). Major disasters can also include any fire, flood, or explosion. If the President determines that any of these events in any part of the United States causes damage of sufficient severity and magnitude, he can authorize major disaster assistance under the *Stafford Act* to supplement the efforts and available resources of states, local governments, and disaster relief organizations in alleviating the damage, loss, hardship, or suffering caused thereby.

Emergency Declaration: When the President determines that federal assistance is needed immediately to provide short-term assistance essential to save lives, to protect property and public health and safety, or to lessen or avert the threat of a catastrophe, he can declare an Emergency Declaration. The assistance usually supplements state and local efforts in providing emergency services. The amount of emergency assistance is capped at \$5 million per single event.

Fire Management Declaration: When FEMA determines that a fire or fires threaten such destruction as would constitute a major disaster, assistance—including grants, equipment, supplies, and personnel—may be authorized to any state for the suppression of any fire on publicly or privately owned forest or grassland (42 USC 5187).

FEMA's assistance to grantees (states, territories and tribes) comes from combinations of grant programs, depending on the type of disaster and extent of damage. The authorizations and responsibilities for managing these programs are specified in an agreement between the grantee and FEMA (44 CFR 206.32). This FEMA/State Agreement must be completed before funding is provided for disaster grant programs. The Public Assistance Grant Program (PA) and the Hazard Mitigation Grant Program (HMGP) have the longest periods of performance and are the programs most likely to delay the closure of disasters. Because of their relatively short period of performance, Individual Assistance programs typically do not delay the closure of disasters. Consequently, this

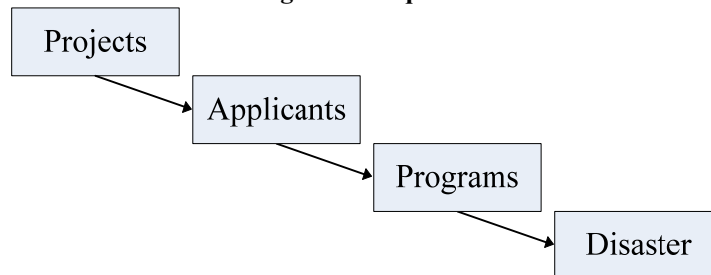
audit concentrated primarily on the closeout process for the PA and HMGP.

The PA and HMGP Closeout Processes

The PA and HMGP have a common sequence of closure activities (see Figure 1). This sequence assumes that the closure of the disaster was not influenced by the closure of the Individual Assistance Program (if one was declared for the disaster). As indicated in Figure 1:

- Individual projects are managed by applicants 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.
- Applicants are closed when all of the applicant’s projects are closed and the applicant’s administrative allowance expenses have been reconciled to supporting documentation.
- When all of the disaster’s applicants are closed, the program can be closed. Programs are closed when the state’s administrative costs have been reconciled with supporting documentation.
- When all declared programs within a disaster are closed, the disaster can be closed.

Figure 1. Sequence of Closeouts



The applicable FEMA regional office manages the closeout process until the declared programs are closed and the state has agreed that the disaster can be closed. For this audit, we considered a program’s closeout process to be started when the first project was completed and ready for final inspection.

The FEMA region’s reconciliations of declared programs’ and grantee administrative costs must be completed before a request to

close the FEMA/State Agreement can be sent to FEMA headquarters. The region reconciles the grantee's final financial status reports to FEMA's financial management system and the federal payment system.

When FEMA's Finance Center receives the region's request for closure of the disaster, center officials check the reconciliations and initiate the closure of other costs associated with the disaster, including the reconciliation and closure of Technical Assistance Contract (TAC) task orders that were awarded in support of the disaster recovery effort. When all costs have been reconciled, the FEMA/State Agreement is closed and the disaster is closed.

Open Disasters as of September 30, 2008

FEMA records show that there were 880 declared disasters with open FEMA/State Agreements as of September 30, 2008. Of this total, 744 had unliquidated obligation balances totaling about \$16 billion. The remaining 136 disasters were still open even though they had no unliquidated obligations. The disasters without unliquidated balances were open pending other than financial actions, such as appeals or delays caused by other priority work.

Appendix B shows the total declarations by year and the closeouts of these declarations regardless of the year closed. For example, in FY 1989, 30 disasters were declared and 29 of the 30 had been closed as of September 30, 2008.

Appendix C shows the number of open disasters with unliquidated obligation balances as of September 30, 2008, and the number of disasters that have been open for 10 or more years.

FEMA's records also show that the agency has had difficulty closing disasters. Because of the huge balances of obligations and unliquidated obligations earmarked for disaster recovery, there has been a high and continuous level of interest in timely closeouts from within Congress, the Government Accountability Office, and the DHS Office of Inspector General.

FEMA management has also been concerned. In the late 1990s, FEMA's Director chartered three closeout teams to assist regional office staff and state emergency management personnel in closing out funding activities for all past disasters. Other FEMA managers from headquarters or from within the regional offices occasionally have emphasized timely closeouts, but these initiatives have often stalled when the manager leaves or when other priorities arise.

Results of Audit

FEMA's closeout processes and reporting system need improvements. First, an effective internal control environment that supports timely closeouts of projects, programs, contracts, and disasters does not exist, and centralized leadership is needed. Second, regional offices responsible for closeout activities do not have standard operating procedures (SOPs) for disaster closeouts. Third, delays in closing disasters occur at the grantee level and continue through final processing at FEMA headquarters. Opportunities are identified to improve the process, release funds in a timely manner, and expedite disaster closures.

Need for Leadership in FEMA's Disaster Closeout Process

FEMA does not have an effective control environment for timely closeouts of projects, programs, contracts, and disasters. FEMA also does not have centralized management leadership for the closeout process. SOPs applicable to disaster programs, supporting offices, and regions for disaster closeouts have been or are being drafted, but they have not been finalized. The emphasis on closing disasters depends on the interests and priorities of management officials throughout FEMA. As a result, many disasters have remained open for long periods.

As required by the *Federal Managers' Financial Integrity Act of 1982*, 31 USC 3512(c), the General Accounting Office (GAO) (now the Government Accountability Office) issued standards for internal control¹ in government. The standards provide the overall framework for establishing and maintaining internal controls for addressing major performance and management challenges. The standards also identify areas of greatest risk of fraud, waste, abuse, and mismanagement. The first standard is the need for a positive control environment, which is the foundation for the other standards established by the GAO. The control environment standard states that "management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management." (GAO/AIMD 00.21.3.1)

FEMA's weak control environment over disaster closeouts allows disasters to stay open for a considerable length of time after the disaster recovery effort has been completed. Obligated funds not needed for the open disasters could be deobligated and made available for use in other disaster relief activities.

¹ The term "internal control" is synonymous with the term "management control" as used in Office of Management and Budget (OMB) Circular A-123.

FEMA does not have a centralized process for closing out disasters, and the leadership resides, for the most part, within each of the 10 regional offices and the FEMA Finance Center. Our discussions with headquarters officials indicated a growing interest at the headquarters level in closing disasters in a timely manner. The headquarters officials with whom we met relied on the regional offices for disaster closeout.

Leadership is needed at the headquarters level to establish a control environment that supports timely project, program, and disaster closeouts. Headquarters management's commitment to timely closures of disasters should be visible, positive, and supportive. An effective leader at FEMA headquarters could provide the necessary support for closing disasters in a timely manner. The leader could be an individual or an Executive Council led by an executive officer.

Although new disasters are a priority, FEMA officials agreed that when management emphasized the disaster closeout process, closeouts increased, as demonstrated by the establishment of closeout teams in the late 1990s. However, FEMA management has not consistently emphasized the need for timely closeouts, and FEMA has not had a good track record for the timely closeouts of disasters. As of September 30, 2008, 61 disasters with unliquidated obligation balances were still open 10 years or more after the disaster was declared. An additional 131 disasters that were closed as of September 30, 2008, had been open for 10 years or more from their date of declaration.

FEMA-wide SOPs are needed to provide structure to the process and to establish clear boundaries for regional officials to ensure grantee compliance with federal requirements. In the absence of FEMA-wide SOPs, some regional offices have improvised their own closeout management processes or tracking systems. Each of the program offices and some of the other headquarters divisions were in the process of drafting SOPs for their areas of responsibility. Officials at nearly all locations told us that SOPs have been "being developed" for some time. An SOP for closing out projects, programs, and disasters, with recognition of individual program requirements, would significantly improve the closeout environment. Management's creation and endorsement of SOPs would organizationally improve the closeout process.

There is no established method to encourage best practices for disaster closeouts throughout FEMA. For example, in our opinion, one region has developed an impressive system for tracking the status of individual project and program closeout activities. Another region has developed a program to train its regional and state officials on financial closeout requirements. At the time of the audit, FEMA officials were not aware of

any plans to institutionalize the tracking system or the training program FEMA-wide.

To improve disaster closeout efforts, FEMA officials involved in the closeout process need to be held accountable for their performance. FEMA does not use disaster closure actions in assessing employee performance. Annual evaluations could include a rewards and recognition system that acknowledges exemplary performance of managers at all levels within FEMA. This could encourage creativity and extra efforts to close out disasters in view of conflicting priorities and shortages of experienced staff.

Recommendation:

We recommend that the Administrator, Federal Emergency Management Agency:

Recommendation #1: Establish a leadership function (i.e., an individual, Executive Council lead by an Executive Officer, or a separate office) within FEMA headquarters that will:

- a. Serve as FEMA’s point of contact for closeout activities;
- b. Be organizationally positioned to have oversight over all closeout actions;
- c. Be responsible for developing standard operating procedures for the closeout process and ensure that the standard procedures are followed unless exceptions are approved because of extraordinary circumstances; and
- d. Establish a system for encouraging and recognizing efforts and successes (including best practices) of offices and individuals for timely closeout of disasters.

Management Comments and Contractor Analysis

FEMA concurred with the recommendation. The administrator has directed the establishment of a headquarters working group to take proactive and appropriate actions to complete the closeout of older disasters. Membership in the group includes representatives from the Office of Chief Financial Officer, Operations (Response and Recovery), Mitigation, Mission Support, Grants Program, and the Office of Chief Counsel. The Headquarters group will work closely with the regional offices to give priority to closing out open disasters. The tasks of the group will include developing incentives for closeouts, sharing best practices, developing standard operating procedures and training, and holding senior officials accountable for performance goals. The first meeting of the group was held November 18, 2009. We consider this recommendation resolved because steps are being taken to implement it. However, the recommendation will remain open until FEMA provides evidence that it is fully implemented.

Opportunities to Improve Closeout Process

FEMA's process for closing declared disasters needs improvements. Delays in FEMA's disaster closeout process start at the grantee level and continue through final processing at FEMA headquarters. As a result, funds obligated for disasters but not needed by FEMA grantees are not deobligated and released for other uses. In addition, FEMA has incurred unnecessary administrative costs associated with monitoring and oversight of disasters that should have been closed.

According to 44 CFR 13.50(b), within 90 days after the expiration of a grant, the grantee must submit financial, performance, and other reports as required by the grant. If the grantee does not materially comply with these requirements, 44 CFR 13.43 provides remedies for noncompliance. These remedies include temporarily withholding cash payments, suspending or terminating the current program award, or withholding further awards for the program. In addition, FEMA/State Agreements require grantees to comply with the provisions of the *Stafford Act* and FEMA's regulations in 44 CFR for the declared disaster assistance programs. The regulations include time periods for grantees to submit progress reports and close projects and programs.

There were 744 declared disasters with open FEMA/State Agreements and unliquidated obligation balances as of September 30, 2008, as indicated in Table 1.

Table 1. Disasters as of September 30, 2008

Type of Disaster	Number of Disasters
Major Disasters	550
Emergency Declarations	103
Fire Management Declarations	91
Total Number of Disasters	744

The unliquidated obligations for the 744 disasters were approximately \$16 billion, and almost \$500 million of the unliquidated obligations were for disasters that had been declared prior to 1999.

FEMA had several sources of information on the status of disasters and on the status of programs and projects authorized for those disasters. These sources included the Disaster Financial Status Report (DFSR), the National Emergency Management Information System (NEMIS), and the Financial Information Tool (FIT) report. At the time of our audit, NEMIS was the automated information system used by grant program officials for management and oversight of the programs. The DFSR tracks the closeout status of programs by individual disaster. However, this information system did not provide alerts to notify regional staff and other FEMA officials when closeout or other program actions are needed to prevent or reduce delays in the closure of projects, programs, or disasters. According to FEMA officials, the processes and timing for inputting status information are not the same among these information systems. As a result, comparisons of reports from these systems at a point in time will show different status information for programs and projects.

We selected 104 open disasters and met with headquarters and regional officials to determine why the disasters were still open. Our discussions with the FEMA officials and our review of applicable documentation identified several reasons for delays in the disaster closeout process.

Grantee Delays

The state administrative agency (grantee) and its approved applicants control when a project or program is ready to be closed. Delays at the grantee level have been caused by staff shortages, inexperienced staff, conflicting priorities, and a need for closure incentives, resulting in the following:

- Not completing final inspections and reconciliations of individual projects;
- Not requesting to close programs after all projects have been closed;

-
- Not reconciling program and financial requirements, including reconciliation of state management costs;
 - Reluctance to return grant funds to FEMA; and
 - FEMA-approved extensions beyond the grant performance period.

Regional officials said that delays of a year or more have frequently been experienced at the grantee level. These delays constitute noncompliance with federal requirements.

Regional Office Delays

Regional office officials said that progress in closing projects and programs is not tracked, and they cannot estimate the delays that have occurred on specific closeout actions. The officials said that the volume, frequency, and types of newly declared disasters can significantly influence the progress made in closing older disasters. Delays have also occurred for the following reasons:

- A perceived lack of authority or an unwillingness within FEMA to compel states to comply with federal requirements;
- A perception that headquarters will not support aggressive actions with noncompliant grantees because the action might not be politically acceptable;
- Staff pulled off closeout work to respond to new disasters;
- Shortage of staff experienced in closing out projects, programs, or disasters;
- Lack of incentives for FEMA staff to make closeout work a priority; and
- Difficulties in reconciling state management cost expenditures.

In several instances, regional officials have taken initiatives to improve closeout practices and reduce the time to close disaster programs and FEMA/State Agreements. These efforts included the following:

- Assisted grantee staff in completing requirements, either through FEMA officials visiting state offices or collocating FEMA staff at state offices;
- Developed tracking systems to identify when certain required program documents should be received from grantees and then followed up with grantees if the documents were not received;
- Developed performance measures for closing disaster grant programs and FEMA/State Agreements; and

-
- Documented and flowcharted the closeout process for regional staff to use as a reference guide.

Because FEMA regional staff perceives that they do not have the authority to compel states to comply with federal requirements, they generally are not using the enforcement provisions in 44 CFR 13.43. Regional officials said withholding future funding or deobligating funds for existing grants is politically unacceptable.

However, in one region a grantee was not closing programs, and FEMA regional officials told the grantee that, until it closed the programs, FEMA would not provide reimbursement for incurred state management costs on new disasters. According to the regional officials, the office also blocked a grantee's drawdowns from the federal account because the grantee had not provided required progress reports. At the time of our audit, the impacts of these actions were pending final resolution.

In another region, FEMA regional staff colocated with state officials to help the state fulfill closeout efforts. According to regional officials, this practice has produced favorable results. In another case, regional staff offered assistance to a state but the state refused the offer. Some regions, however, do not have staff available to provide such assistance.

Headquarters Delays

FEMA Finance Center and other headquarters officials attributed delays in closeouts at the headquarters level to the following:

- The need for more staff at the FEMA Finance Center;
- A backlog in the reconciliation of Technical Assistance Contracts (TAC) task orders , and
- The difficulty in reconciling disaster financial activities to the exact amount.

Staff Shortages: FEMA officials said the amount of work that must be done at the FEMA Finance Center has increased and staff shortages have led to priorities that do not always favor timely closeouts.

Task Order Reconciliations Backlog: FEMA officials at headquarters and in the regional offices cited the backlog of task order reconciliations as the most frequent cause of delays in the disaster closeout process.

PA/TAC task orders were the only contracts that were causing delays in the closure of disasters at the time of our audit. FEMA procedures require that task orders for technical assistance be reconciled prior to the closure of the FEMA/State Agreement. Task orders are awarded under the Hazard Mitigation Technical Assistance Program (HMTAP) and PA's Technical Assistance Contracts. Although HMTAP reconciliations were also backlogged a few years ago, an aggressive effort by Mitigation headquarters officials eliminated the backlog.

As of April 30, 2009, 74 disasters were ready for closeout pending the reconciliation of task orders. Those disasters had been declared as early as August 1999. Although headquarters PA officials were trying to expedite the reconciliation process, FEMA officials projected that the PA/TAC task order reconciliations would not be current until sometime in 2010.

TAC task orders, which are not part of the state's recovery efforts, are contracts awarded directly by FEMA to support disaster recovery and are not paid from grant program funds awarded to the states. Consequently, the reconciliation and closure of TACs should not be a factor in determining when a FEMA/State Agreement is closed. A disaster should be closed when the state's recovery effort has been completed and the funding for the declared disaster programs has been fully reconciled.

Exact Amount Reconciliations: FEMA reconciles all disaster financial activities to the last dollar. Headquarters and regional office officials with whom we met endorsed the establishment of "floors" for the various closeout reconciliations activities; that is, the reconciliations would be considered reconciled at a dollar value greater than zero. The floors could be different for various types of activities. For example, the floor for a grant program could be higher than the floor for administrative allowances. Office of Management Budget Circular A-133 for audits of federal programs uses a threshold of \$10,000 for reporting questioned costs in Single Audits. The Circular A-133 threshold could be considered in establishing the "floors" for closeout reconciliations.

Some disasters are still open because very small differences remain unreconciled. We observed many remaining balances of less than \$100 that had been awaiting reconciliation for several years. Of the 744 open disasters, 45 had less than \$10 remaining to be reconciled. The reconciliation of disaster activities to the exact amount, particularly when the outstanding amounts are relatively small, is not a cost-effective use of FEMA resources.

As a result of the delays in disaster closeouts at the grantee level, within regional offices, and at FEMA headquarters, FEMA continues to incur costs associated with monitoring open disasters that should have been closed long ago. In addition, the unliquidated obligation balances include funds that should be deobligated. Deobligation would make the unspent funds available for other uses.

Recommendations:

We recommend that the Administrator, Federal Emergency Management Agency:

Recommendation #2: Support regional office initiatives compelling grantee compliance with the FEMA/State Agreement terms and disaster program requirements.

Recommendation #3: Establish time standards for completion of key steps in the closeout process, install alerts in the appropriate management information systems to promote proactive action if delays begin to occur, and establish a system for tracking the progress of closeout actions.

Recommendation #4: Revise FEMA closeout procedures to exclude the reconciliation of Technical Assistance Contract task orders and allow FEMA/State Agreements to be closed when the state's recovery effort has been completed and the funding for the declared disaster programs has been fully reconciled.

Recommendation #5: Establish policies and procedures that limit reconciliations to a level that is cost-beneficial, such as \$10,000 or another amount acceptable to FEMA, rather than reconciling amounts to zero.

Recommendation #6: Develop a system to communicate and use closeout best practices across FEMA regional offices, including collocating staff with states when appropriate, considering the frequency and types of disasters experienced in the region.

Recommendation #7: Consider the re-establishment of closeout teams dedicated to expediting disaster closeouts.

Management Comments and Contractor Analysis

Appendix D contains a copy of the written comments we received from the FEMA Director, Office of Policy and Program Analysis. FEMA stated that it will provide a detailed corrective action plan for the implementation of each of the recommendations with its 90-day letter following the issuance of the final report. Therefore, these recommendations will remain open until the corrective action plan is received.

Appendix A Purpose, Scope, and Methodology

Foxx & Company audited the Federal Emergency Management Agency's process for closing declared disasters. The objective of the audit was to assess aspects of the process, including the agency's policies, internal controls, and practices. The audit focused on determining whether FEMA was closing disasters in a timely manner.

The scope of the audit included major disaster declarations, emergency declarations, and fire management declarations. The cutoff date for the audit was September 30, 2008.

Sample Selection: To assess FEMA's policies, internal controls, and practices for closing out disasters, we selected 104 open disasters and met with headquarters and regional office officials to determine why the disasters were still open. Foxx & Company initially selected a sample of 54 open disasters for inclusion in the audit from the September 17, 2008, FEMA Financial Information Tool report. FEMA's Financial Information Tool report listed 678 open disasters. Foxx & Company used criteria approved by the Office of Inspector General to select the sample. The sample included:

Major disasters	39
Emergency declarations	10
Fire management declarations	<u>5</u>
	<u>54</u>

The following criteria were used to select the sample:

- Date of declaration – 500-plus days since declaration
- Estimated damage – Highest amounts preferred
 - Amount allocated
 - Amount obligated
 - Unobligated allocations
 - Unliquidated obligations
- Grantee – Select more than one state per regional office

After visiting FEMA headquarters and the 10 regional offices, the Foxx team decided to extend the sample of 54 by selecting the 5 oldest open disasters from each region. Each region provided explanations for why these five disasters were still open as of September 30, 2008.

Appendix A

Purpose, Scope, and Methodology

An advance request for key documentation supporting FEMA's closeout process for disasters and disaster program declarations was made before the entrance conference but after the OIG announced the audit to FEMA. The initial work included interviews with key FEMA headquarters and FEMA Finance Center officials in Washington, DC, and Berryville, VA, respectively. Documentation supporting the closeout policies, practices, and process was requested, as appropriate, from the officials interviewed.

Following the initial headquarters work, the team visited each regional office to discuss and obtain documentation concerning the sample disasters and related programs. The visits were critical to the identification of why disasters were not being closed in a timely manner.

The regional office visits identified additional information that had to be obtained from FEMA headquarters and Finance Center officials. Return visits were made to these locations to obtain the additional information. The fieldwork was completed when the draft report was presented to OIG officials for review and approval in July 2009. All required steps in the DHS/OIG reporting process were performed after the fieldwork was completed.

The performance audit was conducted in accordance with *Government Auditing Standards*, July 2007 Revision. The 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 supports the findings and conclusions based on our audit objectives.

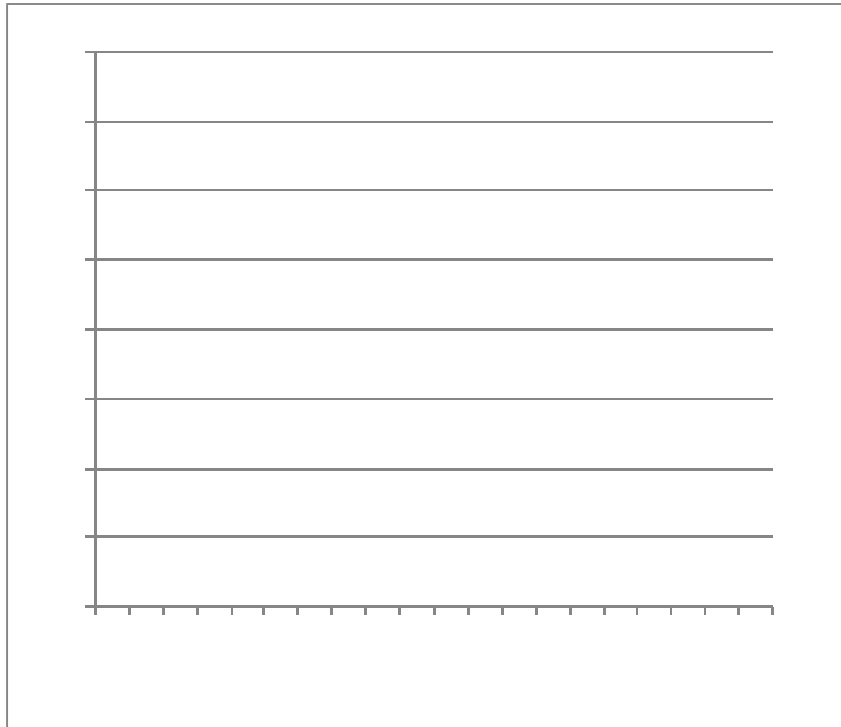
Appendix B
Declarations and Closures, FY 1989 Through FY 2008

**Table B-1. Declarations and Closures,
 FY 1989 Through FY 2008**

Fiscal Year	Declarations	Closures	Open
1989	30	29	1
1990	39	37	2
1991	41	41	0
1992	55	46	9
1993	65	61	4
1994	57	53	4
1995	35	31	4
1996	149	141	8
1997	58	43	15
1998	124	101	23

Fiscal Year	Declarations	Closures	Open
1999	106	74	32
2000	103	73	30
2001	103	51	52
2002	127	80	47
2003	115	40	75
2004	129	34	95
2005	139	42	97
2006	152	33	119
2007	133	3	130
2008	141	8	133
Total	1901	1021	880

Table B-1 Information in Line-Chart Format



Appendix C
Disasters With Obligation Balances at September 30, 2008

Table C-1. Open as of September 30, 2008

Declarations	Number	Unliquidated Balance (millions)
Major Disaster	550	\$ 15,784.0
Emergency	103	\$ 440.5
Fire Management	91	\$ 23.9
Total	744 ²	\$ 16,248.4

Table C-2. Open 10 Years or More

Declarations	Number	Unliquidated Balance (millions)
Major Disaster	58	\$ 497.2
Emergency	3	\$.4
Fire Management	0	\$ 0
Total	61	\$ 497.6

² An additional 136 disasters without unliquidated obligation balances were open as of September 30, 2008.

Appendix D Management Comments on the Draft Report

U.S. Department of Homeland Security
500 C Street, SW
Washington, DC 20472



FEMA

DEC 11 2009

MEMORANDUM FOR: Matt Jadacki
Deputy Inspector General
Office of Emergency Management Oversight
Office of Inspector General

FROM: David J. Kaufman 
Director
Office of Policy and Program Analysis

SUBJECT: Comments on OIG Draft Report, *Opportunities to Improve FEMA's Disaster Closeout Process*

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG's) subject draft audit report. Technical comments have been provided under separate cover. As the Federal Emergency Management Agency (FEMA) works toward refining its programs, the OIG's independent analysis of program performance greatly benefits our ability to continuously improve our activities.

In recognition of some of the issues raised during your audit, and as part of our continuing efforts to improve FEMA's administrative efficiency, the Administrator has directed the establishment of a headquarters working group to take proactive and appropriate actions to complete the closeout of older disasters. Led by the Office of the Chief Financial Officer, membership on this working group includes representatives from Operations (Response and Recovery), Mitigation, Mission Support, Grants Programs and the Office of Chief Counsel. They will be responsible for insuring coordinated action and facilitating the resolution of problems. The Headquarters working group will work closely with the regional offices to give priority to closing out open disasters.

Among the tasks identified for the work group are developing incentives/controls to ensure faster disaster closeout within existing regulations, sharing best practices/methodology among regions, developing standard operating procedures and training and holding senior officials accountable for performance goals. Closeout goals will be identified and progress will be monitored for each region.

The first meeting of the working group took place November 18, 2009, following a presentation to the senior leadership on October 9, 2009 during which the Administrator expressed his support for this effort and his expectation that measurable progress would be made.

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Management Comments on the Draft Report

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FEMA concurs with the draft report's seven recommendations. In our 90-day letter following the issuance of your final report, we will provide a detailed corrective action plan for implementation of each of the report's seven recommendations.

Thank you again for the opportunity to comment on this draft report and we look forward to working with you on other issues as we both strive to improve FEMA.

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