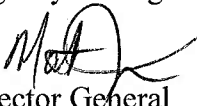




Homeland Security

SEP 27 2011

MEMORANDUM FOR: Tony Russell
Regional Administrator, Region VI
Federal Emergency Management Agency

FROM: Matt Jadacki 
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Region VI Audit Follow-up and Resolution Activities*
Audit Report Number DD-11-23

We reviewed audit follow-up and resolution activities performed by Federal Emergency Management Agency (FEMA) Region VI (Region) and the Louisiana Recovery Office (LRO), which reports to the Region. The purpose of this memorandum is to bring to your attention a condition that requires your immediate attention regarding the Region's timeliness in implementing audit recommendations. Our overall objective was to determine whether the Region performed its audit follow-up and resolution activities effectively, as required by Office of Management and Budget (OMB) Circular A-50, *Audit Follow-up*.

We conducted this performance audit 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our objective. We conducted this audit according to the statutes, regulations, and FEMA policies and guidelines in effect at the time of this audit.

We reviewed follow-up correspondence between the Region (to include the LRO) and our Central Regional Office regarding all open audit reports that office issued from July 2004 through September 2010, interviewed Region officials, and performed other procedures considered necessary to accomplish our objective. Our audit cutoff date was March 31, 2011. We did not assess the adequacy of the Region's internal controls applicable to audit follow-up activities because it was not necessary to accomplish our objective. We did, however, gain an understanding of the Region's methods of conducting audit follow-up activities and the resources needed to complete those activities in a timely manner.

BACKGROUND

The Central Regional Office within the Office of Emergency Management Oversight (EMO), Department of Homeland Security (DHS), Office of Inspector General (OIG), is responsible for conducting audits of grants and subgrants awarded by FEMA Regions V, VI, and VII. The Central Regional Office is also responsible for monitoring follow-up activities necessary to resolve and close recommendations resulting from those audits. FEMA Region VI is responsible for FEMA grant and subgrant activities in five states, as illustrated in figure 1. Therefore, the Region is also responsible for working with us to resolve recommendations and implement actions to close those recommendations in a timely manner.



Figure 1. FEMA Regions I–X
Source: FEMA.gov

RESULTS OF AUDIT

The Region often did not perform its audit follow-up and resolution activities effectively, as required by OMB Circular A-50. Further, the Region has not dedicated sufficient resources to ensure compliance with OMB Circular A-50 or DHS Directive 077-01, *Follow-up and Resolution for Office of Inspector General Report Recommendations*, dated October 7, 2010. As a result, FEMA missed or delayed opportunities to improve the effectiveness and efficiency of government operations and did not promptly recover more than \$60 million in questioned costs within a year after we issued our reports.

Finding A: Compliance with OMB Circular and DHS Directive

The Region did not ensure the prompt resolution and implementation of audit recommendations as required by OMB Circular A-50, which provides the policies and procedures for agencies to use in addressing reports by the Inspectors General. The circular requires federal agencies to establish systems to ensure the prompt and proper resolution and implementation of audit recommendations and to assign a high priority to the audit recommendations and corrective actions.¹ Agency management officials are responsible for receiving and analyzing audit reports and providing timely responses to the audit organization. The circular outlines 11 standards for an agency's resolution and corrective action system (see Exhibit A, Standards for Resolution of and Corrective Actions for Audit Recommendations). In part, these standards—

- Require prompt resolution and corrective actions on audit recommendations. Resolution should occur within a maximum of 6 months after issuance of a final report.
- Provide a means to assure timely responses to audit reports and to resolve major disagreements between the audit organization and agency management or contracting officials. The process should provide sufficient time to permit resolution to take place within the 6-month limit.
- Assure that performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations.

DHS Directive 077-01 carries forward the requirements of OMB Circular A-50 and includes additional timeframes for addressing audit reports and implementing corrective actions. Specifically, DHS Directive 077-01 states the following:

- Component heads are responsible for ensuring that management decisions, resolution, implementation of agreed-upon corrective actions, and other closure actions on all OIG report findings and recommendations are properly vetted within the Component and, as necessary, within the Department, and transmitted to OIG within established timeframes set forth in the final report transmittal.²
- Unless otherwise stated in the report transmittal, Components respond to draft OIG reports of findings and recommendations within 30 days. Responses to draft reports include written comments indicating agreement or disagreement on reported findings and recommendations. Components respond to final OIG reports of findings and recommendations within 90 days of report issuance. Responses to final reports, with comments indicating agreement with final reports, include planned corrective actions and, where appropriate, dates for achieving actions and the official responsible for implementation of the corrective action. Comments indicating disagreement explain fully the reasons for disagreement, including any legal basis, as appropriate.
- OIG and personnel in other Components work cooperatively to reach resolution on findings and recommendations, including corrective actions and target implementation dates, within 6 months of final report issuance.

¹ OMB Circular A-50 defines corrective actions as measures taken to implement resolved audit findings and recommendations.

² DHS OIG EMO grant audit reports include response timeframes.

- Components generally implement corrective action on resolved findings and recommendations within 1 year of final report issuance or as agreed upon by the Component and OIG.

Our Central Regional Office issued 61 audit reports to the Region from July 2004 through September 2010. As of March 31, 2011, 27 of the 61 reports remained open.³ The Region's audit follow-up and resolution activities for the 27 audit reports exceeded timeframes established by OMB Circular A-50 and DHS Directive 077-01. Specifically FEMA did not—

1. Respond to 25 audit reports within the established timeframes set forth in the final report,
2. Reach resolution on 114 of 156 recommendations within a 6-month timeframe,⁴ or
3. Implement agreed-upon corrective actions in 95 of 156 recommendations within 1 year of final report issuance.⁵

As a result, FEMA missed or delayed opportunities to improve the effectiveness and efficiency of government operations and has not promptly addressed more than \$60 million in questioned costs within a year after we issued our reports (see Exhibit B, Status of Open Audit Reports/ Recommendations). DHS Directive 077-01 reiterates the OIG's requirement to report to Congress and the public on component follow-up activity at least semiannually. Therefore, it is imperative for the Region to ensure the prompt resolution and implementation of audit recommendations.

Finding B: Resources Dedicated to Audit Follow-up and Resolution Activities

The Region did not have adequate resources to ensure compliance with OMB Circular A-50 or DHS Directive 077-01. The Region designated two of its employees as audit liaisons: one at the Region in Denton, Texas (regional liaison) and one at the LRO in New Orleans, Louisiana (LRO liaison). The LRO liaison spends approximately 95% of her time on OIG-related activities, while the regional liaison spends approximately 2% of his time on OIG-related activities.

In March 2010, you advised us that, by the end of April 2010, the Region's Division Directors were to develop a strategy for addressing overdue audit recommendations. Despite our efforts to provide periodic reminders, as of March 31, 2011, 52 audit recommendations had past-due response dates. According to assigned audit follow-up officials, since Hurricanes Katrina and Rita occurred in 2005, the Region has been unable to provide prompt responses to our audit reports and recommendations because of limited staff at the regional office, the prioritization of other assignments, and operational demands on the Region's disaster program staff responsible for addressing audit recommendations. Additionally, one follow-up official mentioned that, due to information technology upgrades, the Region no longer has access to a legacy audit tracking

³ OIG reports remain open until all recommendations are closed.

⁴ Audit resolution is the point at which the audit organization and agency management agree on actions to be taken on reported findings and recommendations or, in the event of disagreement, the point at which the audit follow-up official determines the matter to be resolved. According to DHS Directive 077-01, the Audit Follow-up and Resolution Official is the DHS Under Secretary for Management.

⁵ At the time of our audit, 14 of the 156 recommendations from the 27 audits were still within the 1-year corrective action plan implementation period. Additionally, we did not count 7 recommendations that were outside the Region's control in meeting the 1-year corrective action timeframe.

system that it used to monitor audit follow-up activities. Finally, these Region follow-up officials said that they do not routinely report the status of audit follow-up activities to their senior management.

In summary, the Region did not perform its audit follow-up and resolution activities effectively, as required by OMB Circular A-50. Unless the Region improves in prioritizing audit follow-up activities, dedicating the necessary resources to audit follow-up, implementing effective audit follow-up procedures and tracking systems, and routinely reporting the status of audit follow-up activities to senior management, we are concerned that the Region will continue to be unable to ensure the prompt and proper resolution and implementation of audit recommendations.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation #1: Develop and implement a follow-up system that meets the requirements of OMB A-50 and DHS Directive 077-01 (finding A).

Recommendation #2: Assign the necessary resources to ensure the proper resolution and implementation of audit recommendations within established timeframes (finding B).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with FEMA officials and included their comments in this report, as appropriate. We also provided written summaries of our findings and recommendations in advance to these officials and discussed them at an exit conference held on August 19, 2011. These officials agreed with our findings and recommendations.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. To promote transparency, this report will be posted to our website. Significant contributors to this report were Tonda Hadley, Moises Dugan, Paige Hamrick, Chris Dodd, Judy Martinez, and Pat Epperly.

Should you have questions concerning this report, please contact me at (202) 254-4100 or Tonda Hadley at (214) 436-5200.

cc: Administrator, FEMA
Executive Director (Acting), FEMA Louisiana Recovery Office
Audit Liaison, DHS
Audit Liaison, FEMA (Job Code G-11-030)
Audit Liaison, FEMA Region VI
Audit Liaison, FEMA Louisiana Recovery Office

Office of Management and Budget Circular A-50
Standards for Resolution of and
Corrective Actions for Audit Recommendations

Agencies shall assign a high priority to the resolution of audit recommendations and to corrective action. Systems for resolution and corrective action must meet the following standards:

1. Provide for appointment of a top-level audit follow-up official.
2. Require prompt resolution and corrective actions on audit recommendations. Resolution shall be made within a maximum of 6 months after issuance of a final report or, in the case of audits performed by non-federal auditors, 6 months after receipt of the report by the federal government. Corrective action should proceed as rapidly as possible.
3. Specify criteria for proper resolution and corrective action on audit recommendations, whether resolution is in favor of the auditor or an auditee. These criteria should provide for written plans for corrective action with specified action dates, where appropriate.
4. Maintain accurate records of the status of audit reports or recommendations through the entire process of resolution and corrective action. Such records shall include appropriate accounting and collection controls over amounts determined to be due to the government.
5. Provide a means to assure timely responses to audit reports and to resolve major disagreements between the audit organization and agency management or contracting officials. The process should provide sufficient time to permit resolution to take place within the 6-month limit.
6. Assure that resolution actions are consistent with law, regulation, and administration policy; and include written justification containing, when applicable, the legal basis for decisions not agreeing with the audit recommendation.
7. Provide for coordinating resolution and corrective action on recommendations involving more than one program, agency, or level of government.
8. Provide semi-annual reports to the agency head on the status of all unresolved audit reports over 6 months old, the reasons therefore, and a timetable for their resolution; the number of reports or recommendations resolved during the period; the amount of disallowed costs; and collections, offsets, write-offs, demands for payment and other monetary benefits resulting from audits. These reports should include an update on the status of previously reported unresolved audits.
9. Provide for periodic analysis of audit recommendations, resolution, and corrective action, to determine trends and system-wide problems, and to recommend solutions.
10. Assure that performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations.

**Office of Management and Budget Circular A-50
Standards for Resolution of and
Corrective Actions for Audit Recommendations**

11. Provide for an evaluation of whether the audit follow-up system results in efficient, prompt, and proper resolution and corrective action on audit recommendations. The first evaluation will be made within 1 year of the date of this circular, and evaluations will be made periodically thereafter.

**Status of Open Audit Reports/Recommendations
FEMA Region VI
As of March 31, 2011**

Number of Open Audit Reports	Number of FEMA Responses That <u>Exceeded</u> the Timeframe Stated in the Report
27	25

Total Number of Recommendations	Number of Recommendations <u>Exceeding</u> the 6-Month Resolution Timeframe	Number of Recommendations <u>Exceeding</u> the 1-Year CAP Implementation Timeframe	Questioned Costs Associated with Recommendations <u>Exceeding</u> the 1-Year CAP Implementation Timeframe	Number of Recommendations with Past-Due Response Dates
156	114	95	\$60.3 million	52
Maximum Days <u>Exceeding</u> Timeframes	2255	2070		1946