Averting a Second Disaster: Leading Financial Oversight Practices Following Disasters

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Today’s Agenda

“What’s New” from the Inspector General (IG) and FEMA

“It’s not just a FEMA show”

Overview of the current state of financial oversight on disaster management and why it should be top of mind

Pre-disaster preparedness

Response and recovery period priorities
  • Avoiding common pitfalls that cause problems later
  • Mitigating weakness
  • Monitoring activity

Grant closeout and OIG audits
  • Top ten audit findings and tips for subgrantees
OIG Activities – What Does the OIG Do in the Early Recovery Process?

► Observe Joint Field Office operations
► Participate in daily briefings to get a pulse on what was going on
► Coordinate with other federal and state auditors involved in the disaster response
► Participate in applicant briefings
► Provide assistance/information to subgrantees
► Conduct “quick” reviews of subgrantee accounting and contracting procedures

What’s New
The Inspector General is Coming Sooner

From June 2014 DHS OIG FY 2013 Capping Report:

• “Our future focus will not only include this traditional review of spent funding, but will also include reviewing the grants earlier in 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 misspending Federal funds.”
What’s New
The Inspector General is Coming Sooner (cont.)

What will they do:
- Disaster deployment
- Teams
- Capacity audits
- Early warning audits
- Traditional audits

Benefits

Potential challenges

What’s New
Section 428 Capped Grants – “Alternative Procedures”

Authorized by Sandy Recovery Improvement Act of 2013

Public assistance on basis of fixed capped grants

Will not decrease IG review. Likely increase
What’s New
Integrity Monitoring


Purpose is “to prevent, detect and remediate waste, fraud and abuse.”

Conducting assessments **up front**.

First statute in nation, but other states are looking.

What’s New
“Pre-Closeout”

State program

State is sending out teams to review grants prior to FEMA closeout or IG review

Grant monitoring and compliance review of FEMA grants from various disaster declarations

Goal is to identify issues that can be fixed or mitigated
Federal Disaster Assistance: “It is not just a FEMA show” – Agencies

► Who provides disaster assistance?
► Different culture
► Different rules and laws apply
► Multiple Inspector Generals and oversight entities (e.g., Congressional committees)
► Duplication of benefit issues
► Communication and coordination seem to be improving
► Congress seems to be trying to help

Accountability of Grant Funds
Why is This So Important?
### OIG Audit Results – FEMA Grant and Subgrant Audits 2009-2014

#### Averting A Second Disaster: Leading Financial Oversight Practices Following Disasters

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Awarded amount ($B)</th>
<th>Amount Audited ($B)</th>
<th>% Audited</th>
<th>Questioned amount ($M)</th>
<th>Funds put to better use ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$4.04</td>
<td>$3.44</td>
<td>85%</td>
<td>$111.62</td>
<td>$860.14</td>
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<tr>
<td>2013</td>
<td>1.70</td>
<td>1.28</td>
<td>75%</td>
<td>266.22</td>
<td>41.60</td>
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<td>2012</td>
<td>1.52</td>
<td>1.25</td>
<td>82%</td>
<td>267.89</td>
<td>147.70</td>
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<tr>
<td>2011</td>
<td>1.72</td>
<td>1.22</td>
<td>71%</td>
<td>307.80</td>
<td>29.09</td>
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<tr>
<td>2010</td>
<td>2.29</td>
<td>1.23</td>
<td>54%</td>
<td>104.48</td>
<td>60.77</td>
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<tr>
<td>2009</td>
<td>1.30</td>
<td>0.93</td>
<td>72%</td>
<td>123.38</td>
<td>15.06</td>
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<tr>
<td>Total</td>
<td>$12.57</td>
<td>$9.35</td>
<td>74%</td>
<td>$1,181.39</td>
<td>$1,154.36</td>
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</tbody>
</table>

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**Graph:**

- **X-axis:** Years 2009 to 2014
- **Y-axis:** Amount Questioned ($M) and Funds put to better use ($M)

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OIG Audit Results – What They Found (Results from 2013)

Ineligible Work or Cost by Type

<table>
<thead>
<tr>
<th>Types of Ineligible Work or Cost</th>
<th>Number of Resulting Recommendations</th>
<th>Amount Questioned in DHS OIG Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Contracting Practices</td>
<td>30</td>
<td>$130,245,816</td>
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<tr>
<td>2. Insurance Issues</td>
<td>3</td>
<td>$83,679,242</td>
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<td>3. Legal Responsibility</td>
<td>2</td>
<td>$7,560,185</td>
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<tr>
<td>4. Other Ineligible Work/Costs</td>
<td>85</td>
<td>$21,118,786</td>
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<tr>
<td>Totals</td>
<td>120</td>
<td>$242,604,029</td>
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</tbody>
</table>

Recordkeeping

Importance of Good Recordkeeping Cannot be Over-Emphasized!!

What matters is not just what is in the initial project worksheet, but what you get to keep at the end of the process!
Project Accounting

Grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially-assisted activities

Accounting for large projects must be on a project-by-project basis

Pre-disaster Preparedness

Steps to take before a disaster strikes

• Review federal and state regs, policies, guidelines, etc.
• Review pre-negotiated, stand-by or regular contracts
• Meet with your state or local oversight officials — get to know them. Ask what they look for.
• Develop a checklist or list of items to be aware of that you can reference (or just be aware of) — especially category A and B
Pre-disaster Preparedness (cont.)

Steps to take before a disaster strikes

• Talk to other entities that have been through the process
• Try to anticipate what questions or documentation you will be asked for later (try to “guess” what the “second guessers” will be asking)
• Make sure critical support organizations (e.g., procurement, legal, financial) know what to expect. Help them prepare.

Documenting Costs Under Project Worksheets

► Project Worksheet (PW)
The PW determines the damages, scopes of work and costs authorized by FEMA
### General Cost Eligibility

- Reasonable and necessary cost to accomplish eligible work
- Complies with federal, state, and local law and regulations
- Insurance proceeds, salvage value, and purchase discounts must be deducted

### Contract Costs

**Contracts – What to Look For**

- Reasonable cost
- Competitively bid, with limited exceptions for exigent circumstances
- Must comply with standards

**Do not use:**

- Debarred contractors
- Cost plus percentage of cost contracts
- Contingency contracts
- Time and materials after 70 hours
Contract Costs
Supporting Documents for Contracts

- Procurement history
- Copy of contract and any modifications
- Contractor invoices
- Contract monitoring documents
- Contractor timesheets for hours billed

Contract Costs
Contract Monitoring

- Activities of contractors must be monitored
  - Time and material contracts
  - Debris removal
- Contract monitoring expense is reimbursable
  - Force account labor
  - Contract

Photo by: FEMA / Leo 'Jace' Anderson
Force Account Costs
(Employees, Equipment and Materials of Applicant)

- Force account labor
- Force account equipment
- Force account material

Supporting documents

Record retention

Single Audit Act

OMB Circular A – 133 – The rules have changed for public assistance grants

OMB Circular A – 133 (now 2 CFR Part 200) states non-federal entities that expend $500,000 ($750,000 starting in 2015) or more in a year of federal awards shall have a single or program-specific audit conducted for that year

Undergoing an OIG Audit

- How does OIG select who to audit?
- What are the objectives of the audit?
- What are the audit criteria?
- Questions the audit seeks to answer
Common Audit Findings of FEMA Subgrantees

► Claims not supported by source documentation
► Ineligible work is performed and claimed
► Rates for equipment, labor and benefits are incorrect
► Duplicate benefits are included in claims
► Poor contracting practices are used resulting in excessive costs
► Improper monitoring of contractors

Top Contractual Audit Findings/Issues

10. Duplication of billings
9. Reconciliation of billings not performed
8. Questionable costs
7. Ineligible expenses
6. Ineligible contract method used
5. Failure to follow procurement procedures
4. Cost/price analysis not performed
3. Did not clearly define contractor’s required services or performance standards
2. Did not include the basis for the contract award
1. Use of time and material contracts for extended period of time without proper justification
Examples
OIG Audit Findings

► Project accounting:
  ▶ The subgrantee had five distinct FEMA-funded large projects, but accounted for project expenditures under one cost center. As a result, the subgrantee’s claim could not be verified.

Questioned Costs

- Unsupported costs
- Contracting procedures
- Duplication of benefits
- Excess equipment charges
- Unrelated project charges
- Unapplied credits
Questions?

Thank you

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