OFFICE OF INSPECTOR GENERAL

Indiana Needs to Improve the Management of Its FEMA Hazard Mitigation Grants

Homeland Security

January 25, 2018

OIG-18-40

DHS OIG HIGHLIGHTS

Indiana Needs to Improve the Management of Its FEMA Hazard Mitigation Grants

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Why We Did This Audit

The Indiana Department of Homeland Security (Indiana) received $27.9 million in Federal Emergency Management Agency (FEMA) Hazard Mitigation Grant Program (HMGP) funds to disburse to eligible subgrantees for projects in 10 disasters declared from June 2004 to April 2014. Our objective was to determine whether Indiana administered the grant program in accordance with Federal regulations and ensured subgrantees properly accounted for and expended FEMA funds.

What We Recommend

We made six recommendations to FEMA that, when implemented, will strengthen and improve Indiana's program and financial management of the HMGP.

For Further Information:
Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

Although Indiana met HMGP goals in some instances to reduce the risk of future damages, hardship, loss, or suffering in major disasters, it was unable to demonstrate it has procedures and processes to ensure compliance with all Federal monitoring and financial reporting requirements. Specifically, Indiana did not perform required subgrant monitoring during project implementation and post closeout; submit quarterly progress and financial reports that met requirements; and comply with financial management requirements to ensure subgrantees accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines.

From 2012 to 2016, Indiana's quarterly reports did not contain accurate and sufficient information to determine the status of projects because of control deficiencies in its reporting process. Furthermore, Indiana did not comply with Federal regulations regarding financial reporting, drawdowns of funds, and allocation of management costs for its grant expenditures. Specifically, these deficiencies resulted in a $4.8 million discrepancy in Federal funds authorized for one disaster; incorrect and untimely drawdowns of $464,489 of program funds; and $73,938 of miscoded state management costs.

These deficiencies occurred because Indiana does not have sufficient policies and procedures or trained staff to ensure program expenditures reported are accurate. As a result, FEMA has little assurance that progress or financial reports are accurate or that Indiana's subgrantees used property acquired with Federal funds for its intended purpose.

FEMA Response

FEMA Region V officials agreed with our findings and recommendations. Appendix C includes FEMA's response in its entirety.

JAN 25 2018

MEMORANDUM FOR: James Joseph
Regional Administrator, Region V
Federal Emergency Management Agency

FROM: John E. McCoy II
Assistant Inspector General for Audits

SUBJECT: *Indiana Needs to Improve the Management of Its FEMA Hazard Mitigation Grants*

For your action is our final report, *Indiana Needs to Improve the Management of Its FEMA Hazard Mitigation Grants*. We incorporated the formal comments provided by your office.

The report contains six recommendations. Your office concurred with all recommendations. Based on FEMA's proposed actions, we consider all six recommendations unresolved and open. As prescribed by the Department of Homeland Security Directive 077-01, *Follow-Up and Resolutions for the Office of Inspector General Report 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.

We audited the policies and procedures Indiana used to manage the Hazard Mitigation Grant Program (HMGP) funds the Federal Emergency Management Agency (FEMA) awarded to the Indiana Department of Homeland Security (Indiana). Our audit scope included 10 disasters declared between 2004 and 2014. FEMA provided 75 percent Federal funding for those disasters, for the obligated amount of $27.9 million.[1] We reviewed Indiana's policies and procedures for administering HMGP for the 10 disasters and reviewed subgrant awards for 10 individual projects totaling $6.7 million (see table 2, appendix A). The purpose of the projects was to mitigate damage to structures from future disasters and to update Indiana and subgrantee hazard mitigation plans. At

[1] The obligated amount of $27.9 million is part of total potential funding for HMGP of $43.9 million. This total potential funding is called the "lock-in" and is the maximum amount that FEMA can fund for eligible hazard mitigation activity.

the time of our audit, Indiana had disbursed $4.9 million in HMGP funds to eligible subgrantees for the 10 projects within our audit scope.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions at (202) 254-4100; or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General, at (202) 254-4100; or Paige Hamrick, Director, at (214) 436-5200.

Background

Section 404 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (*Stafford Act*), as amended, authorizes the HMGP. FEMA awards these grants to help fund long-term mitigation activities to reduce the risk of future damages, hardship, loss, or suffering in a major disaster. For most HMGP projects, eligibility regulations require the applicant to prove future benefits outweigh present costs. Eligible applicants include state agencies, local governments, certain private nonprofit organizations, and Indian tribes or tribal organizations. Individual and business property owners cannot apply directly to the program, but eligible applicants can apply on their behalf.

Federal regulations also require FEMA to manage and administer disaster awards in a manner that ensures HMGP activities performed and funds spent are in full accordance with Federal requirements.[2] Appendix B provides more information about the HMGP.

Indiana is responsible for administering the HMGP and ensuring it complies with Federal regulations and guidelines.[3] The State's Executive Division (finance) is responsible for the accounting and finance functions; and the Response and Recovery Division (program) oversees HMGP, non-disaster mitigation, and FEMA's Public Assistance grants. Finance is also responsible for processing all of Indiana's grant awards and is specifically responsible for the receipt and management of Federal funds (including FEMA grant funds), grant compliance, and financial reporting of grant funds. Program's duties include grant project application reviews, educating subgrantees on program requirements, project monitoring, and completing project closeouts. Because many of the communities within Indiana are subject to repetitive flooding, the majority of Indiana's HMGP projects are property acquisitions and demolitions.

[2] See 2 Code of Federal Regulations (CFR) 200.300(a).
[3] Appendix B provides more information about criteria related to HMGP requirements.

Results of Audit

Although Indiana met HMGP goals in some instances to reduce the risk of future damages, hardship, loss, or suffering in major disasters, it was unable to demonstrate it has policies and procedures in place to ensure compliance with all Federal monitoring and financial requirements. Specifically, Indiana did not perform required subgrant monitoring during project implementation and post closeout; submit quarterly progress and financial reports that met requirements; and comply with financial management requirements. These requirements are in place to help ensure states, as grantees, adequately administer the HMGP.

These deficiencies occurred because Indiana has neither sufficient policies and procedures nor trained staff to perform monitoring and financial controls. For example, Indiana does not have integrated cost reconciliation procedures between its program and finance departments to ensure reported program expenditures are accurate. As a result, Indiana submitted 4 years of progress reports to FEMA that did not always contain sufficient information to determine accurate project status. Indiana's financial management deficiencies resulted in a reported $4.8 million discrepancy in Federal funds authorized for one disaster. In addition, Indiana had incorrect and untimely drawdowns of $464,489 in program funds and $73,938 of miscoded state management costs that resulted in allocations to incorrect disasters and program activities. Indiana officials attributed these deficiencies to inexperienced staff that could not accurately monitor, track, and report HMGP expenditures.

Because of these deficiencies, FEMA has little assurance that progress or financial reports were accurate, or that Indiana's subgrantees used property acquired with Federal funds for their intended purpose. Proper monitoring and strengthening financial management controls would increase Indiana's ability to ensure accurate accounting and reporting of HMGP project and management costs to FEMA.

Accordingly, Indiana should work with FEMA to strengthen its procedures to better comply with Federal HMGP regulations and guidelines. Indiana would benefit from establishing procedures to —

- update and implement monitoring and quarterly report procedures;
- complete overdue post-closeout monitoring tasks;
- adopt a single reporting method for its program and finance divisions;
- establish and implement effective procedures for reconciliation, review, and drawdown of HMGP funds; and
- establish and deliver periodic training on HMGP liquidation requirements for all staff responsible for accounting for and reporting of HMGP funds.

Unless Indiana takes steps to improve the deficiencies noted in this report, we recommend FEMA impose special award conditions through additional drawdown and funding requirements to ensure Indiana's compliance with HMGP regulations.

Compliance with Program Intent

In some instances, Indiana met the intent of HMGP to reduce the risk of future damages, hardship, loss, and suffering after major disaster declarations. Indiana demonstrated sufficient mitigation planning, gave subgrantees guidance during project implementation, and verified subgrantees completed mitigation activities, such as property acquisitions and demolition.

To be eligible to receive HMGP funding, grantees must have a FEMA-approved mitigation plan that identifies potential hazards, a strategy to minimize the effects of certain hazards, and potential funding sources to achieve program goals and objectives.[4] Additionally, grantees must provide technical assistance during project initiation and implementation to ensure subgrantees meet all program and administrative requirements.[5] Indiana is also required to complete all projects' scopes of work consistent with the grant and subgrant agreements before disaster closeout.[6]

Monitoring and Program Reporting

Although Indiana provided program guidance to subgrantees, it did not always perform required subgrant monitoring during project implementation and post closeout as required. Furthermore, quarterly progress reports did not contain sufficient information for FEMA to gauge project status and performance from 2012 to 2016. In its FEMA-State agreements, Indiana agreed to comply with the requirements of laws and regulations in the *Stafford Act* and 44 CFR. Federal regulations hold grantees responsible for managing the day-to-day operations of grant and subgrant supported activities, including project monitoring and preparing quarterly progress reports.[7] In addition, FEMA guidance requires grantees to establish procedures in their administrative plans to monitor the progress and completion of projects. In this case, Indiana did not comply with project monitoring and reporting requirements.

This occurred because Indiana did not implement mitigation and administrative plan requirements to monitor and report on its mitigation projects. Specifically, Indiana does not have policies and procedures to perform plan requirements such as conducting site visits and quarterly reporting. As a

[4] 44 CFR 201.3 (see appendix B)
[5] 44 CFR 206.437(b)(4) (see appendix B)
[6] 44 CFR 13.50 (see appendix B)
[7] 44 CFR 13.40(a) and 2 CFR 200.328 (see appendix B)

result, FEMA has little assurance that project information is accurate and cannot rely on the reported project data to gauge project and program performance because of recurring errors in quarterly reports. Ultimately, the continued problems limit FEMA's ability to assess accurate disaster funding levels. FEMA officials said that because of Indiana's monitoring and reporting issues they had little confidence that Indiana could identify and correct project problems as they occurred.

Project Monitoring

Indiana did not perform a sufficient number of quarterly site visits to monitor performance of mitigation activities during project implementation. We reviewed 4 of 10 projects to determine whether Indiana complied with administrative plan requirements for monitoring projects. Indiana did not perform site visits on 44 of 47 (more than 90 percent) properties in 4 projects from 2010 to 2016 — in Disasters 1766, 4058, and 1997. As a result, mitigation projects possibly took longer to complete, and FEMA had little assurance that subsequent progress reports contained sufficient project information to gauge project and program performance. Indiana officials said they were unable to perform a sufficient number of site visits during this timeframe because of significant staff shortages and employee turnover.

Indiana's program division also did not ensure subgrantees inspected any of the three closed projects that were due for review to ensure compliance with open space deed restrictions during post closeout. Federal regulations require subgrantees, through the grantee, to certify every 3 years that the subgrantee has inspected each mitigated property and that the property remains in compliance (used as intended).[8] The regulations also prohibit property owners from building new structures or improvements (with few exceptions), and indicates that those structures will not be eligible for flood insurance coverage.[9]

Indiana state-local agreements specify that Indiana's program division staff obtain certification reports from subgrantees on September 30 of the third year after project closeout, and every 3 years thereafter. Indiana officials later said that they had not required the subgrantee to inspect closed projects in four closed disasters. Indiana's Mitigation Program Director said the delays in post-closeout monitoring occurred because of staff shortages, lack of procedures, and program priorities to close projects in recent disasters. However, FEMA has worked with Indiana to explain more efficient ways to provide the certifications, such as having local government officials submitting photos of property rather than actual site visits. Without these certifications, FEMA has little assurance that properties mitigated under those projects remain in compliance with Federal requirements for open space deed restrictions.

[8] 44 CFR 80.19(d) (see appendix B)
[9] 44 CFR 80.19(a)(2) and (5) (see appendix B)

Quarterly Progress Procedures and Reporting

Indiana did not submit quarterly progress reports with accurate and sufficient information from 2012 to 2016. This occurred because Indiana has control deficiencies in its quarterly progress reporting process and procedures to monitor and report on its mitigation projects. Furthermore, these deficiencies led to recurring quarterly report submissions that lacked sufficient detail for FEMA to gauge project and program performance. Federal regulations require grantees to report, among other details, significant activities and developments, and completion status for each property.[10]

Indiana's program division is responsible for implementing and executing the quarterly progress reporting process. Even though the program division established procedures to compile and complete progress reports, those procedures did not —

- provide details on the roles of the program staff in the review process;
- describe quality control steps to validate that information subgrantees submit is accurate;
- specify steps and timeframes for report corrections; or
- include steps the program division must take to ensure information common to both progress reports and financial reports are accurate and reconciled.

Indiana's program officials submitted quarterly progress reports to FEMA timely. However, Indiana needs to improve the accuracy and level of detail information in the reports. FEMA officials said it takes a significant amount of communication with Indiana to correct, update, and verify pertinent quarterly report data because of the number of errors and incomplete project information. For example, we reviewed 14 quarterly report submissions from 2012 to 2016 in which the Region commented on incomplete explanations or inaccurate entries in more than 60 percent of the reports. We asked FEMA officials about the level of technical assistance provided to Indiana. In the last 3 years, FEMA officials have —

- conducted financial monitoring visits;
- sent multiple requests for project information; and
- held technical assistance workshops with Indiana officials to educate them on the mechanics of periods of performance, closeouts, financial reporting, and documenting state management costs.

Despite FEMA's technical assistance, Indiana continued to have difficulty compiling accurate and sufficient quarterly progress data. As a result, FEMA

[10] 44 CFR 206.438(c) (see appendix B)

could not use the reports to determine the status of projects. Region officials also said these continued issues contribute to delays in closing out disasters.

Indiana officials disagreed with the Region's assessment and said they were not aware that their quarterly report submissions did not meet the Region's expectations for accuracy and sufficiency. Indiana officials said they did not fully understand the extent of errors in report submissions and were not aware of the Region's efforts to correct the reports. The Region and Indiana could benefit from clearer communications that will assist Indiana to strengthen its process for compiling and submitting accurate and sufficient quarterly progress reports.

Deficiencies in Financial Management of Program Expenditures

Indiana did not comply with Federal regulations regarding financial reporting, drawdowns of funding, and miscoded management costs for its grant expenditures. Federal regulations require states to have fiscal control, accounting, and reporting procedures sufficient to prepare required reports, trace funds to a level to assure the awarding agency that funds were not used in violation of statutes, and to report program outlays on the accounting basis prescribed by the awarding agency.[11]

These deficiencies occurred because Indiana's cost reconciliation policies and procedures were inadequate and not coordinated between its program and finance divisions. As a result, neither FEMA nor Indiana can determine the overall cost of the HMGP because Indiana does not submit accurate financial expenditure reports, which also affects Indiana's ability to perform project and disaster closeouts timely. Consequently, Indiana's financial management deficiencies resulted in a reported $4.8 million discrepancy in Federal funds authorized in one disaster; incorrect and untimely drawdowns of $464,489 of program funds; and $73,938 of miscoded state management costs that resulted in allocations to incorrect disasters and program activities.

Inadequate Reconciliation Policy

Indiana does not have policies or procedures in place to ensure HMGP expenditures reconcile between its program and finance divisions and cost differences are resolved before reporting the costs to FEMA. This weakness stems primarily from the program and finance divisions' use of two different methods to reconcile and report program expenditures. Each division submitted separate and different project cost reports to FEMA. Indiana officials said that program staff report costs when subgrantees submit invoices for reimbursement (accrual basis of accounting); while finance staff report costs after Indiana reimburses the subgrantee (cash basis of accounting). Officials

[11] 44 CFR 13.20 and 44 CFR 13.41 (see appendix B)

also said that the finance division reports state management costs on a cash basis, but does not reconcile differences with the program division until closeout.

As a result, the reconciliation differences and delays caused Indiana to provide inaccurate HMGP financial data and state management costs to FEMA. For example, FEMA Region V officials identified reporting errors in two quarterly financial reports on Indiana's HMGP involving six disasters in our audit scope. Indiana's reports contained a $4.8 million discrepancy in Federal funds authorized for one disaster, and discrepancies between the amount of funds received and disbursed for another disaster.

Finance staff said the timing differences occurred because State law requires agencies to pay invoices or reimbursement requests timely to avoid interest charges. Nevertheless, finance and program staff must resolve discrepancies between reimbursement amounts before reporting financial data to FEMA.

In November 2016, program and finance division officials said they had increased communications. However, we could not determine whether these communications have been effective in resolving the reconciliation and reporting issues because Indiana had just begun regularly scheduled meetings.

Improper Drawdown of Program Funds

Indiana improperly submitted requests for and received $464,489 of HMGP funds after the period to liquidate outstanding program expenditures expired for three disasters in our audit scope (see table 1).[12] Finance division officials acknowledged that they submitted the drawdown requests after the liquidation period expired and attributed the error to employee turnover and inexperience.

[12] The liquidation period begins after the end of the period of performance and allows grantees 90 days to settle all obligations under the grant (44 CFR 13.23, see appendix B).

Table 1: Improper Drawdowns

Disaster	Liquidation Deadline	Extension Date	Drawdown Amount	Funds Returned	Date Returned
1766	02/29/2016	12/31/2016	$ 124,556	$ 0	n/a
1766	02/29/2016	12/31/2016	124,556	124,556	09/23/2016
1766	02/29/2016	12/31/2016	50,752	50,752	04/25/2017
1795	12/30/2015	12/31/2016	80,880	0	n/a
1795	12/30/2015	12/31/2016	23,670	0	n/a
1828	02/01/2016	12/31/2016	30,040	0	n/a
1828	02/02/2016	12/31/2016	30,035	30,035	09/23/2016
TOTALS			**$464,489**	**$205,343**	
Balance				**$259,146**	

Source: FEMA Region V SMARTLINK Reports dated 05/11/17

FEMA officials discovered the improper drawdowns and Indiana subsequently returned $205,343 in HMGP grant funds. To allow the remaining drawdowns, FEMA officials reopened the liquidation period and approved Indiana's time extension requests. The extension validated the remaining balance of $259,146 ($464,489 less $205,343) for Indiana to settle remaining grant obligations.[13]

In addition, FEMA officials emphasized to Indiana officials the importance of adhering to Federal deadlines and submitting payment and extension requests in a timely manner. Federal grant funds drawn down after the liquidation period contribute to inaccurate disbursements and improper accounting of HMGP funds. Indiana's internal timing and reporting weaknesses, combined with inexperienced staff, produced inaccurate information, which led to the improper drawdown of HMGP funds.

Miscoding of HMGP Program and State Management Costs

Indiana's finance division miscoded HMGP state management costs, which resulted in allocations to incorrect disasters or program activities.[14] In several instances, finance staff miscoded HMGP costs in 5 of the 10 disasters we audited. These coding errors totaled $73,938; however, future cost miscoding could be significant unless Indiana implements procedures for cost coding and properly training staff. We discussed these issues in meetings with Indiana's finance and program division officials. Although the finance division officials were not able to explain how these errors occurred, program officials said the errors occurred because staff needed more training and experience. Program division officials agreed that coding errors led to incorrect reporting of project and state management costs, and delays in project closeouts.

[13] 44 CFR 13.30(d)(2) (see appendix B)
[14] 44 CFR 207.2 (see appendix B)

After our audit cutoff date, Indiana officials said they increased communications between the program and finance divisions and began addressing some of the issues we identified. Indiana officials also said they were working with the Region to improve the quality of quarterly report submissions.

Although Indiana officials said they were working to increase communications and improve grant management, Indiana has had continuing issues. In two previous Office of Inspector General (OIG) audits of other DHS grants to Indiana, we reported these grant management issues.[15] Both audits contained findings describing Indiana's lack of subgrantee monitoring to ensure proper project reconciliation, closeout, and compliance with Federal procurement regulations. In its response to one of our audits, Indiana agreed with the grant management finding, hired additional personnel and developed a monitoring policy. For the other audit, FEMA officials said they provided additional guidance to Indiana to improve grant management procedures. Nevertheless, because of Indiana's continued noncompliance, FEMA should impose special award conditions to limit inaccurate drawdowns and funding errors to ensure compliance with Federal grant requirements.[16]

Conclusion

Indiana officials are making positive efforts to address deficiencies in monitoring, reporting, and financial management of its HMGP. Indiana's recent management and staff additions may improve its ability to comply with Federal requirements. Nonetheless, Indiana must undertake additional actions to adhere to programmatic requirements and strengthen its administration of HMGP funds. This report identified several deficiencies in Indiana's controls for following Federal HMGP requirements. As the grantee, Indiana is responsible for carrying out the goals and objectives of the HMGP, which includes ensuring program staff are adequately trained and supervised. Unless Indiana continues to take steps to improve its policies and procedures for HMGP, FEMA will have little assurance that Indiana uses grant funds as intended and protects the financial interests of the Federal Government. FEMA, as the Federal awarding agency, holds ultimate responsibility to monitor the Federal grants it awards and the recipient's use of Federal awards. Thus, we recommend FEMA officials continue to work with and closely monitor Indiana to strengthen and improve Indiana's program and financial management of the HMGP. FEMA should take more aggressive action and impose special award conditions to limit inaccurate drawdowns and funding errors to ensure compliance with Federal grant requirements.

[15] Report Numbers OIG-13-45-D, *Indiana's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2008 to 2010*, February 28, 2013; and OIG-15-02-D, *FEMA Should Recover $3 Million of Ineligible Costs and $4.3 Million of Unneeded Funds from the Columbus Regional Hospital*, October 8, 2014.
[16] 44 CFR 13.43(a)(5) (see appendix B)

Recommendations

Recommendation 1: We recommend that the Regional Administrator, FEMA Region V, work with Indiana to define and establish quality standards for quarterly report data, and enhance the program division's procedures for quarterly report development.

Recommendation 2: We recommend that the Regional Administrator, FEMA Region V, direct Indiana to provide the Region with a plan to (a) adhere to administrative and mitigation plan monitoring requirements; (b) update and implement effective monitoring procedures; and (c) complete overdue post-closeout monitoring tasks within 6 months of the date of this report.

Recommendation 3: We recommend that the Regional Administrator, FEMA Region V, direct Indiana to require its finance and program divisions to adopt a single reporting method within 6 months of this report to ensure accurate and timely reporting of HMGP expenditures to FEMA.

Recommendation 4: We recommend that the Regional Administrator, FEMA Region V, direct Indiana to require its finance and program divisions to establish and implement effective procedures for reconciliation, review, and drawdown of HMGP funds within 6 months of this report.

Recommendation 5: We recommend that the Regional Administrator, FEMA Region V, direct Indiana to establish and deliver periodic training on HMGP liquidation requirements for all staff responsible for accounting for and reporting of HMGP funds to ensure Indiana submits payment requests within required timelines.

Recommendation 6: We recommend that the Regional Administrator, FEMA Region V, impose special award conditions through additional drawdown and funding requirement restrictions to ensure Indiana complies with Federal grant regulations.

Discussion with Management and Audit Follow-up

We discussed the results of our audit with Indiana officials during and after our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to FEMA and Indiana officials. We considered their comments in developing our final report and incorporated their comments as appropriate.

During our fieldwork, FEMA and Indiana provided comments on our findings and recommendations. FEMA and Indiana officials generally agreed with our findings and recommendations. We discussed the draft report at exit conferences with FEMA on January 30 and May 18, 2017; and with Indiana officials on January 31, 2017. We also provided Indiana officials with an updated copy of the draft report on August 14, 2017. FEMA and Indiana provided additional comments and we incorporated those comments as appropriate.

FEMA officials provided a written response to this report on September 13, 2017, agreeing with our findings and recommendations (see appendix C). For recommendation 1, FEMA officials said that recent quarterly reports received from Indiana showed better quality standards and enhancement of program division procedures for quarterly report development. For recommendation 2, FEMA officials described its ongoing efforts to assist Indiana and Indiana's planned actions to ensure adherence to monitoring requirements. For recommendations 3 and 4, FEMA officials provided copies of draft standard operating procedures Indiana plans to implement to resolve issues with reporting, reconciling, reviewing, and drawdown of HMGP funds. For recommendation 5, FEMA officials did not provide planned actions to resolve the recommendation. For recommendation 6, FEMA officials said that it will impose special award conditions if Indiana does not comply with establishing and implementing final procedures to ensure compliance with Federal requirements.

The Office of Audits major contributors to this report were Paige Hamrick, Director; Chiquita Washington, Audit Manager; Jim Mitchell, Auditor-in-Charge; Raeshonda Keys, Auditor; Amos Dienye, Independent Reference Reviewer; and Kevin Dolloson, Communications Analyst.

Appendix A
Objective, Scope, and Methodology

Our objective was to determine whether Indiana administered the HMGP according to Federal regulations and ensured subgrantees accounted for and expended FEMA grant funds properly.[17] Indiana received HMGP funding for 18 major disasters declared from 2002 to 2014. Our audit scope included 10 disasters: 8 open disasters declared from 2008 through 2014, and 2 closed disasters declared in 2004.[18] As of the cutoff date of this audit, FEMA funding for these awards totaled $27.9 million. However, because of the "lock- in" amount, potential funding for those disasters in our audit scope totaled $43.9 million.[19]

Our audit methodology included reviewing Indiana's policies and procedures for administering the HMGP program as well as its accounting for specific project and management costs. During fieldwork, we modified our disaster scope from 10 to 6 disasters based on the volume of project awards, age of disasters, and closeout status. For the 6 disasters selected, we reviewed 10 projects totaling $6,658,281 to determine whether Indiana met the intent of the HMGP. We selected the 10 projects based on estimated costs, number of properties, and proximity to our field location in Indiana. Because the 10 HMGP projects represented different points in the project lifecycle, we reviewed groups of projects for adherence to different requirements, such as monitoring, outreach, and completion time for state-local agreements. In addition, we reviewed state management costs expended for 7 of the 10 disasters to determine how Indiana's finance and program departments account for and reconcile costs.[20]

The audit covered the period June 3, 2004, through November 14, 2016. At the time of our audit, Indiana had disbursed $4.9 million of HMGP funds for the open projects in our scope.

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[17] See appendix B.

[18] The audit scope included eight open disasters (1740, 1766, 1795, 1828, 1832, 1997, 4058, and 4173) and two closed disasters (1520 and 1542).

[19] FEMA establishes the funding ceiling for each disaster called the "lock-in." The lock-in is the maximum amount that can be obligated for eligible hazard mitigation activity.

[20] We reviewed state management costs in only seven disasters (1766, 1795, 1828, 1832, 1997, 4058, and 4173) because the remaining disasters were closed or in process for final closeout.

Appendix A (continued)

Table 2: Schedule of HMGP Projects Audited

Disaster Number	Subgrantees	Project Number	Number of Properties	Federal Share Obligated	Project Status
1520-DR-IN	Alexandria	01	4	$ 232,693	closed
1520-DR-IN	Noblesville	02	12	209,062	closed
1542-DR-IN	Muncie	01	2	175,499	closed
1997-DR-IN	City of Brazil	05	11	569,642	open
4058-DR-IN	Morgan County	02	7	285,253	open
4058-DR-IN	City of Tipton	08	18	672,221	open
1766-DR-IN	Johnson County	08	52	3,393,770	open
4173-DR-IN	Decatur	05	5	362,498	open
4173-DR-IN	Fort Wayne	04	8	450,338	open
4173-DR-IN	Tipton	08	6	307,305	open
Totals			**125**	**$6,658,281**	

Source: FEMA Enterprise Data Warehouse[21]

The purpose of the HMGP awards was to mitigate damage from future disasters to flood damaged structures and to update Indiana and subgrantee hazard mitigation plans. All projects in our audit scope were acquisitions of single and multi-family structures or vacant land.

We interviewed FEMA officials; Indiana's program, finance, and legal officials; and State audit office officials. We reviewed Indiana's method of accounting for and expending disaster-related costs, including completing a limited review of Indiana's internal controls related to HMGP and related state management costs. We also reviewed Indiana's professional services contract to update its hazard mitigation plan, physical and digital records of project files, and evidence of grantee monitoring of subgrantee projects.

We performed additional procedures to assess the adequacy of Indiana's policies and procedures. We reviewed Indiana's multi-hazard mitigation and administrative plans for compliance with Federal regulations; completed a comparative analysis to other states' plans; reviewed recent state-local agreements; reviewed quarterly report submissions from 2012 to 2016; interviewed Indiana University officials, and reviewed contracts to determine the extent of the University's role in providing hazard mitigation planning services for Indiana and its subgrantees.

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[21] The Enterprise Data Warehouse (EDW) was created to make FEMA data accessible to users across the enterprise. Field staff, as well as headquarters and regional personnel, can access the EDW to perform ad-hoc reporting, on-line data analysis, evaluate trends, and decide where best to assign resources to accomplish FEMA's strategic goals.

Appendix A (continued)

We conducted this performance audit between February 2016 and May 2017, 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disasters.

Appendix B
Hazard Mitigation Grant Program Overview and Criteria

HMGP Overview
The Hazard Mitigation Grant Program (HMGP) provides grants to help states and communities fund long-term mitigation activities that reduce the risk of future damages, hardship, loss, or suffering after a major disaster declaration. Authorized under the *Stafford Act*, FEMA published the following mitigation guidance to govern the decision making of HMGP content —

- *Hazard Mitigation Grant Program Desk Reference* of October 1999,
- *Hazard Mitigation Assistance Unified Guidance* (HMAG) of June 2010, and
- *Hazard Mitigation Assistance Unified Guidance* (HMAG) of July 2013.

All three policy documents are applicable to the disasters in our audit scope. To be eligible to receive HMGP funding, grantees must have a FEMA-approved mitigation plan that identifies potential hazards, a strategy to minimize the effects of certain hazards, and potential funding sources to achieve program goals and objectives. Federal regulations require grantees to update those plans at a minimum 3 years from the date of approval of the previous plan.[22] FEMA requires eligible subgrantees to have FEMA-approved local mitigation plans that align with the goals and objectives identified in the grantee mitigation plan. In addition, grantees provide technical assistance and training to local governments in developing their plans.

Once FEMA approves the mitigation plans, subgrantees work with property owners to develop specific HMGP projects after a disaster event. Eligible mitigation projects include property acquisitions and demolitions, structure elevations, reconstruction, dry flood-proofing, existing building retrofitting, wind retrofitting, wildfire mitigation, safe rooms, and soil stabilization.

FEMA determines the amount of HMGP funding available to grantees by applying a sliding scale formula to the estimated total of Federal assistance provided as a result of a Presidential major disaster declaration. FEMA also allows separate funding for grantee management costs at 4.89 percent of the total grant lock-in amount.

HMGP grants have a time limit called a period of performance (POP) for grantees to complete all grant activities. The HMAG 2010 defined the POP and set the termination date as 3 years from the approval date of the last subgrant for the disaster. The HMAG 2013 guidance further defined the POP as the

[22] 44 CFR 201.3(c)(1), (3), and (5) (see HMGP Criteria).

Appendix B (continued)

opening of the application period to no later than 36 months from the close of the application period.[23] FEMA enforces the POP on a grant, not on a project basis. FEMA Headquarters must approve all requests to extend the grant POP beyond 12 months from the original grant POP termination date. After the end of the POP, the grantee must liquidate all obligations incurred under the grant within 90 days.

FEMA requires grantees to report on obligations, expenditures, and performance for each grant award on a quarterly basis using two reports. The SF-425 provides a standard format for reporting Federal cash transactions. The Performance Report contains information on significant activities and developments for all projects, including status of costs, percent of completion, and discussion of any problems that may affect the timeline of the subgrants. For HMGP acquisitions, FEMA requires grantees to report on the status of each property.

According to FEMA's *Hazard Mitigation Assistance Unified Guidance*, grantees should close out subgrants as subgrantees complete activities. It also requires grantees liquidate outstanding, valid expenditures within 90 days following the expiration of the POP.

HMGP Criteria
Following is a summary of applicable Federal requirements used in the completion of this audit —

- *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, Sec. 404 Hazard Mitigation (42 U.S.C. 5170c);
- 2 CFR 200.328 holds non-Federal entities responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and achievement of performance expectations. Monitoring by the non-Federal entity must cover each program, function, or activity;
- 44 CFR 13.20(a)(1) and (2) requires a State's fiscal control, accounting, and reporting procedures be sufficient to permit preparation of reports required by this part and the statutes authorizing the grant; and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and

[23] The POP as described in *FEMA's Hazard Mitigation Assistance Program Guidance*, dated June 2013, applies to disasters DR-1997 and 4058; and the 2013 guidance applies to DR-4173.

Appendix B (continued)

- 44 CFR 13.23(b) requires the grantee to liquidate, or settle all obligations incurred under the grant within 90 days after the expiration of the period of performance;
- 44 CFR 13.30(d)(2) requires grantees or subgrantees to obtain prior approval of the awarding agency for programmatic changes, including extending the period of availability of funds;
- 44 CFR 13.40(a) requires the grantee to assume responsibility for managing and monitoring the day-to-day operations of grant and subgrant activities to assure compliance with Federal requirements and to achieve performance goals;
- 44 CFR 13.41(b)(2) requires the grantee to report program outlays on a cash or accrual basis as prescribed by the awarding agency. If the grantee's accounting records are not kept on an accrual basis, grantees shall develop accrual information through and analysis of documentation on hand;
- 44 CFR 13.43(a)(5) allows the awarding agency (FEMA) to take other remedies that may be legally available in cases of grantee or subgrantee noncompliance;
- 44 CFR 13.50 outlines the Federal agency and grantee requirements at grant closeout, including submission of final finance and performance reports. FEMA guidance lists additional requirements, including documentation of subgrant completion in compliance with scopes of work, environmental requirements, local building codes, permits, and insurance requirements;
- 44 CFR 80.19(d) and 44 CFR 80.19(a)(2) and (5) outline Federal requirements for post-closeout project monitoring;
- 44 CFR 201.3 (c)(1), (3), and (5) require the grantee to prepare and submit a standard mitigation plans and update those plans at a minimum every 3 years from the date of the approval of the previous plan, and provide technical assistance and training to local governments in developing their plans;
- 44 CFR 206.437(b)(4)(i), (ii) and (x) requires the grantee to have procedures to provide potential subgrantees with information on the application process, program eligibility, and provide technical assistance to subgrantees;

Appendix B (continued)

- 44 CFR 206.438(c) requires the grantee to submit a quarterly performance report for each grant award, and include information on project identification, significant activities and developments, and completion status for each property; and
- 44 CFR 207.2 defines state management costs as any indirect costs, administrative expenses, and any other expenses not directly chargeable to a specific project that are reasonably incurred by a grantee in administering and managing a grant award.

Appendix C
Management Comments

U.S. Department of Homeland Security
FEMA Region V
536 South Clark Street, 6th Floor
Chicago, IL 60605

FEMA

SEP 13 2017

MEMORANDUM FOR: Paige Hamrick
Director, Central Regional Office - North
Office of Inspector General

FROM: Janet M. Odeshoo
Acting Regional Administrator

SUBJECT: Management Response to OIG Draft Report: *"Indiana Needs to Improve the Management of Its FEMA Hazard Mitigation Grants"*

Thank you for the opportunity to review and comment on this draft report. FEMA Region V appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

The draft report contained six (6) recommendations with which FEMA Region V concurs. Please see the attached for our detailed response to each recommendation.

If you have any questions contact Jacob Rauen, FEMA Region V Audit Coordinator, at Jacob.Rauen@fema.dhs.gov or 312-408-4401. We look forward to working with you in the future.

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Appendix C (continued)

Attachment: FEMA Region V Response to Recommendations Contained in Draft Audit Report

Recommendation 1: Work with Indiana to define and establish quality standards for quarterly report data, and enhance the program division's procedures for quarterly report development (finding B).

Response: Concur. The most recent quarterly report submitted by Indiana exhibited an increase in quality standards for quarterly report data and enhancement of the program division's procedures for quarterly report development. As requested by FEMA, the report submittal included status of mitigation planning grants. The report also included sufficient project status detail and resulted in minimal revision requests.

Recommendation 2: Direct Indiana to provide the Region with a plan to (a) adhere to administrative and mitigation plan monitoring requirements (b) update and implement effective monitoring procedures, and (c) complete overdue post-closeout monitoring tasks within 6 months of the date of this report (finding B).

Response: Concur. FEMA and Indiana are working together to identify and develop a list of deed-restricted properties acquired with the use of FEMA grant funds. In an effort to update and implement effective monitoring procedures, Indiana will conduct site monitoring visits for quality assurance purposes and follow up by coordinating with local jurisdictions to provide regular monitoring visits to these sites. Indiana will provide a written procedure to track these visits and related monitoring efforts to ensure the State adheres to administrative and mitigation plan monitoring requirements.

Recommendation 3: Direct Indiana to require its finance and program divisions to adopt a single reporting method within 6 months of this report to ensure accurate and timely reporting of HMGP expenditures to FEMA (finding C).

Response: Concur. Indiana provided FEMA Region V with draft Standard Operating Procedures (SOPs) in May 2017 that addressed internal control deficiencies found during the January 2017 monitoring visit. The SOP entitled "Federal Grant Funding Reconciliation" (Attachment #1) states the following: "The Grant Accountant will collect grant expenses for each funding stream from program or grant staff for the reporting period for all open grant awards monthly."

The SOPs are in draft form and were discussed during a technical assistance visit conducted at Indiana's offices in July 2017. FEMA Region V agrees that Indiana adopt an approved, final SOP regarding a single reporting method, which covers the reporting of HMGP expenditures, as well as expenditures related to other FEMA grant programs.

Recommendation 4: Direct Indiana to require its finance and program divisions to establish and implement effective procedures for reconciliation, review, and drawdown of HMGP funds within 6 months of this report (finding C).

Appendix C (continued)

Response: Concur. In addition to the "Federal Grant Funding Reconciliation" SOP that Indiana provided FEMA Region V, Indiana supplied the SOP entitled "Monthly Federal Funding Draw" (Attachment #2). Indiana believes that these two draft SOPs coupled with scheduled monthly reconciliation meetings between Indiana's finance and program divisions are effective internal controls for reconciliation, review, and drawdown of HMGP funds. FEMA Region V agrees that Indiana establish and implement approved, final SOPs regarding reconciliation, review, and drawdown of HMGP funds.

Recommendation 5: Direct Indiana to establish and deliver periodic training on HMGP liquidation requirements for all staff responsible for accounting for and reporting of HMGP funds to ensure Indiana submits payment requests within required timelines (finding C).

Response: Concur. Non-adherence to liquidation period requirements outlined in 44CFR and 2CFR Part 200 is a reoccurring issue for Indiana.

Recommendation 6: Impose special award conditions through additional drawdown and funding requirement restrictions to ensure Indiana complies with Federal grant regulations (finding C).

Response: Concur. If Indiana does not comply with establishing approved, final SOPs and show progress in implementing said SOPs, FEMA Region V will impose special award conditions through additional drawdown and funding requirement restrictions.

Attachments:

1. Indiana's "Federal Grant Funding Reconciliation" Draft SOP
2. Indiana's "Monthly Federal Funding Draw" Draft SOP

Appendix D
Report Distribution

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