



September 2020

DISASTER ASSISTANCE

FEMA Should Take Additional Actions to Strengthen Fraud Risk Management for Public Assistance Emergency Work Grants

Accessible Version

GAO Highlights

Highlights of [GAO-20-604](#), a report to congressional requesters

Why GAO Did This Study

FEMA has obligated over \$10 billion in PA grants for emergency work to applicants in the three states and two territories recovering from hurricanes and wildfires in 2017. FEMA faces challenges balancing the need to quickly deliver disaster funds while minimizing the risk of fraud—challenges increased by the size and scope of the 2017 disasters and the complexity of the PA grant program. Fraud schemes have included false documentation for debris removal.

GAO was asked to review a range of disaster response and recovery issues following the 2017 disaster season. This report addresses the extent to which (1) FEMA's efforts to assess fraud risks to PA emergency work grants align with leading practices, and (2) FEMA helps ensure PA applicants are able to meet their responsibilities for managing fraud risks. GAO assessed FEMA's procedures against leading practices in the Fraud Risk Framework. GAO interviewed FEMA officials responsible for the PA grant program and its training and fraud risk management. GAO conducted site visits to California and Texas, selected partly for variation in disaster type, and interviewed selected PA applicants.

What GAO Recommends

GAO makes five recommendations, including that FEMA plan and conduct fraud risk assessments of PA emergency work grants and that it consistently communicate information to PA applicants on the highest fraud risks. The Department of Homeland Security stated that it concurred with GAO's recommendations.

View [GAO-20-604](#). For more information, contact Rebecca Shea at (202) 512-6722 or shear@gao.gov.

DISASTER ASSISTANCE

FEMA Should Take Additional Actions to Strengthen Fraud Risk Management for Public Assistance Emergency Work Grants

What GAO Found

The Federal Emergency Management Agency (FEMA) has identified some risks to Public Assistance (PA) emergency work grants—funds provided to applicants such as states and territories—for debris removal and other emergency measures. FEMA also has ongoing or planned efforts that could inform fraud risk assessments. However, the agency has not comprehensively assessed fraud risks to these grants as called for by leading practices in GAO's Fraud Risk Framework. Fraud risks include those from debris removal schemes—such as misrepresenting the amount, source, or type of items removed—or associated with procurement and contracting, such as bribery, collusion, and false invoicing. According to officials, FEMA manages fraud risks to PA emergency work grants through its existing grants-management and program-integrity efforts. However, absent regular fraud risk assessments, including identifying inherent fraud risks and examining the suitability of existing controls, FEMA lacks reasonable assurance that these efforts effectively address the most significant fraud risks facing PA emergency work grants.

Residential Debris Awaiting Pickup in Texas Following Historic Flooding Caused by Hurricane Harvey in 2017



Source: GAO. | GAO-20-604

FEMA provides resources to help PA applicants meet their responsibilities for managing risks, but opportunities exist for the agency to improve communication. Specifically, GAO found that FEMA communicated some information that could help applicants manage fraud risks, but key resources did not provide information on known areas of fraud risk. According to GAO's Fraud Risk Framework, a leading practice is to provide fraud-awareness training for external stakeholders—such as PA applicants—with responsibility for implementing aspects of the program. Further, a leading practice for implementing effective fraud-awareness initiatives is to convey information about risks and how to identify fraud schemes. According to FEMA officials, the agency generally does not use the term "fraud" because FEMA's focus is on ensuring compliance and eligibility. However, the deceptive nature of fraud makes it harder to detect than nonfraudulent errors, such as compliance and eligibility issues, and potentially requires control activities designed to prevent and detect criminal intent. Updating key resources for applicants to ensure these resources consistently communicate information on the highest fraud risks to emergency work grants would help ensure applicants are better able to identify and address potential fraud earlier in the process.

Contents

Letter		1
	Background	5
	FEMA Has Not Conducted a Comprehensive Fraud Risk Assessment for PA Emergency Work Grants or Designated an Antifraud Entity	21
	FEMA Monitors and Provides Program Resources to PA Applicants to Help Them Manage Risks, but Could Improve Communication about Emergency Work Fraud Risks	35
	Conclusions	54
	Recommendations for Executive Action	55
	Agency Comments and Our Evaluation	56
<hr/>		
Appendix I: Objectives, Scope, and Methodology		61
Appendix II: Comments from the Department of Homeland Security		78
Appendix III: GAO Contact and Staff Acknowledgments		86
Appendix IV: Accessible Data		87
	Data Table	87
	Agency Comment Letter	89
<hr/>		
Tables		
	Table 1: Examples of FEMA's, Recipients', and Subrecipients' Responsibilities That Can Help Manage Fraud Risks to Public Assistance Emergency Work Grants	14
	Table 2: Federal Emergency Management Agency (FEMA) Entities' Selected Fraud Risk Management Responsibilities	32
<hr/>		
Figures		
	Figure 1: Federal Emergency Management Agency's Public Assistance Program Categories of Work	6
	Figure 2: Public Assistance Emergency Work Grant Process	7

Figure 3: Examples of Eligibility Rules and Policies for Public Assistance Emergency Work	9
Figure 4: Flow of Public Assistance Emergency Work Grant Funds	10
Figure 5: GAO's Fraud Risk Management Framework	12
Figure 6: Key Elements of the Fraud Risk Assessment Process	22
Accessible Data for Figure 1: Federal Emergency Management Agency's Public Assistance Program Categories of Work	88

Abbreviations

COVID-19	Coronavirus Disease 2019
DHS	Department of Homeland Security
directive	Fraud Prevention and Investigation Directive
EMMIE	Emergency Management Mission Integrated Environment
ERM	enterprise risk management
FAC-Trax	FEMA Applicant Case Tracker
FEMA	Federal Emergency Management Agency
FIID	Fraud Investigations and Inspections Division
Fraud Risk Framework	<i>A Framework for Managing Fraud Risks in Federal Programs</i>
OIG	Office of Inspector General
OMB	Office of Management and Budget
PA	Public Assistance
PAPPG	<i>Public Assistance Program and Policy Guide</i>
PDAT	Procurement Disaster Assistance Team
PDMG	Program Delivery Manager
SAM	System for Award Management
VAYGo	Validate-as-you-go

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September 29, 2020

Congressional Requesters

In 2017, multiple near-sequential disasters—Hurricane Harvey, Hurricane Irma, Hurricane Maria, and California wildfires beginning in October and December 2017 (hereafter referred to as the 2017 disasters)—created an unprecedented demand for federal disaster response and recovery resources. As of June 2020, the Federal Emergency Management Agency (FEMA) had obligated over \$10 billion in Public Assistance (PA) grants for emergency work projects, such as debris removal, to the three states and two territories—Texas, Florida, California, Puerto Rico, and the U.S. Virgin Islands—recovering from these disasters.¹

PA is a complex and multistep grant program in which FEMA provides funds for emergency work, including debris removal and emergency protective measures, in response to presidentially declared disasters.² Specifically, FEMA provides funds to state, territorial, or tribal government recipients, which then provide funding to local officials and certain types of private nonprofit organizations, which are the subrecipients of the grant award. Eligible recipients and subrecipients (referred to hereafter collectively as applicants) may receive PA emergency work funding for eligible work performed by the applicant's own personnel, by another

¹FEMA, a component of the Department of Homeland Security (DHS), leads the federal effort to mitigate, respond to, and recover from disasters.

²In addition, the PA grant program provides funds for permanent work—the repair, replacement, or restoration of disaster-damaged, publicly owned facilities and the facilities of certain private nonprofit organizations. Our review focused on FEMA's efforts related to PA emergency work. Therefore, for the purposes of this report, we generally refer to emergency work.

jurisdiction through a mutual aid agreement, or under a contract if the applicant meets federal procurement and contracting requirements.³

The DHS Office of Inspector General (OIG) and our prior reports have found that FEMA faces challenges balancing the need to quickly deliver PA grant funds for emergency work while minimizing the risk of fraud, waste, and abuse. The size and scope of the 2017 disasters and the complexity of the PA grant program—including that applicants have responsibilities that can help prevent, detect, or respond to fraud or potential fraud involving PA grant funds, or otherwise help ensure program integrity—increases such challenges. Specifically, DHS OIG reported in 2019 that although FEMA promotes prompt assistance to disaster survivors, it does not place equal emphasis on ensuring program integrity and fiscal responsibility. DHS OIG also reported that FEMA would continue to risk the loss and misuse of taxpayer dollars unless it takes visible, substantial, and continual steps to improve its antifraud efforts.⁴

Managers may perceive a conflict between their priorities to fulfill the program's mission, such as efficiently disbursing funds or providing services to beneficiaries, and taking actions to safeguard taxpayer dollars from improper use. However, we have previously reported that proactively managing fraud risks can help facilitate the program's mission and strategic goals by ensuring that taxpayer dollars and government services serve their intended purposes. In 2015, we issued *A Framework for Managing Fraud Risks in Federal Programs* (Fraud Risk Framework),⁵

³We use the term "applicant" throughout this document to refer to PA recipients and subrecipients collectively. We use the terms "recipient" and "subrecipient" when referring specifically to applicants of one type or referring to the responsible entity for a project rather than making distinctions between the entity as a recipient or subrecipient. Eligible applicants include eligible recipients—including state and territorial governments and federally recognized tribal governments—and eligible subrecipients—such as local governments, including but not limited to counties, municipalities, cities, towns, school districts, state-recognized tribes, and special districts and certain private nonprofit organizations. At a minimum, to be eligible, work must be required as a result of the declared incident; be located within the designated area, with the exception of sheltering and evacuation activities; and be the legal responsibility of an eligible applicant.

⁴Department of Homeland Security, Office of Inspector General, *FEMA Must Take Additional Steps to Demonstrate the Importance of Fraud Prevention Awareness in FEMA Disaster Assistance Programs*, OIG-19-55 (Washington, D.C.: July 24, 2019).

⁵GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015).

which describes leading practices that program managers can follow to strategically manage their fraud risks.⁶

You asked us to review a broad range of issues related to disaster response and recovery following the 2017 disaster season, including the response and recovery to hurricanes Harvey, Irma, Maria, and the California wildfires. We reviewed FEMA's efforts to manage fraud risks to PA emergency work grants.⁷ Specifically, this report addresses the extent to which:

- FEMA's efforts to assess fraud risks to PA emergency work grants align with leading practices, and
- FEMA helps ensure PA applicants are able to meet their responsibilities for managing fraud risks to emergency work grants.

To evaluate the extent to which FEMA's efforts to assess fraud risks to PA emergency work grants align with leading practices, we reviewed the Fraud Risk Framework to identify leading practices relevant to assessing fraud risks. Specifically, we selected leading practices related to planning, conducting, and documenting a fraud risk assessment and to designating responsibility for managing the fraud risk assessment process. Next, we reviewed FEMA's Fraud Prevention and Investigation Directive, Fraud Working Group charter, Enterprise Risk Management (ERM) Framework, the DHS Internal Control Plan for Supplemental Disaster Appropriations, and other documentation related to FEMA's efforts that may include assessing fraud risks. We also interviewed FEMA officials with

⁶Fraud and "fraud risk" are distinct concepts. Fraud—obtaining something of value through willful misrepresentation—is challenging to detect because of its deceptive nature. Fraud risk (which is a function of likelihood and impact) exists when individuals have an opportunity to engage in fraudulent activity, have an incentive or are under pressure to commit fraud, or are able to rationalize committing fraud. Fraud risk management is a process for ensuring program integrity by continuously and strategically mitigating the likelihood and impact of fraud. When fraud risks can be identified and mitigated, fraud may be less likely to occur. Although the occurrence of fraud indicates there is a fraud risk, a fraud risk can exist even if actual fraud has not yet been identified or occurred.

⁷In addition to emergency work, FEMA provides PA grant funds for permanent work—including the repair, replacement, or restoration of disaster-damaged, publicly owned facilities and the facilities of certain private nonprofit organizations—and management costs. We did not include FEMA's efforts to manage fraud risks to permanent work and management costs within the scope of our review, although in practice FEMA's efforts to manage fraud risks may apply to PA grant funds, regardless of the category of work.

responsibilities for such efforts. Finally, we compared FEMA's efforts identified through these sources to the selected leading practices.

To evaluate the extent to which FEMA helps ensure PA applicants are able to meet their responsibilities for managing fraud risks to emergency work grants, we identified leading practices relevant to working with external stakeholders from the Fraud Risk Framework, as applicants are PA program stakeholders. We reviewed FEMA documents that include information on applicants' responsibilities and FEMA's efforts to assist applicants with those responsibilities. Specifically, we reviewed, among others, the *Public Assistance Program and Policy Guide* (PAPPG) and FEMA-State agreements,⁸ FEMA's Monitoring Plan, training courses, guidance documents, fact sheets, and other resources, as well as relevant legislation and regulations. We also interviewed FEMA officials with responsibility for developing or providing training and guidance to PA applicants and to FEMA staff who work most directly with PA applicants.

Further, we conducted site visits to two states that received PA emergency work grants for the 2017 disasters—Texas and California—in spring 2019.⁹ During our site visits to the selected states, we met with 19 PA applicants to obtain their perspectives on FEMA's efforts to help ensure they understand and are able to carry out their responsibilities for managing fraud risks. Specifically, we met with the Texas PA recipient and seven subrecipients in Texas, and the California PA recipient and ten subrecipients in California. In addition, we obtained and analyzed information on contractors hired by selected PA applicants to conduct emergency work following the 2017 disasters in the two states we visited. We used this information to assess the extent to which FEMA's efforts to communicate information on one of the applicants' responsibilities—ensuring contractor eligibility and responsibility—help ensure applicants are able to meet that responsibility. The results of our review are not generalizable to all contractors hired for PA emergency work.

We assessed the reliability of FEMA-provided data used to select states and PA applicants for our site visits and contractor analysis and

⁸After every declaration, the applicable state, territorial, or tribal government enters into an agreement with FEMA regarding the understanding, commitments, and conditions under which FEMA will provide assistance. 44 C.F.R. § 206.44.

⁹We selected these states from among the five states and territories affected by the 2017 disasters. As of June 2020, FEMA had obligated \$1.26 billion for PA emergency work projects in Texas for Hurricane Harvey and \$589 million for such projects for wildfires in California beginning in October and December 2017.

information used for our contractor analysis by reviewing relevant documentation and interviewing knowledgeable agency officials. In addition, we performed electronic testing on specific data elements in the FEMA-provided data and compared the data to publicly reported information on FEMA PA emergency work project funding. We determined that these data were sufficiently reliable for the purposes of our reporting objectives. Appendix I describes our scope and methodology in more detail.

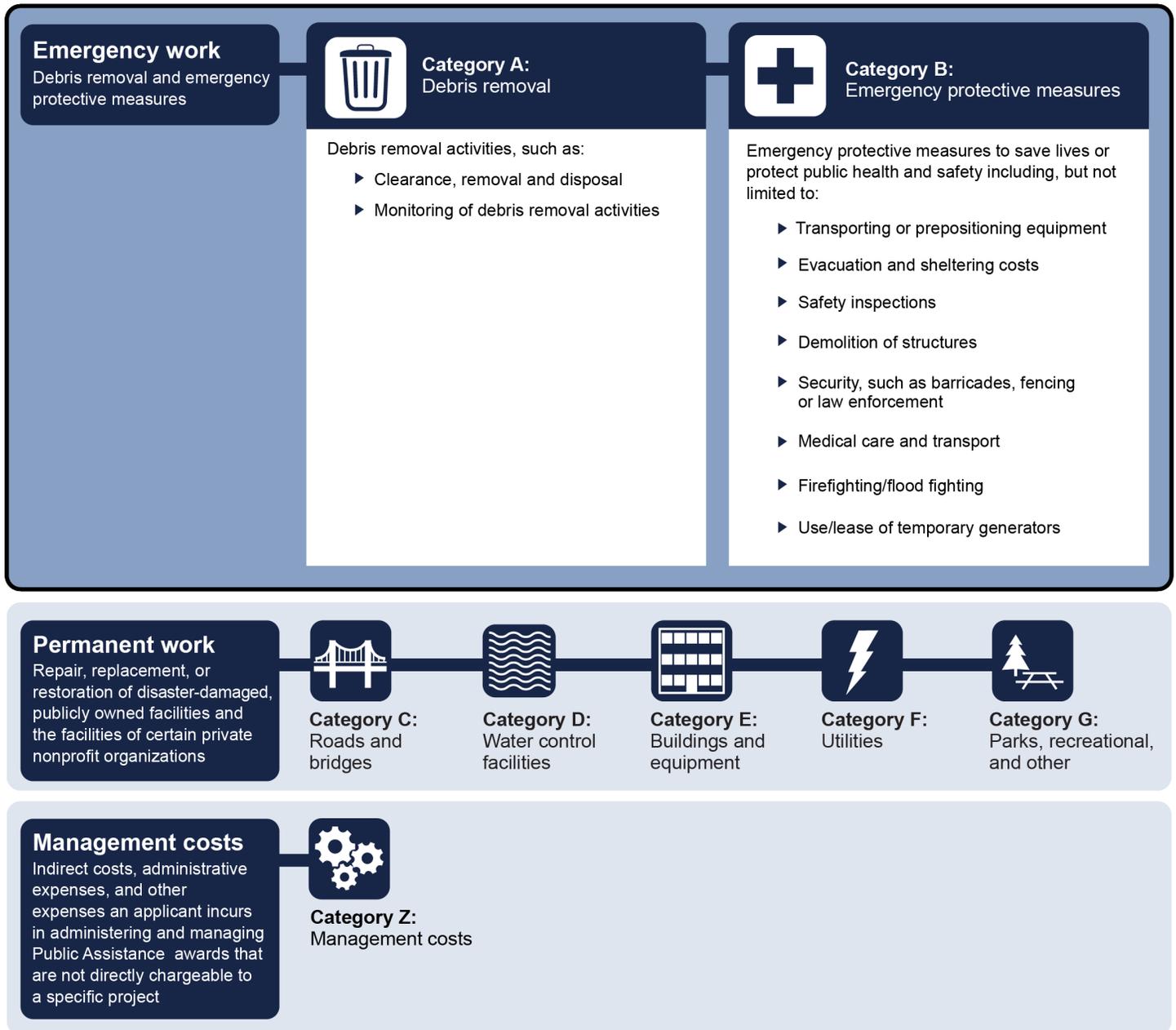
We conducted this performance audit from June 2018 to September 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

FEMA's PA Process

FEMA's PA program provides funding to eligible applicants—state, territorial, local, and tribal governments, as well as certain types of private nonprofit organizations—to assist them in responding to and recovering from major disasters or emergencies. PA program funds are categorized broadly as either “emergency work” or “permanent work.” Within those two broad categories are separate sub-categories. In addition to the emergency work and permanent work categories, FEMA's PA program includes Category Z, which represents indirect costs, administrative expenses, and other expenses an applicant incurs in administering and managing awards that are not directly chargeable to a specific project. Figure 1 shows the categories of work under the PA grant program.

Figure 1: Federal Emergency Management Agency's Public Assistance Program Categories of Work

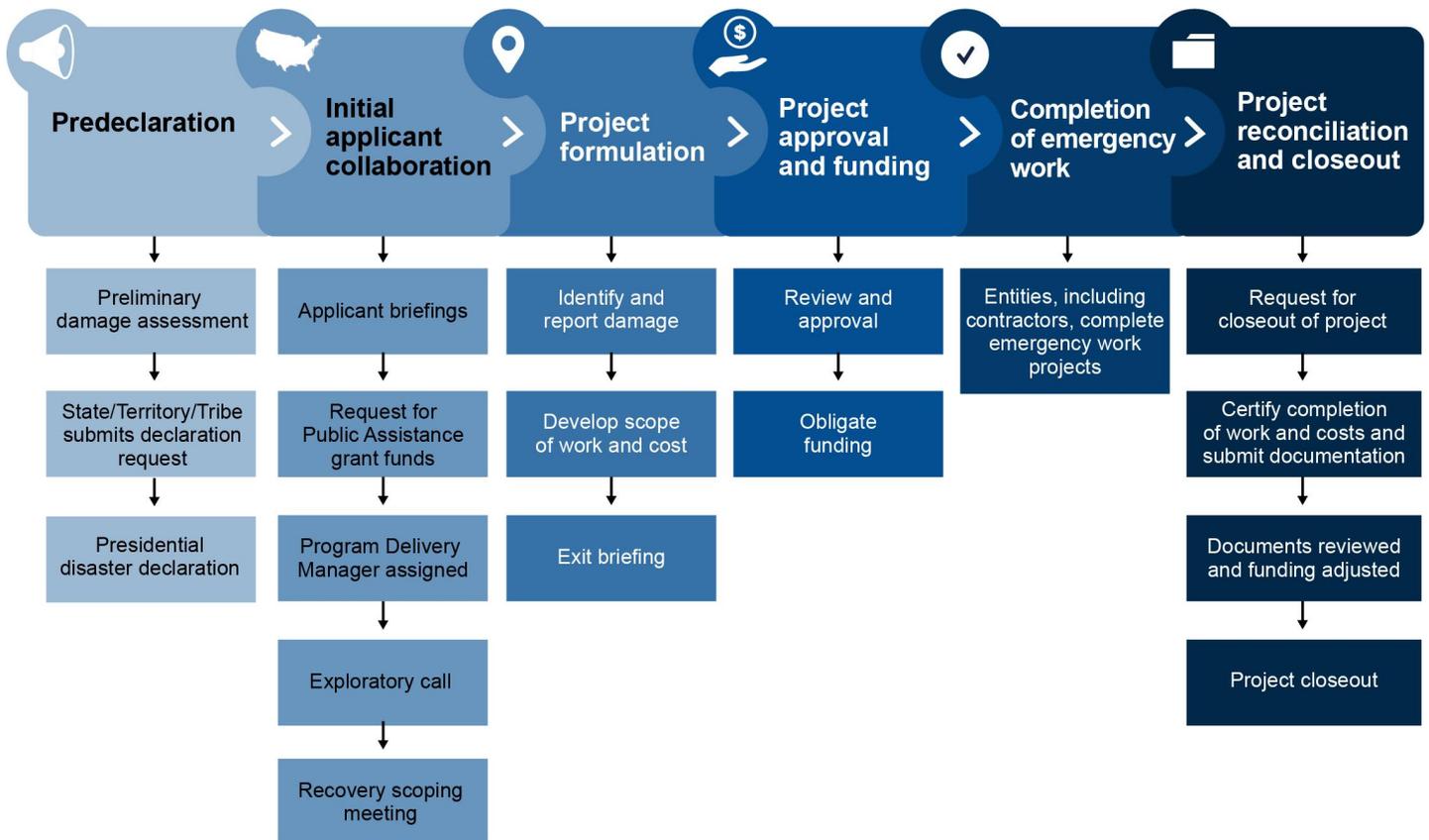


Source: Federal Emergency Management Agency. | GAO-20-604

As a partnership between FEMA and state, territorial, or tribal government recipients, PA entails an extensive paperwork and review process between FEMA and the recipient based on specific rules for eligibility.

Figure 2 provides an overview of the process for administering PA emergency work grants, from prior to the disaster declaration through project closeout.

Figure 2: Public Assistance Emergency Work Grant Process



Source: GAO analysis of Federal Emergency Management Agency information. | GAO-20-604

After a disaster, as part of the predeclaration phase, FEMA sends PA program staff to the affected area to work with state and local officials to assess the damage. FEMA officials establish a temporary joint field office to house staff who will manage response and recovery functions after a declared disaster.¹⁰ Once the President has declared a disaster, FEMA

¹⁰The joint field office is a temporary federal multiagency coordination center established locally to facilitate field-level domestic incident management activities related to prevention, preparedness, response, and recovery when activated by the Secretary of Homeland Security. The joint field office provides a central location for coordination of federal, state, local, tribal, nongovernmental, and private-sector organizations with primary responsibility for activities associated with threat response and incident support.

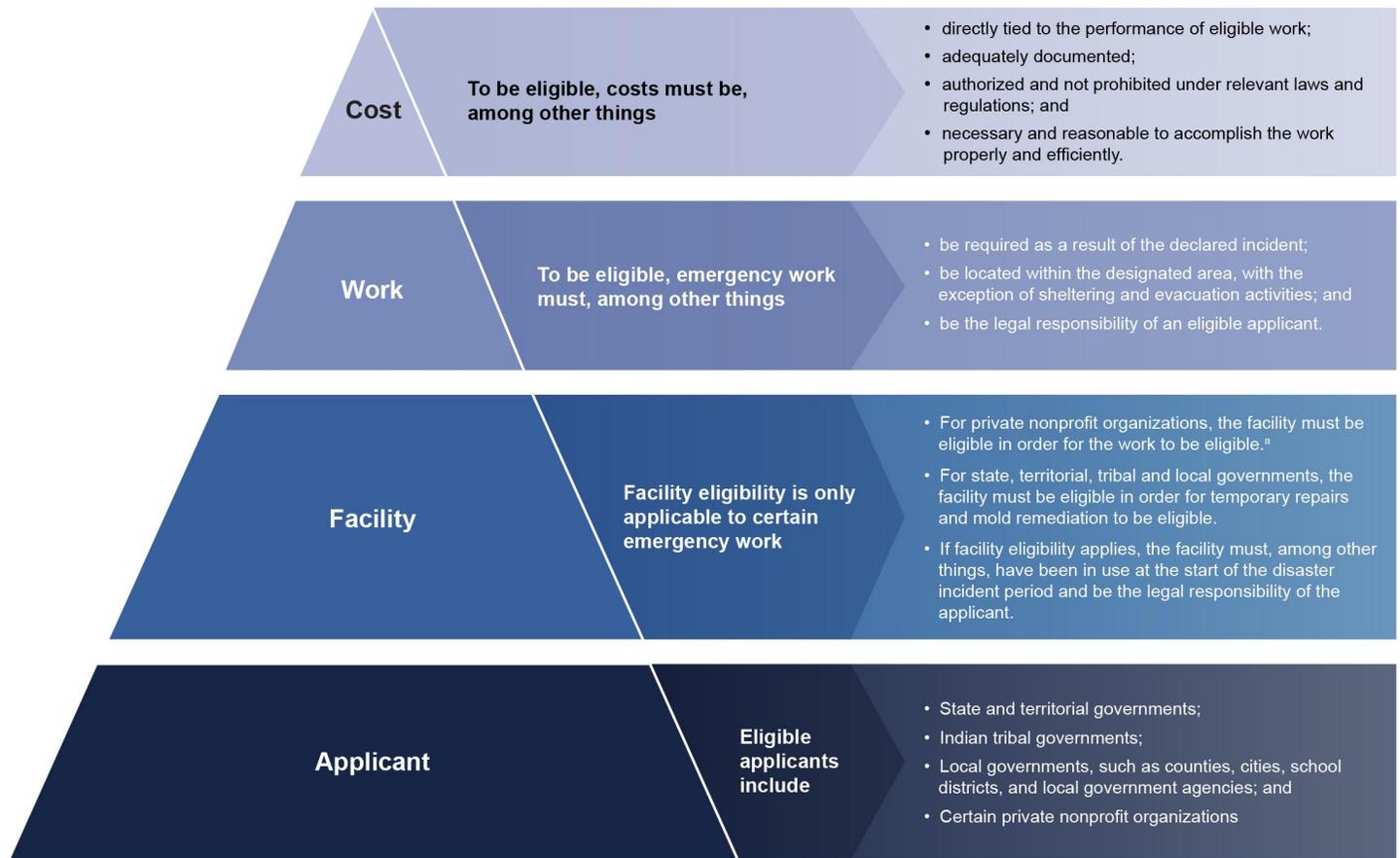
and the recipient (e.g., a state government) begin initial collaboration with applicants. Specifically, the recipient first conducts briefings for potential applicants. If interested in seeking PA funding, applicants submit a request for grant funds to FEMA, through the recipient. Under a redesign to the PA program began in 2015, FEMA assigns a Program Delivery Manager (PDMG) to assist each applicant by serving as a single point of contact throughout the process.¹¹ Next, as part of the project formulation phase, FEMA PA staff and the recipient work with applicants to identify and document damages, identify eligible costs and work, and formulate this information into project worksheets, which describe the scope of work and estimated or actual cost.¹²

As part of the project approval and funding process, FEMA officials review project proposals to determine if they are eligible for PA emergency work funding. Specifically, FEMA determines whether each of four components—applicant, facility (for certain types of emergency work only), work, and cost—is eligible, beginning with the applicant and working up to cost. Figure 3 shows examples of rules and policies for determining the eligibility of each component of PA emergency work.

¹¹In 2015, FEMA awarded a contract for program support to help implement a redesigned PA program. We previously reported that, according to FEMA officials, the redesigning effort was primarily focused on specializing roles, segmenting the work, standardizing processes, and consolidating resources. It also included developing a new information system (PA Grants Manager and Grants Portal) to better maintain and share grant documentation. In September 2017, FEMA decided to begin using the new delivery model nationwide for all subsequent declared disasters—including hurricanes Harvey and Irma in Texas and Florida and the wildfires in California—with the exception of hurricanes Irma and Maria in Puerto Rico and the U.S. Virgin Islands. See GAO, *2017 Hurricanes and Wildfires: Initial Observations on the Federal Response and Key Recovery Challenges*, [GAO-18-472](#) (Washington, D.C.: Sept. 4, 2018). In May 2019, FEMA determined that it would transition to the new Public Assistance program delivery model in Puerto Rico and the U.S. Virgin Islands beginning on June 3, 2019.

¹²There are no caps on the amount of funding an applicant can receive under the PA program as long as the project meets eligibility requirements.

Figure 3: Examples of Eligibility Rules and Policies for Public Assistance Emergency Work



Source: GAO analysis of Federal Emergency Management Agency information. | GAO-20-604

^aAn eligible private nonprofit facility is one that provides educational, utility, emergency, medical, or custodial care, or other essential social-type services to the general public.

If FEMA determines that each of the components is eligible, it obligates funds to the recipient, which then provides funding to the applicant. After FEMA approves the project and obligates funds, the applicant completes the work, if it has not already been completed. PA emergency work may be completed by the applicant’s own personnel, by another jurisdiction through a mutual aid agreement, or under a contract, if the applicant meets federal procurement and contracting requirements. Figure 4 shows the flow of funding for PA emergency work grants.

Figure 4: Flow of Public Assistance Emergency Work Grant Funds



Source: GAO analysis of FEMA information. | GAO-20-604

Finally, as part of the project reconciliation and closeout phase, the applicant certifies that the work has been completed, submits any necessary documentation, and requests closeout of the project. The recipient reviews the information and must certify that all incurred costs are within the approved scope of work and that the applicant completed all work in accordance with FEMA regulations and policies. The recipient submits its certification of the applicant's completion of its projects and supporting documentation to FEMA. FEMA then reviews the documentation, makes any necessary adjustments to funding, and closes the project.

Fraud Risk Management

Fraud Risk Management Standards and Guidance

Executive-branch agency managers are responsible for managing fraud risks and implementing practices for combating those risks. In July 2015, we issued the Fraud Risk Framework, which provides a comprehensive set of key components, overarching concepts, and leading practices that serve as a guide for agency managers to use when developing efforts to combat fraud in a strategic, risk-based way, as shown in figure 5.¹³

¹³[GAO-15-593SP](#).

Figure 5: GAO's Fraud Risk Management Framework



Source: GAO. | GAO-20-604

The Fraud Reduction and Data Analytics Act of 2015, enacted in June 2016, required the Office of Management and Budget (OMB) to establish guidelines for federal agencies to create controls to identify and assess fraud risks and to design and implement antifraud control activities. The act further required OMB to incorporate the leading practices from the Fraud Risk Framework in the guidelines. Although the Fraud Reduction and Data Analytics Act of 2015 was repealed in March 2020, the Payment

Integrity Information Act of 2019 requires these guidelines to remain in effect, subject to modification by OMB as necessary and in consultation with GAO.¹⁴

The Fraud Risk Framework, among other things, includes leading practices related to identifying and assessing fraud risks. Specifically the first component—commit—calls for program managers to commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management, including by designating an antifraud entity to manage the fraud risk assessment process. The second component—assess—includes program managers planning regular fraud risk assessments and provides leading practices for planning and conducting regular fraud risk assessments, including identifying and assessing risks and documenting the results in the program's fraud risk profile.

While executive-branch agency managers are responsible for managing fraud risks and implementing practices for combating those risks, the Fraud Risk Framework also recognizes that program managers routinely rely on external parties—such as state and local governments—to implement aspects of the program's operations, including fraud risk management activities. As such, the framework also includes leading practices that, if implemented effectively, can help ensure that stakeholders are able to meet their responsibilities for managing fraud risks. For example, the third component—design and implement—calls for program managers to provide fraud-awareness training to stakeholders with responsibility for implementing aspects of the program.

Responsibilities for Fraud Risk Management in the PA Program

PA is a complex and multistep grant program administered through a partnership between FEMA and state, territorial, or tribal government recipients, which pass these funds along to eligible subrecipients. Laws, regulations, and guidance establish roles and responsibilities for FEMA and PA applicants—recipients and subrecipients—including responsibilities that can help prevent, detect, or respond to fraud or

¹⁴Pub. L. No. 116-117, § 2(a), 134 Stat. 113, 131 - 132 (2020), codified at 31 U.S.C. § 3357.

potential fraud involving these grant funds, or otherwise help ensure program integrity (see table 1).¹⁵

Table 1: Examples of FEMA’s, Recipients’, and Subrecipients’ Responsibilities That Can Help Manage Fraud Risks to Public Assistance Emergency Work Grants

FEMA Responsibilities	Recipient Responsibilities ^a	Subrecipient Responsibilities
Ensure proper internal controls to prevent and detect fraud, waste, and abuse.	Establish and maintain effective internal control over the grant funds.	Establish and maintain effective internal control over the grant funds.
Work with recipients and subrecipients to obtain documentation to support eligibility and determine eligibility.	Communicate information regarding eligibility to subrecipients and work with them to obtain documentation to support eligibility.	Maintain and provide relevant documentation necessary to substantiate its claims as eligible.
Monitor recipients.	Monitor subrecipients.	Monitor its activities, including the activities of its contractors, to assure compliance with applicable federal requirements. Comply with relevant federal regulations for procurement under grants. ^b
Review documentation, make adjustments to funding of large projects, if necessary, based on actual costs, and close projects.	Certify subrecipients’ projects as complete, including certifying that costs are associated with the approved scope of work and that the subrecipient completed all work in accordance with FEMA regulations and policies.	Complete all work in accordance with FEMA regulations and policies.
Take appropriate action to remedy noncompliance.	Take prompt action when instances of noncompliance are identified.	Take prompt action when instances of noncompliance are identified.
Recover funds when necessary.	Recover funds expended in error, misrepresentation, fraud, or for costs otherwise disallowed or unused; repay improper payments or overpayments; and ensure subrecipients are aware of their responsibility to repay duplicate funding.	Repay improper payments or overpayments.
Ensure that recipients are not suspended or debarred, and that applicants comply with federal guidelines on suspension and debarment.	Ensure subrecipients are not suspended or debarred.	Ensure contractors are not suspended or debarred, if applicable, and are otherwise responsible. ^c
Report suspected fraud and cooperate with investigations.	Report suspected fraud and cooperate with investigations.	Report suspected fraud and cooperate with investigations.

¹⁵OMB regulations at 2 C.F.R. part 200 establish uniform government-wide administrative requirements, cost principles, and audit requirements for federal awards to non-federal entities. DHS, which includes FEMA, formally adopted this uniform guidance effective December 26, 2014. 2 C.F.R. § 3002.10. However, OMB’s uniform guidance included an elective 3 fiscal-year grace period, which permitted non-federal entities to continue to comply with the procurement standards in previous OMB guidance. 2 C.F.R. § 200.110(a). Because of the dates of the disasters discussed in this report, it is possible some FEMA applicants continued to comply with the previous procurement standards instead of those discussed here. If an applicant chose this option, it was required to have documented this decision in its internal procurement policies.

Source: GAO analysis of relevant statutes, regulations, and FEMA documents. | GAO-20-604

^aThis column includes a recipient's responsibilities when acting in its role as recipient. A recipient may be a state, territorial, or tribal government. Entities that receive funds as a recipient who are also applicants for their own PA emergency work projects also have responsibilities related to those projects. These responsibilities are shown in the Subrecipient Responsibilities column.

^bProcurement requirements are different for states and territories than for other types of non-federal entities. Specifically, a state or territory must follow the same policies and procedures it uses for procurements from its non-federal funds, in addition to certain other requirements. 2 C.F.R. §§ 200.317 and 200.90. According to FEMA guidance, this procurement standard applies to state and territorial agencies irrespective of whether that agency is acting as a recipient or subrecipient under a FEMA award. Non-federal entities other than states and territories are required to follow federal regulations for procurement under grants outlined in 2 C.F.R. §§ 200.318 - 200.326.

^cAll non-federal entities—including all types of PA applicants—are required to follow federal regulations that restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal assistance programs or activities. 2 C.F.R. § 200.213. In addition, non-federal entities other than states or territories—including non-state PA applicants such as tribal and local governments and nonprofit organizations—must award contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. 2 C.F.R. § 200.318(h).

FEMA's Office of Response and Recovery manages the PA grant program, while its Grant Programs Directorate provides guidance for implementing the monitoring process, among other things. In addition to these PA program-specific responsibilities, FEMA has other broader agency efforts related to fraud risk management specifically or risk management generally. For example, it established the Fraud Investigations and Inspections Division (FIID), a division of the Office of the Chief Security Officer, in response to fraud associated with major hurricanes in the mid-2000s. Among other things, FIID is responsible for conducting program reviews to identify potential improvement to internal controls to prevent and detect fraud, waste, and abuse. In addition, FEMA's Office of the Chief Financial Officer is responsible for efforts to identify improper payments and developed FEMA's ERM framework. These efforts are described in additional detail later in this report.

Fraud Risks to PA Emergency Work Grants

DHS OIG's reports and instances of fraud or potential fraud have highlighted fraud risks to PA emergency work grants. Examples of such fraud risks include

- **Fraudulent claims involving debris removal.** Debris removal is one area in which fraud can occur. In a 2018 management alert, DHS OIG reported that inadequate monitoring of debris removal for Hurricane Irma in Florida and Georgia posed risks of overstated debris removal activity and questionable costs for reimbursement, such as load calls that are higher than actual

amount of debris removed.¹⁶ DHS OIG reported that because of issues identified such as inadequate guidance, there is increased risk of fraud, waste, and abuse involving debris removal. According to one DHS OIG official we met with, the OIG has seen many fraudulent schemes involving debris removal, including false documentation (such as doctoring a load call ticket) or loading trucks with things other than debris so the contractor is paid for more debris than they removed. We reviewed DHS OIG's semi-annual reports published in the 10 years prior to the 2017 disasters and found several instances in which DHS OIG reported on fraud cases involving debris removal.

Further, according to FIID, which receives fraud complaints through its own hotline and from DHS OIG, FIID received 63 complaints related to debris removal between January 1, 2017 and March 31, 2020, compared with 44 other-PA-related complaints during the same time period.

- **Procurement and contract fraud.** Procurement and contracts are another major area in which fraud can occur. For example, fraud can occur if contractors intentionally misrepresent information to receive a contract or if a contractor claims reimbursement from an applicant for work that was not performed, and then the applicant claims reimbursement under a PA emergency work project. In January 2020, the Department of Justice reported that the owner of a construction company in the U.S. Virgin Islands was sentenced to 14 months in prison and ordered to pay over \$179,000 in restitution for fraud related to FEMA's Sheltering and Temporary Essential Power pilot program,

¹⁶Applicants pay debris haulers for the volume of debris collected in each truck measured in cubic yards. Debris monitors estimate the percentage of debris each truck bring to the debris staging or dump site (commonly referred to as a "load call"). To record the amount of estimated cubic yards of debris actually dumped, monitors prepare a load call ticket. When haulers overstate debris loads or collect unauthorized debris, applicants can end up incurring and requesting reimbursement for unreasonable or ineligible costs. Department of Homeland Security, Office of Inspector General, *Management Alert: Observations of FEMA's Debris Monitoring Efforts for Hurricane Irma*, OIG-18-85 (Washington, D.C.: Sept. 27, 2018).

which is funded through PA.¹⁷ According to the Department of Justice, the company owner executed a scheme whereby the company submitted fraudulent invoices and timesheets related to a PA-funded subcontract, showing work not actually performed.

From October 2014 through June 2017, DHS OIG questioned more than \$256 million in ineligible contract costs for PA program and other FEMA grants because subrecipients did not follow federal procurement regulations. In addition, DHS OIG identified \$191 million in ineligible costs that subrecipients may have incurred had DHS OIG not identified the procurement problems before FEMA obligated grant funds.¹⁸ Specifically, DHS OIG identified instances in which subrecipients failed to provide full and open competition and failed to verify whether contractors were suspended, debarred, or otherwise excluded or ineligible. While DHS OIG did not report that these ineligible costs were fraudulent, it reported that, as a result of the issues identified, there was an increased risk for fraud, waste, and abuse.

- **Collusion, kickbacks, and bribery.** FEMA officials and officials from one PA recipient we met with noted that fraud in the program typically involves collusion. Collusion can occur between applicants and contractors, between debris removal contractors and debris monitoring contractors, between applicants and FEMA officials, or between contractors and FEMA officials. The National Center for Disaster Fraud includes complaints involving local government officials embezzling FEMA funds, which could include

¹⁷The Sheltering and Temporary Essential Power pilot program is an emergency sheltering program implemented under the PA program's category B emergency work. The program was created following Hurricane Sandy in 2012 and allows FEMA to fund emergency, temporary repairs to make damaged homes habitable by, for example restoring electricity to a private home and applying temporary patches to roofs and windows to protect the interior. FEMA decided to discontinue the pilot program in May 2019 due to significant challenges and lessons learned from prior experiences implementing the program. See GAO, *U.S. Virgin Islands Recovery: Additional Actions Could Strengthen FEMA's Key Disaster Recovery Efforts*, [GAO-20-54](#) (Washington, D.C.: Nov. 19, 2019).

¹⁸Department of Homeland Security, Office of Inspector General, *Lessons Learned from Prior Reports on Disaster-related Procurement and Contracting*, OIG-18-29 (Washington, D.C.: Dec. 5, 2017).

PA funds, as an example of a type of complaint it may receive.¹⁹ In its April to September 2014 semiannual report, DHS OIG reported that an elected town official sought kickbacks for improperly awarded debris removal contracts that were paid for by FEMA funds. According to DHS OIG, the town official was sentenced to 87 months incarceration, followed by 36 months of supervised release, a fine of \$125,000, and ordered to pay \$106,346 in restitution.²⁰

Procurement Requirements for PA Applicants

To receive PA funding for contract costs for emergency work, applicants must comply with federal procurement requirements. Federal procurement requirements for states and territories are different than for other types of non-federal entities. Specifically, states and territories must follow the same policies and procedures they would use for procurements with their non-federal funds, in addition to certain other requirements.²¹ According to FEMA guidance, this procurement standard applies to state and territorial agencies irrespective of whether that agency is acting as a recipient or subrecipient under a FEMA award.

PA applicants other than states and territories (hereafter, non-state PA applicants), such as tribal and local governments and private nonprofit organizations, must use their own documented procurement procedures that reflect applicable state, territorial, tribal, and local government laws and regulations, provided that the procurements conform to applicable

¹⁹The National Center for Disaster Fraud, established in 2005, is the result of a partnership between the U.S. Department of Justice and various law enforcement and regulatory agencies to form a national coordinating agency to improve and further the detection, prevention, investigation, and prosecution of fraud related to natural and man-made disasters, and to advocate for the victims of such fraud. Among other things, the center operates a hotline to receive reports of disaster-related fraud. The center classifies complaints it receives by category. Such categories include, among other things, “FEMA fraud” and “public corruption.”

²⁰While allegations in an indictment are merely accusations that have not been proven, we also note an instance of potential fraud in an indictment filed in September 2019, charging a scheme to influence the award of certain contracts by the Puerto Rico Electric Power Authority—a PA applicant for Hurricane Maria. The charges include conspiracy to commit bribery of public officials, disaster fraud, and wire fraud, and are alleged to involve the former president of a contractor as well as FEMA officials.

²¹In addition, states and territories must ensure that every purchase order or other contract includes certain required clauses, among other requirements. 2 C.F.R. §§ 200.317 and 200.90.

federal laws and standards.²² For example, to receive PA funds for contract costs, tribal and local governments and private nonprofit organizations must comply with federal standards requiring that they provide full and open competition unless an exception applies and exclude contractors that were involved in developing or drafting procurement specifications from competing for such procurements.²³ In addition, these applicants must maintain records sufficient to detail the history of procurement, including but not limited to the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.²⁴

Federal regulations also establish requirements for applicants related to the eligibility and responsibility of contractors hired to perform work under federal grants, including contractors hired to conduct PA emergency work.²⁵

Eligibility of contractors. All non-federal entities—including all types of PA applicants—are required to follow federal regulations that restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal assistance programs or activities.²⁶ Specifically, regulations prohibit non-federal entities from entering into a “covered transaction” with a party listed on the System for Award Management (SAM) Exclusions

²²2 C.F.R. § 200.318(a).

²³2 C.F.R. § 200.319(a). See 2 C.F.R. §§ 200.318 - 200.326 for requirements for non-federal entities other than states or territories when procuring under federal grants.

²⁴2 C.F.R. § 200.318(i).

²⁵As with other federal regulations for procurement under grants, the regulations provide different requirements for states and territories than for non-federal entities other than states and territories.

²⁶2 C.F.R. § 200.213.

list.²⁷ Covered transactions generally include, among other things, contracts and subcontracts awarded by the non-federal entity in the amount of at least \$25,000.²⁸

Responsibility of contractors. Non-federal entities other than states or territories must award contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement, giving consideration to such matters as (1) contractor integrity, (2) compliance with public policy, (3) record of past performance, (4) financial resources, and (5) technical resources.²⁹

FEMA provides additional guidance to non-state PA applicants—including tribal and local governments and private nonprofit organizations—on these five matters. In guidance from 2016—the most recent guidance at the time of the 2017 disasters—FEMA provides several indicators that non-state PA applicants may consider in assessing contractor integrity. Specifically, these indicators include whether the contractor has committed fraud or a criminal offense in connection with obtaining or attempting to obtain a contract; committed embezzlement, theft, forgery, bribery, falsification or destruction of records, or tax evasion; violated federal criminal tax laws; or has delinquent federal or state taxes. FEMA requires non-state PA applicants to document their rationale for contractor selection or rejection, including a written responsibility determination for the contractor.

²⁷SAM is the primary government repository for prospective federal awardee information and the centralized government system for certain contracting, grants, and other assistance-related processes. It includes data collected from prospective federal awardees required for the conduct of business with the government; prospective contractor-submitted annual representations and certifications in accordance with the Federal Acquisition Regulation; and identification of those parties excluded from receiving federal contracts, certain subcontracts, and certain types of federal financial and nonfinancial assistance and benefits. Because non-federal entities use funds derived from a federal grant to enter into the covered transaction, the rules of assistance exclusion are governed by OMB guidelines to agencies on government-wide debarment and suspension for nonprocurement programs and activities set forth at 2 C.F.R. Part 180.

²⁸2 C.F.R. §§ 3000.220 and 180.220.

²⁹2 C.F.R. § 200.318(h).

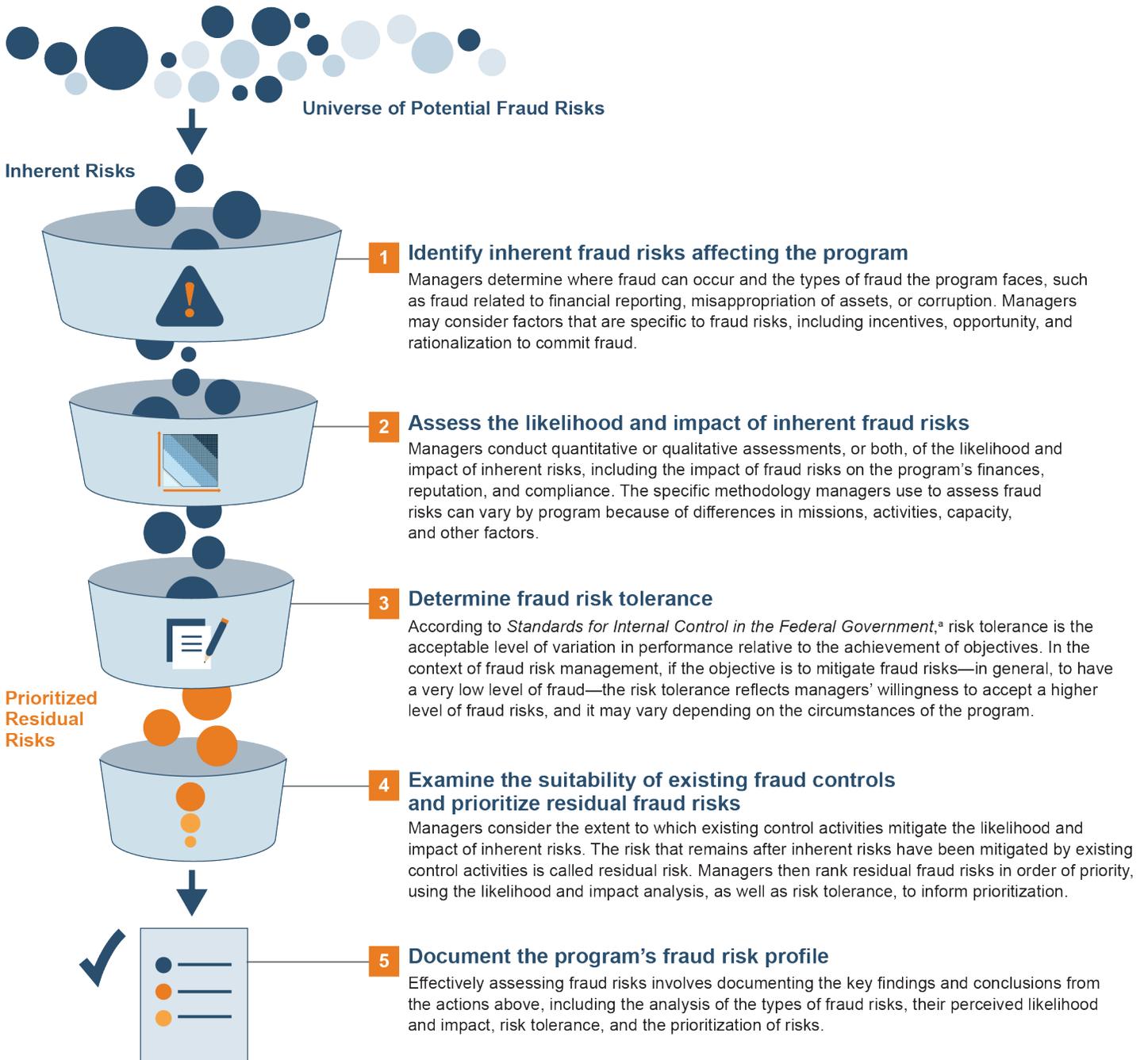
FEMA Has Not Conducted a Comprehensive Fraud Risk Assessment for PA Emergency Work Grants or Designated an Antifraud Entity

FEMA Has Identified Some Risks but Has Not Comprehensively Assessed Fraud Risks to PA Emergency Work Grants

FEMA has identified some risks to PA grant funds and has ongoing or planned efforts that could inform a fraud risk assessment but has not comprehensively assessed fraud risks to PA emergency work grants in alignment with leading practices. The second component of the Fraud Risk Framework—*assess*—calls for federal managers to plan regular fraud risk assessments and to assess risks to determine a fraud risk profile. Specifically, leading practices include tailoring the fraud risk assessment to the program and planning to conduct the assessment at regular intervals and when there are changes to the program or operating environment. The leading practices also include identifying the tools, methods, and sources for gathering information about fraud risks and involving relevant stakeholders in the assessment process.

The Fraud Risk Framework also identifies leading practices for conducting a fraud risk assessment to determine a fraud risk profile. Fraud risk assessments that align with the Fraud Risk Framework involve (1) identifying inherent fraud risks affecting the program, (2) assessing the likelihood and impact of those fraud risks, (3) determining fraud risk tolerance, (4) examining the suitability of existing fraud controls and prioritizing residual fraud risks, and (5) documenting the results, as illustrated in figure 6.

Figure 6: Key Elements of the Fraud Risk Assessment Process



Source: GAO. | GAO-20-604

Letter

^aGAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014), 6.08.

FEMA identified and reported some risks to PA grants, including emergency work grant funds, for the 2017 disasters. Specifically, in its contribution to DHS's plan for ensuring internal control over spending disaster relief funding for the 2017 disasters—the DHS Internal Control Plan for Supplemental Disaster Appropriations—FEMA identified risks associated with funded activities, including PA grants.³⁰ The plan was issued on October 10, 2018, after FEMA had begun obligating funds for PA emergency work projects for the 2017 disasters.

FEMA did not specifically identify any risks to PA grants in the plan as fraud risks; however, it identified some risks that could result in misuse of funds. Misuse of funds could be fraudulent if the misuse occurs through willful misrepresentation. Specifically, the plan identifies “grantee oversight and appropriate use of funds” as a risk, noting that grant recipients may use grant funds for activities prohibited under the terms and conditions of the grant. In addition, the plan identifies “pre-existing operating environment conditions” as a risk, noting that financial instability in Puerto Rico has resulted in a limited capacity to provide the personnel, equipment, materials, and additional resources necessary to rebuild. The plan notes that there is a potential risk of misuse of funds, coupled with a lack of resources and oversight in Puerto Rico.

FEMA has grants-management and program-integrity efforts in place that could identify risks to PA grant funds; however, it has not identified fraud risks through these efforts. These efforts serve an important program-integrity purpose and may help identify instances of potential fraud, but they are not designed to comprehensively identify or assess fraud risks to PA emergency work grants. FEMA's program-integrity efforts include

- **Grants management and monitoring of grant recipients.** According to FEMA officials, the PA program office's approach to fraud is to identify and reduce risks to grants during the development of grant awards and through ongoing monitoring processes. According to these officials, these processes help ensure that PA grants go to eligible applicants and that project purposes are eligible and not fraudulent. For example, when developing grant awards, FEMA collects documentation and conducts site inspections to validate, quantify, and document the location and details of the

³⁰In the supplemental appropriations acts that provided for over \$120 billion in additional funding for response and recovery activities related to Hurricanes Harvey, Irma, and Maria and the California wildfires, Congress required federal agencies to submit their plans for ensuring internal control over spending disaster relief funding.

reported damage and to verify that the damage is disaster-related. As discussed in more detail below, FEMA regional offices conduct financial monitoring of PA grant recipients within their region on a rotating, biannual basis and by reviewing quarterly reports from grant recipients.

- **Improper-payments testing.** Improper payments may suggest that a program may also be vulnerable to fraud, although it is important to note that fraud is one specific type of improper payment, and improper payment estimates are not intended to measure fraud in a particular program.³¹ FEMA calculates a national average improper payment rate for the PA program using a 3-year assessment cycle structured to assess the top states within specific regions on a cyclical basis. In fiscal year 2019, for the PA grant program as a whole—including both emergency and permanent work—FEMA estimated a national average improper payment rate of less than 1 percent.³² This estimate was based on an average of the error rates from the regions tested in fiscal years 2019—which included a sample of fiscal year 2018 payments—2018, and 2017.³³ FEMA determined that none of the improper payments was attributable to fraud; rather, it determined the root cause of all PA improper payments to be the result of administrative or process errors made by PA recipients.
- **Validate-as-you-go (VAYGo).** FEMA implemented the VAYGo pilot program to test PA and certain other disaster grant expenditures for Hurricanes Harvey, Irma, and Maria in response to appropriations act provisions and OMB guidance that agencies implement additional measures to identify and address improper payments for disaster

³¹An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. While improper payments may be caused by unintentional error, fraud involves obtaining something of value through willful misrepresentation. Whether an act is fraudulent is determined through the judicial or other adjudicative system.

³²We did not evaluate FEMA's improper-payments-testing methodology or rate as it was outside of the scope of this audit.

³³This testing did not include funding for Hurricanes Harvey, Irma, and Maria. FEMA is testing this funding separately through the Validate-as-you-go (VAYGo) pilot program.

programs expending more than \$10,000,000 in any one fiscal year.³⁴ As part of VAYGo, FEMA reviews project documentation for a sample of funds as they are drawn down by recipients and conducts testing to verify whether the project funding was appropriately expended by the subrecipient. One goal of VAYGo is to identify potential problems earlier, allowing FEMA and recipients—including PA recipients—to correct or mitigate issues earlier in the process instead of waiting until grant closeout. According to FEMA officials that conduct the testing, the primary goal of VAYGo is to test for ineligible costs, which can serve as a gateway for the agency to be on notice of issues of fraud, waste, or abuse in the PA program.

FEMA's improper-payments-testing methodology tests payments from FEMA to PA recipients and recipients to subrecipients. VAYGo, however, looks to see whether the subrecipient properly expended funds. For example, through VAYGo testing, duplicate payments could be identified at the subrecipient level. In its testing of a statistical sample of drawdowns made by grant recipients in fiscal year 2018, FEMA determined that less than 1.7 percent of payments tested for the states of Texas, Louisiana, Georgia, Florida, and South Carolina combined, but over 28 percent of payments for Puerto Rico and the U.S. Virgin Islands required additional information to validate.³⁵ According to FEMA officials, the agency identified concerns such as expedited funding provided to subrecipients without documentation to support costs, procurement requirements for some projects in the U.S. Virgin Islands, and missing documentation. As of late March 2020, FEMA regional offices were working to gather missing

³⁴Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017, Pub. L. No. 115-72, Div. A, Title III, § 305(b), 131 Stat. 1224, 1228 (2017), as amended by the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018, Pub. L. No. 115-123, Div. B, Subdiv. 1, Title XII, § 21208, 132 Stat. 64, 108 (2018). Office of Management and Budget, Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations, OMB Memorandum M-18-14 (Washington, D.C.: Mar. 30, 2018).

³⁵As discussed in more detail later in this report, FEMA instituted a manual reimbursement process for applicants in Puerto Rico in November 2017 and removed the manual reimbursement process in April 1, 2019. Therefore, the sample of payments tested for Puerto Rico includes payments made while the manual reimbursement process was in place. FEMA reinstated the manual reimbursement process in July and removed the requirement again in September 2019, contingent on Puerto Rico's continued ability to implement the mutually acceptable internal controls plan. FEMA also implemented a manual reimbursement process in the U.S. Virgin Islands in October 1, 2019, because of the high rate of questioned costs. According to FEMA officials, as of March 2020 the U.S. Virgin Islands remain on the manual reimbursement process until they provide a written internal control plan and staffing plan to implement the internal controls.

documentation and provide eligibility determinations for the payments requiring additional information.

Further, FEMA has broader agency efforts planned that could identify fraud risks to PA emergency work grants. These efforts have some elements that align with some leading practices for assessing fraud risks, but they are not designed to comprehensively assess fraud risks to PA emergency work grants. For example, these efforts include

- **FIID program review.** The mission of FIID’s program review branch is to conduct reviews of FEMA programs and grant actions to ensure internal controls are established to prevent fraud, waste, and abuse relating to the agency’s operations, including all disasters and recovery operations and to mitigate any apparent program vulnerabilities. FIID has reviewed some FEMA programs but had not conducted a review of PA within the timeframe of our report.

The stated objectives of the program reviews include some key elements of a fraud risk assessment specified in the Fraud Risk Framework; however, as designed, the reviews do not align with other leading practices. For example, one objective of the reviews is to identify fraud vulnerabilities and risks—a leading practice for conducting a fraud risk assessment. However, the process for meeting this objective focuses on reviewing whether and how the program identifies and analyzes fraud vulnerability and risk, rather than comprehensively identifying inherent fraud risks to the program. Further, the stated outcome of this objective is an “analysis of the program’s effectiveness in identifying fraud vulnerabilities and risks.”

According to FIID program review branch officials, the branch does take steps to identify fraud risks as part of its reviews, such as by asking about the program’s internal and external vulnerabilities and conducting its own research, and the report summarizing the branch’s review of another program includes some examples of fraud risks to the program. However, the review did not comprehensively identify fraud risks to the program and did not include steps to assess the likelihood or impact of the identified fraud risks—another leading practice for a fraud risk assessment.

According to comments provided by DHS on a draft of this report, FIID’s program review branch is currently reviewing PA debris removal and plans to complete the review in June 2021. In addition, the program review branch plans to complete a review of PA emergency protective measures in June 2022.

- **Enterprise risk management (ERM) risk assessment process.**

FEMA is in the early stages of implementing an ERM capability.³⁶ FEMA completed an “Enterprise Risk Management Framework” in June 2019 and expects that implementation of an ERM capability will be a multiyear endeavor. One guiding principle of the ERM framework is to “leverage FEMA-wide processes, procedures and tools to enable all levels of the organization to identify, prioritize and assess risks to its mission and mission critical operations to help ensure the organization’s achievement of its strategic and performance goals and objectives.” The proposed steps outlined in the ERM framework to assess enterprise risks generally align with key elements of the process for assessing fraud risks outlined in the Fraud Risk Framework.

For example, the ERM framework outlines steps for the agency to, among other things, identify new and emerging risks, determine the likelihood that each identified risk will occur, and determine the impact of resulting consequences. In addition, the ERM framework calls for FEMA to determine the amount of risk it is willing to accept in pursuit of its mission or vision, use this information to determine the appropriate responses to identified risks and make informed decisions around resource allocation, and document the results in a risk register. In addition, the ERM framework indicates that fraud may be considered as part of identifying and assessing risks. Specifically, it calls for classifying identified risks by risk type and cause type, and includes “fraud” as both a type of operational risk and as a potential cause. According to FEMA officials, as of April 2020 the agency’s ERM efforts, including finalizing and adoption of the ERM framework and risk identification efforts, had been put on hold because of FEMA’s efforts to respond to Coronavirus Disease 2019 (COVID-19). FEMA began ERM efforts again in August 2020, according to agency officials. Therefore, it is too soon to tell if FEMA will comprehensively identify and assess fraud risks to PA emergency work grants as part of implementing its ERM framework.

FEMA has taken steps to assess fraud risks to other programs and activities, which, although not related to PA emergency work, can inform the process for planning and conducting a fraud risk assessment for PA emergency work grants. For example, in fiscal year 2016, DHS required its components to assess the likelihood and impact of fraud risks in certain areas, including payroll, grants, purchase cards, and travel cards.

³⁶ERM is a forward-looking management approach that allows entities to assess threats and opportunities that could affect the achievement of goals.

In response, FEMA's Office of the Chief Financial Officer developed a "fraud risk register" that includes fraud risk profiles for several different business processes within the agency, such as financial reporting and human resources and payroll management. The fraud risk profiles align with some leading practices from the Fraud Risk Framework. For example, for each business process, the fraud risk register identifies a number of fraud risks. For each fraud risk, the profile, among other things, includes a description of the risk, likelihood and impact of the inherent risk, FEMA's risk tolerance, an evaluation of the design and operating effectiveness and suitability of existing controls, and an assessment of residual risk.

Additionally, in December 2017, FEMA hired a contractor to develop a fraud risk profile for its Individual Assistance program and assess the program's processes and internal controls.³⁷ Documentation we reviewed of the resulting fraud risk assessment reflects several leading practices from the Fraud Risk Framework. For example, the contractor identified 56 high-level fraud risks to Individual Assistance and, for each risk, assessed the probability that it would occur and the impact it would have on conditions required for the program.

However, FEMA had not conducted a comprehensive fraud risk assessment of PA emergency work grants at any point prior to the 2017 disasters, and as of April 2020, it had not conducted a fraud risk assessment for these grants and did not have plans to do so. Specifically, while FEMA has identified some risks to PA emergency work grants as part of existing efforts, it has not

- comprehensively identified fraud risks,
- assessed the likelihood and impact of identified risks,
- determined FEMA's fraud risk tolerance,
- examined the suitability of existing fraud controls to prioritize residual fraud risks, or
- documented the results of such an assessment in a fraud risk profile.

FEMA has not conducted such a fraud risk assessment because, according to officials, the agency manages fraud risks to PA emergency

³⁷FEMA's Individual Assistance program provides financial assistance and, if necessary, direct assistance to individuals and households affected by disasters for necessary expenses and serious needs—including shelter and medical needs—that cannot be met through other means, such as insurance. 44 C.F.R. § 206.110.

work grants through its existing grants management and program-integrity efforts. However, as discussed above, those efforts do not fully align with leading practices.

The Fraud Risk Framework recognizes that agencies have flexibility in how they set up their antifraud activities and structures, and fraud risk management activities may be incorporated or aligned with other risk management activities. However, integrating antifraud efforts into a broader program-integrity approach may pose tradeoffs. On one hand, it offers a broad view of potentially aberrant behaviors that could inform the development of control activities that serve multiple program-integrity functions, including fraud risk management. On the other hand, without careful planning, integrating fraud risk management into a larger program integrity approach could limit the amount of resources and attention focused specifically on fraud prevention, detection, and response. The deceptive nature of fraud makes it harder to detect than nonfraudulent errors, potentially requiring control activities that are specifically designed to prevent and detect criminal intent beyond those in program-integrity efforts. Further, the Fraud Risk Framework acknowledges that agencies may use initiatives like ERM efforts to assess their fraud risks, but it does not eliminate separate and independent fraud risk management requirements. While FEMA's existing and planned efforts outlined above could inform a fraud risk assessment, it has not leveraged these efforts to comprehensively assess fraud risks to PA emergency work grants in accordance with leading practices because these efforts are the responsibility of various offices across the agency.

Without assessing its fraud risks, including comprehensively identifying inherent fraud risks, determining the likelihood, impact, and the agency's tolerance for each risk, and examining the suitability of existing fraud controls, FEMA lacks reasonable assurance that it is aware of the most significant fraud risks facing PA emergency work grants. Further, changes in external factors can affect the type and nature of fraud risks that the agency faces. We have previously reported that the rising number and costs of disasters and the increasing reliance on the federal government for disaster assistance are key sources of federal fiscal exposure³⁸ and

³⁸GAO, *Fiscal Exposures: Improving Cost Recognition in the Federal Budget*, [GAO-14-28](#) (Washington, D.C.: Oct. 29, 2013).

that this cost will likely continue to rise as the climate changes.³⁹ Planning and conducting regular fraud risk assessments of PA emergency work grants would help ensure FEMA identifies existing and emerging fraud risks—such as risks involving debris removal, procurement and contracts, and collusion—and is positioned to address them. Without planning and conducting regular fraud risk assessments, FEMA will be unable to develop a fraud risk profile that aligns with leading practices, as provided in the Fraud Risk Framework. Determining a fraud risk profile would better position FEMA to assess the extent to which its existing grants management and program-integrity efforts are effectively addressing fraud risks, and may help it make better-informed decisions about allocating resources to combat fraud.

FEMA Has Assigned Antifraud Responsibilities to Various Entities, but Would Benefit by Designating a Lead Entity for Assessing and Managing Fraud Risks

The first component of the Fraud Risk Framework—commit—calls for agencies to designate an entity to manage the fraud risk assessment process. The designated antifraud entity should have defined responsibilities and the necessary authority to perform its role in managing the fraud risk assessment, as well as designing and overseeing fraud risk management activities for the program generally. Our prior work has shown that when agencies formally designate an entity to design and oversee fraud risk management activities, their efforts can be more visible across the agency, particularly to executive leadership.⁴⁰

FEMA has assigned responsibilities for aspects of fraud risk management agency-wide, including for PA emergency work grants, to various entities. Specifically, in 2014, the Administrator of FEMA signed the Fraud Prevention and Investigation Directive (directive) to establish the authority of FIID and the responsibilities of all agency personnel, programs, and offices related to preventing, detecting, deterring, and investigating fraud,

³⁹GAO, *Climate Change: Information on Potential Economic Effects Could Help Guide Federal Efforts to Reduce Fiscal Exposure*, [GAO-17-720](#) (Washington, D.C.: Sept. 28, 2017). Managing fiscal exposure due to climate change has been on our high-risk list since 2013, in part, because of concerns about the increasing costs of disaster response and recovery efforts. See GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015); also http://www.gao.gov/highrisk/limiting_federal_government_fiscal_exposure/why_did_study.

⁴⁰For example, see GAO, *Medicare and Medicaid: CMS Needs to Fully Align Its Antifraud Efforts with the Fraud Risk Framework*, [GAO-18-88](#) (Washington, D.C.: Dec. 5, 2017).

waste, and abuse in agency programs. FEMA updated the directive in 2018. Further, in 2018, FEMA established a Fraud Working Group as a collaborative effort to share information across the agency and with DHS OIG. Table 2 summarizes the fraud risk management related responsibilities of several FEMA entities.

Table 2: Federal Emergency Management Agency (FEMA) Entities' Selected Fraud Risk Management Responsibilities

Entity	Selected fraud risk management responsibilities
Fraud Investigations and Inspections Division (FIID)	<ul style="list-style-type: none"> • Manage and coordinate FEMA's agency-wide efforts to prevent, detect, deter, investigate, and report fraud, waste, and abuse; • develop and implement antifraud-training programs for FEMA personnel; • provide antifraud training to federal, state, territorial, tribal, and local governments and law enforcement agencies as requested and appropriate; • conduct investigations into allegations of fraud, waste, and abuse referred to FEMA from the Department of Homeland Security's Office of Inspector General; • establish and implement procedures and processes to review grant-award and disaster-assistance processes, as well as grants and assistance already provided, to prevent and detect fraud, waste, and abuse; • coordinate with other FEMA programs to share lessons learned from its operations and review of the delivery of federal grants and disaster assistance; and • provide reports within FEMA on the number of complaints referred to FIID and number and dollar amounts of assistance and grants referred for recoupment, among other things.
Fraud Working Group	<ul style="list-style-type: none"> • proactively detect and prevent fraud schemes and activities that pose significant risk and major financial effects to FEMA; and • disseminate timely and relevant fraud awareness throughout FEMA.
FEMA officials responsible for administering grants and other financial assistance programs ^a	<ul style="list-style-type: none"> • cooperate with FIID to prevent fraud, waste, and abuse.
All FEMA employees, contractors, and personnel	<ul style="list-style-type: none"> • comply with FIID requests for assistance; • complete relevant required training; and • promptly report allegations and suspicions of fraud, waste, and abuse.

Source: FEMA Fraud Prevention and Investigation Directive; FEMA Fraud Working Group Charter. | GAO-20-604

^aThis includes, but is not limited to, Regional Administrators, the Chief Financial Officer, the Assistant Administrator for Response and Recovery, and the Assistant Administrator of the Grant Programs Directorate.

In addition to the responsibilities shown in table 2, FEMA documents indicate that the Fraud Working Group and FIID have responsibilities related to identifying and assessing fraud risks. For example, according to its charter, one of the goals of the Fraud Working Group is to assess fraud risks by facilitating fraud awareness surveys that are tailored to individual programs and offices throughout FEMA and determining the likelihood and impact of fraud while assessing the risks to the agency. However, when we met with Fraud Working Group officials in December 2019, they said that there had been changes since the charter was developed and the efforts described in the charter were generally the responsibility of other entities. Specifically, Fraud Working Group officials noted that since the charter was written with the goal of “assessing fraud risks,” FIID’s program review branch was established and tasked with conducting program reviews.

According to the 2018 directive, FIID is responsible for independently reviewing FEMA programs to identify potential improvements to internal controls to prevent and detect fraud, waste, and abuse. As discussed above, FIID had conducted these reviews for some programs, but not for PA emergency work grants. Further, while the program reviews may include identifying some fraud risks to FEMA programs, the purpose of the reviews is not to conduct a comprehensive fraud risk assessment in accordance with leading practices. According to FIID officials, each of FEMA’s program offices has primary responsibility for assessing, identifying, implementing and updating any internal controls to mitigate the risk of fraud, waste, and abuse within the program. As part of program reviews, FIID’s program review branch provides a checklist for programs to use as a self-assessment of their efforts. The checklist asks programs whether they have a fraud risk management component, indicating that programs have the responsibility for managing fraud risks.

However, the directive does not specifically designate program officials as responsible for comprehensively identifying and assessing fraud risks to their programs. The 2014 version of the directive describes programs’ responsibilities for implementing the program in compliance with laws and regulations. The 2018 version of the directive no longer includes this responsibility. According to the 2018 directive, the responsibilities of FEMA officials tasked with program administration, which would include administering PA emergency work grants, are to ensure compliance and

adequate oversight with the requirements of the directive and to cooperate with FIID to prevent fraud, waste, and abuse.

None of these entities has served as the lead entity for designing and overseeing fraud risk management activities, including leading a fraud risk assessment, for PA emergency work grants because FEMA has not clearly designated the necessary authority to fulfill this function. In 2011, DHS OIG recommended realigning FEMA's fraud prevention branch—now part of FIID—to report directly to the Office of the Administrator, rather than the Office of Chief Security Officer, to demonstrate a renewed commitment to fraud prevention agency-wide.⁴¹ DHS OIG reported that, after conducting an organizational assessment, FEMA determined that it would not realign its fraud prevention branch to a higher and more visible level within the agency.⁴² FEMA's assessment predates the Fraud Risk Framework and guidance from OMB stating that federal program managers should adhere to the Framework's leading practices—which include designating an entity to design and oversee fraud risk management activities and ensuring the entity has the necessary authority across the program. Since conducting the assessment, FEMA established the FIID program review branch and the Fraud Working Group. However, according to FIID officials, FIID does not have the authority within the agency to require programs to implement recommendations resulting from its reviews. In addition, according to Fraud Working Group officials we met with, the group was not established through any direct authority, as it is intended to be an informal means of bringing together entities across FEMA to collaborate and share information on antifraud efforts.

Without formally designating a dedicated entity to provide oversight of agency-wide efforts to manage fraud risks to PA emergency work grants, including managing the fraud risk assessment process, FEMA has not been able to leverage its agency-wide efforts to identify and assess fraud risks consistent with leading practices. In addition, it lacks assurance that it can meet the principles it established to guide its approach to fraud, waste, and abuse in the agency's disaster assistance programs—such as PA emergency work grants. Specifically, according to the 2018 directive, FEMA's antifraud approach is guided by several principles, including ensuring that it implements a focused, empowered fraud prevention and

⁴¹Department of Homeland Security, Office of Inspector General, *Assessment of FEMA's Fraud Prevention Efforts*, OIG-11-84 (Washington, D.C.: May 19, 2011).

⁴²OIG-19-55.

investigation program that ensures reasonable, cost-effective security measures are in place to reduce risks to acceptable levels. Designating one lead entity with responsibility for providing oversight of agency-wide efforts to manage fraud risks to PA emergency work grants, can help ensure FEMA's efforts align with the principles of its antifraud approach. Specifically, designating responsibility for managing the fraud risk assessment process, consistent with leading practices, can help ensure FEMA identifies and assesses fraud risks to PA emergency work grants. As a result, FEMA would be better positioned to develop reasonable, cost-effective measures to reduce risks to acceptable levels.

FEMA Monitors and Provides Program Resources to PA Applicants to Help Them Manage Risks, but Could Improve Communication about Emergency Work Fraud Risks

FEMA Monitors PA Recipients to Help Them Meet Fraud Risk Management Responsibilities

FEMA monitors PA recipients directly and reviews information to help ensure they are meeting their responsibilities for monitoring subrecipients.⁴³ Specifically, its regional offices conduct financial monitoring of PA grant recipients within their region on a rotating, biannual basis. According to FEMA's monitoring plan, effective monitoring helps ensure that recipients use grant funds for their intended purpose; serves as the primary mechanism to ensure that recipients comply with applicable laws, rules, regulations, program guidance, and requirements; and safeguards federal funds against fraud, waste, and abuse.

To determine the appropriate level of monitoring for recipients' PA grant awards, FEMA regional offices conduct a monitoring assessment. According to FEMA's monitoring plan, it assesses recipients and grants

⁴³As noted previously, we use the term "applicant" throughout this report to refer to PA recipients and subrecipients collectively. PA recipients are states, federally recognized tribal governments, and territories that receive a PA grant directly from FEMA. PA subrecipients receive a subaward through the recipient. We use the terms "recipient" and "subrecipient" when referring specifically to applicants of one type.

using 12 financial indicators. One indicator—federal financial report findings, spending patterns, and cash analysis reporting—includes looking at patterns that may reflect recipient issues such as a history of higher risk of fraud, waste, and abuse. Another assessment indicator—audit findings—includes looking at prior GAO, OIG, and other audit findings and the number of outstanding issues. Depending on the results of the monitoring assessment, regional offices may conduct a desk review or site visit. The goals of both desk reviews and site visits are to, among other things, review grants files to verify compliance; document that the recipient possesses adequate internal controls, policies, processes, and systems to manage FEMA grants effectively; identify and analyze relevant problems that might prevent the program from achieving its objectives; and provide technical assistance. In addition to biannual monitoring, regional offices monitor PA recipients by reviewing quarterly reports submitted by the recipient.

FEMA regional offices conducted site visits in 2019 to monitor the 2017 PA disaster grant recipients, with the exception of Florida.⁴⁴ According to officials in that region, Florida's PA grant for Hurricane Irma was scheduled for an onsite financial-monitoring review in March 2020, but was switched to a desk review to provide flexibility to the recipient as it worked to carry out the emergency response related to COVID-19.

Through its monitoring efforts, FEMA recommended changes to improve recipients' ability to meet their responsibilities related to managing fraud risks. For example, in its June 2019 monitoring report of one recipient, which included the recipient's 2017 disaster PA grant, the FEMA regional office found that there was no evidence that the recipient verified PA subrecipients were not debarred, suspended, or otherwise ineligible from participating in federal assistance programs prior to engaging their services. As discussed previously, PA recipients are responsible for ensuring that subrecipients are not suspended or debarred. The regional office required the recipient to establish written policies and ensure it consistently reviewed subrecipients for debarment or suspension prior to sub-awarding grant funds. The recipient developed a standard operating procedure and updated checklists to ensure it reviews subrecipients' exclusion status to verify eligibility prior to issuing any payments.

⁴⁴The other 2017 PA disaster grant recipients, as defined in this report, were Texas, California, Puerto Rico, and the U.S. Virgin Islands.

Federal grant award regulations allow FEMA to impose additional grant award conditions in specific circumstances, such as to mitigate risk and ensure fiscal accountability of the applicant.⁴⁵ For example, in November 2017, FEMA instituted a manual reimbursement process for applicants in Puerto Rico for federal funds, including PA emergency work funds, to mitigate the risk of misuse of funds. We previously reported that FEMA officials stated that they decided to institute this process, in part, because the government of Puerto Rico, as the PA recipient, had expended funds prior to submitting complete documentation of work performed.⁴⁶ FEMA removed the manual reimbursement process on April 1, 2019, after Puerto Rico developed, and FEMA reviewed, an internal controls plan and management policies and procedures to, in part, help provide financial monitoring. We reported that FEMA reinstated the manual reimbursement process in July 2019 due to “ongoing leadership changes within the Puerto Rican government, combined with continued concern over Puerto Rico’s history of fiscal irregularities and mismanagement.” FEMA removed the requirement again in September 2019, contingent on Puerto Rico’s continued ability to implement the mutually acceptable internal controls plan.⁴⁷

⁴⁵ 28 C.F.R. § 200.207. These additional award conditions may include requiring payments as reimbursements rather than advance payments; withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance; and requiring additional, more detailed financial reports, among other conditions.

⁴⁶The PA recipient is responsible for collecting and submitting all documentation requested by FEMA from subrecipients. See GAO, *Puerto Rico Hurricanes: Status of FEMA Funding, Oversight, and Recovery Challenges*, [GAO-19-256](#) (Washington, D.C.: Mar. 14, 2019) for more information on this process.

⁴⁷GAO, *Puerto Rico Disaster Recovery: FEMA Actions Needed to Strengthen Project Cost Estimation and Awareness of Program Guidance*, [GAO-20-221](#) (Washington, D.C.: Feb. 5, 2020). We are continuing to assess the status of PA grant program funding in Puerto Rico, including how FEMA and Puerto Rico are continuing to monitor and oversee PA grant funds.

FEMA Provides Program Resources to Help PA Applicants Meet Responsibilities but Could Improve Communication and Training

FEMA Provides Resources but Could Improve Communication about Fraud Risks and Reporting Responsibilities

To assist PA applicants—including applicants for the 2017 disasters—in meeting their responsibilities for implementing emergency work projects, FEMA provides a variety of resources. Some of these resources communicated information on responsibilities that could help applicants manage fraud risks, as described below, but key resources did not communicate information on some known areas of fraud risk.

Maintaining and providing relevant documentation to support eligibility. For FEMA to provide PA funding for emergency work projects, it must determine that the applicant, facility (in some cases), work, and cost are eligible. PA applicants are required to maintain documentation to support project costs.⁴⁸ According to PA program officials in FEMA headquarters and two regional offices we met with, FEMA focuses on eligibility and compliance with program rules, rather than on fraud, but the premise of the training is to help minimize fraud, waste, and abuse.

FEMA addresses PA applicant responsibilities for maintaining documentation and ensuring eligibility through a variety of guidance and training resources. For example, it issued the *Public Assistance Program and Policy Guide* (PAPPG) to combine all PA policy into a single document and provide an overview of the program implementation process. Among other things, the Guide provides information on applicants' responsibilities for maintaining and providing documentation to support eligibility and project costs. We discussed with PA applicants we met with the training, guidance, or other resources they received or reviewed. The majority of the applicants we met with (13 of 19) mentioned receiving or reviewing the PAPPG, and five did not specifically mention whether they received or reviewed the PAPPG.⁴⁹

⁴⁸2 C.F.R. §§ 200.302, 200.333, and 200.403(g).

⁴⁹One applicant mentioned receiving a packet from the state PA recipient but did not specifically mention whether this packet included the PAPPG.

In addition, FEMA provides a “Fundamentals of Grants Management” training course that provides information to PA and other FEMA grant recipients on, among other things, documentation requirements and closeout requirements and responsibilities. Further, DHS OIG issues *Audit Tips* to assist PA and other disaster assistance applicants in documenting and accounting for disaster-related costs, among other things.⁵⁰ Both PA recipients we met with said that they provided the *Audit Tips* to PA subrecipients within their state. More recently, in February 2019, FEMA launched independent study courses that are available online and focus on PA program implementation, including eligibility and documentation.

Managing procurement risks and complying with relevant federal regulations for procurement under grants. Through its Procurement Disaster Assistance Team (PDAT), FEMA provided some information on procurement risks to PA applicants for the 2017 disasters, as well as on the applicants’ responsibilities for complying with relevant federal regulations for procurement under grants, including ensuring contractor eligibility and responsibility.⁵¹ However, we found that PDAT did not consistently provide information on contractor responsibility.

- **Procurement-related fraud risks.** PDAT developed a guidance manual for PA applicants on procurement under grants that describes procurement-related fraud risks, such as bid rigging, bid suppression, complementary bidding, and bid rotation schemes. In addition, PDAT provided fact sheets and other guidance, in-person training courses, and webinars to PA applicants for the 2017 disasters; however, these resources did not include information on these specific fraud risks.
- **Responsibilities for complying with procurement under grants.** PDAT’s fact sheets and other guidance, in-person training courses, and webinars addressed PA applicants’ responsibilities for complying with relevant federal regulations for procurement under grants. According to information provided by FEMA, PDAT provided 99 in-person and webinar-training sessions related to the 2017 disasters

⁵⁰Department of Homeland Security, Office of Inspector General, *Audit Tips for Managing Disaster-Related Project Costs*, OIG-17-120-D (Washington, D.C.: Sept. 29, 2017).

⁵¹PDAT is a group of program specialists within the Grant Programs Directorate and is supported by the FEMA Office of the Chief Counsel. PDAT trains and advises PA staff on federal procurement requirements; works with PA staff to provide training and guidance to applicants on federal procurement requirements; and, when requested, provides general guidance regarding concerns with proposed applicant procurement actions.

between early September 2017 and late August 2018, including training sessions for applicants in all five affected states and territories.

Upon request, PDAT can conduct a pre-procurement review for an applicant to help provide technical assistance and flag potential areas of noncompliance. This review can also help determine whether their procurement procedures generally meet federal regulations.⁵² PDAT officials told us that, based on their review of available records, PDAT conducted 17 reviews of pre-award procurement documentation in connection with the 2017 disasters.

In addition to PDAT guidance, DHS OIG's *Audit Tips* notes that DHS OIG frequently identifies improper procurement practices in its audits and provides information to PA applicants to help them comply with procurement requirements. FEMA's *Fundamentals of Grants Management* training mentions that an objective of federal procurement regulations is to "prevent favoritism, collusion, fraud, waste, and abuse." However, this training does not provide information on how these goals can be met or the applicants' roles and responsibilities related to preventing fraud, waste, or abuse.

- **Contractor eligibility.** PDAT also provided information to PA applicants to help them meet their responsibilities for ensuring that the contractors they hire for emergency work are eligible. Federal regulations restrict PA applicants from awarding contracts to certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal programs or activities.⁵³ In a 2017 report summarizing findings from prior audits, DHS OIG reported that it had identified instances in which subrecipients failed to verify whether contractors were suspended, debarred, or otherwise excluded or ineligible, placing taxpayer dollars at risk.⁵⁴ We reviewed PDAT training courses available at the time of the 2017 disasters and found that all, except a 15-minute FEMA overview, referenced hiring

⁵²PDAT does not make a determination that an applicant's potential contract is compliant due to many other considerations beyond the federal procurement regulations.

⁵³2 C.F.R. § 200.213.

⁵⁴OIG-18-29.

contractors that were eligible or ensuring that contractors hired are not suspended or debarred.⁵⁵

During our site visits, we discussed with PA subrecipients the guidance they receive from FEMA or the state recipient on selecting contractors. Of the 17 PA subrecipients we met with, four reported receiving FEMA guidance on reviewing contractor eligibility. For example, subrecipients were told to make sure contractors were not suspended or debarred. Nine subrecipients we met with did not recall or were unclear if they received FEMA guidance on reviewing contractor eligibility, but officials with these subrecipients told us checking for suspended or debarred contractors was a part of their internal procurement processes.⁵⁶ In addition, both of the state PA recipients we met with said that they take steps to confirm that subrecipients in their state verified that contractors they hired were not suspended or debarred.

In addition, we reviewed eligibility information on contractors hired to conduct PA emergency work by non-generalizable samples of PA applicants for Hurricane Harvey in Texas and the 2017 California wildfires. Specifically, we reviewed information on 141 unique contractors hired by the selected applicants in Texas and 66 hired by the selected applicants in California. We found that none had an

⁵⁵According to FEMA officials, the shorter PDAT training courses are not meant to be comprehensive. Instead, they are meant to provide PA applicants and other participants with available resources for purchasing under a FEMA award. The training courses refer participants to the PDAT website where participants can review a wide array of resources, including the PDAT Field Manual, which covers the requirement for responsibility determinations. The website also contains a Suspension and Debarment frequently asked questions document, created by FEMA Suspension and Debarment Counsel.

⁵⁶Four subrecipients said that they did not recall or did not mention if they received guidance from FEMA on contractor eligibility and did not mention whether their internal processes included this review.

active exclusion that would potentially make them ineligible to perform the work.⁵⁷

- **Contractor responsibility.** PDAT was not as consistent, however, in providing information on PA applicants' responsibilities for ensuring contractors are responsible. As discussed previously, under federal regulations, non-federal entities other than states or territories must award contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. In making this determination, non-state PA applicants are required to give consideration to at least five matters.⁵⁸ PDAT communicates this requirement in its guidance manual on procurement under grants. However, we found that not all of the PDAT's training courses available at the time of the 2017 disasters mentioned the requirement to consider these matters when procuring under federal grants. Of six versions of the PDAT training available for training non-state PA applicants at the time of the 2017 disasters, PDAT included information on the matters to consider in the four longest versions. The two shorter training courses, and a version of the training used to train PDAT trainers, did not include the information.⁵⁹

⁵⁷Contractors hired for multiple projects by one applicant within a state or by multiple applicants within a state are counted once for each state. Some contractors may be counted once for each state, if one or more applicants in each state hired the contractor. See appendix I for additional details on how we selected the sample of PA applicants. For selected applicants, we requested from FEMA all available contract and procurement documentation associated with the applicants' emergency work projects. We reviewed the documentation to identify contractors hired by the applicants to conduct PA emergency work projects, and limited our analysis to contractors for which the contract amount was equal to or exceeded \$25,000 to align our analysis with the "covered transaction" threshold. Covered transactions generally include, among other things, contracts awarded by the non-federal entity in the amount of at least \$25,000. 2 C.F.R. §§ 3000.220 and 180.220. If a copy of the contract was not included with the documentation, we used the invoice amount or other indicators in the documentation of the amount paid to the contractor for the PA emergency work project to determine whether to include the contractor in our analysis.

⁵⁸Specifically, non-federal entities other than states or territories are required to give consideration to matters such as (1) contractor integrity, (2) compliance with public policy, (3) record of past performance, (4) financial resources, and (5) technical resources. 2 C.F.R. § 200.318(h).

⁵⁹As described above, according to FEMA officials, the shorter PDAT training courses are not meant to be comprehensive. Instead, they are meant to provide participants with available resources for purchasing under a FEMA award.

PDAT's guidance manual on procurement under grants provides "amplifying guidance" that non-state PA applicants may analyze in considering the five matters. For example, when assessing contractor integrity—one of the five matters to consider—the 2016 version of the guidance states that such PA applicants may consider whether or not the contractor has been indicted or convicted of committing fraud; violated federal or state anti-trust statutes; committed embezzlement or theft; made false statements; violated federal criminal tax laws; received stolen property; committed any other offenses indicating a lack of business integrity; or, has delinquent federal or state taxes. However, none of the training offerings mentioned FEMA's amplifying guidance that non-federal entities may analyze as part of evaluating contractor integrity.

We reviewed a non-generalizable sample of 123 unique contractors hired to conduct emergency work by non-state PA applicants in Texas and 57 unique contractors hired by non-state PA applicants in California to identify indicators that they may have possessed an indictment or judgment of a criminal offense within 3 years prior to the contract date.⁶⁰ We did not identify any contractors that, according to our analysis, possessed indictments or judgments of criminal offenses. We also reviewed information on these contractors to identify indicators that they may have had a federal or state tax lien of at least \$3,500 filed within 3 years prior to the contract date.⁶¹ A tax

⁶⁰We identified such indicators using our internal resources, including a mix of government and corporate databases. If we did not receive a copy of the contract from FEMA, we reviewed the internal resources for indicators of such information within the 3 years prior to the start of the period of performance, if included in the documentation, or other relevant dates such as the proposal or invoice date. Contractors hired for multiple projects by one applicant within a state or by multiple applicants within a state are counted once for each state. Some contractors may be counted once for Texas and once for California, if one or more applicants in each state hired the contractor.

⁶¹We considered a contractor to have a tax lien if one of our internal resources indicated that the contractor had a federal or state tax lien of at least \$3,500 filed within the 3 years prior to the contract date, and the resource did not indicate that the tax lien had been released prior to the contract date. We did not verify with the Internal Revenue Service that contractors we identified as having federal tax liens had federal tax debt or verify identified tax liens with county records. If we did not receive a copy of the contract from FEMA, we reviewed the internal resources for any tax liens over \$3,500 within the 3 years prior to the start of the period of performance, if included in the documentation, or other relevant dates such as the proposal or invoice date. We contacted PA applicants that hired contractors we identified as having tax liens to obtain additional information about the procurement and to request a copy of the contract, if we had not received a copy in documentation from FEMA, to verify that the tax lien was filed within 3 years prior to the contract date.

lien may indicate the contractor had delinquent taxes. We identified four contractors that, according to our analysis, had a total of over \$267,000 in federal or state tax liens as of the date of their contracts with seven unique PA applicants.⁶² In total, these contracts resulted in about \$6.1 million in project costs to the applicants, according to documentation provided by FEMA.⁶³ The total cost to FEMA associated with these contracts depends on a number of factors, including the federal cost share and the final amount obligated and reimbursed to the PA applicant for the associated projects.

As noted above, in our review, we discussed with non-state PA applicants the guidance they receive from FEMA or the state recipient on selecting contractors. In addition, we asked about the steps they take to verify that the contractors they hired to execute emergency work projects are responsible contractors. None of the 14 non-state PA applicants we met with specifically mentioned receiving FEMA guidance on reviewing a contractor's responsibility for contractors used to execute emergency work projects related to the 2017 disasters.⁶⁴ However, all 14 mentioned at least one specific responsibility factor they consider when selecting contractors, though the specific responses varied. In general, they cited past performance, capacity, or compliance with state law as factors they considered when selecting contractors. Of the 14 non-state PA applicants, one said that it reviews a contractor's tax history. Specifically, this applicant told us it looks at financial information and verifies that the contractors have paid taxes. Another applicant, a city, told us that it looks at financial stability information, but it does not look at whether the contractor has tax debt and was not sure how it would be able to do so.

⁶²One of the seven applicants hired two of the contractors identified in our analysis as having a tax lien.

⁶³Five of the seven applicants hired the same contractor, who was responsible for about \$5.4 million of the \$6.1 million in project costs to the applicants. This contractor performed PA emergency work totaling over \$138,000 for one additional applicant for which it was unclear whether the contract was entered into within the 3 years after the date of the tax lien. We contacted that applicant for a copy of the contract but did not receive the documentation in time to make this determination; therefore, we excluded this applicant from these results.

⁶⁴Specifically, 11 of the 14 did not mention receiving FEMA guidance on reviewing a contractor's responsibility for contractors used to execute PA emergency work projects related to the 2017 disasters and three were unclear if they received such guidance.

As discussed above, we identified four contractors that, according to our analysis, had a federal or state tax lien as of the date of their contracts with seven PA applicants. We contacted these seven applicants to obtain additional information about the procurement, including whether the applicants consider tax debt information when selecting contractors and whether they were aware of the tax lien at the time they hired the contractor identified by our analysis as having a tax lien. Four of the applicants responded to our request for information.⁶⁵ Of these four applicants, two reported that they do not check whether a contractor has federal or state tax debt when determining whether to select the contractor, although one of the two—a county—said that it ensures prospective contractors are in good standing with the county regarding taxes.⁶⁶ One applicant said that it checks an entity’s Debt Subject to Offset status in SAM. The Debt Subject to Offset flag in SAM may reflect both nontax and tax delinquent federal debts owed. The fourth applicant did not specifically mention whether it considers federal or state-tax debt information when selecting contractors. In addition, of the four applicants that responded to our request for additional information, three said that they were not aware that the contractor identified by our analysis had a tax lien.⁶⁷

PDAT updated its manual on procurement under grants in 2019 and no longer explicitly lists “has delinquent federal or state taxes” as a factor non-state PA applicants may consider in assessing contractor integrity. According to PDAT officials, the guidance on assessing whether a contractor has a satisfactory record of integrity was not changed, and the language in the updated manual is broad enough to include factors that are not specifically listed, such as whether the contractor has tax debt. Also, according to PDAT officials, the updated guidance reflects a change from a goal of providing an exhaustive list of all possible offenses to listing some of the many considerations for

⁶⁵We did not receive responses from the other three applicants in time to incorporate into this report. However, one of the three applicants is one of the non-state PA applicants we met with during our site visit. At that time, the applicant did not specifically mention whether it considers federal or state-tax debt information when selecting contractors.

⁶⁶The county applicant is one of the non-state PA applicants we met with during our site visit. At that time, the applicant did not specifically mention whether it considers federal or state-tax debt information when selecting contractors.

⁶⁷The fourth applicant—which entered into contract agreements with two of the contractors identified in our analysis as having a tax lien—provided some information in response to our request; however, due to timing constraints, we were not able to determine whether the applicant was aware of the tax liens.

applicants to consider when conducting the responsibility determination.

Monitoring debris removal contractors and managing debris removal fraud risks. PA applicants are required to monitor activities under their grants to assure compliance with applicable federal requirements,⁶⁸ including monitoring contracted debris removal operations. As discussed previously, FEMA's PA emergency work grant funds may be at inherent risk of fraud from fraudulent claims involving debris removal. However, key FEMA guidance and training documents for PA applicants, including the PAPPG and the Fundamentals of Grants Management training, do not include information on fraud risks involving debris removal. The most recent version of the PAPPG—dated June 2020—provides additional information on documentation applicants need to provide to substantiate the eligibility of debris removal work that is not included in the version in effect for the 2017 disasters. However, neither version provides examples of fraud risks.

FEMA does offer debris-related independent study courses online that include information on debris monitoring and the monitoring process—which could help prevent or detect fraud. For example, the training describes the process for using load tickets to record the amount of debris picked up, hauled, reduced, and disposed of, to help ensure debris being picked up is eligible. In addition, the training notes that effective monitoring includes inspecting for techniques used to inflate debris quantities and provides examples of such techniques. As applicants pay debris haulers for the volume of debris collected, when haulers overstate debris loads or collect unauthorized debris, applicants can end up incurring and requesting reimbursement for unreasonable or ineligible costs. These courses are optional for PA applicants and not all applicants may be aware of them.⁶⁹

Older debris monitoring guidance, including a 2007 debris management guide and 2010 debris monitoring guide, include some information on fraud in debris removal operations and PA applicants' responsibilities. For example, the 2007 guide mentions the possibility of contractor fraud if operations are not closely monitored as a disadvantage of unit price contracts, but does not provide more detailed information on what the

⁶⁸2 C.F.R § 200.328.

⁶⁹FEMA offers courses on debris-management plan development and debris operations online through the Emergency Management Institute. The courses are available to PA applicants and both were available prior to the 2017 disasters.

fraud risks are. The 2010 guide provides information on debris-monitoring roles and responsibilities and eligibility requirements for debris removal.

DHS OIG reported in 2018 that FEMA's guidance on debris monitoring at the time of the 2017 disasters was not sufficient to ensure appropriate oversight of debris contractors for Hurricane Irma, increasing the risk of fraud, waste, and abuse.⁷⁰ Specifically, DHS OIG reported that, in January 2016, FEMA superseded almost all PA guidance—including guidance for debris operations—when it issued the PAPPG. DHS OIG reported that FEMA's guidance for debris operations in the version of the PAPPG in effect for the 2017 disasters eliminated federal- and state-monitoring responsibilities for debris operations and relies solely on subrecipients to monitor debris removal operations. According to DHS OIG, subrecipients said that contractors performed required monitoring of debris removal efforts for Hurricane Irma, but DHS OIG found that FEMA, recipients, and subrecipients provided limited or no oversight of debris contractors, and that contractors' employees lacked adequate training for monitoring.

In our review, we found that of the 12 PA applicants we met with that had at least one debris removal project for the 2017 disasters, eight hired a contractor or consultant to monitor debris removal operations. Seven told us that their own officials, other agency officials, or FEMA assisted with debris removal monitoring.⁷¹ Four of the 12 applicants that had at least one debris removal project provided examples of specific red flags or potential issues with debris removal that they or their debris-monitoring contractor looks for. One applicant said that it thought the information came from DHS, and one said that FEMA provided guidance on debris monitoring for a wildfire in 2018, while two of the four applicants said that these checks were part of their standard processes or based on their own experience. For example, one applicant said that it asked the debris-monitoring company to do spot checks of contractors that make debris load calls at landfills to identify red flags, such as one person's claiming the same load every time. According to officials with this PA applicant, they were aware of such red flags because of their prior experience with

⁷⁰OIG-18-85.

⁷¹Some applicants cited debris monitoring by more than one source, such as city officials verifying the work of debris-monitoring contractors. Two applicants we met with that had at least one debris removal project did not hire a debris-monitoring contractor but did not describe how debris removal was monitored.

disasters and had not received guidance from FEMA about red flags to watch for when monitoring debris removal contractors.

In its 2018 report, DHS OIG recommended that FEMA develop and implement clear rules, guidance, and procedures for debris removal operations, including debris operations and contractor oversight. To address this recommendation, FEMA is in the process of updating the 2010 debris-monitoring guide. According to FEMA officials, the development and issuance of the update has been delayed while PA policy staff focused on developing disaster-specific guidance in response to COVID-19. However, according to these officials, FEMA is on schedule to issue a final version of the updated guide in fall 2020. Because the document had not been completed and released during the course of our audit work, we were not able to assess the extent to which it provides information on fraud risks related to debris removal and PA applicants' responsibilities for monitoring debris removal work to, among other things, help mitigate the risk of fraud in debris removal operations.

Reporting potential fraud. Federal regulations require that applicants for federal awards disclose in writing to the federal-awarding agency or grant recipient all violations of federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the federal award.⁷² In addition, in the agreement signed by FEMA and the recipient after a disaster declaration, the recipient agrees to report all cases of suspected fraud to DHS OIG.⁷³

FEMA provides PA applicants several options for reporting suspected fraud, in accordance with leading practices.⁷⁴ Specifically, FEMA established a tip line through FIID that accepts reports by phone or email. Further, DHS OIG has a hotline for fraud reports, and reports can be made to DHS OIG online, as well as by phone, fax, or mail. FEMA communicated these options to applicants for the 2017 disasters on its website, including on its PA webpage for applicants. In addition,

⁷² 44 C.F.R. § 200.113.

⁷³After every declaration, the applicable state, territorial, or tribal government enters into an agreement with FEMA regarding the understanding, commitments, and conditions under which FEMA will provide assistance. 44 C.F.R. § 206.44.

⁷⁴According to the Fraud Risk Framework, a leading practice for detecting fraud is to implement reporting mechanisms, including providing multiple options for potential reporters of fraud to communicate such as hotlines, online systems, e-mail, and written formats.

according to FEMA officials we met with, information on where and how to report fraud was posted in joint field offices for the 2017 disasters. We observed these posters in the joint field office for Hurricanes Irma and Maria in San Juan, Puerto Rico, during prior work.⁷⁵ Further, DHS OIG's *Audit Tips*, which was distributed to applicants for the 2017 disasters in the two states we visited, includes information on DHS OIG's fraud hotline and the National Center for Disaster Fraud hotline.

However, several key training and guidance documents for applicants did not include information on where and how to report suspected fraud, including the PAPPG and PDAT training courses, two key sources of information on the PA grant program for applicants. This information is not included in the most recent version of the PAPPG, issued in June 2020. Information provided by PA recipients to subrecipients for the 2017 disasters in the states we visited did not clearly communicate this information. For example, packets that one recipient provided during applicant briefings include several documents with different information on where and how to report suspected fraud. Specifically, one document included in the packets—the *Audit Tips*—notes to report potential fraud to DHS OIG and the National Center for Disaster Fraud; however, a form included in the packet notes that potential fraud should be reported to the “federal awarding agency” but does not mention where or how. In addition, the version of the packet for state-entity applicants includes the state contracting manual, which says to report to a state office.

When we met with PA applicants, we asked about the guidance or information they received about responding to potential fraud, waste, or abuse related to their grant funds, such as how or where to report potential fraud. Of the 19 applicants we met with, two specifically mentioned FEMA's fraud hotline. Other applicants said they would follow their entity's processes for reporting potential fraud, such as to an internal hotline or internal auditor, or would report to the state PA recipient. FEMA officials did not provide a specific reason that hotline information was not included in the PAPPG or other key guidance for applicants, but indicated that they are open to looking into including such information. FEMA officials in one regional office we met with noted that such information should be included in their guidance and other documents, as it is very important.

⁷⁵GAO, *2017 Hurricanes and Wildfires: Initial Observations on the Federal Response and Key Recovery Challenges*, [GAO-18-472](#) (Washington, D.C.: Sept. 4, 2018).

According to the Fraud Risk Framework, leading practices for implementing reporting mechanisms include ensuring individuals external to the agency can report potential fraud and publicizing information on the reporting mechanism externally. Without ensuring that key training and guidance documents for the PA grant program include information on where and how to report suspected fraud and that recipients include such information in key training and guidance documents they provide to subrecipients, applicants may not be able to report potential fraud to FEMA in a timely manner. As a result, there is a greater risk that FEMA may not detect instances of potential fraud, limiting its ability to address potential fraud and to identify fraud trends and schemes.

While FEMA does communicate some fraud-related information, as described above, it does not provide antifraud training to applicants. According to the Fraud Risk Framework, a leading practice for managing fraud risks is to provide fraud-awareness training to stakeholders with responsibility for implementing aspects of the program, including external entities—such as PA applicants—responsible for fraud controls. Further, one leading practice for implementing effective fraud-awareness initiatives is to convey information about fraud risks and how to identify fraud schemes, including use of red flags and risk indicators.

According to FEMA officials we met with, FEMA generally does not use the term “fraud” because its focus is on ensuring compliance and eligibility. Providing training, guidance, and other resources on eligibility and compliance can help mitigate the risk of fraud to PA emergency work, as described above. However, the deceptive nature of fraud makes it harder to detect than nonfraudulent errors, potentially requiring control activities—such as fraud-awareness initiatives—that are specifically designed to prevent and detect criminal intent.

Because FEMA has not completed a comprehensive fraud risk assessment for PA emergency work, it cannot ensure, as it makes changes to the resources it provides to PA applicants, that these resources provide sufficient information to enable applicants to carry out their responsibilities for managing fraud risks to emergency work grants and to address the most significant fraud risks. For example, as discussed above, PDAT revised the language in its guidance related to contractor responsibility to remove the reference to “federal and state tax debt” as a factor non-state PA applicants may consider when assessing contractor integrity. While guidance on contractor responsibility does not need to provide an exhaustive list of factors that may be considered, including examples of the most significant risks would better position PA

applicants to mitigate such risks in the contractor selection process. In addition, FEMA training officials we met with said that the agency has offered a debris-monitoring training for communities in the past, but focused more on training applicants to use its grants management system for the 2017 disasters, as this was a new system. According to these officials, monitoring debris is the same as any other contract monitoring and documenting debris costs is the same as documenting any other costs. However, debris removal operations are subject to specific fraud risks that may differ from other types of PA projects, and not communicating specific information on the risks to debris removal operations may leave applicants susceptible to these risks.

According to FEMA's strategic plan for fiscal years 2018 through 2022, one of its objectives is to strengthen grants management including by, among other things, reducing the percentage of costs questioned by DHS OIG. As discussed previously, DHS OIG has consistently identified concerns that indicate that PA emergency work grant funds are at risk of fraud, waste, or abuse, including questionable costs, such as duplicate payments, unsupported costs, improper contract costs, and unauthorized expenditures, as well as issues with debris removal and contractors hired to conduct PA emergency work. Because of the nature of the work, PA applicants may have completed emergency work, such as debris removal, before FEMA obligates funds for these projects. By updating key resources for PA applicants, such as training and guidance documents, to ensure these resources consistently communicate information on the highest fraud risks to emergency work grants—risks that could include risks to procurement and debris removal operations, and other risks identified through fraud risk assessments—and applicants' responsibilities for managing those risks, FEMA can help ensure that PA applicants are better able to identify and address potential fraud and other issues earlier in the process. In addition, through these efforts, FEMA can potentially help reduce the percentage of costs questioned by DHS OIG.

FEMA's Training for Staff That Work with PA Applicants Does Not Communicate Information on Fraud Risks Specific to PA Grant Funds

According to the Fraud Risk Framework, a leading practice for managing fraud risks is to require all employees, including managers, to attend fraud-awareness training upon hiring and on an ongoing basis thereafter, and maintain records to track compliance. In addition, effective antifraud training conveys fraud-specific information that is tailored to the program

and its fraud risk profile, including information on fraud risks, employees' responsibilities, and the effect of fraud, according to leading practices.

In 2012, FEMA added a fraud prevention and awareness training to its mandatory training list for all its staff, including PDMGs and other FEMA staff who work with PA applicants.⁷⁶ We reviewed transcripts for the versions of the training offered in 2017, 2018, and 2019 and found that all three versions provide high-level information, such as the definition of fraud, an overview of FEMA employees' responsibilities for stewardship and fraud awareness and prevention, relevant regulations, the most common types of internal and external fraud, processes to detect fraud, and how to report fraud.

However, this training is not tailored to include information on specific fraud risks to PA emergency work grants. The training mentions some fraud risks that could occur in the grant program, such as contractors overcharging or padding costs, inadequate or improper documentation, and state, local, or nonprofit entities overestimating losses, but does not mention PA or provide information on these fraud risks in the context of the PA grant program. In addition, the training does not include information on debris removal fraud risks or other fraud risks to PA emergency work grants FEMA and DHS OIG have identified.

Further, DHS OIG reported in 2019 that 18,555 of 19,981 (93 percent) of FEMA employees had not completed the training for the period of April 30, 2017, through May 1, 2018—the period in which the 2017 disasters occurred. DHS OIG recommended that FEMA implement monitoring and enforcement mechanisms to ensure compliance with the training requirement.⁷⁷ According to FEMA training officials and DHS OIG, FEMA launched a dashboard to support the monitoring of mandatory training courses. In addition, according to the training officials, they have increased the frequency of reminders to training points of contact in regional and program offices informing them of their team's compliance status for the fraud prevention and awareness training and other mandatory training courses.

FEMA's FIID and DHS OIG have provided some antifraud training for FEMA staff, but the focus has primarily been on the Individual Assistance

⁷⁶PDMGs serve as the applicant's single point of contact throughout the pre-award process, manage communication with the applicant, and oversee document collection.

⁷⁷OIG-19-55.

program. According to FIID officials, the division planned to continue to expand its fraud-prevention and awareness training program in 2020 to include training to targeted PA staff who worked directly with PA applicants. Specifically, the training was in the process of being scheduled for the spring and summer of 2020, but implementation was delayed because of FEMA's involvement in the response to COVID-19.

FEMA staff who work with PA applicants also receive program- or position-specific training. Such training includes information on some topics that may relate to fraud risk management but generally does not include information on specific fraud risks to PA emergency work grant funds. For example, PDAT provides procurement training for FEMA PA staff. According to PA program staff, the PDAT training for FEMA staff, including from regional offices and disaster sites, helps ensure staff can quickly identify procurement issues, which could include fraud and errors. In addition, an official with FEMA's suspension and debarment office said that she had provided training to FEMA staff in the field. However, neither of the two mandatory in-person PA training courses for PDMGs—a PDMG training course and a site inspection training course—communicates information on fraud risks to PA grant funds or applicants' responsibilities for managing fraud risks to these funds.

According to FEMA PA program staff, required training does not include many references to fraud, because the training courses are meant to help ensure that eligibility requirements are met, and if funds are intentionally received for something that is not eligible, it would be fraud. According to these officials, PA engages FIID and DHS OIG if potential fraud is identified because PA staff are not equipped to investigate intent and therefore must rely on others for that skillset. However, without program-specific training that includes information on the highest fraud risks to emergency work grant funds, PA program staff who work directly with applicants—including PDMGs—may not be in a position to identify fraud risks that may indicate potential fraud. Such fraud risks could include risks related to procurement or debris removal or other risks identified through fraud risk assessments. Implementing program-specific antifraud training for PA staff who work directly with applicants—training that includes information on the highest fraud risks to emergency work grants—would help ensure staff are able to identify and address potential fraud issues and assist applicants with meeting their responsibilities for managing fraud risks to these grants.

Conclusions

DHS OIG audit findings and recent fraud cases suggest that PA emergency work grant funds are highly susceptible to fraud, waste, and abuse. As the number and costs of disasters will likely continue to rise as the climate changes, effective fraud risk management is necessary to help ensure that these grant funds serve their intended purpose, taxpayer dollars are spent effectively, and government assets are safeguarded. FEMA has identified risks to PA emergency work grant funds and has initiated efforts that, if implemented effectively, could provide additional insights into fraud risks to these grant funds. However, the agency has not leveraged these efforts to plan and conduct assessments of these grants to determine a fraud risk profile in alignment with leading practices. In addition, FEMA has not designated a lead entity with responsibility for providing oversight of agency-wide efforts to manage fraud risks to PA emergency work grants, including managing the fraud risk assessment process. Conducting a comprehensive fraud risk assessment in alignment with leading practices and designating responsibility for managing the risk assessment process to a lead entity are pivotal steps in managing fraud risks and helping to ensure that FEMA's key oversight efforts address areas most at risk for fraud in this program.

Further, the complexity of the PA grant program makes preventing, detecting, and responding to potential fraud involving emergency work grants challenging. While laws, regulations, and guidance establish roles and responsibilities for PA applicants that can help them manage the risk of fraud to emergency work grants, FEMA is ultimately responsible for managing fraud risks to such grants. The agency implemented efforts to monitor PA recipients and made changes during the response to and recovery from the 2017 disasters to help improve recipients' ability to meet their responsibilities—including responsibilities that can help manage fraud risk. In addition, FEMA took steps to provide guidance and training to PA applicants; however, FEMA's key resources for applicants did not consistently communicate information on the highest fraud risks to emergency work grant funds and on related red flags, such as risks to procurement and debris removal, and applicants' responsibilities for managing those risks. Further, FEMA's key training and guidance documents did not consistently communicate information on where and how to report suspected fraud—a responsibility applicants have for managing fraud risks. Finally, while the agency provided mandatory antifraud training for its staff who work directly with PA applicants, such training lacked program-specific antifraud information. Absent such

training, FEMA staff may not be positioned to assist PA applicants with their responsibilities for managing fraud risks.

Recommendations for Executive Action

We are making the following five recommendations to FEMA:

The Administrator of FEMA should plan and conduct regular fraud risk assessments of PA emergency work grants to determine a fraud risk profile that aligns with leading practices as provided in the Fraud Risk Framework. Specifically, this process should include (1) identifying inherent fraud risks to PA grant funds, (2) assessing the likelihood and impact of inherent fraud risks, (3) determining fraud risk tolerance, (4) examining the suitability of existing fraud controls, and (5) documenting the fraud risk profile. (Recommendation 1)

The Administrator of FEMA should designate one entity as the lead entity with responsibility for providing oversight of agency-wide efforts to manage fraud risks to PA emergency work grants, including managing the fraud risk assessment process, consistent with leading practices. (Recommendation 2)

The Administrator of FEMA should update key training and guidance documents for the PA grant program to include information on where and how to report suspected fraud, and direct PA recipients to include such information in key training and guidance documents they provide to subrecipients. (Recommendation 3)

The Administrator of FEMA should update key resources, such as training and guidance documents, FEMA makes available to PA applicants to ensure these resources consistently communicate information on the highest fraud risks to PA emergency work grant funds and applicants' responsibilities for managing those risks. The highest fraud risks may include risks related to procurement and debris removal, and other risks FEMA identifies through fraud risk assessments. (Recommendation 4)

The Administrator of FEMA should implement program-specific antifraud training for PA staff who work directly with PA applicants; this training should include information on the highest fraud risks to PA emergency work grants. The highest fraud risks may include risks related to procurement and debris removal, and other risks FEMA identifies through fraud risk assessments. (Recommendation 5)

Agency Comments and Our Evaluation

We provided a draft of this report to DHS and DOJ for review and comment. In its written comments, reproduced in appendix II, DHS stated that it concurred with our recommendations. DHS and DOJ also provided technical comments, which we incorporated as appropriate.

Regarding our first recommendation that FEMA plan and conduct regular fraud risk assessments of PA emergency work grants, DHS concurred and stated that FIID's program review branch was conducting a review of debris removal and will initiate a review of emergency protective measures. As discussed in our report, while the stated objectives of FIID's program reviews conducted for other programs include some key elements of a fraud risk assessment specified in the Fraud Risk Framework, the reviews have not aligned with other leading practices. As it plans and conducts its reviews of PA emergency work, FEMA should ensure that the reviews align with leading practices for assessing fraud risks from the Fraud Risk Framework.

For our second recommendation that FEMA designate one entity with the responsibility for providing oversight of agency-wide efforts to manage fraud risks, DHS concurred and noted that FEMA has taken a multi-directorate approach to proactively address fraud risk within the PA program. Specifically, DHS noted that different FEMA entities have responsibilities such as directly overseeing emergency work grants; reviewing allegations of fraud by grantees and investigating allegations by non-FEMA individuals; investigating employee malfeasance; and performing risk reviews. DHS stated that FEMA believes combining these functions into one office would potentially cause conflicts of interest. DHS requested that we consider the recommendation implemented.

We disagree. In our report, we recognize the important roles and responsibilities various FEMA entities have in addressing fraud risk within the PA program. As outlined in the Fraud Risk Framework, while others can be responsible for the actual implementation of fraud controls, a designated entity coordinates antifraud initiatives across the program. This structure can address any concerns about conflicts of interest while retaining the oversight function of a designated entity. Accordingly, we continue to believe that FEMA would benefit from designating responsibility to a dedicated entity for providing oversight of efforts to manage fraud risks.

Letter

Regarding our remaining three recommendations, DHS concurred and described planned actions to address them.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Homeland Security, the Administrator of FEMA, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact Rebecca Shea at (202) 512-6722 or shear@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs are on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "Rebecca Shea". The signature is written in a cursive, flowing style.

Rebecca Shea
Director, Forensic Audits and Investigative Service

List of Requesters

The Honorable Michael B. Enzi
Chairman
Committee on the Budget
United States Senate

The Honorable Ron Johnson
Chairman
The Honorable Gary C. Peters
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Marco Rubio
Chairman
Committee on Small Business and Entrepreneurship
United States Senate

The Honorable Rand Paul, M.D.
Chairman
Subcommittee on Federal Spending Oversight and Emergency
Management
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
House of Representatives

The Honorable Bennie G. Thompson
Chairman
Committee on Homeland Security
House of Representatives

The Honorable Carolyn B. Maloney
Chairwoman
The Honorable James Comer
Ranking Member
Committee on Oversight and Reform
House of Representatives

Letter

The Honorable Nydia M. Velázquez
Chairwoman
Committee on Small Business
House of Representatives

The Honorable Peter DeFazio
Chairman
The Honorable Sam Graves
Ranking Member
Committee on Transportation and Infrastructure
House of Representatives

The Honorable Al Green
Chairman
Subcommittee on Oversight and Investigations
Committee on Financial Services
House of Representatives

The Honorable Emanuel Cleaver, II
House of Representatives

The Honorable Jim Jordan
House of Representatives

The Honorable Michael T. McCaul
House of Representatives

The Honorable Gary J. Palmer
House of Representatives

The Honorable Ann Wagner
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report addresses (1) the extent to which FEMA's efforts to assess fraud risks to PA emergency work grants align with leading practices, and (2) the extent to which FEMA helps ensure PA applicants are able to meet their responsibilities for managing fraud risks to emergency work grants.

Evaluation of FEMA's Efforts against Leading Practices

For both objectives, we compared FEMA's efforts to relevant leading practices in *A Framework for Managing Fraud Risks in Federal Programs* (Fraud Risk Framework).¹ Specifically, for our first objective, we selected leading practices relevant to assessing fraud risks, including leading practices related to planning, conducting, and documenting a fraud risk assessment from the second component of the Fraud Risk Framework—assess—and to designating responsibility for managing the fraud risk assessment process from the first component—commit.

For our second objective, we compared FEMA's efforts to leading practices relevant to working with external stakeholders, as applicants are PA program stakeholders. Specifically, we compared FEMA's efforts to leading practices that would help it ensure PA applicants are able to meet their responsibilities for managing fraud risks. For example, we compared FEMA's efforts to leading practices for fraud-awareness initiatives and reporting mechanisms, as PA applicants are responsible for reporting potential fraud involving their emergency work grant.

Document Reviews and Interviews

To evaluate the extent to which FEMA's efforts to assess fraud risks to PA emergency work grants align with leading practices, we reviewed relevant FEMA and Department of Homeland Security (DHS) documents, including FEMA's Fraud Prevention and Investigation Directive, Fraud Working Group charter, Enterprise Risk Management Framework, and

¹GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015).

the DHS Internal Control Plan for Supplemental Disaster Appropriations. We also reviewed documentation related to FEMA's efforts that may include identifying and assessing fraud risks, including documentation related to FIID's program reviews, efforts to identify improper payments, and grants-monitoring efforts.²

We interviewed relevant FEMA officials to understand their roles and responsibilities related to identifying and assessing fraud risks and to obtain their perspectives on planned or completed formal or informal efforts to identify and assess fraud risks. Specifically, we interviewed officials with responsibilities for designing and implementing policies and procedures related to the PA grant program, including officials with the PA program office and Grant Programs Directorate, in FEMA Headquarters and in the four regional offices responsible for the states and territories affected by the 2017 disasters.³ In addition, we interviewed FEMA officials with responsibilities for efforts that may include identifying and assessing fraud and other risks, including officials with the Fraud Investigations and Inspections Division (FIID), Fraud Working Group, and Office of the Chief Financial Officer.⁴

To evaluate the extent to which FEMA helps ensure PA applicants are able to meet their responsibilities for managing fraud risks to emergency work grants, we reviewed FEMA documents that include information on applicants' responsibilities, including the *Public Assistance Program and*

²An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. While improper payments may be caused by unintentional error, fraud involves obtaining something of value through willful misrepresentation. Whether an act is fraudulent is determined through the judicial or other adjudicative system.

³Specifically, we interviewed FEMA officials in Region II, which includes Puerto Rico and the U.S. Virgin Islands; Region IV, which includes Florida; Region VI, which includes Texas; and Region IX, which includes California.

⁴FEMA's Office of the Chief Financial Officer is responsible for FEMA's enterprise risk management (ERM) efforts. ERM is a forward-looking management approach that allows entities to assess threats and opportunities that could affect the achievement of goals.

*Policy Guide (PAPPG)*⁵ and FEMA-State agreements,⁶ FEMA's Monitoring Plan, training courses, guidance documents, fact sheets, and other resources, as well as relevant legislation and regulations. We also interviewed FEMA officials to understand PA applicants' responsibilities and the efforts taken by FEMA to help ensure applicants are able to meet those responsibilities. Specifically, we interviewed officials with responsibilities for designing and implementing policies and procedures related to the PA grant program in FEMA Headquarters and regional offices, as described above. We also interviewed FEMA officials with responsibility for developing or providing training and guidance to PA applicants and to FEMA staff who work most directly with these applicants, including training section officials and officials from FEMA's Procurement Disaster Assistance Team (PDAT), about their efforts.

Site Visits to Interview PA Applicants

In addition, for our second objective, we conducted site visits in spring 2019 to two states that received PA emergency work grants for the 2017 disasters—Texas and California.⁷ We selected these states to provide variation in FEMA region, type of disaster, prior experience with major disasters and PA grant funds,⁸ and amount of PA emergency work funds obligated for eligible applicants and number of eligible applicants with at

⁵We reviewed the April 2018 version of the PAPPG, which is the version that applies to incidents declared on or after August 23, 2017, including the 2017 disasters. In addition, we reviewed the most recent version of the PAPPG—dated June 2020—for any changes.

⁶After every declaration, the applicable state, territorial, or tribal government enters into an agreement with FEMA regarding the understanding, commitments, and conditions under which FEMA will provide assistance. 44 C.F.R. § 206.44.

⁷We selected these states from among the five states and territories affected by the 2017 disasters. For the purposes of this report, the "2017 disasters" includes major disaster declarations for hurricanes Harvey, Irma, and Maria, in Texas, Florida, Puerto Rico, and the U.S. Virgin Islands, and for wildfires in California beginning in October and December 2017. As of June 2020, FEMA had obligated \$1.26 billion for PA emergency work projects in Texas for Hurricane Harvey and \$589 million for such projects for wildfires in California beginning in October and December 2017.

⁸To determine recent prior experience with major disasters, we identified the number of major disaster declarations in the state or territory from 2012 to 2017 (prior to the relevant 2017 disaster), and the amount of PA funds obligated for emergency work for those disasters, as reported by FEMA.

least one emergency work project obligated for the 2017 disasters.⁹ To determine the amount of PA emergency work funds obligated for eligible applicants and number of eligible PA applicants with at least one emergency work project obligated, we used project-level and applicant-level data provided by FEMA as of March and April 2019. Specifically, the data included information on PA emergency work projects and PA applicants with emergency work projects for each of the 2017 disasters.¹⁰ See below for more information on data provided by FEMA, including how we assessed the reliability of these data. To obtain insights on any changes to FEMA's efforts since 2017, we selected states that had experienced at least one additional major disaster declaration since 2017.

During our site visits to the selected states, we met with 19 PA applicants to obtain their perspectives on FEMA's efforts to help ensure they understand and are able to carry out their responsibilities for managing fraud risks. Specifically, we met with the Texas PA recipient and seven subrecipients in Texas, and the California PA recipient and ten subrecipients in California. During our interviews, we discussed applicants' experience with PA emergency work grants for the relevant disaster; communication, training, and guidance provided by FEMA and the state recipient; and applicants' procurements for emergency work, including information provided by FEMA regarding procurement and the applicants' processes for hiring contractors to conduct emergency work.

We selected the seven PA subrecipients in Texas and 10 subrecipients in California to interview from among the 50 applicants in each state with the

⁹We considered the number of applicants with at least one emergency work project obligated, rather than the number of obligated emergency work projects, because, according to FEMA officials, when developing projects, identified damages could be structured as individual projects or related damages could be grouped together into one project. Accordingly, projects may be structured differently across PA applicants and location and therefore may not correspond to the size and scope of the work or disaster.

¹⁰In addition, we requested and received data on major disaster declarations in 2018, including Hurricane Florence in North Carolina and South Carolina and Hurricane Michael in Florida. We analyzed the data and found that the total federal share obligated for PA emergency work projects for these 2018 disasters was relatively low compared with the 2017 disasters. Therefore, we determined that the data likely represented only a portion of the total PA applicants that may be eligible and a portion of total PA emergency work funds that may be obligated for these disasters. As applicants whose projects are obligated earlier in the process and projects that are obligated earlier in the process may differ from other applicants and projects, we determined that while the data for the 2018 disasters may accurately reflect applicants and projects at the time the data were pulled, the data were not reliable for our purposes. Therefore, we excluded the 2018 disasters from our analysis.

highest federal share obligated for PA emergency work projects, according to project-level data on emergency work projects and applicant-level data on applicants with emergency work projects for each of the 2017 disasters, provided by FEMA as of March 2019. To help ensure we selected applicants that could provide insights into procurement for PA emergency work, we interviewed PA applicants that had at least two contract costs listed in cost-level data on emergency work projects for the 2017 disasters provided by FEMA as of March 2019. Specifically, the cost-level data included, for each PA emergency work project, information on the applicant; the project status (including whether the work had been completed, the eligibility status, and whether funding had been obligated); and the federal share obligated. In addition, the data provided for each project included the estimated costs in each of several categories, including contract costs.

To help ensure we received a variety of perspectives, we selected a group of applicants that included a variety of applicant types, had a variety of PA emergency work project types, and included applicants that may have been more likely to experience challenges related to PA emergency work, such as new applicants and applicants with prior DHS OIG findings.¹¹ Finally, to select applicants that we could feasibly interview during the course of a site visit, we also considered the applicants' locations.

Contractor Analysis

One of the responsibilities PA applicants have for managing fraud risks to emergency work grants is to ensure the contractors they hire to conduct work under such grants are eligible and responsible.¹² To assess the

¹¹One applicant included in our California site visit did not meet our criteria, because its emergency work projects had not yet been obligated at the time of the FEMA-provided data. However, we included the applicant because of the anticipated size of its emergency work projects and because DHS OIG had previously identified concerns with the applicant's expenditures of PA grant funding.

¹²All non-federal entities—including all types of PA applicants—are required to follow federal regulations that restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal assistance programs or activities. 2 C.F.R. § 200.213. In addition, non-federal entities other than states or territories—including non-state PA applicants such as tribal and local governments and nonprofit organizations—must award contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. 2 C.F.R. § 200.318(h).

extent to which FEMA's efforts to communicate information on applicants' responsibilities for ensuring contractor eligibility and responsibility help ensure applicants are able to meet these responsibilities, we obtained and analyzed information on contractors hired by selected PA applicants to conduct emergency work following the 2017 disasters in the two states we visited—Texas and California.¹³ We researched information on the contractors using government and corporate databases to identify information related to the eligibility and responsibility of the contractors, as described in more detail below.

Selection of Applicants

We selected a non-generalizable sample of 51 PA applicants in Texas and 33 PA applicants in California for which to request contract documentation. As our analysis focused on contractors hired by applicants to conduct emergency work, we limited our analysis to applicants that likely had at least one contract for emergency work. To identify such applicants, we used the cost-level data provided by FEMA as of March 2019 discussed previously.

We selected our sample of PA applicants in each state from among those that had at least one obligated project with at least one associated contract cost that exceeded \$20,000, excluding projects that had been determined to be ineligible or were pending an eligibility review by FEMA. We selected the \$20,000 threshold to help ensure the applicants we selected would have at least one contract that was a “covered transaction” for the purpose of federal regulations, meaning that the contractor would likely need to meet certain eligibility requirements in order to receive the contract.¹⁴ Because information on contract costs provided by FEMA may be an estimated cost, rather than actual, we included applicants with at least one contract cost above \$20,000 to help reduce the likelihood that we would not exclude applicants that estimated contract costs to be under \$25,000 but ultimately awarded a contract of at

¹³See section above on our site visits for more information on how we selected these two states.

¹⁴2 C.F.R. § 200.213. Specifically, regulations prohibit non-federal entities, such as PA applicants, from entering into a “covered transaction” with a party listed on the System for Award Management Exclusions list. Covered transactions generally include, among other things, contracts awarded by the non-federal entity in the amount of at least \$25,000. 2 C.F.R. §§ 3000.220 and 180.220.

least \$25,000.¹⁵ See below for more information on data provided by FEMA, including how we assessed the reliability of these data.

We identified 252 PA applicants for Hurricane Harvey in Texas and 63 PA applicants for one or both of the wildfire declarations in California that had at least one project meeting our criteria with at least one associated contract cost over \$20,000. From these applicants, we selected for our analysis a sample of 51 applicants in Texas and 32 applicants in California to reflect variation on several factors. In addition, we included in our sample one applicant in California that did not meet our criteria because its emergency work projects had not yet been obligated because of the anticipated size of its emergency work projects, among other things, for a total of 33 applicants in California.¹⁶ We selected a sample for each state that included applicants with a variety of emergency work project types (i.e., applicants with category A debris removal projects or category B emergency protective measures projects, or both) and a variety of applicant types. In addition, we included some applicants that may have been more likely to experience challenges related to emergency work, such as applicants that had not previously received PA grant funds and applicants with prior DHS OIG findings.

Our analysis of contractor information for the selected sample of applicants cannot be generalized to all PA applicants that hired contractors to conduct emergency work under a PA disaster grant, to all

¹⁵Because contract costs in the FEMA-provided data may be estimated, it is possible that a contract cost could be at least \$25,000 but not be associated with a covered transaction; for example, if the PA applicant ultimately had not awarded a contract or awarded a contract under \$25,000. In addition, one contract cost in the data could be associated with multiple contracts or contractors. To address this limitation, after receiving and reviewing documentation, we took additional steps to exclude from our analysis contractors that were under the \$25,000 threshold for a “covered transaction,” as discussed in more detail below.

¹⁶Specifically, we included in our sample of PA applicants for the contractor analysis the one applicant from our California site visit that did not meet our criteria because its emergency work projects had not yet been obligated at the time of the FEMA-provided data. However, we included the applicant because of the anticipated size of its emergency work projects and because DHS OIG had previously identified concerns with the applicant’s expenditures of PA grant funding. We included all of the PA applicants we met with during our site visits in the sample of applicants selected for our contractor analysis if they met our criteria of having at least one obligated project with at least one associated contract cost that exceeded \$20,000.

such applicants for the 2017 disasters, or to all such applicants within the two selected states.

Review of Contract Documentation

We requested from FEMA copies of contract and procurement documentation available through the FEMA Applicant Case Tracker (FAC-Trax)¹⁷ and Emergency Management Mission Integrated Environment (EMMIE)¹⁸ systems associated with all PA emergency work projects for the selected sample of 51 PA applicants in Texas and 33 PA applicants in California. We requested contract and procurement documentation on all PA emergency work projects for the selected applicants, rather than documentation for projects with a contract cost code in the FEMA-provided data, to help ensure we would capture information for contracts that may not have been included in the FEMA-provided data. In addition, to help ensure we received all available documentation, we compared documentation we received to the FEMA-provided cost-level data on PA emergency work projects with contract costs.

Overall, we received sufficient documentation to identify at least one contractor for 202 projects.¹⁹ For 15 projects listed in the cost-level FEMA provided data, information provided by FEMA confirmed that there were no contract costs, for example because costs categorized as contract costs were for mutual aid agreements.

¹⁷FAC-Trax is a web-based project tracking and case management system developed from commercially available off-the-shelf information technology products. FEMA began developing FAC-Trax in 2016 as part of efforts to redesign the PA program to address past challenges and make the program easier for FEMA and grant recipient officials to manage. FAC-Trax allows FEMA staff (through PA Grants Manager) and applicants (through PA Grants Portal) to review, manage, and track current PA project status and documentation.

¹⁸EMMIE is a web-based application that enables PA applicants—recipients and subrecipients—to complete, submit, monitor, and manage PA applications online. FEMA first deployed EMMIE in December 2007. As FAC-Trax had not reached full operational capability at the time of the 2017 disasters, EMMIE remained FEMA's system of record for PA grant awards and other disaster grants.

¹⁹Each project and contract cost may include one or more contractors. For four of these projects, we were unable to determine whether to include one or more contractors in our analysis, for example, because the information provided was not sufficient to determine whether the amount met or exceeded our \$25,000 threshold. For example, in some cases we received information on the contractor used but not information on the amount.

For 51 contract costs for 47 projects listed in the FEMA-provided data, we either did not receive contract or procurement documentation from FEMA, did not receive the documentation in time to review it and incorporate it into our analysis, or the information provided was not sufficient to identify the contractor(s) that performed the work.²⁰ Of these, 14 contract costs for 13 projects were under \$25,000 and therefore would have likely been excluded from our analysis, unless the costs were a portion of a larger contract of at least \$25,000; 2 contract costs for 2 projects may have been mutual aid, rather than contract, costs; and 7 contract costs for 6 projects did not have a federal share obligated as of February 2020. For 10 contract costs for 9 projects, the work had not yet been completed as of the time the applicant submitted the project information to FEMA or FEMA confirmed the contract cost information was based on an estimate.²¹ In these cases, it is possible that the applicant submitted the project anticipating using a contract but did not ultimately use a contract. If the applicant used a contract, the applicant may not have submitted documentation to FEMA because it is not required until closeout, and in all 10 cases the project was still open as of February 2020. For 21 of the contract costs associated with 20 different projects, the contract cost amount in the FEMA-provided data was at least \$25,000, the work was completed at the time of the FEMA-provided data, the project had been obligated, and information provided by FEMA does not indicate that it was mutual aid. Based on the results of the documentation we received and reviewed, we do not expect that documentation related to these projects would result in a material difference in our reported results.

We reviewed the documentation received to identify information on contractors hired to conduct PA emergency work.²² First, we identified the name of the contracting company or entity and the contract amount, if a

²⁰The number of contract costs exceeds the number of projects because one project may have multiple contract costs in the FEMA-provided cost-level data. For example, one project may have a contract cost for debris removal and a contract cost for debris monitoring. FEMA experienced delays in providing documents in response to this request because of its responsibilities responding to Coronavirus Disease 2019.

²¹More than one of these reasons may apply to contract costs and projects for which we did not receive sufficient information in time to incorporate into our analysis.

²²Contractors hired to conduct PA emergency work include contractors that provided labor—such as debris removal or monitoring—and contractors that provided materials, equipment, or supplies.

copy of the contract was included with the documentation.²³ We excluded from our analysis contractors for which the contract amount was under \$25,000 to align our analysis with the “covered transaction” threshold. If a copy of the contract was not included with the documentation, we used the invoice amount or other indicators in the documentation of the amount paid to the contractor for the PA emergency work project to determine whether to include the contractor in our analysis.

If the contract amount or invoice or paid amount was equal to or greater than \$25,000, we reviewed the documentation to identify additional information, such as the names of principals or owners associated with the contractor, contact information, and DUNS or other identification numbers, if available. In addition, we reviewed the documentation to identify the contract date and the date the work was performed, if available, or other relevant dates such as the invoice date, if not.

Analysis of Contractor Eligibility

We identified and reviewed eligibility information on 141 unique contractors hired to conduct PA emergency work by our non-generalizable sample of PA applicants for Hurricane Harvey in Texas and 66 unique contractors hired to conduct such work by our non-generalizable sample of applicants for the 2017 California wildfires.²⁴ We reviewed the eligibility of these contractors using information on contractor eligibility from General Services Administration’s System for

²³Under 2 C.F.R. § 200.22, a contract is a legal instrument by which a non-federal entity purchases property or services needed to carry out the project or program under a federal award. The contract and procurement documentation we received from FEMA did not include copies of the PA applicant’s contract with the contractor in some cases. This may be because while, according to FEMA processes, contracts may be submitted to support cost information at the time projects are developed, copies of contracts are not required until the applicant submits the project for closeout.

²⁴Contractors hired for multiple projects by one applicant within a state or by multiple applicants within a state are counted once for each state. Some contractors may be counted once for each state, if one or more applicants in each state hired the contractor.

Award Management (SAM).²⁵ Specifically, we searched the publicly available version of SAM for contractors identified in our review of contract documentation to determine if there were records matching the contractor information in SAM.²⁶ If we identified a DUNS number through our review of contract documentation, we searched by DUNS because, according to General Service Administration officials, the DUNS is the primary identifier used in SAM. If contract documentation did not include a DUNS number, we searched by contractor name. If we identified records matching the contractor name, we took additional steps, such as comparing addresses, to verify that identified records matched the contractor we identified in our documentation review.

If we identified records matching the contractor information in SAM, we reviewed the records to determine if the contractor had an active exclusion as of the contract date—if we received a copy of the contract—and as of the date the work was performed.²⁷ In addition, we reviewed

²⁵SAM is the primary government repository for prospective federal awardee information and the centralized government system for certain contracting, grants, and other assistance-related processes. It includes data collected from prospective federal awardees required for the conduct of business with the government; prospective contractor-submitted annual representations and certifications in accordance with the Federal Acquisition Regulation; and identification of those parties excluded from receiving federal contracts, certain subcontracts, and certain types of federal financial and nonfinancial assistance and benefits. Federal regulations prohibit non-federal entities—such as PA applicants—from entering into a “covered transaction” with a party listed on the SAM Exclusions list. The rules of assistance exclusion are governed by Office of Management and Budget guidelines to agencies on government-wide debarment and suspension set forth at 2 C.F.R. Part 180.

²⁶Entities must generally register in SAM to be eligible to do business with the federal government, including entities that would like to be eligible to be awarded contracts by the federal government and that are applying for assistance awards from the federal government, among other things. Because PA applicants are not federal entities, contractors that would like to do business with PA applicants are not required to register in SAM; however, contractors hired by PA applicants may be registered in SAM if they also have or are interested in doing business with the federal government.

²⁷Federal regulations prohibit awarding contracts to suspended or debarred individuals or entities, but do not preclude entities from continuing work under an existing contract if they become suspended or debarred during the course of contract performance. As discussed below, if we identified contractors that met indicators included in our testing, we planned to contact the PA applicant that hired the contractor to obtain additional information about the procurement. If we had not previously received a copy of the contract, we planned to request a copy of the contract to determine the contract amount and date of the contract to verify the results of our analysis. However, we did not identify any contractors that had an active exclusion as of either the contract date, if available, or the date the work was performed.

information the contractor submitted as part of its annual representations and certifications on whether it was presently debarred, suspended, proposed for debarment, or declared ineligible for the award of contracts by any federal agency.²⁸ If we identified the names of principals or owners of the contractor through our review of contract documentation, we also searched SAM to identify if those individuals had an active exclusion at the time the contract was awarded or as of the date the work was performed.

Analysis of Contractor Responsibility

We identified and reviewed responsibility information on 123 unique contractors hired to conduct PA emergency work by our non-generalizable sample of non-state PA applicants for Hurricane Harvey in Texas and 57 unique contractors hired to conduct such work by our non-generalizable sample of non-state PA applicants for the 2017 California wildfires.²⁹ FEMA provides additional guidance to non-state PA applicants—including tribal and local governments and private nonprofit organizations—on five matters federal regulations require non-federal entities other than states or territories to consider in determining whether a contractor is responsible: (1) contractor integrity, (2) compliance with public policy, (3) record of past performance, (4) financial resources, and (5) technical resources.³⁰ We focused our analysis of contractor responsibility on several indicators the FEMA guidance suggested that such applicants may consider in assessing contractor integrity. Specifically, in supplemental guidance on procurement under grants from 2016—the most recent guidance at the time of the 2017 disasters—FEMA suggests that, in assessing contractor integrity, non-state PA applicants may consider, among other things, whether the contractor has committed fraud or a criminal offense in connection with obtaining or

²⁸Specifically, we reviewed information the contractor submitted in its most recent representations and certifications prior to the contract date. If a copy of the contract was not available, we used the start date of the period in which the PA emergency work was performed or other relevant date, such as the invoice date. Information provided by contractors in representations and certifications is self-reported by the contractor. We did not assess the accuracy of information provided by contractors in the representations and certifications.

²⁹Contractors hired for multiple projects by one applicant within a state or by multiple applicants within a state are counted once for each state. Some contractors may be counted once for each state, if one or more applicants in each state hired the contractor.

³⁰2 C.F.R. § 200.318(h).

attempting to obtain a contract; has committed embezzlement, theft, forgery, bribery, falsification or destruction of records, or tax evasion; has violated federal criminal tax laws; or has delinquent federal or state taxes.

To review the responsibility of contractors hired to conduct PA emergency work by the selected non-state PA applicants, we used information in SAM.³¹ Specifically, if we determined that a contractor was registered in SAM through our contractor eligibility analysis, we reviewed information the contractor submitted as part of its annual representations and certifications related to the indicators included in the FEMA supplemental guidance.³² For example, we reviewed whether the contractor reported it had been convicted of or had a civil judgment rendered against it for one of the offenses listed in the FEMA supplemental guidance. In addition, we reviewed whether the contractor reported that it had been notified of any delinquent federal taxes in an amount that exceeds \$3,500 for which the liability remains unsatisfied or is a corporation that had any unpaid federal tax liability.

We also researched these contractors using our internal resources, including a mix of government and corporate databases. These databases provide a variety of information on individuals and businesses, such as whether entities have a criminal history or tax liens. If we identified indications that a contractor had a criminal history, we took steps to obtain additional information to determine if the information related to one of the offenses listed in the FEMA supplemental guidance.³³ In addition, we used these resources to identify whether any

³¹As federal regulations for procurement under grants and FEMA guidance on contractor responsibility described above do not apply to procurement by state or territorial entities, we excluded contractors hired by state or territorial PA applicants from our analysis of contractor responsibility.

³²As with our contractor eligibility analysis, we reviewed information the contractor submitted in its most recent representations and certifications prior to the date of the contract award. If a copy of the contract was not available, we used the start date of the period in which the PA emergency work was performed. We did not assess the accuracy of information provided by contractors in the representations and certifications.

³³Specifically, we reviewed our internal resources for such information within 3 years of the contract date. If we did not receive a copy of the contract from FEMA, we reviewed the internal resources for indicators of such information within the 3 years prior to the start of the period of performance, if included in the documentation, or other relevant dates such as the proposal or invoice date.

of the contractors had a federal or state tax lien of at least \$3,500.³⁴ A tax lien is a legal claim against an entity's property to secure payment of tax debt, and such liens are public records. Therefore, while a tax lien is not the same as tax debt, the existence of a tax lien may indicate that the entity has tax debt.³⁵

Review of Results of our Analysis

We took additional steps to review the results of our analysis. Specifically, if we identified contractors that met any of the indicators included in our testing, we contacted the PA applicant that hired the contractor to obtain additional information about the procurement. As discussed above, because we did not receive copies of contracts in all cases, we requested a copy of the contract to determine the contract amount and date of the contract. We verified that information we identified on the indicators included in our testing predated the date of the contract.³⁶ In addition, we requested information on whether the applicant considers the information identified through our testing when selecting contractors and whether the applicant was aware that they hired one or more contractors that met the

³⁴Although the FEMA supplemental guidance does not include a specific amount when it suggests that non-state PA applicants may consider whether a contractor has federal or state tax debt, we used a \$3,500 threshold to align with information required to be reported by federal contractors or potential federal contractors in their representations and certifications.

³⁵We considered a contractor to have a tax lien if one of our internal resources indicated that the contractor had a federal or state tax lien of at least \$3,500 filed within the 3 years prior to the contract date, and the resource did not indicate that the tax lien had been released prior to the contract date. We did not verify with the Internal Revenue Service that contractors we identified as having federal tax liens had federal tax debt or verify identified tax liens with county records. If we did not receive a copy of the contract from FEMA, we reviewed the internal resources for any tax liens over \$3,500 within the 3 years prior to the start of the period of performance, if included in the documentation, or other relevant dates such as the proposal or invoice date. As discussed below, we contacted PA applicants that hired contractors we identified as having tax liens to obtain additional information about the procurement and to request a copy of the contract, if we had not received a copy in documentation from FEMA, to verify that the tax lien was filed within 3 years prior to the contract date.

³⁶We identified one instance in which a contractor had a tax lien filed within the 3 years prior to the invoice dates for the PA emergency work for one applicant; however, it was not clear from documentation provided by FEMA whether the tax lien predated the date of the contract. We contacted that applicant for a copy of the contract but did not receive the documentation in time to make this determination.

indicator identified in our testing.³⁷ Further, we requested updated information from FEMA on the status of PA emergency work projects to verify that the projects were obligated.

Data Reliability

Applicant- and project-level data (March 2019 and April 2019). As discussed above, to select states for our site visits and contractor analysis, we requested from FEMA project-level and applicant-level data on PA emergency work projects and applicants with emergency work projects for the 2017 disasters. FEMA provided these data, pulled from its FAC-Trax system, as of March 2019. We assessed the reliability of these data by performing electronic testing to determine the validity of specific data elements, interviewing knowledgeable FEMA officials, and comparing data provided to information on PA emergency work funds obligated that FEMA reports publicly on its website.

We determined that the March 2019 data provided were sufficiently reliable for Texas, Florida, and California. However, the March 2019 data for Puerto Rico and the U.S. Virgin Islands were unreliable for our purposes, as the total federal share obligated for PA emergency work projects for three of the four disaster declarations in these territories differed substantially from information on the federal share obligated for emergency work for the declarations shown on FEMA's website for a similar time period. According to agency officials, FEMA initially used its EMMIE system in the territories, rather than the newer FAC-Trax system. As of the time the data were pulled, FEMA was in the process of copying data from EMMIE into FAC-Trax but had not yet completed the transition.

We selected Texas for our first site visit location using the March 2019 project- and applicant-level data, in conjunction with our other criteria, and requested updated data from FEMA for the purposes of selecting our second site visit location. FEMA provided updated data on PA emergency work projects and applicants with emergency work projects for disasters in Texas, Florida, and California from FAC-Trax and for disasters in Puerto Rico and the U.S. Virgin Islands from EMMIE. FEMA provided these data as of April 2019. We took the same steps to assess the April data as the March data and determined that the April data were

³⁷We identified four contractors that, according to our analysis, had a federal or state tax lien as of the date of their contracts with seven PA applicants. Four of the seven applicants responded to our request for information. We did not receive responses from the other three applicants in time to incorporate into this report.

sufficiently reliable for the purposes of selecting our second site visit location. Based on these data and our other selection criteria, we selected California as our second site visit location.

In addition, we used the March 2019 project-level and applicant-level data in part for the purposes of selecting applicants to interview during our site visits to Texas and California. Following the steps described above, we determined that these data were sufficiently reliable for this purpose.

Cost-level data (March 2019). As discussed above, to identify applicants that could provide insights into procurement for emergency work to meet with during our site visits and to select a sample of applicants for which to request contract documentation, we requested cost-level data from FEMA. FEMA provided cost-level data, pulled from its FAC-Trax system, on PA emergency work projects for the 2017 disasters as of March 2019. Specifically, the cost-level data included, for each PA emergency work project, information on the applicant; the project status (including whether the work had been completed, the eligibility status, and whether funding had been obligated); and the federal share obligated. In addition, the data provided for each project included the estimated or actual costs in each of several categories, including contract costs.

We took the same steps to assess the reliability of the cost-level data as we did to assess the reliability of the applicant- and project-level data discussed above. We determined that the data were sufficiently reliable for the purposes of selecting PA applicants that likely had at least one contract for PA emergency work to interview during our site visits to Texas and California and to include in our contractor analysis, with some limitations. Specifically, based on interviews with FEMA officials, we determined that the data may not reflect all PA emergency work projects that ultimately included a contract or may not reflect final contract costs. This is because, according to the officials, a project could be entered into the system and obligated based on estimated costs. For example, according to FEMA officials, an applicant could submit a project and have funds obligated for the project expecting its own personnel to complete the work but later hire a contractor to complete a portion of the work. The applicant could then update the project information to include the cost information for the contract labor. Similarly, a project could include a contract cost for an anticipated contract in the FEMA-provided data, but the applicant may not have ultimately hired a contractor. Therefore, by selecting a sample of PA applicants from among those that had at least one obligated project with at least one associated contract cost in the FEMA-provided data, it is possible we excluded some applicants that had

one or more contracts.³⁸ However, according to FEMA officials, cost information should be close for emergency work projects, because the work is often already completed for emergency work projects by the time the applicant applies for PA funding and submits information to FEMA.

System for Award Management (SAM). To assess the reliability of contractor information and exclusion information contained in SAM, we met with General Services Administration officials and reviewed relevant documentation to obtain an understanding of SAM. We determined that this database was sufficiently reliable for the purpose of our reporting objectives. We did not assess the reliability of self-reported information provided by contractors in their representations and certifications. However, as described above, we incorporated other sources of information into our analysis of contractor responsibility.

We conducted this performance audit from June 2018 to September 2020 in accordance with 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

³⁸In addition, it is possible we would select PA applicants that ultimately did not have a contract. However, we received sufficient documentation to identify at least one contractor for at least one emergency work project for every applicant included in our sample, except for two. For those two applicants, FEMA confirmed that there were invoiced costs but did not provide sufficient documentation for us to identify associated contractors.

Appendix II: Comments from the Department of Homeland Security

**Appendix II: Comments from the Department
of Homeland Security**

U.S. Department of Homeland Security
Washington, DC 20528



September 11, 2020

Rebecca Shea
Director, Forensic Audits and Investigative Service
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: Management Response to Draft Report GAO-20-604, "DISASTER ASSISTANCE: FEMA Should Take Additional Actions to Strengthen Fraud Risk Management for Public Assistance Emergency Work Grants"

Dear Ms. Shea:

Thank you for the opportunity to comment on this draft report. The U.S. Department of Homeland Security (DHS or the Department) appreciates the U.S. Government Accountability Office's (GAO) work in planning and conducting its review and issuing this report.

The Department is pleased to note GAO's positive recognition of numerous actions that the Federal Emergency Management Agency (FEMA) has taken to strengthen its management of fraud risk pertaining to the Public Assistance (PA) Program. For example, FEMA's grants-management and program-integrity efforts, include the identification and reduction of risks during PA Program grant award development. FEMA collects documentation and conducts site inspections to validate, quantify and document reported damage when developing PA Program grant awards. These processes help ensure that PA Program grants are appropriately disbursed and are not used for fraudulent purposes.

Furthermore, in response to appropriations act provisions and Office of Management and Budget guidance, FEMA implemented the Validate-As-You-Go (VAYGo) pilot program to test whether subrecipients properly expended disaster grant program funds (including PA Program funds) relating to Hurricanes Harvey, Irma, and Maria. DHS remains committed to (1) strengthening its management of fraud risk pertaining to the PA Program, and (2) fulfilling its responsibility to be a good steward of taxpayer funds in the

**Appendix II: Comments from the Department
of Homeland Security**

furtherance of its mission to help citizens and first responders before, during and after disasters.

Along these lines, FEMA has taken a multi-directorate approach to proactively address fraud risk within the PA Program. This approach draws on the unique missions and expertise of (1) FEMA Recovery's PA Program; (2) FEMA's Office of the Chief Financial Officer's comptrollers and Internal Controls division; (3) Office of the Chief Security Officer (OCSO) Fraud Investigations and Inspections Division (FIID), Program Review and Inspections Branch (PRIB); and (4) FEMA's Office of Professional Responsibility. For example, PRIB is currently conducting separate reviews of Debris Removal (PA Category A) and Emergency Protective Measures (PA Category B) which will result in a Fraud Risk Profile containing observations (including the identification of highest observed fraud risks to PA emergency grant funds), best practices, commendable comments, recommendations, and urgent actions to help prevent fraud, waste, and abuse in the PA Program.

In addition, the FEMA PA Division and Grant Programs Directorate's (GPD) Procurement Disaster Assistance Team (PDAT) provide training and guidance to FEMA staff, PA recipients, and subrecipients to mitigate the risk of fraud, including procurement fraud. For example, FEMA's PDAT provided 99 in-person and webinar training sessions (from September 2017 to August 2018) related to the 2017 disasters for applicants in all five affected states and territories.

The draft report contained five recommendations, with which the Department concurs. Attached find our detailed response to each recommendation. DHS previously submitted technical comments under a separate cover for GAO's consideration.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you again in the future.

Sincerely,

JIM H

CRUMPACKER

JIM H. CRUMPACKER, CIA, CFE

Director

Departmental GAO-OIG Liaison Office

Digitally signed by JIM H
CRUMPACKER
Date: 2020.09.11 16:21:07
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Attachment

**Attachment: Management Response to Recommendations
Contained in GAO-20-604**

GAO recommended that the Administrator of FEMA:

Recommendation 1: Plan and conduct regular fraud risk assessments of PA emergency work grants to determine a fraud risk profile that aligns with leading practices as provided in the Fraud Risk Framework. Specifically, this should include (1) identifying inherent fraud risks to PA grant funds, (2) assessing the likelihood and impact of inherent fraud risks, (3) determining fraud risk tolerance, (4) examining the suitability of existing fraud controls, and (5) documenting the fraud risk profile.

Response: Concur. FEMA's Office of the Chief Security Officer (OCSO) Fraud Investigations and Inspections Division (FIID), Program Review and Inspections Branch (PRIB) is conducting regular assessments of PA Grants. OCSO is currently reviewing Debris Removal (PA Category A) and will initiate a review of Emergency Protective Measures (PA Category B). OCSO's reviews will include (1) identifying inherent fraud risks to PA grant funds, (2) assessing the likelihood and impact of inherent fraud risks, (3) reviewing fraud risk tolerance, (4) examining the suitability of observed existing fraud controls, and (5) documenting fraud risk profile.

Milestones:

- Complete the review of PA Category A by June 30, 2021.
- Complete the review of PA Category B by June 30, 2022.

Estimated Completion Date (ECD): June 30, 2022.

Recommendation 2: Designate one entity as the lead entity with responsibility for providing oversight of agency-wide efforts to manage fraud risks to PA emergency work grants, including managing the fraud risk-assessment process, consistent with leading practices.

Response: Concur. FEMA is committed to managing fraud risk consistent with leading practices. FEMA has taken a multi-directorate approach to proactively address fraud risk within the PA Program, each with defined responsibilities. For example, FEMA Recovery's PA program directly oversees emergency work grants and has policies and procedures in place to manage fraud risks; FEMA's Office of the Chief Financial Officer's comptrollers and Internal Controls division staff oversee FEMA's appropriate accounting policies; FEMA's OCSO-FIID is responsible for reviewing allegations of fraud by grantees and investigating allegations of fraud by non-FEMA individuals; and FEMA's Office of Professional Responsibility (OPR) under the Office of the Administrator is responsible for investigating employee malfeasance. If an investigation

3

by OCSO or OPR determines the likelihood fraud has been perpetrated, the cases are referred to the DHS Office of Inspector General or the Department of Justice for further investigation and prosecution, as appropriate.

The OCSO-FIID-PRIB is responsible for providing observation-based risk reviews agency-wide and validating that risk control measures are established and functional for program categories under review. FEMA believes this division of responsibilities in managing fraud risks is consistent with sound accounting principles, and to combine all these functions into one office would potentially cause conflicts of interest in violation of best practices.

We request that GAO consider this recommendation resolved and closed as implemented.

Recommendation 3: Update key training and guidance documents for the PA grant program to include information on where and how to report suspected fraud, and direct PA recipients to include such information in key training and guidance documents they provide to subrecipients.

Response: Concur. FEMA Grant Programs Directorate's (GPD) Procurement Disaster Assistance Team (PDAT) will update its training and guidance materials to (1) include information on where and how to report suspected fraud, and (2) encourage PA recipients to include such information in key training and guidance documents that they provide to subrecipients.

- GPD PDAT will update the following training and guidance documents by April 30, 2021:
 - "Procurement under FEMA Awards – 1Hr"
 - "Procurement under FEMA Awards – 2Hr"
 - "Procurement under FEMA Awards – Emergency and Exigent Circumstances"
 - "Procurement under FEMA Awards – Prepare Before a Disaster"
 - "Procurement under FEMA Awards – Top 10 Mistakes"
 - "FEMA Fact Sheet: Managing Fraud Risk"
 - PDAT Website

FEMA's PA Division will update its training and guidance documents for the PA Program to (1) include information on where and how to report suspected fraud, and (2) to include direction to PA recipients to include such information within training and guidance documents that they provide to subrecipients.

- PA Division will update the following types of training and guidance documents (directed to PA field staff, PA Consolidated Resource Center (CRC) staff, PA recipients and subrecipients) by December 31, 2020:
 - State, Local, Tribal and Territorial (SLTT), including State Led
 - FEMA Qualification System (FQS) Field Courses

**Appendix II: Comments from the Department
of Homeland Security**

- On Demand Video Training
- Webinars Internal
- Webinars External
- CRC Position Training
- Position Assists
- Independent Study Courses (by August 31, 2021)

ECD: August 31, 2021.

Recommendation 4: Update key resources FEMA makes available to PA applicants, such as training and guidance documents, to ensure these resources consistently communicate information on the highest fraud risks to PA emergency work grant funds and applicants' responsibilities for managing those risks. The highest fraud risks may include risks related to procurement and debris removal, and other risks FEMA identifies through fraud risk assessments.

Response: Concur. GPD's PDAT and FEMA's PA Division will update their training and guidance materials, as appropriate, to ensure that these resources consistently communicate information on (1) the highest observed fraud risks to PA emergency grant funds identified within OCSO's future Fraud Risk Profiles (see response to Recommendation 1), and (2) applicants' responsibilities for managing the highest observed fraud risks identified within OCSO's future Fraud Risk Profiles.

Milestones:

- GPD's PDAT will update the following training and guidance documents that FEMA makes available to PA applicants 12 months after the release of the OCSO Fraud Risk Profiles for PA Category A and PA Category B, by June 30, 2022 and June 30, 2023, respectively:
 - "Procurement under FEMA Awards – 1Hr"
 - "Procurement under FEMA Awards – 2Hr"
 - "Procurement under FEMA Awards – Emergency and Exigent Circumstances"
 - "Procurement under FEMA Awards – Prepare Before a Disaster"
 - "Procurement under FEMA Awards – Top 10 Mistakes"
 - "FEMA Fact Sheet: Managing Fraud Risk"
- FEMA's PA Division will update relevant PA Guidance and training documents that FEMA makes available to PA applicants 9 months after the release of the OCSO Fraud Risk Profiles for PA Category A and PA Category B to ensure that these resources consistently communicate information on (1) the highest observed fraud risks to PA emergency grant funds identified within OCSO's Fraud Risk Profiles and (2) applicants' responsibilities for managing the highest observed

**Appendix II: Comments from the Department
of Homeland Security**

fraud risks identified within OCSO's Fraud Risk Profiles. The ECDs will be by March 31, 2022 and March 31, 2023, respectively.

ECD: June 30, 2023.

Recommendation 5: Implement program-specific antifraud training for PA staff that work directly with PA applicants that includes information on the highest fraud risks to PA emergency work grants. The highest fraud risks may include risks related to procurement and debris removal, and other risks FEMA identifies through fraud risk assessments.

Response: Concur. GPD's PDAT and FEMA's PA Division will update their training and guidance materials, as appropriate, after the release of the OCSO Fraud Risk Profiles for PA Category A and PA Category B addressed in recommendation 1. FEMA's OSCO-FIID-PRIB is conducting a single category review of PA Category A with an ECD by June 30, 2021 and will initiate a single category review of PA Category B with an ECD by June 30, 2022. Each review will result in a Fraud Risk Profile containing observations (including the identification of highest observed fraud risks to each program), best practices, commendable comments, recommendations, and urgent actions to help prevent fraud, waste and abuse.

Milestones:

- GPD's PDAT will conduct procurement-related antifraud training to PA staff who work directly with PA applicants. These trainings will include information, as appropriate, on the highest fraud risks to PA emergency work grants identified within OCSO's Fraud Risk Profiles for Debris Removal and Emergency Protective Measures.
 - GPD PDAT will conduct such trainings by June 30, 2022 containing the aforementioned content pertaining to PA Category A (12 months after OCSO completes the Fraud Risk Profile for Debris Removal).
 - GPD PDAT will conduct such trainings by June 30, 2023 containing the aforementioned content pertaining to PA Category B (12 months after OCSO completes the Fraud Risk Profile for Emergency Protective Measures).
- FEMA's PA Division will implement program-specific anti-fraud training for PA staff who work directly with PA applicants that includes information on the highest fraud risks to PA emergency work grants identified within OCSO's Fraud Risk Profiles for Debris Removal and Emergency Protective Measures.
 - PA will implement such trainings by March 31, 2022 containing the aforementioned content pertaining to PA Category A (9 months after OCSO completes its Fraud Risk Profile for Debris Removal). PA Division will implement such trainings by March 31, 2023 containing the

6

**Appendix II: Comments from the Department
of Homeland Security**

aforementioned content pertaining to PA Category B (9 months after OCSO
completes its Fraud Risk Profile for Emergency Protective Measures).

ECD: June 30, 2023.

7

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Rebecca Shea, (202) 512-6722 or SheaR@gao.gov

Staff Acknowledgments

In addition to the contact named above, Gabrielle M. Fagan (Assistant Director), Erin McLaughlin Villas (Analyst-in-Charge), and Paulissa Earl made key contributions to this report. Also contributing to the report were Lorraine Ettaro, Colin Fallon, Camille Keith, Barbara Lewis, Maria McMullen, Alexandra Morgan, and James Murphy.

Appendix IV: Accessible Data

Data Table

Accessible Data for Figure 1: Federal Emergency Management Agency's Public Assistance Program Categories of Work

Emergency work (Debris removal and emergency protective measures)	Permanent work (Repair, replacement, or restoration of disaster-damaged, publicly owned facilities and the facilities of certain private nonprofit organizations)	Management costs (Indirect costs, administrative expenses, and other expenses an applicant incurs in administering and managing Public Assistance awards that are not directly chargeable to a specific project)
<p>Category A: (Debris removal)</p> <p>Debris removal activities, such as:</p> <ul style="list-style-type: none"> • Clearance, removal and disposal • Monitoring of debris removal activities <p>Category B: (Emergency protective measures)</p> <p>Emergency protective measures to save lives or protect public health and safety including, but not limited to:</p> <ul style="list-style-type: none"> • Transporting or repositioning equipment • Evacuation and sheltering costs • Safety inspections • Demolition of structures • Security, such as barricades, fencing or law enforcement • Medical care and transport • Firefighting/flood fighting • Use/lease of temporary generators 	<p>Category C: Roads and bridges</p> <p>Category D: Water control facilities</p> <p>Category E: Buildings and equipment</p> <p>Category F: Utilities</p> <p>Category G: Parks, recreational, and other</p>	<p>Category Z: Management costs</p>

Agency Comment Letter

Accessible Text for Appendix II Comments from the Department of Homeland Security

Page 1

September 11, 2020

Rebecca Shea

Director, Forensic Audits and Investigative Service

U.S. Government Accountability Office

441 G Street, NW

Washington, DC 20548

Re: Management Response to Draft Report GAO-20-604, "DISASTER ASSISTANCE: FEMA Should Take Additional Actions to Strengthen Fraud Risk Management for Public Assistance Emergency Work Grants"

Dear Ms. Shea:

Thank you for the opportunity to comment on this draft report. The U.S. Department of Homeland Security (DHS or the Department) appreciates the U.S. Government Accountability Office's (GAO) work in planning and conducting its review and issuing this report.

The Department is pleased to note GAO's positive recognition of numerous actions that the Federal Emergency Management Agency (FEMA) has taken to strengthen its management of fraud risk pertaining to the Public Assistance (PA) Program. For example, FEMA's grants-management and program-integrity efforts, include the identification and reduction of risks during PA Program grant award development. FEMA collects documentation and conducts site inspections to validate, quantify and document reported damage when developing PA Program grant

awards. These processes help ensure that PA Program grants are appropriately disbursed and are not used for fraudulent purposes.

Furthermore, in response to appropriations act provisions and Office of Management and Budget guidance, FEMA implemented the Validate-As-You-Go (VAYGo) pilot program to test whether subrecipients properly expended disaster grant program funds (including PA Program funds) relating to Hurricanes Harvey, Irma, and Maria. DHS remains committed to (1) strengthening its management of fraud risk pertaining to the PA Program, and (2) fulfilling its responsibility to be a good steward of taxpayer funds in the

Page 2

furtherance of its mission to help citizens and first responders before, during and after disasters.

Along these lines, FEMA has taken a multi-directorate approach to proactively address fraud risk within the PA Program. This approach draws on the unique missions and expertise of (1) FEMA Recovery's PA Program; (2) FEMA's Office of the Chief Financial Officer's comptrollers and Internal Controls division; (3) Office of the Chief Security Officer (OCSO) Fraud Investigations and Inspections Division (FIID), Program Review and Inspections Branch (PRIB); and (4) FEMA's Office of Professional Responsibility. For example, PRIB is currently conducting separate reviews of Debris Removal (PA Category A) and Emergency Protective Measures (PA Category B) which will result in a Fraud Risk Profile containing observations (including the identification of highest observed fraud risks to PA emergency grant funds), best practices, commendable comments, recommendations, and urgent actions to help prevent fraud, waste, and abuse in the PA Program.

In addition, the FEMA PA Division and Grant Programs Directorate's (GPD) Procurement Disaster Assistance Team (PDAT) provide training and guidance to FEMA staff, PA recipients, and subrecipients to mitigate the risk of fraud, including procurement fraud. For example, FEMA's PDAT provided 99 in-person and webinar training sessions (from September 2017 to August 2018) related to the 2017 disasters for applicants in all five affected states and territories.

The draft report contained five recommendations, with which the Department concurs. Attached find our detailed response to each

recommendation. DHS previously submitted technical comments under a separate cover for GAO's consideration.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you again in the future.

Sincerely,

JIM H. CRUMPACKER, CIA, CFE

Director

Departmental GAO-OIG Liaison Office

Attachment

Page 3

Attachment: Management Response to Recommendations

Contained in GAO-20-604

GAO recommended that the Administrator of FEMA:

Recommendation 1: Plan and conduct regular fraud risk assessments of PA emergency work grants to determine a fraud risk profile that aligns with leading practices as provided in the Fraud Risk Framework. Specifically, this should include (1) identifying inherent fraud risks to PA grant funds, (2) assessing the likelihood and impact of inherent fraud risks, (3) determining fraud risk tolerance, (4) examining the suitability of existing fraud controls, and (5) documenting the fraud risk profile.

Response: Concur. FEMA's Office of the Chief Security Officer (OCSO) Fraud Investigations and Inspections Division (FIID), Program Review and Inspections Branch (PRIB) is conducting regular assessments of PA Grants. OCSO is currently reviewing Debris Removal (PA Category A) and will initiate a review of Emergency Protective Measures (PA Category B). OCSO's reviews will include (1) identifying inherent fraud risks to PA grant funds, (2) assessing the likelihood and impact of inherent fraud risks, (3) reviewing fraud risk tolerance, (4) examining the suitability of observed existing fraud controls, and (5) documenting fraud risk profile.

Milestones:

- Complete the review of PA Category A by June 30, 2021.
- Complete the review of PA Category B by June 30, 2022.

Estimated Completion Date (ECD): June 30, 2022.

Recommendation 2: Designate one entity as the lead entity with responsibility for providing oversight of agency-wide efforts to manage fraud risks to PA emergency work grants, including managing the fraud risk-assessment process, consistent with leading practices.

Response: Concur. FEMA is committed to managing fraud risk consistent with leading practices. FEMA has taken a multi-directorate approach to proactively address fraud risk within the PA Program, each with defined responsibilities. For example, FEMA Recovery's PA program directly oversees emergency work grants and has policies and procedures in place to manage fraud risks; FEMA's Office of the Chief Financial Officer's comptrollers and Internal Controls division staff oversee FEMA's appropriate accounting policies; FEMA's OCSO-FIID is responsible for reviewing allegations of fraud by grantees and investigating allegations of fraud by non-FEMA individuals; and FEMA's Office of Professional Responsibility (OPR) under the Office of the Administrator is responsible for investigating employee malfeasance. If an investigation

Page 4

by OCSO or OPR determines the likelihood fraud has been perpetrated, the cases are referred to the DHS Office of Inspector General or the Department of Justice for further investigation and prosecution, as appropriate.

The OCSO-FIID-PRIB is responsible for providing observation-based risk reviews agency-wide and validating that risk control measures are established and functional for program categories under review. FEMA believes this division of responsibilities in managing fraud risks is consistent with sound accounting principles, and to combine all these functions into one office would potentially cause conflicts of interest in violation of best practices.

We request that GAO consider this recommendation resolved and closed as implemented.

Recommendation 3: Update key training and guidance documents for the PA grant program to include information on where and how to report suspected fraud, and direct PA recipients to include such information in key training and guidance documents they provide to subrecipients.

Response: Concur. FEMA Grant Programs Directorate's (GPD) Procurement Disaster Assistance Team (PDAT) will update its training and guidance materials to (1) include information on where and how to report suspected fraud, and (2) encourage PA recipients to include such information in key training and guidance documents that they provide to subrecipients.

- GPD PDAT will update the following training and guidance documents by April 30, 2021:
 - "Procurement under FEMA Awards – 1Hr"
 - "Procurement under FEMA Awards – 2Hr"
 - "Procurement under FEMA Awards – Emergency and Exigent Circumstances"
 - "Procurement under FEMA Awards – Prepare Before a Disaster"
 - "Procurement under FEMA Awards – Top 10 Mistakes"
 - "FEMA Fact Sheet: Managing Fraud Risk"
 - PDAT Website

FEMA's PA Division will update its training and guidance documents for the PA Program to (1) include information on where and how to report suspected fraud, and (2) to include direction to PA recipients to include such information within training and guidance documents that they provide to subrecipients.

- PA Division will update the following types of training and guidance documents (directed to PA field staff, PA Consolidated Resource Center (CRC) staff, PA recipients and subrecipients) by December 31, 2020:

- State, Local, Tribal and Territorial (SLTT), including State Led
- FEMA Qualification System (FQS) Field Courses

Page 5

- On Demand Video Training
- Webinars Internal
- Webinars External
- CRC Position Training
- Position Assists
- Independent Study Courses (by August 31, 2021)

ECD: August 31, 2021.

Recommendation 4: Update key resources FEMA makes available to PA applicants, such as training and guidance documents, to ensure these resources consistently communicate information on the highest fraud risks to PA emergency work grant funds and applicants' responsibilities for managing those risks. The highest fraud risks may include risks related to procurement and debris removal, and other risks FEMA identifies through fraud risk assessments.

Response: Concur. GPD's PDAT and FEMA's PA Division will update their training and guidance materials, as appropriate, to ensure that these resources consistently communicate information on (1) the highest observed fraud risks to PA emergency grant funds identified within OCSO's future Fraud Risk Profiles (see response to Recommendation 1), and (2) applicants' responsibilities for managing the highest observed fraud risks identified within OCSO's future Fraud Risk Profiles.

Milestones:

- GPD's PDAT will update the following training and guidance documents that FEMA makes available to PA applicants 12 months after the release of the OCSO Fraud Risk Profiles for PA

Category A and PA Category B, by June 30, 2022 and June 30, 2023, respectively:

- “Procurement under FEMA Awards – 1Hr”
- “Procurement under FEMA Awards – 2Hr”
- “Procurement under FEMA Awards – Emergency and Exigent Circumstances”
- “Procurement under FEMA Awards – Prepare Before a Disaster”
- “Procurement under FEMA Awards – Top 10 Mistakes”
- “FEMA Fact Sheet: Managing Fraud Risk”
- FEMA’s PA Division will update relevant PA Guidance and training documents that FEMA makes available to PA applicants 9 months after the release of the OCSO Fraud Risk Profiles for PA Category A and PA Category B to ensure that these resources consistently communicate information on (1) the highest observed fraud risks to PA emergency grant funds identified within OCSO’s Fraud Risk Profiles and (2) applicants’ responsibilities for managing the highest observed

Page 6

fraud risks identified within OCSO’s Fraud Risk Profiles. The ECDs will be by March 31, 2022 and March 31, 2023, respectively.

ECD: June 30, 2023.

Recommendation 5: Implement program-specific antifraud training for PA staff that work directly with PA applicants that includes information on the highest fraud risks to PA emergency work grants. The highest fraud risks may include risks related to procurement and debris removal, and other risks FEMA identifies through fraud risk assessments.

Response: Concur. GPD’s PDAT and FEMA’s PA Division will update their training and guidance materials, as appropriate, after the release of the OCSO Fraud Risk Profiles for PA Category A and PA Category B addressed in recommendation 1. FEMA’s OSCO-FIID-PRIB is conducting

a single category review of PA Category A with an ECD by June 30, 2021 and will initiate a single category review of PA Category B with an ECD by June 30, 2022. Each review will result in a Fraud Risk Profile containing observations (including the identification of highest observed fraud risks to each program), best practices, commendable comments, recommendations, and urgent actions to help prevent fraud, waste and abuse.

Milestones:

- GPD's PDAT will conduct procurement-related antifraud training to PA staff who work directly with PA applicants. These trainings will include information, as appropriate, on the highest fraud risks to PA emergency work grants identified within OCSO's Fraud Risk Profiles for Debris Removal and Emergency Protective Measures.
 - GPD PDAT will conduct such trainings by June 30, 2022 containing the aforementioned content pertaining to PA Category A (12 months after OCSO completes the Fraud Risk Profile for Debris Removal).
 - GPD PDAT will conduct such trainings by June 30, 2023 containing the aforementioned content pertaining to PA Category B (12 months after OCSO completes the Fraud Risk Profile for Emergency Protective Measures).
- FEMA's PA Division will implement program-specific anti-fraud training for PA staff who work directly with PA applicants that includes information on the highest fraud risks to PA emergency work grants identified within OCSO's Fraud Risk Profiles for Debris Removal and Emergency Protective Measures.
 - PA will implement such trainings by March 31, 2022 containing the aforementioned content pertaining to PA Category A (9 months after OCSO completes its Fraud Risk Profile for Debris Removal). PA Division will implement such trainings by March 31, 2023 containing the

Page 7

aforementioned content pertaining to PA Category B (9 months after OCSO completes its Fraud Risk Profile for Emergency Protective Measures).

Appendix IV: Accessible Data

ECD: June 30, 2023.

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