



December 2014

FEDERAL EMERGENCY MANAGEMENT AGENCY

Opportunities Exist to Strengthen Oversight of Administrative Costs for Major Disasters

GAO Highlights

Highlights of [GAO-15-65](#), a report to congressional requesters

Why GAO Did This Study

FEMA leads federal efforts to respond to and recover from disasters, and provides grants to states and localities through the DRF. For each major disaster, funds can be obligated from the DRF to cover administrative costs—the costs of providing and managing disaster assistance—for FEMA, states, tribes, localities, and certain nonprofits, among others. GAO was asked to review these administrative costs along with FEMA policy changes.

This report addresses the extent to which DRF funds were obligated to cover (1) FEMA's administrative costs for major disasters during fiscal years 2004 through 2013, and the steps FEMA has taken to control these costs, and (2) Grantee and subgrantee administrative costs for PA grants, and the impact FEMA's 2007 policy changes had on PA program administrative costs reimbursements. GAO analyzed FEMA's administrative costs data and policies and PA guidance for administrative cost reimbursements; and interviewed FEMA, state, and local officials.

What GAO Recommends

GAO recommends that FEMA (1) develop an integrated plan to better control and reduce its administrative costs for major disasters, (2) assess the costs versus the benefits of tracking FEMA administrative costs by DRF program, and (3) clarify the agency's guidance and minimum documentation requirements for direct administrative costs. FEMA agreed with the report and its recommendations.

View [GAO-15-65](#). For more information, contact Chris Currie at (404) 679-1875 or curriec@gao.gov.

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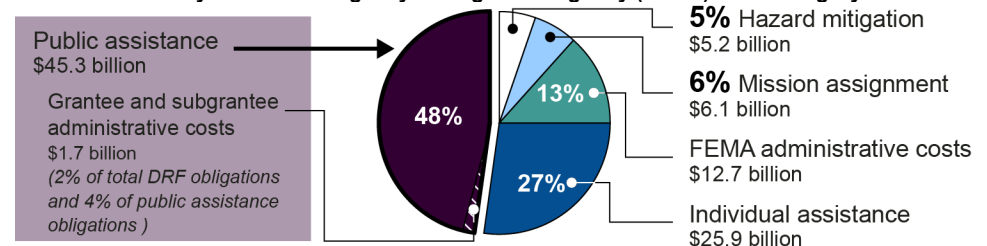
FEDERAL EMERGENCY MANAGEMENT AGENCY

Opportunities Exist to Strengthen Oversight of Administrative Costs for Major Disasters

What GAO Found

The Federal Emergency Management Agency (FEMA) obligated \$12.7 billion from the Disaster Relief Fund (DRF) for its administrative costs from fiscal years 2004 through 2013 and has taken some steps to reduce and better control these costs. This \$12.7 billion represents 13 percent of the \$95.2 billion obligated from the DRF for the 650 major disasters declared during this time frame. FEMA's average administrative cost percentages for major disasters during the 10 fiscal years 2004 to 2013 doubled the average during the 10 fiscal years 1989 to 1998. FEMA recognized that administrative costs have increased and has taken steps intended to better control and reduce these costs, such as setting a goal in its recent strategic plan to lower these costs, and creating administrative cost targets. However, FEMA does not require these targets be met, and GAO found that had FEMA met its targets, administrative costs could have been reduced by hundreds of millions of dollars. GAO also found that FEMA lacks an integrated plan with time frames and milestones to hold senior officials accountable for achieving its goals to reduce and more effectively control costs. Such a plan could help FEMA to better oversee and control these costs. In addition, GAO found that FEMA does not track administrative costs by major disaster program, such as Individual or Public Assistance, and has not assessed the costs versus the benefits of tracking such information. Doing so could provide FEMA with better information to manage these costs.

Total Disaster Relief Fund (DRF) Obligations for 650 Major Disasters Declared during Fiscal Years 2004-2013 by Federal Emergency Management Agency (FEMA) Cost Category



Source: GAO analysis of FEMA data. | GAO-15-65

Note: Percentages in the figure do not total 100 percent due to rounding.

From fiscal years 2004 through 2013, FEMA obligated \$1.7 billion to reimburse grantees (states) and subgrantees (localities) for administrative costs related to Public Assistance (PA) grants, and its 2007 policy change has led to additional complexity and workload for FEMA and its grantees. FEMA's 2007 rule was intended to simplify and clarify the method FEMA uses to reimburse grantees and subgrantees for certain costs incurred for administering PA grants. However, according to FEMA, the 2007 rule led to an unexpectedly high rate of claims for direct administrative costs. Grantee, subgrantee, and FEMA officials told GAO that FEMA policies and guidance do not adequately specify the requirements for determining reasonableness, eligibility, and supporting documentation to support reimbursement of direct administrative costs. Clarifying the agency's guidance and minimum documentation requirements would help grantees and subgrantees submit, and FEMA review requests for administrative costs reimbursement.

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Abbreviations

DHS	Department of Homeland Security
DRF	Disaster Relief Fund
FCO	federal coordinating officer
FEMA	Federal Emergency Management Agency
FIT	Financial Information Tool
IFMIS	Integrated Financial Management Information System
JFO	joint field office
OMB	Office of Management and Budget
PA	Public Assistance
PMBOK® Guide	A Guide to the Project Management Body of Knowledge (<i>PMBOK</i> is a trademark of the Project Management Institute, Inc.)
SRIA	Sandy Recovery Improvement Act of 2013

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December 17, 2014

Congressional Requesters

The growth in major disaster declarations has led to increased federal expenditures, including increased administrative costs from the Federal Emergency Management Agency's (FEMA) Disaster Relief Fund (DRF).¹ During the 10 fiscal years from 2004 through 2013, Presidents declared 32 percent more major disasters than in the preceding 10 fiscal years. For each major disaster, funds can be obligated from the DRF to cover the administrative costs of FEMA, other federal agencies, states, tribes, territories, local governments, and certain nonprofits, among others. FEMA's ability to fund administrative costs plays a key role in the wake of a disaster, allowing FEMA to deliver disaster assistance, and state, tribal, territorial, and local governments to manage federal disaster assistance grants.

FEMA, a component of the Department of Homeland Security (DHS), leads the federal effort to mitigate, respond to, and recover from disasters, both natural and man-made. Major disaster declarations can trigger a variety of federal response and recovery programs for government and nongovernmental entities, households, and individuals. FEMA's disaster assistance programs include Individual Assistance, which provides financial assistance directly to individuals, and Public Assistance (PA), which provides financial assistance to state, tribal,

¹In addition to issuing major disaster declarations, the President may issue emergency declarations. 42 U.S.C. § 5191. If the President declares an emergency, the federal government may provide immediate and short-term assistance that is necessary to save lives, protect property and public health and safety, or lessen or avert the threat of a catastrophe, among other things. 42 U.S.C. § 5192. Federal assistance may not exceed \$5 million under an emergency declaration unless continued emergency assistance is immediately required; there is a continuing and immediate risk to lives, property, or public health or safety; and necessary assistance will not otherwise be provided on a timely basis. 42 U.S.C. § 5193.

territorial, and local governments.² FEMA's DRF is the major source of federal disaster recovery assistance when a disaster is declared. The DRF is appropriated no-year funding, which allows FEMA to fund, direct, coordinate, and manage response and recovery efforts—including certain efforts by other federal agencies and state and local governments, among others—associated with domestic disasters and emergencies.³

FEMA obligates funds from the DRF to cover its administrative costs—that is, costs that support the delivery of disaster assistance. FEMA's administrative costs include salary and travel costs for the disaster workforce, rent and security expenses for field operations, and supplies and information technology for field staff, among other things.

In September 2012, we reported that from fiscal years 2004 through 2011, FEMA obligated \$80.3 billion, or an average of about \$10 billion a year, from the DRF.⁴ We also conducted an analysis of FEMA's administrative costs for 539 major disasters declared during the same period that showed administrative cost percentages frequently exceeded FEMA's targets, although FEMA did not require that the targets be met. To help FEMA control its administrative costs, we recommended that FEMA implement goals for administrative cost percentages and monitor performance to achieve these goals. In August 2014, FEMA reiterated that it partially concurred with our recommendation and that it continues

²FEMA administers three programs funded by the DRF: Individual Assistance, PA, and Hazard Mitigation. The DRF is also used to fund Mission Assignment. FEMA uses Mission Assignment to task and reimburse other federal entities that provide direct assistance during emergency and major disaster declarations. The Individual Assistance program provides for the necessary expenses and serious needs of disaster victims that cannot be met through insurance or low-interest Small Business Administration loans. For example, FEMA may provide temporary housing assistance, counseling, unemployment compensation, or medical expenses incurred as a result of a disaster. The Public Assistance program provides for debris removal; emergency protective measures; and the repair, replacement, or restoration of disaster-damaged, publicly owned facilities and the facilities of certain private nonprofit organizations that provide services otherwise performed by a government agency. Hazard Mitigation provides additional funds to states to assist communities in implementing long-term measures to help reduce the potential risk of future damages to facilities.

³No-year funding refers to appropriations that remain available for obligation for an indefinite period of time.

⁴GAO, *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, [GAO-12-838](#) (Washington, D.C.: Sept. 12, 2012).

to develop and implement more systematic approaches that will either directly or indirectly improve its ability to monitor administrative costs and performance. FEMA has not yet implemented our recommendation and plans to provide us a response by the end of second quarter of fiscal year 2015.

FEMA also obligates funds from the DRF to reimburse certain administrative costs that state, tribal, territorial, and local governments incur when administering PA grants. For example, local governments that receive PA funding can be reimbursed for visiting, surveying, and assessing disaster sites, or paying private contractors that help manage these grants. In a November 2007 rule, FEMA implemented a new rate and process for reimbursing grantees and subgrantees of the PA program for administrative costs.⁵

Given the increasing cost, complexity, and size of disasters, you asked us to review these various administrative costs. Specifically, this report addresses

1. the extent to which DRF funds were obligated to cover FEMA's administrative costs for major disasters during fiscal years 2004 through 2013, and what steps, if any, has FEMA taken to control these costs, and
2. the extent to which DRF funds were obligated to cover grantee and subgrantee administrative costs for PA grants and the impact, if any, of FEMA's November 2007 regulatory changes related to administrative costs.

To address our first objective, we obtained and analyzed administrative cost obligations data from FEMA's Integrated Financial Management Information System (IFMIS) for each major disaster declared by the President during fiscal years 2004 through 2013. We focused on this time frame because it contains the most current data for major disasters. It also comprises the time period after FEMA was merged into the newly created DHS, on March 1, 2003, and predates Hurricane Katrina in 2005. We focused primarily on fiscal years 2004 through 2013; however, to provide historical context and to compare results across similar periods,

⁵FEMA obligates funds to states and tribes that are considered "grantees," responsible for managing and disbursing PA funds, while local governments or equivalent entities are considered the "subgrantees," the entities ultimately receiving the funds.

we also reviewed obligations data during fiscal years 1989 through 2013. We calculated the percentage of total federal assistance that was obligated for administrative costs for all major disasters declared during fiscal years 1989 through 2013. In addition, we determined whether these percentages were above or below FEMA's administrative cost targets—one of FEMA's efforts to better control costs—and whether FEMA's administrative costs increased or decreased during the period. To determine whether the IFMIS obligations data were reliable, we reviewed the data that FEMA officials provided, discussed data quality control procedures with relevant FEMA officials, and reviewed documentation such as DHS audits that included IFMIS to ensure the integrity of the data. We determined that the obligations data were sufficiently reliable for the purposes of this report. In addition, we interviewed officials from FEMA's Office of Chief Financial Officer and the Office of Response and Recovery, and obtained and analyzed documentation to determine what, if any, steps FEMA has taken to control costs and whether FEMA implemented administrative cost goals and tracks performance against the goals. We also obtained and analyzed FEMA policies, procedures, and guidance specific to administrative costs, such as FEMA's guidance to federal coordination officers (FCO), strategic plans, and its financial management codes guide and evaluated them using *Standards for Internal Control in the Federal Government* and project management guidance.⁶

To address our second objective, we obtained and analyzed data on DRF obligations to state, tribal, territorial, and local governments for PA-related administrative costs for major disasters declared during fiscal years 2004 through 2013.⁷ Specifically, we determined the amount FEMA obligated

⁶The FCO is a position created by the Robert T. Stafford Disaster Relief and Emergency Assistance Act as amended, and is appointed by the President immediately upon his declaration of a major disaster or emergency to coordinate the administration of relief, among other things. 42 U.S.C. § 5143. Project Management Institute, Inc. *A Guide to the Project Management Body of Knowledge (PMBOK® Guide), Fifth Edition*, (Newtown Square, Pennsylvania: 2013). We have used *A Guide to the Project Management Body of Knowledge* to provide criteria in previous reports, including GAO, *Nonproliferation and Disarmament Fund: State Should Better Assure the Effective Use of Program Authorities*, [GAO-13-83](#) (Washington, D.C.: Nov. 30, 2012). GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

⁷We obtained data from FEMA's (1) National Emergency Management Information System, (2) Emergency Management Mission Integrated Environment, and (3) Enterprise Data Warehouse.

to state and local governments for each fiscal year during our scope. To determine whether the data were reliable, we reviewed the data that FEMA officials provided and discussed data quality control procedures to ensure the integrity of the data. We determined that the PA data were sufficiently reliable for the purposes of this report. We reviewed and analyzed FEMA policies, procedures, and guidance specific to state and local administrative costs, such as its Disaster Assistance Policy, and evaluated them using practices for good guidance.⁸ To assess the impact of FEMA's 2007 interim final rule on administrative costs,⁹ we visited three FEMA regional offices, including Region II, located in New York, New York; Region IV, located in Atlanta, Georgia; and Region VII, located in Kansas City, Missouri.¹⁰ In addition, we conducted semi-structured interviews with PA officials (Branch Chiefs or their designee) from all 10 of FEMA's regions, 10 state emergency management officials (i.e., grantees), and 11 local officials (i.e., subgrantees). The information obtained from the states and localities cannot be generalized nationwide. However, the information obtained from these states and localities provides insight into the issues grantees and subgrantees encounter during the disaster recovery process.

We conducted this performance audit from November 2013 to December 2014 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. See appendix I for more information on our scope and methodology.

⁸FEMA, Disaster Assistance Policy 9529.9: *Section 324 Management Costs and Direct Administrative Costs* (Washington D.C.: March 12, 2008). [GAO/AIMD-00-21.3.1](#). Office of Management and Budget (OMB), *Final Bulletin for Agency Good Guidance Practices*. (Washington D.C.: January 2007).

⁹See 72 Fed. Reg. 57,869 (Oct. 11, 2007).

¹⁰We selected Region II because it had a large recent catastrophic disaster—Hurricane Sandy. We selected Region IV because it represents all sizes of disasters, including catastrophic, frequently had disasters, and has a range of disaster types. We selected Region VII because it represents many sizes of disasters, is a frequent disaster area—with a total of 84 out of 650 disasters during fiscal years 2004 through 2013—and had a range of disaster types.

Background

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended, established the process by which a state may request a presidential disaster declaration.¹¹ According to the act, the President can declare a major disaster after a governor or chief executive of an affected tribal government finds that a disaster is of such severity and magnitude that effective response is beyond the capabilities of the state and local governments and that federal assistance is necessary.¹² The act also generally defines the federal government's role during disaster response and recovery and establishes the programs and processes through which the federal government provides disaster assistance to state, tribal, territorial, and local governments as well as certain nonprofit organizations, and individuals.¹³ Figure 1 shows the number of major disasters declared during fiscal years 2004 through 2013. See appendix II for the number of disaster declarations during fiscal years 2004 through 2013 by jurisdiction.¹⁴

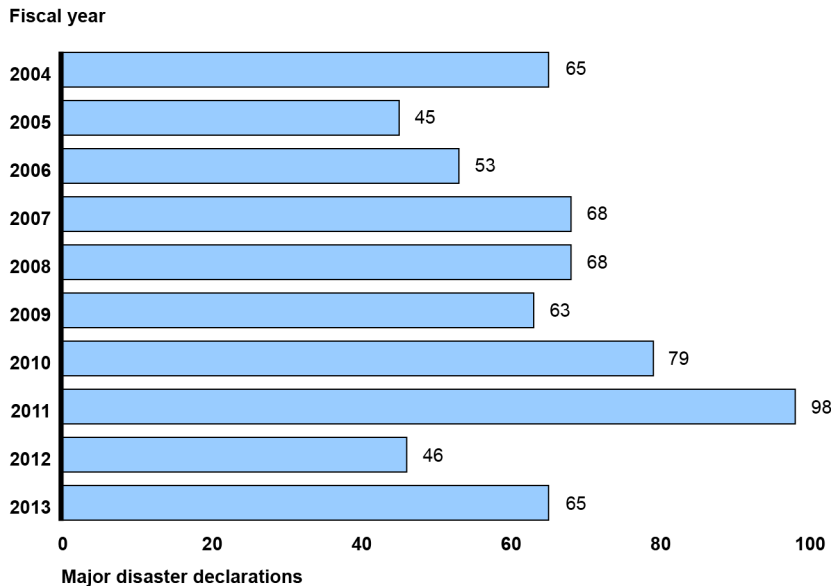
¹¹42 U.S.C. § 5170.

¹²42 U.S.C. § 5170.

¹³See 42 U.S.C. § 5170-5189g.

¹⁴Hereafter in this report, jurisdictions refer to states, the District of Columbia, U.S. territories, and Freely Associated States (nations in free association with the United States under the Compacts of Free Association).

Figure 1: Major Disaster Declarations during Fiscal Years 2004 through 2013



Source: GAO analysis of FEMA data. | GAO-15-65

Major disaster declarations can trigger a variety of federal assistance programs and activities for governmental and nongovernmental entities, households, and individuals. FEMA's programs and activities include: PA, Individual Assistance, Hazard Mitigation, and Mission Assignment.¹⁵ FEMA tracks DRF obligations for major disasters in five categories, which consist of four of the agency's programs and activities, and its administrative costs. Table 1 highlights that, as of April 2014, FEMA obligated \$95.2 billion for the 650 major disasters declared during the period of our review. See appendix II for obligations for disaster declarations during fiscal years 2004 through 2013, by jurisdiction.

¹⁵FEMA administers three programs funded by the DRF, including PA, Individual Assistance, and Hazard Mitigation. Hazard Mitigation provides additional funds to states to assist communities in implementing long-term measures to help reduce the potential risk of future damages to facilities. In addition, FEMA is responsible for Mission Assignment—costs paid by FEMA for work assigned to other agencies and departments.

Table 1: Disaster Relief Fund Obligations for 650 Major Disasters Declared during Fiscal Years 2004 through 2013

Dollars in millions

Major disasters	Public Assistance	Individual Assistance	Hazard Mitigation	Mission Assignment	Federal Emergency Management Agency administrative costs	Total
Hurricane Katrina	\$16,688	\$13,985	\$1,584	\$3,671	\$5,405	\$41,333
Hurricane Sandy	\$4,071	\$1,805	\$121	\$365	\$840	\$7,203
Disasters other than Katrina and Sandy	\$24,568	\$10,096	\$3,495	\$2,056	\$6,461	\$46,677
All disasters	\$45,327	\$25,887	\$5,200	\$6,093	\$12,706	\$95,213

Source: GAO analysis of Federal Emergency Management Agency (FEMA) data. | GAO-15-65

Note: Obligations may not add up to the total obligations reported because of rounding. This table provides actual obligations from the Disaster Relief Fund (DRF) as of April 30, 2014. Thus, amounts in the table are understated, as FEMA will obligate additional funds for disasters for which recovery efforts have not been completed (e.g., Hurricane Sandy).

FEMA's Administrative Costs

FEMA defines administrative costs for major disasters as costs that support the delivery of disaster assistance.¹⁶ Examples of FEMA administrative costs include the salary and travel costs for the disaster workforce, rent and security expenses associated with field operation locations, and supplies and information technology for field operation staff. According to FEMA officials, the agency's administrative costs for major disasters primarily support field operation activities; however, administrative costs can also be incurred at FEMA regional offices, headquarters, and other locations, such as FEMA's National Processing Service Center—that is, a service center where FEMA officials register individuals and families for Individual Assistance.¹⁷ See appendix III for a detailed description of FEMA's administrative costs categories.

¹⁶According to FEMA officials, the agency relied on the Statement of Federal Financial Accounting Standards 4 to define its administrative costs.

¹⁷Certain administrative costs associated with disaster declarations are obligated from FEMA's annual appropriations. For example, according to FEMA officials, the salary of a full-time FEMA employee who works at headquarters is obligated from the agency's annual appropriations, even if the employee works on a specific disaster declaration. The scope of our review included only obligations from the DRF, and as a result, obligations from FEMA's annual appropriations were excluded from our administrative cost analyses.

Public Assistance Process

PA is the largest of FEMA's major disaster programs, comprising nearly half the funds obligated from the DRF for major disasters. PA funds debris removal and the repair, replacement, or restoration of disaster-damaged facilities. PA also funds certain types of emergency work designed to, among other things, eliminate immediate threats to lives, public health and safety, and property. After a disaster, FEMA works with the affected state, tribal, or territorial government to set up a joint field office (JFO) at or near the disaster site to administer PA grants.¹⁸ FEMA staffing usually consists of (1) permanent full- or part-time employees, (2) nonpermanent reserve staff, and (3) technical assistance contractors. In addition, the JFO may be staffed by personnel from the affected government's emergency management office. The majority of FEMA staff assigned to the JFO consists of nonpermanent reserve staff who are typically deployed for short-term assignments (i.e., 90 to 120 days). Technical assistance contractors may provide specialized assistance in areas such as structural, mechanical, and civil engineering.

Federal, state, tribal, territorial, and local officials each play a significant role in carrying out the steps in the PA funding process. In this process, the state, tribal, or territorial government is the "grantee" that manages and disburses PA funds, and the affected local governments or equivalent entities are typically the "subgrantees" that receive the funds. A subgrantee can be any eligible state or local government entity—for example, school district, county, or township—or certain nonprofits. After a disaster is declared, FEMA, state, tribal, or territorial representatives brief applicants on the program, and FEMA, among other things, assigns a PA coordinator, project officers, and technical specialists to assist the applicant through the PA funding process. After determining the subgrantees and projects eligible for funding, FEMA works with the grantee and subgrantees to develop project worksheets that describe the scope of work and estimated cost. FEMA also conducts historic preservation and environmental reviews as part of its approval process. See appendix IV for further details on the PA process.

¹⁸ JFOs are temporary FEMA offices established to respond to declared disasters and are headed by federal coordinating officers who, among other things, coordinate the activities of the disaster workforce deployed for a particular disaster.

Grantee and Subgrantee Administrative Costs

Examples of Management Costs and Direct Administrative Costs

Management costs

•**Disaster:** DR-4068

•**State:** Florida

•**Declared:** July 3, 2012

•**Description:** Tropical Storm Debby

•**Amount:** \$3,910,571

•**Activity examples:** (1) maintaining a website to house documentation and closeout information for Public Assistance (PA) activities, and (2) pay office rent costs for space occupied by PA staff.

Direct administrative costs

•**Disaster:** DR-1971

•**State:** Alabama

•**Declared:** April 28, 2011

•**Description:** severe storms, tornadoes, straight-line winds, and flooding

•**Amount:** \$1,987,670

•**Activity examples:** (1) develop, write, and review project documentation; (2) assess project eligibility; (3) gather and review payroll data, and invoices; (4) and perform data entry.

Source: GAO analysis of Federal Emergency Management Agency (FEMA) data. I GAO-15-65

FEMA reimburses grantees and subgrantees for some expenses associated with administering PA grants. FEMA divides these reimbursements into two categories: section 324 management costs (management costs) and direct administrative costs. Management costs are any indirect costs, any administrative expense, and any other expense not directly chargeable to a specific project.¹⁹ FEMA defines direct administrative costs as costs incurred by the grantee or subgrantee that can be identified separately and assigned to a specific project.²⁰

Examples of management costs:

- activities related to attending and participating in the applicant's briefing for the overall PA grant,
- travel expenses related to general support and not tied directly to one specific project, and
- activities related to attending, coordinating, and responding to correspondence and meeting requests from FEMA and grantee officials for the overall program and not specific to one project.

Examples of direct administrative costs:

- activities related to developing a detailed site-specific damage description component of one specific project worksheet,
- activities related to visiting, surveying, and assessing sites for one specific project, and
- travel expenses related to one specific project.

In fiscal year 2008, FEMA changed the way it reimburses grantees and subgrantees for management costs. In November 2007, pursuant to the Disaster Mitigation Act of 2000,²¹ FEMA implemented an interim final rule that established rates for reimbursing grantee and subgrantee

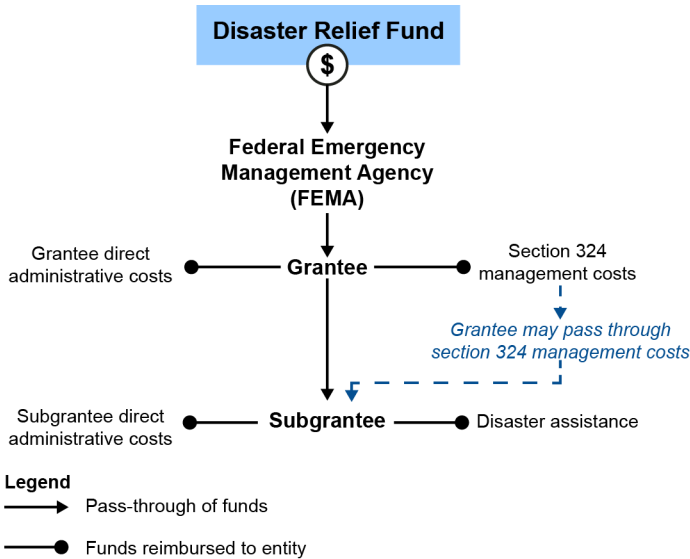
¹⁹42 U.S.C. § 5165b.

²⁰FEMA, Disaster Assistance Policy 9529.9: *Section 324 Management Costs and Direct Administrative Costs*, (Washington D.C.: Mar. 12, 2008).

²¹The Disaster Mitigation Act of 2000 amended the Robert T. Stafford Disaster Relief and Emergency Assistance Act to add section 324, which required the President to issue regulations establishing management costs rates for grantees and subgrantees of disaster assistance programs. 42 U.S.C. § 5165b.

management costs associated with PA grants.²² For major disaster declarations, FEMA set management costs at a percentage rate of no more than 3.34 percent of the federal share of projected eligible program costs for assistance.²³ In addition, FEMA officials stated that the 2007 rule changed the process by which grantees and subgrantees received management costs reimbursement. Figure 2 outlines the funding process for grantees and subgrantees for PA administrative costs. According to agency officials, FEMA set the management costs rate at 3.34 percent after determining that it was approximately the historical average of all management and administrative costs. See appendix V for further details on the reimbursement process for management costs.

Figure 2: FEMA’s Public Assistance Program Funding Structure



Source: GAO analysis of FEMA Information. | GAO-15-65

²² 72 Fed. Reg. 57,869 (Oct. 11, 2007). The rule also established management cost rates for the Hazard Mitigation Grant Program.

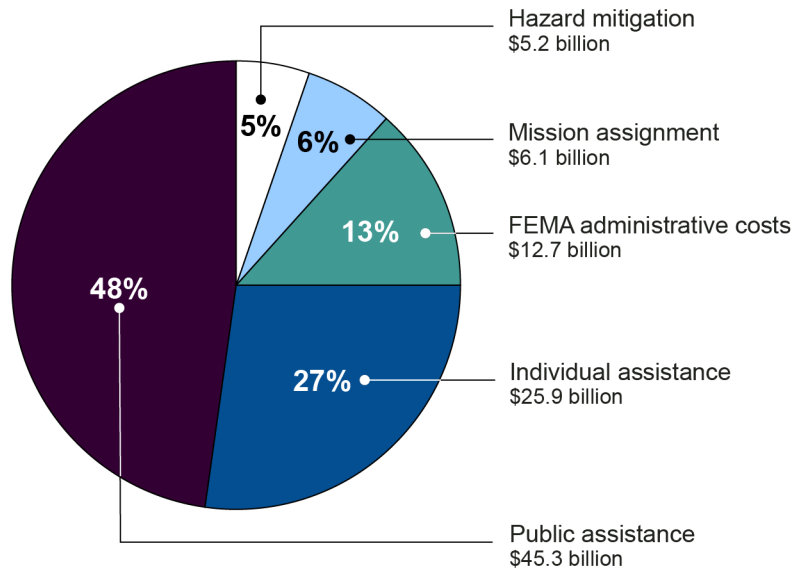
²³ 44 C.F.R. § 207.5(b)(4)(i).

FEMA's Administrative Costs Have Doubled, and an Integrated Plan Could Help Meet Its Goals of Reducing and Better Controlling These Costs

FEMA Administrative Costs

FEMA obligated \$12.7 billion from the DRF to cover its administrative costs for the 650 major disasters declared during fiscal years 2004 through 2013. As shown in figure 3, the \$12.7 billion represents 13 percent of the \$95.2 billion obligated from the DRF for the 650 major disasters during this time period. Figure 3 provides a breakout of FEMA's cost categories for major disasters and how much was obligated for each category from the DRF.

Figure 3: Total Disaster Relief Fund Obligations for 650 Major Disasters Declared during Fiscal Years 2004 through 2013 by Federal Emergency Management Agency (FEMA) Cost Category



Source: GAO analysis of FEMA data. | GAO-15-65

Note: Percentages in the figure do not total 100 percent due to rounding. This figure provides actual obligations from the Disaster Relief Fund (DRF) as of April 30, 2014.

While figure 3 shows the total amount FEMA obligated for its administrative costs from the DRF, it is significantly impacted by large disasters such as Hurricane Katrina. For example, of the \$12.7 billion FEMA obligated for its administrative costs during fiscal years 2004 through 2013, \$5.4 billion, or 43 percent, related to Hurricane Katrina. Therefore, the 13 percent shown in figure 3 is significantly affected by one disaster. Figure 3 also does not provide information about FEMA's administrative costs for individual disasters. One measure FEMA uses to understand administrative costs for a single major disaster is a disaster's administrative cost percentage—that is, administrative cost obligations divided by total obligations.²⁴ A benefit to analyzing administrative cost

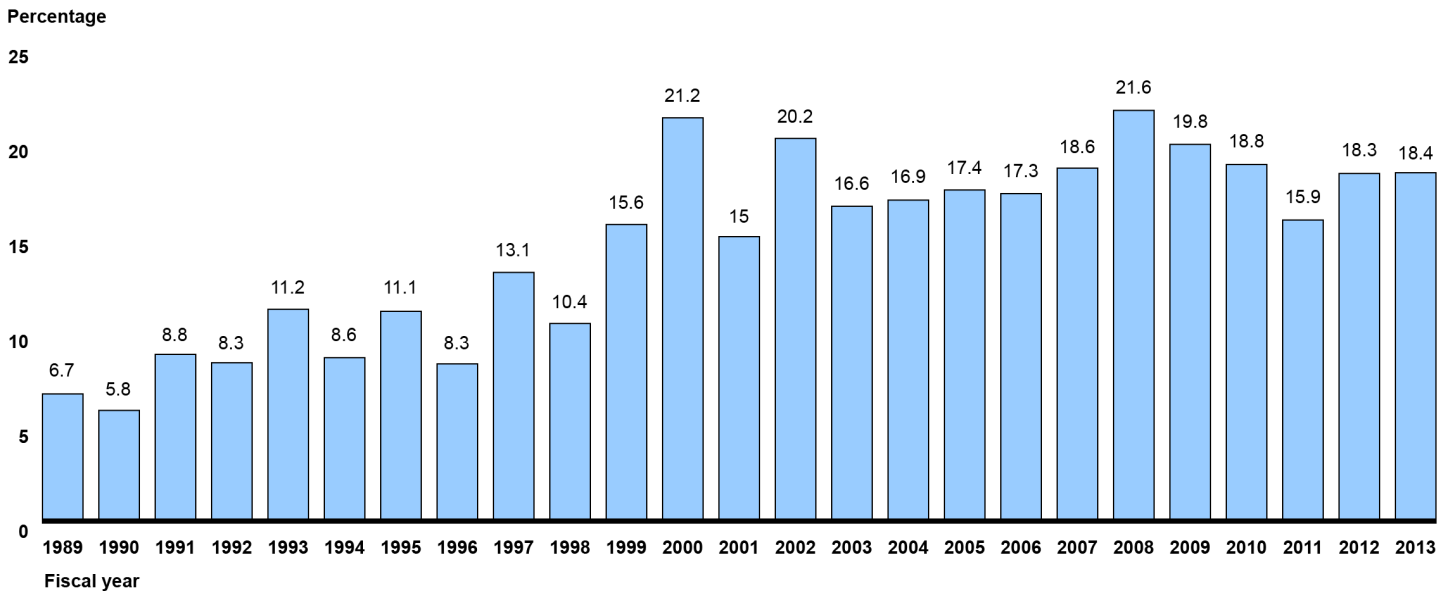
²⁴FEMA officials calculate a major disaster's administrative cost percentage by dividing FEMA's administrative cost obligations by total obligations for the disaster. Total obligations include funds for PA, Individual Assistance, Hazard Mitigation, Mission Assignment, and FEMA's administrative costs. We calculated administrative cost percentages using the formula provided by FEMA.

percentages is that FEMA can assess whether a reasonable amount of administrative costs were obligated for a single disaster.

Our analysis shows that FEMA's average annual administrative cost percentages for major disasters have doubled since fiscal year 1989.²⁵ Specifically, we calculated the average administrative cost for each fiscal year from 1989 to 2013 to identify long-term trends in FEMA's administrative costs. For example, to determine the average for fiscal year 2013, we calculated the administrative cost percentage for each of the 65 major disasters declared in fiscal year 2013. Next, we calculated the average of the 65 administrative costs percentages. As shown in figure 4, FEMA's average administrative cost percentage was 18 percent in fiscal year 2013, which more than doubled the average of 7 percent in fiscal year 1989.

²⁵According to FEMA officials, administrative costs are typically higher in the early months of a declaration, typically decreasing as the declaration matures (that is, as labor-intensive response activities decline). In order to ensure the results of analyses were not skewed by major disasters for which recovery efforts had not been completed, we analyzed actual administrative costs for disaster declarations that were closed as of April 30, 2014. For declarations that were still open as of April 30, 2014, we analyzed actual obligations as of April 30, 2014, plus the amount that FEMA projected to obligate in the future until the declarations are eventually closed.

Figure 4: Average Annual Administrative Cost Percentages for 1,332 Major Disasters Declared during Fiscal Years 1989 through 2013



Source: GAO analysis of FEMA data. | GAO-15-65

FEMA categorizes major disasters using three event levels—small, medium, or large—based on the projected amount of federal funding to be obligated for disaster assistance. Small disasters have projected disaster assistance of less than \$50 million, medium disasters have projected disaster assistance from \$50 million to \$500 million, and large disasters have projected disaster assistance of \$500 million to \$5 billion.²⁶ FEMA's administrative cost percentages are typically higher for small disasters than for large disasters. For example, FEMA may be able to achieve economies of scale for relatively large disasters, thereby reducing the related administrative cost percentage. Examples of administrative costs and other DRF obligations for a small and large disaster are provided in appendixes VI and VII.

²⁶FEMA, *Achieving Efficient JFO Operations: A Guide for Managing Staffing Levels and Administrative Costs* (Washington, D.C.: November 2010). For the purposes of this report, we categorized disasters with projected assistance greater than \$5 billion as large disasters.

Our analysis shows that FEMA’s average administrative cost percentage at least doubled for all sizes of disasters—small, medium, and large. For example, for small disasters, FEMA’s average administrative cost percentage was 20 percent during the fiscal year 2004-to-2013 period, doubling the average of 10 percent during the fiscal year 1989-to-1998 period.²⁷ Table 2 shows FEMA’s average administrative costs percentage for small, medium, large, and all disasters combined.

Table 2: Average Administrative Cost Percentage for Small, Medium, and Large Disasters Declared during Fiscal Years 1989 to 1998 and 2004 to 2013

Size of major disasters	Average FEMA administrative cost percentage during 1989-to-1998 period	Average FEMA administrative cost percentage during 2004-to-2013 period
Small	10%	20%
Medium	6%	12%
Large	5%	13%
All disasters	9%	18%

Source: GAO analysis of Federal Emergency Management Agency (FEMA) data. | GAO-15-65

We also found a wide variance in administrative costs percentages for disasters of similar sizes in fiscal years 2004 to 2013, and for small disasters, instances where FEMA charged the DRF more for administrative costs than assistance.²⁸ Specifically:

- For the 518 small disasters (total disaster assistance of less than \$50 million), administrative cost percentages averaged 20 percent, and ranged from less than 1 percent to 74 percent. Sixteen or 3 percent of the 518 small disasters had administrative costs that were equal to, or exceeded, the disaster assistance.
- For the 112 medium disasters (total disaster assistance from \$50 million to \$500 million), administrative cost percentages averaged 12 percent, and ranged from 1 percent to 29 percent. None of the

²⁷ We used the fiscal year 1989-to-1998 period because it is the earliest 10-year period of obligations data maintained by FEMA.

²⁸ For example, if FEMA obligated \$10 million for a major disaster, and \$6 million related to administrative costs and \$4 million related to disaster assistance, then FEMA would have charged the DRF more for administrative cost than assistance.

medium disasters had administrative costs that were equal to, or exceeded, disaster assistance.

- For the 20 large disasters (total disaster assistance from \$500 million to \$5 billion), administrative cost percentages averaged 13 percent, and ranged from 3 percent to 25 percent. None of the large disasters had administrative costs that were equal to, or exceeded, disaster assistance.

As we reported in September 2012, FEMA created a management guide in November 2010 that included targets for administrative cost percentages; however, the agency does not consider the targets formal guidance and does not hold its officials accountable for meeting the targets. FEMA did not require that the targets be met because according to FEMA officials, the agency's intent was to provide general guidance rather than to stipulate a prescriptive policy or formula. Further, according to FEMA's management guide, one limitation of the targets is that "there will be situations where the [target] levels are inappropriate due to extraordinary circumstances." As mentioned earlier, FEMA categorizes major disasters using three event levels, essentially small, medium, or large, based on the amount of federal funding for the disaster, and the 2010 guidance established target ranges for administrative cost percentages for each category:

- Small disasters have an administrative cost percentage target range of 12 percent to 20 percent.
- Medium disasters have an administrative cost percentage target range of 9 percent to 15 percent.
- Large disasters have an administrative cost percentage target range of 8 percent to 12 percent.

To help FEMA control its administrative costs, we recommended in 2012 that FEMA implement goals for administrative cost percentages and monitor performance to achieve these goals. FEMA has not yet implemented our recommendation and plans to provide us a response by the end of the second quarter of fiscal year 2015. Table 3 shows the potential reduction in administrative costs had FEMA met the high and low ends of its target range for the 650 major disasters declared during fiscal years 2004 through 2013. For example, 259, or 40 percent, of the 650 major disasters exceeded the high end of FEMA's target range for administrative cost percentages. Had FEMA's administrative cost

percentages for the 259 major disasters equaled the high end of the target range, obligations for administrative costs would have been \$2.3 billion lower. FEMA did not develop the target ranges until November 2010, and FEMA does not require its officials to stay within or below the target ranges. As a result, this analysis does not indicate the amount that FEMA should have saved during this period. Rather, the analysis can be used as an indication of potential cost savings in the future, if the target ranges are met.²⁹

Table 3: Potential Reduction in FEMA Administrative Costs Had Its Targets Been Met for 650 Major Disasters Declared during Fiscal Years 2004 to 2013

Target	Number of major disasters above target	Percentage of major disasters above target	Reduction in administrative costs had FEMA met target (Dollars in billions)
High end of target range	259	40%	\$2.3
Low end of target range	453	70%	\$5.1

Source: GAO analysis of Federal Emergency Management Agency (FEMA) data. | GAO-15-65

Note: The high end of FEMA's administrative cost percentage target range was 20 percent for small disasters, 15 percent for medium disasters, and 12 percent for large disasters. The low end of FEMA's administrative cost percentage target range was 12 percent for small disasters, 9 percent for medium disasters, and 8 percent for large disasters.

Table 4 shows the potential reduction in administrative costs had FEMA met the high and low ends of its target range for the 209 disasters declared during fiscal years 2011 through 2013—that is, the time period since FEMA created its administrative cost targets.³⁰

²⁹Our analysis at table 3 and table 4 were based on data provided by FEMA. According to FEMA officials, the data included actual obligations for major disasters that were closed as of April 30, 2014. For declarations that were still open as of April 30, 2014, the data included actual obligations as of April 30, 2014, plus the amount that FEMA anticipates obligating in the future until the declarations are eventually closed. As a result, the estimated reductions in FEMA's administrative costs presented in tables 3 and 4 will likely change when all major disasters during fiscal years 2004 through 2013 are ultimately closed.

³⁰As fiscal year 2011 started on October 1, 2010, our analysis included major disasters declared one month prior to FEMA's creation of the target ranges in November 2010.

Table 4: Reduction in FEMA Administrative Costs Had Its Targets Been Met for 209 Major Disasters Declared during Fiscal Years 2011 to 2013

Target	Number of major disasters above target	Percentage of major disasters above target	Reduction in administrative costs had FEMA met target (Dollars in millions)
High end of target range	76	36%	\$312
Low end of target range	144	69%	\$841

Source: GAO analysis of Federal Emergency Management Agency (FEMA) data. | GAO-15-65

Note: The high end of FEMA's administrative cost percentage target range was 20 percent for small disasters, 15 percent for medium disasters, and 12 percent for large disasters. The low end of FEMA's administrative cost percentage target range was 12 percent for small disasters, 9 percent for medium disasters, and 8 percent for large disasters.

FEMA Has Taken Steps to Better Control and Reduce Administrative Costs, But Lacks An Integrated Plan to Achieve These Goals

As we reported in 2012, FEMA officials said that it was difficult to identify the principal factors causing increases in administrative costs since fiscal year 1989 because of the complexities associated with the underlying factors, particularly in light of the span of time involved. We further reported that FEMA officials stated that the agency has evolved from one originally focused on grants management to an organization implementing increasingly more complex programs with an increasingly sophisticated and specialized workforce. In addition, FEMA officials told us that there is a tension between efficiency and effectiveness of delivering disaster assistance—for example, reducing administrative costs could negatively affect FEMA's ability to help individuals and families recover from a disaster. FEMA officials provided information on several ongoing efforts to better manage and control its administrative costs, as discussed below.

FEMA's 2010 guidance. In November 2010, FEMA issued guidelines intended to better control its administrative costs.³¹ The guidance states that FEMA had “witnessed spiraling administrative costs and staffing levels” since fiscal year 1989, and that all agency managers would be accountable for controlling administrative costs. It also noted that staffing levels had risen significantly faster than disaster activity, with a tripling in

³¹FEMA, *Achieving Efficient JFO Operations: A Guide for Managing Staffing Levels and Administrative Costs* (Washington, D.C.: November 2010).

the average number of FEMA staff deployed per year. For example, the average number of FEMA staff deployed to a disaster increased significantly, from fewer than 500 in fiscal year 1989 to over 1,500 in fiscal year 2009. The memorandum noted that FEMA had provided limited guidance for controlling costs and staffing levels (i.e., the main driver of administrative costs), and that FEMA managers did not have uniform guidance to control administrative costs. The guidance also included best practices for staffing levels and staff deployment times, and considerations for whether to use less costly Virtual JFOs instead of physical offices.³² Moreover, the guidance set targets for administrative cost percentages. According to FEMA officials, the guide is used to train field leadership and reflect the importance of administrative cost management. However, FEMA did not require that this guidance be followed or targets be met because the agency's intent was to ensure flexibility and provide general guidance rather than to stipulate a prescriptive policy or formula.

FEMASat. In 2012 and 2013, the agency's FEMASat team collected and analyzed data on administrative costs associated with managing disasters.³³ The FEMASat team found that FEMA (1) did not leverage benchmarks and information about past deployments to inform staffing decisions; (2) cost drivers, such as workload forecasts and local capacity, were not accessible for its analytical purposes; and (3) had not defined when the less costly Virtual JFOs should be used. It also found that there is little predictability in the number of FEMA PA staff deployed to disasters—for instance, one disaster had roughly three times as many PA staff as another similar-sized disaster. The FEMASat team concluded that while it had demonstrated that data from past disasters could be used to control costs, FEMA had to determine who has the authority and responsibility to monitor and question these staffing levels, as well as put into place a process to formalize this practice. As of September 2014, FEMA officials said that the agency was working to implement the FEMASat recommendations. As a result, it is too early to assess whether this effort will reduce administrative costs.

³²A virtual JFO is an off-site location wherein disaster workforce personnel utilize communication tools to deliver disaster assistance programs.

³³In fiscal year 2011, FEMA leaders implemented FEMASat—a series of meetings wherein FEMA leadership uses current data to analyze performance and identify solutions for ongoing problems. The FEMASat team is charged with coordinating the FEMASat process.

Strategic plan goal. In July 2014, FEMA issued its Strategic Plan for 2014-2018, which includes a goal to reduce its average annual percentage of administrative costs, as compared with total program costs, by 5 percentage points, by the end of 2018.³⁴ According to FEMA officials, the goal to reduce FEMA's administrative costs reflects its importance to FEMA. FEMA officials stated that the agency determined that a 5 percentage point reduction was aggressive, but reasonable based on its review of administrative costs for previous disasters. In conjunction with this goal, FEMA officials also told us that they revised their definition of administrative costs as of October 1, 2014. For example, according to FEMA officials, the previous definition of administrative costs included the cost associated with urban search and rescue operations; however, they said these costs would be better defined as operational. As of October 2014, FEMA had yet to determine the starting percentage from which it will reduce 5 percentage points. According to FEMA officials, the agency will identify this starting point during fiscal year 2015 using the new definition of administrative costs.

Other ongoing steps to reduce administrative costs. FEMA has several other ongoing actions that have helped, or could eventually help, to reduce administrative costs, as follows:

- Placing greater scrutiny on the amount of overtime worked by disaster assistance personnel. For example, according to FEMA, since 2011, FEMA has decreased the average overtime per person from almost 16 hours per pay period to 7.5 hours per pay period.
- Eliminating unnecessary or duplicative telecommunication services. For example, according to FEMA, since April 2013, FEMA has reduced monthly telecommunication costs by more than \$1 million per month.
- Implementing new flexibilities and pilot programs authorized by the Sandy Recovery Improvement Act of 2013 that could help reduce its administrative costs.³⁵ For example, the act authorizes FEMA to implement alternate procedures for administering the PA program that allow FEMA to provide grants based on up-front estimated costs for

³⁴FEMA, *FEMA Strategic Plan 2014-2018*, (July 2014)

³⁵Pub. L. No. 113-2, 127 Stat. 39.

PA projects. According to FEMA, this could alleviate some of the administrative burden for FEMA and grantees during the PA process.³⁶ However, according to FEMA officials, these efforts are in the very early stages, and FEMA will not know for several years whether these pilot programs actually lead to reduced administrative costs.

FEMA officials do not have an integrated plan for how they will better control and reduce administrative costs for major disasters, and have not identified the office or officials accountable for overseeing administrative costs. FEMA's November 2010 management guide stated that "little emphasis has been placed on managing overall [administrative] costs." Since the guide was created, FEMA officials have taken a number of steps intended to better control and reduce the agency's administrative costs for major disasters. However, despite FEMA's efforts since November 2010, FEMA's average administrative cost percentages have not significantly decreased. According to FEMA officials, they have not developed a plan that integrates the steps they are taking to better control and reduce costs, and that highlights clear roles and responsibilities, performance metrics, milestones, and a monitoring system to assess their progress. In addition, according to FEMA officials, the agency has not designated an office or senior officials accountable for controlling administrative costs. For example, as part of the FEMASat initiative, FEMA officials highlighted that it was unclear who had authority and responsibility to monitor and question staffing levels, even though staffing is the largest driver of administrative costs.

According to *A Guide to the Project Management Body of Knowledge*, which provides standards for project managers, specific goals and objectives should be conceptualized, defined, and documented in the planning process, along with the appropriate steps, time frames, and milestones needed to achieve those results.³⁷ According to the *Standards for Internal Control in the Federal Government*, managers should compare actual performance to planned or expected results throughout

³⁶See 42 U.S.C. § 5189f(e)(1)(A), (e)(2)(A).

³⁷Project Management Institute, Inc. *A Guide to the Project Management Body of Knowledge (PMBOK® Guide)*, Fifth Edition. We have used *A Guide to the Project Management Body of Knowledge* to provide criteria in previous reports, including GAO, *Nonproliferation and Disarmament Fund: State Should Better Assure the Effective Use of Program Authorities*, [GAO-13-83](#) (Washington, D.C.: Nov. 30, 2012).

the organization and analyze significant differences; it also states that an agency's organizational structure should clearly define key areas of authority and responsibility and establish appropriate lines of reporting.³⁸ Designating an office or senior official with sufficient time, responsibility, authority, and resources can help improve FEMA's accountability and progress. Until a plan that integrates FEMA's initiatives is created, FEMA will continue to lack assurance that it has an effective and efficient plan for reaching its goals to better control and reduce costs. During our interviews with FEMA officials, they agreed that identifying agency officials who will be accountable, and creating a plan, would be beneficial to reach the agency's goals to better control and reduce administrative costs.

FEMA Could Better Track and Analyze Administrative Costs by DRF Program

In analyzing FEMA administrative costs, we found that the agency does not track or analyze its administrative costs for major disasters by individual DRF program—including PA, Individual Assistance, and Hazard Mitigation.³⁹ For example, FEMA could tell us how much it obligated for its own administrative costs, in total, for the Hurricane Sandy disaster response, but not how much it has obligated for its administrative costs related to each DRF program. Without administrative cost data by program, neither we, nor FEMA, can determine whether increases in administrative cost percentages since fiscal year 1989 were greater for one program than for another, or greater for certain components, such as staffing for a particular DRF program. For example, in responding to disasters, costs may be higher for providing individual assistance than other programs, which can drive up the administrative costs for the entire disaster. Better understanding the drivers of administrative costs and collecting these data could allow FEMA to more effectively identify cost drivers and help control its administrative expenses.

According to FEMA officials, gathering administrative costs data by DRF program would require additional resources and technical changes; however, the agency has not assessed the costs versus the benefits of

³⁸[GAO/AIMD-00-21.3.1](#).

³⁹In addition, FEMA does not track or analyze its administrative costs for Mission Assignment. According to FEMA officials, certain FEMA administrative costs for major disasters may not directly relate to FEMA's delivery of PA, Individual Assistance, Hazard Mitigation, or Mission Assignment.

tracking the data. FEMA officials stated that assessing the costs and benefits would be helpful, and they agreed that administrative costs should be tracked by program. According to *Standards for Internal Control in the Federal Government*, program managers need financial data to determine whether they are meeting their goals for accountability for effective and efficient use of resources. Further, FEMA's 2014-2018 Strategic Plan emphasizes the need for data-driven decision making.⁴⁰ By assessing the costs and benefits of tracking administrative cost data by DRF programs, FEMA could determine whether such data could be useful for identifying long-term trends, more effectively controlling its administrative costs, and better tailoring its administrative costs to program delivery.

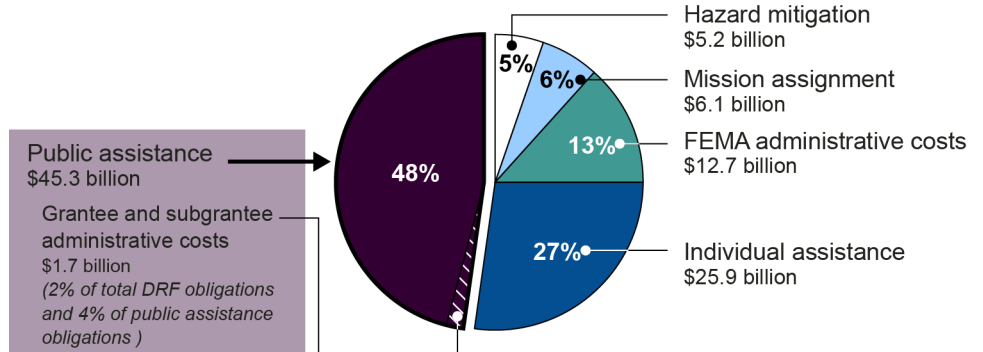
FEMA Obligated \$1.7 Billion in Administrative Costs to Grantees and Subgrantees during Fiscal Years 2004 through 2013; 2007 Rule Led to Increased Complexity and Workload

Grantee and Subgrantee Administrative Costs

For the 650 major disasters declared during fiscal years 2004 through 2013, FEMA obligated \$1.7 billion to reimburse grantees and subgrantees for all types of administrative costs associated with PA grants. The \$1.7 billion is 2 percent of the \$95.2 billion obligated from the DRF during this period. Figure 5 provides total DRF obligations, including grantee and subgrantee administrative costs, for the 650 major disasters declared during fiscal years 2004 through 2013 by FEMA cost category.

⁴⁰FEMA, *FEMA Strategic Plan 2014-2018*, (July 2014)

Figure 5: Total Disaster Relief Fund Obligations for 650 Major Disasters Declared during Fiscal Years 2004 through 2013 by Federal Emergency Management Agency (FEMA) Cost Category with Public Assistance Reimbursements



Source: GAO analysis of FEMA data. | GAO-15-65

Note: Percentages in the figure do not total 100 percent due to rounding.

Administrative costs reimbursed to grantees and subgrantees, as a percentage of total PA funding, ranged from 0.9 percent to 4.7 percent per year, as shown in table 5.

Table 5: Obligations for All Types of Administrative Costs Reimbursed to Grantees and Subgrantees of Public Assistance Grants during Fiscal Years 2004 through 2013

Dollars in millions			
Fiscal year	Public Assistance	All types of administrative costs reimbursed to grantees and subgrantees for Public Assistance Grants	All types of administrative costs as a percentage of Public Assistance
2004	\$3,691	\$118	3.2%
2005	\$18,729	\$822	4.4%
2006	\$2,537	\$119	4.7%
2007	\$1,607	\$72	4.5%
2008	\$6,213	\$243	3.9%
2009	\$1,737	\$72	4.1%
2010	\$1,593	\$54	3.4%
2011	\$3,645	\$91	2.5%
2012	\$898	\$21	2.3%
2013	\$4,677	\$40	0.9%
Total	\$45,327	\$1,652	3.6%

Source: GAO analysis of Federal Emergency Management Agency (FEMA) data | GAO-15-65

Note: Obligations may not add up to the total obligations reported because of rounding. This table provides actual obligations from the Disaster Relief Fund (DRF) as of April 30, 2014. Thus, amounts in the table are understated as FEMA will obligate additional funds for major disasters that have not been completed (e.g., Hurricane Sandy).

In fiscal year 2008, FEMA implemented a rule that changed the administrative reimbursements available for grantees and subgrantees of PA grants.⁴¹ Under the rule, grantees and subgrantees are eligible for two forms of administrative reimbursements: management costs and direct administrative costs. As shown in table 6, FEMA obligated \$383 million in management costs and \$132 million in direct administrative costs for major disasters declared during fiscal years 2008 through 2013. Many PA projects for major disasters declared during fiscal years 2008 through 2013 have not been completed; thus obligations for management costs and direct administrative costs in tables 5 and 6 will likely increase as these projects are completed.

⁴¹72 Fed. Reg. 57,869 (Oct. 11, 2007).

Table 6: Obligations for Management Costs and Direct Administrative Costs Reimbursed to Grantees and Subgrantees of Public Assistance Grants during Fiscal Years 2008 through 2013

Dollars in millions

Fiscal year	Public Assistance	Management costs	Management costs as a percentage of Public Assistance	Direct administrative costs	Direct administrative costs as a percentage of Public Assistance
2008	\$6,069	\$194	3.2%	\$43	0.7%
2009	\$1,737	\$57	3.3%	\$15	0.8%
2010	\$1,593	\$37	2.4%	\$16	1.0%
2011	\$3,645	\$65	1.8%	\$27	0.7%
2012	\$898	\$15	1.6%	\$6	0.7%
2013	\$4,677	\$15	0.3%	\$25	0.5%
Total	\$ 18,619	\$383	2.0%	\$132	0.7%

Source: GAO analysis of Federal Emergency Management Agency (FEMA) data | GAO-15-65

Note: This table provides actual obligations from the Disaster Relief Fund (DRF) as of April 30, 2014. Thus, amounts in the table are understated, as FEMA will obligate additional funds for disasters that have not been completed (e.g., Hurricane Sandy). One major disaster in fiscal year 2008 was declared prior to FEMA's November 2007 rule change. As such, obligations for this major disaster are not included in the table.

2007 Rule Change Led to Increased Workload for FEMA, Grantees, and Subgrantees; FEMA's Guidance for Direct Administrative Costs Lack Clarity and Specificity

In November 2007, FEMA implemented a rule change that was intended to simplify and clarify the method it uses to reimburse grantees and subgrantees for certain costs incurred while administering PA grants. FEMA officials and grantees we interviewed were generally satisfied with the revised process for claiming and reimbursing management costs. However, according to FEMA officials, the 2007 rule change led to an unexpectedly high rate of claims for direct administrative costs. In addition, the lack of clarity and specificity in FEMA's policies and guidance for direct administrative costs has led to increased complexity and workload for FEMA, grantees, and subgrantees.

Management Costs

FEMA's 2007 rule was intended to simplify and clarify the method FEMA uses to reimburse grantees and subgrantees for certain costs incurred while administering PA grants.⁴² Specifically, the rule replaced three funding categories with a management cost funding category based on a single percentage of the federal share of projected eligible program

⁴²72 Fed. Reg. at 57,869.

costs.⁴³ FEMA officials and grantees we interviewed reported that they are generally satisfied with the process for claiming and reimbursing management costs. Specifically, FEMA PA officials we interviewed in 6 of 10 regional offices reported that the review process for management costs is very efficient or somewhat efficient. Six of 10 grantees we interviewed said it was easy or very easy for them to meet FEMA's requirements for documenting and claiming management costs.

According to FEMA officials involved in creating the 2007 rule, the management costs rate was intended to cover some of the expenses incurred by both grantees and subgrantees of the PA program, but the rule was designed to allow grantees flexibility to determine the appropriate amount or percentage of management costs to provide, or "pass through," to subgrantees. According to FEMA headquarters officials and grantees we interviewed, grantees generally do not pass through any management costs to subgrantees. For example, none of the 10 grantees we interviewed said that they had passed through management costs to subgrantees for any disaster. Seven of 10 grantees we interviewed said that the management costs rate is not enough to cover their costs, and 5 of 10 grantees we interviewed cited the lack of funds provided by management costs as a reason they do not pass through funds to subgrantees. In addition, four grantees said that passing through management costs to subgrantees would create additional administrative burdens. As the primary recipient of FEMA PA grants, grantees are responsible for ensuring that subgrantees properly expend and account for the management cost funds. Although grantees generally do not pass through management costs, they can provide other forms of assistance to subgrantees, such as funding a portion of the subgrantee's nonfederal cost share for project costs or assisting subgrantees with preparing damage assessments.

FEMA PA officials stated that the agency is developing proposals for modifying the 2007 rule but could not provide information on these proposals because they are under internal review. FEMA officials stated that the management costs rate for PA is based on an analysis of historical obligations of administrative cost reimbursements for both grantees and subgrantees. However, a 2011 report by the Homeland Security Institute on behalf of FEMA stated that the rate "does not

⁴³For the PA program for major disasters, the management costs rate is 3.34 percent.

adequately address the administrative cost burden incurred by the grantee.” FEMA officials reported that the agency’s review of the 2007 rule is ongoing and is being used to, among other things, inform potential changes to the management costs rate.

Direct Administrative Costs

According to FEMA officials, the 2007 rule led to an unexpectedly high rate of claims for direct administrative costs. In contrast to the management costs process, FEMA officials, grantees, and subgrantees we interviewed said that the use of direct administrative costs reimbursement has increased administrative complexity and workload. FEMA officials stated that, in developing the 2007 rule, they did not anticipate direct administrative costs claims beyond limited, unique circumstances, such as paying an environmental specialist to conduct an extensive review of a single project. As a result, the 2007 rule did not define or include rules on reimbursements for direct administrative costs. According to FEMA officials, after the new rule was issued, grantees and subgrantees began requesting reimbursements for direct administrative costs much more frequently than FEMA officials expected. Based on our analysis of FEMA data, for major disasters declared during fiscal years 2008 through 2013, FEMA processed approximately 170,000 transactions for direct administrative costs.

One potential reason for the increase, according to FEMA officials, is that without a pass through of management costs from the grantee, the only reimbursement for administrative costs that subgrantees may receive is through direct administrative costs. In contrast, prior to the 2007 rule, FEMA provided both grantees and subgrantees an administrative allowance calculated as a sliding scale percentage of net eligible costs of assistance.⁴⁴ See appendix VIII for details on the administrative allowance used prior to the 2007 rule.

In March 2008, FEMA released *Disaster Assistance Policy 9529.9* to provide grantees and subgrantees additional guidance on management costs and direct administrative costs. The policy defines direct

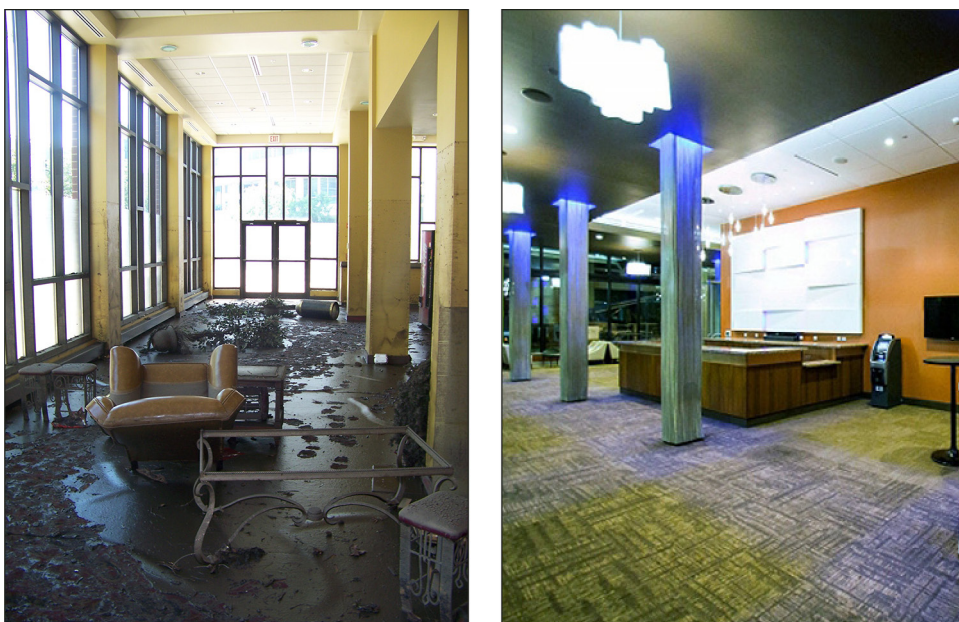
⁴⁴ Prior to the 2007 change, grantees and subgrantees received statutory administrative costs as a sliding scale based on the total amount of federal assistance provided, in the case of the grantee, to all subgrantees in the state, and in the case of the subgrantee, to the individual applicant. Grantees and subgrantees were to receive, for the first \$100,000 of assistance, 3 percent of such assistance; for the next \$900,000, 2 percent; for the next \$4,000,000, 1 percent, and for assistance over \$5,000,000, one-half percent of such assistance. 44 C.F.R. § 206.228(a)(2) (2006).

administrative costs as costs incurred by a grantee or subgrantee that can be identified separately and assigned to a specific project and states that, among other things, direct administrative costs would be limited to actual reasonable costs incurred for a specific project. The policy references Office of Management and Budget (OMB) Circular A-87, which states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The policy further states that FEMA will reimburse direct administrative costs that are properly documented.

FEMA was alerted to concerns with the policies and guidance for direct administrative costs within a year of the release of *Disaster Assistance Policy 9525.9*. In March 2009, during the response to record flooding in Cedar Rapids, Iowa, the JFO for the disaster and the FEMA regional office produced a report that noted potential problems with the implementation of direct administrative costs and attempted to develop a set of tools and standard operating procedures to assist FEMA PA staff with evaluating direct administrative costs submitted for projects.⁴⁵ The report stated that the policy “has created an environment where ambiguous project expenses related to administrative activities are being submitted for reimbursement to FEMA by subgrantees as direct administrative costs.” The report described the two main contributing factors to this situation as “the ambiguity regarding what constitutes a direct administrative cost and the lack of concrete, quantifiable guidelines for a ‘reasonable’ direct administrative cost.” Figure 6 provides an example of a PA project following the Iowa flooding.

⁴⁵FEMA, *Public Assistance Program Sub-Grantee Administrative Costs Assessment DR1763-IA*, Revised Draft, (March 4, 2009).

Figure 6: Example of a Subgrantee Project: City of Cedar Rapids, Iowa, Paramount Theatre



Source: City of Cedar Rapids, Iowa. | GAO-15-65

In September 2009, FEMA's Assistant Administrator issued a memorandum to the FEMA regional offices with additional guidance on implementing the management costs and direct administrative costs policies.⁴⁶ The memorandum states that FEMA staff must consider several factors when evaluating the reasonableness of contract costs: the method of contracting for the services, the skill level of persons performing the activities, the amount of time required to perform an activity, and the amount of time required to perform a particular task. The memorandum also clarifies that grantees and subgrantees may use contractors to perform grant management functions. To further assist FEMA staff, the memorandum includes a table of PA administrative activities classified as either management costs or direct administrative costs. However, the memorandum notes that the table is not an exhaustive list and there may be exceptions to the categorizations.

⁴⁶FEMA, *FEMA Memorandum: Disaster Assistance Policy DAP9525.9*, Section 324 Management Costs and Direct Administrative Costs and Recovery Policy 9525.14, Grantee Administrative Costs, (Sept. 8, 2009).

Perspectives of FEMA PA
Officials, Grantees, and
Subgrantees

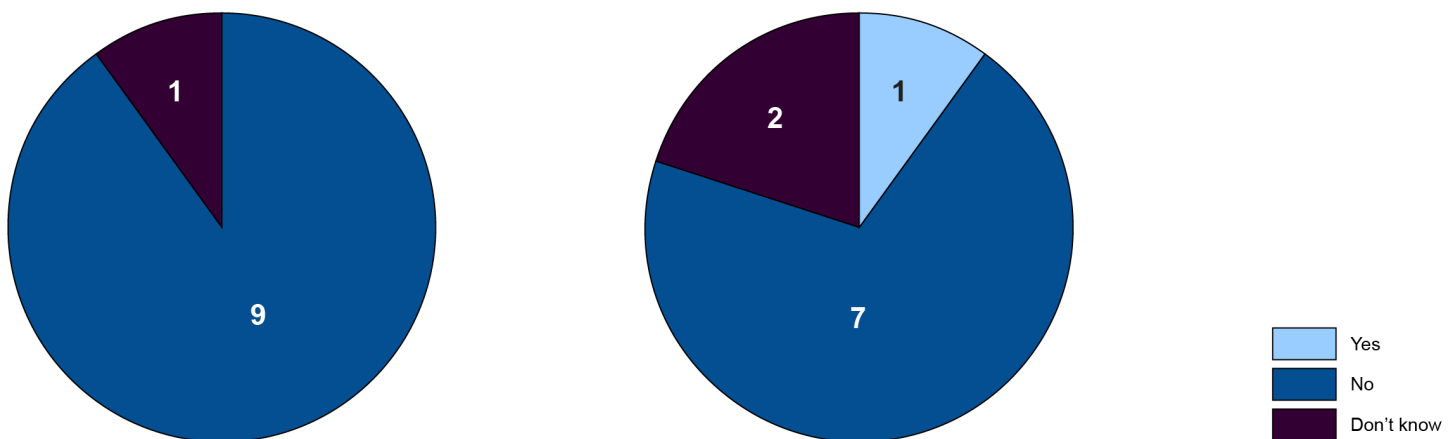
FEMA officials, grantees, and subgrantees we interviewed said that FEMA's guidance for direct administrative costs lacks clarity and specificity. For example, grantees and subgrantees told us that FEMA's policies and guidance for direct administrative costs lack the information needed to determine whether a claim is eligible, reasonable, and properly documented. Furthermore, FEMA PA officials we interviewed said that without clear and specific guidance, they do not have sufficient information to evaluate direct administrative costs claims, leading to inconsistency in the approval process as well as disputes between FEMA and the grantees and subgrantees.

Seven of the 10 FEMA PA officials we interviewed at regional offices, and 6 of the 10 grantees we interviewed, said that FEMA policies and guidance do not provide sufficient instruction for their staff to determine whether a claim is eligible. In addition, 9 of 10 FEMA PA officials, and 8 of 10 grantees, said that FEMA policies and guidance do not provide sufficient instruction for their staff to determine whether a claim is reasonable. See figure 7 for FEMA PA officials (Branch Chief) responses regarding FEMA policies and guidance related to direct administrative costs.

Figure 7: Perspectives on FEMA's Policies and Guidance for Direct Administrative Costs (DAC) – Federal Emergency Management Agency (FEMA) Public Assistance (PA) Branch Chiefs or their Designees

In your opinion, do FEMA policies and guidance provide sufficient instruction for your staff to determine whether a DAC claim is reasonable?

In your opinion, do FEMA policies and guidance provide sufficient instruction for your staff to determine whether a DAC claim is eligible?

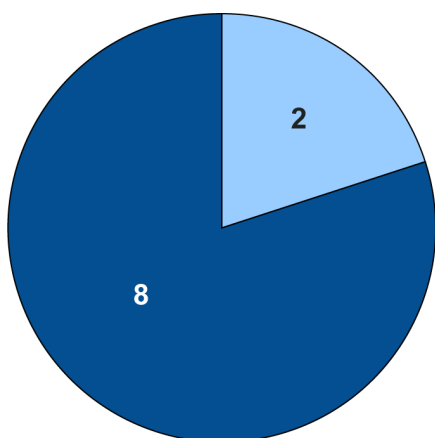


Source: GAO analysis of nongeneralizable interview responses from all of FEMA's 10 regional public assistance branch chiefs or designees. | GAO-15-65

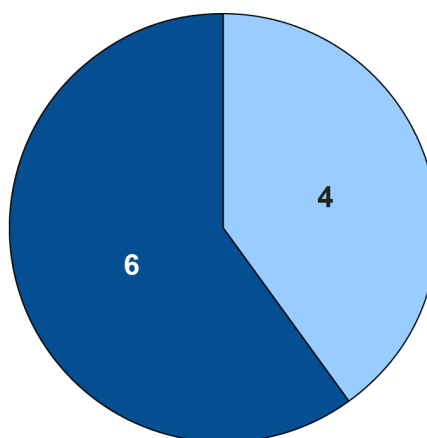
Figure 8 shows grantee responses regarding FEMA policies and guidance related to direct administrative costs.

Figure 8: Perspectives on FEMA’s Policies and Guidance for Direct Administrative Costs (DAC) – Grantees

In your opinion, do FEMA policies and guidance provide sufficient instruction for a grantee to determine whether its own DAC claim is reasonable?



In your opinion, do FEMA policies and guidance provide sufficient instruction for a grantee to determine which costs are eligible for their own DAC claim?



Yes
No

Source: GAO analysis of nongeneralizable interview responses from grantees of the Public Assistance program. | GAO-15-65

FEMA PA officials from 3 regional offices stated that FEMA currently does not have sufficient guidance on what constitutes proper supporting documentation for approving or denying a claim for direct administrative costs. In addition, two grantees and two subgrantees we interviewed reported that it is difficult to know whether they have collected sufficient documentation to support their claim. For example, one subgrantee we interviewed reported having a direct administrative cost claim or estimate approved by FEMA field staff, only to have it reduced during a higher-level review. The subgrantee told us that this lack of consistency makes it difficult for them to budget for their administrative expenses. FEMA PA officials in headquarters and in regional offices said that disputes over direct administrative cost claims or estimates have led to a more contentious environment among FEMA, grantees, and subgrantees.

According to FEMA PA officials, reviewing and processing direct administrative costs reimbursements is labor-intensive and has increased the agency’s workload. FEMA PA officials from 4 regional offices said they spend considerable resources reviewing and determining whether direct administrative cost claims meet the criteria in FEMA’s policies and guidance. For example, for each project wherein direct administrative cost are claimed, FEMA officials may have to review time keeping, payroll, and travel records as well as salary information for all grantee and subgrantee personnel assigned to work on a particular project. FEMA PA officials

from all 10 regional offices reported that reviewing a direct administrative cost claim can vary from 10 minutes to several weeks or months. According to FEMA headquarters officials, the increased workload associated with reviewing these claims reduces the amount of FEMA staff available for other essential tasks.

Two-thirds, or 14 of 21, of grantees and subgrantees we interviewed stated that the time and resources necessary to document and claim direct administrative costs increases their administrative burden. In addition, three grantees and two subgrantees we interviewed reported that they do not always have the personnel or resources needed to track, document, and submit all potential claims. To receive reimbursement, grantees and subgrantees must track their time by project.⁴⁷ Although doing so is not required by FEMA, three grantees we interviewed said that they track their administrative expenses in 15 minute intervals.

Eight out of 21 grantees and subgrantees reported to us that they have employed private contractors to perform grant management functions because of the administrative burden and complexity of FEMA's reimbursement process. According to FEMA officials, the greater use of contractors among grantees and subgrantees has raised the cost to FEMA because contractors tend to charge higher hourly rates than state, tribal, territorial, and local government officials. However, FEMA officials also said that, in some cases, contractors perform grants management functions that assist grantees and subgrantees. In addition, one grantee we interviewed said that it hired a contractor for grants management related to Hurricane Sandy because the relatively small number of state personnel available for disaster recovery was insufficient given the severity of the damage, which FEMA officials estimate may result in as many as 5,100 PA projects. The grantee said that the contractor was more effective at seeking reimbursement from FEMA than their state or local officials would have been, given the contractor's expertise and experience working with FEMA. According to the grantee, the contractor has increased the amount of funds FEMA obligated to the state. For example, the grantee said that the contractor discovered \$8 million in eligible funding that FEMA PA staff had not included on the approved

⁴⁷In contrast, for the administrative allowance that grantees and subgrantees received prior to the 2007 change, the calculation was automated within FEMA's data systems and forwarded to the grantee, who could then provide the administrative allowance to the subgrantee, as appropriate.

project worksheet. The contractor stated that, in less than 1 year, it had increased the amount of FEMA PA funding to the grantee by more than \$60 million while charging about \$10 million for its services. In response to these claims, FEMA officials told us that these under-obligated projects could have been noticed and corrected during project closeout.

FEMA headquarters officials we interviewed said that the number of appeals related to administrative costs have increased. Under the PA program, grantees and subgrantees may appeal any FEMA decision regarding eligibility for, or the amount of assistance. From November 2007 to May 2014, FEMA reported receiving 182 first appeals and closing 21 second appeals related to direct administrative costs.⁴⁸ FEMA officials stated that prior to the 2007 rule, there were no appeals related to administrative costs and that these new claims have increased the agency's administrative burden by pulling resources from more pressing areas. Furthermore, the number of both first and second appeals is likely understated because many large, complex projects have not been completed. One subgrantee told us that they chose not to appeal FEMA's decision to reduce their direct administrative costs claim, as the appeal process may take months or years to resolve and the amount in question was small relative to the total project funding.

As discussed above, FEMA officials and grantees reported that FEMA policies and guidance do not provide sufficient instruction to determine whether a claim is eligible or reasonable and that clarifying such guidance would help to address these issues. In addition, without clear and specific guidance on how to evaluate and approve or deny direct administrative costs claims, FEMA regional officials and field staff must make difficult, subjective determinations when evaluating claims. This leads to inconsistent application of the direct administrative costs policy and guidance, creating confusion and frustration among grantees and subgrantees, and leading to additional appeals. OMB's *Final Bulletin for Agency Good Guidance Practices* states that "well designed guidance documents serve many critical functions in a regulatory program. Guidance documents, used properly, can channel the discretion of agency employees [and] increase efficiency," among other things.⁴⁹ In

⁴⁸ First appeals are reviewed and processed by the FEMA regional offices. Second Appeals are reviewed and processed by FEMA headquarters. We did not determine the reliability of the systems FEMA utilizes in tracking its Public Assistance Appeals.

⁴⁹ OMB, *Final Bulletin for Agency Good Guidance Practices*. January 2007.

addition, according to FEMA's 2014-2018 *Strategic Plan*, the agency intends to "focus on improving and streamlining community recovery services, including grant processing and related interactions" with the goal of ensuring that "disaster services are transparent, efficient, and effective in meeting the needs of survivors."

According to FEMA officials, the agency recognizes the unintended complexity and additional workload that the 2007 rule created and is working to address this issue. For example, FEMA officials told us that the agency is considering a pilot program for direct administrative costs for the state of New York and select subgrantees in the state on certain PA projects. According to FEMA officials, this pilot program will be designed specifically for Hurricane Sandy recovery operations and may use a sliding-scale or fixed percentage administrative allowance, which could reduce the administrative burden and complexity associated with the current direct administrative costs process because administrative costs will be agreed upon before the project begins. In addition, as described earlier in the report, FEMA PA officials stated that the agency is developing proposals for modifying the November 2007 rule. According to the PA officials, these modifications could also change the rules for direct administrative costs; however, changes would only affect major disasters declared after the release of the new rule. As of April 30, 2014, 516, or 79 percent, of the 650 disasters declared during fiscal years 2004 through 2013, have not been completed. Therefore, despite FEMA's potential new rule, recovery operations for hundreds of disasters could benefit from FEMA officials clarifying the agencies' guidance and minimum documentation requirements for direct administrative costs claims, which would help FEMA and its grantees better determine whether administrative costs are reasonable and potentially help reduce complexity in the process.

Conclusions

Major disaster declarations have increased significantly in recent decades, and FEMA has obligated \$95.2 billion from the DRF for the 650 major disasters declared during fiscal years 2004 through 2013. FEMA's administrative cost percentages have risen for major disasters of all sizes, and FEMA has not implemented our 2012 recommendation to implement goals for administrative cost percentages and monitor performance to achieve these goals. Although FEMA has taken steps to better control and reduce its administrative costs since November 2010, administrative costs have not decreased. Establishing an integrated plan that designates an office or senior officials responsible for controlling and monitoring administrative costs, interim time frames, and milestones would help

FEMA to better track progress in addressing this longstanding issue and achieving its goals to better manage and reduce administrative costs. Without an integrated plan, FEMA officials' actions may not be implemented or coordinated to ensure they most effectively achieve the agency's goals. FEMA would also be better positioned to identify long-term trends in its administrative costs by assessing the costs and benefits of tracking and analyzing these costs by individual programs for major disasters. Doing so could provide FEMA with information to better manage these costs.

FEMA's 2007 rule was intended to simplify the reimbursement process for grantee and subgrantee administrative costs. However, the lack of clarity and specificity in FEMA's policies and guidance for direct administrative costs has led to increased complexity and workload for FEMA, grantees, and subgrantees. Although FEMA was alerted to the increased complexity and workload in March 2009, the agency has not taken steps to resolve these problems. FEMA officials stated that they are considering modifications to the 2007 rule that may include changes to direct administrative costs rules and guidance; however, these steps will only affect major disasters declared after the issuance of the new rule. Seventy-nine percent of the 650 disasters declared during fiscal years 2004 through 2013, have not been completed. As a result, despite FEMA's potential new rule, recovery operations for hundreds of disasters could benefit from FEMA officials clarifying the agencies' guidance and minimum documentation requirements. These changes would help FEMA and its grantees better determine whether administrative costs are reasonable and potentially help reduce complexity in the process.

Recommendations for Executive Action

To increase the efficiency and effectiveness of processes related to administrative costs for major disasters, we recommend that the FEMA Administrator take the following three actions:

1. Develop an integrated plan to better control and reduce FEMA's administrative costs for major disasters. The plan should include steps the agency will take to reduce administrative costs, milestones for accomplishing the reduction, and clear roles and responsibilities, including the assignment of senior officials/offices responsible for monitoring and measuring performance.
2. Assess the costs versus the benefits of tracking FEMA's administrative cost data for major disasters by Public Assistance,

Individual Assistance, Hazard Mitigation, and Mission Assignment, and if feasible, track this information.

3. Clarify the agency's guidance and minimum documentation requirements for direct administrative costs claims by grantees and subgrantees of the Public Assistance program.

Agency Comments and Our Evaluation

We provided a draft of this report to DHS for their review and comment. DHS provided written comments on November 25, 2014, which are summarized below and reproduced in full in appendix IX. DHS concurred with all three of our recommendations and described planned actions to address them. In addition, DHS provided written technical comments, which we incorporated into the report as appropriate.

DHS concurred with our first recommendation that FEMA develop an integrated plan to better control and reduce FEMA's administrative costs for major disasters. DHS stated that FEMA has prioritized improving administrative cost management and made reducing disaster administrative costs a performance goal in its Strategic Plan. Additionally, FEMA has developed a standardized definition of administrative costs and established a Disaster Administrative Cost Integrated Project Team (IPT). The IPT is charged with taking actions to institutionalize the new administrative cost definition, scope, and posture the agency for improved administrative cost management. FEMA plans to complete this effort by September 30, 2015. These actions, if implemented effectively, could address our recommendation and help control and reduce FEMA's administrative costs. However, the extent to which the planned actions will fully address the intent of this recommendation will not be known until the agency completes its review and implements an integrated plan.

DHS also concurred with our second recommendation that FEMA assess the costs versus the benefits of tracking FEMA's administrative costs data for major disasters by Public Assistance, Individual Assistance, Hazard Mitigation, and Mission Assignment, and if feasible track this information. DHS stated that FEMA is assessing the cost versus the benefit of tracking the information by September 30, 2015 to determine if this information can be captured and used to inform future decision making.

DHS also concurred with our third recommendation that FEMA clarify its guidance and minimum documentation requirements for direct administrative costs claims by grantees and subgrantees of the Public Assistance program. For future disasters, FEMA is assessing its direct administrative cost pilot program for Hurricane Sandy recovery

operations. If the pilot is successful, results from this pilot could inform the development of additional guidance. For current and other past disasters, FEMA will provide clarifying guidance on direct administrative claims and documentation requirements by October 31, 2015. We will continue to monitor DHS's efforts.

We will send copies of this report to the Secretary of Homeland Security, the FEMA Administrator, and appropriate congressional committees. If you or your staff have any questions about this report, please contact me at (404) 679-1875 or curriec@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Other key contributors to this report are listed in appendix X.

A handwritten signature in black ink that reads "Chris P. Currie". The signature is written in a cursive, flowing style.

Chris Currie
Director
Homeland Security and Justice

Congressional Requesters

The Honorable Mark Begich
Chairman
Subcommittee on Emergency Management,
Intergovernmental Relations, and the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Tom Coburn, M.D.
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Michael T. McCaul
Chairman
Committee on Homeland Security
House of Representatives

The Honorable Susan W. Brooks
Chairman
House Subcommittee on Emergency Preparedness,
Response, and Communications
Committee on Homeland Security
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report addresses the following questions: (1) To what extent were disaster relief funds (DRF) obligated to cover the Federal Emergency Management Agency's (FEMA) administrative costs for major disasters during fiscal years 2004 through 2013, and what steps, if any, has FEMA taken to control its administrative costs, and (2) To what extent were DRF funds obligated to cover grantee and subgrantee administrative costs for Public Assistance (PA) grants, and what has been the impact of FEMA's November 2007 regulatory changes on administrative costs reimbursed to grantees and subgrantees for the PA program.

To address our first objective, we obtained and analyzed data from FEMA's Integrated Financial Management Information System (IFMIS) on the amount of DRF obligations for administrative costs to FEMA for each major disaster declared by the President during fiscal years 1989 through 2013. We focused on this time frame because it contains current data for major disasters. It also comprises the time period after FEMA was merged into the newly created DHS, on March 1, 2003, and predates Hurricane Katrina in 2005. Fiscal year 1989 is the earliest year for which FEMA maintains obligations data. We focused primarily on fiscal years 2004 through 2013; however, to provide historical context and to compare results across similar periods, we also reviewed obligations data during fiscal years 1989 through 2013. To determine FEMA's administrative cost percentages for disaster declarations, we obtained actual and projected DRF obligations for all 1,332 major disasters declared during fiscal years 1989 through 2013. To assess FEMA's current practices, we compared FEMA's administrative cost percentages for disasters declared during fiscal years 2004 through 2013 with FEMA's target ranges for administrative cost percentages. Specifically, we calculated the percentage of total federal assistance that was obligated for administrative costs for each disaster in our scope. Next we determined whether these percentages were above or below FEMA's administrative cost targets and whether FEMA's administrative costs would have changed during the period had FEMA met the targets. To identify potential trends over time, we compared FEMA's administrative cost percentages during fiscal years 1989 through 1998 with FEMA's administrative cost percentages during fiscal years 2004 through 2013. According to FEMA officials, administrative costs are typically higher in the early months of a declaration, typically decreasing as the declaration matures (that is, as labor-intensive response activities decline). In order to ensure the results of our analyses were not skewed by major disasters that had not yet matured and whose administrative costs were high, we analyzed actual administrative costs for disaster declarations that were closed as of April 30, 2014. For declarations that were still open as of

April 30, 2014, we analyzed actual obligations as of April 30, 2014, plus the amount that FEMA projected to obligate in the future until the declarations are eventually closed. To determine whether the IFMIS data were reliable, we reviewed the data that FEMA officials provided, discussed data quality control procedures with relevant FEMA officials, and reviewed documentation such as DHS audits that included IFMIS to ensure the integrity of the data. We determined that the IFMIS DRF data were sufficiently reliable for the purposes of this report.

In addition, we obtained and analyzed FEMA policies, procedures, and guidance specific to FEMA's administrative costs. We obtained FEMA's Financial Information Tool for a small and large disaster to better understand FEMA's categories of administrative costs.

To determine what actions, if any, FEMA is taking to reduce the costs of delivering disaster assistance, we interviewed officials from FEMA's Office of Chief Financial Officer and obtained and analyzed documentation to determine what, if any, internal standards FEMA utilizes to determine the reasonableness of its administrative costs and whether FEMA implemented administrative cost goals and tracks performance against the goals. We also interviewed three Federal Coordinating Officers to determine their ability to control costs and the respective outcomes. We also obtained and analyzed FEMA policies, procedures, and guidance specific to administrative costs, such as its guidance on costs to federal coordinating officers, FEMA's *Strategic Plans*, and its Financial Management Code guide. We evaluated them using *Standards for Internal Control in the Federal Government* and project management guidance.¹ We compared the intent of the criteria against FEMA's policies/practices to control administrative costs, and determine the extent FEMA is meeting the intent of the criteria.

To address our second objective, we obtained and analyzed data on DRF obligations to state and local governments for PA-related administrative costs for all major disasters declared by the President during fiscal years

¹ Project Management Institute, Inc. *A Guide to the Project Management Body of Knowledge (PMBOK® Guide)*, Fifth Edition, (Newtown Square, Pennsylvania: 2013). We have used *A Guide to the Project Management Body of Knowledge* to provide criteria in previous reports, including GAO, *Nonproliferation and Disarmament Fund: State Should Better Assure the Effective Use of Program Authorities*, [GAO-13-83](#) (Washington, D.C.: Nov. 30, 2012). GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

2004 through 2013. Further, we calculated the dollar amount and percentage for each fiscal year in our scope to determine whether administrative costs increased or decreased during the period. We reviewed and analyzed FEMA policies, procedures, and guidance specific to state and local administrative costs, such as its Disaster Assistance Policy and associated memorandum and evaluated them using practices for good guidance.² We analyzed administrative cost data from three of FEMA's information technology systems that track financial data for disasters. We selected example transactions and obtained supporting documentation to better understand the types of administrative costs associated with major disaster declarations.

To assess the impact of FEMA's 2007 Management Costs interim final rule on administrative costs, we interviewed with the following FEMA regional officials and officials from selected states and localities either in-person or by teleconference within each region:

- Public Assistance Branch Chief or their designee in each of FEMA's 10 regional offices. We visited three FEMA regions:
 - Region II, located in New York, New York, which represents a large recent catastrophic disaster;
 - Region IV located in Atlanta, Georgia, which represents all sizes of disasters (including catastrophic), has frequent disasters, and has a range of disaster types; and
 - Region VII, located in Kansas City, Missouri, which represents many sizes of disasters, a frequent disaster area—a total of 84 out of 650 disasters in the past 10 fiscal years (2004 through 2013) — and a range of disaster types.
- State emergency management officials from 10 select states (grantees) who work in their states' recovery offices and with FEMA on public assistance projects. Located in the three regions selected above³

²GAO/AIMD-00-21.3.1 and Office of Management and Budget, *Final Bulletin for Agency Good Guidance Practices* (January 2007).

³Ten states (grantees): Alabama, Florida, Kansas, Kentucky, Iowa, Missouri, Mississippi, Nebraska, New Jersey, New York.

- Local officials (subgrantees) from 11 select localities that received or will receive FEMA PA assistance from the 10 select states.⁴
- Senior FEMA officials from the Louisiana Recovery Office and the Sandy New Jersey and New York Recovery Offices. These offices are responsible a large number of public assistance projects.

From these interviews, we obtained information on administrative costs reimbursed to grantees and subgrantees through the PA program, including section 324 management costs (management costs) and direct administrative costs. The information obtained from these states and localities cannot be generalized across all states and tribal nations. However, the information obtained from these states and localities provides a broad understanding of the issues grantees and subgrantees encounter during the disaster recovery process.

In addition, to assess the effects of FEMA's interim rule:

- We interviewed officials from three private sector companies from three of the select states that provide services to the states and localities in documenting and claiming administrative costs.⁵
- We also reviewed first and second appeals related to direct administrative costs filed by grantees and subgrantees since FEMA implemented its 2007 Management Costs interim final rule. The second appeals information was centrally maintained by FEMA headquarters and posted on its webpage. We also inquired about appeals related to management costs and direct administrative costs during our regional interviews.

We conducted this performance audit from November 2013 to December 2014 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

⁴Eleven localities (subgrantees): Borough of Mantoloking, New Jersey; Carroll County, Kentucky; City of Cedar Rapids, Iowa; City of Live Oak, Florida; City of Long Beach, New York; Harrison County, Mississippi; Leavenworth-Jefferson Electric Cooperative, Kansas; Loup County, Nebraska; Marshall County, Alabama; Metropolitan Transportation Authority, New York; and Osage County, Missouri.

⁵Adjusters International, ER Assist, and Witt O'Brien's.

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.

Appendix II: GAO Analyses of the Number of Disaster Declarations and Amount of Obligations

Fifty-seven jurisdictions received major disaster declarations during fiscal years 2004 through 2013. Oklahoma had the most, with 29 declarations, while Guam had 1. Table 7 identifies the number of disaster declarations for all jurisdictions during fiscal years 2004 through 2013.

Table 7: Number of Disaster Declarations during Fiscal Years 2004 through 2013 by Jurisdiction

Rank	Jurisdiction	Region	Number of major disaster declarations
1	Oklahoma	6	29
2	Kansas	7	23
3	Missouri	7	23
4	New York	2	22
5	South Dakota	8	20
6	Iowa	7	19
7	Nebraska	7	19
8	Arkansas	6	18
9	North Dakota	8	17
10	West Virginia	3	17
11	Florida	4	16
12	Kentucky	4	16
13	New Hampshire	1	16
14	New Jersey	2	16
15	Alaska	10	15
16	Alabama	4	15
17	California	9	15
18	Maine	1	15
19	Minnesota	5	15
20	Tennessee	4	15
21	Vermont	1	15
22	Illinois	5	14
23	Louisiana	6	14
24	Virginia	3	14
25	Indiana	5	13
26	Mississippi	4	13
27	Massachusetts	1	12
28	Texas	6	12
29	Ohio	5	11

Appendix II: GAO Analyses of the Number of Disaster Declarations and Amount of Obligations

Rank	Jurisdiction	Region	Number of major disaster declarations
30	Pennsylvania	3	11
31	North Carolina	4	10
32	New Mexico	6	10
33	Washington	10	10
34	Oregon	10	9
35	Puerto Rico	2	9
36	Connecticut	1	8
37	Georgia	4	8
38	Wisconsin	5	8
39	Arizona	9	7
40	Hawaii	9	7
41	Maryland	3	7
42	District of Columbia	3	6
43	Utah	8	6
44	Virgin Islands	2	6
45	Colorado	8	5
46	Delaware	3	5
47	Idaho	10	5
48	Montana	8	5
49	Rhode Island	1	5
50	South Carolina	4	5
51	Nevada	9	4
52	American Samoa	9	3
53	Michigan	5	3
54	Northern Mariana Islands	9	3
55	Wyoming	8	3
56	Federated States of Micronesia	9	2
57	Guam	9	1
58	Marshall Islands	9	0

Source: GAO analysis of Federal Emergency Management Agency (FEMA) data | GAO-15-65

The Federal Emergency Management Agency (FEMA) obligates funds from the Disaster Relief Fund to help jurisdictions respond to and recover from declared disasters. FEMA classifies these funds into five categories: Public Assistance, Individual Assistance, Hazard Mitigation, Mission Assignments, and Administrative Costs. Table 8 shows the obligations for each category by jurisdiction.

Appendix II: GAO Analyses of the Number of
Disaster Declarations and Amount of
Obligations

Table 8: Total Obligations for Major Disasters Declared during Fiscal Years 2004 through 2013, by Jurisdiction, as of April 30, 2014

Dollars in millions

Rank	Jurisdiction	Public Assistance	Individual Assistance	Mission Assignment	Hazard Mitigation	Federal Emergency Management Agency Administrative Costs	Total obligations
1	Louisiana	\$14966	\$11493	\$2748	\$1420	\$3847	\$34474
2	Mississippi	3593	3129	1203	335	2157	10417
3	Florida	4913	2229	844	559	1176	9720
4	New York	4320	1526	327	168	708	7050
5	Texas	3056	1838	279	503	1099	6776
6	New Jersey	1554	768	49	176	369	2915
7	Alabama	691	912	356	180	423	2562
8	Iowa	1696	226	9	383	192	2506
9	California	1071	112	4	104	126	1418
10	Missouri	703	115	122	156	163	1259
11	Kansas	908	88	4	96	74	1170
12	Illinois	279	652	3	76	157	1167
13	North Dakota	518	208	76	63	145	1010
14	Pennsylvania	461	299	9	72	119	960
15	Puerto Rico	174	479	9	33	108	804
16	Tennessee	344	204	2	104	127	780
17	Oklahoma	516	63	1	57	121	759
18	Kentucky	420	115	2	72	123	731
19	Arkansas	416	52	3	62	86	620
20	Massachusetts	325	99	1	31	76	532
21	Indiana	219	143	3	43	72	480
22	Nebraska	374	8	^a	37	45	463
23	Ohio	281	92	1	32	53	459
24	Georgia	208	80	1	61	95	444
25	North Carolina	209	97	1	32	80	418
26	Washington	260	43	^a	44	67	415
27	West Virginia	149	124	14	22	77	387
28	Colorado	130	143	8	4	99	385
29	Vermont	274	31	^a	22	57	385
30	Minnesota	251	38	3	22	57	371
31	Connecticut	243	35	1	17	70	366
32	Virginia	266	31	^a	23	37	357

Appendix II: GAO Analyses of the Number of
Disaster Declarations and Amount of
Obligations

Dollars in millions

Rank	Jurisdiction	Public Assistance	Individual Assistance	Mission Assignment	Hazard Mitigation	Federal Emergency Management Agency Administrative Costs	Total obligations
33	Wisconsin	115	138	^a	40	55	349
34	South Dakota	207	13	1	28	55	303
35	American Samoa	102	66	9	7	64	248
36	Maryland	166	3	0	16	17	201
37	Oregon	122	9	0	26	30	188
38	New Hampshire	121	15	^a	14	33	183
39	Alaska	103	10	3	10	54	180
40	New Mexico	95	7	0	2	27	131
41	Rhode Island	46	42	^a	8	25	122
42	Maine	77	4	^a	6	23	111
43	Hawaii	62	16	^a	5	18	101
44	Montana	58	7	0	5	20	91
45	Michigan	20	45	0	3	12	81
46	South Carolina	43	8	0	3	7	61
47	Arizona	44	0	0	4	10	57
48	Utah	32	0	0	4	8	45
49	Federated States of Micronesia	15	8	^a	1	8	32
50	Northern Mariana Islands	9	14	0	2	6	31
51	Nevada	20	2	^a	2	5	29
52	Virgin Islands	18	0	0	2	8	29
53	District of Columbia	24	0	0	0	2	26
54	Delaware	19	0	0	1	2	22
55	Idaho	10	0	0	1	5	16
56	Wyoming	8	3	0	^a	3	15
57	Guam	1	0	0	0	1	2
58	Marshall Islands	0	0	0	0	0	0
Total		45327	25887	6093	5200	12706	95213

Source: GAO analysis of Federal Emergency Management Agency (FEMA) data | GAO-15-65

Note: This table provides actual obligations from the Disaster Relief Fund as of April 30, 2014. Obligation amounts may not add up to total obligations due to rounding.

^aObligations less than \$0.5 million.

Appendix III: Federal Emergency Management Agency (FEMA) Administrative Cost Categories

This appendix provides a definition of each of FEMA’s cost categories for its administrative costs. The cost categories within the table below comprised FEMA’s administrative costs during the period of our review—fiscal years 2004 through 2013. However, according to FEMA officials, in October 2014 the agency changed the cost categories that comprise administrative costs—for example, the urban search and rescue cost category is no longer included in administrative costs.

Administrative cost category	Definition
Salaries and Benefits	Includes gross compensation (before tax and other deductions) directly related to duties performed for the government by federal civilian employees, military personnel, and nonfederal personnel. This covers: additional compensation such as hazardous duty, night differential, holiday, standby, and overtime pay, cost-of-living allowance (COLA), and post differential; salaries for casual workers; payments to other agencies on reimbursable details; re-employed annuitants and rewards for information.
Travel	Includes travel and transportation costs of government employees and other persons while in an authorized travel status, that are to be paid by the government either directly or by reimbursing the traveler. Costs of both travel away from official stations, subject to regulations governing civilian travel, and local travel and transportation of persons in and around the official station of an employee, rental or lease of vehicles for transportation of government employees or others necessary to carry out a disaster operation or related activities, rental or lease of vehicles from interagency motorpools (disaster-related or not), subsistence for travelers and reimbursement of actual expenses, and incidental expenses related to official travel, such as baggage transfer, telephone and telegraph expenses, fees for purchasing passports, travel checks, and use of Automatic Teller Machines (ATMs).
Transportation	Includes contractual obligations incurred for the transportation of things (animals included), for the care of such things while in process of being transported, and for other services incident to the transportation of things (e.g., lifts) by freight and express carriers. Includes rental of transportation equipment, such as U-Haul or Ryder trucks. Excludes transportation paid by a vendor for commodities purchased by government.
Rent, Communications, and Utilities	Includes payments for the use of property owned by others and charges for communication and utility services. Excludes payments for rental of transportation equipment.
Printing and Reproduction	Includes printing and duplicating, quick copy services, photostats, blueprints, photography, microfilming, and advertising performed by contractors, the Government Printing Office, other government agencies or units, or commercial printers and photographers. Includes all common processes of duplicating obtained on a contractual or reimbursable basis. Includes publication of notices, advertising, radio and television time, when done by contract. Also includes standard forms when specially printed or assembled to order and printed envelopes and letterheads.
Mission Assignment—Federal Operations Support	Includes personnel, equipment, and supplies for a mission assignment to another federal agency to provide administrative and logistical support to begin and maintain disaster operations. Excludes rental or lease of vehicles and activities performed by contractors.
Other Services	Includes advisory and assistance services contractors, purchases of goods and services from government accounts, operation and maintenance of facilities and equipment, medical care, research and development contracts, subsistence and support of persons, and services not otherwise classified.
Supplies and Materials	Includes commodities that are (1) ordinarily consumed or expended within 1 year after use, (2) converted in the process of construction or manufacture, or (3) used to form a minor part of equipment or fixed property, up to a cost of \$25,000.

**Appendix III: Federal Emergency Management
Agency (FEMA) Administrative Cost
Categories**

Administrative cost category	Definition
Equipment	Includes the purchase of personal property that may normally be expected to have a period of service for a year or more after being put in use without material impairment of its physical condition or functional capacity.
Land and Structures	Includes purchase and improvement of land, buildings and other structures, non-structural improvements, and fixed equipment acquired under contract.
Urban Search and Rescue	Includes deployment of Urban Search and Rescue teams to stage for or respond to disasters.
Interest and Dividends	Includes payments to creditors for the use of moneys loaned, deposited, overpaid, or otherwise made available; the distribution of earnings to owners of trust or other funds, and interest payments under lease-purchase contracts for construction of buildings. Excludes the interest portion of the payment of claims when a contract has been delayed by the government.
Refunds	Includes payments of amounts previously collected by the government. Includes payments (1) to correct errors in computations, erroneous billing, and other factors and (2) to former employees or their beneficiaries for employee contributions to retirement and disability funds.

Source: GAO analysis of Federal Emergency Management Agency (FEMA) information | GAO-15-65

Appendix IV: The Federal Emergency Management Agency's (FEMA) Public Assistance (PA) Process, Project Categorization, and Direct Administrative Costs

FEMA generally defines a project as a logical grouping of work that will be funded as a unit. Under this definition, a project may cover work for one damage site (e.g., all of the damage to a single school) or for similar types of damage at various locations (e.g., all sewer pump stations in a city). To facilitate project review, approval, and funding, FEMA classifies PA projects as either small or large based on annually adjusted cost thresholds.

FEMA funds small projects through a process known as Simplified Procedures that is intended to expedite the processing of grant funding by obligating funds for small projects based on FEMA's approval of the project's cost estimate.¹ At the beginning of fiscal year 2014, the small project minimum and maximum thresholds were \$1,000 and \$68,500, respectively. If the estimated total project amount is between the minimum and maximum thresholds, the project is processed as a small project using Simplified Procedures. The Sandy Recovery Improvement Act of 2013 (SRIA) required FEMA to complete an analysis to determine whether or not an increase in the small project thresholds was appropriate.² Subsequently, FEMA raised the minimum threshold to \$3,000 and the maximum threshold to \$120,000.³ These new thresholds, which will both be adjusted annually to reflect changes in the Consumer Price Index for all Urban Consumers published by the Department of Labor, apply to all projects for disasters declared on or after February 26, 2014. Prior to SRIA, only the maximum threshold was adjusted annually. Under Simplified Procedures, FEMA does not perform a final inspection of completed small projects, but will review, or validate, a sample of an applicant's small projects to ensure that the project scope of work and damage assessment are complete and that all special considerations have been identified, among other things.

After FEMA approves a project, funds are obligated—that is, they are made available—to the grantee, which, in turn, passes the funds along to subgrantees. Funding for small projects is generally fixed; however, FEMA may approve a cost estimate or scope of work for a project after

¹ The Disaster Relief and Emergency Assistance Amendment s of 1988 introduced the Simplified Procedures maximum threshold. 42 U.S.C. § 5189.

²Pub. L. No. 113-2, § 1107, 127 Stat. 39, 46.

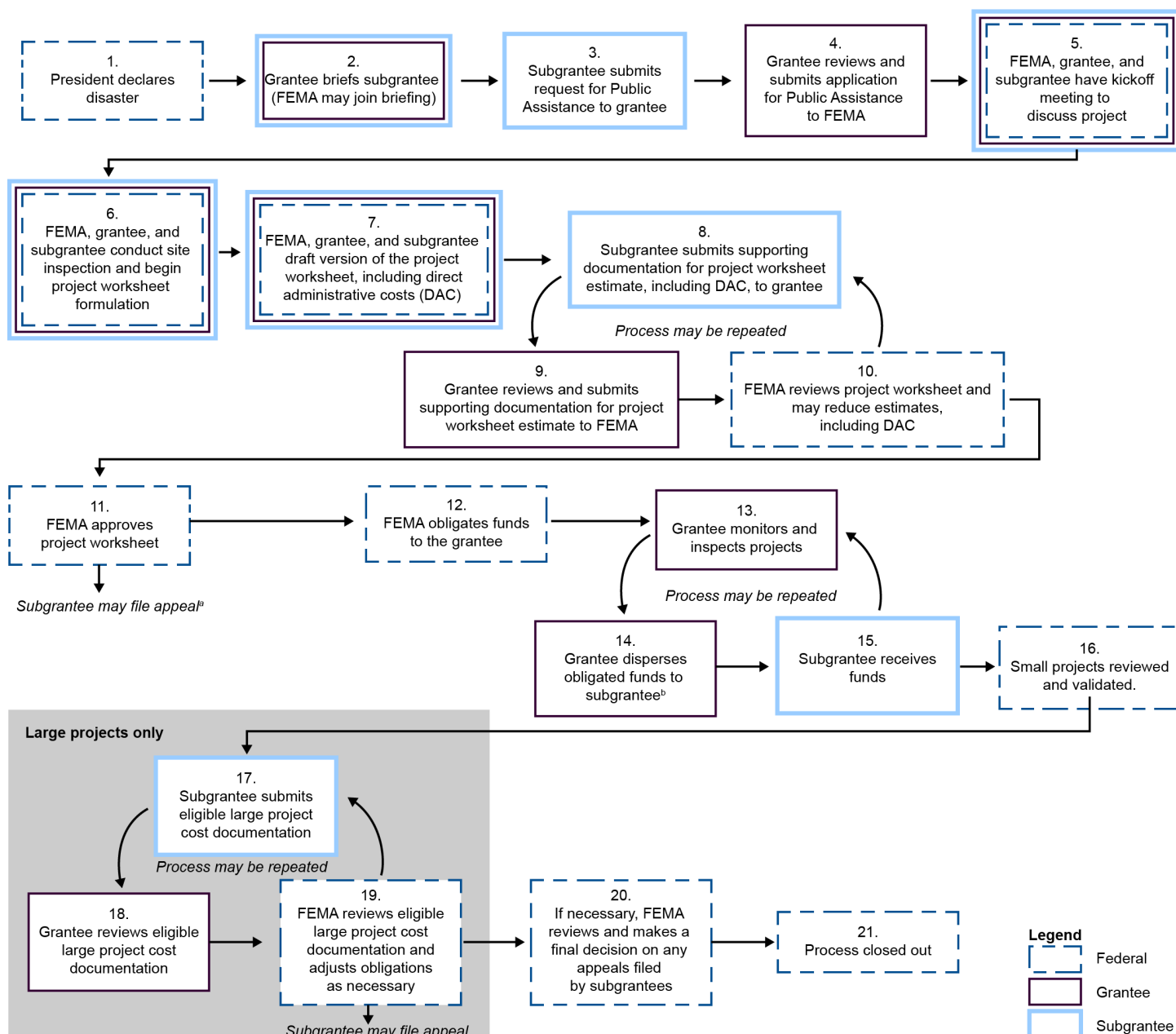
³79 Fed. Reg. 10,685 (Feb. 26, 2014).

project approval when new information comes to light. For example, if an applicant discovers that the actual costs for a project are higher than FEMA's estimate, the applicant may apply to FEMA for additional funds. Before the disaster is closed, the grantee must certify that all such projects were completed in accordance with FEMA approvals and that the state contribution to the nonfederal share has been paid to each subgrantee.

FEMA funds large projects, those with an estimated cost greater than the small project maximum threshold, based on actual documented costs. As with small projects, FEMA initially approves a cost estimate for a large project and obligates the federal share of the funds to the grantee. Funds are generally made available to the subgrantee on a progress payment basis as work is completed and actual costs are documented. When all work associated with the project is complete, a subgrantee must submit documentation to the grantee to account for all incurred costs. The grantee then determines the final cost of the eligible work and submits a report to FEMA certifying that the subgrantee's costs were incurred in the completion of the eligible work. After reviewing the grantee's report, FEMA reviews and may adjust, through obligation or deobligation, the final amount of the grant to reflect the actual cost of the eligible work.

Appendix IV: The Federal Emergency Management Agency's (FEMA) Public Assistance (PA) Process, Project Categorization, and Direct Administrative Costs

Figure 9: Federal Emergency Management Agency (FEMA) Public Assistance Project Worksheet Development Process



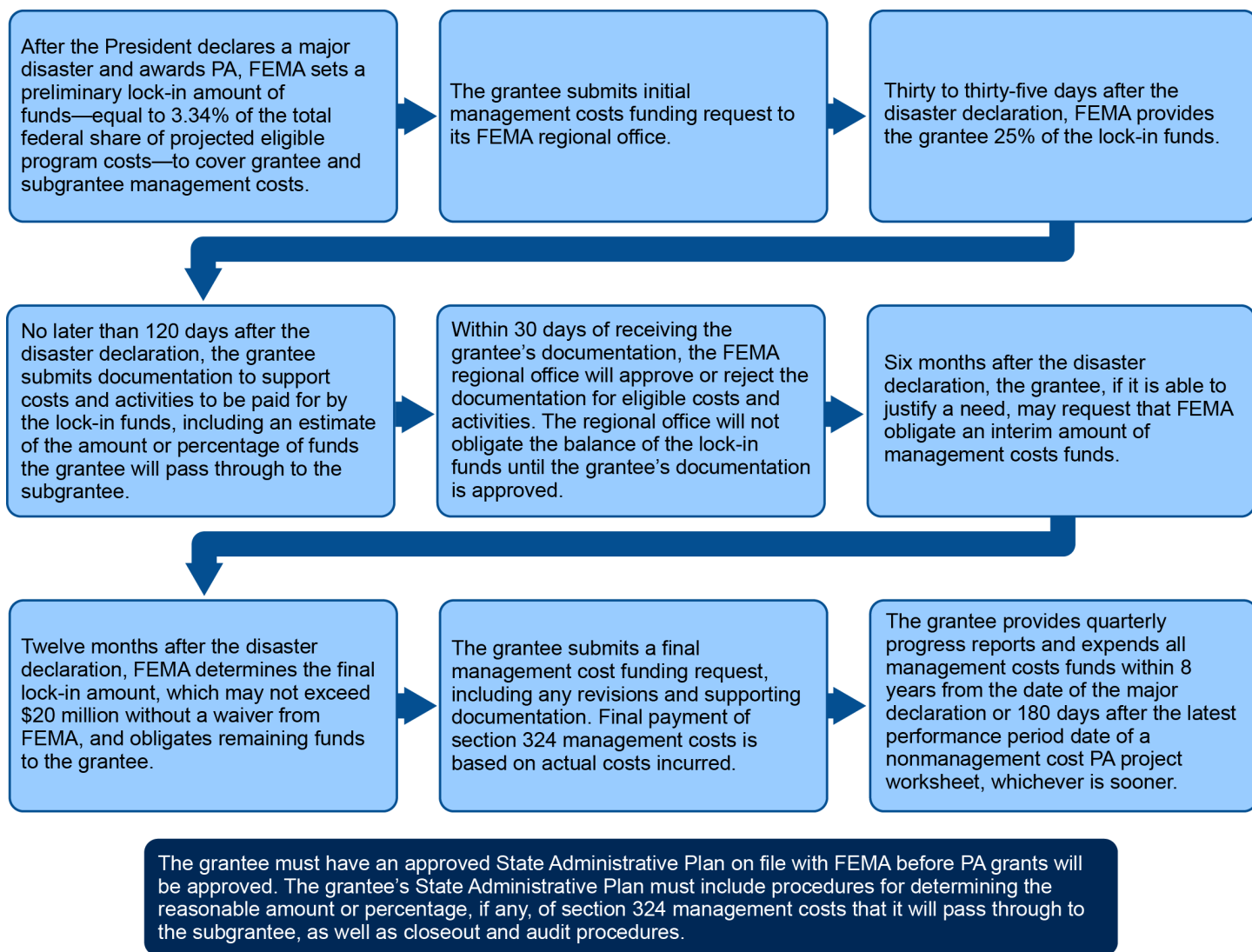
Source: GAO analysis of FEMA Information. | GAO-15-65

Appendix V: Federal Emergency Management Agency (FEMA) Reimbursement Process for Public Assistance (PA) Management Costs

FEMA reimburses grantees and subgrantees for some expenses associated with administering PA grants. FEMA divides these reimbursements into two categories: section 324 management costs (management costs) and direct administrative costs. Management costs are any indirect costs, any administrative expense, and any other expense not directly chargeable to a specific project.¹ Figure 10 describes the reimbursement process for management costs.

¹42 U.S.C. § 5165b.

Figure 10: Federal Emergency Management Agency (FEMA) Reimbursement Process for Public Assistance Management Costs

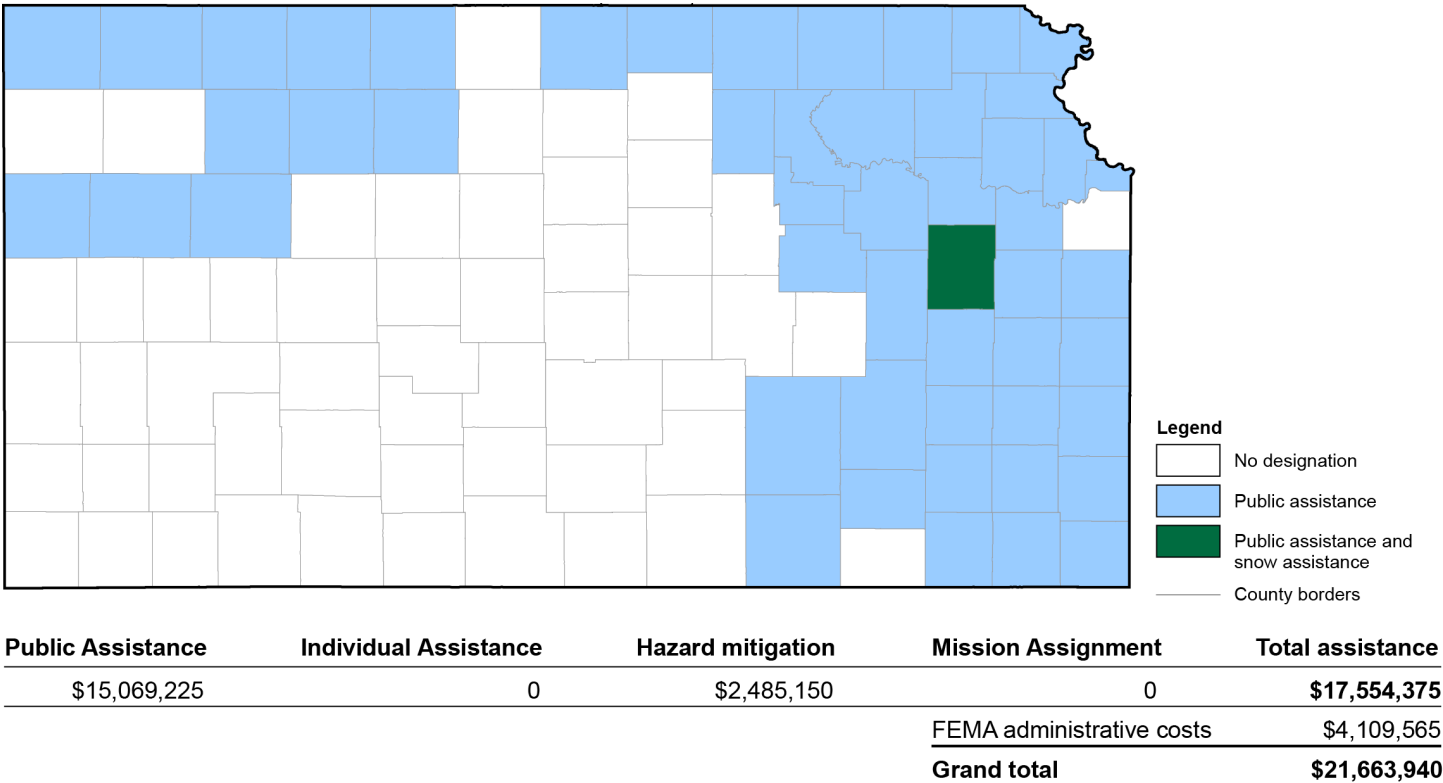


Source: GAO analysis of FEMA Information. | GAO-15-65

Appendix VI: Small Disaster Example – Major Disaster Declaration (DR-1885) Kansas Severe Winter Storms and Snowstorm (Declared March 9, 2010)

This appendix shows Federal Emergency Management Agency’s (FEMA) obligations for Public Assistance, Individual Assistance, Hazard Mitigation, Mission Assignment, and administrative costs for DR-1885.¹ With total obligations of about \$21.7 million, DR-1885 is classified as a small disaster. This includes approximately \$4.1 million in FEMA’s administrative costs, \$0.8 million in management costs reimbursed to the grantee, and \$0.2 million in direct administrative costs reimbursed to both the grantee and subgrantees.

Figure 11: Designated Kansas Counties, and Obligations by Disaster Relief Fund Category, for DR-1885



Source: GAO analysis of FEMA information (data); MapInfo (map). | GAO-15-65

Note: This table provides actual obligations from the Disaster Relief Fund for Public Assistance, Individual Assistance, Hazard Mitigation, Mission Assignment, and FEMA administrative costs as of August 5, 2014.

¹FEMA assigns each major disaster a “disaster declaration number,” which is a unique, sequential number preceded by “DR.”

**Table 9: Obligations by Federal Emergency Management Agency's (FEMA)
Administrative Cost Categories for DR-1885**

FEMA administrative cost category	Obligations
Salaries and Benefits	\$2,048,642
Travel	1,524,665
Transportation	1,710
Rent, Communications, and Utilities	229,862
Printing and Reproduction	1,899
Mission Assignment – Federal Operations Support	249,083
Other Services	248
Supplies and Materials	51,898
Equipment	1,557
Total	\$4,109,565

Source: Federal Emergency Management Agency (FEMA) data | GAO-15-65

Note: This table provides actual obligations from the Disaster Relief Fund as of August 5, 2014.
Obligation amounts do not add up to total obligations due to rounding.

**Table 10: Obligations for Administrative Costs Reimbursed to Grantees and
Subgrantees of Public Assistance Grants for DR-1885**

Reimbursement type	Obligations
Management costs	\$797,142
Direct administrative costs	208,554
Total	\$1,005,696

Source: GAO analysis of Federal Emergency Management Agency (FEMA) data | GAO-15-65

Note: This table provides actual obligations from the Disaster Relief Fund as of April 30, 2014.

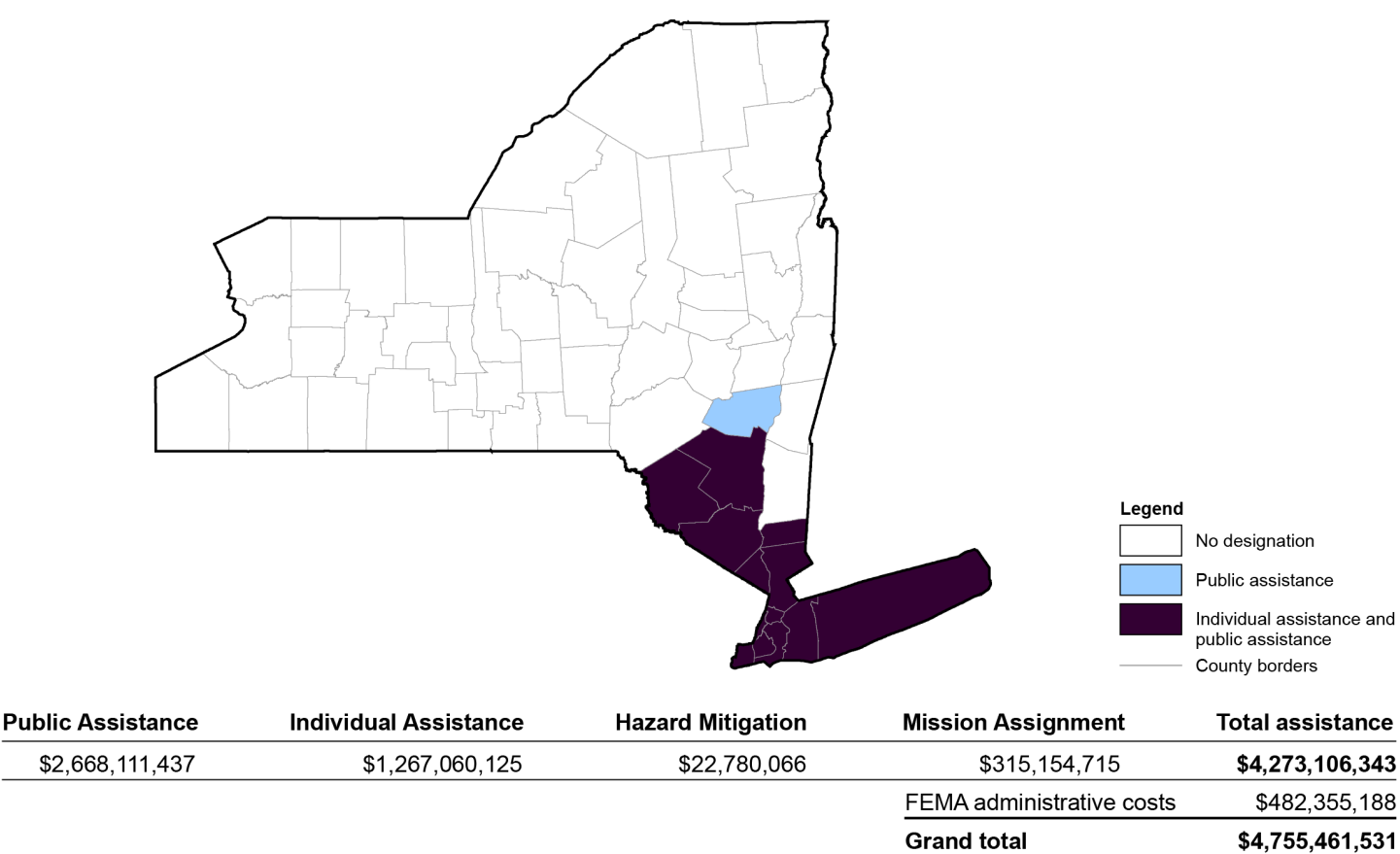
Appendix VII: Large Disaster Example – Major Disaster Declaration (DR-4085): New York Hurricane Sandy (Declared October 30, 2012)

This appendix shows Federal Emergency Management Agency's (FEMA) obligations for Public Assistance, Individual Assistance, Hazard Mitigation, Mission Assignment, and administrative costs for DR-4085.¹ With total obligations of \$4.8 billion, DR-4085 is classified as a large disaster. This includes \$482 million in FEMA administrative costs, \$0 in management costs reimbursed to the grantee, and \$10.9 million in direct administrative costs reimbursed to the grantee and subgrantees of Public Assistance grants.²

¹FEMA assigns each major disaster a "disaster declaration number," preceded by the abbreviation "DR."

² According to FEMA and State of New York officials, New York is claiming management costs for this disaster but, according to FEMA data, funds had not been obligated as of April 30, 2014.

Figure 12: Designated New York Counties, and Obligations by Disaster Relief Fund Category, for DR-4085



Source: GAO analysis of FEMA information (data); MapInfo (map). | GAO-15-65

Note: This figure provides actual obligations from the Disaster Relief Fund as of April 30, 2014.

**Table 11: Obligations by Federal Emergency Management Agency (FEMA)
Administrative Cost Categories for DR-4085**

FEMA administrative cost category	Obligations
Salaries and Benefits	\$191,481,589
Travel	119,184,235
Transportation	2,266,459
Rent, Communication, and Utilities	21,124,427
Printing and Reproduction	410,170
Mission Assignment–Federal Operations Support	96,833,637
Federal Disaster Response Coordinator	1,350,704
Other Services	27,097,311
Supplies and Materials	3,736,276
Equipments	1,054,741
Land and Structures	201,632
Urban Search and Rescue	17,614,000
Interest and Dividends	6
Total	\$482,355,188

Source: Federal Emergency Management Agency (FEMA) data | GAO-15-65

Note: This table provides actual obligations from the Disaster Relief Fund as of April 30, 2014. Obligation amounts do not add up to total obligations due to rounding.

**Table 12: Obligations for Administrative Costs Reimbursed to Grantees and
Subgrantees of Public Assistance Grants for DR-4085**

Reimbursement type	Obligations
Management costs	\$0
Direct administrative costs	10,945,092
Total	\$10,945,092

Source: GAO analysis of Federal Emergency Management Agency (FEMA) data | GAO-15-65

Note: This table provides actual obligations from the Disaster Relief Fund as of April 30, 2014.

Appendix VIII: Sliding-Scale Administrative Allowance for Disasters Declared before November 13, 2007

Prior to the 2007 rule, the Federal Emergency Management Agency (FEMA) used several mechanisms to reimburse grantees for costs associated with administering Public Assistance (PA) grants.¹ Additionally, both grantees and subgrantees were eligible to receive a sliding-scale administrative allowance to cover costs incurred in preparing project worksheets, validating small projects, preparing final inspection reports, quarterly reports, and final audits, and making related field inspections by state employees, including overtime pay and per diem and travel expenses, but not including regular time for such employees. For grantees, the amount of reimbursement was based on a percentage of the total amount of assistance provided (federal share) for all eligible subgrantees in the state.

Table 13: Sliding-Scale Administrative Allowance for Grantees

Assistance amount	Allowance amount
For the first \$100,000	3%
For the next \$900,000	2%
For the next \$4,000,000	1%
For assistance over \$5,000,000	0.5%

Source: GAO analysis of Federal Emergency Management Agency (FEMA) information | GAO-15-65

In addition, a subgrantee could be reimbursed to cover necessary costs of requesting, obtaining, and administering federal disaster assistance subgrants. For subgrantees, the amount of reimbursement was based on a percentage of net eligible costs.

Table 14: Sliding-Scale Administrative Allowance for Subgrantees

Assistance amount	Allowance amount
For the first \$100,000 of net eligible costs	3%
For the next \$900,000	2%
For the next \$4,000,000	1%
For assistance over \$5,000,000	0.5%

Source: GAO analysis of Federal Emergency Management Agency (FEMA) information | GAO-15-65

¹44 C.F.R. 206.228 (2006)

Appendix IX: Comments from the Department of Homeland Security

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



**Homeland
Security**

November 25, 2014

Chris P. Currie
Acting Director, Homeland Security and Justice
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: Draft Report GAO-15-65, "FEDERAL EMERGENCY MANAGEMENT
AGENCY: Opportunities Exist to Strengthen Oversight of Administrative Costs
For Major Disasters"

Dear Mr. Currie:

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

Over the past several years, the Federal Emergency Management Agency (FEMA) has been reviewing its disaster operating processes with a focus on improving its disaster resource management. These efforts include both improving the projection of resource needs and managing disaster administrative costs in a more efficient and effective manner. One of FEMA's goals is to reduce the average annual percentage of administrative costs by 5 percentage points by the end of 2018. While FEMA is aggressively pursuing administrative cost reductions, the Agency is mindful not to sacrifice its mission and assistance to disaster survivors.

The draft report contained three recommendations with which the Department concurs. Specifically, GAO recommended that the FEMA Administrator:

Recommendation 1: Develop an integrated plan to better control and reduce FEMA's administrative costs for major disasters. The plan should include steps the agency will take to reduce administrative costs, milestones for accomplishing the reduction, and clear roles and responsibilities, including the assignment of senior officials/offices responsible for monitoring and measuring performance.

Response: Concur. FEMA agrees that additional steps can be taken to strengthen administrative cost management. FEMA has prioritized improving administrative cost management and made reducing disaster administrative costs a performance goal in its

Strategic Plan, which FEMA's Deputy Administrator is accountable for implementing. The performance goal challenges FEMA to "reduce the average annual percentage of administrative costs for field operations, as compared to total program costs, by 5 percentage points" by the end of 2018.

As part of implementing this effort, FEMA adopted a standardized definition for administrative costs, specifying which disaster costs are administrative for the purposes of reporting and analysis. FEMA has also established a Disaster Administrative Cost Integrated Project Team (IPT) comprising representatives of key FEMA business units and regional offices. The IPT is charged with taking actions to institutionalize the new administrative cost definition and scope, and posture the agency for improved administrative cost management. Estimated Completion Date (ECD): September 30, 2015.

Recommendation 2: Assess the costs versus the benefits of tracking FEMA's administrative cost data for major disasters by Public Assistance, Individual Assistance, Hazard Mitigation, and Mission Assignment, and if feasible, track this information.

Response: Concur. FEMA currently tracks administrative costs by disaster, and is continually working to improve its program design and delivery, related outcomes, and to gain efficiencies in disaster administrative costs and staffing. Recently, FEMA conducted an analysis to ensure that costs are appropriately categorized as administration or assistance. As a result, FEMA adopted a standardized definition for administrative costs, which represented a key step for future reporting and analysis. It is important to note that redesigning FEMA financial systems to track administrative data for major disasters by Public Assistance, Individual Assistance, Hazard Mitigation, and Mission Assignment rather than by overall disasters would be a significant undertaking. The investment required for this may be cost prohibitive; however, assessing the cost versus benefit will help inform the decision-making process on how best to move forward on this issue. ECD: September 30, 2015.

Recommendation 3: Clarify the agency's guidance and minimum documentation requirements for direct administrative costs claims by grantees and subgrantees of the Public Assistance program.

Response: Concur. As noted in the draft report, FEMA is considering a direct administrative costs (DAC) pilot program potentially for Hurricane Sandy recovery operations. The pilot could apply a sliding scale or fixed percentage administrative allowance to reduce the administrative burden of the current DAC process. If implemented and successful, results from this program could inform the development of additional guidance or regulatory modification and similar approaches could be applied in future disasters.

For current and other past disasters, FEMA will provide clarifying guidance on DAC claims and documentation requirements. This information will be incorporated into the Public Assistance unified guidance document that is scheduled to be issued next year. ECD: October 31, 2015.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under a separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.

Sincerely,



Jim H. Crumpacker, CIA, CFE
Director
Departmental GAO-OIG Liaison Office

Appendix X: GAO Contact and Staff Acknowledgments

GAO Contact

Chris P. Currie, (404) 679-1875 or curriec@gao.gov

Staff Acknowledgements

In addition to the contact named above, Edward George, Assistant Director; David Alexander; Aditi Archer; Andrew Berglund; Jeffrey Fiore; Eric Hauswirth; Tracey King; Anne Kruse; Jessica Orr; Jim Ungvarsky; and Samuel Woo made key contributions to this report.

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