

Forensic & Integrity Services

# Averting a second disaster

Avoiding grant deobligation,  
Third Edition

February 2023



Building a better  
working world

## The new abnormal

The past several years have been marked by record-breaking catastrophic disasters for the Federal Emergency Management Agency (FEMA), including unprecedented storms and a global pandemic. In fact, 124 disasters were declared in 2018, and 137 disasters were declared in 2017. The disasters declared in 2017 and 2018 included unprecedented storms, fires and other natural disasters affecting millions across our nation. These included Hurricane Harvey, Hurricane Irma, Hurricane Maria, Hurricane Michael, Hurricane Florence, the earthquake in Alaska, and the 2017 and 2018 California wildfires. In 2020, FEMA declared disasters in all 50 states as a result of the COVID-19 pandemic.

Disasters have changed; their timing, frequency and destructive forces are increasing at an unprecedented rate. As such, FEMA's disaster recovery process continues to evolve, resulting in legislative changes and disaster program changes. Keeping up with new disaster recovery legislation, policy, guidance and requirements can often be challenging for Recipients and Subrecipients.

In response to increased funding made available by FEMA, the role of the Department of Homeland Security's Office of Inspector General (DHS OIG) has been heightened, through real-time monitoring and capacity reviews with an eye toward deobligation of grant funding. The Inspector General (IG) will continue to meticulously scrutinize grant funding to confirm FEMA compliance and to prevent possible waste, fraud and abuse. Therefore, it is imperative that FEMA grant Recipients<sup>1</sup> and Subrecipients<sup>2</sup> understand their obligations associated with FEMA disaster grant funding, remain current with respect to relevant guidance and increase the efficiency and effectiveness of their compliance efforts.

We are issuing the third edition of this booklet to highlight certain areas associated with financial recovery through FEMA funding that has been impacted by disaster and responsive FEMA activity over the past four years. This edition will also refresh the information provided in the first and second editions. Our objective remains the same: to assist Recipients and Subrecipients with the financial recovery process.

## What is new to this edition?

Based on OIG audit reports from 2017 to 2019, FEMA grant Recipients and Subrecipients continue to face the same challenges that were identified in the first edition of this booklet. We have updated these Inspector General areas of focus and have also outlined four new areas of focus.

### 1. DHS OIG's proactive audit approach

DHS OIG continued a proactive approach to conducting audits where the DHS OIG would assess Subrecipients' capacity to account for and spend federal funds responsibly before the funds are spent. With this approach, the IG has started conducting audits much earlier in the disaster recovery process. In addition to the IG's proactive approach, FEMA is also proactively scrutinizing eligibility of costs prior to the obligation of funding. As a result, Recipients and Subrecipients will need to be audit-ready from day one in the financial recovery process.

### 2. Disaster Recovery Reform Act of 2018 (DRRA)<sup>3</sup>

In response to the significant impact of natural disasters in 2017, on October 5, 2018, President Donald J. Trump signed HR 302, which contains the DRRA. The DRRA modifies several FEMA programs and provides greater flexibility to assist state and local disaster mitigation, preparedness and recovery. As part of the new Act, FEMA can no longer recoup any aid provided more than three years after its release. Prior to the new act, FEMA was able to deobligate funding and recoup any aid provided to Recipients and Subrecipients at any time, often many years after its release. In most cases, the deobligation of funding was made at the request of the IG after an audit was performed. Due to these programmatic changes and the new timing limitations on deobligation of funds, we anticipate the IG will continue to perform their reviews early in the recovery process.

<sup>1</sup> State government or certain Indian tribal governments.

<sup>2</sup> Entities such as counties, cities, hospitals, certain Indian tribal governments, public utilities and not for profits. The term "Applicant" and "Subrecipient" are often used interchangeably.

<sup>3</sup> HR 302 – FAA Reauthorization Act of 2018.

### **3. Public Assistance Program and Policy Guide (PAPPG) – version 4<sup>4</sup>**

In June 2020, FEMA issued the PAPPG version 4. PAPPG superseded the majority of all prior Public Assistance guidance, and PAPPG version 4 is in effect for incidents declared on or after June 1, 2020.

Version 3.1 incorporated revisions to align with the changes made by the Bipartisan Budget Act, including changes regarding “essential social services” and “essential social-type services,” houses of worship and other private nonprofit educational facilities. Version 4 includes revisions and clarifications relating to administrative requirements, applicant eligibility (specifically for private nonprofit entities), emergency and permanent work eligibility, and cost eligibility.

Also included in this version of the guidance is the Public Assistance Alternative Procedures for Permanent Work Pilot Policy (FP 104-009-7), which establishes Alternative Procedures as the first option considered for all large permanent work projects. This not only enables Applicants to drive their own recovery but also standardizes a single process for the development and consideration of fixed cost estimates for all permanent work projects. Benefits of using this approach include enhanced flexibility in meeting post-disaster recovery needs, no requirement to rebuild community to pre-disaster conditions, shared funds across all Alternative Procedures Permanent Work Projects, and the ability to retain and use excess funds to improve future disaster response.

### **4. Public Assistance Management Costs Interim Policy (Interim Policy)<sup>5</sup>**

On October 5, 2018, as part of the DRRRA, FEMA issued the Interim Policy, which redefined management costs. The Interim Policy defines management costs as “indirect costs, direct administrative costs and other administrative expenses associated with a specific project.” The policy is in effect for all major disasters and emergencies declared on or after August 1, 2017. For disasters declared on or after October 5, 2018, all management costs will be processed under the interim policy. For disasters declared between August 1, 2017, and October 4, 2018, Recipients and Subrecipients were required by March 15, 2019, to decide if they wanted to receive costs under the Interim Policy or continue to receive under the existing management costs and DAC policy in effect at the time of disaster (Public Assistance Program and Policy Guide and/or Public Assistance Alternative Procedures for Direct Administrative Costs).

Under the Interim Policy, a Recipient is allowed no more than 12% of the total award, where a maximum of 7% can be used by a Recipient and 5% by a Subrecipient. Costs are funded at 100% federal cost share. Recipients and Subrecipients are required to fully document and demonstrate eligibility and reasonableness of all costs and activities claimed. Section C of the Interim Policy details eligibility and several deadlines to claim the costs. Under the Interim Policy, FEMA bases management costs on the total award amount, which is the actual eligible PA project cost, including the non-federal share, after insurance and any other reductions.

### **5. Public Assistance Alternative Procedures for Direct Administrative Costs (PAAP DAC)<sup>6</sup>**

The DAC Pilot formally ended on October 5, 2018. Version 1.1 of the policy was published on June 12, 2018. It was applicable to incidents declared from August 25, 2017 through October 4, 2018. It was archived on October 5, 2018 upon the discontinuation of the pilot.

<sup>4</sup> FEMA FP-104-009-2: *Public Assistance Program and Policy Guide*, US Department of Homeland Security, FEMA, June 2020.


<sup>5</sup> *Public Assistance Management Costs (Interim): FEMA Recovery Policy FP 104-11-2*, US Department of Homeland Security, FEMA, November 14, 2018.

<sup>6</sup> *Public Assistance Alternative Procedures for Direct Administrative Costs (Version 1.1)*, US Department of Homeland Security, FEMA, June 12, 2018.



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# Averting a second disaster

# Can you avert a second disaster?

## Test your disaster financial recovery quotient

### Recipients can approve changes to scopes of work identified in project worksheets.

**False.** A request to change the scope of work once a project has been obligated needs to be approved by FEMA.

### A price or cost estimate must be performed for every procurement prior to the bid evaluation state.

**False.** Recipients and Subrecipients must perform a price or cost analysis in connection with every procurement action above the simplified acquisition threshold (\$250,000), including contract modifications.

### Sole source procurements cannot be completed for any work that is intended for FEMA reimbursement.

**False.** Sole source procurements are permitted under a limited set of circumstances, such as situations in which a good or service is only available from a single provider.

### Bid evaluation procedures are not predetermined by FEMA.

**True.** FEMA does not predetermine bid evaluation procedures. However, federal grant regulations require that written selection procedures be established for all procurement transactions.

### After disaster closeout, supporting documentation for all costs should be maintained for one year.

**False.** Recipients and Subrecipients are responsible for maintaining complete supporting documentation for all costs for at least three years after the entire disaster event is closed out.

### FEMA's Public Assistance Program does not require Applicants to maintain insurance for a one-time disaster.

**False.** The Applicant must obtain insurance on damaged insurable facilities to receive PA grant funding and maintain insurance on those facilities to be eligible for PA funding in future disasters. Examples of such facilities include buildings, equipment, contents and vehicles.

### It is the Recipient's responsibility to disburse grant funding to Subrecipients.

**True.** The Recipient receives grant reimbursement from FEMA and is responsible for disbursing appropriate funds to Subrecipients for performing grant-eligible work.

### Labor and travel expenses can be combined and reported as a blended rate for direct administrative costs.

**False.** Reimbursements for direct administrative costs will not be made based on blended rates for labor and travel. Both expenses must be tracked separately.

### Comparable market prices are relevant for costs incurred during exigent circumstances.

**True.** Market prices should be considered in determining whether or not costs incurred are reasonable.

### Costs incurred are considered fully documented and supported as long as the Applicant has maintained the relevant contracts and invoices.

**False.** Documentation requirements associated with FEMA grants are fairly extensive. Examples of documents in addition to contracts and invoices that may be required to support costs include procurement files, time sheets, receipts and proof of payment.

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# Introduction



# Introduction

## Financial recovery

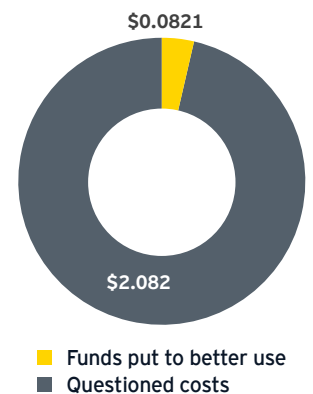
Most organizations have plans in place to manage crises and restore operations in the event of a disaster. Maximizing financial recovery is often an afterthought even though it is equally, if not more, complex than physical recovery. Significant knowledge of the federal disaster grant management process is essential for an organization to successfully navigate from disaster recovery through grant closeout.



Billions of dollars are made available through the Federal Emergency Management Agency (FEMA) to assist public sector and certain nonprofit organizations not only in responding to and recovering from federally declared disasters, but also in mitigating the impact of future disasters. However, federal funding is accompanied by strict rules, processes, procedures and oversight. Many organizations have limited experience in working with these regulations. Creating awareness within your organization and training your staff to understand these requirements are critical for a successful recovery. Failure to pay attention to the relevant guidelines can lead to a disaster of another type – grant deobligation.

It can be a challenging process to understand funding opportunities following a disaster and deciphering what is eligible for reimbursement. Once funding is granted, accounting, maintaining relevant documentation and procurement become difficult and time-consuming tasks. Even after all the work is completed and costs are accounted for, Recipients and Subrecipients must be prepared for a potential audit by the US DHS OIG. The OIG audits awarded grants annually and recommends deobligations based on its findings.

Dollar amounts in billions



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### Office of Inspector General audits

In September 2018, the OIG issued the report, *Summary and Key Findings of Fiscal Year 2017 FEMA Disaster Grant and Program Audits* (OIG Capping Report).<sup>7</sup> This report summarized the awarded amount that the OIG classified as either questionable costs (recommended to be disallowed) or funds that could be put to better use. An alarming observation from this report is the \$2.164b total amount identified under these two categories. A breakdown can be seen below.

The most frequent funds that could be put to better use tended to involve a lack of Subrecipient policies, procedures and business practices to comply with federal procurement regulations, the interest earned on federal funds, and unused funding.

The most frequently questioned costs included ineligible work and costs resulting from noncompliant contracting practices and lack of supporting documentation.

<sup>7</sup> *Summary and Key Findings of Fiscal Year 2017 FEMA Disaster Grant and Program Audits*, US Department of Homeland Security Office of Inspector General, September 5, 2018.

## Purpose of this booklet

Ernst & Young LLP's Insurance & Federal Claims Services (IFCS) professionals have assisted clients with both obtaining and managing over \$18b in financial recovery through federal grants, insurance and other funding sources following natural disasters. Please see Appendix A for examples of the assistance we have provided to Recipients and Subrecipients.

To create this handbook, we have drawn upon our experiences and the collective knowledge base of our team members, several of whom are former FEMA and DHS officials, including individuals from the OIG who have audited and investigated federal disaster grants. Its purpose is to help entities prepare for and execute successful financial recovery in the event of a disaster.

The OIG Capping Report stresses the following:

- ▶ FEMA "has not sufficiently held grant Recipients financially accountable for improperly spending disaster relief funds."
- ▶ Recipients play an important role in monitoring their Public Assistance program grant and providing technical assistance to Subrecipients.

In light of the OIG's focus, we hope that this booklet will help better prepare grant Recipients and Subrecipients to deal with the financial recovery process. If you are currently preparing for or responding to a disaster, you can use the tips and checklists provided in this handbook. If you are not currently engaged in disaster response or recovery activities, you can use this handbook as a tool to revise existing processes and procedures or to create and implement new ones. We hope that this material will supplement your understanding of the FEMA Public Assistance (PA) financial recovery landscape and help your organization develop an action plan to successfully manage the next disaster.

A proactive approach is critical to a healthy recovery and will help you avert a second disaster.

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### Healthy recovery

- ▶ Reimbursement for emergency protective measures and debris removal
- ▶ Reimbursement for all permanent work (repair or replacement of facilities and equipment)
- ▶ Recovery of direct administrative costs
- ▶ Funding for mitigation projects
- ▶ Timely cash disbursements
- ▶ Clean audit reports

### A second disaster

- ▶ Deobligation of funding
  - ▶ Temporary withholding of cash payments and severe cash flow issues
  - ▶ Large amounts of recovery work not reimbursed
  - ▶ Suspension or debarment proceedings
  - ▶ Negative publicity
  - ▶ Mistrust with constituents
  - ▶ State and federal investigations
-



# Avoiding grant deobligations

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## Recipient and Subrecipient responsibilities

Responsibility for the proper usage of FEMA funding doesn't only rest with Subrecipients. Regulations mandate that Recipients, which in most cases are states, also play an active role in managing grant funds. Recipients are responsible for the disbursement of grant funds to Subrecipients and are fully accountable for the usage of funds by Subrecipients.<sup>8</sup>

The OIG Capping Report specifically stresses the important role Recipients must play in monitoring grants. Given that FEMA provides grant funds to Recipients to administer and oversee disaster funds, the OIG expects that better grant administration will enable Recipients to identify unused, unneeded and ineligible funds in a more expedited manner.

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### Recipients

- ▶ State government or certain Indian tribal governments
- ▶ Accountable for use of funds
- ▶ Responsible for disbursing funds to Subrecipients
- ▶ Responsible for all grants management activities

### Subrecipients

- ▶ Examples: counties, cities, hospitals, cooperatives or public utilities, schools and universities, certain Indian tribes, and certain not-for-profits
- ▶ Responsible for completing the approved scope of work
- ▶ Responsible for expending funds in accordance with applicable laws, regulations and policies

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The Recipient is responsible for monitoring the completion of grant-funded projects to verify that Subrecipients complete the work within regulatory time frames and in accordance with the approved scope of work and grant conditions, adhere to environmental requirements, and appropriately recoup duplicative benefits. Once work is 100% complete on a project, the Subrecipient must submit documentation within 90 days of the Recovery Scoping Meeting or work completion date, whichever is later, regardless of whether the project has been obligated. FEMA makes its eligibility determination and processes the project based on the project documentation received within this 90-day deadline. Recipients must also document changes in grant conditions and report them to FEMA.

Additional roles and responsibilities of Recipients include, but are not limited to:

- ▶ Support project identification activities
- ▶ Conduct site visits as appropriate
- ▶ Confirm that Subrecipients are aware of all eligibility requirements
- ▶ Verify that Subrecipients comply with:
  - ▶ Public Assistance Program insurance requirements
  - ▶ OMB Circular A-133
  - ▶ Other federal, state and local requirements

- ▶ Confirm that Subrecipients document and submit the following to FEMA for review:
  - ▶ Requests for supplemental funds
  - ▶ Closeout requests
  - ▶ Quarterly progress reports
- ▶ Notify Subrecipients of all grant-related actions in a timely manner
- ▶ Pay Subrecipients for eligible work in a timely fashion
- ▶ For large projects, reconcile actual costs and provide summary documentation to FEMA
- ▶ Evaluate and process time extension requests, improved project requests and alternate project requests from Subrecipients and send them to FEMA
- ▶ Prepare and submit annual State Administrative Plan for Public Assistance
- ▶ Submit FEMA form 20-10, *Financial Status Report* or SF-269 *Financial Status Report* and comprehensive quarterly progress reports to FEMA
- ▶ Respond to OMB Circular A-133 audit findings

<sup>8</sup> Prior to the issuance of 2 CFR 200 in December 2013, Recipients were referred to as "Grantees" and Subrecipients were referred to as "Subgrantees."



During fiscal year 2017, OIG reports included more than 70 recommendations associated with grants management and administration covering procurement and contracting practices, general grants management, project costs, accounting and insurance recovery.

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Given the complexities involved in managing grant-related activities, it is imperative that Recipients become fluent with respect to applicable laws, regulations and policies. Furthermore, they should have systems and resources in place to monitor Subrecipients and provide guidance and assistance as required.

FEMA grants are often awarded to multiple Subrecipients within the same state. In such circumstances, the state, as the Recipient, must be prepared to manage each Subrecipient separately and report to FEMA on both an individual grant and aggregate basis.

When a Recipient or Subrecipient of federal funds needs to obtain goods or services to respond to and recover from disasters, it should follow its own procurement procedures as long as they conform with state and local procedures and federal acquisition regulations. A key component of satisfying the federal procurement requirement is obtaining the best price for goods and services while facilitating free and open competition for the procurement of the goods or services. The requirement that the procurement allows for open competition encourages local firms of all sizes and experience levels to participate, including minority and woman-owned businesses.

## Procurement guidelines

Administrative grant requirements for FEMA, including those focused on procurements, were streamlined in December 2013. The 2 CFR Part 200 streamlined contents from eight existing OMB circulars into one consolidated set of guidance. The 2 CFR Part 200 now serves as the primary source of guidance for procurements associated with FEMA funding and applies to all disaster events occurring after December 2014.<sup>9</sup>

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### OIG-20-41 (July 19, 2020)

DHS OIG audited FEMA Public Assistance grant funding awarded to Joplin Schools in Missouri. The audit found Joplin Schools did not comply with the requirement for full and open competition. Additionally, they did not include federal contract provisions, ensure disadvantaged firms had opportunities to compete, monitor contract award terms and conditions, and complete a cost or price analysis. This resulted in the OIG recommending to disallow over \$180 million in ineligible contract costs.

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### Noncompliance with applicable regulations

Noncompliant procurement practices are often the target of OIG audits. The DHS's findings<sup>10</sup> referenced in the report centered on five key concerns:

- ▶ Joplin Schools did not include all required contract provisions.
- ▶ When awarding its construction-related contracts, Joplin Schools did not take affirmative steps to solicit disadvantaged firms.
- ▶ Full and open competition was not conducted in awarding the contracts, a key provision of federal procurement regulations.
- ▶ Joplin Schools did not maintain a contract administration system that conforms to federal procurement standards.
- ▶ No cost or price analysis was performed and FEMA had no assurance that the costs paid or to be paid through the contracts were reasonable.

It is important that the procurement of goods or services is transparent and documents the process, including the justification for the selected vendor. This also means that the opportunity to provide the goods or services was made available to the public.

FEMA may take any number of enforcement remedies in the case of a noncompliant procurement or other areas of noncompliance under a Stafford Act grant, including:

- ▶ Temporarily withholding cash payments
- ▶ Disallowing all or part of the cost of the activity or action not in compliance
- ▶ Wholly or partly suspending or terminating the federal award
- ▶ Initiating suspension or debarment proceedings
- ▶ Withholding further awards for the program
- ▶ Taking other remedies that may be legally available

<sup>9</sup> OMB allowed for non-federal entities to elect a two-year grace period before adopting the new procurement standards in 2 CFR Part 200; see 80 FR 54407, 54408 and 2 CFR 200.110(a).

<sup>10</sup> *Inadequate Management and Oversight Jeopardized \$187.3 Million in FEMA Grant Funds Expended by Joplin Schools, Missouri*, US Department of Homeland Security Office of Inspector General, June 19, 2020.

## Guidance summary

Maneuvering the landscape of procurement guidance can be a complex and challenging task. It will require a detailed review and understanding of grant and procurement regulations. Applicants should ask questions about requirements that are not clear, rather than assuming the federal agency will interpret the regulation a certain way.

Some of the key components are below:

### The cheat sheet

- ▶ There are different procurement guidelines for state and federal entities and non-federal entities. To better ensure compliance, entities must follow the most stringent guidelines applicable.
- ▶ All procurements must provide fair and open competition and not require excessive or unnecessary bonding or other unnecessary qualifications that limit competition.
- ▶ Noncompetitive procurement processes may be used if the goods being procured are only available from a single source.
- ▶ Recipients and Subrecipients must perform a price or cost analysis in connection with every procurement action above the simplified acquisition threshold (\$250,000), including contract modifications.
- ▶ Time and material contracts without a ceiling price and cost-plus percentage-of-cost or percentage-of-construction contracts are typically not permitted. However, they may be allowed under state or territorial government standards. Note that the use of these contracts has a high risk of noncompliance with the requirement that all costs be reasonable.
- ▶ Recipients and Subrecipients must take all steps to employ small and minority businesses, women's business enterprises and labor surplus area firms when possible.

In order to execute a FEMA-compliant procurement, a number of steps should be implemented under the normal course of business. These have been identified in the "Next steps" section.

Recipients and Subrecipients should also be prepared to execute a variety of ongoing tasks during the procurement phase of recovery, such as:

- ▶ Monitoring compliance of each procurement in an efficient manner
- ▶ Obtaining an understanding of the documentation requirements and properly maintaining the relevant files
- ▶ Determining the best way to complete internal cost estimates for goods and services that may never have been procured before by the entity
- ▶ Verifying and documenting that no duplication of work has been procured
- ▶ Differentiating between exigent and non-exigent circumstances
- ▶ Determining the best contract/pricing structure for each procurement

Advance consideration of these factors will be key to an entity's ability to retain federal funding through the closeout and audit process.

### Next steps

- ▶ Identify mechanisms through which fair and open procurement can be conducted (public websites, newspapers, etc.)
- ▶ Train your staff in federal procurement regulations
- ▶ Identify resources and processes for estimating internal costs for goods and services that may need to be procured
- ▶ Develop procedures for bid evaluation
- ▶ Create a template for FEMA contract provisions to be included in RFPs and resulting contracts

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## Project worksheet scope and costing

### Recent OIG findings

#### OIG-21-10 (November 18, 2020)<sup>11</sup>

OIG determined that \$12.2m of FEMA Public Assistance granted to a Subrecipient was ineligible for the following reasons:

- ▶ Lacked supporting documentation
- ▶ Ineligible other than personnel costs
- ▶ Duplicate administrative overhead rate charges

According to federal cost principles, any costs associated with federal grants must be “necessary and reasonable.” They must be required because of the related major disaster event.

Furthermore, according to FEMA’s *Public Assistance Program and Policy Guide*<sup>12</sup>, all source documentation supporting the project costs must be maintained. The Applicant must maintain all documentation for each project with its project worksheet (PW) as a permanent record to facilitate closeout and audits.

All financial and program documentation must be maintained for at least three years after the submission date of the Recipient’s final Federal Financial Report (SF-425). These records are subject to audit by FEMA, the US DHS OIG, state auditors and the US Government Accountability Office. Note, there are exceptions to this rule that may require longer retention periods, including those relating to real property and equipment disposition, audits, litigation, and non-federal entities (e.g., state, local government, Indian tribe, institution of higher education, or nonprofit organization).

## Scope of work

Projects and associated scopes of work are approved by FEMA and are incorporated into PWs. Subrecipients should work with FEMA resources to help confirm that the actual work Subrecipients have performed or will be performing is adequately covered by the scope of work in each PW. Thereafter, Subrecipients must adhere to the scope of work or they will be at risk of deobligation. If necessary, the Applicant may request a change to the scope of work once a project has been obligated; however, changes need to be approved by FEMA.

## Accounting on a project-by-project basis

Costs must be submitted to FEMA based on PWs and individual site sheets. See Appendix B for a representative list of work that can be reimbursed by FEMA.

Subrecipients should maintain accounting records in such a manner that costs are captured and reported by their respective category and project. Many accounting systems are not set up in a way that corresponds directly to information required by FEMA PWs and for particular disasters or individual scopes of work. As such, separate processes and procedures must be established to properly account for costs associated with FEMA grants.

<sup>11</sup> *FEMA Should Recover \$3.9 Million of \$13.2 in Grant Funds Awarded to the Borough of Lavallette*, New Jersey US Department of Homeland Security Office of Inspector General, July 5, 2017.

<sup>12</sup> *FEMA FP-104-009-2: Public Assistance Program and Policy Guide*, US Department of Homeland Security Federal Emergency Management Agency, June 2020





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## Unreasonable pricing

OIG-20-63 (September 15, 2020)<sup>13</sup>

The OIG audited \$1.3 billion associated with awards made to the Recovery School District in Louisiana (RSD) recommending to deobligate \$156.6 million in connection with unreasonable construction costs from Hurricane Katrina repairs.

In the report referenced above, the amounts reviewed and deemed unreasonable by the OIG in connection with the grant were related to the differences between hourly rates the Subrecipient paid its contractors and the hourly rates the Recipient negotiated for statewide debris removal activities and made available to all municipalities within the state. The OIG determined the rates the Subrecipient used appeared unreasonable and higher than the hourly rates other municipalities paid for similar hourly debris removal work in the state.

Additionally, the Subrecipient could not provide evidence that a cost or price analysis was performed to determine the reasonableness of the rates for debris removal. The OIG stated that the Subrecipient should have negotiated a unit price for work contractors performed after the first 70 hours of the disaster, as required by FEMA guidelines.

The report said that the amounts reviewed and deemed unreasonable by the OIG in connection with the grant were related to the price per square foot for repairs and replacements that was used in excess of a reasonable amount. The amount used was based on data from improperly procured contracts and the amount was in excess of the regional average for similar work. Therefore, the OIG is questioning the \$156.6 million costs and recommending they be deobligated.

## Costs must be reasonable

FEMA considers only those costs that are reasonable as eligible for reimbursement.

2 CFR 200.404 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 question of reasonableness is particularly important when the non-federal entity is predominantly federally-funded.”

One leading practice to help demonstrate cost reasonableness is to create a cost estimate before soliciting work. The cost estimate should detail the expected price for the entire scope of work being solicited. Then, after receiving proposals for the work, compare the proposals not only to each other, but also to the costs estimate. This comparison can help establish whether the proposals received are reasonable compared to current market conditions and the expected costs.

If the contract award was already made without a cost estimate or if the award was sole sourced, an applicant still has ways to establish cost reasonableness. For example, current market data, historical data, industry published prices or other available data could be used for a quantitative analysis and supplemented with a detailed qualitative analysis.

Several factors must be considered in determining whether or not a cost is reasonable. Some examples include:

- ▶ Were the costs necessary for the proper and efficient performance of the award?
- ▶ What were comparable market prices?
- ▶ Did the Recipient or Subrecipient deviate significantly from its existing policies and practices?
- ▶ Were there any shortages or supply chain disruptions that affected prices?

Furthermore, FEMA may deny eligibility for costs that it finds are in excess of what is stipulated by existing contracts, employment agreements, union agreements and other established limits. For certain types of expenses, FEMA has established rates according to which it will provide reimbursements.

<sup>13</sup> *FEMA Should Disallow \$2.78 Million of \$14.57 Million in Public Assistance Grant Funds Awarded to the Township of Brick, New Jersey, for Hurricane Sandy Damages*, US Department of Homeland Security Office of Inspector General, September 9, 2015.

## Cost reviews

For all costs that an Applicant is considering for reimbursement, the costs should be reviewed to confirm that they are not in excess of FEMA reimbursable amounts. We strongly recommend that Applicants maintain appropriate documentation to demonstrate the reasonability of costs.

Contracted work	<ul style="list-style-type: none"><li>▶ Difference between rates charged and contractual rates</li><li>▶ Invoiced labor not supported by time sheets</li><li>▶ Excessive materials/services being invoiced</li></ul>
Force account labor	<ul style="list-style-type: none"><li>▶ Lack of evidence that work performed was associated with disaster recovery</li><li>▶ Rates used for reimbursement that differ from union and employment agreements</li><li>▶ Overtime fringe benefit rate that includes non-variable fringe benefits</li></ul>
Rented or leased equipment	<ul style="list-style-type: none"><li>▶ Equipment hours higher than equipment operator's hours</li><li>▶ Equipment rate significantly higher than FEMA rate</li><li>▶ Equipment usage records are not approved</li></ul>

## Document! Document! Document!

### OIG-18-08 (October 30, 2017)

OIG recommended that FEMA should disallow \$142.7m in debris removal costs incurred by a California Subrecipient as well as not fund the remaining \$82.7m in cost overruns as the agency did not adequately document costs.<sup>14</sup>

## Documentation requirements

One of the biggest challenges of reimbursement is the failure to maintain accurate and complete information for projects to support the cost amounts claimed. Applicants that do not substantiate claimed amounts with supporting documentation may face deobligation of federal funding. It is important to note that a large majority of these projects, and the FEMA PA process itself, can take many years to complete. The individuals involved at the onset of the projects will likely change before closeout. For example, local management may change or the assigned FEMA representatives will likely switch. Additional disasters and resource constraints may further impact the length of the recovery through closeout process. Therefore, it is imperative that organizations have a records management plan in place at the onset that maintains documents over a lengthy period of time.

FEMA guidance mandates that financial records and supporting documentation be maintained in connection with awarded grants. The standard for supporting documentation is very high in that complete information must be maintained with respect to incurred costs. According to FEMA's *Public Assistance Program and Policy Guide*<sup>15</sup> the documentation required should describe "who, what, when, where, why and how much" for each item of cost. Forms are maintained on FEMA's website, which are intended to assist Applicants in understanding what level of records need to be maintained.

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<sup>14</sup> *FEMA and California Need to Assist CalRecycle, a California State Agency, to Improve Its Accounting of \$230 million in Disaster Costs*, US Department of Homeland Security Office of Inspector General, August 30, 2017.

<sup>15</sup> *FEMA FP-104-009-2: Public Assistance Program and Policy Guide*, US Department of Homeland Security, FEMA, June 2020.



## Additional considerations

In addition to understanding documentation requirements and maintenance, consideration must be given to the following:

- ▶ How will you verify that your departments and outside vendors understand FEMA documentation requirements and comply with them?
- ▶ Often, hundreds of thousands of pages of documentation are required to support a FEMA grant. How will these documents be organized so that external parties, including FEMA, can understand and review with ease?
- ▶ How will the volumes of documentation be reviewed by your team in order to identify red flags and ineligible costs before a potential OIG review so that funding and your reputation are preserved? See Appendix C for a sample checklist that demonstrates the level of detail that needs to be captured as part of this process.

**Document!**

**Document!**

**Document!**

- ▶ Procurement policies and guidance
- ▶ Contracts
- ▶ Union and other employment agreements
- ▶ Purchase orders
- ▶ Vendor invoices
- ▶ Rental and lease agreements
- ▶ Records of materials from inventory
- ▶ Change orders
- ▶ Expense receipts
- ▶ Contract work records
- ▶ Time sheets
- ▶ Fringe benefit calculations
- ▶ Force account equipment usage information
- ▶ Proof of payment

## Management costs

The beginning of this booklet highlights the major changes made to the Public Assistance program as it relates to management costs.

### OIG-20-14 (June 19, 2020)

OIG recommended FEMA to disallow or deny over \$600,000 in direct administrative costs because it included costs for indirect activities, costs associated with rates for contractor work that were higher than the rates in the contract, and costs based on unreasonable rates.<sup>16</sup>

### The significance of management costs

As evident from the information in previous chapters, the administrative burden associated with managing a federal grant is cumbersome. FEMA has provisions in place to assist Recipients and Subrecipients with handling the complex process of financial recovery. Management costs are one of the mechanisms whereby expenses incurred in connection with administrative tasks can be recovered. Expenses directly incurred by Recipients, Subrecipients and third-party contractors can qualify.

On October 5, 2018, the President signed the Disaster Recovery Reform Act of 2018 (DRRA) into law as part of the Federal Aviation Administration Reauthorization Act of 2018. Section 1215 of the DRRA changed Section 324 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, as Amended (Stafford Act). As a result of the amendment to Section 324, Title 44 Code of Federal Regulations (CFR) Part 207 is no longer effective.

As per the interim policy, third-party contractors can be hired to perform grant management functions, and the associated costs can be recovered under management costs. This provision is noteworthy, as Recipients and Subrecipients often do not have the resources to focus on both financial and physical recovery as well as normal business operations. Furthermore, external parties can provide the benefit of extensive knowledge and experience with the FEMA grant process, which may not exist among internal resources.

The same procurement regulations apply to hiring a contractor to assist with grant management as with hiring other vendors to assist with recovery from damages.

<sup>16</sup> *FEMA Should Disallow \$9.1 Million in Public Assistance Grant Funds Awarded to Ascension Parish School Board, Louisiana*, US Department of Homeland Security Office of Inspector General, November 16, 2018.



## What is covered under management costs?

Management costs consist of costs that are administrative in nature and can be identified separately and assigned to a specific project. FEMA also has a provision for administrative costs that cannot be directly charged to a specific project.

Examples of costs that can qualify include:

- ▶ Collecting and submitting documents to support the claim
- ▶ Site visits, surveying and damage assessment
- ▶ Development of damage descriptions
- ▶ Evaluating the impact of hazard mitigation measures, insurance coverage, historic preservation, environmental impact and flood risk
- ▶ Estimating and quantifying project costs
- ▶ Writing and/or reviewing project worksheets
- ▶ Developing new versions of project worksheets
- ▶ Requesting disbursement of PA funds
- ▶ Supporting requests from FEMA related to improved project and alternate project requests
- ▶ Attending and coordinating meeting requests from FEMA
- ▶ Activities related to the closeout process
- ▶ Travel costs related to any direct administrative activities

## Accounting for management costs properly

For Recipients, management costs are documented on a separate Category Z

PW prior to project obligations with the eligible costs being 7% of the Recipient's minimum statewide PA per capita impact indicator. If the Recipient estimates that its expenditures for the first 180 days of the declaration will exceed this amount, FEMA may obligate the estimated expenditure amount provided the Recipient provides a summary of anticipated expenditures and the amount does not exceed 7% of the estimated total award amount for the disaster.

If a Subrecipient requests a Category Z PW, the FEMA Program Delivery Manager will formulate a Category Z PW for 5% of the total award amount obligated for a Subrecipient at the time of its request. FEMA may process amendments up to once a quarter for 5% of the total award amount obligated for the Subrecipient at the time of its amendment request.

If all final actual management costs are known at the time the Subrecipient requests a Category Z PW, the Subrecipient should submit its claim for all eligible costs incurred, and FEMA will obligate the Category Z PW based on the actual eligible costs up to the 5% maximum. If additional project costs are obligated or deobligated, FEMA will adjust the 5% maximum and the actual eligible costs as appropriate.

## Management costs checklist

In addition to the documentation noted in the PAPPG, the following documentation is required to substantiate the eligibility of management activities and associated costs. FEMA will publish a reasonable cost policy specific to management cost.

- ▶ An explanation of work performed with a representative sample of daily logs/activity reports. The activity must be related to eligible projects. Therefore, management costs associated with an appeal that is ultimately denied are not eligible. If an eligibility determination is appealed and the appeal is ultimately granted, that project is eligible for inclusion in the calculation of the Category Z PW and management activities associated with the eligible project costs are eligible for reimbursement.
- ▶ Documentation to substantiate the necessity of any claimed office supplies, equipment or space.
- ▶ For meetings or site inspections, the activity description needs to include the number and purpose of the meetings or site inspections.
- ▶ Travel costs need to include the purpose of travel and a copy of the travel policy.
- ▶ Training needs to include the location, date(s) and title of the course. The training must be related to PA and occur within the period of performance of the Category Z PW.
- ▶ Recipients and Subrecipients need to certify that the management activities and associated costs claimed are eligible, consistent with the Interim Policy, and not related to ineligible projects. See PAPPG Appendix D for a Certification of Management Cost Eligibility document.

## Governmental funding does not replace insurance

### 44 CFR 206.253(b)(1)

Assistance under Section 406 of the Stafford Act will be approved only on the condition that the Recipient obtain and maintain such types and amounts of insurance as are reasonable and necessary to protect against future loss to such property from the types of hazard which caused the major disaster.

FEMA's insurance requirements have become a focus area for the OIG. The *2017 Special Report: Lessons Learned from Previous Audit Reports on Insurance under the Public Assistance Program*<sup>17</sup> includes findings specific to insurance. The report summarizes 40 recommendations in questioned costs amounting to more than \$320m. Section 312 of the Stafford Act states that an entity cannot receive federal funds for any loss for which it has received financial assistance for the same purpose from any other source, including insurance.

This latest special report was conducted to address insurance recovery challenges FEMA, Recipients and Subrecipients may face from Hurricanes Harvey, Irma and Maria and the October 2017 California wildfires. The OIG reviewed 37 reports from fiscal years 2013 to 2017, and identified \$182.4m in duplicate benefits, \$133.1m in insufficient insurance and \$6.6m in misapplied or misallocated insurance proceeds. The OIG found that FEMA's insurance reviews were inadequate in verifying that approved project costs included insurance reductions, FEMA's insurance specialists routinely waived the requirements to obtain and maintain insurance for future disasters, and FEMA did not always complete the required insurance reviews to determine estimated insured losses.

One of the key steps FEMA took in 2015 to improve grant management was the issuance of the *Public Assistance Policy on Insurance*,<sup>18</sup> which interprets statutes and regulations related to insurance requirements under FEMA's Public Assistance Program. Below are some interpretations we believe should be highlighted for the attention of grant Recipients and Subrecipients:

- ▶ Obtain and maintain – Applicants must insure facilities for which FEMA has provided assistance for permanent work against future loss. The permanent work can cover replacement, restoration, repair, reconstruction or construction of a facility.
- ▶ FEMA assistance will only be approved after an Applicant commits to comply with the “obtain and maintain” requirement.
- ▶ Type and extent – Applicants must insure facilities along with their contents based on the type of hazard that caused the damage and extent of insurance required. To the extent that multiple hazards caused damage to a facility, Applicants must obtain insurance for each of these hazards for amounts based on the damage caused by each hazard type.

- ▶ FEMA limits its requirement to insurance that is deemed as reasonably available, adequate and necessary by the appropriate state insurance commissioner.
- ▶ FEMA cannot provide assistance that duplicates benefits from insurance and any other funding sources. FEMA funding will be reduced by the amount of an Applicant's insurance recovery and other proceeds. For the first damage event to a facility, FEMA will not reduce its funding for any retained risk (e.g., deductible).
- ▶ Applicants must make reasonable efforts to recover insurance proceeds to which they are entitled.
- ▶ In instances where Applicants receive insurance proceeds for losses that are not eligible for FEMA assistance, FEMA will only apply a relative percentage of the insurance recovery as an offset to the FEMA funding.
- ▶ In instances where an Applicant has a FEMA “obtain and maintain” requirement from a previous disaster event, FEMA will reduce its funding by the greater of actual or anticipated insurance proceeds or the amount of insurance required as a result of the previous disaster (regardless of the amount of retained risk).
- ▶ Special Flood Hazard Areas (SFHA)
  - ▶ For properties that are insurable by the National Flood Insurance Program (NFIP) but are not insured for flood loss, FEMA will reduce its funding for a flood loss by the value of the facility or the maximum amount of insurance proceeds that a standard flood insurance policy would provide, whichever is lesser.
  - ▶ For properties that are covered by flood insurance, FEMA will reduce its funding by the greater of (1) the maximum amount of insurance proceeds that a standard flood insurance policy would provide or (2) the amount of actual or anticipated proceeds for a property not insured through a standard flood insurance policy.
  - ▶ Certain exceptions apply to private nonprofit Applicants in communities that do not participate in the NFIP.

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### Primary considerations outlined in the Stafford Act

- ▶ Subrecipients must obtain insurance on damaged insurable facilities. Furthermore, they must maintain insurance on those facilities in order to qualify for PA funding for future disasters.
- ▶ The purpose of FEMA funding is to supplement financial assistance from other sources, including insurance. Therefore, the total grant amount must be offset by the amount recovered through insurance.

- ▶ In SFHAs, FEMA will reduce the amount of eligible Public Assistance funding for flood losses.

<sup>17</sup> *Special Report: Lessons Learned from Previous Audit Reports on Insurance under the Public Assistance Program*, US Department of Homeland Security, Office of Inspector General, November 7, 2017.

<sup>18</sup> *FEMA FP 206-086-1: Public Assistance Policy on Insurance*, US Department of Homeland Security, Federal Emergency Management Agency, June 29, 2015.



# Appendices

Case studies

FEMA cost categories

Selections of checklist





# Appendix A

## Case studies

### Grant management assistance to Subrecipient

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#### Situational overview

A large hurricane caused extensive damage to a Subrecipient's infrastructure. The Subrecipient incurred several hundreds of millions of dollars in costs in both emergency protective measures and permanent repairs following the storm.

#### Issues at a glance

- ▶ Complex recovery process through FEMA Public Assistance, Housing and Urban Development, Community Development Block Grant Disaster Recovery Program and Insurance.
- ▶ Funding was received through FEMA's new 428 Alternative Procedures Program and there was little to no precedence to follow.
- ▶ A large number of stakeholders were involved.
- ▶ A voluminous amount of information, including financial documents, needed to be obtained, reviewed, organized and provided to federal and state agencies.
- ▶ The FEMA grant required that certain metrics be met within a capped amount for mitigation work.
- ▶ A large number of mitigation projects were undertaken, all requiring FEMA approval.
- ▶ A significant number of procurements needed to be completed.

#### Services and value delivered

- ▶ Successfully assisted the client in navigating a complex financial recovery process.
- ▶ Assisted the client in obtaining grant funding to not only cover most costs associated with emergency protective measures and permanent repairs, but also a large number of large-scale mitigation projects; the amount of funding obtained for mitigation work was over 90% of that obtained for recovery work.
- ▶ Assisted the client in obtaining cash from funding sources on an expedited basis.
- ▶ Reviewed thousands of documents for compliance with grant requirements.
- ▶ Created an electronic database to manage the voluminous amounts of data, which enabled expedited review by state and federal agencies.
- ▶ Assisted the client with all mitigation proposals and related procurements.

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## Grant management assistance to Recipient

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### Situational overview

Extensive damage occurred in a state as a result of a hurricane, as well as numerous severe storms, straight-line winds, localized flooding and tornadoes over the past several years.

#### Issues at a glance

- ▶ The client required assistance with the performance of its day-to-day grant-monitoring activities.
- ▶ The client required assistance with reviewing compliance of numerous Subrecipients and project worksheets from legacy disasters.
- ▶ Compliance with relevant statutes, regulations and OMB circulars needed to be evaluated so that the client could close out the PWs with FEMA.
- ▶ Several disasters were declared within a short amount of time and many Subrecipients overlapped between disasters with repeat damages.

#### Services and value delivered

- ▶ Helped the state perform its grant administration activities.
- ▶ Served as a liaison between Subrecipients, the Recipient and FEMA.
- ▶ Assisted hundreds of Applicants with their project formulation and recovery across numerous declared disasters in more than 35 counties.
- ▶ Provided guidance to the Recipient and its Subrecipients regarding the FEMA Public Assistance Program.
- ▶ Reviewed PW drafts for completeness, eligibility of costs, federal procurement requirements and FEMA funding requirements.
- ▶ Reviewed compliance of PWs from legacy disasters.
- ▶ Identified and addressed potential issues and quantified unsubstantiated costs.
- ▶ Assisted the client in mitigating risks associated with funding deobligations through future audits and/or investigations.

# Appendix B

## FEMA cost categories

Category	Services and value delivered
A – Debris removal	<ul style="list-style-type: none"> <li>▶ Removal and/or disposal of items such as damaged building components, wreckage, trees, sand, mud, gravel and other damage-related debris</li> <li>▶ The work must be “in the public interest” that FEMA defines as work that either:               <ul style="list-style-type: none"> <li>▶ Eliminates immediate threats to life, public health and safety</li> <li>▶ Eliminates immediate threats of significant damage to improved public or private property</li> <li>▶ Enables economic recovery of the affected community to the benefit of the community at large</li> <li>▶ Removes debris associated with certain mitigation activities</li> </ul> </li> <li>▶ Examples: debris within public roads and right of way, waterway debris next to improved structures, downed trees</li> </ul>
B – Emergency protective measures	<ul style="list-style-type: none"> <li>▶ Actions taken by Applicants before, during and after a disaster to save lives, protect public health and safety, and prevent damage to improved public and private property</li> <li>▶ Examples: emergency communications, emergency access, emergency public transportation, sheltering, temporary power, sandbagging, pumping flooded basements and security</li> </ul>
C – Roads and bridges	<ul style="list-style-type: none"> <li>▶ Examples: repair to surfaces, bases, shoulders, ditches, culverts, low-water crossings and other features</li> </ul>
D – Water control facilities	<ul style="list-style-type: none"> <li>▶ Examples: facilities that were built for channel alignment, recreation, navigation, land reclamation, maintenance of fish and wildlife habitat, interior drainage, irrigation and erosion prevention</li> </ul>
E – Buildings and equipment	<ul style="list-style-type: none"> <li>▶ Repair or replacement of buildings, including contents and interior systems such as electrical systems, in addition to contents such as furniture, replacement of pre-disaster quantities of consumable supplies and inventory, removal of debris and cleaning and painting</li> <li>▶ Examples: buildings, structural components, interior systems, building contents, vehicles and equipment</li> </ul>
F – Utilities	<ul style="list-style-type: none"> <li>▶ Examples: water treatment plants and delivery systems, power generation and distribution facilities, generators, substations, power lines, sewer collection systems and treatment plants</li> </ul>
G – Parks, recreational areas and other facilities	<ul style="list-style-type: none"> <li>▶ Other publicly owned facilities and any other items that are not covered by other categories of work</li> <li>▶ Examples: roads, buildings and utilities within the areas of a park and recreational area, additional recreational features such as playground equipment, ball fields, swimming pools, tennis courts, boat docks and ramps, piers and golf courses</li> </ul>

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# Appendix C

## Sections of sample checklist

#	Items for analysis	Yes or no	Potential financial impact	Review comments
2	Permitting			
2.1	Were all relevant permits obtained and adequately maintained?	No	N/A	<ul style="list-style-type: none"> <li>▶ Permits have not been provided.</li> </ul>
3	Accounting and documentation			
3.1	Are all costs supported by proof of payment?	No	\$(153,089.54)	<ul style="list-style-type: none"> <li>▶ Proof of payment has not been provided for invoice number 8954 for Contractor ABC in the amount of \$62,150.40.</li> <li>▶ The proof of payment provided for invoice number 8956 for Contractor ABC appears to be a payment to another vendor in the amount of \$7,526.14. Invoice number 8956 for Contractor ABC is in the amount of \$23,985.14.</li> <li>▶ Invoice number R356 for XYZ Equipment is for \$100,415.10. However, the proof of payment that we have been provided is only for \$33,461.10.</li> </ul>
3.1.1	Are all equipment costs supported by adequate documentation (invoices, time sheets, etc.)?	No	\$(30,904.00)	<ul style="list-style-type: none"> <li>▶ Invoice number R310 for XYZ Equipment in the amount of \$25,304.00 does not contain supporting details regarding dates and time of use.</li> <li>▶ The SAP report indicates payment for invoice number 240975 for Equipment Providers, Inc. in the amount of \$5,600.00. We have not been provided with this invoice.</li> </ul>
3.1.2	Are all materials costs supported by adequate documentation (invoices, delivery sheets, etc.)?	Yes		
3.1.3	Are all construction costs supported by adequate documentation (invoices, time sheets, etc.)?	No	\$(26,110.00)	<ul style="list-style-type: none"> <li>▶ The total amount invoiced on invoice number 9054 for Contractor ABC is \$19,410.50. However, we have not been provided with time sheets for one week of the invoice period. The associated amount invoiced is \$5,310.00.</li> <li>▶ The total amount invoiced on invoice X25351 for Constructors LLC is \$20,800. Time sheets have been provided. However, none of the time sheets contain supervisor approval.</li> </ul>

#	Items for analysis	Yes or no	Potential financial impact	Review comments
3.5	Do costs appear reasonable based on the scope of the work for the particular building?	No	\$(21,510.20)	<ul style="list-style-type: none"> <li>▶ Materials Management Co. invoiced \$12,420.00 on invoice 56740 for marble slabs. The scope of work does not appear to list any work that would involve the installation of marble.</li> <li>▶ Contractor ABC has invoiced \$2,850.00 on invoice number 9054 for flaggers. It is not clear why flaggers would have been required in connection with the work.</li> <li>▶ Materials Management Co. invoiced \$6,240.20 on invoice for materials delivered to the building on July 8, 2015. However, work was completed on the building on May 4, 2015</li> </ul>
3.6	Are all reported costs incurred within the scope of work covered by the program and are eligible?	Yes		
3.8	Are there no duplicative charges for this circuit?	No	\$(11,405.50)	<ul style="list-style-type: none"> <li>▶ Provided SAP report includes duplicative entries for invoice 56024 for Materials Management Co. The total in the SAP report is \$22,811.00, whereas per the provided proof of payment, the amount should be \$11,405.50</li> </ul>
4	Fieldwork			
4.1	Are all mitigation strategies in compliance with grant documents?	Yes		
4.4	Does the closeout package include documentation evidencing the progress and/or completion of work?	Yes		
4.5	Have all outstanding field work related items that were identified by construction and/or project management been adequately addressed?	No		<ul style="list-style-type: none"> <li>▶ The final punch list provided by the project management team indicates 11 open items. No documentation has been provided indicating that these items have been resolved.</li> </ul>

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# EY Insurance & Federal Claims Services

# Our practice

The Ernst & Young LLP (EY US) Insurance & Federal Claims Services (IFCS) practice is a group of professionals dedicated to assisting governmental, nonprofit and corporate entities in expediting financial recovery and mitigation efforts after catastrophic loss through FEMA, Community Development Block Grant Program and other federal disaster grant programs and insurance claims. We combine our experience in financial recovery with our deep knowledge of grant programs to help our clients identify the available financial recovery and mitigation options. We use this experience to support our clients in applying for and using recovery and mitigation funding, with a constant eye on complying with the associated legal, regulatory and programmatic requirements.

From the initial kickoff meeting until the project closeout, our focus is on the end goal: assisting Applicants to identify eligible costs on the front end and retain those funds through closeout and any subsequent reviews or audits.

## Key solutions for clients

- ▶ Dedicated disaster recovery and claims practice
- ▶ Extensive hands-on experience in project worksheet preparation, site inspections, cost documentation review, project extension requests, appeals, mitigation proposals, closeout and audits
- ▶ Deep knowledge of the disaster claims process, rules and regulations from our executive experience at FEMA and HUD
- ▶ Focus on oversight and OIG review preparedness
- ▶ Experience with disaster programs including FEMA PA, HMGP and HUD CDBG-DR
- ▶ End-to-end disaster claims approach, including grant management, accounting, documentation, construction management, internal controls, program assessments, disaster closeout, audit resolution and appeals

# Value to your organization

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EY US has assembled a team with deep subject-matter experience across a broad range of disciplines. We have a contemporary understanding of the issues businesses, nonprofits, communities and governmental entities face when preparing for, responding to and recovering from a crisis. Our team includes the first Senate-confirmed Inspector General of the DHS, a former Chief Financial Officer of FEMA and Assistant DHS Inspector General for Emergency Management and Oversight who served as the Special Inspector General for Gulf Coast Hurricane Recovery in the aftermath of Hurricane Katrina and resiliency, a former FEMA region VI recovery director and Federal Coordinating Officer, and emergency management professionals. Our member experience includes, but is not limited to:



## Knowledge of current events and trends

We bring a current and fresh perspective from working with our clients on many of the high-profile issues. These relate to recent catastrophic disasters including Hurricanes Michael, Florence, Maria, Irma and Harvey and the 2017 and 2018 California Wildfires. Our work includes preparing and reviewing documentation for Recipients and Subrecipients of federal funds to comply with the following federal laws and regulations, among others:

- ▶ Stafford Act
- ▶ Post-Katrina Reform Act
- ▶ Federal Grant Requirements (2 CFR Part 200)
- ▶ Federal Acquisition Regulation
- ▶ FEMA regulations (44 CFR), policies and procedures
- ▶ All categories of Public Assistance, including 428 alternative procedures
- ▶ Housing and Urban Development (HUD) program FTA and the Federal Highway Administration program
- ▶ DHS OIG report, Opportunities to Improve FEMA's PA Appeals Process, issued in March 2011

## Inside-out perspective

Our team's extensive knowledge and understanding of the FEMA PA process offers our clients insights to help develop and maintain a successful disaster recovery program. Several of our team members, while with the DHS OIG, managed and issued numerous comprehensive assessments related to various aspects of FEMA's PA programs, including appeals, debris removal and the overall FEMA PA program. A sample of the reports issued by our team members include:

- ▶ DHS OIG report, Review of FEMA Guidance for Monitoring Debris Removal Operations for Hurricane Katrina, issued in August 2007
- ▶ DHS OIG report, Interim Report, Hurricane Katrina: A Review of Wind Versus Flood Issues, issued in July 2007
- ▶ DHS OIG report, Assessment of FEMA's PA Program Policies and Procedures, issued on December 8, 2009
- ▶ DHS OIG report, Opportunities to Improve FEMA's Disaster Closeout Process, issued in January 2010
- ▶ DHS OIG report, FEMA's Oversight and Management of Debris Removal Operations, issued in February 2011

## Deep and diverse FEMA program experience

We bring the right knowledge and experience to assist Recipients and Subrecipients to meet state and federal requirements and identify and correct issues that could affect funding. Our team includes:

- ▶ A former CFO of FEMA and Assistant DHS Inspector General for Emergency Management and Oversight
- ▶ A former Inspector General of the DHS
- ▶ A former FEMA Region VI Recovery Division Director and Federal Coordinating Officer
- ▶ Other former FEMA executives who bring a vast understanding of how to navigate the recovery process and work with local, state, federal and private sector partners

Our professionals have also acted as the State Administrative Agent (SAA) and Governor's Authorized Representative (GAR) for multiple federal disaster declarations.





## On-point experience

We have helped clients recover more than \$18b of funding from FEMA, HUD and insurance as a result of damage from some of the largest recent disasters, including:

- ▶ Hurricane Michael
- ▶ Hurricane Maria
- ▶ 2017 and 2018 California wildfires
- ▶ Winter Storm Stella
- ▶ Hurricane Sandy
- ▶ Hurricane Wilma
- ▶ Hurricane Katrina
- ▶ 9/11 terrorist attacks
- ▶ Hurricane Florence
- ▶ Hurricane Irma
- ▶ Hurricane Harvey
- ▶ Hurricane Matthew
- ▶ Texas floods 2015 and 2016
- ▶ Winter Storm Nemo
- ▶ Hurricane Irene
- ▶ Hurricane Isaac
- ▶ Tropical Storm Lee
- ▶ Midwest Tornadoes
- ▶ Hurricane Ike
- ▶ Hurricane Ivan
- ▶ Hurricane Francis
- ▶ Hurricane Charley
- ▶ Hurricane Jeanne
- ▶ COVID-19

## Global capabilities

In addition to helping clients with domestic issues, our practice has years of experience assisting clients on disasters around the world. With our global capabilities, our team has worked on claims across six continents across various fields of industry.

### Federal claims services

- ▶ FEMA Public Assistance grants
- ▶ FEMA Hazard Mitigation grants
- ▶ Section 428 Alternative Procedures for Public Assistance
- ▶ Community Development Block Grant Disaster Recovery Programs
- ▶ Quantifying repair and replacement of infrastructure and equipment
- ▶ Project worksheets
- ▶ Scope of work review
- ▶ State and Subrecipient drawdown activity
- ▶ Project closeout
- ▶ Integrity monitoring
- ▶ Compliance reviews
- ▶ Insurance claims assistance

### Preparedness and resiliency services

- ▶ Risk assessment and gap analysis
- ▶ Resiliency and improvement assessment
- ▶ Threat and vulnerability assessments
- ▶ Strategic planning
- ▶ Mitigation planning
- ▶ Operational planning
- ▶ Short-and long-term recovery
- ▶ Protection and prevention
- ▶ Training and conducting exercises

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# The Ernst & Young LLP team

## Partners, managing directors and subject-matter resources



### **Allen Melton, Partner**

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Allen is the EY Americas Government and Public Sector Leader for Forensic and Integrity services. His responsibilities include providing comprehensive financial, economic and strategic advice to companies with complex disaster recovery, business problems and disputes. As a CPA/JD, he has spent majority of his career assisting clients to achieve financial recovery from disasters through the Public Assistance grant program of the FEMA, HUD Community Development Block Grant Disaster Recovery (CDBG-DR) grants, commercial insurance claims and other sources of funding. He has assisted clients in the attainment and resolution of more than \$8b in insured claims and federal disaster grants across various fields of industry.

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### **Bradley (BJ) Nichols, Partner**

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BJ is the EY Americas Practice Group Leader for Insurance & Federal Claims Services and focuses on federal disaster grant management and complex insurance claims. His experience includes assisting states, local governments and authorities and public and private companies with the preparation, presentation and settlement of both federal and commercial insurance claims resulting from catastrophic hurricanes, tornadoes, earthquakes, fires, floods and other catastrophes. Most recently, BJ has assisted clients with their disaster recovery efforts from hurricanes Maria, Irma, Matthew and Sandy. BJ also has experience training clients on the requirements of the FEMA PA Program, 44 CFR, the Stafford Act and Section 428 of the Sandy Recovery Improvement Act.

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### **Robert Reeves, Partner**

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Robert focuses on assisting clients to achieve financial recovery from disasters through commercial insurance claims, FEMA grants, CDBG-DR grants and other sources of funding. He has successfully led localities in the management of the PA process, including compliance and oversight monitoring with federal regulations to prevent future deobligations. He is a certified public accountant licensed in Texas and has more than 29 years of experience providing clients with comprehensive financial and strategic advice to respond to complex business issues. Robert has worked on recovery efforts in Texas, Florida, New York and California following numerous disasters including the 2018 and 2017 wildfires, 9/11 terrorist attacks, and hurricanes Andrew, Katrina, Sandy, Irma and Harvey.



### **Jill Powell, Principal**

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Jill focuses on complex federal disaster grant management, insurance claims and dispute-related services. Jill has assisted clients in a variety of industries through their disaster recovery process and management of federal and insurance claims. Jill's experience includes handling some of the largest insurable and public assistance losses resulting from hurricanes Michael, Florence, Maria, Irma, Harvey, Matthew, Sandy, Ike, Wilma and Katrina; the 2004 hurricanes; 2015 Carolina flooding; Queensland, Australia, flooding; Christchurch Earthquake; 2011 Joplin Tornado; 2011 Japan Earthquake; and the 9/11 terrorist attacks.

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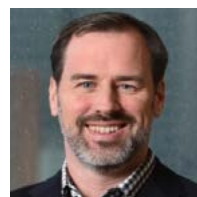


### **Reena Panchal, Principal**

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Reena has more than 15 years of experience leading complex FEMA and insurance claims and fraud investigations. She focuses on assisting clients with FEMA PA, CDBG-DR funding and the preparation, presentation and settlement of property damage and business interruption insurance claims. Reena has assisted both grant Recipients and Subrecipients with all aspects of financial recovery from major disasters including hurricanes Sandy, Irma and Michael. She also has experience training clients on requirements associated with the FEMA PA program.

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### **Allen Shank, Partner**

allen.shank@ey.com

Allen focuses on assisting and advising clients on the administration of federal disaster grants as well as the preparation, presentation and settlement of large property damage and business interruption claims. He has experience with numerous aspects of federal disaster grants, including insurance, damage assessments, command and control, grant administration, hazard mitigation, compliance monitoring, and appeals. Allen has assisted policyholders, Recipients and Subrecipients from major disasters including the 2017 and 2018 California wildfires; hurricanes Harvey, Matthew and Ike; as well as dozens of other cyber attacks, fires, floods and other named storms.





### **Nigel Henley, Managing Director**

nigel.henley@ey.com

Nigel focuses on assisting and advising clients on the preparation, presentation and settlement of large property damage and business interruption insurance claims. Nigel has more than 30 years of experience in the commercial property insurance industry, including 16 years as an insurance claims manager and adjuster. His experience as a claims manager and adjuster allows Nigel to anticipate and develop creative solutions to complex loss measurement issues.

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### **Matt Jadacki, Managing Director**

matt.jadacki@ey.com

Matt has 35 years of experience in emergency management. He has served as the Assistant Inspector General for Emergency Management Oversight with the Department of Homeland Security, CFO at FEMA and National Weather Service, and as the Special Inspector General for Gulf Coast Hurricane Recovery in the aftermath of Hurricane Katrina. Matt has worked on major disasters including the 9/11 terrorist attacks, hurricanes Ike, Katrina, Andrew, Sandy, Harvey, Irma and Maria; the Northridge Earthquake; the Columbia Space Shuttle crash; and the California wildfires.

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### **Jeffrey Phillips, Managing Director**

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Jeff is a licensed professional engineer with more than 30 years of experience assisting clients in the preparation and settlement of complex property damage and business interruption insurance claims. Over his career, Jeff has been involved in hundreds of domestic and international insurance claims, including catastrophe claims resulting from the 9/11 terrorist attacks, hurricanes Iniki, Floyd, Fabian, Ivan, Charlie, Katrina, Rita, Ike, Sandy, Harvey, Irma, Maria and others; the LA Riots; the Northridge Earthquake; California wildfires and the Tohoku Earthquake and tsunami. This experience allows Jeff to develop strategies for evaluating risk, managing claims, resolving complex coverage and loss measurement issues, and settling disputes.

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### **Brad McCloskey, Managing Director**

Brad has over 15 years of experience focused on federal disaster grants and insurance claims. He assisted state and local clients with the recovery of over \$2b, grants management and compliance with 2 CFR 200, other federal regulations and program guidelines from major disasters including the 9/11 terrorist attacks, hurricanes Sandy, Katrina and Harvey; the Japan Tohoku earthquake; and tornadoes, floods, fires and other catastrophes.



### **Greg Eaton, Managing Director**

gregory.w.eaton@ey.com

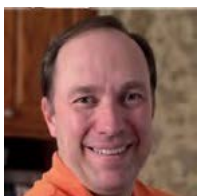
Greg has extensive experience with FEMA, as well as experience in the military and financial services industry. His experience and perspectives have led to challenging roles such as the FEMA Region 6 Recovery Division Director assigned to the most active FEMA region in the country and as a Federal Coordinating Officer leading presidentially declared major disasters. He has firsthand experience in developing and implementing support through the delivery of disaster assistance programs. Most recently, Greg has assisted clients with disaster recovery efforts from the 2018 California wildfires and Hurricane Maria.



### **Joseph Alonso, Managing Director**

joseph.alonso@ey.com

Joseph has more than 15 years of experience in assisting and advising clients on the administration of federal disaster grants, including assessments, monitoring and compliance for FEMA PA and Hazard Mitigation grant programs as well as the preparation and settlement of large complex insurance claims. He has assisted numerous Recipients and Subrecipients in the preparation, compliance and closeout of FEMA and insurance claims from major disasters, including hurricanes Ike, Katrina, Sandy, Michael, Irma and Harvey and Tropical Storm Allison.



### **Christopher Dodd, Subject-Matter Resource**

christopher.dodd@ey.com

Christopher brings more than 30 years of experience performing and managing financial and performance audits that examined the efficiency and effectiveness of banking, law enforcement, postal operations and emergency management. He has extensive experience working effectively with FEMA, state and local government officials on disaster-related projects. At DHS, Christopher managed two OIG offices with approximately 30 auditors in Dallas and New Orleans. He performed and managed many audits related to FEMA's response to hurricanes Katrina, Rita and Ike.

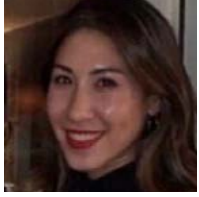


### **Robert (Bob) Lastrico, Subject-Matter Resource**

robert.lastrico@ey.com

Bob has more than 38 years of public service with the federal government, with the last 11 years directly related to FEMA grants management and disaster-related activities. As Western District Audit Manager for the FEMA OIG and Director, Western Regional Office of Emergency Management Oversight for the DHS OIG, Bob issued hundreds of reports identifying hundreds of millions of dollars in ineligible and disallowed expenses and noncompliance with laws and regulations, including violations of federal procurement regulations, internal control weaknesses and project accounting issues.

# Other senior leadership



## **Francine Barone, Senior Manager**

francine.barone@ey.com

Francine focuses on complex insurance claims and federal disaster grants assistance. Francine has assisted clients with the preparation, presentation and settlement of their claims resulting from Hurricane Sandy. She has experience in several industries, including construction, school districts, large utilities, as well as state and local governments and authorities. She has assisted Subrecipients with all aspects of their FEMA Public Assistance claims process, 406 hazard mitigations, alternate funding sources, preparation of appeals, grant compliance, internal controls and preparation for audit.

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## **Marisa Hyun, Senior Manager**

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Marisa focuses on complex insurance claims and federal disaster grants assistance. She has assisted clients with their FEMA Public Assistance, including 406 and 404 funding, CDBG-DR funding, oversight, compliance and financial recovery of grant programs and the preparation, presentation and settlement of property insurance claims. She has assisted Recipients and Subrecipients from major disasters including hurricanes Irene, Matthew, Sandy, Maria and Irma and Tropical Storm Lee.

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## **Jaamal Whittington, Senior Manager**

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Jaamal has a wide array of accounting experience from several different roles throughout his career, including forensic accounting, public accounting/auditing and managerial accounting. The majority of his experience has focused on assisting organizations with their financial disaster recovery from complex insurance claims and federal funding. Jaamal has assisted numerous clients with recovery that have resulted from catastrophic hurricanes, tornadoes, floods, fires and other disastrous events. His experience with federal funding has focused on FEMA Public Assistance and HUD CDBG funding programs. His experience in insurance claims has been in various industries, to include commercial construction, hospitality, healthcare facilities and governmental agencies.

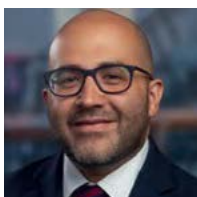


### **John Shaw, Senior Manager**

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The focus of John's practice is emergency management and federal disaster grant management. Prior to joining EY, John was a Florida county emergency management director. In this role, he led the County's response responses to hurricanes, tornadoes, flooding and high-profile trials. He began his career in local public health preparedness and developed several pandemic/infectious disease preparedness and response plans for the City of Jacksonville and other former employers. John also has extensive experience leading community preparedness planning and critical infrastructure vulnerability and resilience planning - including setting up and managing nearly a dozen mass public COVID-19 vaccination clinics..

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### **Carlos Zapata, Senior Manager**

carlos.zapata@ey.com

Carlos focuses on federal disaster grant management and complex insurance claims. Carlos has assisted clients with the preparation, presentation and settlement of their claims resulting from catastrophic hurricanes. He has assisted Recipients and Subrecipients of FEMA, Immediate Aid to Restart School Operations (RESTART) and CDBG-DR grant funding from major disasters including hurricanes Maria and Sandy.

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US SCORE No. 15308-221US  
CSG No. 2301-4185917  
ED None

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