

# STATE OF LOUISIANA

**Louisiana Office of Homeland Security  
and Emergency Preparedness**  
New Orleans, Louisiana

March 3, 2004



---

---

**LEGISLATIVE AUDITOR**

**DIRECTOR OF FRAUD AND ABUSE AUDIT**

**Daryl G. Purpera, CPA, CFE**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor and at the office of the parish clerk of court.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Thirteen copies of this public document were produced at an approximate cost of \$38.22. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at [www.la.state.la.us](http://www.la.state.la.us). When contacting the office, you may refer to Agency ID No. 3354 or Report ID No. 04000024 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

---

# Table of Contents

---

---

	<b>Page</b>
Finding .....	1
Recommendations .....	5
Background and Methodology .....	7
Schedule of FEMA Funding and Consultant Fees Paid .....	Appendix A
Management's Response .....	Attachment I



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
TELEPHONE: (225) 339-3800  
FACSIMILE: (225) 339-3870

March 3, 2004

**GENERAL BENNETT LANDRENEAU,  
ADJUTANT GENERAL DIRECTOR  
STATE OF LOUISIANA  
MILITARY DEPARTMENT -  
OFFICE OF HOMELAND SECURITY  
AND EMERGENCY PREPAREDNESS**  
New Orleans, Louisiana

We have conducted an audit of the Louisiana Office of Homeland Security and Emergency Preparedness (LHLS/EP) in accordance with Title 24 of the Louisiana Revised Statutes. Our audit was performed to determine whether LHLS/EP has properly administered the flood mitigation assistance and hazard mitigation assistance grant programs.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*; therefore, we are not offering an opinion on LHLS/EP's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

This report presents our finding and recommendations as well as your response. Copies of this report have been delivered to LHLS/EP and others as required by state law.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin".

Grover C. Austin, CPA  
First Assistant Legislative Auditor

JLM:ESS:DGP:dl

[OEP04]

---

# Finding

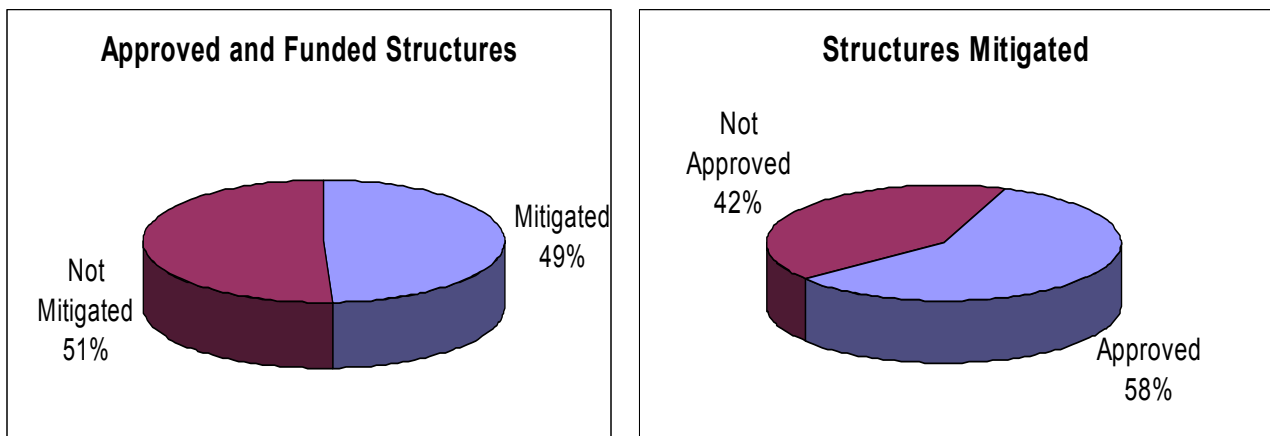
---

---

The Louisiana Office of Homeland Security and Emergency Preparedness (LHLS/EP) failed to adequately monitor sub-grantee expenditures relating to the Flood Mitigation Assistance (FMA) and the Hazard Mitigation Grant Program (HMGP). As a result, sub-grantees failed to mitigate 192 structures approved and funded by LHLS/EP and the Federal Emergency Management Agency (FEMA). In addition, sub-grantees used FEMA funds to mitigate 132 structures that were not approved. Also, LHLS/EP approved sub-grantee applications that did not disclose the use of third-party consultants and their fees resulting in \$2,741,095 of FEMA funds, provided for the mitigation of structures, being used to pay unapproved project costs.

During the period from January 2000 through October 2003, FEMA paid \$654,268 to LHLS/EP to administer FMA and HMGP grants awarded to the State of Louisiana (state) for elevating and acquiring flood prone structures. Although LHLS/EP is responsible for ensuring that sub-grantees adhere to all program and administrative requirements, LHLS/EP has not developed and implemented formal policies and procedures to administer and monitor these grant programs.

Our review revealed that 378 structures in the state were approved and funded for mitigation during the period (January 2000 through October 2003); however, only 186 (49%) of these approved structures were mitigated; 192 (51%) were not mitigated. In addition, sub-grantees mitigated 132 (42%) structures not included in the 378 structures approved and funded by LHLS/EP and FEMA.



The following table summarizes, by sub-grantee, the total number of structures (1) approved and funded for mitigation; (2) mitigated (approved and not approved); and (3) not mitigated:

Sub-Grantee	Consultant	Total	Structures Mitigated		Structures
		Funded	Approved	Not Approved	Not Mitigated
Ascension Parish	Aegis Innovative Solutions, LLC	24	13	3	11
Assumption Parish	Aegis Innovative Solutions, LLC	7	4	-	3
Bossier City	Aegis Innovative Solutions, LLC	7	5	-	2
Bossier Parish	-	5	5	-	-
Caddo Parish	Aegis Innovative Solutions, LLC	14	7	4	7
Calcasieu Parish	Aegis Innovative Solutions, LLC	1	1	-	-
City of Abbeville	Sellers & Associates, Inc.	1	1	-	-
City of Baton Rouge	-	1	1	-	-
City of Mandeville	Meyer Engineers, LTD (for Aegis) <sup>1</sup>	7	-	6	7
City of New Orleans	GCR & Associates, Inc.	17	17	-	-
City of Scott	Aegis Innovative Solutions, LLC	2	1	-	1
City of Shreveport	-	16	16	-	-
City of Slidell	Aegis Innovative Solutions, LLC	40	16	12	24
East Baton Rouge Parish	-	30	30	3	-
Franklin Parish	-	1	1	-	-
Jefferson Parish	Meyer Engineers, LTD	11	11	-	-
Lafourche Parish	Picciola & Associates, Inc.	12	2	4	10
Livingston Parish	Aegis Innovative Solutions, LLC	15	9	1	6
Ouachita Parish	Aegis Innovative Solutions, LLC	77	7	65	70
Richland Parish	-	4	4	-	-
St. John the Baptist Parish	-	1	1	-	-
St. Tammany Parish	Aegis Innovative Solutions, LLC	27	4	21	23
St. Tammany Parish	-	45	18	12	27
Terrebonne Parish	Aegis Innovative Solutions, LLC	6	6	-	-
Town of Clinton	Aegis Innovative Solutions, LLC	1	1	-	-
Union Parish	Aegis Innovative Solutions, LLC	4	3	1	1
West Carroll Parish	-	2	2	-	-
<b>TOTAL</b>		<b>378</b>	<b>186</b>	<b>132</b>	<b>192</b>

**Structures Funded But Not Mitigated** LHLS/EP did not obtain FEMA’s approval to reduce (or increase) the number of structures to be mitigated. During the period (January 2000 through October 2003), 192 of the structures that were funded were not mitigated. Federal guidelines (HMGP Desk Reference Manual) require LHLS/EP to obtain prior approval from FEMA before implementing scope changes. Mr. Daniel Falanga, LHLS/EP’s State Hazard Mitigation Officer, stated that he did not know FEMA’s approval was required. Also, Mr. Falanga stated he does not know what structures have been mitigated.<sup>2</sup>

The 192 structures that were funded but not mitigated were located in parishes or municipalities that hired a third-party consultant to administer the grant program (St. Tammany Parish terminated its consultant before completing the mitigation project). In parishes and municipalities where the grants were administered internally, all structures that were funded were mitigated.

Consultant/Sub-grantee	Structures Not Mitigated
Aegis Innovative Solutions, LLC	148
St. Tammany Parish	27
Picciola & Associates, Inc.	10
Meyer Engineers, LTD (for Aegis)	7
<b>TOTAL</b>	<b>192</b>

<sup>1</sup> Meyer Engineers performed the project billing function only, and Aegis Innovative Solutions performed the other consulting work.

<sup>2</sup> LHLS/EP does not maintain a list of structures actually mitigated by sub-grantees.

According to a representative of Aegis Innovative Solutions, the most widely used consultant (see Undisclosed Consultant Fees), the structures were not mitigated because they prepared the grant applications using their “rough” estimates of the structures’ values. Formal appraisals of each structure were done subsequent to the parish or municipality receiving the funding from LHLS/EP, resulting in variances with the rough estimates. Picciola and Associates informed us that Aegis Innovative Solutions prepared the grant application, including the estimates of structure values, and that they ran out of money before mitigating all approved structures.

**Structures Mitigated Not Approved** During the period, LHLS/EP did not approve the mitigation of 132 structures that were substituted or added by sub-grantees or their consultants. According to Mr. Falanga, LHLS/EP did not require sub-grantees or their hired consultants to obtain LHLS/EP approval to mitigate alternate/substituted structures. As a result, these

Consultant/Sub-grantee	Structures Not Approved
Aegis Innovative Solutions, LLC	107
Meyer Engineers, LTD (for Aegis)	6
Picciola & Associates, Inc.	4
St. Tammany Parish	12
East Baton Rouge Parish	3
<b>TOTAL</b>	<b>132</b>

structures were not subjected to scrutiny by the nine<sup>3</sup> other state and federal agencies that are required to review each structure to determine the environmental and/or historical impact of mitigation. In addition, Mr. Falanga could not provide us with a complete list of structures that were substituted.

**Undisclosed Consultant Fees** LHLS/EP was aware that certain sub-grantees hired consultants to administer the grant programs; however, LHLS/EP approved grant applications for these sub-grantees that did not disclose the use of consultants or their fees totaling \$2,741,095 (see Appendix A). FEMA requires disclosure of payments to third-party consultants that perform activities which are central to the purposes of the award. FEMA maintains that when the

application does not disclose such fees, the sub-grantee is not provided grant funds to pay them. Therefore, the sub-grantees’ payments to consultants were unapproved project costs and should not have been paid from

Consultant	Undisclosed Fees
Aegis Innovative Solutions, LLC	\$2,280,435
Meyer Engineers, LTD	225,562
Picciola & Associates, Inc.	135,387
GCR & Associates, Inc.	99,711
<b>TOTAL</b>	<b>\$2,741,095</b>

grant funds. Mr. Falanga stated he was not aware that such disclosure to FEMA was required. Because the sub-grantees used \$2,741,095 of FEMA funds to pay consulting fees, these funds were not available for the mitigation of the structures for which they were provided (see Structures Funded Not Mitigated).

<sup>3</sup> Louisiana Departments of Transportation and Development, Environmental Quality, Wildlife and Fisheries, Natural Resources, State Historic Preservation Office and United States Offices of Fish & Wildlife Service, Army Corps of Engineers, Natural Resources Conservation Service, and Geological Survey.



---

# Recommendations

---

---

The Louisiana Office of Homeland Security and Emergency Preparedness should:

- (1) develop and implement formal policies and procedures to administer and monitor the grant programs;
- (2) train its employees on the FMA and HMGP rules and regulations to ensure that they are adhered to;
- (3) provide technical assistance to sub-grantees, including the FMA and HMGP rules and regulations, to ensure that funds are only used for allowable purposes;
- (4) review each sub-grantee application for accuracy, including the disclosure of third-party consultants and their fees;
- (5) monitor sub-grantees' programs to ensure that changes in the scope of work are being approved (before being implemented); and
- (6) maintain records that adequately reflect the structures that were approved for mitigation, the structures that were funded, the structures that were substituted, and the structures that were actually mitigated.



---

# Background and Methodology

---

Louisiana Revised Statute 29:722 created the Louisiana Office of Homeland Security and Emergency Preparedness (LHLS/EP) within the Military Department. LHLS/EP's primary objective is to reduce the vulnerability of the people and communities of the State of Louisiana to damage, injury, and loss of life and property resulting from natural or man-made catastrophes.

LHLS/EP, through the Federal Emergency Management Agency (FEMA), provides grant funds to parishes and municipalities (sub-grantees) for their emergency and disaster prevention and mitigation programs. LHLS/EP participates in the following two federal grant programs that help communities take a proactive approach to reducing the effects of disasters.

1. **Flood Mitigation Assistance (FMA)** - FMA funds provide assistance for activities that will reduce the risk of flood damage to structures insurable under the National Flood Insurance Program. In Louisiana, these funds are generally used to purchase or elevate structures that flood repeatedly.
2. **Hazard Mitigation Grant Program (HMGP)** - HMGP funds provide assistance for activities that lessen the impact of natural hazards. In Louisiana, these funds are generally used to purchase or elevate structures that repeatedly flood and to make infrastructure improvements.

During the period from January 2000 through October 2003, FEMA awarded \$44,968,003 of FMA and HMGP funds to the State of Louisiana (see Appendix A). Also, FEMA paid \$654,268 to LHLS/EP to administer these two grant programs.

LHLS/EP employs an individual (State Hazard Mitigation Officer) to manage and monitor the grant programs on a daily basis. LHLS/EP also (1) establishes funding priorities; (2) selects the projects that will receive funding; (3) submits selected projects to FEMA for final review and approval; (4) receives grant funds from FEMA and distributes them to parishes and municipalities (sub-grantees); and (5) provides technical assistance to sub-grantees and individual property owners. In addition, LHLS/EP is responsible for ensuring that sub-grantees adhere to all program and administrative requirements by monitoring the progress of projects and submitting quarterly reports to FEMA for review.

During the period, we found that 20 of the 31 sub-grantees (65%) paid FEMA grant funds to a third-party consultant to administer their grant programs (see Appendix A). However, regardless of whether a consultant is hired, sub-grantees are responsible for (1) preparing the grant application and submitting it to LHLS/EP for approval; (2) distributing funds received from LHLS/EP to homeowners and businesses participating in the programs; (3) managing the approved projects and ensuring compliance with federal, state, and local laws and regulations; (4) accounting for the expenditure of grant funds; and (5) maintaining grant/project records.

The procedures performed during this examination consisted of (1) interviewing employees and officials of LHLS/EP, FEMA, and certain parishes and municipalities; (2) interviewing other persons as appropriate; (3) examining selected records of LHLS/EP and certain parishes and municipalities; (4) performing observations and analytical tests; and (5) reviewing applicable federal and state laws and regulations.

# Appendix A

## Schedule of FEMA Funding and Consultant Fees Paid

# Appendix A

## Schedule of FEMA Funding and Consultant Fees Paid

SUB-GRANTEE	FEMA FUNDING	CONSULTANT	CONSULTANT FEES PAID
Ascension Parish	\$1,713,835	Aegis Innovative Solutions, LLC	\$269,707
Assumption Parish	426,196	Aegis Innovative Solutions, LLC	59,406
Avoyelles Parish	269,279	Aegis Innovative Solutions, LLC	10,868
Bossier City	442,389	Aegis Innovative Solutions, LLC	76,546
Bossier Parish	517,475		-
Caddo Parish	1,020,068	Aegis Innovative Solutions, LLC	85,307
Calcasieu Parish	370,900	Aegis Innovative Solutions, LLC	9,347
Caldwell Parish	105,720		-
Catahoula Parish	652,750	Aegis Innovative Solutions, LLC	72,800
City of Abbeville	108,954	Sellers & Associates, Inc.	8,697*
City of Baton Rouge	11,400		-
City of Mandeville	601,556	Meyer Engineers, LTD (for Aegis)	97,152
City of New Orleans	2,757,913	GCR & Associates, Inc.	99,711
City of Scott	190,690	Aegis Innovative Solutions, LLC	25,670
City of Shreveport	681,974		-
City of Slidell	2,902,298	Aegis Innovative Solutions, LLC	327,605
East Baton Rouge Parish	5,657,533		-
Franklin Parish	54,600		-
Grant Parish	323,430		-
Jefferson Parish	1,346,350	Meyer Engineers, LTD	128,410
Lafourche Parish	984,180	Picciola & Associates, Inc.	135,387
Livingston Parish	956,694	Aegis Innovative Solutions, LLC	111,010
Ouachita Parish	4,747,118	Aegis Innovative Solutions, LLC	600,305
Richland Parish	381,829		-
St. John the Baptist Parish	120,398		-
St. Tammany Parish	6,067,443	Aegis Innovative Solutions, LLC	304,975
Tangipahoa Parish	48,478		-
Terrebonne Parish	11,137,275	Aegis Innovative Solutions, LLC	276,120
Town of Clinton	56,628	Aegis Innovative Solutions, LLC	9,000
Union Parish	200,000	Aegis Innovative Solutions, LLC	41,769
West Carroll Parish	112,650		-
<b>TOTALS</b>	<b>\$44,968,003</b>		<b>\$2,749,792</b>

\*Unapproved Consultant Fees Paid = \$2,741,095 (\$2,749,792 - \$8,697)



# Attachment I

## Management's Response



KATHLEEN BABINEAUX BLANCO  
GOVERNOR

# State of Louisiana

MILITARY DEPARTMENT

**OFFICE OF HOMELAND SECURITY  
AND  
EMERGENCY PREPAREDNESS**

BENNETT C. LANDRENEAU  
MAJOR GENERAL  
THE ADJUTANT GENERAL  
DIRECTOR

MICHAEL L. BROWN  
COLONEL (LA)  
ASSISTANT DIRECTOR

February 6, 2004

Mr. Grover C. Austin  
First Assistant Legislative Auditor  
Post Office Box 94397  
Baton Rouge, Louisiana 70804-9397

SUBJECT: Management Response to Legislative Audit Report

Dear Mr. Austin:

In accordance with your letter dated January 23, 2004, enclosed herewith is the Military Department Management Response to the audit report on the Office of Homeland Security and Emergency Preparedness.

Point of contact is Colonel Mike Brown, Assistant Director, Office of Homeland Security and Emergency Preparedness, at 225-925-7344.

Sincerely,

  
Bennett C. Landreneau

Enclosure

**Office of Legislative Auditor  
Audit Report**

**FINDING #1:**

LHLS/EP failed to adequately monitor subgrantee expenditures relating to the Flood Mitigation Assistance (FMA) and Hazard Mitigation Grant Program (HMGP).

**MANAGEMENT RESPONSE**

LHLS/EP did not fail to adequately monitor subgrantee expenditures.

LHLS/EP has done and continues to do a thorough job of ensuring that subgrantee expenditures are used for the intended purposes of the grant and the defined scope of work for each subgrantee.

LHLS/EP monitors mitigation grants in a manner that is consistent with the State Administrative Plan, as approved by FEMA. We strongly feel that the supervision of the programs and their expenditures has been adequate, in conformity with applicable regulations, and accomplished the objectives of the grants programs.

The objectives of the programs as outlined in 44 CFR 206.434 are that a project must:

Be in conformance with the State Mitigation Plan and Local Mitigation Plan approval under 44 CFR part 201.

Have a beneficial impact upon the designated disaster area, whether or not located in the designated area:

Be in conformance with 44 CFR part 9, Floodplain Management and Protection of Wetlands, and 44 CFR part 10, Environmental Considerations.

Solve a problem independently or constitute a functional portion of a solution where there is assurance that the project as a whole will be completed.

Be cost-effective and substantially reduce the risk of future damage, hardship, loss, or suffering resulting from a major disaster.

We believe, as affirmed by the Legislative Audit Staff in the course of this audit, that all of the structures mitigated to date under the various mitigation programs adhered to the above stated objectives and were

eligible for participation in the grant program because of their status as a FEMA designated repetitive loss structure on the NFIP Repetitive Loss List.

In addition, LHLS/EP has taken the following steps (many of which are in excess of what is required by FEMA guidelines) in order to improve and strengthen the program as listed below:

1. Payment requests that are submitted by subgrantees must include documentation of expenditures for which reimbursement is being requested. This documentation must demonstrate that the subgrantee has contributed the requisite non-federal 25% match for the reimbursement;

2. Requests for advancement of funds are required to include the anticipated expenditures per structure and the amount required for each structure. Subgrantees must indicate the time frame in which the federal funds are to be disbursed to ensure that federal funds are not retained in violation of applicable laws.

3. Subgrantee payment requests will continue to be routed through the Budget Officer at LHLS/EP to ensure that the proper accounting classification and project codes are included. A review of the payment is made to ensure that the funds balance for the project is correct and that the federal funds are available for drawdown.

4. The payment request will continue to be processed through the Finance and Accounting Office at the State Military Department, which is the designated department to direct the transfer of federal funds for this agency. Another review of the payment request is conducted and validated for accuracy and compliance at this point.

5. As a subgrantee project approaches the end of the performance period, project closeout notifications have been and are continuing to be sent to outline to the subgrantees the necessary steps to be taken to ensure that the current approved scope of work has been accomplished. Additionally, subgrantees are notified of the necessary documentation that is required to be on hand and retained in order to support the completed work and that all financial transactions are completed. If required, any financial recoupments to the federal government are processed.

6. LHLS/EP has already created a Compliance Review position within the agency with the responsibility of ensuring that all projects completed are in conformance with applicable rules. Compliance reviews have been conducted in several parishes to date and others are being scheduled as grant performance period ending dates occur.

7. LHSL/EP has hired a mitigation specialist and is in the process of hiring two more specialists to assist in the management of the multiple grants administered under the mitigation grant programs. The responsibilities of these individuals will be divided among the various acquisition/elevation, drainage, and planning projects so that they can establish a close liaison with the subgrantees to assist them in the execution of the grant and provide technical assistance as needed.

8. In addition to the specific issue of monitoring subgrantee expenditures, LHLS/EP also provides overall supervision of the grants program through the following measures:

A. The State Hazard Mitigation Team, as required in 44 CFR, the State Hazard Mitigation Plan, and Governor's Executive Order, continues to be used extensively to review, approve, and recommend all mitigation projects for the state for consideration of funding by FEMA.

B. Through the SHMT, LHLS/EP uses the FEMA NFIP target repetitive loss list to prioritize the structures for all elevation/acquisition grant applications. The target repetitive loss list is used because of the national ranking of all structures as determined by FEMA and the NFIP in order to establish priorities for funding.

C. LHLS/EP conducts applicant briefings as necessary and prepares written correspondence to potential applicants in order to disseminate the application process for each grant, the priorities for mitigation as determined by the SHMT. LHLS/EP assists applicants in the preparation of applications to ensure they meet the grant priorities as set by the SHMT and are in accordance with applicable governing rules and regulations.

D. LHLS/EP coordinates with FEMA for the use of FEMA Disaster Assistance Employees (DAEs) during disasters to assist in the preparation and review of applications. DAEs, in conjunction with LHLS/EP mitigation staff, conduct site visits and/or briefings to applicants to provide technical assistance to them in the application process. In addition, they coordinate with state and federal agencies to help potential applicants obtain project clearance before submission to FEMA.

E. LHLS/EP uses its Environmental Officer to perform historical review of mitigation projects in an agreement with the State Historic Preservation Office and the FEMA Region VI Environmental Officer, which ensures that the review of all structures is consistent with the grant priorities.

F. LHLS/EP has sent the SHMO, Assistant SHMO, and the Environmental Officer to be trained in the requirements of the mitigation program through a newly developed, FEMA approved, NEMA sponsored SHMO 101 course. Because there is no formal course of instruction offered at the FEMA Emergency Management Institute, NEMA developed this course specifically for newly assigned SHMOs.

G. LHLS/EP continues to improve its ability to maintain close written, electronic, and telephonic communications with all of its subgrantees to ensure that they are adhering to the terms and conditions of the grant.

H. LHLS/EP monitors the performance period ending date for its grants to ensure that subgrantees are notified in a timely manner that the performance period ending date is imminent and their responsibilities for closing out the project and reconciling financial records.

## **FINDING #2:**

Subgrantees failed to mitigate 192 structures approved and funded by LHLS/EP and FEMA.

### **MANAGEMENT RESPONSE**

The subgrantees did not act improperly in failing to mitigate 192 structures because the owners of the structures in question declined to participate for valid and acceptable reasons, which eliminated those structures voluntarily from the grant. These reasons are as follows:

1. Subgrantees submitted applications with numerous structures included, often without obtaining the individual homeowner's indication of a willingness to participate in the program. Homeowners' consent is not mandatory at the time of submittal. Consequently, after the grant is funded, the subgrantee often experiences a high percentage of homeowners who decline to participate in the grant program.

2. Homeowner participation in the mitigation programs, by law, is voluntary. Consequently, some homeowners, who initially indicate a willingness to participate, chose not to participate in the program at various stages for a variety of reasons.

3. Upon award of grant funds, subgrantees have determined that an approved and funded structure was a commercial building. In accordance with local policy, some subgrantees have chosen not to mitigate the commercial structure in order to mitigate a residential structure.

4. Structures that were approved and funded have been dropped from the program at owner's request because of greater than anticipated costs to the homeowner.

5. Subgrantees submitted applications that included construction estimates for each structure. Actual costs are not required at the time of submission in accordance with 44 CFR 206.432 (b). When the mitigation action began, there were cases where unforeseen, but eligible, costs caused the price of construction to increase. This resulted in a decreased amount structures being mitigated.

**FINDING #3:**

Subgrantees used FEMA funds to mitigate 132 structures that were not approved.

**MANAGEMENT RESPONSE**

The subgrantees did not act improperly in mitigating 132 structures that were not approved because those structures were valid substitutions in accordance with 44 CFR for the other structures that declined to participate in the grant program. The reasons are as follows:

1. The 132 structures that were mitigated by the subgrantees were substitutions for the above referenced 192 structures that were not mitigated.

2. The mitigation of these structures were, in our view, eligible expenditures of the federal grant funds because they were repetitive flood loss structures as enumerated by the NFIP and FEMA and in accordance with the SHMT priorities.

3. The 132 structures mitigated: were cost beneficial, substantially reduced the risk of future damage, hardship, loss, or suffering resulting from a major disaster, addressed a problem that was repetitive or posed a significant risk to public health and safety if not mitigated. These are the stated objectives of the mitigation grant program.

We recognize that documentation of this process was not consistent throughout the grant program. This step is in need of improvement and corrective measures have already been implemented.

#### **FINDING #4:**

LHLS/EP approved subgrantee applications that did not disclose the use of third party consultants and their fees resulting in \$2,741,095 of FEMA funds provided for mitigation of structures being used to pay unapproved project costs.

#### **MANAGEMENT RESPONSE**

The subgrantees did not act improperly in using third party consultants because, in fact, those contracts are an authorized expenditure for mitigation construction projects approved by FEMA.

It is our opinion that the auditor based his finding upon the fact that the subgrantee used "Non-Construction" budget forms in the application. Acquisition and elevation grant projects are construction projects. The use of the "Non-Construction" forms by the subgrantee was based on FEMA guidance given to LHLS/EP.

Project consultant fees are an eligible expenditure for construction projects, such as acquisition and elevation of flood prone structures.

The project consultant fees were included as a part of the overall project cost. Those costs included not only project consultant fees, but also soils surveys, architectural/engineering fees, appraisal fees, and attorney fees, as well as the construction costs, in the square foot cost for each structure submitted.

The percentage of project management fees for the grants reviewed were reasonable - totaling 6.7% of the grant funds.

The project consultant fees did not cause a reduction in available mitigation funds because the consulting fees, and other eligible fees, were included as part of the grant application and the subsequent grant award by FEMA.

### **RECOMMENDATION #1:**

LHLS/EP develop and implement formal policies and procedures to administer and monitor the grant programs.

### **MANAGEMENT RESPONSE**

LHLS/EP recognizes that even though the current State Administrative Plan meets FEMA standards, there are areas that could be improved. Areas that will be addressed include:

Clarification of the types of grants available to include FMA & PDM so that the plan covers all mitigation grant programs.

Specific examples of which forms are to be used for construction and non-construction projects. These forms will be made available on the LHLS/EP website.

An outline of detailed information required within the grant application for the breakout of all related and eligible costs.

Incorporate a professional services fee schedule.

Expand the glossary and definition of terms.

Outline the process for requesting and approving changes in scope to projects to ensure compliance with all applicable regulations.

Develop a project closeout list of required actions.

**RECOMMENDATION #2:**

LHLS/EP train its employees on the FMA and HMGP rules and regulations to ensure that they are adhered to.

**MANAGEMENT RESPONSE**

LHLS/EP will continue to aggressively seek training opportunities for its employees on mitigation rules and regulations to ensure regulatory compliance and to enhance the professional qualifications of the mitigation staff.

LHLS/EP has trained the SHMO, Assistant SHMO, and the Environmental Officer in the requirements of the mitigation program through a newly developed FEMA approved, NEMA sponsored SHMO 101 course. Because there is no formal course of instruction offered at the FEMA Emergency Management Institute, NEMA developed this course specifically for newly assigned SHMOs.

In addition, the mitigation staff takes advantage of available training opportunities both at EMI and in the State to further their knowledge base in mitigation. Classes attended include, but are not limited to, the National Environmental Protection Act training at EMI, Coastal Construction Standards, and HAZUS (disaster software) training.

### **RECOMMENDATION #3:**

LHLS/EP provide technical assistance to subgrantees, including the FMA and HMGP rules and regulations to ensure that the funds are only used for allowable purposes.

### **MANAGEMENT RESPONSE**

LHLS/EP will provide technical assistance to subgrantees to ensure that funds are used for allowable purposes.

Although technical assistance to subgrantees has been an integral part of LHLS/EP support to these subgrantees in all areas of grant management, we recognize that additional emphasis and technical assistance must be given to the critical area of funds management on the part of the subgrantee. This will be an area that LHLS/EP will concentrate on in the future. With an expanded mitigation staff, this will afford LHLS/EP the opportunity to improve this area of responsibility.

LHLS/EP has been very aggressive in providing technical assistance to its subgrantees. This has been accomplished through applicant briefings as necessary, written correspondence to potential applicants in order to disseminate the application process for each grant, and providing the priorities for mitigation as determined by the SHMT. LHLS/EP assists applicants in the preparation of applications to ensure they meet the grant priorities as set by the SHMT and are in accordance with applicable governing rules and regulations.

LHLS/EP coordinates with FEMA for the use of FEMA Disaster Assistance Employees (DAEs) during disasters to assist in the preparation and review of applications. DAEs, in conjunction with LHLS/EP mitigation staff, conduct site visits and/or briefings to applicants to provide technical assistance to them in the application process. In addition, they coordinate with state and federal agencies to help potential applicants obtain project clearance before submission to FEMA.

As the mitigation staff has expanded, LHLS/EP has been able to expand its ability to maintain close written, electronic, and telephonic communications with all of its subgrantees to ensure that the technical assistance and funds management requirements are met.

All of these initiatives are being done in order to ensure that subgrantees are fully knowledgeable about all aspects of the grants and their management of the grants to ensure that there are no compliance issues.

**RECOMMENDATION #4:**

LHLS/EP review each subgrantee application for accuracy, including the disclosure of third party consultants and their fees.

**MANAGEMENT RESPONSE**

LHLS/EP will, with the latest guidance received by FEMA, continue to document and improve the review of subgrantee applications to ensure that all eligible expenditures of federal funds are delineated in both the narrative portion of the application as well as within the appropriate budget forms. This will ensure that all parties, from applicant, to subgrantee, to grantee, to FEMA, is cognizant and aware of how and to what purposes federal funds are being expended.

The State Administrative Plan will be revised to include the current guidance from FEMA concerning third party consultants and their fees. Any subsequent changes in this guidance will be disseminated by the most expeditious means possible.

**RECOMMENDATION #5:**

LHLS/EP monitor subgrantee programs to ensure that the changes in the scope of work are being approved (prior to being implemented).

**MANAGEMENT RESPONSE**

LHLS/EP will continue to improve and refine its monitoring of subgrantee projects to ensure that the scope of work authorized is performed and that any subsequent changes are authorized, and funded if required, by FEMA prior to implementation of the subgrantee.

As the first step in this process, LHLS/EP has begun to include in its "Notice to Proceed" letters to subgrantees a paragraph that specifically addresses scope changes and what defines a scope change and the need for written approval by both LHLS/EP and FEMA before implementation. These changes will be incorporated into the revision of the State Administrative Plan.

**RECOMMENDATION #6:**

LHLS/EP maintain records that adequately reflect the structures that were approved for mitigation, the structures that were funded, the structures that were substituted, and the structures that were actually mitigated.

**MANAGEMENT RESPONSE**

LHLS/EP will continue to improve its grants management process by documenting the structures that are approved, funded, substituted, and actually mitigated. The exact process will be included in the revision to the State Administrative Plan, which will incorporate this recommendation and others.