

September 2012

DISASTER RELIEF

Reimbursements to the American Red Cross for Certain 2008 Disaster Assistance



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Highlights of [GAO-12-877](#), a report to congressional committees

Why GAO Did This Study

In accordance with Public Law 110-329, GAO is required to audit the use of funds reimbursed to the Red Cross for relief and recovery services provided in response to 77 disasters that occurred in 2008 and were declared by the President of the United States to be major disasters. These disasters were due to flooding, tornadoes, and severe storms, including three major hurricanes that made landfall in the United States (Dolly, Gustav, and Ike). The objectives of GAO's audit were to determine if (1) FEMA established criteria and defined allowable expenditures to ensure that reimbursement claims paid to the Red Cross that met the requirements of the law, (2) funding had not been made available by other federal sources for reimbursements paid to the Red Cross, (3) reimbursements were paid only for Red Cross expenses related to 2008 disasters declared by the President, (4) reimbursement claims were supported by sufficient documentation, and (5) administrative costs charged to the appropriation by FEMA were appropriate and did not exceed statutory monetary limits.

To fulfill its audit responsibilities, GAO examined documentation supporting FEMA's reimbursements to the Red Cross for 2008 disasters and verified that they were for costs incurred for purposes allowed by law, and that administrative costs incurred by FEMA were appropriate and within statutory monetary limits.

GAO is not making any recommendations in this report.

View [GAO-12-877](#). For more information, contact Steven J. Sebastian at (202) 512-3406 or sebastians@gao.gov

DISASTER RELIEF

Reimbursements to the American Red Cross for Certain 2008 Disaster Assistance

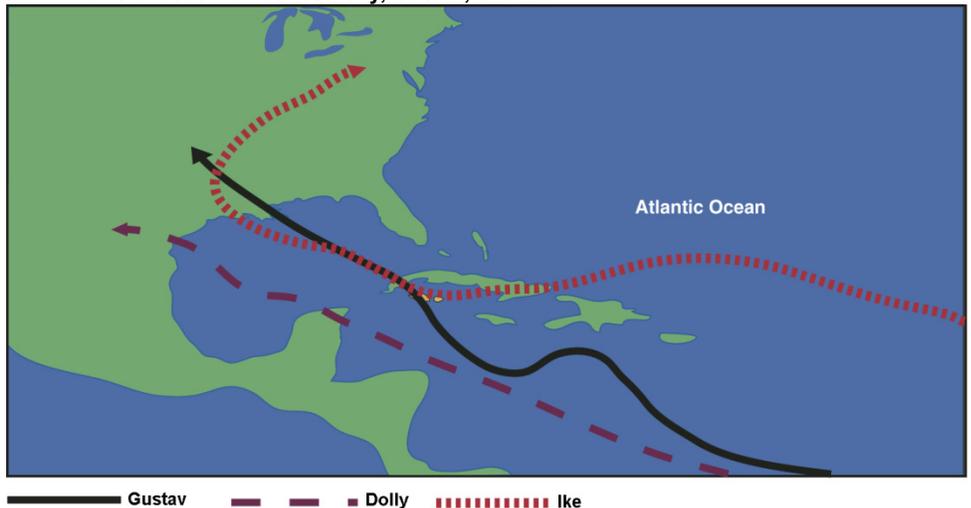
What GAO Found

GAO's review of the reimbursements the Federal Emergency Management Agency (FEMA) made to the American Red Cross (Red Cross) related to the 77 presidentially declared major disasters in 2008 found

- FEMA established criteria for the reimbursements that was consistent with the law,
- no evidence that funding from other federal sources had been made available for the costs that FEMA reimbursed,
- FEMA only reimbursed the Red Cross for the costs of disasters that occurred in 2008 and were declared by the President to be major disasters,
- claims for reimbursement submitted by the Red Cross were supported by sufficient documentation, and
- administrative costs charged to the appropriation by FEMA were for appropriate purposes and within the dollar limits permitted by law.

GAO's review encompassed \$78.8 million in claims for 2008 disaster-related direct costs the Red Cross submitted to FEMA for reimbursement from 2009 through 2011. FEMA reviewed the documentation provided by the Red Cross to support its claims to determine if they related to presidentially declared 2008 major disasters, related to allowable expenses, and were supported by sufficient documentation. Based on the results of its review, FEMA determined that \$61.6 million of the claims were valid and reimbursed the Red Cross. The remaining claims, totaling \$17.2 million, were denied by FEMA either because the basis of the claim was not considered appropriate or supporting documentation was not considered to be sufficient. FEMA also reimbursed the Red Cross for \$16.5 million in indirect overhead costs.

Storm Paths of 2008 Hurricanes Dolly, Gustav, and Ike



Source: GAO compiled from National Oceanic and Atmospheric Administration (NOAA) storm track data.

Note: For NOAA hurricane tracks, see <http://csc.noaa.gov/hurricanes/#>.

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Abbreviations

DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
OMB	Office of Management and Budget

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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

September 14, 2012

The Honorable Mary Landrieu
Chairman
The Honorable Dan Coats
Ranking Member
Subcommittee on Homeland Security
Committee on Appropriations
United States Senate

The Honorable Robert B. Aderholt
Chairman
The Honorable David E. Price
Ranking Member
Subcommittee on Homeland Security
Committee on Appropriations
House of Representatives

The Disaster Relief and Recovery Supplemental Appropriations Act, 2008 (2008 Act)¹ provided up to \$100 million of appropriated federal funds to the Secretary of Homeland Security for the purpose of reimbursing the American Red Cross (Red Cross) for disaster relief, recovery expenses, and emergency services associated with hurricanes, floods, and other natural disasters occurring in 2008 that the President declared to be major disasters under Title IV of the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1974 (Stafford Act).² The 2008 Act also (1) limited reimbursement to costs associated with those activities for which funding had not been made available by other federal sources and (2) limited administrative costs to 3 percent of the total appropriation, or \$3 million. The Secretary delegated to the Federal Emergency Management Agency (FEMA) the authority to administer these funds.

¹Pub. L. No. 110-329, div. B., § 10502, title I, 122 Stat 3574, 3593 (Sept. 30, 2008).

²42 U.S.C. Chapter 68, subchapter IV. The Stafford Act defines the conditions that constitute major disasters, as well as the process by which they are declared as such by the President of the United States. The Red Cross is a federally chartered instrumentality whose purposes include volunteering aid to the sick and wounded of the armed forces in time of war and carrying on a system of national and international relief in time of peace and apply that system in mitigating the suffering caused by pestilence, fire, famine, floods and other great national calamities.

FEMA and the Red Cross entered into a memorandum of agreement specifying how the reimbursements were to be claimed, processed, and approved. The 2008 Act also mandated that GAO audit the use of these funds.

To fulfill our responsibilities, we audited FEMA's review and reimbursement of Red Cross claims including related indirect overhead costs and the related costs FEMA incurred for administration. Our objectives were to determine whether (1) FEMA had established adequate criteria for determining whether the Red Cross expenses claimed were reimbursable, (2) any reimbursements to the Red Cross by FEMA were based on costs for which funding had not been made available by other federal sources, (3) FEMA reimbursed the Red Cross only for expenses it incurred in providing assistance related to disasters occurring in 2008 that had been declared to be major disasters by the President, (4) reimbursement claims submitted by the Red Cross to FEMA were supported by sufficient documentation, and (5) administrative costs charged to the appropriation by FEMA were for appropriate purposes and in total did not exceed 3 percent of the \$100 million appropriation allowed by the 2008 Act.

The Red Cross submitted its claims for reimbursement from July 2009 through May 2011, each of which encompassed multiple individual expenses it incurred in providing assistance related to 2008 disasters declared by the President. Each claim was accompanied by the supporting documentation that the Red Cross considered to be appropriate. FEMA reviewed each claim and its supporting documents, and determined whether it was sufficient. In those cases where the support provided was considered to be insufficient, FEMA communicated its concerns to the Red Cross, which then, depending on the circumstances, either provided additional documentation or amended the claim. For any case in which the Red Cross was ultimately unable to provide sufficient supporting documentation, FEMA either reduced or denied the claim, as appropriate. To satisfy our objectives, we audited (1) the reimbursements approved and paid by FEMA to determine whether they were consistent with the terms of the memorandum of agreement, and (2) the administrative costs charged to the appropriation by FEMA to determine whether they were for appropriate purposes and within the dollar limitations of the 2008 Act.

We conducted this performance audit from July 2010 to September 2012 in accordance with generally accepted government auditing standards.³ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Additional details concerning our audit methodology are included in the appendix I.

Background

For calendar year 2008, the President of the United States declared 77 major disasters. These disasters included flooding, severe storms such as tornadoes, and three major hurricanes (Gustav, Dolly, and Ike) that made landfall in the United States. The 2008 Act provided up to \$100 million that was to remain available until September 30, 2009. Accordingly, the Department of Homeland Security (DHS) obligated \$100 million in June 2009, \$98 million of which was available for payments to the Red Cross upon submission of sufficient documentation to support claims for allowable costs, and \$2 million of which was for FEMA's administration of the reimbursements. Under the Secretary of Homeland Security's general grant authority⁴ in June 2009 DHS awarded a grant to the Red Cross that provided up to \$98 million for reimbursement to the Red Cross for eligible 2008 disaster relief and recovery expenses incurred.

FEMA and the Red Cross also established criteria for determining the validity of claims for reimbursement and incorporated it into the memorandum of agreement. In addition to identifying the specific disasters for which costs could be reimbursed, the agreement (1) established criteria for the Red Cross to be reimbursed for allowable expenses for disaster relief, recovery, and emergency services related to

³The audit's duration was affected by a substantive change in audit approach. We initiated work planning to rely on the most recent audit of the Red Cross conducted under the Single Audit Act as amended (Single Audit Act), and implementing guidance in Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (revised June 26, 2007). However, FEMA elected not to rely on the Single Audit Act work but rather, to directly validate the claims for reimbursement from the Red Cross. We suspended the audit for a period of time until FEMA had completed its reviews and reimbursed the Red Cross and we then resumed and completed our work.

⁴6 U.S.C. § 112(b)(2).

2008 disaster assistance; (2) defined the types of direct expenses that were eligible for reimbursement and how reimbursable indirect overhead costs⁵ would be calculated; and (3) established the procedures to be used by FEMA to process the claims and make the reimbursements, including specifying that consistent with the law, expenses for which funding had been made available by other federal sources were not eligible for reimbursement. FEMA also established standard operating procedures and internal review guidance for its processing of reimbursements of Red Cross claims in accordance with the agreement. The Red Cross submitted claims to FEMA for the direct costs it incurred when providing assistance related to these disasters. FEMA then reviewed each claim and its accompanying documentation to determine whether it was reimbursable, consistent with the requirements of the memorandum of agreement. FEMA reimbursed the Red Cross for the amount of those claims it determined to be in conformance with the terms of the memorandum of agreement. FEMA also reimbursed the Red Cross for related indirect overhead costs.

FEMA's Reimbursements of Red Cross's Claims Were Proper

The Red Cross submitted claims totaling about \$78.8 million to FEMA for direct costs related to disasters occurring in 2008 and declared by the President to be major disasters. Based on its review of these claims and the supporting documentation the Red Cross provided, FEMA reimbursed the Red Cross for claims totaling \$61.6 million. FEMA denied the remaining \$17.2 million claimed, either because the basis of the claim was not considered appropriate or supporting documentation was not considered to be sufficient. In addition to these direct costs, FEMA reimbursed the Red Cross for about \$16.5 million in related indirect overhead costs. Based on our audit, we found that the claims submitted by the Red Cross that were reimbursed by FEMA were proper and consistent with the 2008 Act. Specifically, we found the following.

- **FEMA established criteria consistent with the law for the reimbursement of the Red Cross's claims.** The memorandum of agreement between FEMA and the Red Cross defined the types of direct expenses incurred by the Red Cross that would be eligible for

⁵Indirect overhead costs were calculated by FEMA and applied to the approved claims based on a rate specified in a separate agreement between the Red Cross and the Department of Health and Human Services, acting in its capacity as cognizant agency under the Single Audit Act and OMB Circular No. A-133.

reimbursement by FEMA, listed the 77 disasters declared by the President that occurred in 2008, and specified that reimbursable indirect overhead expenses would be calculated at the rate specified in the agreement between the Red Cross and the Department of Health and Human Services and added to the amounts reimbursed for approved claims. The FEMA/Red Cross agreement also established FEMA's procedures for processing and reimbursement of the Red Cross's claims. In addition, the Red Cross agreed to not seek reimbursement for any expenses for which funding from other federal sources had been made available. Prior to beginning the review process, FEMA established standard operating procedures and guidance for its staff to use in processing the Red Cross's reimbursement claims in accordance with the agreement. These procedures specified that a Red Cross claim would have to meet all five of the following criteria in order to be reimbursed by FEMA: (1) allowability (used for an authorized purpose), (2) allocability (associated with assistance related to presidentially declared 2008 disasters), (3) proof of payment, (4) proof of expense, and (5) proof of consumption/use. To the extent that any of these five criteria were not met, FEMA would either reduce or disallow the related amount for the claim, as appropriate. We reviewed the criteria established by FEMA and found them to be consistent with the law.

- **No evidence that FEMA's reimbursements to the Red Cross were for costs for which funding had been made available from other federal sources.** FEMA's review of Red Cross claims prior to reimbursement did not identify any instances in which funding had previously been made available by other federal funding sources. During our audit, we verified that FEMA took appropriate steps to determine whether claims submitted by the Red Cross were based on costs for which funding by other federal sources had been made available. Based on our work, we found no evidence that other federal funding sources had been made available to cover the costs associated with the Red Cross claims that FEMA reimbursed.
- **Reimbursements were paid only for expenses related to disasters occurring in 2008 and declared by the President to be major disasters.** Prior to reimbursing the Red Cross for claims it submitted, FEMA reviewed supporting documentation to verify that the expenses claimed were incurred only for those disasters occurring in 2008 and declared by the President to be major disasters. We audited the Red Cross claims that FEMA actually reimbursed and concluded that they were appropriately related to authorized disasters.

-
- **Red Cross claims reimbursed by FEMA were supported by sufficient documentation.** In providing disaster assistance, the Red Cross incurred a variety of expenses for which it claimed reimbursement from FEMA. We classified these expenses into 19 categories by type, which included such expenses as food, lodging, air travel, security services, purchase cards, client assistance cards, and car rentals. For 15 of these expense categories, we combined the transactions into a single population, from which we selected a monetary unit sample. We found no significant reimbursements in this population that were not supported by sufficient documentation.⁶ We also tested 100 percent of approved claims related to the remaining expense categories. We found that the reimbursements for these expense categories were also supported by sufficient documentation.

Administrative Costs Incurred by FEMA Were for Appropriate Purposes and within Authorized Limits

We audited FEMA records supporting the costs it charged to the appropriation to administer the Red Cross claims and reimbursements and found that they were incurred for appropriate purposes; supported by sufficient documentation; and in total, did not exceed 3 percent of the \$100 million appropriation authorized by the 2008 Act. FEMA's records reflected that about \$232 thousand in total administrative costs were charged to the appropriation to process the Red Cross's claims and associated reimbursements.

Agency Comments

In responding to a draft of this report, the Department of Homeland Security's Audit Liaison stated that the department did not have any comments.

We are sending copies of this report to the Secretary of Homeland Security, the Administrator of the Federal Emergency Management Agency, the Acting Director of the Office of Management and Budget, and the Chief Financial Officer of the American Red Cross. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

⁶We selected a sample of 155 reimbursements totaling \$6.3 million from a population of 170,343 approved claims totaling \$55.6 million. We found claims totaling \$1,631 that were not sufficiently supported. Based on this result, we projected the most likely total amount that was not sufficiently supported to be about \$4,735. We concluded with 95 percent confidence that of the total expenses encompassed by these 15 expense categories, no more than \$1.1 million may not have been sufficiently supported.

If you or your staffs have any questions about this report, please contact me at (202) 512-3406 or sebastians@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Charles R. Fox, Assistant Director; Roger R. Stoltz, Assistant Director; Sharon Byrd, Assistant Director; Jacquelyn Hamilton, Deputy Assistant General Counsel; Tory E. Wudtke; Christie Pugnetti; and Tulsi Bhojwani.



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Appendix I: Audit Methodology

To determine whether criteria consistent with the law were established for reimbursing American Red Cross (Red Cross) claims, we reviewed the memorandum of agreement between the Federal Emergency Management Agency (FEMA) and the Red Cross that was signed by both parties in May 2009. This agreement laid out the responsibilities, procedures, and eligibility requirements for federal reimbursement of Red Cross disaster relief, emergency services, and recovery expenditures. We also reviewed the indirect cost rate agreement between the Red Cross and the Department of Health and Human Services that set the rate to be used in calculating indirect overhead costs on grants received from the federal government, and recalculated FEMA's application of this rate in determining related amounts to reimburse.

To determine whether reimbursements paid to the Red Cross were for costs for which funding had been made available by other federal sources, we reviewed the FEMA and Red Cross agreement, which provided that the Red Cross would not request reimbursement for any costs for which funding had been made available by other federal sources. We also reviewed FEMA's procedures and other documentation provided to ensure that the agreement was followed. In addition, the Red Cross represented to FEMA that the claims it submitted had not been previously funded from other federal sources.

To determine whether reimbursable claims were paid only for Red Cross expenses incurred for disasters occurring in 2008 and declared to be major disasters by the President, we verified that 2008 federal disaster information published by FEMA and the 2008 disasters listed in the FEMA and Red Cross memorandum of agreement signed in May 2009 were consistent concerning which specific 2008 disasters were eligible for related reimbursement. Through review of supporting documentation, we verified that each Red Cross claim FEMA reimbursed was for costs incurred in providing assistance related to a qualified 2008 disaster.

To determine whether claims for reimbursement were for expenses incurred to provide allowable services, and whether those claims were supported by sufficient documentation, we audited the claims paid for each expense category and verified that it was consistent with the terms of the memorandum of agreement. Prior to reimbursing claims submitted by the Red Cross, FEMA performed procedures to verify that each claim was supported by sufficient documentation, which demonstrated that the amount, purpose, and timing of the claim were appropriate as defined by the agreement. The nature of the supporting documentation that the Red Cross provided to FEMA varied depending upon the expense category.

However, the support generally consisted of some combination of invoices, bank statements, summary schedules of expenditures, and screen shots taken from an internal Red Cross financial system demonstrating that the funds for the expenses had been paid. FEMA management, acting in consultation with FEMA's Office of Chief Counsel, determined that collectively these documents constituted sufficient support for these claims and accordingly, the Red Cross was reimbursed on this basis. Our approach to auditing these reimbursements varied depending upon the nature of the expense category and related documentation. For 15 expense categories, we selected a statistical sample (monetary unit) of reimbursements from the universe of the claims reimbursed for 2008, and reviewed the documentation the Red Cross had provided to FEMA. For the other expense categories, we examined documentation supporting 100 percent of the claims submitted and reviewed FEMA's calculations and methodology for determining the appropriate reimbursement amount, including its determination of related indirect overhead costs.

To determine whether administrative costs FEMA charged to the appropriation were only for appropriate purposes and within limits authorized by the Disaster Relief and Recovery Supplemental Appropriations Act, 2008, we examined 100 percent of the documentary support for all of the administrative costs FEMA charged to the appropriation to process the claims, which were limited by law to 3 percent of the total \$100 million appropriation (\$3 million). Documentation for these costs consisted of items such as payroll records and travel vouchers.

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