



**Department of Homeland Security  
Office of Inspector General**

**Review of the Quality of Data  
Submitted by Department of  
Homeland Security Recipients of  
*American Recovery and  
Reinvestment Act of 2009 Funds***



*American Recovery and Reinvestment Act of 2009*

## **Background**

The *American Recovery and Reinvestment Act of 2009* (Recovery Act) made available to federal agencies approximately \$787 billion for preserving and stimulating economic growth in the United States. The Act also created the Recovery Accountability and Transparency Board (Recovery Board) to “coordinate and conduct oversight of covered [Recovery Act] funds to prevent fraud, waste, and abuse.”

## **DHS Recovery Act Funding**

The Department of Homeland Security (DHS) received Recovery Act funds of \$2.75 billion for the following activities:

<b>COMPONENT</b>	<b>AMOUNT (in millions)</b>	<b>ACTIVITY</b>
Transportation Security Administration (TSA)	\$1,000	Procurement and installation of baggage and passenger explosive detection systems at selected airports
U.S. Customs and Border Protection (CBP)	\$680	Construction/renovation of land ports of entry, purchase of non-intrusive inspection systems, development and deployment of the Secure Border Initiative Program, and the upgrade of tactical communications
Federal Emergency Management Agency (FEMA)	\$610	Grants for Emergency Food and Shelter National Board Program, Public Transportation and Railroad Security Assistance, Port Security, and Assistance to Firefighters for the construction/renovation of non-federal fire stations
U.S. Coast Guard (USCG)	\$240	Alteration of bridges, improvements to shore facilities, and repairs to vessels
Office of the Under Secretary for Management (USM)	\$200	Continued development of the DHS consolidated headquarters
U.S. Immigration and Customs Enforcement (ICE)	\$20	Upgrades to tactical communications systems

To help complete these activities, DHS awarded contracts and grants to government, non-profit, and for-profit organizations (collectively referred to as recipients). Section 1512 of the Recovery Act requires recipients to submit reports on use of funds not later than 10 days after the end of each calendar quarter. The reports include information on the status of recovery funds; lists of projects undertaken; and project information, such as jobs

created. Recipients submit data through [www.FederalReporting.gov](http://www.FederalReporting.gov), the online Web portal that collects all Recovery Act recipient reports.

Office of Management and Budget (OMB) memoranda<sup>1</sup> present Section 1512 reporting guidance for federal agencies and grantees and Clause 52.204-11 of the Federal Acquisition Regulations (FAR) contains instructions for contractors.

### **Recovery Board**

As part of its oversight activities, the Recovery Board has been working with federal Inspectors General to complete a multi-phased approach to assess recipient reporting. Phase I reviews provided a snapshot of agencies' data review processes before the start of the first reporting period in October 2009. The phase II review assessed the data review processes at seven agencies after the first reporting period which ended on June 30, 2009. Phase III focused on controls and processes of agencies and recipients to ensure data reliability and transparency. One part of Phase III reviewed the internal controls of federal agencies to ensure that recipient data are accurate, complete, timely, and free of significant errors or material omissions. A second part of Phase III, in which we participated, covered recipient processes for compiling and reporting on the data elements listed in the next section.

### **Data Elements Covered by Review**

*1. Number of Jobs.* Contractors and grantees report an estimate of the number of jobs funded by the Recovery Act for the quarter. Grantees must also include the number of jobs funded by sub grantees (entities which receive flow-through grant funds) and vendors. Contractors, however, are not required to report jobs ascribed to subcontracts.

*2. Total Federal Amount of Recovery Act Funds Received or Invoiced.* Grantees report the total cumulative amount of Recovery Act funds received from the federal agency. Contractors report the total cumulative amount of funds invoiced to the agency for federal payment.

*3. Total Amount of Recovery Act Expenditures.* Grantees report the total cumulative amount of Recovery Act funds received that were spent on projects or activities. Contractors do not report this data element.

*4. Project Status.* Grantees and contractors report the completion status of the project or activity funded by the Recovery Act by selecting one of four options - not started, less than 50% completed, 50% or more completed, and fully completed.

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<sup>1</sup> Memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, June 22, 2009. Memorandum M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act - Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, December 18, 2009. Memorandum M-10-14, *Updated Guidance on the American Recovery and Reinvestment Act*, March 22, 2010.

5. *Final Report.* Grantees and contractors report whether the report is their final report submission.

This report covers recipient reporting for the quarter ending December 31, 2009. For that quarter, DHS recipients reported jobs funded by the Recovery Act of 647<sup>2</sup>, funds received or invoiced of \$170 million<sup>3</sup>, and expenditures of \$123 million<sup>3</sup>.

## **Results of Review**

The 17 recipients we reviewed used processes that provided reasonable assurance of compliance with the applicable reporting requirements for three of the five data elements included in our review. Furthermore, even though none of the recipients calculated the number of jobs in full compliance with the applicable OMB and FAR guidance, the majority of the job estimates appeared to reflect the actual job impact of the Recovery Act funds expended. We also determined that five of the nine grantees used reasonable methods to compute total Federal funds expended even though their methods were inconsistent with the OMB guidance, and identified other minor reporting issues with grantees. The results of our review of recipient reporting are summarized in the following table.

<b>Table: Summary of Recovery Act Reporting Results for the Reporting Period Ending December 31, 2009</b>						
<b>Data Element</b>	<b>Grantees (9)</b>		<b>Contractors (8)</b>		<b>Grant and Contract Recipients (17)</b>	
	<b>No. Reporting Consistent with Guidance</b>		<b>No. Reporting Consistent with Guidance</b>		<b>Total No. Reporting Consistent with Guidance</b>	
	<b>Yes</b>	<b>No</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>	<b>No</b>
Jobs	0	9	0	8	0	17
Funds Received/Invoiced	1 <sup>a</sup>	1	7 <sup>b</sup>	0	8	1
Expenditures	1 <sup>c</sup>	5	N/A <sup>d</sup>	N/A <sup>d</sup>	1	5
Project Status	8	1	8	0	16	1
Final Report	8	1	8	0	16	1
<sup>a</sup> Of the nine grantees reviewed, we excluded seven grantees from the Funds Received/Invoiced data element because they reported having received/invoiced no Recovery Act funds as of 12/31/09. <sup>b</sup> Of the eight contractors reviewed, we excluded one contractor from the Funds Received/Invoiced data element because the contractor reported having not submitted invoices for Recovery Act funds as of 12/31/09. <sup>c</sup> Of the nine grantees reviewed, we excluded three grantees from the Expenditures data element because they reported having not received or expended any Recovery Act funds as of 12/31/09. <sup>d</sup> Contractors were not required to report expenditures.						

<sup>2</sup> Number reported in Recovery.gov for DHS for the period covered by audit.

<sup>3</sup> Amount reported in DHS data extract for March 25, 2010.

## **Recipient Jobs Estimates Not Based On Federal Guidance**

OMB memorandum M-10-08 changed the method for grantees to calculate jobs created or retained by Recovery Act funding. The updated guidance requires grantees to estimate the number of Recovery Act jobs created or retained based on: (1) work performed by the grantees only in the quarter being reported (not cumulative); (2) work performed by sub grantees and vendors; and (3) a calculation that divides the total actual hours worked in funded jobs by the number of hours representing a full work schedule for the kind of job being estimated. The calculation converts part-time and temporary jobs into “full-time equivalent” (FTE) jobs. The resulting FTEs are adjusted as appropriate to count only the portion corresponding to the share of jobs funded by Recovery Act funds. The revised guidance was issued on December 18, 2009, and was applicable for the reporting period ended December 31, 2009. The FAR contained similar guidance for contractors except that contractors were not required to report jobs related to subcontracts. None of the 17 recipients completely followed the guidance for computing jobs.

Examples of common errors follow:

- Two grantees and two contractors reported jobs they expected to create or retain in the future. For instance, one recipient used total project hours included in its contract proposal as the basis of its jobs estimate. Another recipient reported positions that it intended to fill during a subsequent reporting period.
- Four grantees and two contractors reported jobs based upon positions created or retained, rather than the Recovery Act funded hours worked in those positions during the reporting period.
- One grantee reported jobs based on the project tasks completed during the period. The recipient calculated the number of jobs using a standard number of hours by position required to complete the project tasks.
- One contractor reported jobs cumulatively.
- Five grantees reported total jobs related to a project even though the Recovery Act funded only 90 or 95% of total project costs.

Five recipients told us that, due to the nature of their projects, calculating jobs based upon actual hours worked on Recovery Act funded activities would have been unfeasible or unduly costly and burdensome. For example, four grantees that received Recovery Act funds to adapt airports for the installation of explosive detection systems had ongoing airport construction projects prior to the receipt of the Recovery Act funds. As a result, they used the Recovery Act funds to finance contract modifications for the additional work necessary to ready the airports for installation of the explosive detection systems. The grantees said that the construction contracts did not contain a requirement to track and report hours worked on the Recovery Act funded part of the projects because they awarded the contracts before receiving Recovery Act funds.

Consequently, the grantees developed alternate methods to estimate jobs, none of which appeared to pose an unreasonable risk of material misreporting. For example, one grantee estimated jobs based upon the Recovery Act project tasks completed during the reporting period by relying on the contractors' knowledge of the usual number of labor hours by job type required to perform a particular task. In another instance, the grantee reported jobs based upon the contractors' estimate of the percentage of the total hours by job type worked during the reporting period that were attributable to the Recovery Act project.

We also identified errors applicable only to contractors. In four instances, contractors included jobs pertaining to subcontracts in their quarterly estimates. Specifically, 174 (56%) of 309 reported jobs were related to subcontracts. Generally, the contractors included subcontractor jobs because they believed the subcontractors were an integral part of the contract deliverable. Contractors also believed that not including subcontractor jobs diminishes the impact on jobs of the Recovery Act contracts.

In July 2010, the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council amended the FAR to revise the clause FAR 52.204-11. The revised clause requires a contractor to estimate the number of jobs created and retained by the prime contractor and all first-tier subcontracts valued at \$25,000 or more. The revised clause will be used for all new solicitations and contracts issued on or after July 2, 2010, the effective date of the revision. The new clause does not require renegotiation of existing Recovery Act contracts or its use in modifications made to existing contracts

### **Grant Reported Expenditures Not Based on Federal Guidance**

Four grantees inappropriately reported project expenditures of \$12,094,611 as Recovery Act funds expended. While this appeared reasonable, it was not consistent with OMB guidance which limits the amount to be reported for expenditures to the amount of expenditures for which Federal reimbursement has been received. OMB Memorandum M-09-21 defines expenditures as "the amount of Recovery funds **received** that were used to pay for projects or activities." [emphasis added]

In the grantees' opinion, the economic stimulatory effect, including job creation and retention, occurred when they spent funds on their projects, as opposed to when they received federal reimbursement. As one grantee noted, reporting expenditures according to the OMB definition would have resulted in a "disconnect" between Recovery Act project expenditures and the resulting impact on jobs retention and creation.

### **Minor Reporting Issues**

We identified minor errors in reporting in the data elements for funds received or invoiced, project status, and final report, as follows:

- One grantee overstated the Recovery Act funds received from the awarding agency. OMB Memorandum M-09-21 defines funds received as "the total cumulative amount

of Recovery Act funds received from the agency.” The recipient’s reported amount included project expenditures that were pending reimbursement or were grantee funded.

- One grantee reported the status of its project as “not started.” Nevertheless, the recipient also reported an expenditure amount and project accomplishments for the quarter. The recipient confirmed that the project was ongoing for the quarter ended December 30, 2009, and that the “not started” status was incorrect.
- One grantee reported that its report for the period ended December 31, 2009, was its “final report.” However, other data elements, such as project status, funds received and expended, and project accomplishments for the quarter indicated that the project was not complete. The recipient confirmed that the report submission for the quarter ended December 31, 2009, was not the final report and that the reporting of such was incorrect.

Since the consolidated report as published by the Recovery Board contains recommendations to federal officials to clarify reporting instructions for federal agencies and recipients, this report contains no additional recommendations. The information in the report is intended to assist the department in its continued oversight of recipient reporting.

## **Appendix A**

### **Purpose, Scope, and Methodology**

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The objective of this audit was to determine whether selected Recovery Act recipients' processes for compiling and reporting selected data provided reasonable assurance of compliance with reporting requirements contained in Section 1512 of the Recovery Act. The review focused on five data elements - number of jobs, total Federal amount of Recovery Act funds received or invoiced, total Federal amount of Recovery Act funds spent, project status and final report. We examined reporting for the quarter ended December 30, 2009.

We reviewed the processes of recipients who had reported the largest number of jobs created or retained and other recipients located in the same vicinity. These 17 recipients received Recovery Act awards from Transportation Security Administration, U.S. Customs and Border Protection, Federal Emergency Management Agency, and U.S Coast Guard.

We also reviewed applicable federal, DHS, and recipient policies and procedures, interviewed key recipient personnel to understand and evaluate reporting processes and related controls, reviewed available documentation supporting recipient reports, and performed limited analytical procedures, such as logic and reasonableness checks of data quality. We performed fieldwork at recipient locations in six states and Washington D.C.

We conducted this performance audit between April 2010 and October 2010 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.

We appreciate the cooperation by management and staff from DHS and from the recipients in providing the information and access necessary to accomplish this review.

**Appendix B**  
**Major Contributors to this Report**

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