

# AUDITING RESPONSE TO RECOVERY FROM DISASTERS

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NIAF Joint Biennial Audit Forum

May 25, 2006

# NATURAL DISASTERS - ALABAMA

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- Two Most recent with the biggest impact:
  - Ivan – September 2004
  - Katrina – August 2005

# THE NUMBERS (State Funds)

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## ■ Katrina

- \$139,709.229 Disaster
- 2,850,000 Emergency Sheltering
- \$142,559,229 Total

## ■ Ivan

- \$251,292,159 Total

## ■ Dennis

- \$19,041,387

# FEMA FINANCIAL AID

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- FEMA has provided approximately \$614 million in aid to Alabama in the eight months since Katrina
- Approximately \$125.5 million has gone to more than 36,000 families and individuals to cover everything from housing assistance to rental assistance

# ADDITIONAL STATISTICS

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- Housed between 15,000 – 25,000 evacuees at peak time
- Disbursed over \$300 million in Individual Assistance for the last 3 hurricanes



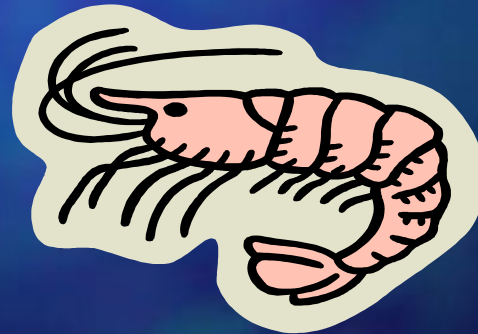
# ADDITIONAL STATISTICS

- Moved 20 million cubic yards of debris
- Paid out over \$500 million to city and local governments for infrastructure repair



# DESTRUCTION OF STATE'S COASTAL EMPLOYMENT BASE

- Katrina leveled a crippling blow to the state's shrimping industry.
- In Bayou La Batre, every shrimp processing plant was destroyed or damaged



# KATRINA – INSURED PROPERTY LOSSES (Estimated)\*

| STATE                             | LOSSES (\$)        |
|-----------------------------------|--------------------|
| Louisiana                         | 22.6 Billion       |
| Mississippi                       | 9.8 Billion        |
| <b>Alabama</b>                    | <b>1.3 Billion</b> |
| Florida                           | 468 Million        |
| Tennessee                         | 46.1 Million       |
| Georgia                           | 22.2 Million       |
| * Per ISO Property Claims Service | 8                  |

# LOOKING TO THE FUTURE

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- Earlier this month HUD Secretary Alphonso Jackson announced HUD's approval of Alabama's plan to spend \$74.4 million in HUD monies to rebuild homes and communities and help create job opportunities
- Funds will come through HUD's CDBG Program

# UNCLAIMED AID ?

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- According to an Associated Press article in March 2006:
  - 2 Billion in federal disaster aid for Katrina evacuees is sitting unclaimed
  - HHS said 11 states have requested approx. 25 million
  - Several states said they didn't want the bureaucratic hassle or weren't sure if displaced families qualified for help







BANKHEAD TUNNEL

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# PRACTICAL CONSIDERATIONS

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- Must have State funds to match the Federal dollars
- Must have adequate manpower to perform additional audit work



# PRACTICAL CONSIDERATIONS – CONT'D

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- Classic example of why internal controls are so important
  - If controls are good, then auditor can test and rely on the system to a greater extent
  - Allows auditor to focus on areas of **highest risk**

# AUDIT APPROACH

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- Majority of disaster assistance claims relating to Hurricane Ivan will be audited as part of the FY 2005 Statewide Single Audit
- Katrina expenditures will be audited as part of FY 2006 Statewide Single Audit

# PUBLIC ASSISTANCE GRANTS

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- The Public Assistance (PA) program is administered by the State (e.g., the State Emergency Management Agency) in accordance with a FEMA-State Agreement
- State acts as the grants administrator for all funds provided under the PA Program

# AUDIT APPROACH – CONT'D

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- For FY 2005 (Ivan) Department of Homeland Security, Public Assistance Grants (CFDA # 97.036) will be audited as a major program

# PUBLIC ASSISTANCE PROGRAM

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- State's responsibility includes:
  - providing technical advice and assistance to eligible subgrantees
  - Providing state support for damage survey activities
  - Ensuring all potential applicants are aware of assistance available
  - Submission of documents necessary for grant awards

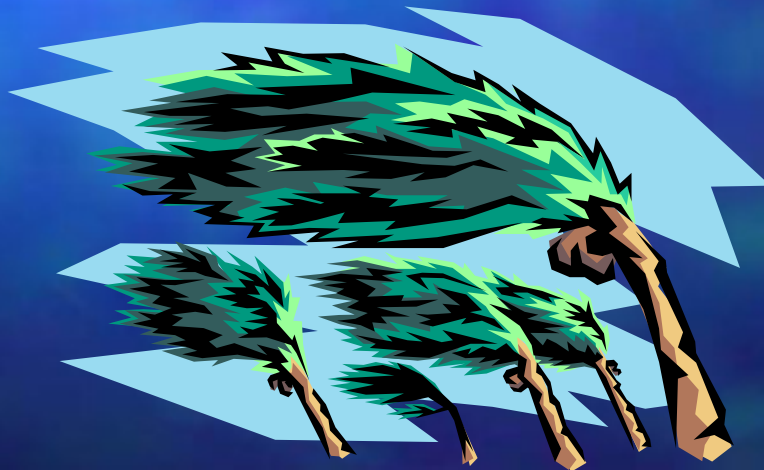
# AUDIT APPROACH

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- Unknown as to whether PA Program will be a major Federal program for FY 2006
- FY 2006 is the year which would contain majority of disaster-assistance monies related to Katrina

# U. S. GOVERNMENT ACCOUNTABILITY OFFICE (GAO)

- Issued Temporary Exemptions and Guidance in response to Hurricane Katrina
- Issued in January 2006



# PURPOSE

- To provide temporary exemptions from certain provisions of *Government Auditing Standards*
- Provide protection of public interest related to accountability for relief effort funds



# MAJOR AREAS

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- Independence
- Peer Review Requirements
- Continuing Professional Education
- Loss or Destruction of Financial Records, Program Records, or supporting documentation

# MAJOR AREAS – CONT'D

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- Loss or destruction of audit documentation prior to issuance of audit report

# INDEPENDENCE

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- Management Services
- Accounting and Bookkeeping Services or Reconstruction of Lost or Destroyed Records



# INDEPENDENCE

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- Management Services
  - Exempts certain independence requirements that prohibit providing nonaudit services that involve performing management functions other than **accounting and bookkeeping services**, if certain conditions are met.

# CONDITIONS

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A - Nonaudit services deal with expenditures of state, federal and local funds for hurricane relief efforts in Presidentially Declared Disaster Areas

B – Auditor's involvement aids in improving accountability , internal control or proper use of funds

# CONDITIONS

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- C - Both audited entity and auditor conclude the public interest's is best served by the involvement of the auditor and the reasons are documented
- D - Both agree no other viable option exists and conclusions and reasons are documented

# CONDITIONS

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- E - Planned role of auditor is approved by both organizations and documented by appropriate levels of authority
- F – Conditions of “C” and “D” above are communicated to appropriate external oversight and regulatory bodies

# CONDITIONS

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- G – In subsequent audits (if nonaudit services are significant or material), the audit organization
  - Should not audit their own work and should preclude personnel who provided the nonaudit services from being involved in the audit
  - Disclose the role played and include statement that criteria in GAO's temporary exemptions were met

# CONDITIONS

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- Other safeguards are met
  - Documentation requirements
  - Management acceptance of responsibility
  - No reduction in audit scope as a result of nonaudit services,
  - Must disclose the nonaudit services

# MANAGEMENT SERVICES

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## ■ EXAMPLES:

- Providing internal audit services
- Providing assistance in developing and designing internal controls related to the relief efforts
- Aid in developing accountability mechanisms, reporting, and/or the related systems for tracking the progress and spending of relief funds

# MANAGEMENT SERVICES

- EXAMPLES – Cont'd:
  - Reviewing procurements or payments related to the relief efforts before they are executed (but not as sole reviewer)



# ACCOUNTING AND BOOKKEEPING SERVICES

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- Exempt if:
  - Audit organization and audited entity conclude that entity has no other viable option
  - Services are limited to reconstruction of previously existing accounting records
  - Audit report clearly discloses role of auditor
  - Other safeguards are met (same ones as for exemption to Management Services – Slide #14)

# PEER REVIEW

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- Applies to audit organizations or CPAs in Presidentially Declared Disaster Areas who are unable to meet their Peer Review requirements because of loss or destruction of substantial audit documentation
- Exempt until 2007

# PPER REVIEW

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- Reasons are to be documented and approved by head of audit organization
- Must be communicated to the administering peer review organization



# CONTINUING PROFESSIONAL EDUCATION (CPE)

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- Grants exemption from a portion of the CPE requirement
- Must use professional judgment in determining portion, time period, and which employees
- Exemptions should be documented and approved at appropriate level within audit organization

# LOST OR DESTROYED RECORDS

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- Assess extent of destroyed records and the importance to the audit
- Consider feasibility, timing, cost and extent of work needed to replace or reconstruct records
- If audit is required by legal, regulatory or funding related requirements, communicate with these entities regarding options

# LOST OR DESTROYED DOCUMENTATION – PRIOR TO ISSUANCE OF AUDIT

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- Assess extent of lost or destroyed documentation and its importance
- Exercise professional judgment in deciding whether to recreate the documentation or reperform audit work
- Discuss with any oversight organization the available options (another form of reporting, different scope, etc.)

# LOST OR DESTROYED DOCUMENTATION – PRIOR TO ISSUANCE OF AUDIT

- Agreement between audited entity and audit organization should be documented and approved at the appropriate levels



# QUESTIONS?

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