OFFICE OF INSPECTOR GENERAL

The Omaha Tribe of Nebraska and Iowa Mismanaged $14 Million in FEMA Disaster Grants DR-1998-IA and DR-4013-NE

Homeland Security

November 30, 2017
OIG-18-25

DHS OIG HIGHLIGHTS

The Omaha Tribe of Nebraska and Iowa Mismanaged $14 Million in FEMA Disaster Grants

November 30, 2017

Why We Did This Audit

The Federal Emergency Management Agency (FEMA) awarded the Omaha Tribe of Nebraska and Iowa (Omaha Tribe) $16.9 million in grants for damages resulting from 2011 flooding. FEMA officials requested this audit to help them assess the tribe's compliance with Federal regulations.

What We Recommend

FEMA should continue withholding funds until it determines the extent of eligible work completed; disallow funds for ineligible or uncompleted work; deobligate unused funds; designate the tribe as a high-risk grantee; and take other actions to improve grant management.

For Further Information:
Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The Omaha Tribe's accounting system and supporting documentation were so unreliable and in such disarray that the only amounts we were able to verify with any degree of confidence were $2.8 million of unneeded funds; $165,000 of unclaimed insurance coverage; and about $74,749 of eligible and supported costs. We question the remaining $13.9 million as unsupported ($16.9 million less $2.8 million unused, $165,000 unclaimed insurance coverage, and $74,749 eligible and supported).

The problems we found at the Omaha Tribe were serious and pervasive. Therefore, FEMA Region VII should not provide any additional funds to the Omaha Tribe until FEMA can confirm that the tribe actually performed the FEMA-authorized work at a reasonable price. This report describes multiple violations of Federal regulations, including the tribe contracting with itself to generate artificial profits from its disaster recovery work.

In less severe cases, we typically advise FEMA to direct the grantee to work with the subgrantee to ensure all costs are eligible and supported. However, in this case, the Omaha Tribe *is* the grantee; and it is not capable of properly managing a Federal grant. FEMA's best course of action is to inspect the completed work and allow the Omaha Tribe to keep its estimated value up to the 90 percent Federal share of the grants.

FEMA Response

FEMA officials agreed with our findings and recommendations. FEMA's written response is included in appendix B.

NOV 30 2017

MEMORANDUM FOR: Paul J. Taylor
Regional Administrator, Region VII
Federal Emergency Management Agency

FROM: John E. McCoy II
Acting Assistant Inspector General for Audits

SUBJECT: *The Omaha Tribe of Nebraska and Iowa Mismanaged $14 Million in FEMA Disaster Grants DR-1998-IA and DR-4013-NE*

Attached for your information is our final report, *The Omaha Tribe of Nebraska and Iowa Mismanaged $14 Million in FEMA Disaster Grants* . We incorporated the formal comments provided by your office.

The report contains seven recommendations. Your office concurred with all seven recommendations. Based on information provided in your response to the draft report, we consider recommendations 1, 3, and 4 open and resolved. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendations. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts. Recommendations 2, 5, 6, and 7 are resolved and closed with no further action required from FEMA. Please send your response or closure request to OIGAuditsFollowup@oig.dhs.gov

We audited Public Assistance grant funds awarded to the Omaha Tribe of Nebraska and Iowa (Omaha Tribe), a Federal Emergency Management Agency (FEMA) grantee. FEMA awarded the Omaha Tribe $16.9 million for damages resulting from severe flooding in 2011, that included $380,932 in Grantee Management Costs (see table 3, appendix E). The award initially provided 75 percent Federal funding for eligible work; however, the President increased the Federal share to 90 percent in April 2016. Because the Omaha Indian reservation is located in two states, FEMA assigned two disaster numbers: 1998 for Iowa and 4013 for Nebraska. At the time of our fieldwork, the tribe asserted it had completed all projects for both disasters except Project 8 in DR-1998-IA. We performed this audit at the request of FEMA Region VII officials to assist them in evaluating the tribe's compliance with Federal regulations.

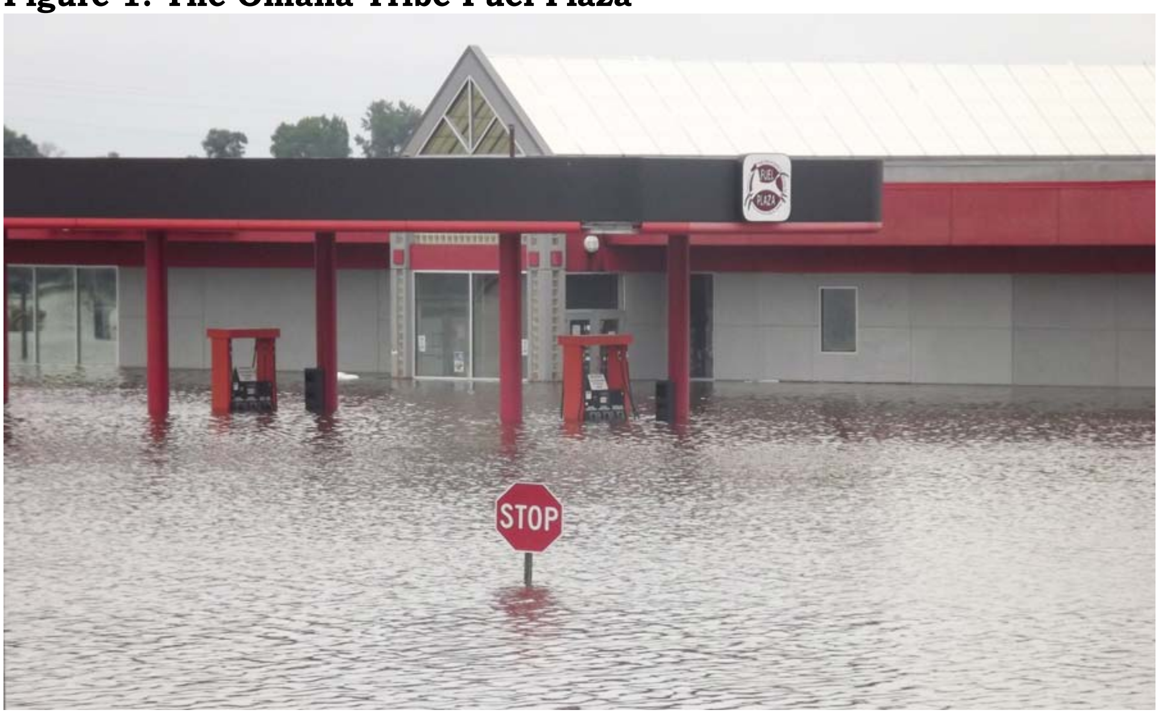
Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions at (202) 254-4100, or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General, at (202) 254-4100 or John Polledo, Audit Manager, at (504) 866-6682.

Background

The Omaha Tribe is a federally recognized Native American tribe located on the Omaha Indian reservation in northeastern Nebraska and western Iowa. The Midwest floods of 2011 lasted from May to September 2011 and caused more than $2 billion in estimated damage throughout the region. Above-average snowmelt from the Rocky Mountains combined with heavy rains caused the Missouri River and its tributaries to overflow their banks, resulting in flooding in parts of Nebraska, Iowa, Montana, North Dakota, South Dakota, Kansas, and Missouri.

Figure 1: The Omaha Tribe Fuel Plaza



Source: Omaha Tribe of Nebraska and Iowa

Omaha Tribe officials erected flood barriers to protect tribal homes and commercial buildings, but the oversaturated ground eventually allowed water to seep into the structures. The rising waters destroyed 11 tribal-owned homes and severely damaged the tribe's casino, irrigation systems, and fuel plaza (see figure 1).

At the time of the disaster declaration, the Federal cost share was 75 percent, which required the tribe to contribute $4.13 million to the recovery projects.[1] The Omaha Tribe asked FEMA to waive the tribe's contribution. FEMA originally denied the tribe's request; however, on April 19, 2016, the President agreed to increase the Federal cost share from 75 percent, to 90 percent, thus decreasing the tribe's share by $2.48 million and increasing the Federal share by $2.48 million (see table 3, appendix E). FEMA Region VII has not obligated the additional $2.48 million pending the results of our audit.

Results of Audit

The Omaha Tribe's serious financial management weaknesses combined with inadequate and missing documentation resulted in unreliable financial records. As a result, we have little confidence that the transactions recorded in the accounting system actually occurred or that the tribe completed its FEMA-authorized projects. Therefore, we question $13.9 million as unsupported. Due to the unreliable financial information, we calculated the amount unsupported as the entire $16.9 million FEMA provided for both grants, less $2.8 million in unused Federal funding that FEMA should put to better use (finding C); $165,000 in unclaimed insurance coverage (finding D); and approximately $74,749 that we were able to verify as supported and eligible.

In addition, the majority of funds we question as unsupported are also ineligible largely because the Omaha Tribe failed to comply with Federal procurement regulations in any material way. The tribe awarded non-competitive contracts to itself (related entities such as tribal-owned businesses and internal departments) to generate artificial profits to cover its $1.65 million non-Federal cost share of the grants. This arrangement violated Federal regulations, the FEMA-Tribe Agreement, FEMA policy, and prudent grant management business practices. Table 1 compares contract amounts the tribe paid to related and outside entities.

[1] Total cost share is not simply the Federal cost share percentage of the total grant award. Alternate projects are funded at 90 percent of the Federal cost share of reduced eligible costs and management costs are federally funded at 100 percent. As such, the resulting Federal cost share amount may differ from the initial 75 percent or subsequent 90 percent.

Table 1: Grant Funding and Contract Amounts Paid to Related Entities

Disaster	Total Grant Award	Total Contract Amounts Paid	Payments to Known Related Entities	Payments to Outside Entities	Percent of Payments to Known Related Entities
DR-1998	$13,449,499	$10,257,670	$ 9,051,780	$1,205,890	88%
DR-4013	2,630,176	2,253,601	1,826,745	426,856	81%
Subtotals	16,079,675	12,511,271	10,878,525	1,632,746	87%
All Small Projects	831,827	623,870	Unknown	Unknown	Unknown
Totals:	$16,911,502	$13,135,141	$10,878,525	$1,632,746	

Source: FEMA project worksheets and financial transactions, Omaha Tribe records, and Office of Inspector General (OIG) analysis

We identified many problems with the tribe's financial and grant management. For example, the tribe claimed $37,296 for costs unrelated to the disaster grants, paid a $312,282 bonus unrelated to the contract to its tribal-owned project management contractor, and spent $168,764 for ineligible expenditures to repair its old casino. Furthermore, the tribal-owned construction management contractor indirectly paid itself $210,000 through its subcontractor (see appendix C). Omaha Tribe officials also did not notify FEMA that they had insurance coverage on the damaged homes. The tribe filed, but later withdrew, a claim with its insurance carrier; the anticipated insurance proceeds would have served to reduce FEMA's funding needed.

These problems occurred for many reasons; however, the Tribal Emergency Management Director said that the principle of tribal sovereignty overrides Federal regulation and allowed the tribe to manage its grant through tribal law. Tribal sovereignty is the inherent authority of indigenous tribes to govern themselves. However, the principle of tribal sovereignty does not allow Native American tribes to poorly manage their finances, profit from Federal grants, pay themselves bonuses, or disregard Federal regulations. Furthermore, in the 2011 FEMA-Omaha Tribe of Nebraska and Iowa Agreement, the tribe agreed to "comply with all applicable laws and regulations" including 44 CFR and applicable OMB circulars. Other problems occurred because the grant management and accounting personnel did not have the training, knowledge, and experience to perform their jobs adequately.

The problems we found at the Omaha Tribe were so severe and pervasive that FEMA Region VII should not provide any additional money to the Omaha Tribe until FEMA can confirm that the tribe actually performed the FEMA-authorized work at a reasonable price. FEMA should disallow the $13.9 million we question as unsupported until it confirms the work performed through physical inspection of both large and small projects.[2] FEMA should also estimate a reasonable price for the work completed, less any profit paid to the tribe or its related entities — Federal regulation does not allow profit to grantees.

Going forward, FEMA Region VII should protect itself from future losses by developing additional procedures to assess the financial capacity and grant management capabilities of inexperienced grantees before permitting them access to Federal funds. FEMA should consider the tribe a high-risk grantee and impose the special award conditions allowed under Federal regulation. In addition, FEMA should work with Omaha Tribe officials to monitor their progress in correcting the financial and grant management problems.

Finding A: Weak Financial Management and Unsupported Costs

The Omaha Tribe's financial management system was so inadequate that it could not properly account for FEMA funds. The tribe's supporting documentation was often missing or did not adequately describe the work performed. We also identified many unallowable transactions. These issues made it impossible for us to determine whether the work was completed and eligible under FEMA's Public Assistance program. During our audit fieldwork, the Tribe's Emergency Management Director was attempting to finalize the numbers despite having already submitted the Omaha Tribe's revised final claim to FEMA. Several Omaha Tribe officials said boxes of FEMA-related documentation were missing. As a result, FEMA has no assurance that costs Omaha Tribe claimed for grant activities are valid, allowable, or for work FEMA authorized.

According to 44 Code of Federal Regulation (CFR)13.20(b), the financial management systems for grantees (other than states) must meet specific standards. However, the Tribe's financial management systems do not meet the following Federal standards:

- "Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant" (44 CFR 13.20(b)(l)).
- "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities" (44 CFR 13.20(b)(2)).

[2] Federal requirements in effect at the time of the disaster set the large project threshold at greater than $63,900 [Notice of Adjustment of Disaster Grant Amounts, 75 Fed. Reg. 62,135 (Oct. 7, 2010)].

- "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes" (44 CFR 13.20(b)(3)).
- "Applicable [U.S. Office of Management and Budget (OMB)] cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs" (44 CFR 13.20(b)(5)).
- "Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc." (44 CFR 13.20(b)(6)).

Many of the requirements in these standards overlap, but clearly the Tribe's financial management system did not meet Federal standards. The following narratives discuss some of these problems in greater detail.

Adverse Audit Opinions and Weak Control Environment – For years, the tribe's independent auditors provided adverse opinions regarding government funds in the tribe's annual audit reports; and, for years, the Tribal Council did not correct the accounting and administrative weaknesses its auditors identified. When expressing an adverse opinion, auditors are asserting that the financial statements are misstated and do not accurately reflect its financial performance. Furthermore, according to 44 CFR 13.20(b)(3), "[e]ffective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes." Clearly, after years of adverse audit opinions, the tribe's financial management system did not meet Federal standards.

Furthermore, the Tribal Council and Finance Department leadership did not emphasize the importance of internal controls and accounting policies and procedures. In fact, the tribe's A-133 Single Audit report for 2014 noted that the Bureau of Indian Affairs sanctioned the Omaha Tribe by limiting the amount of funds the tribe could draw down on its grants due to late submission of audited financial statements for years 2011 through 2013.[3] The Omaha Tribe's former Chief Financial Officer and the accounting staff confirmed they did not follow accounting policies because the Tribal Council did not mandate their use. The former Chief Financial Officer also said turnover in the Tribal Council and accounting staff contributed to the tribe's instability. Likewise, a former Tribal Council Treasurer said that internal

[3] *The Single Audit Act of 1984, as amended* (codified as 31 USC 7501 *et seq.*) and OMB Circular A-133 provide audit requirements for ensuring that recipients properly expend grant funds.

controls had been loose for years; however, he also said the tribe is working on correcting these problems and has hired more experienced staff.

The tribe submitted its final claim to FEMA on September 24, and November 9, 2015, for DR-1998-IA and DR-4013-NE, respectively. The final claim asserted the tribe completed most of its FEMA-approved projects and included the total amount spent. Nevertheless, none of the tribe's accounting system reports, including the quarterly reports to FEMA, the general ledger, and external spreadsheets, reconciled to the final claim. In fact, the tribe's total expenditures changed several times during our audit.

Both the tribe's former Treasurer and its current Emergency Management Director said they recognized the tribe had financial management problems and that the tribe has taken steps to improve. Unfortunately, given the passage of time, the weak financial control environment, and the inadequate and missing documents, it is impractical for the tribe or FEMA to locate and reconstruct the records needed to support the two grants.

Accounting Not on Project-by-Project Basis – The Tribe comingled Federal and non-Federal funds and did not account for costs on a project-by-project basis as 44 CFR 206.205(b) and FEMA policies require. At the start of the disaster, the tribe's Emergency Management Director said he set up the accounting system to account for disaster costs on a project-by-projects basis. After he left his position, however, he said the tribe did not properly account for the costs due to high employee turnover and an inexperienced accounting staff. The tribe's Emergency Management Director said the accounting staff recorded expenses to a single account rather than by project. As a result, the accounting system could not track costs by project. The tribe's Emergency Management Director said that when he returned to his position in January 2015, he realized the accounting was so inaccurate that he needed to reconstruct the disaster expenditures using bank statements and available documentation. His attempts have proven unsuccessful given the limited and unreliable nature of the tribe's documentation.

Missing and Inadequate Documentation – In addition to an unreliable accounting system and little assurance the transactions truly occurred, the Omaha Tribe did not develop and maintain adequate documentation for $13.9 million in costs. According to 44 CFR 13.20(b)(6), costs should be supported by invoices, contracts, or canceled checks. The tribe's documents were often missing or insufficient. Tribal contracts did not specify a scope of work or did not include amendments. We also could not determine whether the tribe properly charged contract rates. Invoices, especially from tribal departments or tribal-owned companies, had vague or no descriptions of work performed so we could not determine what work the tribe performed. As shown in appendix D, the invoices sometimes lacked job titles and a description of work. Additionally, the tribe did not maintain timesheets for its force account labor or its time-and-material contracts. For these types of costs, it is necessary to have not only invoices but also timesheets to determine whether costs were valid and reasonable.

The tribe could not provide adequate invoices and canceled checks for $5.9 million of the $8.5 million (69 percent) claimed for new casino construction costs. In another project, the tribe misidentified debris removal expenses as contract costs when the tribe's own workforce (force account labor) actually performed the work. The tribe was unable to provide timesheets, equipment logs, or other documents to support the labor costs. Generally, this occurred because the tribe's accounting and disaster management staff did not have the training, education, and experience to account for and manage FEMA grant funds properly.

The tribe made several payments to its own departments as if they were outside contractors. Although the tribe's Emergency Management Director said the tribe contracted with its internal departments, which in turn subcontracted the work to external contractors, the tribe could not provide documentation to support payments to external contractors or to support how much profit the departments generated.

Misuse of FEMA Funds – The Omaha Tribe used FEMA funds to pay for the tribe's normal operating expenses, a "bonus" to its tribal-owned construction management company, and unauthorized repairs to its old casino building. According to 44 CFR 206.223(a)(1), an item of work must "[b]e required as the result of the emergency or major disaster event" to be eligible for financial assistance. The Omaha Tribe's general ledger account for emergency management of FEMA funds showed payments of $37,296 for normal operating expenses (see table 2).

Table 2: Examples of Non-Disaster Expenses Claimed

Expense Description	Amount
Miscellaneous Expenses	$ 21,159
Legal Fees	13,438
Utilities Assistance	2,694
Bank Fees	5
Total	**$37,296**

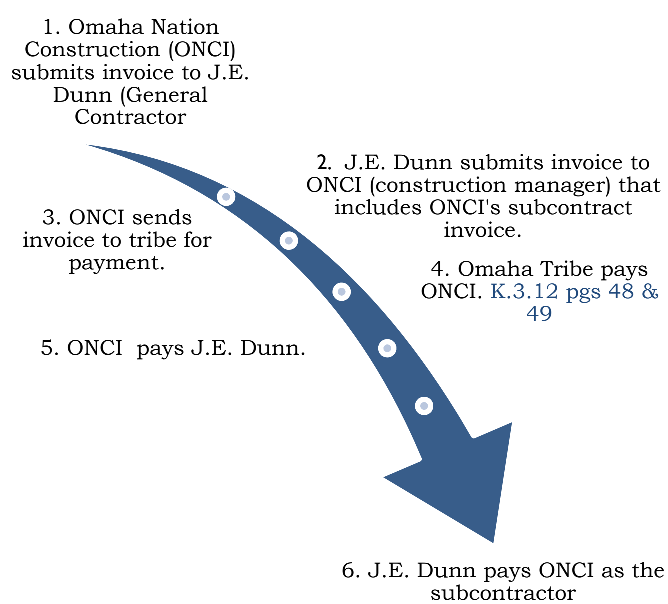
Source: Omaha Tribe quarterly financial reporting to FEMA

The Omaha Tribe also paid its general contractor a bonus for not spending all the money FEMA estimated to build the new casino. When the Omaha Tribe's wholly owned construction management contractor spent *less* than the amount FEMA estimated for the new casino, the tribe simply paid $312,282 to the contractor as a "bonus" outside the terms of the contract for "savings realized." Of course, a payment to its wholly owned contractor is essentially a payment to itself. If we set that aside, we still maintain that a grantee paying a contractor a bonus outside the terms of a contract is unreasonable and demonstrates why the tribe's conflicts of interest, misunderstanding of the Federal grant program, and disregard for Federal regulations caused such serious problems. This bonus violates both the basic tenets of contracting and practical business sense; it was simply a method used to seize FEMA's remaining funding.

In addition, the Omaha Tribe used $168,764 in FEMA funds to repair its old casino. Without detailed invoices and additional documentation, we could not separate all the costs for the new and old casinos. Tribal Council Minutes showed that the Omaha Tribe intended to use FEMA grant funds to reopen the old casino as a bingo hall. With the exception of mold remediation, the decision to build a new casino rendered any repairs to the old casino ineligible for FEMA funding.

Also, concerning the new casino, the tribe's wholly owned construction management contractor, Omaha Nation Construction, billed its general contractor, J.E. Dunn Construction $210,000 for "Subcontract for Labor" (see figure 2).

Figure 2: Omaha Nation Construction's Payment to Itself via Subcontractor



J.E. Dunn, in turn, passed this billing back to Omaha Nation Construction to include it in its billing to the tribe. The tribe then used FEMA funds to pay Omaha Nation Construction. The invoice did not describe the labor allegedly provided to J.E. Dunn; and the Omaha Tribe could not provide any supporting documentation for the work performed. This arrangement allowed the tribe to nearly double its project management revenue from a *fixed fee* of $256,101 to $466,101 ($256,101 plus $210,000). *Fixed fees*, by definition, should not change. A tribal official said it was to hire members of the tribe to assist the subcontractor in building the casino. However, Omaha Nation Construction's bank statements did not indicate the company incurred these costs.

Due to the pervasive financial management weakness and lack of adequate supporting documentation, we question $13.9 million as unsupported.[4] To protect Federal funds, FEMA Region VII should not allow the Omaha Tribe to draw down any additional funding until FEMA regional officials can confirm the tribe completed the FEMA-approved work.[5] If the tribe performed the work, FEMA should only fund the reasonable cost of that work.

Finding B: Procurement Weaknesses and Artificial Profits

The Omaha Tribe did not comply with Federal procurement regulations in any material way. The tribe inappropriately awarded noncompetitive contracts to itself and tribal-owned firms to generate artificial profits to cover its $1.65 million non-Federal cost share. Because of the unreliable accounting information, we were unable to determine what the tribe spent or how much profit the tribe generated from these arrangements.

Specifically, the tribe generated artificial profits from awarding $11.0 million in noncompetitive contracts to itself or businesses it owns and controls. Federal regulation at 44 CFR 13.22(a)(2) specifically prohibits profits to grantees. Furthermore, without contractor competition, FEMA has no assurance that prices were reasonable.

The tribe's Emergency Management Director asserted that the Omaha Tribe was entitled to contract in this way and thus generate profit. These artificial profits generated funds to help the tribe pay its $1.65 million non-Federal cost share. In fact, the tribe's lawyer expressed his concerns to the Tribal Council

[4] We calculated our unsupported questioned costs as the entire $16,911,502 in grant funding, less $74,749 in expenditures we were able to confirm as eligible and supported. We then reduced this net amount by $2,784,568 for the unneeded funding for Projects 8 and 34, and $165,000 in unclaimed insurance proceeds resulting in $13,887,484 in unsupported costs.
[5] As of July 21, 2015, the Omaha Tribe had drawn down $12.1 million of the $12.2 million Federal funds obligated.

that the tribal-owned company was "nothing more than on paper," "can't do the work needed," and was "only set up for the money to go through." Despite these concerns, the Tribal Council passed a resolution to make the tribal-owned company its construction manager on FEMA projects. Importantly, we did not find evidence showing the construction manager added value to the recovery work.

Beyond his general assertion of tribal sovereignty, the tribe's Emergency Management Director said Federal regulations are not realistic for Native American tribes because they do not take into account how difficult it is for tribes to obtain contractors as most tribes are economically depressed; therefore, contractors do not want to do business with them. Regardless, as stated previously, the principle of tribal sovereignty does not allow Native American tribes to poorly manage their finances, profit from Federal grants, pay themselves bonuses, or disregard Federal regulations. The tribe agreed to follow the rules. In the 2011 FEMA-Omaha Tribe of Nebraska and Iowa Agreement, the tribe agreed to "comply with all applicable laws and regulations" including 44 CFR and applicable OMB circulars.

Because we questioned nearly all costs due to weak financial management and unsupported costs, we do not question any additional costs as ineligible in this finding.

Finding C: Unused Federal Funds

FEMA should put to better use $2,784,568 in unneeded Federal funding. The Omaha Tribe did not use funds for two projects under DR-1998, including $2,770,177 for Project 8, and $14,391 for Project 34.

FEMA approved $2,770,177 under Project 8 for a retail center on Main Street in Macy, Nebraska. This was an alternate project combining funding from other repair projects (or "donor" projects). Nevertheless, except for some minor initial design activities, this project has not yet begun. Given the number of years that have passed since the original disaster event, the lack of progress indicates that there is no real need for this alternate project or the funding. Of the $2,770,177 FEMA approved for Project 8, $766,157 was not yet obligated (see breakdown on potential monetary benefits in table 5, appendix F).

FEMA approved $74,936 under Project 34 for replacement of contents to the damaged casino. However, the Omaha Tribe claimed only $60,545, or $14,391 less than the approved amount. Omaha Tribe officials told us that they do not have any additional costs to claim for this project. As such, the remaining funds are unnecessary.

Federal appropriations laws and the *Statement of Federal Financial Accounting Standards* require Federal agencies to record obligations in the accounting records on a factual and consistent basis throughout the government.[6] The over-recording and the under-recording of obligations are equally improper. Both practices make it impossible to determine the precise status of Federal appropriations. As such, we recommend that FEMA put these funds to better use.

Finding D: Unclaimed Insurance Benefits

The Omaha Tribe neglected to inform FEMA that it had $165,000 of limited flood insurance coverage through a private insurance carrier on 11 tribal-owned homes damaged in the disaster. As a result, FEMA did not have the opportunity to allocate anticipated insurance proceeds to applicable projects to reduce approved (obligated) funding. We determined that the Omaha Tribe filed a claim with its insurance carrier, but subsequently withdrew it.

According to Section 312(a) of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended (*Stafford Act*), no entity will receive assistance for any loss for which it has received financial assistance from any program, from insurance, or from any other source. Furthermore, Federal regulations at 44 CFR 206.250(c) require FEMA to deduct "[a]ctual and anticipated insurance recoveries from otherwise eligible costs."

Tribal officials told us that, at the time of FEMA's insurance review, they were not aware they had insurance coverage on the homes and that the Tribe's poor financial management allowed the insurance benefits to go unclaimed. Although this may explain the original lack of disclosure, it does not explain why tribal officials did not provide this information to FEMA when they became aware of it or why they withdrew the claim. The anticipated insurance proceeds would have served to reduce needed FEMA funding. Although the tribe did not receive the benefits, they were available; and taxpayers should not bear the burden of the tribe's mismanagement. As such, we recommend that FEMA disallow the $165,000 of unclaimed insurance coverage as an ineligible duplication of benefits.

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[6] U.S. Government Accountability Office (GAO), *Principles of Federal Appropriations Law*, 3rd ed., vol. Il, ch. 7, § B, GAO-06-382SP (Washington, D.C.: Feb. 2006) (Criteria for Recording Obligations (31 USC 1501)).

Finding E: Grant Management Problems

The conditions we identify in this report clearly stem from the Omaha Tribe's failure to manage its FEMA grants effectively. Grantees are responsible for properly managing and monitoring day-to-day grant activities to ensure compliance with applicable Federal regulations (44 CFR 13.40(a)).

To avoid these problems in the future, FEMA Region VII should take steps to protect itself from the loss of Federal funds from poor grant management. The most critical step would be to develop procedures to assess the financial and programmatic capacity of grantees before allowing them unrestricted access to funding. In addition, FEMA Region VII should provide technical assistance to the Omaha Tribe to help improve its financial and grant management capabilities. Until then, FEMA should protect itself from future losses by designating the tribe as a high-risk grantee.

Assessing the Financial Capacity of Grantees – As with all Public Assistance grantees, FEMA provided the Omaha Tribe unrestricted access to more than $12.1 million in Federal funds (see table 3, appendix E) through Smartlink.[7] To prevent the loss and mismanagement of Federal funds in the future, FEMA Region VII needs to do more to assess the financial capacity and grant management capabilities of its grantees proactively. FEMA Grants Management Division performs a grantee risk assessment for existing grants that includes several grant risk factors. This is an annual review, though, that is not directly tied to pre-award risk assessment. FEMA Region VII should enhance its procedures to identify high-risk grantees proactively.

Although states typically have considerable experience managing disaster grants, United States territories and tribal nations may not. In addition, even an experienced and established financial and management environment may deteriorate over time, especially if an entity experiences a severe economic crisis. Therefore, when the President declares new disasters, FEMA Region VII should establish additional procedures to assess proactively whether grantees have the capacity to manage and account for FEMA funds properly before granting them access to Smartlink. As this is likely a systemic problem, we plan to inform FEMA headquarters of this risk to Federal funds in a separate audit report.

[7] Smartlink is the system FEMA uses to make Federal grant funds available to grantees from its account with the U.S. Treasury. In this case, the amount available to the Omaha Tribe was the approved award amount times the initial 75 percent Federal share of the award for all projects except the 2 management cost project worksheets, which were at 100 percent. As stated previously, FEMA Region VII has not obligated the increased [to 90 percent] Federal share of funds.

***High-Risk Grantee* –** In future disasters, FEMA Region VII should consider that the Omaha Tribe poses a high risk based on the risk items noted at 2 CFR 200.205(c); and impose special conditions on the tribe's grant awards (2 CFR 200.207(a)). According to Federal regulation, an awarding agency may impose special award conditions through additional requirements as needed if the agency determines that an applicant —

- is not financially stable;
- has a management system that does not meet Federal standards;
- has a history of poor performance in managing Federal awards;
- has unsatisfactory reports and findings from audits; or
- is unable to effectively implement statutory, regulatory, or other requirements.

The findings in this report demonstrate that the tribe meets all these criteria. Therefore, FEMA should consider that the tribe poses a high risk, impose special conditions on the tribe's grant awards, and use all available legal remedies to protect taxpayers. According to 2 CFR 200.207(a), Federal agencies may impose conditions and restrictions on high-risk grantees and subgrantees, such as the following:

- making payments only on a reimbursement basis;
- withholding authority to proceed to the next phase until receipt of evidence of acceptable performance; and
- requiring more detailed financial reports, additional project monitoring, and technical or management assistance.

These steps should help protect taxpayers from the loss of Federal funds.

Other Matters

Federal law requires that Native American tribes give contracting preference to Native American organizations "to the greatest extent feasible." Although this law provides special opportunities for tribes to hire Native American-owned firms, the ability to apply this preference is not limitless. Federal agencies have wide discretion in determining how to implement this preference. However, FEMA has not issued regulations nor provided any other guidance on this preference. Therefore, we will be completing an audit to address this important issue and to determine the extent to which FEMA's lack of oversight contributed to the findings in this report.

Conclusion

The Omaha Tribe's financial management system was poor and the tribe did not maintain documentation adequate to support its expenditures. As a result, we have little assurance the disaster-related costs were reasonable or valid or that the tribe actually completed its FEMA-authorized work. The Omaha Tribe violated Federal regulation by essentially contracting with itself to generate artificial profits to cover its $1.65 million, non-Federal cost share (see table 3, appendix E). The tribe also disbursed Federal funds for non-grant related items. The financial management system and supporting documentation are in such disarray that the only practical path forward is for FEMA Region VII officials to visit the Omaha Tribe to confirm whether the tribe performed the work as described in the project worksheets. FEMA should then only fund the reasonable costs of eligible work actually performed, less any Omaha Tribe profits.

Recommendations

We recommend that the Regional Administrator, FEMA Region VII:

Recommendation 1: Disallow approximately $13,887,185 (Federal share $12,498,467) as unsupported unless FEMA grants an exception to administrative requirements (as related to financial management and procurement) as 44 CFR 13.6(c) authorizes and confirms that the Omaha Tribe completed the FEMA-approved work at a reasonable cost (findings A and B).

Recommendation 2: Continue withholding additional Federal funds from the Omaha Tribe until FEMA has completed actions to implement recommendation 1 (findings A and B).

Recommendation 3: Reverse actual and planned funding of $2,784,568 (Federal share $2,506,111) in unneeded funding for Projects 34 and 8 (including donor projects) under DR-1998-IA and put those funds to better use (finding C). Of this amount, $2,004,020 should be deobligated and we consider $766,157 as cost avoidance.

Recommendation 4: Disallow $165,000 (Federal share $148,500 for unclaimed insurance coverage the Omaha Tribe did not report to FEMA for tribal-owned homes (finding D).

Recommendation 5: Enhance regional procedures for assessing risk posed by applicants (grant recipients), as an interim solution, until FEMA issues a formal policy (finding E).

Recommendation 6: Continue to provide technical assistance to Omaha Tribe officials to assist them in improving the tribe's financial and grant management capabilities (finding E).

Recommendation 7: Designate the Omaha Tribe as an applicant (grant recipient or subrecipient) that poses a high risk for future disasters and impose some or all of the conditions and restrictions suggested in 2 CFR 200.207(b) until the Omaha Tribe corrects its financial and grant management problems (finding E).

Discussion with Management and Audit Follow-up

We discussed the results of our audit with the Omaha Tribe officials during our audit and included their comments in this report, as appropriate. We discussed the findings with FEMA officials on August 19, 2016. We considered their comments in developing our final report and incorporated their comments as appropriate. We also provided a draft report in advance to these officials and discussed it at an exit conference with FEMA on November 3, 2016. FEMA officials generally agreed with our findings and recommendations.

FEMA officials provided a written response on January 6, 2017, and agreed with our findings and recommendations (see appendix B). FEMA's responses were sufficient to resolve all seven recommendations in this report. For recommendations 2, 5, 6, and 7, FEMA officials provided documentation that it took corrective actions sufficient to achieve these audit recommendations. Therefore, we consider recommendations 2, 5, 6, and 7 resolved and closed with no further action required from FEMA.

For recommendations 1, 3, and 4, FEMA officials provided corrective action plans with target completion dates of December 31, 2017. We consider the described corrective action plans as sufficient to resolve these three recommendations. For recommendation 1, FEMA officials stated that they would review each large project to determine the amount of eligible costs and will issue determination memorandums for any disallowed costs, including reviewing any ineligible costs identified in the audit report. For recommendation 3, FEMA officials stated that, in conjunction with their actions for recommendation 1, they will review actual costs submitted and will disallow any cost underruns, including reductions due to ineligible costs, during the project closeout process. For recommendation 4, FEMA officials stated that they will deduct applicable insurance amounts from the eligible cost for each home during project closeout. Recommendations 1, 3, and 4 are resolved and open.

Office of Audits major contributors to this report were Tonda L. Hadley, Director (retired); Christopher Dodd, Director (retired); John Polledo, Audit Manager; Lori Smith, Auditor-in-Charge; Christina Sbong, Auditor; Jamie Hooper, Auditor; Kevin Dolloson, Communications Analyst; and Jacob Farias and Larry Jones, Independent Reference Reviewers.

Appendix A
Objective, Scope, and Methodology

We audited FEMA Public Assistance grant funds awarded to the Omaha Tribe (Public Assistance Identification Number for 1998-DR-IA 000-59092-00 and 4013-DR-NE 000-37035-00). Our audit objective was to determine whether the tribe accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Numbers 1998-DR-IA and 4013-DR-NE. FEMA awarded the Omaha Tribe $16.9 million for damages resulting from flooding that occurred from May to September 2011. The award initially provided 75 percent Federal funding for 25 large and 60 small projects. FEMA Region VII subsequently reduced the number of large projects to 22 after approving some alternate projects making the final number of approved projects 82 (22 large and 60 small, including the 2 project worksheets for grantee management); and, on April 19, 2016, the President increased the Federal cost share to 90 percent (see appendices E and F).

The audit covered the period May 24, 2011, through April 19, 2016, the cutoff date of our audit. We audited 82 projects totaling $16.9 million, or 100 percent, of the total award for both disaster declarations. The Omaha Tribe did not have insurance to cover the flooding damage except for minor insurance coverage for its residential housing. The tribe filed, but later withdrew, a claim for the damages with its insurance company and did not report the insurance coverage to FEMA Region VII.

To accomplish our objectives, we interviewed FEMA and Omaha Tribe officials; reviewed the tribe's disaster-related contracts awarded and supporting documents; judgmentally selected and reviewed (generally based on dollar amounts) project costs and procurement transactions; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective. We did not perform a detailed assessment of tribe's internal controls over its grant activities because it was not necessary to accomplish our audit objective. However, we did gain an understanding of the tribe's method of accounting for disaster-related costs and its procurement policies and procedures.

Appendix A (continued)
Objective, Scope, and Methodology

We conducted this performance audit between July 2015 and November 2016 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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. Unless stated otherwise in this report, to conduct this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
FEMA Region VII Audit Response

U.S. Department of Homeland Security
Region VII
9221 Ward Parkway, Suite 300
Kansas City, MO 64114-3372

FEMA

January 6, 2017

MEMORANDUM TO: Tonda Hadley
Director, Central Regional Office - South
Office of Inspector General

FROM: Beth Freeman
Regional Administrator, Region VII
Federal Emergency Management Agency

BETH A FREEMAN

SUBJECT: *The Omaha Tribe of Nebraska and Iowa Mismanaged $14 Million in FEMA Disaster Grants*
Audit Report Number OIG-17-XX-D

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security's Federal Emergency Management Agency (FEMA) Region VII appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report. FEMA Region VII also appreciates the additional efforts by the audit team to coordinate with regional personnel throughout the process and to ensure that FEMA Region VII was continuously apprised of the status of the audit.

The draft report contained seven recommendations which FEMA Region VII concurs with. Please see the attached for our detailed response to the recommendations.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you in the future.

Attachment

Appendix B (continued)
FEMA Region VII Audit Response

Attachment A
FEMA Region VII Management Response to
Recommendations Contained in OIG-17-XXX-D

<u>Recommendation 1:</u> Disallow approximately $13,887,484 (Federal share $12,714,224) as unsupported unless FEMA grants an exception to administrative requirements (as related to financial management and procurement) as 44 CFR 13.6(c) authorizes and confirms that the Omaha Tribe completed the FEMA-approved work at a reasonable cost (findings A and B).

FEMA Region VII Response: Concur. As noted in the recommendation, 44 CFR 13.6(c) provides FEMA with the discretion to allow an exception to administrative requirements for financial management and procurement. FEMA is currently evaluating the option of granting an exception and will make a determination once all relevant information has been gathered. FEMA anticipates reaching a decision on the appropriate path forward by January 31, 2017.

Regardless of FEMA's determination, as required by Public Assistance (PA) program regulations, FEMA will review each large project to determine the amount of eligible costs and will issue determination memos for any disallowed costs, including reviewing any ineligible costs identified in the audit report. Estimated Completion Date (ECD): December 31, 2017

<u>Recommendation 2:</u> Continue withholding additional Federal funds from the Omaha Tribe until FEMA has completed actions to implement recommendation 1 (findings A and B).

FEMA Region VII Response: Concur. In letters dated May 4, 2016 and July 18, 2016, FEMA informed the Tribe that no additional funding, including the increased cost share, will be obligated until such time as FEMA determined the final cost allowed. At that time, FEMA will recalculate the federal share based on the eligible amount determined at closeout. FEMA requests that this recommendation be considered resolved and closed.

<u>Recommendation 3:</u> Reverse actual and planned funding of $2,784,568 (Federal share $2,256,795) in unneeded funding for Projects 34 and 8 (including donor projects) under DR-1998-IA and put those funds to better use (finding C). Of this amount, $2,004,020 should be deobligated and we consider $766,157 as cost avoidance.

FEMA Region VII Response: Concur. For project 34, FEMA will review the actual costs submitted and will disallow any cost underruns, including reductions due to ineligible costs, during the project closeout process. Related to the unused funds for project 8, in a letter dated October 19, 2016, FEMA issued a first appeal determination denying the Tribe's appeal of an alternate project denial and time extension. As a result, FEMA has disallowed the amount identified as cost avoidance. In a letter dated December 26, 2016, the Tribe submitted a second appeal to FEMA regarding the disallowed costs, seven days past the timeframe required by regulations. As this is a second appeal, the Region forwarded the second appeal to FEMA HQ on December 28, 2016.

Appendix B (continued)

FEMA Region VII Audit Response

Because the Tribe has drawn down all funding, FEMA cannot deobligate the amount obligated for project 8. Additionally, the Tribe returned $1,347,256.65 based on a request from FEMA during the first appeal. Therefore, FEMA will have to seek reimbursement for the denied costs, minus the amount returned. Additionally, while the alternate project was not completed, the Tribe is still eligible to retain funding for any demolition work completed on the original site. During the large project closeout process, FEMA will review the eligible demolition costs and seek reimbursement for any costs deemed ineligible. This action will not be completed until actions under recommendation #1 are completed and until FEMA HQ renders a decision on the second appeal. ECD: December 31, 2017

Recommendation 4: Disallow $165,000 (Federal share $148,500) for unclaimed insurance coverage the Omaha Tribe did not report to FEMA for tribal-owned homes (finding D).

FEMA Region VII Response: Concur. As indicated in the report, FEMA was not aware of the insurance coverage for the tribal-owned homes. During project closeout, FEMA will deduct $15,000 from the eligible cost for each home. ECD: December 31, 2017

Recommendation 5: Enhance regional procedures for assessing risk posed by applicants (grant recipients), as an interim solution, until FEMA issues a formal policy (finding E).

FEMA Region VII Response: Concur. FEMA Region VII's Grant Division-Award Administration section enhanced its existing entity evaluation process to improve upon the assessment of risk posed by potential recipients of FEMA funding. In addition to addressing risk during application review, an annual process will ensure ready information available for FEMA Region VII recipients. A copy of the Entity Evaluation Notebook was provided separately to the OIG auditors. FEMA requests that this recommendation be considered resolved and closed.

Recommendation 6: Continue to provide technical assistance to Omaha Tribe officials to assist them in improving the tribe's financial and grant management capabilities (finding E).

FEMA Region VII Response: Concur. In the past, FEMA has invited the Omaha Tribe to attend various Public Assistance program trainings and has offered to provide technical assistance via site visits from program and grant management personnel. FEMA will expand upon the previous efforts by sending a letter to the Omaha Tribe identifying additional technical assistance resources and planned FY 2017 Grant Management and Public Assistance training opportunities. ECD: January 31, 2017

Recommendation 7: Designate the Omaha Tribe as an applicant (grant recipient or subrecipient) that poses a high risk for future disasters and impose some or all of the conditions and restrictions suggested in 2 CFR 200.207(b) until the Omaha Tribe corrects its financial and grant management problems (finding E).

Appendix B (continued)
FEMA Region VII Audit Response

FEMA Region VII Response: Concur. FEMA issued a letter dated January 3, 2017 informing the Omaha Tribe that they have been designated as a high risk entity. The notification contained information regarding specific conditions and restrictions being imposed on current and future grant awards as well the process for reconsideration of the high risk designation. A copy of the letter was provided separately to the OIG auditors. FEMA requests that this recommendation be considered resolved and closed.

Appendix C
Example of Omaha Nation Billing Its Own Subcontractor

Omaha Nation Construction, Inc.

Box 226
Onawa
IA 51040

Invoice

Date	Invoice #
8/29/2013	32

Bill To
J.E. Dunn Construction 17110 Marcy St., Suite LL01 Omaha, NE 68118 Attn: [redacted]

Name of individual person redacted for privacy

P.O. No.	Terms	Project

Quantity	Description	Rate	Amount
	Subcontract for Labor Contract Approved for $210,000	210,000.00	210,000.00

AUDITOR'S COMMENT: The tribe's project manager presented this invoice to its subcontractor to be included in the subcontractor's billing back to the project manager. This invoice does not describe the work performed and shows that the tribal-owned construction management contractor indirectly paid itself $210,000 through its subcontractor (see report, p. 3).

Please remit to above address.

Total $210,000.00

Appendix D Example of Invoice Without Description of Work Performed or Job Titles

Prochaska & Associates, Inc.
Planning - Architecture - Engineering
11317 Chicago Circle
Omaha, NE 68154-2633

Invoice

Invoice #: 7668
Invoice Date: 5/24/2012
Due Date: 6/8/2012
P.O. Number:

Bill To:
Omaha Tribe
Attn: [redacted]
PO Box 368
Macy, NE 68039

Names of individual persons redacted for privacy

Project: 121402 Omaha Tribe Casino - Macy

Description	Hours/Qty	Amount
Professional Services		0.00
[redacted]	35	5,250.00
[redacted]	5	275.00
[redacted]	2.75	151.25
[redacted]	79	9,085.00
[redacted]	38.5	3,465.00
[redacted]	4.75	498.75
[redacted]	1	125.00

AUDITOR'S COMMENT: The contract was based on rates for job titles, not names. Without the job titles or description of work on the invoices, we cannot determine whether the contractor charged the proper rates; and, in this case, we cannot tell whether this work was for work done to the old casino or new casino (see report, p. 7).

Total this invoice $18,850.00

Terms: The total amount of this invoice is due upon receipt. Finance charges will be incurred at the maximum rate allowed by applicable state law, but not to exceed 1.5% per month or 18% per annum on all accounts not paid within 15 days from invoice date. For questions, please contact Accounts Receivable at 402-334-0755.

Appendix E
Disaster Award Cost Shares

Table 3: Breakdown of Federal/Non-Federal Cost Shares

	Federal Cost Share % - Combined Disaster Numbers		
	75%	**90%**	**Increase / (Decrease)**
Grant Award - 100%			
Project Worksheets (Cat. A-G)*	$16,530,570	$16,530,570	$ 0
Grantee Management Costs (Cat. Z)*	380,932	380,932	0
Total Award	16,911,502	16,911,502	0
Non-Federal Share			
Project Worksheets (Cat. A-G)*	4,132,642	1,653,057	(2,479,585)
Grantee Management Costs (Cat. Z)*	0	0	0
Total Non-Federal Cost Share	4,132,642	1,653,057	(2,479,585)
Federal Share			
Project Worksheets (Cat. A-G)*	12,397,928	14,877,513	2,479,585
Grantee Management Costs (Cat. Z)*	380,932	380,932	0
Total Federal Cost Share	$12,778,860	$15,258,445	$2,479,585
Funds Accessed by Tribe			
Total Federal Share	$12,778,860		
Project 8 (DR-1998) – Additional Funding not Obligated ($766,157 x 75%)	(574,618)		
Funds Tribe Did Not Draw Down	(70,668)		
Total Funds Accessed by Tribe	$12,133,574		

Source: FEMA Project Worksheets and financial transactions, Omaha Tribe records, and OIG Analysis

* FEMA classifies disaster-related work by type: debris removal (Category A), emergency protective measures (Category B), permanent work (Categories C through G), and grant management costs (Category Z).

Appendix F
Potential Monetary Benefits

Table 4: Projects Audited and Questioned Costs

Project No.	Award Amount	Eligible and Supported	Ineligible & Unsupported Finding A	Unused Funds Finding C*	Duplication of Benefit Finding D
7	$ 475,448	$ 33,397	$ 442,051	$ 0	$ 0
8	2,770,177	0	0	2,770,177	0
10	366,886	0	366,886	0	0
15	298,124	19,430	278,694	0	0
33	342,830	21,922	320,908	0	0
34	74,936	0	60,545	14,391	0
36	263,112	0	263,112	0	0
38**	321,282	0	321,282	0	0
39	8,536,704	0	8,536,704	0	0
All Small Projects (27)	463,666	0	463,666	0	0
Total DR-1998-IA	13,913,165	74,749	11,053,848	2,784,568	0
2	249,708	0	234,708	0	15,000
3	148,073	0	133,073	0	15,000
4	138,573	0	123,573	0	15,000
5	146,149	0	131,149	0	15,000
6	186,203	0	171,203	0	15,000
7	186,203	0	171,203	0	15,000
8	151,681	0	136,681	0	15,000
9	201,237	0	186,237	0	15,000
10	234,649	0	219,649	0	15,000
39	397,054	0	397,054	0	0
41	186,203	0	171,203	0	15,000
42	186,203	0	171,203	0	15,000
44	218,240	0	218,240	0	0
45 (small**)	59,650	0	59,650	0	0
Other Small Projects (32)	308,511	0	308,511	0	0
Total DR-4013-NE	2,998,337	0	2,833,337	0	165,000
Total Both Disasters	**$16,911,502**	**$ 4,749**	**$13,887,185**	**$2,784,568**	**$ 165,000**

Source: FEMA Project Worksheets and financial transactions, Omaha Tribe records, and OIG Analysis
*At the time of our audit cutoff, FEMA had not yet obligated $766,157 of Project 8.
**Large Project 38, and Small Project 45 are Category Z projects for Grantee Management Costs.

Appendix F (continued)
Potential Monetary Benefits

Table 5: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Amounts	Federal Share (90%)
Questioned Costs – Unsupported	$ 13,887,185	$ 12,498,467
Questioned Costs – Duplication of Benefit	165,000	148,500
Funds Put to Better Use (Cost Avoidance)	766,157	689,541
Funds Put to Better Use (Unused Funds)	2,018,411	1,816,570
Totals	**$16,836,753**	**$ 15,153,078**

Source: OIG analysis of findings in this report

Appendix G
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