OFFICE OF INSPECTOR GENERAL

Pulaski County, Missouri, Could Benefit from Additional Assistance in Managing Its FEMA Public Assistance Grant

Homeland Security

August 7, 2015

OIG-15-119-D

DHS OIG HIGHLIGHTS

Pulaski County, Missouri, Could Benefit from Additional Assistance in Managing Its FEMA Public Assistance Grant

August 7, 2015

Why We Did This

Pulaski County (County) received an award of $5.8 million from the Missouri State Emergency Management Agency (Missouri), a Federal Emergency Management Agency (FEMA) grantee, for damages resulting from severe storms, straight-line winds, and flooding in August 2013. We conducted this audit early in the grant process to identify areas where the County may need additional technical assistance or monitoring to ensure compliance with Federal grant requirements.

What We Recommend

FEMA should direct Missouri to provide additional technical assistance and monitoring to the County to ensure compliance with all Public Assistance grant requirements.

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 County's policies, procedures, and business practices were generally adequate to account for and expend FEMA Public Assistance grant funds according to Federal regulations and FEMA guidelines. However, the County's procurement policies and procedures did not include all elements needed to comply fully with Federal requirements for the approximately $724,515 in estimated future disaster contracting.

It is Missouri's responsibility to ensure that its subgrantees are aware of and follow Federal requirements. However, County officials told us they were not aware of all the Federal requirements. After we discussed these issues with County officials, they said they planned to comply fully with these requirements in their future contracting actions.

FEMA Response

FEMA officials generally concurred with our findings and recommendation. FEMA's written response is due within 90 days.

August 7, 2015

MEMORANDUM FOR: Beth A. Freeman
Regional Administrator, Region VII
Federal Emergency Management Agency

FROM: John V. Kelly
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Pulaski County, Missouri, Could Benefit from Additional Assistance in Managing Its FEMA Public Assistance Grant*
Audit Report Number OIG-15-119-D

We audited Federal Emergency Management Agency (FEMA) funds awarded to Pulaski County, Missouri (County). We conducted this audit early in the Public Assistance Program process to identify areas where the County may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines. In addition, by undergoing an audit early in the grant cycle, grant recipients have the opportunity to correct non-compliance before they spend the majority of their grant funding. It also allows them the opportunity to supplement deficient documentation or locate missing records before too much time elapses.

The Missouri State Emergency Management Agency (Missouri), a FEMA grantee, awarded the County $5.8 million for damages resulting from severe storms, including straight-line winds and flooding, that occurred in August 2013. The award provided 75 percent FEMA funding for debris removal and permanent repairs for 50 projects—17 large projects and 33 small projects.[1] At the time of our audit, Missouri had reimbursed the County $803,693 for its small projects, and the County had incurred costs of $389,165 for work on eight small and two large projects. To assess the County's policies and procedures for disaster costs, we reviewed $158,789 in cost documentation for the only large project the County had completed. We also reviewed the County's two largest contracts with expenditures totaling $224,062, representing approximately 56.4 percent of the County's disaster-related contract expenditures of $397,479 (see appendix A).

[1] Federal regulations in effect at the time of the disaster set the large project threshold at $67,500.

Background

Straight-line winds, severe storms, and subsequent flooding in August 2013 caused debris and gravel road washouts in the County. The flooding inundated the damaged roads with approximately 2 feet of water. The President declared a major disaster on September 6, 2013, authorizing FEMA to support Missouri and local response and begin recovery efforts.

Figure 1: Rochester Road, Pulaski County, Missouri

Source: Pulaski County, Missouri

Results of Audit

Except for procurement, the County's policies, procedures, and business practices are generally adequate to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. We identified two areas in the County's contracting procedures that did not fully comply with Federal procurement standards. Specifically, the County's procurement policies did not include procedures to assure the use of minority firms, women's business enterprises, and labor surplus area firms when possible and to include specific provisions in federally funded contracts.

County officials told us they were not aware of these Federal requirements, but would fully comply with them in their future contracting actions, which they estimate to be about $724,515 for this disaster. It is the grantee's (Missouri) responsibility to ensure that their subgrantees are aware of and follow Federal requirements. Therefore, FEMA should direct Missouri to provide additional technical assistance and monitoring to the County to ensure compliance with all Public Assistance grant requirements. FEMA should also review Missouri's most current state administrative plan and work with Missouri to ensure it is able to fully perform its responsibilities for managing the Public Assistance Program under this and other open federally declared disasters.

Finding A: Policies, Procedures, and Business Practices

Except for some problems with procurement, the County's policies, procedures, and business practices are generally adequate to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. For example, the County's policies and procedures were adequate to properly account for disaster costs on a project-by-project basis. Further, the County's employee timesheets, daily activity logs, equipment summaries, invoices, and canceled checks supported disaster costs. The County also purchased a new accounting system to make project accounting easier.

We discussed project performance with County officials because, although the disaster occurred in August 2013, and the President declared it in September 2013, the County has not expended most of its grant funding. Federal regulations set project completion deadlines from the date of declaration—6 months for debris clearance and emergency work and 18 months for permanent work (44 Code of Federal Regulations (CFR) 206.204(c)). Based on extenuating circumstances or unusual project requirements beyond the control of the subgrantee, the grantee may extend the deadlines for an additional 6 months for debris clearance and emergency work and an additional 30 months, on a project-by-project basis, for permanent work. The grantee may request additional time extensions from the FEMA Regional Administrator (44 CFR 206.204(d)).

County officials told us and we verified that FEMA did not begin approving the majority of project worksheets until March 2014, approximately 6 months after the disaster declaration date. County officials also said that FEMA required them to submit cost documentation multiple times because FEMA inspectors did not communicate with each other. They went on to say that, after FEMA finished writing the project worksheets, there were major discrepancies between the estimated project costs and the actual costs of the projects. FEMA and Missouri officials confirmed that there are problems with the project worksheets and said they are in the process of working with the County to correct these problems. We verified that Missouri and FEMA had approved the required time extensions for project completions.

We also discussed the Federal requirement for the County to obtain and maintain insurance (44 CFR 206.253(b)(1)). County officials said they were aware of this requirement and have procedures in place to obtain and maintain insurance. However, the majority of the damages were to roads, which are not typically an insurable risk.

Finding B: Procurement Procedures

The County's contracting procedures do not comply with two Federal procurement standards that require subgrantees to—

- take all necessary affirmative steps to assure the use of minority firms, women's business enterprises, and labor surplus area firms when possible (44 CFR 13.36(e)); and
- include specific provisions in federally funded contracts, such as those for record retention, legal remedies, prohibition of "kickbacks," and termination for cause (44 CFR 13.36(i)).

At the time of our audit, two pre-existing contractors were providing the County rock and gravel from a local quarry. We reviewed these two contracts, with costs totaling $224,062, to assess the County's compliance with procurement regulations at 44 CFR 13.36.

Although the County awarded these pre-existing contracts using full and open competition, the County did not take all necessary affirmative steps in awarding these contracts. Therefore, FEMA has no assurance that these types of firms received sufficient opportunities to bid on federally funded work, as Congress intended. These required steps, listed at 44 CFR 13.36(e)(2), include placing these types of firms on solicitation lists, using the services and assistance of the Small Business Administration and the Minority Business Development Agency of the Department of Commerce, and requiring its prime contractors to take the same affirmative steps for subcontracts.

The County also did not include any of the contract provisions in these two contracts that 44 CFR 13.36(i) requires. This regulation requires contracts and subcontracts to include specific provisions, such as Equal Employment Opportunity compliance and compliance with labor laws, and gives the subgrantee, grantee, and FEMA the right to examine the contractor's records. These contract provisions document the rights and responsibilities of the parties and minimize the risk of contract misinterpretations and disputes.

County officials explained that they solicit bids and award these contracts annually for materials they use in road repair and that they follow Missouri's procurement policy. They said they were not aware of the Federal requirements at the time they awarded these contracts. They also said that the County competitively awarded contracts for road-repair materials to local quarries because there are few quarries in this area and more distant quarries might have charged higher shipping costs. County officials said they will comply with all Federal procurement standards in future disaster contracts, which they estimate to be about $724,515 for this disaster.

Finding C: Grant Management

These findings occurred in part because Missouri did not ensure that the County was aware of and followed Federal procurement standards. Federal regulations at 44 CFR 13.37(a)(2) require grantees to ensure that subgrantees are aware of requirements that Federal regulations impose on them. Further, 44 CFR 13.40(a) requires grantees to manage the day-to-day operations of subgrant activity and monitor subgrant activity to ensure compliance with applicable Federal requirements. Therefore, FEMA should direct Missouri to provide County officials with technical assistance to ensure it complies with Federal procurement standards for $724,515 in projected future disaster contract work.

Missouri officials disagreed with this finding saying that, because of limited staffing and resources, it is unrealistic for Missouri to manage the day-to-day operations of every applicant. However, Missouri officials said they will incorporate information on Federal procurement standards into their applicant briefing presentations. FEMA officials said they inform all applicants of Federal procurement standards at their applicant kick-off meetings.

Regarding Missouri officials' comments, as we state above, 44 CFR 13.40(a), which applies to grantees for this disaster, requires grantees to manage the day-to-day operations of subgrant activity and monitor subgrant activity to ensure compliance with applicable Federal requirements. Federal regulation 2 CFR 200.331(d), effective for future disasters, changes the requirement slightly. It requires pass-through entities (i.e., grantees) to "Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved."

Regardless of whether Missouri manages the "day-to-day" subgrant activity or monitors subrecipients "as necessary," both the old regulation in effect at the time and the new regulation for future disasters require that the grantee ensure that the subgrantee (i.e., subrecipient) complies with Federal requirements. It is not enough, therefore, to merely inform subgrantees of Federal requirements; grantees must ensure that subgrantees comply with those requirements. Missouri did not ensure the County's compliance and implies that it does not have sufficient resources and staff to do so.

We identify Missouri's grant management shortfalls as a partial cause for the findings in this report. However, the scope of our audit did not include (1) fully assessing the adequacy of Missouri's grant management or (2) determining whether the management costs and direct administrative costs FEMA pays states is sufficient to provide a state with adequate resources and staff to perform its grant management duties.

Therefore, FEMA should review Missouri's most current state administrative plan and work with Missouri to ensure it is able to fully perform its responsibilities for managing the Public Assistance program under this and other open federally declared disasters. Federal regulations at 44 CFR 206.207 require states to develop a plan for the administration of the Public Assistance program that includes at a minimum, the items listed below:

- Identify staffing functions in the Public Assistance program, the sources of staff to fill these functions, and the management and oversight responsibilities of each.
- Comply with the administrative requirements of 44 CFR parts 13 and 206.
- Determine staffing and budgeting requirements necessary for proper program management.

Recommendations

We recommend that the Regional Administrator, FEMA Region VII:

Recommendation 1: Direct Missouri to provide additional technical assistance and monitoring to the County to ensure compliance with all Public Assistance grant requirements in future contracts. Missouri's assistance will lessen the risk of the County losing $724,515 in Federal funding because of noncompliance with Federal contracting requirements (finding C).

Recommendation 2: Review Missouri's most current state administrative plan and work with Missouri to ensure it is able to fully perform its responsibilities for managing the Public Assistance program under this and other open federally declared disasters (finding C).

Discussion with Management and Audit Follow-up

We discussed these findings with County, Missouri, and FEMA officials during the course of this audit and included their comments in this report, as appropriate. We also provided a draft report in advance to these officials and discussed it at the exit conference with FEMA on April 30, 2015, and with

Missouri and the County on May 14, 2015. FEMA officials generally concurred with our findings and recommendations.

Within 90 days from the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for the recommendation. Also, please include the contact information for responsible parties and any other supporting documentation necessary to inform us about the status of the recommendation. Please email a signed pdf copy of all responses and closeout request to christopher.dodd@oig.dhs.gov. Until we receive and evaluate your response, we will consider the recommendations open and unresolved.

The Office of Emergency Management Oversight major contributors to this report are Christopher Dodd, Director; Paige Hamrick, Director; Judy Martinez, Audit Manager; Rebecca Hetzler, Auditor-in-Charge; and Raeshonda Keys, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Christopher Dodd, Director, Central Regional Office - South, at (214) 436-5200.

Appendix A

Objective, Scope, and Methodology

We audited FEMA Public Assistance grant funds awarded to the County, Public Assistance Identification Number 169-99169-00. Our audit objective was to determine whether the County's policies, procedures, and business practices are adequate to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number 4144-DR-MO. Missouri awarded the County $5.8 million for damages resulting from severe storms, straight-line winds, and flooding in August 2013. The award provided 75 percent FEMA funding for 17 large projects and 33 small projects.

Our audit covered the period September 6, 2013, to September 30, 2014, and focused primarily on the County's policies and procedures and its supporting documentation for one completed Category C (roads and bridges) project for roadway repairs. We performed our review based on data available from August 2013, the start of the incident period, until September 2014, the end date of our audit period. At the time of our audit, Missouri had reimbursed the County $803,693 for its small projects, and the County had incurred costs of $389,165 for work on eight small and two large projects.

We reviewed $158,789 in cost documentation for the one large completed project in our audit scope to assess the County's compliance with Federal regulations and FEMA guidelines and to determine whether the County adequately supported the costs for eligible project activities, and accounted for costs on a project-by-project basis. We selected this project because it was the only completed large project. We also reviewed the two largest contracts with expenditures totaling $224,062, representing approximately 56.4 percent of the County's expended disaster-related contract costs of $397,479. For these two contracts, we assessed the County's procurement policies and procedures to determine whether they were adequate and complied with Federal regulations and standards.

Appendix A (continued)

Table 1 shows the gross and net award amounts before and after reductions for insurance for all projects and for the project in our audit scope.

Table 1: Gross and Net Award Amounts

	Gross Award Amount	Insurance Reductions	Net Award Amount
All Projects	$5,819,305	$(22,515)	$5,796,790
Audit Scope	$152,930	$(0)	$152,930

Source: FEMA project worksheets

We conducted this performance audit from September 2014 to April 2015 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. In conducting this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

Appendix B

Potential Future Monetary Benefits

Table 2: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Amounts	Federal Share
Funds Put to Better Use – Cost Avoidance	$ 724,515	$ 543,386
Questioned Costs – Ineligible	0	0
Questioned Costs – Unsupported	0	0
Totals	**$724,515**	**$543,386**

Source: OIG analysis of report findings

Appendix C

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Attention: Hotline
245 Murray Drive, SW
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