

**City of Hazelwood, Missouri,
Needs Additional Assistance
and Monitoring to Ensure
Proper Management of Its
Federal Grant**





DHS OIG HIGHLIGHTS

City of Hazelwood, Missouri, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its Federal Grant

August 11, 2016

Why We Did This Audit

At the time of our audit, the City of Hazelwood, Missouri (City), estimated it had sustained approximately \$3.3 million in damages from flooding in December 2015. We conducted this audit early in the grant process to identify areas where the City may need additional technical assistance and monitoring to ensure compliance with Federal requirements.

What We Recommend

The Federal Emergency Management Agency (FEMA) should direct Missouri to provide additional technical assistance and increase its monitoring of the City to ensure it complies with Federal procurement standards.

For Further Information:

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

What We Found

The City's accounting policies, procedures, and business practices are adequate to account for FEMA grant funds according to Federal regulations and FEMA guidelines. However, the City needs to revise its procurement policies, procedures, and business practices to comply fully with all Federal procurement standards. If the City makes these revisions and follows them, FEMA should have reasonable assurance that—

- full and open competition will occur, which increases the opportunity for obtaining reasonable pricing from the most qualified contractors;
- minority firms, women's business enterprises, and labor surplus area firms will receive sufficient opportunities to compete for federally funded work; and
- the risk of misinterpretations and disputes relating to contracts will be minimum.

At the time of our fieldwork, FEMA had not completed project worksheets to define the scope of disaster work, and the City had not yet begun disaster work. Because of our audit and meetings FEMA and Missouri held with the City, the City supplemented its grant procedure policy to include a checklist of FEMA's Public Assistance requirements. If the City follows its procurement policies, FEMA should have reasonable assurance that the City will properly manage its Federal grant.

FEMA Response

FEMA officials generally agreed with our findings and recommendation and have taken actions sufficient to resolve and close our recommendation. Therefore, we consider this report closed and require no further action from FEMA.



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Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

August 11, 2016

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

FROM: Thomas M. Salmon
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *City of Hazelwood, Missouri, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its Federal Grant*
Audit Report Number OIG-16-116-D

We audited the capability of the City of Hazelwood, Missouri (City), to manage Federal Emergency Management Agency (FEMA) Public Assistance grant funds. We conducted this audit early in the Public Assistance process to identify areas where the City 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 noncompliance 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.

At the time of our fieldwork, the State of Missouri Department of Public Safety, State Emergency Management Agency (Missouri), a FEMA recipient, had not awarded any of the approximately \$3.3 million in damages the City estimated it sustained from severe storms, tornadoes, straight-line winds, and flooding beginning December 23, 2015, and continuing through January 9, 2016. The award provided 75 percent Federal funding for debris removal, emergency protective measures, and permanent work. The disaster did not cause damage to insurable facilities. Therefore, the City did not receive any insurance proceeds for damages resulting from this disaster or need to obtain insurance to cover similar damages in future disasters. At the time of our fieldwork, FEMA had not yet completed project worksheets to define the scope of disaster work, and the City had not begun disaster work.¹

¹ On May 16, 2016 (after our cutoff date), FEMA formulated one project totaling \$29,960.



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Background

The City of Hazelwood, Missouri, is one of the largest cities in St. Louis County and home to nearly 27,000 residents. Beginning in late December 2015, a 50 to 75 mile wide area from southwest Missouri to St. Louis received 6 to 12 inches of rain. The heavy rainfall caused severe flooding that damaged sections of the City's road and retaining wall.

Figure 1: Hillside along Missouri Bottom Road, Hazelwood



Source: City of Hazelwood, Missouri

Results of Audit

The City's accounting policies, procedures, and business practices are adequate to account for FEMA grant funds according to Federal regulations and FEMA guidelines. The City should be able to account for disaster-related costs on a project-by-project basis and maintain documentation sufficient to support disaster costs. However, the City needs to revise its procurement policies, procedures, and business practices to comply fully with all Federal procurement standards. Therefore, FEMA should direct Missouri, as FEMA's recipient, to provide additional assistance and monitoring to ensure the City



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follows Federal procurement standards in spending the estimated \$3.3 million for eligible disaster work.

Finding A: Policies, Procedures, and Business Practices

Project Cost Accounting

The City has adequate policies, procedures, and business practices to account for FEMA grant funds according to Federal regulations and FEMA guidelines. The City has an effective system in place to ensure it accounts for disaster costs on a project-by-project basis and can adequately support disaster-related costs as the following Federal regulations and FEMA guidelines require:

- Recipients must account for large project expenditures on a project-by-project basis (44 Code of Federal Regulations (CFR) 206.205(b)). FEMA requires subrecipients to keep records for all projects on a project-by-project basis (*Public Assistance Program and Policy Guide*, FP 104-009-2, January 2016, p. 134).
- Subrecipients must maintain accounting records that adequately identify the source and application of Federal funds and maintain source documentation to support those accounting records (2 CFR 200.302(b)(3)).

The City established a unique cost code to designate all disaster-related expenses and included the location of the specific disaster-related activity that will enable it to account for all costs by project. We did not test specific project costs because, at the time of our cutoff date, the City had not yet begun work on either of its two damaged sites. However, we discussed these accounting procedures with City officials to gain an understanding of how the City will track the costs it intends to claim for FEMA reimbursement, and they appear adequate. We determined that the City could properly segregate costs by project and maintain sufficient detailed documentation to support the disaster-related costs.

Procurement Practices

The City does not have sufficient procurement policies, procedures, and business practices to comply with Federal procurement standards. As a result, (1) full and open competition may not always occur, which increases the risk of unreasonable prices, fraud, waste, and abuse; (2) disadvantaged firms, such as minority firms and women's business enterprises may not have sufficient opportunities to compete for federally funded work; and (3) the risk of misinterpretations and disputes relating to contracts may increase.



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Federal procurement standards at 2 CFR 200.317 through .326 require that subrecipients—

1. perform procurement transactions in a manner providing full and open competition (2 CFR 200.319(a));
2. take all necessary affirmative steps to assure the use of minority firms, women's business enterprises, and labor surplus area firms when possible (2 CFR 200.321(a)); and
3. include required provisions in all their contracts (2 CFR 200.326).

To evaluate the City's procurement practices, we reviewed its policies and procedures in effect at the time of the disaster and discussed these practices with the City's contracting officials. As of April 13, 2016, the City had not yet awarded any contracts for disaster-related damage nor incurred any costs for either of its damaged sites. This is due, in part, because the City was still developing funding considerations and possible mitigation measures.²

Full and Open Competition — The City's procurement policy requires competition for service-type contracts but specifically excludes professional service contracts, i.e., architect and engineering (A/E) contracts, from full and open competition. According to City officials, the City mails prospective A/E firms a brief description of the work needed and a list of qualifications necessary to complete that work. The City selects the best qualified firm and negotiates a contract based on the responses.

Without full and open competition, FEMA has little assurance that contract costs are reasonable. Full and open competition usually increases the number of bids received and thereby increases the opportunity for obtaining reasonable pricing from the most qualified contractors. It also allows greater opportunity for small businesses, minority firms, and women's business enterprises to compete for federally funded work. Full and open competition also helps discourage and prevent favoritism, collusion, fraud, waste, and abuse.

Disadvantaged Firms — The City's procurement policy, procedures, and business practices do not include taking required affirmative steps to assure the use of minority firms, women's business enterprises, and labor surplus area firms when possible. The required steps include, among other things, placing qualified small and minority businesses and women's business enterprises on solicitation lists; dividing total requirements, when economically feasible, into smaller tasks or quantities; and using the services and assistance of the Small Business Administration and the Minority Business Development

² During an exit conference held June 15, 2016, FEMA officials said the City's \$3.1 million Missouri Bottom Road project was not eligible for FEMA grant funding because it was a Federal-aid road, for which the U.S. Department of Transportation is responsible. However, the City must follow Federal regulations regardless of which Federal agency pays for the damages.



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Agency of the Department of Commerce to solicit and use these firms. Although familiar with the need to solicit these types of disadvantaged firms, City officials said they generally rely on the A/E firm or the Missouri Department of Transportation to ensure they meet the state's "Disadvantaged Business Entity" percentage requirements.

Required Contract Provisions — Federal regulations require specific provisions for contracts and subcontracts, including remedies and termination clauses, compliance with labor laws, and prohibitions of "kickbacks" (2 CFR 200.326)). These provisions describe the rights and responsibilities of the parties and minimize the risk of misinterpretations and disputes. City officials told us they review vendors' contracts to ensure they meet City requirements and incorporate by reference all Federal provisions included within the corresponding bidding documents. However, the two contract examples the City provided did not include all the required Federal provisions.

City officials stated that they were not fully aware of the required procurement standards for Federal grants and that they rely on their A/E firms and the Missouri Department of Transportation for compliance with contracting requirements. As a result of our audit and meetings FEMA and Missouri held with the City, the City supplemented its grant procedure policy to include a checklist of FEMA's Public Assistance requirements.³ The checklist includes, among other things: competing A/E contracts; taking the necessary affirmative steps to assure the use of minority businesses, women's business enterprises, and labor surplus area firms when possible; and including all required Federal provisions within disaster-related contracts. City officials estimated they plan to spend about \$3.3 million for disaster-related contract work. However, at the time of our fieldwork, they had not yet started any project work.

Finding B: Grant Management

Missouri provided Federal procurement regulations to the City after the disaster declaration. However, the City could benefit from additional grant management and needs monitoring to ensure that it complies with Federal procurement standards. In its FEMA-State Agreement (FSA-4250-FEMA-DR-MO, p. 2), Missouri agreed to comply with, and to require all subrecipients to comply with, the requirements of all applicable laws and regulations, including the *Stafford Act*⁴ and applicable FEMA policies and guidance. Federal regulation at 2 CFR 200.331(d) requires recipients to monitor the

³ On January 1, 2016, the City enacted a new grant procedure policy that states it should outline and document, in checklist format, compliance requirements for each grant it receives. However, at the time of our fieldwork, the City had not yet prepared the checklist outlining FEMA's Public Assistance grant requirements.

⁴ *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended (*Stafford Act*).



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subrecipient's activities to ensure that the subaward is in "compliance with Federal statutes, regulations, and the terms and conditions of the subaward." Therefore, Missouri should provide additional technical assistance to and increase its monitoring of the City to ensure it complies with Federal procurement standards. Doing so should provide reasonable assurance that the City will spend the \$3.3 million in estimated damages for eligible disaster work according to Federal procurement standards.

Recommendation

We recommend that the Regional Administrator, FEMA Region VII:

Recommendation 1: Direct Missouri to provide additional technical assistance and monitoring to the City to ensure it complies with Federal procurement regulations for awarding disaster contracts and to prevent the potential improper spending of approximately \$3,300,000 (\$2,475,000 Federal share) in procurements (findings A and B). We consider this recommendation to be resolved and closed and require no further action from FEMA because, on June 7 and 8, 2016, FEMA Region VII held conference calls with Missouri officials to discuss Missouri's subrecipient monitoring requirements and how it notifies applicants to properly procure contracts.

Discussion with Management and Audit Follow-up

We discussed the results of our audit with FEMA, Missouri, and City officials during our audit. We provided a draft report in advance to these officials and discussed it at exit conferences with FEMA and City officials on June 15, 2016, and Missouri officials on June 16, 2016. We considered their comments in developing our final report and incorporated their comments as appropriate.

Missouri officials generally agreed with our findings and recommendation, and on July 13, 2016, said they will continue to assist the City with its accounting and documentation of large projects and provide them any technical assistance they require. In addition, Missouri called the City and emailed them various procurement documents including the Office of Inspector General's *Audit Tips for Managing Disaster Related Project Costs*, *Checklist for Procurements Associated with Disasters*, and the Code of Federal Regulations procurement standards.

On July 15, 2016, we received FEMA's written response to this report (see appendix B). FEMA officials agreed with findings A and B and concurred with recommendation 1. According to FEMA officials, they conducted two conference calls with Missouri officials on June 7 and 8, 2016, to discuss Missouri's subrecipient monitoring requirements and how they notify applicants to properly procure contracts. In addition, FEMA determined the estimated \$3.1



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million of damages to the Missouri Bottom Road project is not eligible for Public Assistance funding. Based on FEMA's actions, we consider recommendation 1 to be resolved and closed and require no further action from FEMA.

The Office of Emergency Management Oversight major contributors to this report were Paige Hamrick, Director; John Polledo, Audit Manager; and David B. Fox, Senior Auditor.

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



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Appendix A

Objective, Scope, and Methodology

We audited the capability of the City of Hazelwood, Missouri (City), Public Assistance Identification Number 189-31276-00, to manage Federal Emergency Management Agency (FEMA) Public Assistance funds. Our audit objective was to determine whether the City'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 4250-DR-MO. As of April 13, 2016, the cutoff date of our audit, FEMA had not yet obligated any funding or completed its development of project worksheets for damages resulting from severe storms, tornadoes, straight-line winds, and flooding beginning on December 23, 2015, and continuing through January 9, 2016. The City estimated it had sustained approximately \$3.3 million of disaster-related damages (see table 1). The award will provide 75 percent FEMA funding for debris removal, emergency work, and permanent work for large and small projects.⁵ As of the audit cutoff date, Missouri had not paid the City for any of its projects, and the City had not submitted any reimbursement requests for its disaster costs.

Table 1: Estimated Disaster-Related Damages

Location	Estimated Cost* to Repair
Missouri Bottom Road and Hillside	\$ 3,100,000
Nathaniel Court Retaining Wall	200,000
Totals	\$3,300,000

Source: Office of Inspector General (OIG) analysis

* Because FEMA determined the Missouri Bottom Road project is not eligible for Public Assistance program funding and that the estimated costs to repair the Nathaniel Court retaining wall were minimal, we did not report any cost avoidance.

We interviewed FEMA, Missouri, and City officials; assessed the adequacy of the policies, procedures, and business practices the City uses and plans to use to account for and expend Federal grant funds and to procure and monitor contracts for disaster work; 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 the City's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

⁵ Federal regulations in effect at the time of the disaster set the large project threshold at greater than \$121,800 [*Notice of Adjustment of Disaster Grant Amounts*, Vol. 80, No. 198, Fed. Reg. 61,836 (Oct. 14, 2015)].



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We conducted this performance audit between April and June 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 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.



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Appendix B
FEMA's Comments to the Draft Report

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



FEMA

July 15, 2016

MEMORANDUM TO: Paige Hamrick
Director, Central Regional Office - North
Office of Inspector General

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

SUBJECT: *City of Hazelwood, Missouri, Needs Additional Assistance
and Monitoring to Ensure Proper Management of Its
\$3.3 Million FEMA Grant
Audit Report Number OIG-16-023-D*

**BETH A
FREEMAN**

Digitally signed by BETH A FREEMAN
DN: cn=BETH A FREEMAN, o=U.S. Government,
ou=Department of Homeland
Security, ou=FEMA, ou=Region
VII, email=BETH.A.FREEMAN@
dhs.gov, c=US
Date: 2016.07.15 09:22:53 -0500

Thank you for the opportunity to review and comment on this draft report. The 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. Region VII recognizes the proactive nature of conducting an audit early in the Public Assistance program process and acknowledges the positive assessment regarding the sub-recipient's accounting policies and procedures.

As noted in the draft report, the City of Hazelwood had not started disaster work and FEMA had not yet formulated project worksheets to define the scope of work prior to the start of the audit fieldwork. As a result, the State of Missouri's Department of Public Safety had not awarded funding to the City of Hazelwood for damages incurred during the storm event. Initial estimates were that the City had sustained approximately \$3.1 million in damages to the Missouri Bottom Road and approximately \$200,000 in damage to the Nathaniel Court Retaining Wall. Based on subsequent reviews of the two potential projects, FEMA Region VII determined that the Missouri Bottom Road project is not eligible for funding under the Public Assistance program and the estimated cost of the repairs to the Nathaniel Court Retaining Wall are approximately \$29,960. Therefore, FEMA Region VII does not expect to obligate \$3.3 million in project funding for the applicant.

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

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



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Appendix B (continued)

Attachment A

FEMA Region VII Management Response to Recommendations Contained in OIG-16-023-D

Recommendation #1: Direct Missouri to provide additional technical assistance and monitoring to the City to ensure it complies with Federal procurement regulations for awarding disaster contracts and to prevent the potential improper spending of approximately \$3,300,000 (\$2,475,000 Federal share) in procurements (findings A and B).

FEMA Region VII Response: Concur. On June 7th & 8th 2016, FEMA Region VII's Public Assistance Branch held a conference calls with the State of Missouri Department of Public Safety, State Emergency Management Agency (SEMA) personnel to discuss sub-recipient monitoring requirements and how SEMA notifies applicants of the requirements to properly procure contracts. A copy of the conference call agenda was provided separately to the OIG auditors.

To date, SEMA has taken the following actions to ensure the City, and all applicants, better understand and comply with Federal procurement requirements: Applicant briefings included additional information on procurement requirements and stress the requirement to seek women and minority owned businesses; sent OIG audit tips to applicants which included procurement requirement checklists; requested and received procurement training from FEMA's Procurement Disaster Assistance Team (PDAT) in May 2016 which was attended by approximately 200 Public Assistance applicants; and require applicants to sign a document titled "Assurance of Compliance with 2 CFR 200.317 – 200.326 which highlights common procurement issues.



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Appendix C **Report Distribution**

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Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305