

**Phelps County, Missouri,
Needs Additional Assistance
and Monitoring to Ensure
Proper Management of Its
\$1.97 Million FEMA Grant**





DHS OIG HIGHLIGHTS

Phelps County, Missouri, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its \$1.97 Million FEMA Grant

August 17, 2016

Why We Did This Audit

FEMA estimated that the County had sustained approximately \$1.97 million in damages from severe storms and flooding in late 2015. 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 regulations and FEMA guidelines.

What We Recommend

FEMA should disallow \$130,089 as ineligible contract costs and direct Missouri to provide additional technical assistance and monitoring to the County 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-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

Phelps County, Missouri's (County) accounting policies, procedures, and business practices are adequate to account for Federal Emergency Management Agency (FEMA) Public Assistance grant funds according to Federal regulations and FEMA guidelines. However, the County needs to revise its procurement policies, procedures, and business practices to comply fully with all Federal procurement standards. If the County makes these revisions and follows them, FEMA should have reasonable assurance that—

- minority firms, women's business enterprises, and labor surplus area firms will have sufficient opportunities to compete for federally funded work; and
- the risk of misinterpretations and disputes relating to the contracts will be minimized.

County officials told us they plan to complete the majority of disaster-related work with their own employees, with only small procurements from outside firms for materials hauling services.

At the time of our fieldwork, FEMA had not completed project worksheets to define the complete scope of disaster work. Because of this uncertainty, Missouri should provide the County additional technical assistance and monitoring. Doing so should provide FEMA reasonable assurance that the County will follow Federal procurement standards in spending at least the remaining estimated \$55,000 of eligible disaster-related contract costs.

FEMA Response

FEMA officials generally agreed with our findings and recommendation. Appendix B includes FEMA's written response in its entirety.



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Department of Homeland Security

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

August 17, 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: *Phelps County, Missouri, Needs Additional Assistance
and Monitoring to Ensure Proper Management of Its
\$1.97 Million FEMA Grant*
Audit Report Number OIG-16-120-D

We audited the capability of Phelps County, Missouri (County), to manage Federal Emergency Management Agency (FEMA) Public Assistance grant funds. 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 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 yet awarded any of the \$1.97 million in estimated damages the County sustained from severe storms, tornadoes, straight-line winds, and flooding beginning December 23, 2015, and continuing through January 9, 2016. The award will provide 75 percent Federal funding for debris removal, emergency protective measures, and permanent work. The disaster did not cause damage to insurable facilities. Therefore, the County did not receive any insurance proceeds for damages resulting from this disaster, nor does it need to obtain insurance to cover similar damages in future disasters. At the time of our fieldwork, FEMA had not completed project worksheets to define the scope of disaster work, and the County had not yet completed most of its disaster-related work or filed claims for reimbursement.



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Background

The County is located in central Missouri, approximately 107 miles southwest of St. Louis. It covers an area of approximately 674 square miles and has an estimated population of 44,794. Much of the County is included within the Ozark Highlands, a wine grape-growing region. During late December 2015 through early January 2016, intense and prolonged rainfall caused flooding and very high water flows in County waterways. Flooding carried debris and caused damage to several County roads (see figure 1). The President declared the disaster on January 21, 2016.

Figure 1: County Road 7460, Phelps County



Source: Phelps County, Missouri



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Results of Audit

The County's accounting policies, procedures, and business practices are adequate to account for FEMA grant funds according to Federal regulations and FEMA guidelines. The County is able to account for disaster-related costs on a project-by-project basis and maintain documentation sufficient to support disaster costs. County officials told us they plan to complete the majority of disaster-related work with their own employees, with only small procurements from outside firms for materials hauling services. However, the County's procurement policies, procedures, and business practices are not adequate to comply with all Federal procurement standards. Therefore, FEMA should disallow \$130,089 that the County has awarded for two contracts that did not comply with Federal procurement standards.

Because the County was not aware of all the required Federal procurement standards, FEMA should also direct Missouri, as FEMA's recipient, to provide additional technical assistance and monitoring to the County. Doing so should ensure the County follows Federal procurement standards in spending at least the remaining estimated \$55,000 for eligible disaster-related contract costs.

Finding A: Policies, Procedures, and Business Practices

Project Cost Accounting

The County has an effective system in place to ensure it accounts for disaster-related 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 County designated a specific accounting code for all disaster-related costs. We assessed the adequacy of the County's policies and procedures to account for procurement costs and for the County's own labor, equipment, and materials. We did not test specific project costs because the County had not summarized its costs as of our audit cutoff date. However, we discussed these



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accounting procedures with County officials to gain an understanding of how the County will track the costs it intends to claim for FEMA reimbursement. We also reviewed the accounts payable and payroll systems for compliance with applicable policies and procedures, and they appear adequate. We determined that the County could properly segregate costs by project and maintain sufficient detailed documentation to support its disaster-related costs.

Procurement Practices

The County's procurement policies, procedures, and business practices do not meet all Federal procurement standards. As a result, (1) disadvantaged businesses, such as minority firms and women's business enterprises, may not have received sufficient opportunities to bid on federally funded work; and (2) the lack of required contract provisions increases the risk of misinterpretations and disputes relating to contracts. As of the audit cutoff date of April 28, 2016, the County had procured materials hauling services from two contractors totaling \$130,089 and told us it planned to use contractors for only \$55,000 more of its remaining disaster-related work.¹

Federal procurement standards require, in part, that subrecipients—

- 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); and
- include required provisions in all of 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 reviewed the methodology it used to award two contracts. We also discussed procurement practices with County officials. Although the County did not follow all Federal procurement standards, it did have policies, procedures, and business practices in place to: (1) use full and open competition; (2) conduct cost or price analysis; (3) maintain adequate records documenting procurement history; and (4) monitor its vendors to ensure they met the terms, conditions, and specifications of their contracts.

Disadvantaged Firms— With respect to procurements for FEMA awards, the County does not have procurement procedures to meet the socio-economic requirements of 2 CFR 200.321(a). As such, disadvantaged businesses may not

¹ The county's procurement activities fall below the Simplified Acquisition Threshold, the dollar amount below which a non-Federal entity may purchase property or services using small purchase methods. Non-Federal entities adopt small purchase procedures to expedite the purchase of items costing less than the simplified acquisition threshold, currently \$150,000 (2 CFR 200.88).



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have had an opportunity to participate in providing services. Federal regulation requires completion of specific steps including: placing qualified small and minority firms 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, as appropriate, of such organizations as the Small Business Administration and the Minority Business Development Agency of the Department of Commerce to solicit and use these firms (2 CFR 200.321(b)).

Required Contract Provisions — The County was not aware of the requirement for contract provisions and did not include any of the required provisions in its two contracts. Federal regulations require specific provisions for contracts and subcontracts, including remedies and termination clauses, nondiscrimination, compliance with labor laws, and prohibitions of “kickbacks” (2 CFR 200.326; 2 CFR 200 Appendix II). These provisions describe the rights and responsibilities of the parties and minimize the risk of misinterpretations and disputes.

County officials told us that, although they are familiar with the procurement requirements and have procedures in place to address them for other Federal and State-funded projects, they were not aware that the requirements applied to FEMA awards. County officials told us they were surprised with our findings because they had provided FEMA copies of these contracts at the kick-off meeting, and FEMA officials did not mention the need to include any specific contract provisions.

County officials told us that their current plan is to only procure approximately \$55,000 in additional outside services. Because the County did not follow all Federal procurement standards on contracts it has awarded, we question \$130,089 (\$97,567 Federal share) as ineligible contract costs.²

Finding B: Grant Management

Missouri officials told us that they provided information regarding Federal procurement standards to the County shortly after the disaster and also provided similar information for a previous disaster declaration. Missouri officials added that they have stressed procuring with disadvantaged firms at all meetings. County officials told us that their guidance from Missouri officials had been minimal. Therefore, the County could benefit from additional technical assistance and monitoring from Missouri to ensure that it follows all 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

² FEMA had not yet obligated any funds related to the disaster; therefore, we classify the \$185,089 (\$130,089 + \$55,000) of questioned costs as a cost avoidance (see appendix C).



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regulations, including the *Stafford Act* and applicable FEMA policies and guidance.³ Federal regulation at 2 CFR 200.331(d) requires recipients to monitor the subrecipient's activities to ensure that the subaward is used "in compliance with Federal statutes, regulations, and the terms and conditions of the subaward." Missouri officials also told us that they plan to increase their efforts to communicate requirements of Federal procurement standards to all disaster grant recipients.

Providing additional technical assistance and monitoring to the County should provide reasonable assurance that the County will spend the remaining estimated \$55,000 of disaster-related procurements according to Federal procurement standards.

Recommendations

We recommend that the Regional Administrator, FEMA Region VII:

Recommendation 1: Disallow \$130,089 (\$97,567 Federal share) as ineligible contract costs, unless FEMA grants an exception for all or part of the costs as 2 CFR 200.102(b) allows and determines the costs are reasonable (finding A).

Recommendation 2: Direct Missouri to provide technical assistance and monitoring to the County to ensure it complies with Federal procurement regulations for awarding disaster contracts that the County currently estimates to be \$55,000 (\$41,250 Federal share) (finding B).

Discussions with Management and Audit Follow-Up

We discussed the results of our audit with FEMA, Missouri, and County officials during our audit. 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 exit conferences with FEMA officials on May 15, 2016, and with Missouri and County officials on May 16, 2016. FEMA, Missouri, and County officials generally agreed with our findings and recommendations.

FEMA Region VII officials provided a written response on July 15, 2016, and agreed with our findings and recommendations (see appendix B). For recommendation 2, FEMA officials took corrective action to direct Missouri to provide the County with technical assistance and monitoring; therefore, we consider this recommendation resolved and closed with no further action required from FEMA. For recommendation 1, FEMA officials agreed with the finding and stated that they would work with Missouri and the County to

³ Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended.
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determine the eligibility and reasonableness of the contract costs we questioned. However, FEMA did not provide a target completion date for its proposed corrective actions. Therefore, we consider recommendation 1 open and unresolved.

To resolve recommendation 1, please provide our office with a target completion date for planned corrective actions within 90 days from the date of this memorandum. 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 Paige.Hamrick@oig.dhs.gov. We will post the final report on our website, including your formal comments as an appendix to the report.

The Office of Emergency Management Oversight major contributors to this report are Paige Hamrick, Director; John Polledo, Audit Manager; and Doug Denson, Auditor-in-Charge.

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 Phelps County, Missouri (County), Public Assistance Identification Number 161-99161-00 to manage Federal Emergency Management Agency (FEMA) Public Assistance grant funds. 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 4250-DR-MO. As of April 28, 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 award will provide 75 percent FEMA funding for debris removal, emergency work, and permanent work for large and small projects.⁴ As of the audit cutoff date, Missouri had not paid the County for any of its projects and the County had not submitted any reimbursement requests for its disaster costs.

We interviewed FEMA, Missouri, and County officials; assessed the adequacy of the policies, procedures, and business practices the County uses and plans to use to account for and expend Federal grant funds and to procure for and monitor disaster work; judgmentally selected and reviewed (generally based on dollar amounts) 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 the County's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between March 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.

⁴ 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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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

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: *Phelps County, Missouri, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its \$1.97 Million FEMA Grant*
Audit Report Number OIG-16-022-D

**BETH A
FREEMAN**

Digitally signed by BETH A FREEMAN
DN: cn=BETH A FREEMAN,
ou=U.S. Department of Homeland Security,
ou=Region VII, email=BETH.A.FREEMAN@DHS.gov,
c=US
Date: 2016.07.15 08:51:54 -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.

FEMA Region VII and the State have already implemented several actions to assist Phelps County, as well as other sub-recipients of Public Assistance funding, in understanding and complying with Federal procurement requirements. FEMA Region VII will continue to seek opportunities to proactively collaborate with our disaster grant program recipients to ensure technical assistance is provided in a timely and effective manner.

Specific to the Phelps County Public Assistance projects, please note that FEMA is currently in the project formulation stage and has not reviewed the estimated amount of damages. Therefore, subsequent reviews may increase or reduce the amount of funding awarded to the applicant based on PA program eligibility requirements.

The draft report contained two 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



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Appendix B (continued)

Attachment A

FEMA Region VII Management Response to Recommendations Contained in OIG-16-022-D

Recommendation #1: Disallow \$130,089 (\$97,567 Federal share) as ineligible contract costs, unless FEMA grants an exception for all or part of the costs as 2 CFR 200.102(b) allows and determines the costs are reasonable (finding A).

FEMA Region VII Response: Concur. FEMA Region VII agrees with this recommendation; however, the Region will work with the State of Missouri's Department of Public Safety, State Emergency Management Agency (grantee) and Phelps County (sub-recipient) in conducting a comprehensive analysis of the questioned costs to determine reasonableness and eligibility. Please note that FEMA Region VII is currently formulating applicant projects and has not reviewed the estimated amount of damages for each individual project. As a result, the estimated completion date for this recommendation has not been determined.

Recommendation #2: Direct Missouri to provide technical assistance and monitoring to the County to ensure it complies with Federal procurement regulations for awarding disaster contracts that the County currently estimates to be \$55,000 (finding 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 Potential Monetary Benefits

Table 1: Cost Avoidance

FEMA Category of Work*	Estimated Cost to Repair	Cost Avoidance** (Findings A&B)
C	\$ 1,960,992	\$ 185,089
A	10,500	0
B	3,000	0
Totals	\$1,974,492	\$185,089

Source: Office of Inspector General (OIG) analysis

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

** FEMA has not yet obligated the estimated \$1,974,492 of damage to the projects on which the County expects to expend contracting costs; therefore, we classify the costs in Recommendations 1 (\$130,089) and 2 (\$55,000) as a cost avoidance.

Table 2: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Amount	Federal Share
Questioned Costs – Ineligible	\$ 0	\$ 0
Questioned Costs – Unsupported	0	0
Funds Put to Better Use (Cost Avoidance)	185,089	138,817
Totals	\$185,089	\$138,817

Source: OIG analysis of report findings



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Appendix D **Report Distribution**

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