

**City of Eureka, Missouri,
Needs Additional Assistance
and Monitoring to Ensure
Proper Management of Its
\$1.5 Million FEMA Grant**





DHS OIG HIGHLIGHTS

City of Eureka, Missouri, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its \$1.5 Million FEMA Grant

September 23, 2016

Why We Did This Audit

At the time of our audit, FEMA estimated that the City of Eureka, Missouri (City), had sustained approximately \$1.5 million in damages from flooding in December 2015. We conducted the audit early in the grant process to identify areas where the City may need additional technical assistance or monitoring to ensure compliance with Federal procurement requirements.

What We Recommend

FEMA should direct Missouri to provide additional technical assistance and increase its monitoring of the City to ensure it complies with applicable 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

Most of the City's policies, procedures, and business practices are adequate to account for grant funds according to Federal regulations and FEMA guidelines. However, the City's procurement policies, procedures, and business practices are not adequate to meet minimum Federal standards and address key procurement elements such as —

- using full and open competition to minimize risk of unreasonable contract costs, fraud, waste, and abuse;
- providing sufficient opportunities for disadvantaged firms to compete for federally funded work; and
- protecting against conflicts of interest.

At the time of our fieldwork, FEMA had not completed project worksheets to define the complete scope of disaster work. Because of these uncertainties, Missouri, as FEMA's grant recipient, should provide the City additional technical assistance and increased monitoring. Doing so should provide FEMA reasonable assurance that the City will follow Federal procurement standards in spending the estimated \$1.5 million of disaster-related costs.

FEMA Response

FEMA Region VII officials generally agreed with our findings and recommendation and have taken action sufficient to resolve and close our recommendation. Therefore, we consider this report closed and require no further action from FEMA. FEMA's written response is at appendix B.



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Department of Homeland Security

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

September 23, 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 Eureka, Missouri, Needs Additional Assistance
and Monitoring to Ensure Proper Management of Its
\$1.5 Million FEMA Grant*
Audit Report Number OIG-16-137-D

We audited the capability of the City of Eureka, 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 grant recipient, had not yet awarded funds to cover any of the approximately \$1.5 million in estimated damages the City sustained as a result of 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. In addition, FEMA had not completed project worksheets to define the scope of disaster work. The disaster caused damage to insurable facilities, and the City had received insurance proceeds of \$728,849. However, FEMA has not allocated the insurance proceeds to reduce the estimated costs to repair damages because it has not completed project worksheets. At the time of our fieldwork, the City had not completed most of its disaster-related work or filed claims for reimbursement.



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Background

The City of Eureka is home to approximately 10,600 residents. In late December 2015, the City received approximately 6 to 12 inches of rain, causing flash flooding. The Meramec River near Eureka reached a new record crest of 46.06 feet on December 30, 2015, surpassing the old record of 42.89 feet set in 1982. The President declared a major disaster on January 21, 2016.

Figure 1: Aerial view of Eureka, Missouri



Source: City of Eureka, 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 is able to account for disaster-related costs on a project-by-project basis and maintain documentation sufficient to support disaster costs. Additionally, the City's insurance procedures and practices are adequate to ensure that the City can properly manage insurance proceeds.



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However, the City's procurement policies, procedures, and business practices are not adequate to comply with Federal procurement standards. Therefore, FEMA should direct Missouri, as FEMA's grant recipient, to provide additional technical assistance and increased monitoring to ensure the City follows Federal procurement standards in spending grant money on the estimated \$1.5 million-worth of 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 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 City designated specific accounting codes for all disaster-related costs. We assessed the adequacy of the City's policies and procedures to account for the City's own labor, equipment, contract, and direct administrative costs. We determined that the City could properly segregate costs by project and maintain sufficient detailed documentation to support the costs.

Insurance

The City's insurance procedures and practices are adequate to ensure that the City deducts anticipated insurance proceeds from eligible projects in accordance with Federal regulations. As of June 8, 2016, the City had received \$728,849 for its insurable facilities. FEMA had not finalized the City's project worksheets and, therefore, had not allocated any of the insurance proceeds to reduce the estimated cost to repair disaster damages. However, based on insurance records and interviews with City officials, the City can properly identify anticipated insurance recoveries related to eligible project costs as Federal regulations at 44 CFR 206.250(c) require.



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In addition, we confirmed that City officials are aware that obtaining and maintaining insurance on insurable facilities is a condition of current and future FEMA funding. The City must obtain and maintain insurance that is reasonable and necessary to protect facilities repaired or replaced using Federal funds against future loss from the types of hazard that caused the major disaster (44 CFR 206.253(b)(1) and (f)).

Procurement Practices

The City did not have adequate policies, procedures, and business practices to comply with all Federal procurement regulations. Federal regulations require, in part, 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 businesses, women's business enterprises, and labor surplus area firms when possible (2 CFR 200.321);
3. perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold (2 CFR 200.323);
4. include all applicable provisions in contracts (2 CFR 200.326);
5. ensure that all bonding requirements are met (2 CFR 200.325); and
6. maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts (2 CFR 200.318(c)(1)).

Full and Open Competition — The City awarded a \$93,245 grant management contract without full and open competition.¹ City officials told us that they did not compete the contract because the City's personnel did not have experience dealing with the aftermath of the historic flooding event and they considered dealing with the aftermath to be an emergency.² 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 helps to discourage and prevent favoritism, collusion, fraud, waste, and abuse. FEMA and Missouri officials were aware of this noncompetitive contract; and FEMA was in the process of reviewing eligibility.

¹ At the time of our fieldwork, total contract billings were \$93,245; however, the contract had a not-to-exceed ceiling of \$250,000.

² FEMA defines an "emergency" as an unexpected and unusually dangerous situation that calls for immediate action or an urgent need for assistance or relief. An emergency typically involves a threat to life, public health or safety, improved property, and/or some other form of dangerous situation.



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Disadvantaged Firms — The City does not have policies, procedures, and business practices in place to ensure the use of small and minority businesses, women’s business enterprises, and labor surplus area firms whenever possible. Federal regulations require specific steps to assure the use of these types of disadvantaged firms whenever possible. These steps include placing qualified small and minority businesses and women’s business enterprises on solicitation lists; assuring such business enterprises are solicited whenever they are potential sources; 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; and requiring the prime contractor, if subcontractors are used, to take the affirmative steps as well.

Cost or Price Analysis — The City does not have policies, procedures, and business practices in place to ensure that applicable procurements include a cost or price analysis. Federal regulations require a cost or price analysis with every procurement action in excess of the simplified acquisition threshold, including contract modifications.³ The absence of a cost or price analysis increases the risk of unreasonable contract costs.

Required Contract Provisions — The City does not have adequate policies, procedures, and business practices in place to ensure that contracts include all required provisions. Federal regulations require specific provisions for contracts and subcontracts, including remedies and termination clauses, non-discrimination, compliance with labor laws, and prohibitions of “kickbacks.” These provisions describe the rights and responsibilities of the parties and minimize the risk of misinterpretations and disputes.

Minimum Bonding Requirements — Although the City does have a policy regarding bid and performance bonds, City officials were unaware of the requirement for payment bonds for disaster-related contracts and the City has no policy or procedure to ensure obtaining a payment bond, as Federal regulations require. Contracting parties execute a payment bond in connection with a contract to assure payment of all persons supplying labor and material in the execution of the contract work provided.

Written Standards of Conduct — The City also did not have adequate written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts. Even though we identified the existence of a Municipal Code addressing “Conflicts of Interest,” City officials we spoke with were unaware of its applicability to their Federal disaster grant. Also, this Municipal Code did not

³ The simplified acquisition threshold is the dollar amount below which a non-Federal entity may purchase property or services using small purchase methods. As of January 1, 2016, the simplified acquisition threshold is \$150,000.



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include disciplinary action for violations, as Federal regulations require. Standards of conduct help ensure officers, employees, and agents of the non-Federal entity do not, among other things, accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts.

City officials said that they were not aware of the required procurement standards for Federal grants. Early in the disaster process, City officials hired a grant management consultant to administer its grant and relied on the consultant for all grant matters. However, City officials told us that they knew nothing about any of the procurement requirements until after we began our audit.

During the course of our audit, the City ended its grant management contract and is now self-administering its Public Assistance grant. Further, FEMA officials told us that they intend to deny cost claims associated with this management contract. As such, we did not question these incurred costs. Because of the City's lack of knowledge of grant requirements, the City would benefit from additional technical assistance and increased monitoring by Missouri to help ensure it complies with Federal procurement standards.

Finding B: Grant Management

We commend FEMA and Missouri on their proactive approach in educating the City about Federal procurement standards. The City, however, could benefit from additional technical assistance and 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* and applicable FEMA policies and guidance.⁴ In addition, 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." Consistent with this agreement, Missouri did provide Federal procurement regulations to the City after the disaster declaration. However, rather than following Federal procurement regulations as Missouri advised, the City initially chose to rely solely on its grant management contractor to administer its disaster grant.

The City lacks adequate policies, procedures, business practices, and knowledge of required Federal procurement standards. As such, Missouri should provide additional technical assistance to the City and closely monitor the City to ensure it complies with Federal procurement standards. Doing so should provide FEMA reasonable assurance that the City will spend the grant

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



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money it receives to cover the estimated \$1.5 million of disaster-related costs according to Federal procurement standards.

Recommendation

We recommend that the Regional Administrator, FEMA Region VII:

Recommendation 1: Direct Missouri to provide additional technical assistance to the City and increase monitoring of the City to ensure it complies with Federal procurement regulations for awarding disaster-related contracts, and to prevent the potential improper spending of grant money on approximately \$1,461,000 (\$1,095,750 Federal share) in disaster-related costs. We consider this recommendation to be resolved and closed because FEMA's corrective action plan directed Missouri to provide additional technical assistance and monitoring (finding A).

Discussions with Management and Audit Follow-up

We discussed the results of our audit with FEMA, Missouri, and City officials several times 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 August 9, 2016, and with Missouri and City officials on August 11, 2016. FEMA, Missouri, and City officials generally agreed with our findings and recommendation.

FEMA Region VII officials provided a written response on September 8, 2016, and agreed with our findings and recommendation (see appendix B). FEMA officials took corrective action and directed Missouri to provide the City with technical assistance and monitoring; therefore, we consider recommendation 1 resolved and closed with no further action required from FEMA.

The Office of Emergency Management Oversight major contributors to this report were Paige Hamrick, Director; John Polledo, Audit Manager; and Patti Smith, 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 Eureka, Missouri (City), Public Assistance Identification Number 189-22834-00, to manage Federal Emergency Management Agency (FEMA) Public Assistance grant 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 5, 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.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.

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 contracting documents available at the time of our entrance conference; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective. As part of our standard audit procedures, we also notified our Office of Information Technology Audits of all contracts the subgrantee awarded under the grant that we reviewed to determine whether the contractors were debarred or whether there were any indications of other issues related to those contractors that would indicate fraud, waste, or abuse. As of the date of this report, the Office of Information Technology Audits' analysis of contracts was ongoing. When it is complete, we will review the results and determine whether additional action is necessary. 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. 61836 (Oct. 14, 2015)].



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Appendix A (continued)

We conducted this performance audit between April and August 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.



U.S. Department of Homeland Security
Region VII
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Kansas City, MO 64114-3372



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 Eureka, Missouri, Needs Additional Assistance and Monitoring
to Ensure Proper Management of Its \$1.5 Million FEMA Grant
Audit Report Number OIG-16-XXX-D*

BETH A
FREEMAN

Digitally signed by BETH A FREEMAN
DN: c=US, o=U.S. Government,
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urity, ou=FEMA, ou=Region, cn=BETH A
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Date: 2016.09.09 09:24:36 -0700

Attachment



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Appendix B (continued)

Attachment A
FEMA Region VII Management Response to
Recommendations Contained in OIG-16-XXX-D

Recommendation #1: Direct Missouri to provide additional technical assistance to the City and increase monitoring of the City to ensure it complies with Federal procurement regulations for awarding disaster-related contracts and to prevent the potential improper spending of approximately \$1,461,000 (\$1,095,750 Federal share) in procurements (finding A).

FEMA Region VII Response: Concur. On Thursday, August 11, 2016, FEMA Region VII's Public Assistance Branch held a conference call 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 stressed 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

Category of Work*	Estimated Cost of Repairs	Cost Avoidance**
A	\$ 80,000	\$ 80,000
B	30,000	30,000
C	400,000	400,000
E	150,000	150,000
F	491,000	491,000
G	310,000	310,000
Totals	\$1,461,000	\$1,461,000

Source: FEMA's Preliminary Damage Assessment and 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).

** At the time of our fieldwork, FEMA had not obligated funds to cover the estimated \$1,461,000 of damages to the projects on which the City expects to expend disaster-related costs; therefore, we classify the cost in recommendation 1 (\$1,461,000) 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)	1,461,000	1,095,750
Totals	\$1,461,000	\$1,095,750

Source: OIG analysis of report findings



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Appendix D **Report Distribution**

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