

# **Audit of FEMA Public Assistance Grant Funds Awarded to the City of Pensacola, Florida**





# DHS OIG HIGHLIGHTS

## *Audit of FEMA Public Assistance Grant Funds Awarded to the City of Pensacola, Florida*

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**August 16, 2017**

### **Why We Did This Audit**

The City of Pensacola (City), Florida received a \$14.2 million Public Assistance grant award from the Florida Division of Emergency Management (Florida), a Federal Emergency Management Agency (FEMA) grantee, for damages from severe storms, tornadoes, straight-line winds and flooding, occurring in April and May 2014.

### **What We Recommend**

FEMA should deobligate \$587,538 of ineligible funding, and put those funds to better use.

#### **For Further Information:**

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

### **What We Found**

For the projects we reviewed, the City properly accounted for and expended FEMA funds according to Federal regulations and FEMA guidelines. City officials accounted for disaster expenditures on a project-by-project basis; procured contracts for disaster work appropriately; and maintained adequate documentation to support the costs.

However, FEMA mistakenly obligated \$587,538 of ineligible funding because of a mathematical error. FEMA officials could not explain why no one detected this error prior to approving the project worksheet.

### **FEMA Response**

FEMA officials agreed with our finding and recommendations. Appendix C includes FEMA's written response in its entirety. Since FEMA has taken corrective actions to resolve all recommendations in this report, we consider the report resolved and closed with no further action required from FEMA.



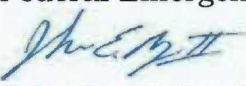
## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

August 16, 2017

MEMORANDUM FOR: Gracia Szczech  
Regional Administrator, Region IV  
Federal Emergency Management Agency

FROM:   
John E. McCoy II  
Acting Assistant Inspector General  
Office of Emergency Management Oversight

SUBJECT: *Audit of FEMA Public Assistance Grant Funds Awarded to the City of Pensacola, Florida*  
Audit Report Number OIG-17-102-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance Program grant funds awarded to the City of Pensacola (City), Florida. As of September 19, 2016, the City received a Public Assistance award of \$14.2 million from the Florida Division of Emergency Management (Florida), a FEMA grantee, for damages resulting from severe storms, tornadoes, straight-line winds and flooding, occurring in April and May 2014. The award provided 75 percent FEMA funding for debris removal, emergency protective measures, and permanent work. We audited four projects totaling \$6.8 million (table 1), or 48 percent of the \$14.2 million award. Table 1 shows the gross and net award amounts before and after reductions for insurance for all projects and for those in our audit scope.

**Table 1: Gross and Net Award Amounts**

	Gross Award Amount	Insurance Reductions	Net Award Amount
All Projects	\$14,153,531	\$(1,484,551)	\$12,668,980
Audit Scope	\$ 6,801,263	\$ (439,652)	\$ 6,361,611

Source: FEMA and City records

At the time of our audit, the City had not completed work on all projects and, therefore, had not submitted a final claim to Florida for all expenditures.





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### Background

On April 28, 2014, Pensacola, the westernmost city in the Florida Panhandle, experienced significant flooding from as much as 23 inches of rainfall in 24 hours. The result was high floodwaters; severe erosion and damage to roadways, bridges, and drainage systems; as well as structural damage to commercial and residential property (see figures 1 and 2). The President signed a major disaster declaration (DR-4177-FL) on May 6, 2014, to provide Florida and local governments with Federal assistance for recovery efforts from damage incurred during the period of April 28 to May 6, 2014.

**Figure 1: Coyle Street Road Damage**



Source: City of Pensacola



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**Figure 2: Vickery Community Center Flooding**



Source: City of Pensacola

### **Results of Audit**

The City properly accounted for and expended FEMA funds according to Federal regulations and FEMA guidelines. City officials accounted for disaster expenditures on a project-by-project basis; procured contracts for disaster work appropriately, and maintained adequate documentation to support claimed costs.

However, FEMA mistakenly obligated \$587,538 of ineligible funding because of a mathematical error. FEMA officials could not explain why no one detected this error prior to approving the project worksheet. Therefore, we recommend FEMA:

- deobligate \$587,538 of ineligible costs, and put those funds to better use; and
- establish adequate procedures to balance project worksheet estimates to avoid duplicating costs.

### **Duplicate Funding - Mathematical Error**

FEMA inadvertently obligated an estimate twice when writing Project 316 for eligible repairs to the Vickery Community Center. This resulted in \$587,538 of ineligible funding. Federal cost principles require costs to be necessary and



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reasonable under Federal awards.<sup>1</sup> Further, grant funds may be used only for allowable costs and reasonable fees.<sup>2</sup>

When FEMA estimated eligible repair costs for the Vickery Community Center, it was determined the repairs were 100 percent recoverable from the City's insurer and were therefore not eligible for FEMA reimbursement. Consequently, FEMA reduced the repair estimate by anticipated insurance proceeds of \$587,538, but mistakenly added repair costs again, obligating \$587,538. Although FEMA properly deducted anticipated insurance proceeds to reflect an eligible repair cost of zero, the mathematical error of twice counting the repair cost resulted in over-funding Project 316 by \$587,538.

City and Florida officials were aware of the error; however, they did not notify FEMA. When we discussed our finding with FEMA Region IV officials on January 26, 2017, they could not provide a reason for not detecting the error before approving the project worksheet. After our discussion, FEMA officials generated Version 1 to Project 316 in April 2017, and deobligated the \$587,538 in duplicate costs.

### **Recommendations**

We recommend that the Regional Administrator, FEMA Region IV:

**Recommendation 1:** Deobligate \$587,538 (Federal share \$440,654) from Project 316 for duplicated costs FEMA mistakenly obligated and put those funds to better use.

**Recommendation 2:** Establish adequate procedures to balance project worksheet estimates and avoid duplicating costs.

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<sup>1</sup> 2 Code of Federal Regulations (CFR) Part 225, Appendix A, Section C.1.a (Cost Principles for State, Local, and Indian Tribal Governments)

<sup>2</sup> 44 CFR 13.22(a)



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### **Discussion with Management and Audit Follow-Up**

We discussed the results of our audit with the City, Florida, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference on May 1, 2017. FEMA officials concurred with our finding and recommendations.

The Office of Emergency Management Oversight major contributors to this report are Larry Arnold, Director; Melissa Williams, Audit Manager; Alicia Lewis, Auditor-in-charge; Alfonso Dallas Jr., Auditor; and Tai Cheung, Independent Reference Reviewer.

Please call me with any questions at (202) 254-4100, or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General, at (202) 254-4100 or Larry Arnold, Director, Gulf Coast Regional Office, at (228) 822-0387.

### **Evaluation of Management Comments**

FEMA officials provided a written response to this report on May 25, 2017, and agreed with our finding and recommendations (see appendix C). FEMA has taken corrective action to resolve recommendations 1 and 2; therefore, we consider these recommendations resolved and closed with no further action required from FEMA.



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## **Appendix A**

### **Objective, Scope, and Methodology**

We audited FEMA Public Assistance Program grant funds awarded to the City (Public Assistance Identification Number 033-55925-00). Our audit objective was to determine whether the City accounted for and expended FEMA funds according to Federal regulations and FEMA guidelines.

As of September 19, 2016, the City received a Public Assistance award of \$14.2 million for damages resulting from FEMA Disaster Number 4177-DR-FL that occurred in April 2014. The audit covered the period April 28, 2014, through September 19, 2016, the cutoff date of our audit, and provided 75 percent funding for 22 large projects and 55 small projects.<sup>3</sup> We audited four large projects totaling \$6.8 million, or 48 percent of the net funds awarded to the City. See additional discussion about the audit scope and gross and net awards (p. 2 and table 1).

We interviewed FEMA, Florida, and City officials; gained an understanding of the City's method of accounting for disaster-related costs; reviewed the City's procurement policies and procedures and contracting documents; judgmentally selected and reviewed (generally based on dollar values) project costs and procurement transactions for the projects in our audit scope. We also 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.

We conducted this performance audit between September 2016 and May 2017, under the authority of 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. We conducted this audit by applying the statutes,

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<sup>3</sup> Federal regulations in effect at the time of the 2014 storms set the large project threshold at \$120,000. Federal Register Volume 79, Number 38, Page 10685, *Amendment to the Public Assistance Program's Simplified Procedures Project Thresholds* (February 26, 2014).





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regulations, and FEMA policies and guidelines in effect at the time of the disaster.



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## Appendix B

### Potential Monetary Benefits

**Table 2: Projects Audited and Questioned Costs**

Project Number	Category of Work - Project Scope <sup>4</sup>	Amount Awarded	Amount Claimed	Questioned Cost	Total Questioned Costs
304	C-Coyle Street-SFM Project	\$ 1,747,449	\$ 1,350,212	\$ 0	\$ 0
316	E-Vickery Building	1,169,633	1,316,455	587,538	587,538
526	D-Spanish Trail Pond	1,231,619	1,229,695	0	0
569	C-Piedmont Road	2,212,910	1,978,156	0	0
<b>Totals</b>		<b>\$6,361,611</b>	<b>\$5,874,518</b>	<b>\$587,538</b>	<b>\$587,538</b>

Source: Office of Inspector General (OIG) analysis of FEMA and City Records

**Table 3: Summary of Potential Monetary Benefits**

Type of Potential Monetary Benefit	Amounts	Federal Share
Questioned Costs – Ineligible	\$ 587,538	\$ 440,654
Questioned Costs – Unsupported	0	0
<b>Totals</b>	<b>\$587,538</b>	<b>\$440,654</b>

Source: OIG Analysis of findings in this report

<sup>4</sup> FEMA classifies disaster-related work by type: debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C through G).



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## Appendix C

### FEMA's Response to Report


U. S. Department of Homeland Security  
Region IV  
3003 Chamblee Tucker Road  
Atlanta, GA 30341



**FEMA**

**MAY 25 2017**

**MEMORANDUM FOR:** C. David Kimble  
Director  
Eastern Regional Office  
Office of Disaster Assistance Oversight

**FROM:** Gracia B. Szczech  
Regional Administrator  
FEMA Region IV 

**SUBJECT:** Management Response to Draft Report  
*FEMA Should Recover \$587,538 Awarded to the City of  
Pensacola, Florida, for 2014 Disaster*  
Draft Audit Report Number: OIG-17-XX-D

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

The draft report contained 2 recommendations with which FEMA concurs. Specifically:

**Recommendation 1:** De-obligate \$587,538 (Federal share \$440,654) from Project 316 for duplicated costs FEMA mistakenly obligated and put those funds to better use.

**Response:** Concur. The de-obligation of \$587,538 (Federal share \$440,654) from Project 316 was conducted on April 21, 2017. Therefore, FEMA considers this recommendation resolved and closed.

**Recommendation 2:** Establish adequate procedures to balance project worksheet estimates and avoid duplicating costs.

**Response:** Concur. The implementation of the New Public Assistance Program Delivery Model has established adequate procedures and made available the necessary resources to ensure project worksheet cost estimates are appropriately calculated. Multiple levels of review for each project at the centralized resource center provides many opportunities to avoid the possibility of duplicate costs. Therefore, FEMA considers this recommendation resolved and closed.

Again, thank you for the opportunity to review and comment on this draft report. We look forward to working with you in the future.

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