

**FEMA Should Disallow
\$2.0 Million of \$3.59
Million Awarded to
Stratford, Connecticut**





DHS OIG HIGHLIGHTS

FEMA Should Disallow \$2.0 Million of \$3.59 Million Awarded to Stratford, Connecticut

January 9, 2017

Why We Did This Audit

The Town of Stratford, Connecticut (Town) received a \$3.59 million Public Assistance grant award from the Connecticut Division of Emergency Management and Homeland Security (Connecticut), a Federal Emergency Management Agency (FEMA) grantee, for damages from Hurricane Sandy in October 2012.

What We Recommend

FEMA should disallow \$2.0 million of ineligible or unsupported costs and request Connecticut to work with Town officials to ensure their understanding and compliance with Federal procurement standards and documentation 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 Town did not always account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. Therefore, FEMA should disallow \$2.0 million of \$3.59 million in grant funds awarded to the Town.

Specifically, the Town did not follow Federal procurement standards in awarding \$2.0 million for the 13 contracts we reviewed. In addition, the Town did not provide sufficient documentation to support more than half of these costs and claimed some costs twice.

These findings occurred primarily because of Town officials' limited familiarity with Federal regulations and FEMA guidelines. However, Connecticut, as FEMA's grantee, is responsible and should have done more to ensure the Town was aware of and complied with Federal requirements.

FEMA Response

FEMA officials agreed with our findings and recommendations. Appendix C includes FEMA's written response in its entirety.



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Department of Homeland Security

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

January 9, 2017

MEMORANDUM FOR: Paul F. Ford
Regional Administrator, Region I
Federal Emergency Management Agency
Thomas M. Salmon

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

SUBJECT: *FEMA Should Disallow \$2.0 Million of \$3.59 Million
Awarded to Stratford, Connecticut*
Audit Report Number OIG-17-18-D

We audited Public Assistance grant funds awarded to the Town of Stratford, Connecticut (Town). The Connecticut Division of Emergency Management and Homeland Security (Connecticut), a Federal Emergency Management Agency (FEMA) grantee, awarded the Town \$3.59 million for damages from Hurricane Sandy that occurred in October 2012. The award provided 75 percent FEMA funding. We audited nine projects totaling \$3.58 million, or 99.7 percent of the total award (see table 4 in appendix A).¹ At the time of our audit, the Town had completed work on all its projects and had submitted final claims to Connecticut for expenditures under those projects.

Background

The Town of Stratford is located in Fairfield County, Connecticut. Hurricane Sandy's high winds and widespread landfall caused severe storm surge, flooding, structural damages, and loss of power to homes and businesses. The storm also blocked roads with debris and downed power lines.

¹ For the nine projects we audited, the Town did not receive any insurance proceeds.



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Figure 1: Downed Tree Limbs Blocking Road Access



Source: Town of Stratford, Connecticut

Results of Audit

The Town did not always account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. Therefore, we question \$2.0 million of the \$3.58 million in costs we reviewed as ineligible or unsupported.

Specifically, the Town did not follow Federal procurement standards in awarding \$2.0 million for the 13 contracts we reviewed,² which included \$987,314 for exigent work and \$967,963 for non-exigent work. The Town did not properly obtain contracted goods and services through full and open competition, take required steps to provide opportunities to disadvantaged businesses such as small and minority firms, or abide by other procurement standards. In addition, the Town did not provide sufficient documentation to support more than half of these costs and claimed some costs twice. We generally do not question the eligibility of costs necessary to save lives and property immediately after a disaster. However, Federal cost principles require supporting documentation for all costs regardless of the type of work. Therefore, we question \$967,963 for non-exigent work as ineligible and

² We concluded the purchase orders and vouchers the Town used to conduct business are contracts because they contained all four key elements of a contract. Specifically, they contained an offer, acceptance, consideration, and legal intent.



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question the remaining \$987,314 the Town claimed for exigent work as unsupported. We also question \$15,600 of equipment costs the Town claimed twice.

These findings occurred primarily because of Town officials' limited familiarity with Federal regulations and FEMA guidelines. However, Connecticut, as FEMA's grantee, is responsible and should have done more to ensure the Town was aware of and complied with Federal requirements.

Finding A: Improper Contracting

The Town did not follow Federal procurement standards in awarding \$2.0 million for the 13 contracts we reviewed, which included \$987,314 for exigent work and \$967,963 for non-exigent work. As a result, full and open competition did not always occur, which increased the risk of fraud, waste, and abuse and decreased opportunities for disadvantaged firms, such as small and minority firms, to compete for federally funded work. In addition, because competition was inadequate, FEMA has no assurance that costs were reasonable.

We question all of the non-exigent work totaling \$967,963 as ineligible. However, 44 Code of Federal Regulations (CFR) 13.36(d)(4)(i) allows an exception to competition when the public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation. Therefore, we do not question the eligibility of the \$987,314 the Town claimed for exigent work because lives and property were at risk.³

Federal procurement standards at 44 CFR 13.36, in part, require that subgrantees —

1. conduct procurement transactions in a manner providing full and open competition (44 CFR 13.36(c)(1));
2. take all necessary affirmative steps to assure the use of small and minority firms, women's business enterprises, and labor surplus area firms when possible (44 CFR 13.36(e)(1)); and
3. include required provisions in contracts (44 CFR 13.36(i)).

³ Although we are not questioning as *ineligible* any of the \$987,314 the Town claimed for contracts associated with exigent work on the basis of a violation of 44 CFR 13.36, we do question all of the \$987,314 as *unsupported* in finding B.



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Table 1 summarizes the 13 contracts we reviewed and identifies the violations with the preceding list of four procurement standards.

Table 1: Violations of Federal Procurement Standards

Notes	Contract Number	Contract Award Amount	Exigent Work	Non-Exigent Work	Violations		
					1	2	3
1	2011-017	\$ 225,367	\$ 0	\$ 225,367		X	X
	2012-044	11,600	0	11,600		X	X
1	2012-077	529,501	514,201	15,300		n/a	X
1	2012-082	141,400	0	141,400		X	X
	2013-036	322,891	0	322,891		X	X
	2013-081	89,090	0	89,090		X	X
3	98701	50,000	0	50,000	X	X	X
3	98702	233,640	233,640	0	n/a	n/a	X
3	98703	139,473	139,473	0	n/a	n/a	X
3	98705	100,000	100,000	0	n/a	n/a	X
3	172073	31,608	0	31,608	X	X	X
3	172075	19,343	0	19,343	X	X	X
1, 2, 3	Multiple	<u>61,364</u>	<u>0</u>	<u>61,364</u>	<u>X</u>	<u>X</u>	<u>X</u>
	Totals	<u>\$1,955,277</u>	<u>\$987,314</u>	<u>\$967,963</u>	<u>4</u>	<u>9</u>	<u>13</u>

Source: Office of Inspector General (OIG) analyses of Town data

1. Although the Town did not take all required steps to ensure opportunities to disadvantaged firms, the Town awarded these four contracts to women-owned or small business enterprises.
2. The Town used multiple purchase orders and vouchers to procure professional services that one contractor provided for dock repair and pier reconstruction work.
3. The Town asserted its 13 project worksheets were provided under 5 separate bids, purchases, or contracts. In our review, we did not find sufficient evidence to confirm this purchase order or voucher was associated with a particular bid. Therefore, we concluded the purchase order or voucher is a contract because it contained all four key elements of a contract (offer, acceptance, consideration, and legal intent).

Full and Open Competition

The Town did not provide full and open competition in awarding 4 of 13 contracts we reviewed. As table 2 shows, these four contracts totaled \$162,315. 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 discourage and prevent favoritism, collusion, fraud, waste, and mismanagement of Federal funds.



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Table 2: Four Non-competitive Contracts

	Contract Number	Amount	Exigent Work	Non-Exigent Work	Description of Work
1	98701	\$ 50,000	\$0	\$ 50,000	Repair concrete sidewalks and masonry fire pits, and install concrete deck at a beach
2	172073	31,608	0	31,608	Install washed away sand berm at a beach
3	172075	19,343	0	19,343	Strip sand and vegetation at a beach bath house
4	Multiple	61,364	\$0	61,364	Architectural, engineering, and project management for dock repair and pier reconstruction
	Totals	\$162,315	\$0	\$162,315	

Source: OIG analyses of Town data

Contracts 1, 2, and 3. The Town awarded these three contracts totaling \$100,951 without soliciting bids or rate quotes from any other sources.⁴ The Town hired the contractor to repair concrete sidewalks and masonry fire pits and to install a concrete deck at a beach, install a washed away sand berm, and to strip sand and vegetation from a beach bathhouse. We determined the work was non-exigent because lives and property were not at risk.

Furthermore, the contractor did not submit two of its three quotes to the Town to perform the work until approximately 6 months after Hurricane Sandy.

Instead of soliciting competitive proposals or quotes, the Town's Mayor approved a waiver of the competitive bidding process on these three contracts. When an emergency exists, the Town's Administrative Policy Manual Number 8.0, (III)(6)(c) *Emergency Purchases*, authorizes the Mayor to allow the Purchasing Department to waive the requirement of using competitive bidding for purchases, if doing so is in the Town's best interest. While the Town contended that an emergency existed, we do not agree that the circumstances were exigent and warranted non-competitive contracting.

Contract 4. The Town also awarded \$61,364 for professional services without soliciting bids or rate quotes from any other sources. The Town used an architectural firm, in conjunction with a structural engineering firm, for engineering design and project management on three pier projects totaling \$61,364. Federal procurement standards at 44 CFR 13.36(b)(1) allow subgrantees to use their own procurement procedures providing that, at a minimum, they conform with applicable Federal regulations at 44 CFR 13.36(b)–(i). Section 14-4(B) of the Town's Charter and Administrative Policy

⁴ For procurements less than the simplified acquisition threshold (currently \$150,000), subgrantees must obtain price or rate quotes from an adequate number of qualified sources (44 CFR 13.36(d)(1)).



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Manual No. 8.0, (III)(6)(a) *Professional Services*, states, “Competitive bidding shall not be required for contracts for professional services.” Although the Town followed its own procurement procedures, those procedures did not conform to applicable Federal procurement regulations that require competition for professional services contracts. A Town official explained that the Town solicited architectural services in 2010 and decided to use the same architectural firm on this project.

Small and Minority Firms, Women’s Business Enterprises, and Labor Surplus Area Firms

The Town did not take the required affirmative steps to ensure the use of small and minority firms, women’s business enterprises, or labor surplus area firms whenever possible for any of the nine contracts we reviewed that did not involve exigent work. Federal regulations require subgrantees to, at minimum, take the following six specific steps to assure the use of these types of disadvantaged firms whenever possible:

1. place qualified small and minority businesses and women’s business enterprises on solicitation lists;
2. solicit small and minority businesses and women’s business enterprises whenever they are potential sources;
3. divide total requirements, when economically feasible, into smaller tasks or quantities to permit maximum participation by small and minority businesses, and women’s business enterprises;
4. establish delivery schedules, where the requirement permits, which encourage participation by small and minority businesses, and women’s business enterprises;
5. use the services and assistance of the Small Business Administration and the Minority Business Development Agency of the Department of Commerce; and
6. require the prime contractor to ensure that subcontractors, if used, take the five affirmative steps previously listed.

Without taking these required affirmative steps, the Town cannot provide reasonable assurance that it provided disadvantaged firms sufficient opportunities to compete for federally funded work. A Town official said the Town has no requirement to reach out to small businesses, minority firms, and women’s business enterprises, but the Town does take affirmative steps when the State or Federal Government requires it. Specifically, the Town’s bid documents state, “Small, minority, women business enterprises and disabled persons are encouraged to participate,” and “The Town of Stratford is an Equal Opportunity and Affirmative Action Employer.” While the Town official claimed it included the preceding language in its bid documents, we determined that



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Department of Homeland Security

none of the six contracts (first six contracts listed in table 1) the Town solicited included such language. Further, merely including such language in contracts is not the same as taking affirmative steps to solicit disadvantaged firms. The official later said that the Town did not take the required steps because none of the bids at the time of advertisement were for State or Federal contracts/monies. However, we determined the Town solicited two of the six contracts after Hurricane Sandy that were eligible for FEMA reimbursement at 75 percent of costs. The Town official also said it was not necessary to add the language to the bid documents because Connecticut state law requires municipalities to be equal opportunity and affirmative action employers.

Although the Town has no requirement to take affirmative action steps and did not take the steps, a Town official stated that two of the five contractors that provided services under the nine contracts we reviewed that did not involve exigent work were women-owned or small business enterprises. Specifically, the two contractors the Town official identified provided services under three contracts totaling \$428,131, or 45 percent of the \$952,663 in contracts we reviewed that did not involve exigent work. Therefore, if this had been the Town's only violation of Federal procurement standards, we would not have questioned the costs as ineligible.

Contract Provisions

The Town did not include all required provisions in any of the 13 contracts we reviewed. Federal regulations list 13 provisions that grantees and subgrantees must include in their contracts (44 CFR 13.36(i)(1)–(13)). These provisions document the basic rights and responsibilities of the parties, minimize the risk of misinterpretations and disputes, document the legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate. For example, two provisions that were particularly needed in the Town's contracts were those related to access to contractor's records and retention of records. Only 1 of the 13 contracts we reviewed contained provisions requiring contractors to keep and provide access to records. If the Town had included these two provisions in its contracts, the contractors would have been obligated to provide all documents and records to support their invoices and maintain records for at least 3 years. As a result, the Town has been unable to obtain additional records from its contractors to support \$1,244,965 in contract costs, as we discuss in finding B.

Connecticut and Town officials disagreed with this audit finding. State and Town Officials asserted that the Town acted in full compliance with requirements contained in FEMA Form 90-91 (Project Worksheet), which required it to comply with its local, state, or Federal procurement laws,



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Department of Homeland Security

regulations, and procedures. The Town fully complied with its Charter, Code of Ordinances, and Administrative Policy Manual, as well as state statutes. In addition, they asserted that auditors should give considerable weight to the Town's determination of what constitutes exigent and what costs FEMA already determined were eligible, properly procured, and supported by appropriate records. The Town provided FEMA project specialists, who assisted with the Town's application for Federal assistance, complete documentation including an audit of its contracts and operations.

Our position remains unchanged. While the Town may authorize emergency contracts, the Town did not present evidence that the work was exigent — or that life and property were at risk. Further, a state or town cannot waive Federal grant requirements. The FEMA-State Agreement for Federal Disaster 4087-DR-CT requires Connecticut to comply with the requirements of laws and regulations found in the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended (*Stafford Act*) and 44 CFR. Although Federal regulation does not define exigent circumstances, we have consistently interpreted it to mean a period when life and property are at risk requiring immediate action that “will not permit a delay resulting from competitive solicitation.” During our review we also did not find evidence of FEMA making a final determination that the Town properly procured contracts in accordance with Federal procurement standards.

Finding B: Unsupported Costs

The Town did not provide documentation adequate to support \$1,244,965 of \$1,481,932 it claimed for 10 contracts (see table 3). As a result, FEMA has no assurance that these costs are valid and eligible or that contractors billed according to the contracted rates. According to 44 CFR 13.20(b)(2) and (6), subgrantees must maintain accounting records that adequately identify the source and application of Federal funds and maintain source documentation to support those accounting records.



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Table 3: Contract Costs

Contract Number	Costs Reviewed	Costs Supported	Costs Unsupported	Costs Both Unsupported and Ineligible
2011-017	\$ 225,367	\$225,367	\$ 0	\$ 0
2012-044	11,600	11,600	0	0
2012-077	529,501	0	529,501	15,300
2012-082	141,400	0	141,400	141,400
98701	50,000	0	50,000	50,000
98702	233,640	0	233,640	0
98703	139,473	0	139,473	0
98705	100,000	0	100,000	0
172073	31,608	0	31,608	31,608
172075	19,343	0	19,343	19,343
Total	\$1,481,932	\$236,967	\$1,244,965	\$257,651

Source: OIG analyses of FEMA and Town documentation

The Town's contractors provided invoices for their work, but did not include supporting documentation, such as equipment usage and work activity logs or records of debris removal locations. The Town paid the invoices without requesting documentation sufficient to support the invoiced amounts. A Town official said its employees monitored contractor's work on a daily basis to ensure the work was completed and billed according to contractual requirements. Although the official claimed the Town monitored the contractor's work, the Town did not maintain records documenting its monitoring activities. Without maintaining sufficient records, the Town cannot provide reasonable assurance it properly monitored and documented contractor expenses.

Of the \$1,244,965 in unsupported costs, \$257,651 are also ineligible and included in the \$967,963 we questioned in finding A as ineligible contract costs. Therefore, to avoid questioning the same costs twice, we question the net amount of \$987,314 in this finding as unsupported (\$1,244,965 minus \$257,651) (see table 4 in appendix A). If FEMA allows any part of the \$967,963 in ineligible contract costs we question in finding A, FEMA should add those costs (up to the \$257,651 we question in both findings A and B) back to the net \$987,314 amount we recommend for disallowance as unsupported in finding B. We point this out because, even if FEMA determines costs are eligible, the costs must still be supported.



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Discussions with Town Officials

On May 10, 2016, we discussed our findings with Town officials. One official told us they did not expect OIG to have problems with records supporting their contract costs. The official explained that both FEMA and Connecticut left them with the impression the Town properly accounted for Hurricane Sandy disaster costs. She also said that if the Town had been more familiar with Federal documentation requirements, it would have reached out to the contractors and obtained the necessary support at the time of the disaster. The Town official added that it would be difficult to go back to the contractor 3½ years after the disaster to request additional records to support their invoices. The official was not sure whether the contractors still had the records supporting the Town's paid invoices.

After the May 10, 2016 discussion, the Town submitted additional contractor records to support its claim. We reviewed the additional records, but could not match them to specific invoices. As a result, we were unable to verify tasks the contract employees performed or that the equipment hours claimed were the actual number of hours the equipment was in operation in relation to the specific invoice.

Connecticut and Town officials disagreed with this audit finding. They asserted that the full record of documentation and evidentiary material confirms that the costs claimed by the Town were eligible and properly procured and supported. They also asserted that we should also give considerable weight to the fact that FEMA reviewed the vast majority of the town's projects and back-up documentation before submission to FEMA for reimbursement and found, at that time, that the costs were eligible and properly procured and supported by appropriate records. They added that after our exit conference with the Town on August 31, 2016, the Town submitted/re-submitted detailed supporting documentation to FEMA, which should prove sufficient evidence, including information and documentation regarding the execution of contracts, as well as the monitoring and back-up documentation related to the work performed.

Our position remains unchanged. The Town has not provided provide sufficient documentation to support \$1,244,965 of its contract costs. In its response to this report (appendix C), FEMA stated that, by March 15, 2017, it would review the additional documentation the Town provided to them to determine whether it is sufficient to support the costs.



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Finding C: Improper Overpayment

The Town claimed \$15,600 of duplicate contract costs under Project 0557. The Town erroneously submitted two copies of the same invoice and listed the invoice twice on the Contract Work Summary Record. Receiving financial assistance under the same Public Assistance grant more than once would be receiving a duplicate benefit. Section 312(a) of the *Stafford Act* prohibits duplication of benefits from any source. Because of our audit, FEMA has disallowed and deobligated the claimed \$15,600 in duplicative contract costs. Therefore, we consider this finding resolved and closed.

Finding D: Grant Management

Connecticut should have done more as FEMA's grantee to ensure the Town was aware of and complied with Federal procurement standards and documentation requirements. In its FEMA-State Agreement, Connecticut agreed to "comply with the requirements of laws and regulations found in the *Stafford Act* and 44 CFR." Further, Federal regulations at 44 CFR 13.37(a)(2) and 13.40(a) require grantees to (1) ensure that subgrantees are aware of Federal regulations, (2) manage the operations of subgrant activity, and (3) monitor subgrant activity to ensure compliance. It was Connecticut's responsibility to ensure the Town complied with applicable Federal regulations and FEMA guidelines. It is FEMA's responsibility to hold Connecticut accountable for proper grant administration.

On March 1, 2016, we discussed this issue with Connecticut officials who provided written comments on March 4, 2016. A Connecticut official said that Connecticut exercises due diligence through its efforts (1) to make all applicants aware of policy and regulation and provide them assistance and training, and (2) in partnership with FEMA, to consistently make staff expertise and resources available to any and all applicants upon request. The official went on to state that Connecticut maintains a website with briefing materials, forms, FEMA work sheets, policy, and guidance. The official stated that Connecticut also conducts related training during periods when there are no immediate disasters or emergencies.

Connecticut officials disagreed with this audit finding. They said they provided sufficient information to subgrantees on the possible need to comply with Federal regulations and requirements. They also said that Federal agencies are best equipped to provide detailed training on Federal regulations and requirements; and Connecticut held applicant briefings in the wake of Hurricane Sandy.



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Department of Homeland Security

Five representatives from the Town were present at Connecticut's November 27, 2012 applicant briefing, which included a presentation reminding applicants that, to be eligible, costs and documentation must comply with Federal, state, and local laws and regulations. In addition, Connecticut maintains a "Disaster Assistance Programs" web page, with a specific page devoted to links related to Public Assistance. The site is easily accessible and includes briefing materials, forms, FEMA worksheets, and policy and guidance. The State also conducts related training during periods when there are no immediate disasters or emergencies. For example, in 2015, Connecticut held debris management workshops for municipalities, which also included discussions regarding the importance of meeting Federal requirements.

We recognize Connecticut's efforts to educate potential applicants and subgrantees. However, making subgrantees aware of the rules is not enough. Federal regulations also require that grantees monitor subgrantees and ensure they comply with Federal grant requirements. Based on our findings, Connecticut needs to improve its grant management to ensure compliance with those requirements.

Recommendations

We recommend the Regional Administrator, FEMA Region I:

Recommendation #1: Disallow \$967,963 (Federal share \$725,972) as ineligible contract costs, unless FEMA grants an exception for all or part of the costs as 44 CFR 13.6(c) allows and determines the costs are reasonable (finding A).

Recommendation #2: Disallow \$987,314 (Federal share \$740,486) as unsupported contract costs unless the Town provides additional documentation that FEMA determines is sufficient to support the costs (finding B). If FEMA allows any part of the \$967,963 in ineligible contract costs we question in finding A, FEMA should also determine whether the Town supported those costs adequately because we determined in finding B that \$257,651 of the \$967,963 was unsupported.

Recommendation #3: Disallow \$15,600 (Federal share \$11,700) of ineligible duplicate contract costs. Because of our audit, FEMA has disallowed and deobligated the claimed \$15,600 in duplicate contract costs; therefore, we consider this recommendation resolved and closed (finding C).



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Recommendation #4: Request Connecticut to work with Town officials to ensure their understanding and compliance with Federal procurement standards and documentation requirements (finding D).

Discussion with Management and Audit Follow-up

We discussed the results of our audit with Town, Connecticut, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at exit conferences with FEMA on August 16, 2016, Connecticut on August 24, 2016, and the Town on August 31, 2016.

On September 15, 2016, FEMA provided its written response (see appendix C). FEMA provided both Connecticut's and Town's comments as attachments for OIG's consideration. We did not include Connecticut's or the Town's comments in this report, but did paraphrase and incorporate their comments into the report as we deemed appropriate.

FEMA agreed to our recommendations (see appendix C). The response indicated that FEMA had not yet completed a review of the relevant documentation nor made any determinations as to Recommendations 1, 2, and 4. FEMA also requested closure of Recommendation 3.

In determining how to resolve Recommendations 1 and 2, FEMA will evaluate all relevant documentation and will consider numerous factors, including the eligibility of the work, reasonableness of the costs, sufficiency of supporting documentation, the extent to which retroactive action to disallow and recover funding would further harm the Town's recovery, and whether a punitive action approach would have a deterrent effect on future applicants. In determining how to resolve Recommendation 4, FEMA will review the actions already taken by Connecticut to inform the Town of the relevant procurement standards and the extent to which further training and education will prove beneficial. FEMA will take steps to work with Connecticut and the Town to resolve underlying issues associated with Recommendations 1, 2, and 4, which could make any disallowance or other corrective action unnecessary.

FEMA's response was sufficient to resolve and close recommendation 3; therefore, we require no further action from FEMA for this recommendation. FEMA expects to complete its proposed corrective actions to address Recommendations 1, 2, and 4 by March 15, 2017. Therefore, we consider Recommendations 1, 2, and 4 resolved and open. We will evaluate closure upon documentation that FEMA has implemented its proposed corrective actions. Please email closeout documentation and requests to William.Johnson@oig.dhs.gov.



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The Office of Emergency Management Oversight major contributors to this report are William Johnson, Director; Anthony Colache, Audit Manager; and Kevin Donahue, Auditor-in-Charge.

Please call me with any questions at (202) 254-4100, or your staff may contact William Johnson, Director, Eastern Regional Office - North, at (404) 832-6703.



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Appendix A

Objective, Scope, and Methodology

We audited FEMA Public Assistance Program grant funds awarded to the Town, Public Assistance Identification Number 001-74190-00. Our audit objective was to determine whether the Town accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster 4087-DR-CT. The Town received a Public Assistance award of \$3.59 million from Connecticut, a FEMA grantee, for Hurricane Sandy damages, which occurred in October 2012. The award provided 75 percent FEMA funding for debris removal, emergency protective measures, and permanent repairs and consisted of four large projects and seven small projects.⁵

We audited nine projects totaling \$3.58 million (see table 4). The audit covered the period from October 27, 2012, through December 17, 2015. At the time of our audit, the Town had completed work on all its projects and had submitted final claims to Connecticut for expenditures under those projects.

To accomplish our objective, we interviewed Town, Connecticut, and FEMA personnel, and gained an understanding of the Town's method of accounting for disaster-related costs and its procurement policies and procedures. We judgmentally selected (generally based on dollar amounts) and reviewed project costs and procurement transactions for the projects in our audit scope, reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We did not perform a detailed assessment of the Town's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between May 2015 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 the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. To conduct this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

⁵ Federal regulations in effect at the time of Hurricane Sandy set the large project threshold at \$67,500. [Notice of Adjustment of Disaster Grant Amounts, 77 Fed. Reg. 61423 (Oct. 9, 2012)]



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Department of Homeland Security

Appendix A (continued)

Table 4: Schedule of Projects and Questioned Costs

Project Number – Category of Work*	Award Amount	Ineligible Costs (Findings A & C)	Unsupported Costs (Finding B)	Total Costs Questioned
Projects Audited				
0437 - F	\$ 29,207	\$ 0	\$ 0	\$ 0
0480 - E	17,284	0	0	0
0543 - E	11,751	0	0	0
0546 - D	217,481	31,608	217,481	249,089
0557 - A	2,199,493	428,610	977,484	1,406,094
0567 - A	8,500	0	0	0
0589 - E	45,485	0	0	0
0659 - G	636,295	523,345	50,000	573,345
0688 - B	410,557	0	0	0
Subtotal	\$3,576,053	\$983,563	\$1,244,965	\$2,228,528
Other Projects				
0599 - C	\$ 6,614	\$ 0	\$ 0	\$ 0
0677 - B	4,482	0	0	0
Subtotal	\$ 11,096	\$ 0	\$ 0	\$ 0
Gross Totals	\$3,587,149	\$983,563	\$1,244,965	\$2,228,528
Less Costs Questioned Twice	0	0	(\$257,651)	(\$257,651)
Net Totals	\$3,587,149	\$983,563	\$987,314	\$1,970,877

Source: OIG analyses of FEMA and Town documentation

*FEMA identifies type of work by category: A for debris removal, B for emergency protective measures, and C – G for permanent work.



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Appendix B
Potential Monetary Benefits

Table 5: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Total	Federal Share
Questioned Costs – Ineligible	\$ 983,563	\$ 737,672
Questioned Costs – Unsupported	987,314	740,486
Totals	<u>\$1,970,877</u>	<u>\$1,478,158</u>

Source: OIG analysis of findings in this report



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Appendix C
FEMA Region I Audit Response

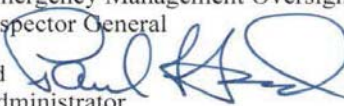
U.S. Department of Homeland Security
FEMA Region I
99 High Street
Boston, MA 02110



FEMA

September 15, 2016

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

FROM: Paul F. Ford 
Regional Administrator
FEMA Region I

SUBJECT: Management Response to Draft Report
"FEMA Should Disallow \$2.0 Million of \$3.59 Million
Awarded to Stratford, Connecticut"
FEMA Major Disaster: FEMA-4087-DR-CT
Draft Audit Report Number: OIG-16-XX-D

Thank you for the opportunity to review and comment on the Draft Audit Report. FEMA appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing the report.

The Draft Audit Report contained four recommendations with which FEMA concurs and attachment 1 to this memorandum provides a detailed response to each recommendation. FEMA has not yet completed a review of the relevant documentation nor made any final determinations as to Recommendations 1, 2, and 4. FEMA is requesting closure of Recommendation 3. FEMA previously provided technical comments to the Draft Audit Report under separate cover on August 29, 2016.

FEMA remains committed to rapidly providing assistance to reduce the suffering and hardship of disaster survivors and impacted governments and doing so in accordance with the law and applicable regulations. It gives full and careful consideration to all OIG audit findings and exercises its discretionary grant approval and enforcement authority to resolve them.

In determining how to resolve Recommendations 1 and 2, FEMA will evaluate all relevant documentation and will consider numerous factors, including the eligibility of the work, reasonableness of the costs, sufficiency of supporting documentation, the extent to which retroactive action to disallow and recover funding would further harm the Town's recovery, and whether a punitive action approach would have a deterrent effect on future applicants. In determining how to resolve Recommendation 4, FEMA will



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Appendix C (continued)

review the actions already taken by the State of Connecticut (Grantee) to inform the Town of Stratford (Sub-Grantee) of the relevant procurement standards and the extent to which further training and education will prove beneficial. FEMA will take steps to work with the Grantee and Sub-Grantee to resolve underlying issues associated with Recommendations 1, 2, and 4, which could make any disallowance or other corrective action unnecessary.

The OIG released new guidance to the Regional Office on September 2, 2016, for submitting responses to OIG Draft Audit Reports.¹ Under the OIG Office of Emergency Management Oversight (EMO) revised formal comment submission process, the Grantee and Town now need to provide their formal comments directly to FEMA.

FEMA has concluded that its role is to ensure inclusion of the Grantee's and Town's comments as an attachment to this management response to the Draft Audit Report and not to integrate their comments into the body of our management response. Consistent with that role, I am including the Grantee's and Town's comments as attachments 2 and 3 to this memorandum for the OIG's consideration.

We look forward to working more closely with you in the future. If you have any questions or issues, please contact Tracy Narbeth, the Regional Audit Coordinator, at (617) 956-7633.

¹ Email from Kevin Donahue, Auditor, Office of Inspector General, to Paul F. Ford, Regional Administrator, FEMA Region I et al. re Town of Stratford, Connecticut Draft Audit Report (G-15-029-EMO-FEMA) – Submittal of Formal Comments (Sep. 6, 2016).



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Appendix C (continued)

**Attachment 1: Management Response to Recommendations
Contained in Draft Audit Report OIG-16-XX-D**

“Recommendation #1: Disallow \$967,963 (Federal share \$725,972) as ineligible contract costs, unless FEMA grants an exception for all or part of the costs as 44 CFR 13.6(c) allows and determines the costs are reasonable (finding A).”

Response: Concur. FEMA agrees that the Town was required to comply with the procurement standards at 44 C.F.R. § 13.36(b)-(i) when it procured the services and materials under the contracts at issue under finding A; however, FEMA has not yet completed a review of the Town’s procurement documentation following its receipt of the Draft Audit Report. FEMA now will move forward to review that documentation and evaluate whether the Town complied with 44 C.F.R. § 13.36(b)-(i) when it procured the contracts. If FEMA determines that the Applicant did not comply with the procurement standards for a particular contract, then FEMA will use its discretionary enforcement authority under 44 C.F.R. § 13.43(a) to reimburse those contract costs that are reasonable and eligible under the Stafford Act and its implementation regulations and disallow the remaining costs, which is the current FEMA practice.

If FEMA determines to disallow any costs under any project, then it will issue a Public Assistance determination for that project in accordance with agency procedures. The estimated completion date is March 15, 2017. FEMA considers this recommendation **resolved and open**.

“Recommendation #2: Disallow \$987,314 (Federal share \$740,486) of contract costs unless the Town provides additional documentation to support the costs (finding B). If FEMA allows any part of the \$967,963 in ineligible contract costs we question in finding A, FEMA should add those costs (up to the \$257,651 we question in both findings A and B) back to the net \$987,314 amount we recommend for disallowance as unsupported in finding B.”

Response: Concur. FEMA agrees that there must be sufficient documentation to demonstrate the eligibility of the work and associated costs for the contracts at issue in finding B; however, FEMA has not completed a review of the documentation for each applicable project following receipt of the Draft Audit Report and the Town has provided additional documentation following the issuance of the Draft Audit Report. FEMA will now move forward to evaluate whether the Town has provided adequate documentation to support the eligibility of work and costs associated with the contracts, to include working with the Grantee and Town to obtain any needed, additional documentation. If FEMA ultimately determines that there is inadequate documentation to support some or all of the questioned costs, the FEMA may use its discretionary enforcement authority under 44 C.F.R. § 13.43(a) to disallow any unsupported costs. FEMA will also ensure that, if it decides to provide reimbursement for any part of the \$257,651 of questioned



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Department of Homeland Security

Appendix C (continued)

costs in finding A that the OIG has also determined unsupported in finding B, those costs are supported by adequate documentation.

If FEMA determines to disallow any costs under any project, then it will issue a Public Assistance determination for that project in accordance with agency procedures. The estimated completion date is March 15, 2017. FEMA considers this recommendation **resolved** and **open**.

“Recommendation #3: Disallow \$15,600 (Federal share \$11,700) of ineligible duplicate benefits the Town claimed for contract costs. Because of our audit, FEMA has disallowed and deobligated the claimed \$15,600 in duplicate benefits; therefore, we consider this recommendation resolved and closed (finding C).”

Response: Concur. FEMA agrees that the Town submitted for reimbursement the same \$15,600 of contract costs twice under Project Worksheet No. 557 and, as a result, FEMA has already reduced the eligible cost of that project award by \$15,600. FEMA considers this recommendation **resolved** and **closed**.

“Recommendation #4: Direct Connecticut to work with Town officials to ensure their understanding and compliance with Federal procurement standards and documentation requirements (finding D).”

Response: Concur. FEMA will review and evaluate the actions already taken by the Grantee to inform the Town of the relevant procurement standards. If FEMA concludes that additional training and education would prove beneficial, FEMA will recommend that Connecticut work with Town officials to ensure their understanding of the federal procurement standards and documentation requirements and communicate that recommendation in writing. FEMA is also coordinating with the Grantee to provide future training before the end of 2016 on the procurement standards to state, local, tribal, and private nonprofit organizations in Connecticut that the Town could attend. The estimated completion date is March 15, 2017. FEMA considers this recommendation **resolved** and **open**.



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Appendix C (continued)

Additional Attachments:

- (2) Letter from John A. Harkins, Mayor, Town of Stratford to Paul F. Ford, Regional Administrator, FEMA Region I *re: Response to U.S. Department of Homeland Security Inspector General Report Draft Audit Report Number OIG-16-XX-D Regarding the Town of Stratford and Super Storm Sandy* (FEMA Disaster Number 4087) (Sep. 9, 2016)
- (3) Letter from William J. Hackett, State Emergency Management Director, Connecticut Division of Emergency Management and Homeland Security to Paul F. Ford, Regional Administrator, FEMA Region I *re: Response to Draft OIG Audit Report of the Town of Stratford under FEMA DR No. 4087—Super Storm Sandy* (Sep. 9, 2016)



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Appendix D **Report Distribution**

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