

**Florida and Palm Beach
County School District Did
Not Properly Administer
\$9.2 Million of FEMA
Grant Funds Awarded for
Hurricane Wilma Damages**





HIGHLIGHTS

Florida and Palm Beach County School District Did Not Properly Administer \$9.2 Million of FEMA Grant Funds Awarded for Hurricane Wilma Damages

March 19, 2015

Why We Did This

The Palm Beach County School District, Florida (District) received a \$34.0 million grant award from the Florida Division of Emergency Management (Florida), a Federal Emergency Management Agency (FEMA) grantee, for Hurricane Wilma damages in October 2005.

What We Recommend

FEMA should remind Florida of its grantee responsibilities and direct Florida to inform the District that, for future disasters, it must fully comply with FEMA grant requirements or risk losing future FEMA funding. FEMA should also disallow \$33,239 of ineligible costs.

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 District did not comply with Federal procurement standards or record retention requirements for contracts valued at \$9.2 million. Florida, as the grantee, was responsible for ensuring that the District was aware of and followed all Federal requirements. In fact, the District's 2006 Single Audit report disclosed these problems, yet we found no evidence that either Florida or the District did anything to correct them. As a result, full and open competition did not occur, and the risk that fraud, waste, and abuse occurred is high.

Normally, we would question such improper costs; however, we do not in this case because FEMA said the costs were reasonable and allowed the costs at project closeout using the agency's authority granted under 44 Code of Federal Regulations (CFR) 13.6(c).

We also determined that the District claimed \$33,239 of costs that were ineligible because it did not credit its claim for rebates it received for installing energy efficient roofs provided for under the award.

FEMA Response

FEMA's written response is due within 90 days.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security
Washington, DC 20528

March 19, 2015

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

FROM: John V. Kelly
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Florida and Palm Beach County School District Did Not Properly Administer \$9.2 Million of FEMA Grant Funds Awarded for Hurricane Wilma Damages*
Audit Report Number OIG-15-51-D

We audited Public Assistance grant funds awarded to Palm Beach County School District, Florida (District). The District received a Public Assistance award totaling \$34.0 million (net of insurance and other adjustments) from the Florida Division of Emergency Management (Florida), a Federal Emergency Management Agency (FEMA) grantee, for damages resulting from Hurricane Wilma that occurred in October 2005. The award provided 100 percent FEMA funding for debris removal, emergency protective measures, and repair to buildings and other facilities. We audited 8 large and 17 small projects totaling \$13.7 million gross (\$10.7 million net of insurance and other adjustments (see appendix A). At the time of our audit, the District had completed work under all projects in our audit scope and Florida had closed out the grant award.

Results of Audit

The District did not comply with Federal procurement standards or record retention requirements for contracts valued at \$9.2 million. Florida, as the grantee was responsible for ensuring that the District was aware of and followed all Federal requirements. In fact, the District's 2006 Single Audit report disclosed these problems, yet we found no evidence that either Florida or the District did anything to correct them. As a result, full and open competition did not occur, and the risk that fraud, waste, and abuse occurred is high.



OFFICE OF INSPECTOR GENERAL

Normally, we would question such improper costs; however, we do not in this case because FEMA said the costs were reasonable and allowed the costs at project closeout using the agency’s authority granted under 44 Code of Federal Regulations (CFR) 13.6(c).

We also determined that the District claimed \$33,239 of costs that were ineligible because it did not credit its claim for rebates it received for installing energy efficient roofs provided for under the award.

Finding A: Procurement Practices and Record Retention

The District did not comply with Federal procurement standards or record retention requirements for seven contracts valued at \$9.2 million for permanent roof repairs to school facilities damaged during the disaster. Table 1 identifies the specific project numbers and contract amounts.

Table 1: Contract Amounts for Roof Repairs

Project Number	Description of Work	Contract Dollar Amount
4123	Roof Repairs	773,936
4756	Roof Repairs	896,959
4631	Roof Repairs	907,433
3396	Roof Repairs	1,259,736
6144	Roof Repairs	1,604,402
6245	Roof Repairs	1,650,356
6832	Roof Repairs	2,130,696
Total		\$9,223,518

Source: FEMA Project Worksheets.

Federal grant administrative requirements at 44 CFR Part 13 required the District, among other actions, to perform the following activities:

- Conduct all procurement transactions in a manner providing full and open competition (44 CFR 13.36(c)). Noncompetitive procurement is allowable only under certain circumstances, one of which is when the public exigency or emergency will not permit a delay resulting from competitive solicitation (44 CFR 13.36(d)(4)(i)(B)).
- Take all necessary affirmative steps to assure the use of minority firms, women’s business enterprises, and labor surplus area firms when possible (44 CFR 13.36(e)(1)).



OFFICE OF INSPECTOR GENERAL

- Perform a cost price analysis in connection with every procurement action, including modifications, to determine the reasonableness of the contractor's proposed price (44 CFR 13.36(f)(1)).
- Maintain a written code of standards of conduct governing the performance of employees engaged in the award and administration of contracts. No employee, officer, or agent of the grantee or subgrantee shall participate in selection, award, or administration of a federally funded contract if it involves a conflict of interest, real or apparent (44 CFR 13.36(b)(3)).
- Maintain records sufficient to detail the significant history of the procurement, including the rationale for the method of procurement, the basis for contractor selection, and basis for the contract price (44 CFR 13.36(b)(9)).
- Maintain all financial and programmatic grant records at least 3 years from the date the grantee (Florida) submits its final expenditure report to FEMA (44 CFR 13.42(b)(1) and (c)).
- Obtain "audits in accordance with the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507) and revised [Office of Management and Budget] OMB Circular A-133."

Grant administrative requirements also mandate grantees to ensure that subgrantees are aware of requirements that Federal regulations imposed on them (44 CFR 13.37(a)(2)). Grantees must also manage the day-to-day operations of subgrant activity and monitor subgrant activity to ensure compliance with applicable Federal requirements (44 CFR 13.40(a)). However, FEMA may grant exceptions to Federal grant administrative requirements, including procurement, to subgrantees on a case-by-case basis (44 CFR 13.6(c)).

The District did not have records that documented the procurement history of seven contracts valued at \$9.2 million it awarded for permanent roof repairs to school facilities. District officials said that the District lost or misplaced the records as a result of reviews that FEMA, Florida, and the District's internal and external auditors had conducted on the grant files in previous years.

The District began the roofing contract work in March 2006, approximately 5 months after the disaster, and completed the work in January 2008. Florida closed out the projects between July 2011 and February 2012. Federal regulation 44 CFR 13.42 required the District to maintain all financial and programmatic grant records at least 3 years from the date the grantee (Florida) submits its final expenditure report to FEMA. Further, the Disaster Relief Funding Agreement between Florida and the District required the District to maintain all project documentation at least 5 years from the date of disaster closeout. Florida closed out the District's grant award on March 15, 2013. However, at the start of our audit in January 2014, Florida had not submitted



OFFICE OF INSPECTOR GENERAL

its final expenditure report for all disaster activities to FEMA. Therefore, at a minimum, all of the District's procurement records should have been on hand and available until March 15, 2018.

The District's 2006 Single Audit report disclosed that the District was not fully complying with Federal record retention requirements. The Single Audit also reported that District employees were not following District procurement procedures for approval and record retention requirements to support expenditures under Federal awards. The auditor considered the problem systemic in nature and recommended that the District enhance its current policies and procedures to ensure that District personnel could easily locate all expenditure documentation, including project files. The auditor also recommended the District provide training to procurement personnel to ensure compliance with District procurement policies as well as the requirements of Federal grant programs. Therefore, the District should have made certain as early as 2006 that it maintained all records for the required retention period and complied with all applicable procurement requirements. In addition, Florida, as the grantee and "pass-through entity," was responsible for issuing a management decision on Single Audit findings and ensuring that the District took appropriate and timely corrective action (OMB Circular A-133, subpart D, §__.400(d)(5)).

The District did not maintain records sufficient to detail the significant history of the procurement, including the rationale for the method of procurement, the basis for contractor selection, and basis for the contract price. As a result, we could not fully determine how the District awarded the contracts or whether it took the required steps to ensure that small businesses, minority-owned firms, and women's business enterprises had sufficient opportunities to bid on the federally funded work. Despite the lack of the procurement history documentation, the District had maintained the specific contracts and related invoices for the \$9.2 million of contract costs in question. Based on our review and analysis of those records and interviews with District procurement officials, we concluded the District did not comply with Federal contracting requirements regarding full and open competition and conflicts of interest.

Full and Open Competition

The District's contracting method did not meet full and open competition requirements or provide reasonable assurance that it obtained the best possible price for the roof repairs. The District used four roofing contractors that it hired several months before the disaster for routine roof repair work to perform the disaster-related repairs. District officials told us they had selected the four contractors using a competitive proposal process and had awarded each contractor a 1-year term contract with an option to renew. According to the District's procurement policies, when the District needed roofs repaired or



OFFICE OF INSPECTOR GENERAL

replaced, the District was to seek quotes from the four prequalified contractors and award the repair work via a purchase order to the lowest bidder. However, District officials told us that its purchasing director did not follow this procedure for disaster-related roof repairs and replacements. Instead, the purchasing director rotated the work among the contractors and instructed the selected contractor to use RS Means cost codes to price all work items.¹ The RS Means cost codes are national average costs for construction activities that a contractor should adjust by applying location factors listed in the RS Means book. However, the roofing contracts the District awarded did not specify which costs the contractor should use and whether to consider the location factors. Further, we could not trace the prices contractors charged to the RS Means book, and District officials could not explain why the prices the contractors charged were different from those listed in the RS Means book. As a result, we could not determine the basis for the contract prices. The District's method of contracting for the roofing work does not meet the goals of full and open competition, which is to increase the probability of obtaining the best possible pricing from competition and to discourage and prevent favoritism, collusion, fraud, waste, and abuse.

Conflict of Interest

The District could not provide adequate documentation to show that it removed a conflict of interest in the contract award process. During our fieldwork, we learned that the District's construction purchasing agent was married to the vice president of one of the major roofing contractors at the time the District made the contract awards. The District awarded the contractor in question approximately \$5.0 million of the \$9.2 million in roofing contracts. The District's Purchasing Director told us that the District was aware of the situation and had worked with the construction purchasing agent to ensure that no conflict of interest existed. However, the District could not provide documentation that the construction purchasing agent recused herself from the award process, nor could it provide us with the names of the purchasing agents involved in the contractor prequalification and selection process. The only document the District provided to us was a "No Conflict of Interest Certification Form" that the construction purchasing agent signed on June 12, 2009, which was several years after the District awarded the contracts. Without adequate documentation showing the District removed the conflict of interest situation, FEMA has no assurance the District maintained integrity in the procurement process and awarded the contract work in an independent and impartial manner.

¹ RS Means, a product line of Reed Construction Data, is a supplier of construction cost information for North America. RS Means provides cost information used to project the cost of building construction and renovation projects.



OFFICE OF INSPECTOR GENERAL

Summary

Under these circumstances, our usual practice would be to question the \$9.2 million in contract costs because the District did not comply with Federal procurement and record retention requirements. In fact, 44 CFR 13.43(a) lists five actions that Federal agencies can take to enforce compliance with administrative requirements. However, FEMA chose none of these options, one of which is to disallow all or part of the noncompliant costs.

Between April 2010 and December 2010 (before Florida closed the projects), FEMA closeout specialists reviewed the eligibility of the \$9.2 million of contract costs and allowed the costs saying they determined the costs to be fair and reasonable. The final project worksheets also indicated that the District complied with its standard procurement and purchasing policies in the award of the contract work, which suggests that the District's procurement history records were available to FEMA at project closeout. Although the project worksheets do not specifically address whether the District's contracting method met Federal procurement standards, it has been FEMA's general practice to allow costs it considers reasonable regardless of a subgrantee's noncompliance with Federal procurement requirements. While we generally do not agree with this practice, we defer to FEMA's decision to allow the costs based on FEMA's determination that 44 CFR 13.6(c) allows it to grant exceptions to Federal grant administrative requirements. Therefore, we are not questioning any costs related to this finding. However, FEMA should at minimum (1) remind Florida of its grantee responsibilities to ensure that subgrantees are aware of Federal regulations and to monitor subgrant activities to ensure compliance, and (2) direct Florida to inform the District that it must comply with Federal record retention and procurement requirements and that noncompliance with such requirements in the future will place FEMA reimbursements at risk.

Finding B: Unapplied Credits

The District overstated its claim under two roofing repair projects because it did not reduce the project costs for \$33,239 of rebates it received from Florida Power and Light for installing energy efficient roofs. Federal cost principles at 2 CFR 225, Appendix A, C.1.i requires that costs under Federal awards be net of applicable credits. Applicable credits refer to those receipts or reduction of expenditure type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. Therefore, we question the unapplied credits of \$33,239, consisting of \$10,469 under Project 4756 and \$22,770 under Project 6832.



OFFICE OF INSPECTOR GENERAL

District officials said they notified FEMA closeout personnel of the rebates at project closeout, but the personnel instructed them not to apply the credits to the projects. However, District officials did not provide us with documentation to support their assertion. Further, Federal regulations are clear that award recipients are to reduce expense items allocable to a Federal award for any rebates received. Therefore, our position remains unchanged.

Recommendations

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation 1: Remind Florida of its grantee responsibilities to ensure that subgrantees are aware of Federal regulations and to monitor subgrant activities to ensure compliance (finding A).

Recommendation 2: Direct Florida to inform the District that it must fully comply with Federal grant administrative requirements for record retention and procurement, including conflicts of interest in the award and administration of contracts, and that noncompliance with such requirements in the future will place FEMA reimbursements at risk (finding A).

Recommendation 3: Disallow \$33,239 (Federal share \$33,239) of ineligible unapplied credits (finding B).

Discussion with Management and Audit Follow-up

We discussed the audit results with District, Florida, and FEMA officials during our audit. We also provided a written summary of our findings and recommendations in advance to these officials and discussed them at the exit conference held on January 20, 2015. District officials disagreed with our findings. We included District officials' comments, where appropriate, in the body of this report.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include the contact information of responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendations. Please email a signed pdf copy of all responses and closeout request to Carl.Kimble@oig.dhs.gov. Until we receive and evaluate your response, we will consider the recommendations open and unresolved.



OFFICE OF INSPECTOR GENERAL

Major contributors to this report are David Kimble, Director; Felipe Pubillones, Audit Manager; Mary Stoneham, Auditor-in-Charge; and Angelica Esquerdo, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact David Kimble, Director, Eastern Regional Office, at (404) 832-6702.



Appendix A

Objective, Scope, and Methodology

We conducted this performance audit between January 2014 and January 2015 pursuant to 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 on our audit objective. To conduct this audit, we applied the statutes, regulations, and FEMA guidelines in effect at the time of the disaster.

We audited Public Assistance funds awarded to the District, FIPS Code 099-11200-00. Our audit objective was to determine whether the District accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for Disaster Number 1609-DR-FL. The District received a Public Assistance award totaling \$39.0 million (\$34.0 million (net of insurance and other adjustments) from Florida, a FEMA grantee, for damages resulting from Hurricane Wilma that occurred October 2005. The award provided 100 percent FEMA funding for debris removal, emergency protective measures, and repair to buildings and other facilities. The award consisted of 82 large and 155 small projects.²

We audited 8 large and 17 small projects totaling \$13.7 million (\$10.7 million net—see table 2). The audit covered the period October 24, 2005, to January 28, 2014, during which the District claimed \$10.7 million under the projects in our audit scope. The following tables provide additional information related to our audit scope:

Table 2: Gross and Net Award Amounts Reviewed

Table 3: Projects Audited and Questioned Costs

We interviewed District, Florida, and FEMA personnel; gained an understanding of the District's method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected (generally based on dollar values) 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

² Federal regulations in effect at the time of the disaster set the large project threshold at \$57,500.



Appendix A (continued)

necessary to accomplish our audit objective. As part of our standard audit procedures, we also notified the Recovery Accountability and Transparency Board of all contracts the subgrantee awarded under the grant to determine whether the contractors were debarred or whether there were any indications of other issues related to those contracts that would indicate fraud, waste, or abuse. The Recovery Accountability and Transparency Board’s analysis of contracts found no derogatory information. We did not perform a detailed assessment of the District’s internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective.

Table 2: Gross and Net Award Amounts Reviewed

	Gross Award Amount	Insurance Deductions	Net Award Amounts
Audit Scope	\$13,741,617	\$3,055,174	\$10,686,443

Source: FEMA Project Worksheets, District Records, and Office of Inspector General (OIG) Analyses.



Appendix A (continued)

Table 3: Projects Audited and Questioned Costs

Project Number	FEMA Category 3	Net Amount Awarded	Amount Questioned
Large Projects:			
595	E	\$ 733,757	\$ 0
4123	E	773,936	0
4756	E	896,959	10,469
4631	E	907,433	0
3396	E	1,259,737	0
6144	E	1,604,402	0
6245	E	1,650,356	0
6832	E	2,130,696	22,770
Subtotal		\$9,957,276	\$33,239
Small Projects:			
1579	E	\$36,961	0
2952	E	37,007	0
2532	E	37,451	0
5606	E	37,720	0
3465	E	38,163	0
3392	E	38,826	0
3186	E	41,696	0
5164	E	42,880	0
3472	E	44,357	0
4332	E	44,974	0
4357	E	45,148	0
6538	E	45,795	0
1578	E	46,158	0
1502	E	46,274	0
1589	E	48,322	0
4562	E	48,448	0
4626	E	48,987	0
Subtotal		\$ 729,167	0
Total		\$10,686,443	\$33,239

Source: FEMA Project Worksheets, District Records, and OIG Analyses

³ FEMA classifies disaster-related work by type: debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C through G).



Appendix B

Report Distribution

Department of Homeland Security

Secretary
Chief of Staff
Chief Financial Officer
Under Secretary for Management
Chief Privacy Officer
Audit Liaison, DHS

Federal Emergency Management Agency

Administrator
Chief of Staff
Chief Financial Officer
Chief Counsel
Director, Risk Management and Compliance
Audit Liaison, FEMA Region IV
Audit Liaison, FEMA (Job Code G-14-024)

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Recovery Accountability and Transparency Board

Director, Investigations

Congress

Congressional Oversight and Appropriations Committees

External

Director, Florida Emergency Management Agency
State Auditor, Florida
Director of Finance Services, Palm Beach County School District

ADDITIONAL INFORMATION AND COPIES

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov. Follow us on Twitter at: @dhsoig.



OIG HOTLINE

To report fraud, waste, or abuse, visit our website at www.oig.dhs.gov and click on the red "Hotline" tab. If you cannot access our website, call our hotline at (800) 323-8603, fax our hotline at (202) 254-4297, or write to us at:

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