City of Cedar Falls, Iowa, Has Policies, Procedures, and Business Practices to Manage Its FEMA Grant

February 7, 2018
OIG-18-49
February 7, 2018

Why We Did This Audit

At the time of our audit, the Federal Emergency Management Agency (FEMA) estimated that the City of Cedar Falls, Iowa (City), had sustained approximately $893,000 in damage caused by severe storms and flooding from September 21 through October 3, 2016. We audited early in the grant process to identify areas in which the City may need additional technical assistance or monitoring to ensure compliance with Federal procurement requirements.

What We Found

Except for procurement, the City’s policies, procedures, and business practices appear to be adequate to account for and expend FEMA grant funds according to Federal regulations and FEMA policies. Specifically, the City’s procurement policies did not provide sufficient opportunities for disadvantaged firms to compete for contracts, or prevent awarding contracts to debarred or suspended contractors.

After we discussed these issues, City officials moved quickly to modify procurement policies to comply with Federal requirements. These corrections should help provide reasonable assurance that the City will comply with Federal procurement standards in administering future contract costs.

Iowa Homeland Security and Emergency Management Department (Iowa) officials said they worked with the City to educate them on FEMA requirements and completed a pre-award risk assessment to ensure the City receives an adequate level of grant monitoring.

What We Recommend

FEMA should direct Iowa to provide additional technical assistance to help ensure the City complies with applicable Federal procurement standards and updates its procurement policy and procedure.

FEMA Response

FEMA agreed with our findings and recommendations. Appendix B includes FEMA’s response in its entirety.

For Further Information:
Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov
MEMORANDUM FOR: Paul Taylor  
Regional Administrator, Region VII  
Federal Emergency Management Agency  

FROM: John E. McCoy II  
Assistant Inspector General for Audits  

SUBJECT: City of Cedar Falls, Iowa, Has Policies, Procedures, and Business Practices to Manage Its FEMA Grant  
OIG Project No. G-17-020-EMO-FEMA  

Attached for your action is our final report, City of Cedar Falls, Iowa, Has Policies, Procedures, and Business Practices to Manage Its FEMA Grant. We incorporated the formal comments provided by your office.  

The report contains two recommendations. Your office concurred with both recommendations. Based on information provided in your response to the draft report, we consider recommendations 1 and 2 resolved and closed.  

We audited the capability of Cedar Falls, Iowa (City), a Federal Emergency Management Agency (FEMA) grant subrecipient, to manage FEMA Public Assistance grant funds. We began the audit early in the Public Assistance process to identify areas in which the City may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines. In addition, auditing early in the grant cycle, subrecipients 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 lapses.  

At the time of our fieldwork, FEMA had awarded $592,914 of the $893,000 in estimated damages sustained between September 21 through October 3, 2016, from severe storms and flooding. The award will provide 75 percent Federal funding for eligible work. During our audit, we identified that the City had not submitted claims for disaster costs, but had spent $630,474 for disaster work.  

Consistent with our responsibility under the Inspector General Act, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.  

Please call me with any questions at (202) 254-4100, or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General for Audits, at (202) 254-4100.  

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Background

Cedar Falls is located in Blackhawk County in northeast Iowa and encompasses approximately 28.9 square miles of incorporated land. The Cedar River and its floodplain bisect the City from west to east. On September 21, 2016, the Cedar River flooded causing damage to the low lying areas within the City, including roads and public parks. The President declared the area a major disaster on October 31, 2016. Prior to the event, the City used emergency protective measures to reduce the immediate threat to lives, public health and safety, and to protect publicly owned property in anticipation of record flooding from the Cedar River. City crews and approximately 1,000 volunteers positioned 200,000 sandbags and 94 earth-filled barriers along the levee to add reinforcement by increasing the height and strengthening weak points in the system. City officials estimate the emergency protective measures and mitigation efforts saved the City in excess of $40 million by preventing a levee breach that would have flooded the downtown area.

Figure 1: Cedar Falls 2016 Flooding

Results of Audit

Except for procurement, the City’s policies, procedures, and business practices appear to be adequate to account for and expend FEMA grant funds according to Federal regulations and FEMA policies. Specifically, the City’s procurement policies did not provide sufficient opportunities for disadvantaged firms to compete for contracts, or prevent awarding contracts to debarred or suspended contractors. After we discussed these issues, City officials moved quickly to
modify procurement policies to comply with Federal requirements. These corrections should help provide reasonable assurance that the City will comply with Federal procurement standards in administering future contract costs.

The problems identified occurred because City officials said they were not aware of and did not understand Federal procurement requirements despite attending applicant briefings and procurement training. Iowa officials said they worked with the City to educate them on FEMA requirements and completed a pre-award risk assessment to ensure the City received an adequate level of grant monitoring. Nevertheless, we recommend FEMA direct Iowa, as grant recipient, to provide additional technical assistance to ensure the City follows Federal procurement standards in spending Federal funds for eligible disaster work.

**Finding A: Policies, Procedures, and Business Practices**

**Project Cost Accounting**

The City appears to have adequate policies, procedures, and business practices in place to account for disaster-related costs as required by Federal regulations and FEMA guidelines. The City has an effective accounting system in place to ensure it accounts for and supports disaster-related costs on a project-by-project basis as required by the following Federal regulations and FEMA guidelines:

- 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 to segregate disaster-related costs in the absence of FEMA project numbers assigned to the majority of the project worksheets. We assessed the adequacy of the City’s policies and procedures to account for disaster-related contract costs as well as reviewed a sample of force account labor and equipment costs incurred. We determined the City could properly segregate costs by category of work and maintain sufficiently detailed documentation to support the costs until FEMA obligates all project worksheets.
Procurement Practices

The City’s procurement policies, procedures, and business practices generally comply with Federal procurement standards. However, at the time of our audit, the City did not have policies and procedures in place to solicit disadvantaged business enterprises or ensure that contractors were not debarred or suspended. Federal procurement regulations require subrecipients to:

- take necessary affirmative steps\(^1\) to ensure the use of small and minority businesses, women’s business enterprises, and labor surplus area firms, when possible (2 CFR 200.321(a)); and

- ensure no contract is awarded to any party debarred, suspended, or otherwise excluded or ineligible from Federal programs or activities (2 CFR 200.205(d)).

City officials said this occurred because they did not understand the affirmative steps and were unaware of the requirement to confirm that contractors were not excluded or ineligible from federally funded work. However, once we notified the City of the deficiencies, City officials worked quickly to update their procurement policies to ensure compliance with Federal regulations. Furthermore, Iowa officials said they would provide City officials with additional technical assistance to ensure the City is aware of and understands Federal procurement standards. Compliance with these regulations is essential to ensure that disadvantaged business enterprises have an opportunity to bid on federally funded work and to protect the government from doing business with companies that pose a business risk to the Federal Government.

As of the cutoff date of our audit, the City awarded eight small contracts, totaling $136,946, without taking affirmative steps to solicit disadvantaged business enterprises or ensuring that contractors were not debarred or suspended.\(^2\) We notified the City of these issues during the audit, and it immediately verified the small contractors were not debarred or suspended. Although the City did not have procedures in place to solicit disadvantaged firms, we will not question small contract awards because the City inadvertently awarded four of the eight contracts to small businesses, and

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\(^1\) These steps include placing qualified small and minority businesses and women’s business enterprises on solicitation lists; ensuring 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.

\(^2\) The simplified acquisition threshold means the dollar amount below which a non-Federal entity may purchase property or services using small purchase methods. As of January 1, 2016, the threshold was $150,000.
none of the contractors were debarred or suspended. Additionally, the City modified its procurement process to take affirmative steps and to verify for debarred and suspended contractors.

**Finding B: Grant Management**

Federal regulation 2 CFR 200.331(d) requires recipients to monitor the subrecipient’s activities to ensure that the subaward is used for authorized purposes, in “compliance with Federal statutes, regulations, and the terms and conditions of the subaward.” As of the audit cutoff, Iowa took positive steps to monitor the City’s subgrant activities. Iowa worked with City officials to educate them on FEMA requirements and performed a risk assessment to evaluate the risk of noncompliance and establish adequate monitoring. Iowa officials said they established this procedure to perform risk assessments of all subrecipients for each disaster prior to payout of grant monies, in response to the requirement in 2 CFR 200.331(b).3 The assessment evaluates subrecipients on four areas of risk: financial stability, quality management systems, performance history, and statutory and regulatory requirement implementation.

Iowa’s risk assessment of the City indicated a low risk for noncompliance, notating similar issues with the City’s procurement policies as identified in this report. Because the City was a low-risk applicant, Iowa officials said they did not provide additional technical assistance to the City to ensure it complied with Federal procurement regulations. We recognize Iowa’s grant management efforts. Although Iowa considers the City a low-risk applicant, we consider findings related to Federal procurement regulations as high risk since they put taxpayer funds at risk of fraud, waste, and abuse. As a result, we recommend FEMA direct Iowa, as grant recipient, to provide additional technical assistance to the City to ensure compliance with all Federal procurement requirements.

Iowa officials agreed that the City needs additional technical assistance to ensure understanding and compliance with Federal procurement standards. An Iowa official also said that the risk assessment is an excellent mechanism to provide applicants with additional information on their deficiencies.

**Recommendations**

**Recommendation 1:** We recommend that the Regional Administrator, FEMA Region VII, direct Iowa to work with the City to update its procurement policy and procedures to comply with Federal procurement regulations (finding A).

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3 2 CFR 200.331(b) requires all recipients to evaluate each subrecipient’s risk of noncompliance with Federal regulations and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.
Because of our audit, the City revised its procurement policy and procedures; therefore, we consider this recommendation resolved and closed with no further action required.

**Recommendation 2:** We recommend that the Regional Administrator, FEMA Region VII, direct Iowa to provide additional technical assistance to the City to ensure it complies with all Federal procurement regulations for awarding disaster-related contracts (finding B). The actions taken by FEMA in its written response were sufficient to resolve and close this recommendation with no further action required.

**Discussions with Management and Audit Follow-up**

We discussed the results of our audit with FEMA, Iowa, 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 November 27, 2017; and with Iowa and City officials on November 29, 2017, and December 1, 2017, respectively. FEMA, Iowa, and City officials agreed with our findings and recommendations.

FEMA officials provided a written response to this report on December 14, 2017, agreeing with our findings and recommendations (see appendix B). For recommendation 2, FEMA provided evidence that it directed Iowa to provide additional technical assistance to the City to ensure it complies with all Federal procurement regulations for awarding disaster-related contracts. Based on FEMA’s actions, we consider all recommendations resolved and closed with no further action required.

The Office of Audits major contributors to this report were Tonda L. Hadley, Director; Larry Arnold, Director; Chiquita Washington, Audit Manager; Heather Hubbard, Auditor-in-Charge; Lauren Moore, Auditor; Michael McGee, Auditor; Jamie Clark, Independent Reference Reviewer; and Kevin Dolloson, Communications Analyst.
Appendix A
Objective, Scope, and Methodology

We audited the capability of Cedar Falls, Iowa, Public Assistance Identification Number 013-11755-00, to manage 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 4289-DR-IA. FEMA’s preliminary damage assessments estimated total damages of $893,000, resulting from severe storms and flooding beginning on September 21, 2016, and continuing through October 3, 2016. The audit covered the period of September 21, 2016, through May 1, 2017, the cutoff date of our audit. As of May 1, 2017, FEMA had only awarded $592,914 for two large and one small project but had not completed its development of project worksheets for the remaining projects.4 The anticipated award will provide 75 percent FEMA funding for emergency work.

Table 1: Schedule of Projects and Award Amounts

<table>
<thead>
<tr>
<th>Project Worksheet</th>
<th>Category of Work</th>
<th>Estimated Damages</th>
<th>Total Award Amount</th>
<th>Total Costs Incurred</th>
</tr>
</thead>
<tbody>
<tr>
<td>227</td>
<td>A</td>
<td>$160,000</td>
<td>$286,085</td>
<td>$225,381</td>
</tr>
<tr>
<td>192, 228</td>
<td>B</td>
<td>440,000</td>
<td>306,829</td>
<td>306,856</td>
</tr>
<tr>
<td>*</td>
<td>C</td>
<td>150,000</td>
<td>0</td>
<td>63,239</td>
</tr>
<tr>
<td>*</td>
<td>D</td>
<td>60,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>*</td>
<td>E</td>
<td>33,000</td>
<td>0</td>
<td>0</td>
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<td>*</td>
<td>F</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>*</td>
<td>G</td>
<td>50,000</td>
<td>0</td>
<td>34,998</td>
</tr>
<tr>
<td>Totals:</td>
<td></td>
<td>$893,000</td>
<td>$592,914</td>
<td>$630,474</td>
</tr>
</tbody>
</table>

Source: Office of Inspector General (OIG) analysis, FEMA preliminary damage assessments, and City documentation
* At the time of our audit, FEMA had not written project worksheets for these categories of work.

We interviewed FEMA, Iowa, and City officials; judgmentally selected and reviewed project costs and disaster-related contracts (generally based on risk); reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective. We did not perform a detailed assessment of the City’s internal controls over its grant activities because it was not necessary to accomplish our audit objective. However, we did gain an understanding of the City’s method of accounting for disaster-related costs and its policies, procedures, and business practices the

4 Federal regulations in effect at the time of the disaster set the large project threshold at greater than $123,100 [Notice of Adjustment of Disaster Grant Amounts, 81 Fed. Reg. 70,434 (Oct. 12, 2016)].

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Appendix A
Objective, Scope, and Methodology (continued)

City uses and plans to use to administer activities provided for under the FEMA award.

We conducted this performance audit between May and November 2017 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.
Appendix B
FEMA Region VII Audit Response

MEMORANDUM FOR: Larry Arnold
Director, Office of Audits
Office of Inspector General

FROM: Paul Taylor
Regional Administrator, Region VII
Federal Emergency Management Agency


DEC 13 2017

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security’s Federal Emergency Management Agency (FEMA) Region VII appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report. Region VII is pleased to note the OIG’s positive assessments regarding the City’s ability to properly manage their federal grant funding and the State of Iowa’s efforts in monitoring and providing technical assistance to their sub-recipients.

The draft report contained two recommendations with which FEMA Region VII concurs. Please see the attached for our detailed response to the recommendations.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you in the future.

Attachment
Appendix B
FEMA Region VII Audit Response (continued)

Attachment A
FEMA Region VII Management Response to Recommendations Contained in G-17-020-EMO-FEMA

**Recommendation 1:** Direct Iowa to work with the City to update its procurement policy and procedures to comply with Federal procurement regulations (finding A). Because of our audit, the City revised its procurement policy and procedures; therefore, we consider this recommendation resolved and closed with no further action required.

**Response:** Concur. Region VII agrees with the OIG’s determination that this recommendation be considered resolved and closed.

**Estimated Completion Date (ECD):** Not applicable

**Recommendation 2:** Direct Iowa to provide additional technical assistance to the City to ensure it complies with all Federal procurement regulations for awarding disaster-related contracts (finding B).

**Response:** Concur. On November 28, 2017, Region VII’s Recovery Division issued a letter directing the State of Iowa to provide additional technical assistance to the City of Cedar Falls to ensure compliance with Federal procurement requirements. A copy of this letter was sent separately to the OIG audit team.

**ECD:** Region VII requests that this recommendation be considered resolved and closed.
Appendix C
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