

Department of Homeland Security **Office of Inspector General**

FEMA Should Recover \$131,064 From a \$3.0 Million
Public Assistance Grant Awarded to the
City of Norfolk, Virginia, for Tropical Storm Ida
and a Nor'easter



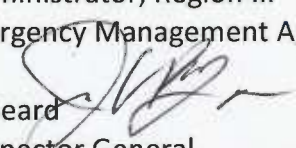


OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

MAR 12 2013

MEMORANDUM FOR: Mary Ann Tierney
Regional Administrator, Region III
Federal Emergency Management Agency

FROM: D. Michael Beard 
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Recover \$131,064 From a \$3.0 Million Public Assistance Grant Awarded to the City of Norfolk, Virginia, for Tropical Storm Ida and a Nor'easter*
FEMA Disaster Number DR- 1862
Audit Report Number DA-13-11

We audited Public Assistance grant funds awarded to the City of Norfolk, Virginia (City) (FIPS Code 710-57000-00). Our audit objective was to determine whether the City accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

The City received a Public Assistance award totaling \$3.0 million from the Virginia Division of Emergency Management (State), a FEMA grantee, for damages resulting from Tropical Storm Ida and a Nor'easter, which occurred in November 2009. The award provided 75 percent FEMA funding for debris removal, emergency protective measures, and permanent repairs to buildings and other facilities. The award consisted of 12 large projects and 71 small projects.¹

We audited five large projects and one small project with awards totaling \$1.2 million (see Exhibit, Schedule of Projects Audited). The audit covered the period November 11, 2009, to September 27, 2012, during which the City claimed \$1.1 million of FEMA funding under the projects reviewed. At the time of our audit, the City had completed work under all large projects included in our scope, but had not submitted a final claim of expenditures to the State for all projects.

We conducted this performance audit between July 2012 and February 2013 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

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$63,200.



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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. To conduct this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We judgmentally selected project costs (generally based on dollar value) interviewed City, State, and FEMA officials; reviewed the City's procurement policies and procedures; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objectives. We did not assess the adequacy of the City's internal controls applicable to its grant activities because it was not necessary to accomplish our objective. However, we gained an understanding of the City's method of accounting for disaster-related costs and its policies and procedures for administering the activities provided for under the FEMA award.

RESULTS OF AUDIT

FEMA should recover \$131,064 of grant funds awarded to the City. Although the City generally accounted for FEMA funds according to Federal regulations and FEMA guidelines, its claim included \$131,064 for contract work that did not fully comply with Federal procurement requirements.

Under Project 136, the City used an electrical contractor to complete repairs to an underground electrical utility vault damaged by the disaster in November 2009. The repair work was performed under a contract that the City originally competed in 2006 and renewed yearly under an option to renew clause. The contractor completed the repairs in May 2012 for a cost of \$123,386, which included \$80,368 for materials. However, the contract included a cost-plus provision whereby the contractor charged materials at cost plus a markup of 34 percent. Federal regulations at 44 CFR 13.36(f)(4) states that the cost plus a percentage of cost and percentage of construction cost methods of contracting shall not be used. In addition, FEMA's *Public Assistance Guide* (FEMA 322, June 2007, pp. 51–53) specifies that "cost plus a percentage of costs contracts are not eligible. However, FEMA may separately evaluate and reimburse costs it finds fair and reasonable." FEMA may grant exceptions to Federal procurement requirements to subgrantees on a case-by-case basis (44 CFR 13.6(c)).

We question the \$131,064 because the City did not use a proper contracting method for the repair work and, therefore, FEMA has no assurance that the price paid for the contract work was reasonable.



RECOMMENDATION

We recommend that the Regional Administrator, FEMA Region III:

Recommendation #1: Disallow \$131,064 (Federal share \$98,298) of ineligible contract costs unless FEMA grants the City an exception for all or part of the costs as provided for in 44 CFR 13.6(c) and Section 705(c) of the *Robert T Stafford Disaster Relief and Emergency Assistance Act*, as amended.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the audit results with the City, State, 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 February 12, 2013. City officials generally agreed with our findings.

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 the recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until we receive and evaluate your response, the recommendations are open and unresolved.

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

Major contributors to this report were David Kimble, Eastern Region Audit Director; Felipe Pubillones, Audit Manager; and Carlos Aviles, Auditor-In-Charge.

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



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Exhibit

**Schedule of Projects Audited
November 11, 2009, to June 26, 2012
City of Norfolk, Virginia
FEMA Disaster No. 1862-DR-VA**

Project Number	Category of Work	Description of Work	Amount Awarded	Amount Claimed	Questioned Costs
129	B	Emergency Protective Measures	\$227,364	\$227,364	0
136	F	Utilities	131,064	131,064	\$131,064
225	E	Buildings and Equipment	21,849	534	0
259	A	Debris Removal	163,588	160,714	0
262	A	Debris Removal	509,875	501,899	0
308	B	Emergency Protective Measures	107,308	107,308	0
Total			\$1,161,048	\$1,128,883	\$131,064



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Audit Liaison, FEMA Region III
Audit Liaison, FEMA (Job Code G-12-055-EMO-FEMA)

State

Director, Virginia Division of Emergency Management
State Auditor, Virginia

Subgrantee

Risk Manager, City of Norfolk, VA

Congress

Senate Committee on Appropriations, Subcommittee on Homeland Security
Senate Committee on Homeland Security and Governmental Affairs
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