

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

**The City of Elizabeth, New Jersey,
Has Adequate Policies, Procedures, and Business
Practices in Place to Effectively Manage FEMA
Public Assistance Grant Funds**





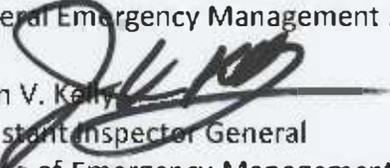
OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

SEP 2 2014

MEMORANDUM FOR: Laura Phillips
Executive Director
Sandy Recovery Offices of New York and New Jersey
Federal Emergency Management Agency

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

SUBJECT: *The City of Elizabeth, New Jersey, Has Adequate Policies, Procedures, and Business Practices in Place to Effectively Manage FEMA Public Assistance Grant Funds*
FEMA Disaster Number 4086-DR-NJ
Audit Report Number OIG-14-130-D

We audited the capability of the City of Elizabeth, New Jersey (City) to manage Public Assistance grant funds (Public Assistance Identification Number 039-21000-00). Our audit objective was to determine whether the City's policies, procedures, and business practices are adequate to account for and expend Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines. We conducted this audit early in the Public Assistance process to identify areas where the City may need additional technical assistance or monitoring to ensure compliance. In addition, by undergoing an audit early in the grant cycle, grant recipients have the opportunity to correct noncompliance with Federal regulations before they spend the majority of their funding. It also allows them the opportunity to supplement deficient documentation or locate missing documentation before too much time elapses.

At the time of audit fieldwork, the New Jersey Office of Emergency Management (New Jersey), a FEMA grantee, had awarded the City just over \$18 million for damages resulting from Hurricane Sandy, which occurred on October 29, 2012. The award provided 90 percent funding for debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C-G) for nine projects (eight large projects and one small).¹ We included five of the nine projects totaling \$16.8 million or 93 percent of the award in our review (see Exhibit, Schedule of Projects Reviewed). The audit covered the period October 26, 2012, through April 9, 2014. At the time of our fieldwork, the City had not submitted any claims to New Jersey for work under the projects in our audit scope.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$67,500.



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We conducted this performance audit between February 2014 and July 2014 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. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We interviewed FEMA, New Jersey, and City officials; gained an understanding of the City's method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected and reviewed (generally based on dollar amount) project costs and procurement transactions for the projects included in our review; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective. As part of our standard auditing procedures, we also notified the Recovery Accountability and Transparency Board of all contracts the City awarded under the grant at the time of our field work to determine whether the contractors were debarred or whether there were any indications of other issues related to those contractors that would indicate fraud, waste, or abuse. The Recovery Accountability and Transparency Board determined that none of the contractors were debarred and no other issues came to its attention related to those contractors that would indicate fraud, waste, or abuse. 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.

BACKGROUND

The City of Elizabeth is a local government entity in Union County, New Jersey, located on the Arthur Kill and Newark Bay. The Elizabeth River also passes through the City before discharging into the Arthur Kill. Hurricane Sandy's high winds, heavy rains, and subsequent flooding caused major damage to the waterfront complex, memorial park, municipal marina, plaza area, and recreational and boardwalk piers (see figure 1). During the storm, the surge from the nearby waterways pushed flood water up and into the streets of Elizabeth overwhelming its sewer collection system, damaging three pump station facilities, and lifting and twisting steel hatches in underground storm overflow chambers.



Figure 1. Damaged Boardwalk after Hurricane Sandy



Source: City of Elizabeth

RESULTS OF AUDIT

The City has adequate policies, procedures, and business practices in place to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. The City accounted for costs on a project-by-project basis and adequately supported the costs. Contracts the City awarded for disaster-related work generally complied with Federal procurement requirements. However, the City did not include all required provisions in the contracts. We also noted that the City had not provided New Jersey with documentation showing that it had maintained insurance for a damaged pump station building.

After we discussed these issues with City officials, they took steps to correct these problems. Taking these corrective actions now increases the likelihood that the City will comply with all regulatory requirements if they receive additional FEMA funds in the future.

Accounting for Project Costs

The City has adequate policies and procedures in place to ensure that it accounts for disaster costs on a project-by-project basis and adequately supports project costs as Federal regulations require.

At the time of our audit, the City had paid contractors \$2.48 million for disaster-related contract work totaling \$6.8 million and had incurred just over \$300,000 in direct administrative costs for project activities. We reviewed contract costs totaling \$2.1 million and \$156,513 of direct administrative costs. We determined that the



projects were eligible and that the City properly charged costs to specific projects and maintained appropriate documentation to support the costs.

Procurement Practices

The City has adequate procurement policies and procedures in place to ensure compliance with Federal procurement standards. At the time of our audit, the City had awarded six disaster-related contracts totaling \$6.8 million. We reviewed four contracts totaling \$6.5 million and concluded that the City generally complied with Federal procurement standards at 44 Code of Federal Regulations (CFR) 13.36. The City used full and open competition to award the contracts; took affirmative steps to solicit small, minority, and women-owned firms; conducted cost/price analyses; maintained adequate records documenting procurement history; and monitored contractors to ensure they met contract terms, conditions, and specifications.

However, the City did not include all contract provisions that 44 CFR 13.36(i) requires. We discussed this finding with City officials. They said that they were unaware of the requirement and that FEMA and New Jersey officials had told them to contract for disaster recovery work using normal City contracting procedures.² Subsequently, City officials updated their procurement procedures to include the provisions in future disaster contracts.

Insurance Coverage

The City maintained property insurance at the time of the disaster and filed a claim with its insurance company. For the projects in our review, it received \$1,312,350 in insurance proceeds for storm-related flood damages. The City properly deducted the insurance proceeds from eligible project costs. However, the City had not provided New Jersey with documentation that it had maintained flood insurance for a pump station building that Hurricane Sandy damaged. Federal regulation 44 CFR 206.252(d) requires applicants to obtain and maintain flood insurance in the amount of eligible disaster assistance as a condition of receiving Federal assistance for damaged facilities. The City had flood insurance on the pump station building before the disaster. However, the project worksheet for this damaged facility contained a comment from a FEMA insurance specialist stating that, before disbursement of approved disaster relief funds, the City must provide New Jersey with documentation demonstrating it had satisfied the insurance commitment. City officials told us that they were not aware of the

² In February 2014, we issued, *FEMA's Dissemination of Procurement Advice Early in Disaster Response Periods* (OIG-14-46-D). The report noted similar observations that FEMA provided inaccurate and incomplete contracting information. We recommended that FEMA provide training on Federal procurement requirements to appropriate staff to ensure that FEMA applicants receive adequate guidance consistent with 44 CFR 13.36.



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comment in the project worksheet. They subsequently took action to provide New Jersey with the necessary documentation to prove the City had maintained flood insurance on the damaged facility.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with FEMA, New Jersey, and City officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to these officials and discussed it at exit conferences with City officials on June 27, 2014, and with FEMA and New Jersey officials on July 9, 2014.

This report contains no recommendations; therefore, we consider it closed.

Consistent with our responsibility under the *Inspector General Act*, we will provide 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 are David Kimble, Director; William Johnson, Audit Manager; Richard Kotecki, Auditor-in-Charge; and Keith Lutgen, Program Analyst.

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.



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Exhibit

Schedule of Projects Reviewed

Project Number	Project	Category of Work	Gross Award Amount	Insurance Reductions	Net Award Amount
3772	Waterfront Complex	G	\$16,243,804	\$1,143,207	\$15,100,597
4320	Kapkowski Pump Station	F	281,685	35,240	246,445
4479	Trenton Pump Station	F	108,462	53,425	55,037
3858	Combined Storm Overflow Chambers ³	F	104,179	N/A	104,179
4569	Mattano Pump Station	F	87,275	80,478	6,797
	Totals		\$16,825,405	\$1,312,350	\$15,513,055

³ Storm overflow chambers are generally uninsurable under the National Flood Insurance Program and commercial insurance policies. Consequently, insurance reductions do not apply.



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