

**FEMA Should Recover
\$4.85 Million of Ineligible
Grant Funds Awarded to
Oklahoma City, Oklahoma**





DHS OIG HIGHLIGHTS

FEMA Should Recover \$4.85 Million of Ineligible Grant Funds Awarded to Oklahoma City, Oklahoma

July 1, 2015

Why We Did This

The City received a Public Assistance grant award of \$9.8 million from the Oklahoma Department of Emergency Management (Oklahoma), a Federal Emergency Management Agency (FEMA) grantee, to recover from severe storms and tornadoes that occurred May 18, through June 2, 2013.

What We Recommend

FEMA should disallow \$4.85 million of improper contract costs and \$8,050 of overstated costs and direct Oklahoma to improve its grant management to ensure subgrantees are aware of and follow Federal requirements.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-IG.OfficePublicAffairs@oig.dhs.gov

What We Found

Oklahoma City, Oklahoma, (City) did not always account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. The City claimed \$4.85 million in contract costs without taking the affirmative steps that Federal regulations require to ensure the use of small and minority firms, women's business enterprises, and labor surplus area firms when possible, nor did it take the steps that its own affirmative policy required. As a result, FEMA has no assurance that these types of firms had sufficient opportunities to bid on federally funded work as Congress intended. In addition, the City did not comply with two additional Federal requirements: it did not always perform a cost or price analysis on its procurements and did not include all required contract provisions in its contracts. The City's claim also included \$8,050 of ineligible costs resulting from accounting errors.

These findings occurred, in part, because Oklahoma, as the grantee, did not take a more proactive role in monitoring the City's contracting activities. It is the grantee's responsibility to ensure that its subgrantees are aware of and comply with Federal requirements.

FEMA Response

FEMA officials generally agreed with our findings and recommendations. FEMA's written response is due within 90 days.



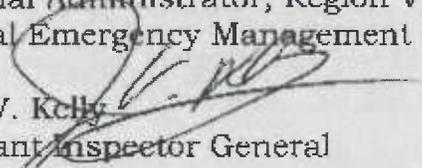
OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

JUL 1 2015

MEMORANDUM FOR: George A. Robinson
Regional Administrator, Region VI
Federal Emergency Management Agency

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

SUBJECT: *FEMA Should Recover \$4.85 Million of Ineligible Grant
Funds Awarded to Oklahoma City, Oklahoma*
Report Number OIG-15-111-D

We audited Public Assistance grant funds awarded to Oklahoma City, Oklahoma (City). The Oklahoma Department of Emergency Management (Oklahoma), a Federal Emergency Management Agency (FEMA) grantee, awarded the City \$9.8 million for damages resulting from severe storms and tornadoes, which occurred May 18, through June 2, 2013. The award provided 75 percent Federal funding for emergency protective measures and permanent work. Debris removal qualified for increased Federal funding up to 87 percent under FEMA's Public Assistance Alternative Procedures Pilot Program. We audited 18 projects totaling \$9.2 million, or 94 percent of the total award (see appendixes A and B). At the time of our audit, the City had submitted \$6.3 million in costs to Oklahoma for reimbursement for emergency projects and small projects.

Background

The City suffered from multiple tornadoes and severe storms that damaged, destroyed, and flooded large areas of the City. The storm damaged buildings and homes, generating over 125,000 tons of debris. Oklahoma City, the capital of the State of Oklahoma and the county seat of Oklahoma County, is the most populated city in the state. The City spreads over four counties and, at 621 square miles, is one of the largest cities in the United States in terms of area. The City, by virtue of its large footprint and location in the heart of "Tornado Alley," has earned a reputation as one of the most tornado-prone cities in the United States.



Results of Audit

The City did not always account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. The City claimed \$4,845,106 in contract costs without taking required affirmative steps to ensure the use of small and minority firms, women's business enterprises, and labor surplus area firms when possible. As a result, FEMA has no assurance that these types of firms received sufficient opportunities to bid on federally funded work as Congress intended. In addition, the City did not always perform a cost or price analysis and did not include all required contract provisions in its contracts. The City's claim also included \$8,050 of ineligible costs resulting from accounting errors. Therefore, FEMA should disallow \$4,853,156 of ineligible costs.

These findings occurred, in part, because Oklahoma, as the grantee, did not take a more proactive role in monitoring the City's contracting activities. Grantees are responsible for ensuring that its subgrantees are aware of and comply with Federal requirements. Therefore, FEMA should also direct Oklahoma to improve its grant management procedures to ensure subgrantees are aware of and follow Federal requirements.

Finding A: Noncompliance with Federal Procurement Standards

At the time of our audit, the City had awarded 9 contracts which included \$4,845,106 for the 18 projects we reviewed: 5 debris removal contracts totaling \$3,872,699, 1 contract to repair the Will Rogers World Airport roof for \$399,000, and 3 contracts for repairing sewers and drains for \$573,407. The City did not follow all required Federal procurement standards for any of the nine contracts. As a result, we question \$4,845,106 of contract costs as ineligible. Federal procurement standards at 44 Code of Federal Regulations (CFR) 13.36 required the City to, among other things—

- 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, during the procurement process (44 CFR 13.36(e));
- perform a cost or price analysis in connection with every procurement action, including contract modifications, to determine the reasonableness of the proposed contract price (44 CFR 13.36(f)); and
- include specific contract provisions in all of its contracts (44 CFR 13.36(i)).

The City did not take the necessary affirmative steps to include small and minority firms, women's business enterprises, and labor surplus area firms in its contract procurement process for any of its nine disaster-related contracts. As a result, FEMA has no assurance that these types of firms had sufficient



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opportunities to bid on Federal work as Congress intended. In addition, the City did not follow its own requirements for affirmative steps related to disadvantaged firms. Section 4.15 of the City's own procurement policy recommends affirmative steps similar to those that 44 CFR 13.36(e) requires. A City procurement official said that the City did not follow Federal requirements because it was unaware of the requirements.

The City also did not perform a cost or price analysis for five debris removal contracts. A price or cost analysis helps ensure that the bids received from potential contractors are reasonable. City officials said that they knew how much debris clean up should cost from previous debris contracts. Such reasoning would have been acceptable as a price analysis if the City had documented how it based its assessment of reasonable costs on past experience.

Finally, the City's contracts did not include required contract provisions in any of its nine contracts. The required provisions protect the rights and responsibilities of the parties and minimize the risk of misinterpretations and disputes. For example, the termination provision (44 CFR 13.36(i)(2)) gives the subgrantee the right to end an agreement with a contractor for cause or convenience; and the access to records provision (44 CFR 13.36(i)(10)) gives the subgrantee, the grantee, and FEMA the right to examine the contractor's records.

Although City officials acknowledged the contracting issues we discuss earlier, they said that FEMA and Oklahoma did not correctly inform them of the Federal procurement requirements. City officials referred to our recent report that identified instances where FEMA did not properly inform applicants of their procurement requirements during the initial phase of this disaster.¹ Although the City may not have received accurate and complete information, it has experience with FEMA disaster grants, and City officials signed project worksheets acknowledging Federal regulations.

Finding B: Accounting Errors

We identified miscellaneous accounting errors the City made that caused it to overstate its claim by \$8,050 in total for Projects 185, 188, and 275. Therefore, we question \$8,050 as ineligible costs. The City agreed with this finding.

¹ *FEMA's Dissemination of Procurement Advice Early in Disaster Response Periods*, February 28, 2014, OIG-14-46-D.



Finding C: Grant Management Issues

The problems we identified in this report occurred because Oklahoma did not take a more proactive role in monitoring the City's contracting activities. According to 44 CFR 13.40(a), *Monitoring by Grantees*, grantees are responsible for managing the day-to-day operations of grant and subgrant activities to assure compliance with applicable Federal requirements.

On November 26, 2013, FEMA sent a letter to Oklahoma officials requesting them to develop policies and procedures to ensure that its subgrantees are aware of and follow Federal procurement standards during future disasters. Yet, on September 25, 2014, almost a year after the FEMA letter, the City awarded a contract for the replacement of the airport roof without taking the required affirmative steps or including the required Federal provisions. Therefore, Oklahoma needs to improve its grant management procedures to ensure its subgrantees are aware of and follow Federal requirements

Recommendations

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation 1: Disallow \$4,845,106 (\$3,950,039 Federal share) of ineligible contracting costs unless FEMA grants an exemption for all or part of the costs as 44 CFR 13.6(c) allows (finding A).

Recommendation 2: Disallow \$8,050 (\$6,870 Federal share) of ineligible costs resulting from accounting errors the City made (finding B).

Recommendation 3: Require Oklahoma to improve its grant management procedures to ensure its subgrantees are aware of and follow Federal requirements (finding C).

Discussion with Management and Audit Follow-up

We discussed the results of our audit with the City during the audit and included its comments in this report, as appropriate. We also provided a draft report in advance to FEMA, Oklahoma, and City officials and discussed it at exit conferences with FEMA officials on May 11, 2015, and with Oklahoma and City officials on May 13, 2015. FEMA officials generally agreed with our findings but withheld detailed comment on the recommendation for finding A until they had time to review documentation. Oklahoma officials withheld comment until they have had time to further review the report. The City disagreed with finding A and agreed with finding B.



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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 for responsible parties and any other supporting documentation necessary to inform us about the status of the recommendations. Please email a signed pdf copy of all responses and closeout requests to Christopher.Dodd@oig.dhs.gov. Until we receive and evaluate your response, we will consider the recommendations open and unresolved.

The Office of Emergency Management Oversight major contributors to this report are Christopher Dodd, Director; Trudi Powell, Audit Manager; William Lough, Auditor-in-Charge; and Douglas Denson, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Christopher Dodd, Director, Central Regional Office - South, at (214) 436-5200.



Appendix A

Objective, Scope, and Methodology

Our audit objective was to determine whether Oklahoma City, Oklahoma (FIPS Code 109-55000-00), accounted for and expended FEMA Public Assistance grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number 4117-DR-OK. The City's grant award totaled \$9.8 million for 17 large projects and 20 small projects.² We audited 18 projects (11 large and 7 small) totaling \$9.2 million, or 94 percent of the total award. We judgmentally selected the 18 projects generally based on dollar amount. The audit covered the period of May 18, 2013, through September 2, 2014, during which the City received \$6.1 million in FEMA funds for the 18 projects we audited. Table 1 describes the 18 projects we audited and the amounts we question under each project.

We interviewed FEMA, Oklahoma, and City officials; reviewed contracting and support documents; reviewed judgmentally selected project costs (generally based on dollar value); 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 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 and Transparency Board's analysis found no derogatory information. We did not assess the adequacy of the City's internal controls applicable to 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 procurement policies and procedures.

We conducted this audit between September 2014 and May 2015 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.

² Federal regulations in effect at the time of the disaster set the large project threshold at \$67,500.



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Appendix B

Potential Monetary Benefits

Table 1: Projects Audited and Costs Questioned

Project Number	Project Category ³	Amount Awarded	Questioned Costs Finding A	Questioned Costs Finding B	Total Questioned Costs
275	A	\$4,584,438	\$2,716,498	\$2,685	\$2,719,183
185	A	1,838,183	1,050,455	4,883	1,055,338
599	E	982,506	399,000	0	399,000
475	F	391,622	359,511	0	359,511
294	A	313,146	0	0	0
667	A	192,186	105,746	0	105,746
611	B	173,342	0	0	0
590	E	159,556	0	0	0
188	A	156,083	0	482	482
579	F	128,902	104,396	0	104,396
677	D	109,500	109,500	0	109,500
602	D	43,160	0	0	0
36	B	36,444	0	0	0
672	E	32,957	0	0	0
649	A	27,920	0	0	0
679	G	16,550	0	0	0
674	C	4,994	0	0	0
685	F	2,105	0	0	0
Totals		\$9,193,594	\$4,845,106	\$8,050	\$4,853,156

Source: FEMA Project Worksheets and Office of Inspector General (OIG) Analysis.

Table 2: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Amounts	Federal Share
Questioned Costs – Ineligible	\$ 4,853,156	\$ 3,956,909
Questioned Costs – Unsupported	0	0
Funds Put to Better Use	0	0
Totals	\$4,853,156	\$3,956,909

Source: OIG analysis of report findings.

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 C

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