

The City of Loveland, Colorado, Could Benefit from Additional Assistance in Managing its FEMA Public Assistance Grant Funding





HIGHLIGHTS

The City of Loveland, Colorado, Could Benefit from Additional Assistance in Managing its FEMA Public Assistance Grant Funding

January 29, 2015

Why We Did This

The City of Loveland, Colorado (City) received a \$21.1 million grant for damages from a September 2013 disaster. We conducted this audit early in the grant process to identify areas where the City may need additional technical assistance or monitoring to ensure compliance with Federal requirements.

What We Recommend

The Federal Emergency Management Agency (FEMA) should direct Colorado to provide technical assistance and monitoring to the City to ensure it properly spends \$21.1 million in Federal funding.

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 City generally has established policies, procedures, and business practices to adequately account for and expend FEMA Public Assistance Program grant funds according to Federal regulations and FEMA guidelines. However, we identified areas related to accounting, procurement, and insurance in which the City needs to improve its procedures to ensure compliance with Federal requirements for the \$21.1 million Federal disaster award.

These challenges occurred primarily because of the City's limited familiarity with Federal requirements. However, the grantee (Colorado) is responsible for ensuring that its subgrantee (the City) is aware of and complies with these requirements, as well as for providing technical assistance and monitoring grant activities.

FEMA Response

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



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

JAN 29 2015

MEMORANDUM FOR: Sharon Loper
Acting Regional Administrator, Region VIII
Federal Emergency Management Agency

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

SUBJECT: *The City of Loveland, Colorado, Could Benefit from Additional Assistance in Managing its FEMA Public Assistance Grant Funding*
Audit Report Number OIG-15-30-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance Program grant funds awarded to the City of Loveland, Colorado (City). 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 with Federal regulations and FEMA guidelines. In addition, by undergoing an audit early in the grant cycle, grant recipients have the opportunity to correct non-compliance 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 elapses.

The Colorado Division of Homeland Security and Emergency Management (Colorado), a FEMA grantee, initially awarded the City \$7.6 million for damages resulting from severe storms, flooding, landslides, and mudslides beginning on September 11, 2013. By June 2014, FEMA had obligated an additional \$13.5 million, making the award total \$21.1 million. We audited four large projects to assess the policies and procedures the City used for this disaster (see appendix A).

Background

A storm system, with record-breaking precipitation and without advanced warning, caused severe damage in 18 Colorado counties, most significantly from September 11 to 12, 2013. As a whole, the disaster damaged or destroyed a significant number of residential structures, and resulted in the evacuation of 18,147 residents, 218 injuries, and 10 deaths. The President declared an expedited Emergency Declaration on September 12, 2013 (allowing emergency services to supplement State and local efforts), and then signed a Major



OFFICE OF INSPECTOR GENERAL

Disaster Declaration (DR-4145) on September 14, 2013, authorizing FEMA to support State and local response and begin recovery efforts.

The City of Loveland, Colorado, has a population of approximately 70,000 residents and covers 34 square miles. During the disaster, the City experienced flooding that caused city-wide debris and damage to facilities such as water and sewer lines, recreation trails, and a water treatment plant.

Figure 1: Centennial Park, Intersection of First Street and Taft Avenue, Loveland, Colorado



Source: City of Loveland

Results of Audit

The City generally has established policies, procedures, and business practices to adequately account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. However, we identified various areas in which the City needs improvements to ensure compliance with Federal regulations and FEMA guidelines for the \$7.6 million FEMA initially obligated, the additional \$13.5 million FEMA obligated as of June 16, 2014, as well as for future disasters.

Specifically, the City did not—

- fully implement procedures to account for costs on a project-by-project basis (finding A);



OFFICE OF INSPECTOR GENERAL

- have adequate procedures to document its costs for labor (\$317,248), equipment (\$193,178), and direct project administration (\$102) (finding B);
- take specific, affirmative steps that Federal procurement regulations require to ensure the use of minority firms, women's business enterprises, and labor surplus area firms, when possible (finding C); and
- pursue all insurance proceeds for which they may be eligible and implement procedures to allocate such insurance payments adequately (including the \$3,317,878 it has already received) to FEMA-funded projects (finding D).

These challenges occurred primarily because of the City's limited familiarity with Federal regulations and FEMA guidelines. However, the grantee (Colorado) is responsible for ensuring that its subgrantee (the City) is aware of and complies with these requirements, as well as for providing technical assistance and monitoring grant activities (finding E).

Finding A: Project Cost Accounting

The City did not have an effective tracking system at the time of the disaster to account for disaster-related costs on a project-by-project basis, as Federal regulations require. However, once FEMA and Colorado provided the City instruction, City officials began implementing procedures to track costs to specific FEMA projects. Nevertheless, at the time of our fieldwork, the City had not tracked its actual expenditures to FEMA projects. Thus, we could not review and determine the eligibility of the City's costs.

Federal regulations require that subgrantees—

- account for large project expenditures on a project-by-project basis; (Title 44, Code of Federal Regulations (CFR), 206.205(b))
- maintain accounting records that adequately identify the source and application of Federal funds and maintain source documentation to support those accounting records (44 CFR 13.20(b)(2) and (6)).

City officials agreed with our finding. They told us that they combined the disaster-related expenditures into a single account for the following reasons:

- (1) Colorado's initial guidance did not specify the need to account for costs separately;
- (2) They first became aware of these Federal rules during a kickoff meeting with FEMA officials in mid-October (4 weeks after the disaster, at which



OFFICE OF INSPECTOR GENERAL

point they began identifying and using job codes to record disaster expenditures separately for FEMA projects);¹ and

- (3) Colorado provided the City with FEMA-approved project numbers on February 18, 2014 (more than 5 months after the disaster), which only then allowed the City to allocate those costs properly to specific FEMA projects.

City officials also told us that they have taken corrective action by recoding early transactions and can now properly correlate accounting codes to FEMA projects. FEMA officials agreed with this finding and agreed that the City has taken appropriate actions by implementing improvements to its project cost accounting system. Colorado officials told us that they provided their subgrantees, including the City: a variety of resources and opportunities (early within the process) to learn about and discuss proper accounting for Federal funding; collaboration through its emergency management field personnel; and technical guidance through contracted specialists.

Finding B: Supporting Documentation

The City did not have procedures in place to document its labor, equipment, and direct administrative costs adequately.² Although the City has not yet claimed any costs for the projects we audited, it has already incurred approximately \$510,528 in combined labor, equipment, and direct administrative costs for Projects 88, 158, and 194.

We reviewed the City's documentation and determined that it did not provide details sufficient to support the eligibility of these types of costs. For example, City timesheets and accounting records specified the location where employees performed the work and the number of hours they worked, but did not describe specific task(s) the employees performed or for what purpose they used equipment. As a result, we were unable to determine whether the costs the City plans to claim relate to the FEMA-approved scope of work.

¹ A kickoff meeting is the first meeting between the applicant, the grantee representative, and FEMA. FEMA holds these meetings with each applicant to assess the applicant's individual needs, discuss disaster related damage, and set forth a plan of action for repairing the applicant's facilities.

² According to FEMA's policy on *Management Costs & Direct Administrative Costs* (FEMA 9525.9 Section 324; March 2008), direct administrative costs are those that the grantee or subgrantee incurs that it can identify separately and assign to a specific project (see also 44 CFR 207.6(c)). According to Federal regulations at 2 CFR, and the Office of Management and Budget's (OMB) Circular A-87, the subgrantee and grantee's treatment of direct costs must be consistent across all Federal awards and other activities. Such costs can include staff's time to conduct an initial inspection, prepare and submit project documentation, and make interim and final inspections of the project. (OMB relocated A-87 to 2 CFR in 2005.)



OFFICE OF INSPECTOR GENERAL

For costs to be eligible for financial assistance under a Federal award, Federal regulations and FEMA guidelines require the following:

- Grant recipients must adequately document costs and establish and maintain accurate records of events and expenditures related to disaster recovery work. (2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, Section C.1.j; and *FEMA Public Assistance Guide* (FEMA 322), June 2007, pp. 137–138)
- An item of work must be the result of the major disaster event, correspond directly to the cause of damage, and derive from the project's FEMA-approved scope. (44 CFR 206.223(a)(1); FEMA 322, June 2007, pp. 101 and 139–140; and *Applicant Handbook* (FEMA 323), March 2010, pp. 32–33)

City officials agreed that they did not comply with these criteria because they were not aware of them. They stated that, as a result of our audit, they have revised their record-keeping practices and have required City workers to record the necessary information on their timesheets. FEMA officials agreed with this finding and agreed that the City has recently taken appropriate actions to improve its documentation procedures. Colorado officials told us that they provided their subgrantees, including the City: a variety of resources and opportunities (early within the process) to learn about and discuss documentation requirements for Federal funding; collaboration through its emergency management field personnel; and technical guidance through contracted specialists.

Finding C: Procurement

The City complied with most Federal procurement standards detailed in 44 CFR 13.36. However, the City did not take required steps for its procurements to assure the use of small and minority firms, women's business enterprises, and labor surplus area firms, when possible, in awarding contracts totaling \$996,474 to perform work on Projects 88 and 158. These steps, listed at 13.36(e)(2), include placing these types of firms on solicitation lists, using the services and assistance of the Small Business Administration and the Minority Business Development Agency of the Department of Commerce, and requiring its prime contractors to take the same affirmative steps for subcontracts.

City officials agreed with this finding. They told us that they were not aware of this requirement and Colorado officials did not provide adequate guidance related to contracting for FEMA-funded projects. They said that they have taken corrective action and now require the specific steps for the award of all future contracts for FEMA-funded projects. Colorado officials agreed with this finding and told us that they will update their presentation materials—for



OFFICE OF INSPECTOR GENERAL

distribution at applicant briefings, finance and grant management workshops, and on line—to include these Federal procurement standards. They also noted that FEMA has made available technical assistance teams as a resource for them (which would be especially helpful upfront) and they have hired a private sector contractor to assist their subgrantees with the Public Assistance process (including procurement). FEMA officials likewise agreed with this finding.

Finding D: Insurance

The City did not have procedures in place to manage its insurance claim process. At the time of our fieldwork, the City had not pursued all insurance proceeds for which it may be eligible. This occurred because the City had not identified all its disaster-related damages and had not implemented procedures to adequately allocate insurance proceeds to FEMA-funded projects. Compounding this situation was the fact that City officials had commingled all disaster repair costs—both eligible and ineligible—because Colorado officials had not notified them of which projects would be eligible under the Public Assistance Program.

As a result, City officials could not determine: (1) costs that were eligible under FEMA’s Public Assistance Program versus those for which the City was responsible; (2) to which project they should apply the insurance proceeds; and (3) eligible expenses to claim to FEMA. Consequently, the City risks not receiving all insurance proceeds for which they may be eligible, and FEMA risks providing the City duplicate benefits that insurance should cover, which is contrary to Federal rules (*Robert T. Stafford Disaster Relief and Emergency Assistance Act*, Section 312, and 44 CFR 206.191).

City officials agreed with our finding. They stated that, since our field visit and briefing, they have begun working more closely with their insurance and excess loss carriers to identify and pursue all insurance benefits for which they are entitled. They stated that they have generally settled their insurance claims and have begun the process of removing those costs from their initial claim to FEMA for insurance-covered property. They also noted that they will conclude the process and allocate applicable insurance proceeds to specific FEMA projects when they resolve any remaining accounting issues and determine FEMA’s approval for their various outstanding projects (see finding A).

FEMA officials stated that the risk of duplicating benefits is low due to the control processes FEMA has implemented to review the City’s insurance policies thoroughly against their anticipated proceeds. For example, FEMA officials told us they have already reviewed 25 projects for possible duplication of benefits, which has thus far led to \$2.2 million in actual or anticipated insurance reductions for the City’s FEMA-funded projects (out of the total \$3.3 million the City has so far received for all its projects—FEMA and non-FEMA



OFFICE OF INSPECTOR GENERAL

combined). They also told us that, although the City had not identified all of its damages at the end of our fieldwork, it is making progress in doing so. Colorado officials did not comment on this finding.

Finding E: Grant Guidance, Management, and Oversight

City officials did not have an adequate understanding of Federal procurement standards, project cost accounting, rules for recording and documenting disaster costs, and insurance requirements for a Federal grant. Therefore, they could benefit from additional Public Assistance Program guidance from Colorado.

City officials told us that Colorado officials did not provide them with adequate guidance and accurate information. The City detailed one example in which Colorado officials provided them with the grant agreement documentation that identified seven FEMA-eligible projects and the amount of approved funding for each project. Although the summary sheet included this information, the attached documentation did not correspond to the summary. For instance, the packet included a project without an identifying project number, with a funding amount different from that listed on the summary sheet. City officials stated that they could not identify which project number was associated with this funding amount. Upon review, we determined that Colorado should not have included this project with this packet because it was not related to the projects Colorado included on its summary sheet.

Proper grant management and oversight could (and should) have reduced the number, frequency, and impact of the instances of noncompliance we identified throughout this audit report. Further, Federal rules require Colorado to perform grant management and oversight. Grantees are accountable for the use of the funds FEMA provides (which they, in turn, disburse to subgrantees). Colorado's *Administrative Plan for Federal Disaster Assistance* stipulates that it is responsible for providing technical advice and assistance, providing support for damage assessment operations, supporting project identification activities, and submitting the necessary paperwork for grant awards. Federal regulations likewise require Colorado to—

- ensure that subgrantees are aware of requirements that Federal statutes and regulations impose on them; (44 CFR 13.37(a)(2))
- manage the day-to-day operations of subgrant activity and monitor subgrant activity to assure compliance with applicable Federal requirements. (44 CFR 13.40(a))

Therefore, Colorado officials should improve the frequency and accuracy of the guidance they provide to the City. They should verify that City officials can efficiently and effectively comply with Federal regulations and FEMA guidelines



OFFICE OF INSPECTOR GENERAL

when expending and accounting for their Public Assistance Program grant funding.

City officials agreed with this finding. FEMA officials told us that the Public Assistance Program is coordinated amongst the subgrantee (the City), the grantee (Colorado), and FEMA, and thus all stakeholders must share responsibility for compliance with Federal regulations and FEMA guidelines. Colorado officials partially agreed with our finding. They told us that they provided many opportunities and resources for subgrantees (including the City) to understand program, finance, and audit requirements. Moreover, Colorado noted that it did this in a timely manner, which gave the City ample time to restructure and improve its internal processes. Nevertheless, Colorado also stated that, as a result of this disaster alone, they need additional staff to provide its applicants proper oversight and assistance.

Recommendations

We recommend that the Regional Administrator, FEMA Region VIII:

Recommendation 1: Direct Colorado to provide additional technical assistance and monitoring to the City to correct the deficiencies we identify in this report and to ensure compliance with all Public Assistance Program grant requirements to avoid losing the \$13,477,236 million (Federal share \$10,107,927) that FEMA obligated for its projects (findings A through C).

Recommendation 2: Direct Colorado to verify that the City implements and adheres to procedures to account for disaster-related costs on a project-by-project basis (finding A).

Recommendation 3: Direct Colorado to verify that the City implements and adheres to procedures to adequately document its costs for labor (\$317,248; Federal share \$237,936), equipment (\$193,178; Federal share \$144,884), and direct project administration (\$102; Federal share \$77) for Projects 88, 158, and 194, as well as for any additional Public Assistance Program funding FEMA awards (finding B).

Recommendation 4: Direct Colorado to verify that City officials comply with all applicable procurement standards, including those related to the use of minority firms, women's business enterprises, and labor surplus area firms in awarding contracts for FEMA-funded work (finding C).



OFFICE OF INSPECTOR GENERAL

Recommendation 5: Direct Colorado to verify that the City pursues all insurance proceeds for which it is eligible and implements (and adheres to) procedures to allocate adequately such insurance payments (currently \$3,317,878) to FEMA-funded projects (finding D).

Recommendation 6: Instruct Colorado officials on their responsibilities for: monitoring subgrant activities to assure subgrantee compliance with applicable Federal requirements; providing technical advice and assistance; administering and managing the grant; and maintaining and submitting the necessary documentation for FEMA grant awards (finding E).

Discussion with Management and Audit Follow-Up

We discussed the results of our audit with FEMA, Colorado, 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 held with FEMA officials on July 25, 2014, and City and Colorado officials on August 13, 2014.

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. Until we receive your response, we will consider the recommendations open and unresolved.

Major contributors to this report are Humberto Melara, Director; Devin Polster, Audit Manager; and Renee Gradin, Senior Auditor.

Please call me with any questions at (202) 254-4100 or your staff may contact Humberto Melara, Director, Western Regional Office, at (510) 637-1463.



Appendix A

Objective, Scope, and Methodology

We conducted this performance audit from February 2014 to 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. In conducting this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We audited FEMA Public Assistance Program grant funds awarded to the City, Public Assistance Identification Number 069-46465-00. 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 4145-DR-CO. Colorado initially awarded the City \$7.6 million for damages resulting from severe storms, flooding, landslides, and mudslides beginning on September 11, 2013. As of February 12, 2014, the award provided funding for seven large and two small projects.³

Our audit covered the period September 11, 2013, through June 16, 2014. As of February 19, 2014, the City had requested from FEMA \$142,716 (Federal share) in disaster costs reimbursements and had received a partial insurance reimbursement of \$3.3 million for storm-related damages. We audited four large projects to assess the City's policies and procedures used for this disaster.⁴

³ Federal regulations in effect at the time of the disaster set the large project threshold at \$67,500.

⁴ In total, FEMA is evaluating 26 projects for eligibility under its Public Assistance Program.



OFFICE OF INSPECTOR GENERAL

Appendix A (continued)

Schedule of FEMA-Approved Projects / Projects Audited

FEMA Project Number ⁵	FEMA Category of Work ⁺	Gross Award Amount	Percentage of FEMA Funding (Cost Share)
Projects Audited			
88	B	\$1,936,955	75
158	F	3,108,640	75
186	A	190,666	85
194	F	1,152,511	75
Subtotal		\$6,388,772	
Projects Not Audited			
52	G	\$529,349	75
83	D	453,551	75
298	F	149,398	75
437*	F	31,600	75
460*	B	56,221	75
Subtotal		1,220,119	
Total		\$7,608,891	

Source: FEMA and City Project Documentation and OIG Analyses

* Small project

+ FEMA identifies type of work by category: A for debris removal, B for emergency protective measures, and C-G for permanent work.

⁵ As of June 16, 2014, FEMA had obligated funding for an additional 17 projects, totaling \$13,477,236 in Public Assistance Program grant funding.



Appendix A (continued)

We interviewed FEMA, Colorado, and City officials; assessed the adequacy of the policies, procedures, and business practices the City uses or plans to use to account for and expend Federal grant funds and to procure and monitor contracts for disaster work; judgmentally selected and reviewed (generally based on dollar amounts) project costs and procurement transactions for the projects included in our audit scope; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our 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 that we reviewed 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. As of the date of this report, the Recovery Accountability and Transparency Board's analysis of contracts was ongoing. When it is complete, we will review the results and determine whether additional action is necessary. 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.



Appendix B

Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
General Counsel
Executive Secretary
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs
Director, GAO/OIG Liaison Office

Federal Emergency Management Agency

Administrator
Chief of Staff
Chief Financial Officer
Chief Counsel
Director, Risk Management and Compliance
Chief Procurement Officer
Audit Liaison, FEMA (Job Code G-14-027)
Audit Liaison, FEMA Region VIII

Recovery Accountability and Transparency Board

Director, Investigations

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees



OFFICE OF INSPECTOR GENERAL

Appendix B (continued)

External

Director, Colorado State Division of Homeland Security and Emergency Services, Office of Emergency Management
Audit Liaison, Colorado State Division of Homeland Security and Emergency Services, Office of Emergency Management
State Auditor, Colorado Office of the State Auditor
City Manager, City of Loveland, Colorado
Finance Director, City of Loveland, Colorado
Senior Accountant, City of Loveland, Colorado

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