

**Florida and the Palm
Beach County School
District Did Not Properly
Administer \$7.7 Million of
FEMA Grant Funds
Awarded for Hurricane
Jeanne Damages**





HIGHLIGHTS

Florida and the Palm Beach County School District Did Not Properly Administer \$7.7 Million of FEMA Grant Funds Awarded for Hurricane Jeanne Damages

March 19, 2015

Why We Did This

The Palm Beach County School District, Florida (District) received a \$15.0 million grant award from the Florida Division of Emergency Management (Florida), a Federal Emergency Management Agency (FEMA) grantee for Hurricane Jeanne damages in September 2004.

What We Recommend

FEMA should remind Florida of its grantee responsibilities and direct Florida to inform the District that, for future disasters, it must fully comply with FEMA grant requirements or risk losing future FEMA funding. FEMA should also disallow \$145,145 of ineligible costs.

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 District did not fully comply with Federal procurement requirements for contract work valued at \$7.7 million. Florida, as the grantee, was responsible for ensuring that the District was aware of and followed all Federal requirements. Normally, we would question such improper costs; however, we are not in this case because FEMA said the costs were reasonable and allowed the costs at project closeout using the agency's authority granted under 44 CFR 13.6(c).

We also identified \$145,145 of ineligible costs consisting of \$98,645 of unreasonable contract costs and \$46,500 in duplicate benefits.

FEMA Response

FEMA's written response is due within 90 days.



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

March 19, 2015

MEMORANDUM FOR: Gracia Szczech
Regional Administrator, Region IV
Federal Emergency Management Agency

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

SUBJECT: *Florida and the Palm Beach County School District
Did Not Properly Administer \$7.7 Million of FEMA
Grant Funds Awarded for Hurricane Jeanne Damages
Audit Report Number OIG-15-50-D*

We audited Public Assistance grant funds awarded to Palm Beach County School District, Florida (District). The District received a Public Assistance award of \$15.0 million from the Florida Division of Emergency Management (Florida), a Federal Emergency Management Agency (FEMA) grantee, for damages, resulting from Hurricane Jeanne that occurred in September 2004. We audited 4 large projects and 13 small projects totaling \$12.8 million. At the time of our audit, the District had completed work under all projects in our audit scope and Florida had closed out the grant award.

Results of Audit

The District did not fully comply with Federal procurement requirements for contract work valued at \$7.7 million. Florida, as the grantee, was responsible for ensuring that the District was aware of and followed all Federal requirements. Normally, we would question such improper costs; however, we are not in this case because FEMA said the costs were reasonable and allowed the costs at project closeout using the agency's authority granted under 44 Code of Federal Regulations (CFR) 13.6(c).

We also identified \$145,145 of ineligible costs that consisted of \$98,645 of unreasonable contract costs and \$46,500 in duplicate benefits. Therefore, we recommend that FEMA disallow the \$145,145 as ineligible costs.



Finding A: Contracting Procedures

For the four large projects we audited, the District claimed contract costs totaling \$12.4 million. However, the District did not fully meet Federal procurement requirements for contracts totaling \$7.7 million it awarded for the permanent repair of damaged school roofs under Project 2311. Federal contracting requirements at 44 CFR Part 13 required the District, among other actions, to perform the following activities:

- Conduct all procurement transactions in a manner providing full and open competition. Noncompetitive procurement is allowable under certain circumstances, one of which is when the public exigency or emergency will not permit a delay resulting from competitive solicitation (44 CFR 13.36(c) and 44 CFR 13.36 (d)(4)(i)(B)).
- Take all necessary affirmative steps to assure the use of minority firms, women’s business enterprises, and labor surplus area firms when possible (44 CFR 13.36(e)(1)).
- Perform a cost or price analysis in connection with every procurement action, including modifications, to determine the reasonableness of the contractor’s proposed price (44 CFR 13.36(f)(1)).

Grant administrative requirements also mandate grantees to ensure that subgrantees are aware of requirements that Federal regulations impose on them (44 CFR 13.37(a)(2)). Grantees must also manage the day-to-day operations of subgrant activity and monitor subgrant activity to ensure compliance with applicable Federal requirements (44 CFR 13.40(a)). However, FEMA may grant exceptions to Federal grant administrative requirements, including procurement, to subgrantees on a case-by-case basis (44 CFR 13.6(c)).

The District began roofing contract work under Project 2311 in March 2005, approximately 5 months after the disaster, and completed the work in December 2005. However, instead of soliciting competitive bids for the roof repairs, the District chose to “piggyback” on two unit-price roofing contracts that two neighboring school districts had previously awarded using a competitive bid process. FEMA discourages the use of piggyback contracting because the contracts may not meet all Federal contracting requirements such as competition and the use of minority firms, women’s business enterprises, and labor surplus area firms when possible. Further, one of the piggyback contracts the District used for the roofing work was for gravel surface roofing work. However, the contractor actually performed shingle roofing work for the District and billed the District \$3.8 million under the contract using prices for gravel surface roofing work. As a result, the pricing the contractor billed did



not apply to the work actually performed. District personnel told us the purchasing department more than likely negotiated a price or performed a price analysis to determine cost reasonableness for that contract. However, they could not provide documentation to support their assertions. Under these circumstances, our general practice would be to question the \$7.7 million in contract costs because the District's procurement process did not meet Federal procurement and FEMA guidelines. However, between April 2010 and December 2010, FEMA closeout specialists reviewed the eligibility of the \$7.7 million of contract costs and allowed the costs saying they determined the costs to be fair and reasonable. FEMA's general practice is to allow costs it considers reasonable regardless of a subgrantee's noncompliance with Federal procurement requirements. While we generally do not agree with this practice, we defer to FEMA's decision to allow the costs because it is within the agency's authority under 44 CFR 13.6(c). Therefore, we are not questioning any costs related to this finding. However, FEMA should remind Florida of its grantee responsibilities and direct Florida to advise the District that it is required to comply with Federal procurement standards and that noncompliance with such requirements could jeopardize future FEMA funding.

Finding B: Unreasonable Contract Charges

The District claimed \$98,645 of unreasonable charges under Project 2311 for roof repairs to damaged school buildings. Federal cost principles require that, to be allowable, costs must be "necessary and reasonable for proper and efficient performance and administration of Federal awards."¹ Those principles also say "a cost is reasonable, if in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost." The contractor billed the District \$3.75 per square foot for ¾-inch plywood. However, the agreed-upon contract price for ¾-inch plywood was \$2.75 per square foot, or \$1.00 less per square foot than the contractor billed. Using the total 98,645 square feet of ¾-inch plywood the contractor billed for under the project, we determined the contractor overcharged the District \$98,645. We question the \$98,645 as unreasonable because it is not prudent for an entity to pay more than the agreed-upon contract price for goods or services.

District officials said that they were aware of the contractor's price increase for the material and felt that the change in the unit price was reasonable because the demand for construction materials after the disaster increased the cost. However, District officials did not provide documentation to support its assertion, and the District did not modify the contract to reflect a price increase for the material. Therefore, our position remains unchanged.

¹ 2 CFR 225, Appendix A, C.1.a (in effect as of August 31, 2005, republishing Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*).



Finding C: Duplicate Benefits

The District's claim under Project 801 included \$46,500 of project costs that insurance covered. Section 312 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, states that no entity will receive assistance for any loss for which it has received financial assistance from any other program, insurance, or any other source. The District claimed \$46,500 under Project 801 to replace a damaged compressor on an air conditioning chiller. However, the District received insurance proceeds to cover the damages from a boiler insurance policy it held on the equipment. Therefore, we question the \$46,500 of costs that insurance covered as ineligible duplicate benefits.

Recommendations

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation 1: Remind Florida of its grantee responsibilities to ensure that subgrantees are aware of Federal regulations and to monitor subgrant activities to ensure compliance (finding A).

Recommendation 2: Direct Florida, as the grantee, to remind the District that it must fully comply with Federal procurement standards when awarding contracts under a FEMA award and that noncompliance with such requirements could jeopardize future FEMA funding (finding A).

Recommendation 3: Disallow \$98,645 (Federal share \$88,781) as ineligible and unreasonable contract costs unless FEMA determines the costs are reasonable under the circumstances following the disaster (finding B).

Recommendation 4: Disallow \$46,500 (Federal share \$41,850) of ineligible costs that insurance covered unless the District provides evidence to show the costs are eligible (finding C).



Discussion with Management and Audit Follow-up

We discussed the audit results with District, Florida, 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 on January 20, 2015. District officials agreed with finding C. We included District officials' comments, where appropriate, in the body of this report.

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. Please email a signed pdf copy of all responses and closeout request to Carl.Kimble@oig.dhs.gov. Until we receive and evaluate your response, we will consider the recommendation open and unresolved.

Major contributors to this report are David Kimble, Director; Felipe Pubillones, Audit Manager; Mary Stoneham, Auditor-in-Charge; and Angelica Esquerdo, Auditor.

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.



Appendix A

Objective, Scope, and Methodology

We conducted this performance audit between January 2014 and January 2015 under the authority of 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 on 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 audited Public Assistance grant funds awarded to the District, FIPS Code 099-11200-00. Our audit objective was to determine whether the District accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number 1561-DR-FL. The District received a Public Assistance award of \$15.0 million, from the Florida Division of Emergency Management (Florida), a FEMA grantee, for damages, resulting from Hurricane Jeanne that occurred in September 2004. The award provided 90 percent funding for debris removal, emergency protective measures, and repair to buildings and other facilities. The award consisted of 13 large and 13 small projects.² We audited 4 large projects and 12 small projects totaling \$12.8 million (see table 1). The audit covered the period September 24, 2004, to February 20, 2012, during which the District claimed \$12.8 million for the projects in our audit scope.

We interviewed District, Florida, and FEMA personnel; gained an understanding of the District's method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected (generally based on dollar values) and reviewed project costs and procurement transactions for the projects in our audit scope; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit 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 to determine whether the contractors were debarred or whether there were any indications of other issues related to those contracts that would indicate fraud, waste, or abuse. The Recovery Accountability and Transparency Board's analysis of contracts found no derogatory information. We did not perform a detailed

² Federal regulations in effect at the time of the disaster set the large project threshold at \$54,100.



assessment of the District’s internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective.

Table 1: Projects Audited and Questioned Costs

Project Number	FEMA Category of Work³	Amount Awarded	Amount Questioned	Finding
Large Projects:				
6629	B	\$ 3,572,358	\$ 0	
795	E	814,854	0	
801	E	512,665	46,500	C
2311	E	7,726,184	98,645	B
Subtotal		\$12,626,061	\$145,145	
Small Projects:				
3269	A	\$ 12,604	\$ 0	
965	E	23,318	0	
2380	E	3,128	0	
2980	E	40,486	0	
2940	E	7,711	0	
2944	E	4,512	0	
2950	E	6,526	0	
2978	E	17,473	0	
2984	E	7,705	0	
4481	E	3,142	0	
5196	E	8,070	0	
5362	E	8,608	0	
Subtotal		\$143,283	\$ 0	
Total		\$12,769,344	\$145,145	

Source: FEMA Project Worksheets, District Records, and Office of Inspector General (OIG) Analyses

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 B

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