

**Oakwood Healthcare System,
Dearborn, Michigan, Needed
Additional Assistance in
Managing its FEMA Public
Assistance Grant Funding**





DHS-OIG HIGHLIGHTS

Oakwood Healthcare System, Dearborn, Michigan, Needed Additional Assistance in Managing its FEMA Public Assistance Grant Funding

February 11, 2016

Why We Did This Audit

Oakwood Healthcare System, Inc. (Hospital), in Dearborn, Michigan, received a gross award of \$15.2 million from the Michigan State Police Emergency Management and Homeland Security Division (Michigan), a Federal Emergency Management Agency (FEMA) grantee, for damages resulting from severe storms and flooding in August 2014.

What We Recommend

FEMA should direct Michigan to provide additional technical assistance and monitoring to the Hospital to ensure compliance with all Federal grant requirements for future disasters.

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

The Hospital did not always account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. Although the Hospital competitively awarded contracts for most non-exigent work, it did not always take the required affirmative steps to ensure the use of small and minority firms, women's business enterprises, and labor surplus area firms when possible; and did not include all required contract provisions in its contracts. However, we did not question the costs because insurance proceeds covered essentially all the repair costs except for the insurance deductible. We also found that the Hospital did not initially account for labor costs properly. However, after we identified the improperly supported costs, Hospital employees corrected the records to reflect actual costs the Hospital incurred.

FEMA Response

FEMA Region V officials generally agreed with our findings (see FEMA's written response in appendix A). However, FEMA's response did not include an action plan or target completion date for implementing our recommendation. Therefore, we are requesting that FEMA provide this information within 90 days.



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Department of Homeland Security

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

February 11, 2016

MEMORANDUM FOR: Andrew Velasquez III
Regional Administrator, Region V
Federal Emergency Management Agency

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

SUBJECT: *Oakwood Healthcare System, Dearborn, Michigan,
Needed Additional Assistance in Managing its FEMA
Public Assistance Grant Funding
Audit Report Number OIG-16-38-D*

We audited Public Assistance grant funds awarded to Oakwood Healthcare System, Inc., in Dearborn, Michigan (Hospital). The Michigan State Police Emergency Management and Homeland Security Division (Michigan), a Federal Emergency Management Agency (FEMA) grantee, awarded \$15.2 million to the Hospital for damages resulting from severe storms and flooding that occurred in August 2014.¹ The award provided 75 percent Federal funding. As of June 4, 2015, the cutoff date of our audit, the Hospital had not submitted a cost claim to Michigan for reimbursement. We audited two projects totaling \$15.2 million or 100 percent of the total award. By March 2015, the Hospital had completed the majority of work on these projects.

Background

In August 2014, flooding and sewerage backflow from severe storms inundated the Hospital. Eight inches of contaminated water covered approximately 250,000 square feet of the Hospital's lower level. Within days of the disaster, the Hospital began the cleanup to restore and relocate critical healthcare services. The President declared the disaster on September 25, 2014, 6 weeks later.

¹ FEMA did not obligate grant funds until August 2015, after the cutoff date of our audit. However, the Hospital filed a request for Public Assistance funds in October 2014. After the insurance reductions of \$13.4 million, the net award was \$1.8 million (see appendix B).



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Figure 1: Oakwood Hospital, Dearborn, Michigan



Source: Oakwood Healthcare System, Dearborn, Michigan

Results of Audit

The Hospital did not always account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. Although the Hospital competitively awarded most non-exigent work, it did not always take the required affirmative steps to ensure the use of small and minority firms, women's business enterprises, and labor surplus area firms when possible; and did not include all required contract provisions in its contracts. As a result, FEMA has no assurance that these types of disadvantaged firms had sufficient opportunities to bid on federally funded work. However, we did not question the costs because insurance proceeds covered essentially all the repair costs except for the insurance deductible. We also found that the Hospital did not initially account for labor costs properly. However, after we identified these improperly supported costs, Hospital employees corrected the records to reflect actual costs the Hospital incurred.

Michigan, as FEMA's grantee, should have provided additional monitoring to ensure the Hospital followed Federal procurement standards and properly accounted for labor costs. Federal regulations require grantees to advise and monitor their subgrantees to ensure compliance with Federal requirements.



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Finding A: Procurement

Although the Hospital competitively awarded most non-exigent work, it did not always take the required affirmative steps to ensure the use of small and minority firms, women’s business enterprises, and labor surplus area firms when possible; and did not include all required contract provisions in its contracts. As a result, FEMA has no assurance that these types of disadvantaged firms had sufficient opportunities to bid on federally funded work. However, we did not question the costs because insurance proceeds covered essentially all the repair costs except for the insurance deductible.

Federal regulations at 2 Code of Federal Regulations (CFR) Part 215, in part, require that subgrantees:

1. perform procurement transactions in a manner to provide, to the maximum extent practical, open and free competition (2 CFR 215.43);
2. include required provisions in contracts and subcontracts, such as those relating to termination for cause, compliance with Equal Employment Opportunity and labor laws, and prohibition of “kickbacks” (2 CFR Part 215.48 and Appendix A to Part 215—Contract Provisions); and
3. make positive efforts by taking specific steps to try to use small and minority firms and women’s business enterprises, when possible (2 CFR 215.44(b)).²

Table 1 summarizes the four contracts the Hospital awarded and identifies the noncompliance with the preceding list of three procurement standards.

² On December 26, 2013, the Office of Management and Budget promulgated regulations that replaced Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations* (2 CFR part 215). The new “Super Circular” was codified at 2 CFR Part 200. See 78 FR 78590, 78691. However, the Department of Homeland Security first adopted the Super Circular on December 26, 2014. According to FEMA guidance, 2 CFR Part 215 continued to apply to disaster declarations occurring before December 26, 2014.



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Table 1. Noncompliance with Procurement Standards

Scope of Work	Contract Amount	Number of Contracts Awarded	Noncompliance with Procurement Standards 1 – 3 Listed Above		
			1	2	3
Exigent Work					
Contractor A Flood Cleanup	\$ 904,035	1	**	X	***
Contractor B Flood Cleanup (Time-and-material contract)*	924,395	1	**	X	***
Sub-total Exigent Work	<u>1,828,430</u>				
Non-exigent Work					
Contractor A Permanent Repairs	2,796,702	1		X	X
Contractor B Various Repair Work (Time-and-material contract)*	411,479	*	X	*	X
Contractor C Elevator Repair	<u>372,362</u>	1		X	
Sub-Total, Non-exigent Work	<u>3,580,543</u>				
Total	<u>\$5,408,973</u>	4	1	4	2

Source: Office of Inspector General (OIG) analysis of Hospital data

*The Hospital initially awarded this time-and-material contract to Contractor B for exigent work, but later expanded the scope to include non-exigent work. The total contract was \$1,335,874 (\$924,395 for exigent work plus \$411,479 for non-exigent work).

** The Hospital awarded these two contracts without open and free competition. However, these contracts were for exigent work.

*** Federal regulations require positive efforts to use small and minority firms and women’s business enterprises, when possible. However, these contracts were for exigent work.

Noncompetitive Contracts

The Hospital awarded two noncompetitive, time-and-material contracts for \$2,239,909, of which \$1,828,430 was for exigent work and \$411,479 was for non-exigent work. We consider the exigent period to be the time when immediate actions are required to protect life and property. The Hospital worked under exigent conditions to eliminate mold, bacteria, and other potentially harmful and deadly pathogens through October 2014. However, the Hospital continued to use one of the contractors (Contractor B) for non-exigent work until April 2015, 6 months after the exigent period. Although 2 CFR 215.43 does not specifically mention exigent circumstances as an exception to the rule, it does recommend that competition should occur “to the maximum extent practical.”



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Open and free competition usually increases the number of bids received and thereby increases the opportunity for obtaining reasonable pricing from the most qualified contractors. It also helps to discourage and prevent favoritism, collusion, fraud, waste, and abuse.

The Hospital disagreed with our finding. Hospital officials said patient safety and infection control is paramount in a hospital setting and that it was necessary to immediately mitigate against mold, bacteria, and other potentially harmful and deadly pathogens. We agree that exigent circumstances existed through October 2014, when the mitigation efforts eliminated the threat to life and property. However, the Hospital should have openly competed disaster-related work after October 2014, which it did except for \$411,479 it paid to Contractor B.

FEMA officials agreed that the Hospital should comply with all Federal requirements. Also, FEMA Counsel's Procurement Disaster and Assistance Team provided Michigan and applicants training on Federal procurement requirements. FEMA acknowledged there are times when immediate action is required and the previously described circumstances justified the lack of competition. Although we believe applicants should make every effort to follow Federal procurement standards, there are times when a public exigency or emergency exists that will not permit a delay resulting in a noncompetitive procurement. However, the Hospital allowed the time-and-material contractor to perform \$411,479 of work after the exigent period ended. Therefore, the Hospital should have competitively bid the non-exigent work.

Small, Minority, and Women-Owned Businesses

The Hospital did not take all necessary affirmative steps in awarding contracts for disaster work. Therefore, FEMA has no assurance that disadvantaged firms received sufficient opportunities to bid on federally funded work, as Congress intended. These required steps, listed at 2 CFR 215.44(b)(5), include using the services and assistance, as appropriate, of organizations such as the Small Business Administration and the Department of Commerce's Minority Business Development Agency in the solicitation and use of these firms. Hospital officials said that, although it may not have taken the required affirmative steps, it welcomes all small and minority firms, women's business enterprises, and labor surplus area firms to bid on work and considers the entity's status. While we appreciate that the Hospital welcomed these firms, it should have taken the specific steps that 2 CFR 215.44(b)(5) requires. The Hospital did not award any of the four contracts to these types of disadvantaged firms.



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Contract Provisions

The Hospital also did not include all of the required contract provisions in its disaster contracts. Federal procurement standards require contracts and subcontracts to include specific provisions, such as those related to Equal Employment Opportunity, compliance with labor laws, and rights to examine contractor's records. These contract provisions document the rights and responsibilities of the parties and minimize the risk of contract misinterpretations and disputes.

Hospital officials said that, while they did not include these specific provisions in the contracts, they do consider these provisions in the vendor vetting process and address them outside of the contractual agreements. However, Federal procurement standards require contracts to include specific provisions; therefore, the Hospital did not comply with these requirements. After we advised Hospital officials of these requirements, they agreed to update their policies and procedures to include these Federal procurement requirements.

Finding B: Accounting for Labor Costs

The Hospital could not initially provide a correct accounting for \$517,740 of its labor cost and provided multiple versions of its labor cost that did not reflect actual incurred costs. After we identified these inconsistencies in the documentation, Hospital employees corrected the records to reflect actual costs the Hospital incurred. However, because the Hospital could not initially provide a correct accounting, we are concerned about the Hospital's ability to document labor cost properly. Therefore, Michigan should provide the Hospital with additional monitoring to ensure compliance with all Public Assistance grant requirements, including properly accounting for costs.

Finding C: Grant Management

Michigan did provide documentation containing procurement information to the Hospital after the disaster declaration. Nevertheless, the Hospital could have benefited from additional monitoring from Michigan to ensure that the Hospital followed the Federal procurement standards and used proper accounting procedures for labor cost. Federal regulations at 2 CFR 215.51 require grantees to manage and monitor each project, program, subaward, function, or activity supported by the award. Therefore, FEMA should direct Michigan to provide additional technical assistance and monitoring to the Hospital to ensure compliance with all Federal grant requirements for future disasters.



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Michigan officials agreed with this finding. They agreed that the Hospital did not have an adequate understanding of Federal procurement standards and proper accounting procedures for labor costs and would have benefited from additional Public Assistance Program guidance. They told us that they are committed to educating and supporting subgrantees to ensure compliance with Federal requirements and are in the process of developing additional procedures to assist subgrantees.

Recommendations

We recommend that the Regional Administrator, FEMA Region V:

Recommendation 1: Direct Michigan to have the Hospital include all of the required contract provisions in its disaster contracts. Because the Hospital officials updated their policies and procedures to include these Federal procurement requirements, this recommendation is resolved and closed (finding A).

Recommendation 2: Direct Michigan to have the Hospital correct the \$517,740 in labor cost that did not reflect actual incurred costs. Because the Hospital officials corrected the labor cost charges, this recommendation is resolved and closed (finding B).

Recommendation 3: Direct Michigan to provide additional technical assistance and monitoring to the Hospital to ensure compliance with all Federal grant requirements for future disasters (findings A, B, and C).

Discussion with Management and Audit Follow-up

We discussed the results of our audit with Hospital, Michigan, and FEMA officials during and after 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 the exit conference with FEMA on October 27, 2015, with Michigan on October 28, 2015, and again with Michigan and the Hospital on November 5, 2015. FEMA provided a written response (dated November 24, 2015) to this report (see appendix A). FEMA officials generally agreed with our findings and recommendations; and we consider recommendations 1 and 2 resolved and closed. However, FEMA's response did not include an action plan or target completion date for implementing recommendation 3.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) corrective action plan and (2) target completion date for recommendation 3. Also, please include the contact information for responsible parties and any other supporting documentation



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necessary to inform us about the status of the recommendation. Please email a signed pdf copy of all responses and closeout request to Paige.Hamrick@oig.dhs.gov. Until we receive and evaluate your response, we will consider the recommendation open and unresolved.

The Office of Emergency Management Oversight major contributors to this report are Paige Hamrick, Director; Rebecca Hetzler, Acting Audit Manager; Jeffrey Campora, Senior Auditor; and Douglas Denson, Auditor.

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



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Appendix A

Management Comments

U.S. Department of Homeland Security
Region V
536 South Clark Street, Floor 6
Chicago, IL 60605

NOV 24 2015



FEMA

MEMORANDUM FOR: Paige Hamrick
Director, Central Regional Office - North
Office of Inspector General

FROM: Andrew Velasquez III 
Regional Administrator

SUBJECT: Management's Response to OIG Draft Report:
Oakwood Healthcare System, Dearborn, Michigan,
Did Not Always Manage FEMA Grant Funds Properly
FEMA Disaster Number 4195-DR-MI
Project Code G-14-035

Thank you for the opportunity to review and comment on this draft report. The Federal Emergency Management Agency (FEMA) Region V appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

OIG Audit Recommendations:

Recommendation 1: Direct Michigan to provide additional technical assistance and monitoring to the Hospital to ensure compliance with all Public Assistance (PA) grant requirements for future grants (findings A and C).

Response: Concur.

While any grantee/sub-grantee could benefit from an enhanced technical support relationship; the procurement challenges illuminated by these findings and recommendation are not subject to any one simple solution. Ideally preparing communities to be successful PA recipients is a shared responsibility between FEMA and our state Partners; both in the post disaster environment and during peace time. However, the challenges to this goal are many including budgetary constraints, identifying the unknown universe of potential applicants, the parallel timelines of grant formulation and grant implementation, the dynamics of the post disaster environment and determining the most efficient and effective way to disseminate educational information to all present and potential applicants. Recent efforts have been implemented with the creation of the Procurement Disaster Assistance Team (PDAT), development of PDAT Manual dated December 18, 2014, the deployment of a PDAT teams to support JFO operations and non-disaster educational support at Regional and National FEMA State workshops.

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Appendix A (continued)

Again, thank you for the opportunity to review and comment on this draft report. We look forward to working with you in the future.

If you have any questions or concerns, please contact Jake Rauhen, Grants Management Specialist and Region V Audit Coordinator, Grants Management Division, via phone at 312-408-4401 or at jacob.rauhen@fema.dhs.gov.



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Appendix B

Objective, Scope, and Methodology

We audited FEMA Public Assistance grant funds awarded to the Hospital (Public Assistance Identification Number 163-UJQWT-00). Our audit objective was to determine whether the Hospital accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines. Michigan awarded \$15.2 million to the Hospital for damages resulting from severe storms and flooding (FEMA Disaster Number 4195-DR-MI) that occurred in August 2014. The audit covered the period August 11, 2014, through June 4, 2015, the cutoff date of our audit. The award provided 75 percent funding for one large project and one small project.³

We audited the \$15.2 million gross amount for all projects. As shown in table 2, the Hospital's insurance proceeds reduced the gross award amount of \$15.2 million to a net award of \$1.8 million. The Hospital's flood insurance covered the costs for essentially all of the incurred damages. However, FEMA will fund the Hospital's \$1.4 million insurance deductible, a \$368,000 hazard mitigation project, and an estimated \$12,375 of direct administrative costs. Because insurance covered most costs, we limited our review of transactions and focused our review on the Hospital's policies, procedures, and business practices to determine whether the Hospital properly procured contracts and adequately documented and accounted for its costs.

Table 2: Gross and Net Award Amounts

	Gross Award Amount	Insurance Reduction	Net Award Amount
All Projects	\$15,173,687	\$13,393,312	\$1,780,375

Source: FEMA project worksheets

We interviewed FEMA, Michigan, and Hospital officials; gained an understanding of the Hospital's method of accounting for disaster-related costs; reviewed the Hospital's procurement policies and procedures and contracting documents; and performed other procedures considered necessary to accomplish our objective. We did not perform a detailed assessment of the Hospital's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

³ Federal regulations in effect at the time of the 2014 storms set the large project threshold at \$120,000.



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Appendix B (continued)

We conducted this performance audit between June 2015 and November 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. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.



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Appendix C

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