

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

FEMA Public Assistance Grant Program Funds
Awarded to City of Milwaukee, Wisconsin





OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

June 20, 2012

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

FROM: 
D. Michael Beard
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Public Assistance Grant Program Funds Awarded to
City of Milwaukee, Wisconsin*
FEMA Disaster Number 1768-DR-WI
Audit Report DD-12-14

At the request of Federal Emergency Management Agency (FEMA) Region V, we audited public assistance grant funds awarded to the City of Milwaukee, Wisconsin (City) (Public Assistance Identification Number 079-53000-00). Our audit objective was to determine whether the City accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines.

Wisconsin Emergency Management (WEM), a FEMA grantee, awarded the City \$15.4 million for damages resulting from severe storms, tornadoes, and flooding, which occurred on June 5, 2008. The award provided 75 percent funding for permanent work and debris removal (three large and six small projects), and 90 percent funding for emergency protective measures (one large and four small projects).¹ The audit covered the period June 5, 2008, to September 16, 2011, the cutoff date of our audit, and included a detailed review of four large and five small projects totaling \$15.3 million, or 99 percent of the total award (see Exhibit A, Schedule of Projects Awarded and Audited).

We conducted this performance audit between October 2011 and April 2012 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$60,900. FEMA classifies disaster-related work by type: debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C through G).



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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 according to the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We interviewed FEMA, WEM, and City officials; reviewed judgmentally selected project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our objective. Our audit scope included Project 2476, a Category F (utilities) project, because it made up about 96 percent of the total award (\$14,796,994 of \$15,440,557) and because FEMA Region V officials recommended that we audit the project. As of our cutoff date, the City was still working to complete Project 2476; therefore, our audit procedures for that project focused on eligibility and the estimated costs to complete it, rather than costs claimed. We also included in our audit scope the remaining Category F project and a cross section of the other categories of work: Category A (debris removal), Category B (emergency protective measures), and Category C (roads and bridges). 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 methods of accounting for disaster-related costs and its procurement policies and procedures.

RESULTS OF AUDIT

FEMA did not deobligate excess funds authorized for Project 2476, the Menomonee Valley Pumping Station, which made up about 96 percent of the City's total award (\$14.8 million of \$15.4 million). As a result, \$10.9 million (\$8.2 million Federal share) in unneeded funds remain obligated. In addition, FEMA and WEM officials did not always fulfill their responsibilities regarding grant management. Therefore, FEMA should (1) deobligate \$10.9 million and put those funds to better use, and (2) take steps to improve its own and WEM's grant management procedures.

The City generally accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines. The sole exception was that we questioned \$12,129 of ineligible costs, or less than 1 percent of the amount we audited.



Finding A: Unneeded Federal Funds

Because FEMA did not properly account for authorized funds for Project 2476, \$10.9 million (\$8.2 million Federal share) in unneeded Federal funds remain obligated that FEMA should put to better use. In February 2009, WEM, as FEMA's grantee, awarded the City \$14.8 million for Project 2476 to repair the Menomonee Valley Pumping Station. However, the City decided in March 2009 to decommission the pumping station and reconfigure the water distribution system. This decision dramatically reduced the overall estimated project cost to \$3.9 million. FEMA approved this substantially lower cost alternate project in January 2011, but after 15 months, FEMA has not reduced the amount obligated for the project.

Federal appropriations laws and the Statement of Federal Financial Accounting Standards (SFFAS) require Federal agencies to record obligations in the accounting records on a factual and consistent basis throughout the government.² The overrecording and the underrecording of obligations are equally improper. Both practices make it impossible to determine the precise status of Federal appropriations. When the precise amount is not known at the time that the obligation is incurred, agencies appropriately record an obligation based on the best estimate at the time. Agencies, however, must periodically adjust that obligation as more precise data on the liability become available. That is, the agency must increase or decrease obligated funds when probable and measurable information becomes known (7 Government Accountability Office-Policy and Procedures Manual § 3.5.D; B-300480, April 9, 2003, and SFFAS Number 5, paragraphs 19, 24, 25, and 29). Agencies must document both the initial recordings and the adjustments to recorded obligations.

As of May 2012, FEMA had not deobligated the excess \$10.9 million (\$8.2 million Federal share). When we brought this issue to FEMA's attention, a FEMA official told us that it was not FEMA's practice to reduce project funding until all costs are known. The official said that even in cases like this that involve millions of dollars in excess funding, it is not normal FEMA procedure to reduce project funding because the original \$14.8 million repair estimate is still relevant to FEMA in calculating the upper limit of the alternate project's funding. However, deobligating the excess funding does not eliminate the cap for the alternate project. Further, although this approach may be easier, it does not justify unnecessarily committing \$10.9 million (\$8.2 million Federal share) for more than a year. This last issue is best demonstrated by the funding problems reported at the end of fiscal year 2011, when the Disaster Relief Fund had insufficient funds to respond to Hurricane Irene.

² U.S. General Accounting Office's (GAO) Principles of Federal Appropriations Law, 3rd edition, volume II, February 2006, chapter 7, section B: Criteria for Recording Obligations (31 U.S.C. § 1501).



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Reducing unneeded funding in a timely manner (1) releases funds to cover cost overruns on other projects associated with the disaster, (2) provides a more accurate status of Public Assistance program costs for a disaster, and (3) is consistent with appropriations law and SFFAS Number 5, which require obligations/liabilities in FEMA's accounting system to be recorded accurately and supported. Therefore, FEMA should deobligate \$10.9 million from Project 2476 and put those funds to better use. WEM and City officials agreed with this finding; however, FEMA disagreed. A FEMA official said that it is not FEMA's normal practice to reduce funds until closeout, when the final project costs are known.

Finding B: Other Grant Management Issues

FEMA and WEM officials did not always fulfill their responsibilities regarding grant management. FEMA did not properly account for grant funds, nor did it properly monitor WEM's grant management responsibilities to ensure compliance with Federal regulations, FEMA's policies, and WEM's Public Assistance Administrative Plan.

According to 44 CFR 13.37(a)(2), the grantee is required to ensure that subgrantees are aware of requirements imposed on them by Federal regulations. Further, 44 CFR 13.40(a) requires the grantee to manage the day-to-day operations of subgrant activity and monitor subgrant activity to ensure compliance with applicable Federal requirements.

Grantees must also submit a quarterly progress report for each open large project (44 CFR 206.204(f)). Progress reports are critical to ensuring that FEMA and grantees have up-to-date information on Public Assistance program grants. According to FEMA's Public Assistance Guide (FEMA 322, June 2007, p. 141), the progress reports should include the following:

- The status of the project, such as "in design" or "percentage of construction completed";
- Time extensions granted, if any;
- A projected completion date;
- The amount of expenditures and amount of payment for each project; and
- Any problems or circumstances that could delay the project or result in noncompliance with the conditions of the FEMA approval.

WEM officials submitted quarterly reports to FEMA; however, the reports did not contain key information needed to monitor the grant. For example, WEM's quarterly reports did not contain information on time extensions, project completion dates, the



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

amount of costs incurred, and the amount of payments made for each project. The reports also did not identify any problems or circumstances that could delay the project or result in noncompliance. According to WEM's Public Assistance State Administrative Plan, WEM provides forms to its subgrantees to report quarterly progress; however, WEM did not provide this form to the City. As a result, neither WEM nor FEMA collected sufficient information to track and monitor the progress of open projects. In fact, the City submitted no quarterly progress reports until after we advised City officials of the requirement. WEM officials told us that they have had trouble getting these reports from subgrantees, including the City. Nonetheless, WEM officials were responsible for collecting the information necessary to provide FEMA with complete and accurate quarterly progress reports.

WEM also did not ensure that the City was aware of and followed Federal regulations regarding alternate projects. Federal regulations require grantees to obtain FEMA's approval before the start of construction of any alternate project (44 CFR 206.203(d)(2)(v)). However, WEM knew that the City started construction on alternate Project 2476 (see finding A) before FEMA approved it in January 2011.³ Between October 2009 and March 2010, long before FEMA's approval, WEM paid the City for work performed on the alternate project.

Had WEM officials properly monitored the City's activities, they would have told City officials to discontinue work until FEMA either approved or denied the City's alternate project request. This was especially important because FEMA could have denied not only the costs that the City claimed between October 2009 and January 2011, but also the entire project.

It is FEMA's responsibility to hold States accountable for proper grant administration. Therefore, FEMA should take steps to improve its own and WEM's grant management procedures. Federal regulations establish uniform administrative rules for grants and procedures for Public Assistance project administration. These rules and procedures require that grantees and subgrantees have fiscal controls, accounting procedures, and project administration procedures that provide FEMA assurance that (1) grant and subgrant financial and project status reports are accurately reported, (2) expenditures can be traced to a level that ensures that funds have not been used in violation of applicable statutes, and (3) grantees and subgrantees adhere to the specific provisions of applicable Federal regulations when administering the grants. FEMA, WEM, and City officials agreed with this finding.

³ After the City provided the details for the requested alternate project, FEMA had to conduct two environmental reviews, one to decommission the original site of the Menomonee Valley Pumping Station and one for the alternate work site.



Finding C: Duplicate Funding

FEMA approved \$10,566 to purchase and install Supervisory Control and Data Acquisition (SCADA) systems and water meters for Project 2223.⁴ However, FEMA funded the same scope of work in an award to another city. This occurred because neither FEMA nor WEM determined which city was legally responsible for the work. According to 44 CFR 206.223(a)(3), to be eligible for financial assistance, an item of work must be the legal responsibility of an applicant. FEMA’s Public Assistance Guide (FEMA 322, p. 23) also states that if the applicant is the lessee (tenant), repairs to that facility are not eligible unless the lease specifically states that the lessee is responsible for the repairs. In the absence of a written agreement or lease, the owner of the property, not the occupant, is assumed responsible for the repairs.

The project worksheet stated that the City owned the damaged meters; however, the City of Wauwatosa, Wisconsin, owned the State Street Water Meter Pit facility that contained the meters. Because of these ownership issues, we reviewed the FEMA project worksheets for the City of Wauwatosa to determine whether there were duplications in the scope of work and approved funding. The project worksheet for the City of Wauwatosa also authorized repairs to the SCADA systems and water meters—the same SCADA systems and water meters FEMA authorized for repair in Project 2223.

We asked the City to provide proof of its legal responsibility. City officials provided us with the Water Service Agreement between the City of Milwaukee and the City of Wauwatosa, which stated that the City of Milwaukee has legal responsibility for the meters along with having to install and maintain them. However, the Water Service Agreement also states that the City of Wauwatosa must purchase the meters from the City of Milwaukee at cost. Because FEMA funded the same scope of work in awards to both cities, we question \$10,566 (\$7,925 Federal share) as ineligible. In addition, FEMA needs to determine which city had the legal responsibility for providing and installing these meters. Once FEMA makes that determination, it needs to ensure that the cost of purchasing and installing the meters is approved only for the appropriate city. FEMA and City officials agreed and WEM officials generally agreed with this finding.

Finding D: Inadequate Scope of Work

The City claimed \$1,563 in labor costs for Project 1778, an emergency protective measures project with an unclear scope of work. According to 44 CFR 206.202(d)(1)(i), “[t]he Project Worksheet must identify the eligible scope of work and must include a quantitative estimate for the eligible work.” Also, the FEMA Public Assistance Guide

⁴ The SCADA system allows control of the water flow and pressure.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

(FEMA 322, p. 101) states that the scope of work must be descriptive. However, neither WEM nor the City could explain what eligible work the City actually performed. The project worksheet stated, “Library staff provided 7.5 hours regular time and 47.0 hours overtime labor to provide emergency protective measures to elevate damage to improved property.”

FEMA prepared the project worksheet after the City completed the work and removed the regular hours from the claim; however, the scope of work was not descriptive.⁵ Further, the supporting time cards the City provided did not describe the work performed. A FEMA official said that, because this was a small project, FEMA might not have performed the same level of review as it would have performed on a large project. Because the project did not include a clear scope of work and did not accurately reflect the City’s claim, and because the City did not provide evidence of what work it performed, we question \$1,563 (\$1,407 Federal share) as ineligible. FEMA and City officials disagreed and WEM officials generally agreed with this finding. City officials said that FEMA prepared the project worksheet and should have asked for more information to clarify the scope of work. FEMA officials agreed that the project worksheet was not prepared well, but disagreed that this should be a finding.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region V:

Recommendation #1: Deobligate \$10.9 million (\$8.2 million Federal share) from Project 2476 and put those Federal funds to better use (finding A).

Recommendation #2: Develop and implement procedures to ensure that obligations are properly recorded to reflect the most accurate estimates available of funds needed to complete projects (finding A).

Recommendation #3: Develop and implement procedures for all disasters that require grantees to submit quarterly progress reports that comply with FEMA’s Public Assistance Guide (FEMA 322) (finding B).

Recommendation #4: Disallow \$10,566 (\$7,925 Federal share) of ineligible costs related to duplicate funding, and determine whether the City of Milwaukee or the City of Wauwatosa had legal responsibility for providing and installing the SCADA systems

⁵ According to 44 CFR 206.228(a)(4), regular-time salaries and benefits of subgrantee employees are not eligible for emergency work funding.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

and water meters at the State Street Water Meter Pit facility (Project 2223). Once FEMA makes that determination, it needs to ensure that the cost of purchasing and installing the meters is approved only for the appropriate city (finding C).

Recommendation #5: Disallow \$1,563 (\$1,407 Federal share) of claimed costs for Project 1778 that were ineligible because the project's scope of work was unclear (finding D).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with FEMA, WEM, 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 on April 30, 2012. These officials generally agreed with our recommendations; however, FEMA and City officials disagreed with Recommendation #5, as discussed in finding D.

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 responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing 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. Significant contributors to this report were Tonda Hadley, Moises Dugan, Christopher Dodd, Lori Smith, Cheryl Spruiell, and Patricia Epperly.

Should you have questions, please call me at (202) 254-4100, or your staff may contact Tonda Hadley, Director, Central Regional Office, at (214) 436-5200.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

EXHIBIT A

**Schedule of Projects Awarded and Audited
June 5, 2008, to September 16, 2011
City of Milwaukee, Wisconsin
FEMA Disaster Number 1768-DR-WI**

Project Number	Category of Work	Award Amount	Audited Amount	Questioned Amount	Funds Put To Better Use	Finding
2476	F	\$14,796,994	\$14,796,994	\$ 0	\$10,900,000	A and B
2360	A	232,545	232,545	0	0	
2267	B	209,854	209,854	0	0	
2228	C	77,323	77,323		0	
1775	G	55,897	0	0	0	
1770	E	18,318	0	0	0	
1927	E	14,006	0	0	0	
2223	F	10,566	10,566	10,566	0	C
1781	E	9,595	0	0	0	
2220	B	5,195	5,195	0	0	
2227	B	3,675	3,675	0	0	
1920	B	3,037	3,037	0	0	
1757	E	1,989	0	0	0	
1778	B	<u>1,563</u>	<u>1,563</u>	<u>1,563</u>	<u>0</u>	D
Totals		<u>\$15,440,557</u>	<u>\$15,340,752</u>	<u>\$12,129</u>	<u>\$10,900,000</u>	



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

EXHIBIT B

**Report Distribution List
City of Milwaukee, Wisconsin
FEMA Disaster Number 1768-DR-WI**

Department of Homeland Security

Secretary
Chief Financial Officer
Under Secretary for Management
Audit Liaison, DHS

Federal Emergency Management Agency

Administrator
Chief of Staff
Chief Financial Officer
Chief Counsel
Director, Risk Management and Compliance
Audit Liaison, FEMA Region V
Audit Liaison, FEMA (Job Code G-11-073)

Grantee

Administrator, Wisconsin Emergency Management

State

State Auditor, Wisconsin Legislative Audit Bureau

Subgrantee

Mayor, City of Milwaukee, Wisconsin

ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this report, please call the Office of Inspector General (OIG) at (202)254-4100, fax your request to (202)254-4305, or e-mail your request to our OIG Office of Public Affairs at DHS-OIG.OfficePublicAffairs@dhs.gov. For additional information, visit our OIG website at www.oig.dhs.gov or follow us on Twitter @dhsoig.

OIG HOTLINE

To report alleged fraud, waste, abuse or mismanagement, or any other kind of criminal or noncriminal misconduct relative to Department of Homeland Security programs and operations:

- Call our Hotline at 1-800-323-8603
- Fax the complaint directly to us at (202)254-4292
- E-mail us at DHSOIGHOTLINE@dhs.gov; or
- Write to us at:
DHS Office of Inspector General/MAIL STOP 2600,
Attention: Office of Investigation - Hotline,
245 Murray Drive SW, Building 410
Washington, DC 20528

The OIG seeks to protect the identity of each writer and caller.