

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

FEMA Public Assistance Grant Funds  
Awarded to City of Greensburg, Kansas





## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

June 19, 2012

MEMORANDUM FOR: Beth Freeman  
Regional Administrator, Region VII  
Federal Emergency Management Agency

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

SUBJECT: *FEMA Public Assistance Grant Funds Awarded to  
City of Greensburg, Kansas*  
FEMA Disaster Number 1699-DR-KS  
Audit Report DD-12-16

We audited Public Assistance grant funds awarded to City of Greensburg, Kansas (City), Public Assistance Identification Number 097-28675-00. Our audit objective was to determine whether the City accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

The Kansas Department of Emergency Management (KDEM), a FEMA grantee, awarded the City \$16.5 million for damages caused by severe storms, tornadoes, and flooding that occurred May 4, to June 1, 2007. The award provided 75 percent FEMA funding for 27 large and 49 small projects.<sup>1</sup> The audit covered the period May 4, 2007, through January 17, 2012, the cutoff date of our audit, and included a review of six large projects and three small projects totaling \$10,166,993, or 61 percent of the total award (see Exhibit A, Schedule of Projects Audited). As of the cutoff date of our audit, none of the large projects that we reviewed were closed.

We conducted this performance audit between September 2011 and March 2012 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 according to the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

<sup>1</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$59,700.



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We interviewed FEMA, KDEM, and City officials; reviewed judgmentally selected project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our objective. We also made a site visit to the City on May 24, 2007, to observe the damages and meet with FEMA officials. 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. We did, however, gain an understanding of the City's method of accounting for disaster-related costs and its procurement policies and procedures.

### BACKGROUND

A violent storm system developed over the Midwest on May 4, 2007, spawning lethal tornadoes, one of which left a trail of debris 22 miles long and more than a mile wide, nearly destroying the entire City. The tornado turned brick and concrete buildings to rubble, rolled semitrailers, and left whole neighborhoods unrecognizable. The City, a small, rural farming community located in southwestern Kansas, had a population of 1,389 before the disaster.

The EF-5 (Enhanced Fujita scale) tornado<sup>2</sup> touched down more than 75 times, killing 12. FEMA first responders noted that the City's facilities were destroyed, rendered unusable, or suffered major damage. In addition, the tornado damaged 90 percent of all street signs and signal lights and 90 percent of the City's vehicles (see figure 1).

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<sup>2</sup> The Enhanced Fujita scale rates the strength of tornadoes in the United States based on the damage caused. An EF-5 tornado is the highest rating and has wind speeds in excess of 200 miles per hour.



Figure 1: Residential neighborhood in Greensburg, Kansas, destroyed by May 2007 tornadoes.  
Source: Department of Homeland Security, Office of Inspector General, site visit, May 2007.

## **RESULTS OF AUDIT**

The City accounted for grant funds on a project-by-project basis as required by Federal regulations. However, the City did not always expend the funds according to Federal regulations and FEMA guidelines. As a result, we question \$686,656 of unsupported and ineligible costs that the City claimed. In addition, FEMA should deobligate and put to better use \$2,233,103 of unused Federal funds that exceeded the amount the City claimed for one project.

### **Finding A: Unsupported Contract Costs**

The City's claim included \$609,351 of unsupported contract costs under Project 399. The invoices that supported these costs did not include sufficient documentation to describe the costs that were incurred. Cost principles at 2 CFR part 225, Appendix A, section C.1.j, state that a cost must be adequately documented to be allowable under Federal awards. Further, FEMA's *Policy Digest* (FEMA 321, October 2001) states that applicants must carefully document contractor expenses when using time-and-material contracts. Therefore, we question \$609,351 as unsupported.

City officials said that they reviewed the contractor's invoices and believed the contractor adequately supported its costs because City officials were generally aware of the contractor's activities. City officials requested additional documentation from the



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contractor in an attempt to support these questioned costs, and the contractor provided summary information and general explanations for average unit cost and use of accounting codes. However, the contractor did not provide source documentation to support average unit cost calculations for specific items requested and quantities billed.

**Finding B: Duplicate Contract Costs**

The City's claim included \$43,317 of duplicate contract costs under Project 399. It appears that the City inadvertently included the same contractor invoice in its claim twice, and KDEM reimbursed the City twice under the two separate payment requests. Therefore, we question \$43,317 as ineligible duplicate costs. City officials agreed with this finding.

**Finding C: Ineligible Costs**

The City claimed \$33,988 for an extended warranty on a transformer purchased for the electrical distribution substation rebuilding project. However, extended warranty costs, essentially a form of insurance, are not eligible under the Public Assistance program. The purchase of the warranty was an improvement above the predisaster condition because the City did not have a warranty on the transformer that was replaced. FEMA Region VII officials agreed and said that the cost for improvements on a project is not a FEMA-eligible expense. FEMA's *Policy Digest* states that the costs of restoring damaged facilities are eligible for Public Assistance funding, but only on the basis of the facility's predisaster condition. Also, the cost for the warranty was not necessary to complete the replacement of the transformer. Costs must be necessary to be allowable under a Federal award (2 CFR part 225, Appendix A, section C.1.a). Therefore, we question \$33,988 as ineligible costs.

City officials said that FEMA officials advised them to purchase the extended warranty, but could not provide physical evidence to support their statement. Because of the large number of FEMA officials who worked on this disaster, FEMA could not confirm the City's assertion.

**Finding D: Unused Funds**

The City completed work and claimed \$4,675,623 for Project 399, which is \$2,233,103 less than the total amount FEMA estimated and obligated for this project. Therefore, FEMA should deobligate \$2,233,103 of unused Federal funds and put them to better use. The City agreed with this finding and requested that FEMA and KDEM close this project. In January 2012, FEMA officials advised us that they would suspend the closeout of Project 399 until after we determined the results of our audit.



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Based on our review of invoices, the City incurred all costs for this project by the end of 2009, and the City requested reimbursement for the costs from KDEM as the City paid invoices. In February 2011, the City made an initial request for closeout of Project 399; however, because of staff turnover, the City did not have the resources to organize its claim and request final project closeout until September 2011.

According to 44 CFR 206.205(b)(1), the grantee shall make an accounting to FEMA of eligible costs for each approved large project as soon as practicable after the subgrantee has completed the approved work and requested payment. In addition, FEMA's current *Public Assistance Guide* (PA Guide) (FEMA 322, p. 141), published in June 2007, a month after the disaster, states, "Progress reports are critical to ensuring that FEMA and the State have up-to-date information on PA Program grants." The PA Guide added the requirement that quarterly progress reports include "the amount of expenditures and amount of payment for each project." KDEM provided progress reports for our review after the exit conference, but none included financial information other than the obligated amount of the project. FEMA Region VII officials told us they have not required this additional financial information because they did not have the resources to monitor subgrantee activities.

We consider 6 months after the subgrantee has completed the approved work and requested payment a reasonable amount of time for the grantee to complete its review of costs claimed and submit an accounting of eligible costs to FEMA. Further, grantees should inform FEMA when a significant amount of obligated funding will not be used. Without timely closeouts and accurate progress reports, Federal funds remain obligated as a liability against FEMA's appropriated funds and can limit FEMA's ability to authorize other disaster assistance projects. Accordingly, FEMA should deobligate \$2,233,103 of Federal funds and put them to better use and require KDEM to submit quarterly progress reports that comply with FEMA's 2007 PA Guide.

FEMA Region VII officials told us that they did not deobligate the funds faster because they did not have sufficient financial visibility at the subgrantee level to identify completed projects. Further, FEMA Region VII officials said they relied on KDEM to tell them when projects were ready for closeout. However, FEMA Region VII and headquarters are taking steps to improve FEMA's visibility over subgrantee activities. For example, FEMA Region VII provided draft procedures to improve subgrantee monitoring policies nationally. FEMA Region VII officials also demonstrated their support to improve oversight by providing their plans to hire seven additional employees to monitor subgrantee activities.



## **RECOMMENDATIONS**

We recommend that the Regional Administrator, FEMA Region VII:

**Recommendation #1:** Disallow \$609,351 (\$457,013 Federal share) of unsupported contract costs unless the City provides adequate documentation to support these costs (finding A).

**Recommendation #2:** Disallow \$43,317 (\$32,488 Federal share) of ineligible duplicate contract costs (finding B).

**Recommendation #3:** Disallow \$33,988 (\$25,491 Federal share) of ineligible contract costs claimed for an extended warranty on equipment (finding C).

**Recommendation #4:** Deobligate \$2,233,103 (\$1,674,827 Federal share) of unused Federal funds and put them to better use (finding D).

**Recommendation #5:** For all disasters, require KDEM to submit quarterly progress reports that comply with FEMA's 2007 *Public Assistance Guide* (finding D).

**Recommendation #6:** Until FEMA finalizes its draft procedures to improve subgrantee monitoring, adopt FEMA draft procedures as Region VII-specific procedures requiring improved subgrantee monitoring (finding D).

## **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP**

We discussed the results of our audit with City officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to FEMA, KDEM, and City officials and discussed it at exit conferences held on March 29, 2012. As a result of additional information provided by KDEM after the exit conference, we eliminated one of our findings. FEMA officials generally agreed with our findings, but said that they are still in the process of closing Project 399 and reviewing claimed costs for this project. KDEM also generally agreed with our findings. City officials generally agreed with our findings but said that they would withhold final agreement until after FEMA closes the project.

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



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inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendation 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, Christopher Dodd, DeAnna Fox, and Brandon Landry.

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



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**EXHIBIT A**

**Schedule of Projects Audited**  
**May 4, 2007, to January 17, 2012**  
**City of Greensburg, Kansas**  
**FEMA Disaster Number 1699-DR-KS**

<b>Project Number</b>	<b>Award Amount</b>	<b>Finding A</b>	<b>Finding B</b>	<b>Finding C</b>	<b>Total Questioned Costs</b>	<b>Unused Funds Finding D</b>
399	\$ 6,908,726	\$609,351	\$43,317	\$33,988	\$686,656	\$2,233,103
366	2,030,560	0	0	0	0	
55, 338, 401, 402	1,110,816	0	0	0	0	0
495	53,112	0	0	0	0	0
58	36,250	0	0	0	0	0
602	27,529	0	0	0	0	0
<b>Totals</b>	<b>\$10,166,993</b>	<b>\$609,351</b>	<b>\$43,317</b>	<b>\$33,988</b>	<b>\$686,656</b>	<b>\$2,233,103</b>



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**EXHIBIT B**

**Report Distribution List**  
**City of Greensburg, Kansas**  
**FEMA Disaster Number 1699-DR-KS**

**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 VII  
Audit Liaison, FEMA (Job Code G-11-063)

**Grantee**

Public Assistance Coordinator, Kansas Division of Emergency Management

**State**

Legislative Post Auditor, State of Kansas

**Subgrantee**

Mayor, Greensburg, Kansas

## ADDITIONAL INFORMATION AND COPIES

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