

U.S. Department of Homeland Security
Central Regional Office
Office of Emergency Management Oversight
3900 Karina Street, Room 224
Denton, Texas 76208



Homeland
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July 29, 2009

MEMORANDUM FOR: Janet M. Odeshoo, Acting Regional Administrator
FEMA Region V
Tonda L. Hadley

FROM: Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *City of Muncie, Indiana*
FEMA Disaster Number 1573-DR-IN
Public Assistance Identification Number 035-51876-00
Audit Report DD-09-13

We audited public assistance funds awarded to the City of Muncie, Indiana (City). 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 City received an award of \$3.59 million from the Indiana Department of Homeland Security (IDHS), a FEMA grantee, for damages resulting from severe winter storms and flooding from January 1, through February 11, 2005. The award provided 75% funding for four large and seven small projects.¹ We audited four projects totaling \$3.43 million or 95.5% of the award (see Exhibit). The audit covered the period January 1, 2005, through September 28, 2006, during which time the City claimed \$3.59 million for direct program costs.²

We conducted this performance audit 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 on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We interviewed FEMA, IDHS, and City officials; reviewed judgmentally selected samples (generally based on dollar value) of the City's claimed costs; and performed other procedures we

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$55,500.

² The City received its final payment under the award on September 28, 2006.

considered necessary to accomplish the audit objective. We did not assess the adequacy of the City's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the City's grant accounting system for disaster-related costs and its procurement policies and procedures.

RESULTS OF AUDIT

The City accounted for FEMA funds on a project-by-project basis as required and provided adequate documentation to support all but \$40,599 in claimed costs. However, the City did not follow federal procurement standards in awarding contracts for \$1.88 million in debris removal work. As a result, full and open competition did not occur. The City also claimed \$14,400 for ineligible contract costs that exceeded the amount allowed by the contract. Therefore, we questioned \$54,999 in claimed costs that were unsupported (\$40,599) or ineligible (\$14,400). However, we did not question costs related to improper contracting because FEMA determined, and we agreed, that the claimed debris removal costs were reasonable.

Finding A: Contracting

The City did not follow federal procurement standards in awarding and administering \$1.88 million for disaster-related contract work. As a result, full and open competition did not occur. Federal procurement standards at 44 CFR 13.36 require, among other things:

- Performance of procurement transactions in a manner providing full and open competition except under certain circumstances (13.36(c)(1)). One allowable circumstance is when there is a public exigency or emergency for the requirement that will not permit a delay resulting from competitive solicitation. (13.36(d)(4)(i))
- Subgrantees maintain records sufficient to detail the significant history of the procurement, including the rationale for the method of procurement, the basis of selection of contract type, the basis for contractor selection, and basis for the contract price. (13.36(b)(9))
- Subgrantees not use time-and-material-type contracts unless a determination is made that no other contract is suitable and provided that the contract include a ceiling price that the contractor exceeds at its own risk. (13.36(b)(10))
- A cost or price analysis in connection with every procurement action, including contract modifications. (13.36(f)(1))
- Obtain price or rate quotations from an adequate number of qualified sources for purchases under \$100,000. (13.36 (d)(1))

The City awarded nine debris removal contracts totaling \$2.46 million. Seven of the nine were non-competitive, time-and-material (T&M) contracts totaling \$1.88 million. The City monitored the T&M work, but the contracts did not contain cost ceilings that the contractors exceeded at their own risk or federally-required clauses. The City did not determine that no other contract type was suitable, did not perform cost or price analyses, and did not maintain records that detailed the method of procurement, contractor selection or rejection, and the basis for the contract price. Further, the City obtained only one quote for contracts totaling less than \$100,000. Although the City did not always follow federal procurement standards, we did not

question any costs related to improper contracting because FEMA determined, and we agreed, that the claimed debris removal costs were reasonable.

Finding B: Documentation

The City claimed \$39,840 in unsupported contracting costs. The contractor provided a summary of equipment and labor costs for debris removal but did not provide timesheets to support the labor charges claimed. In addition, the City claimed \$759 for force account labor that was not supported by timesheets.

Federal regulations require subgrantees to maintain records that adequately identify the source and application of funds (44 CFR 13.20(b)(2)) and to support accounting records “by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.” (44 CFR 13.20(b)(6)). Therefore, we question \$40,599 as unsupported costs.

Finding C: Contractor Invoicing

The City claimed \$14,400 for contract costs that were incorrectly billed. The City awarded a debris removal contract based on an hourly rate. However, the contractor billed the City using a daily rate. We calculated a daily rate bid based on an 8-hour day and determined that the City overpaid the contractor \$14,400.

Federal regulations require subgrantees to maintain a contract administration system that ensures contractors perform according to the terms, conditions, and specifications of their contracts or purchase orders (13.36(b)(2)). Therefore, we question \$14,400 as improperly billed.

RECOMMENDATIONS

We recommend that the Acting Regional Administrator, FEMA Region V:

1. Disallow \$40,599 (\$30,449 FEMA share) of unsupported costs.
2. Disallow \$14,400 (\$10,800 FEMA share) of ineligible costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with FEMA and City officials on July 13, 2009, and with IDHS officials on July 14, 2009. These officials agreed with our findings and recommendations. Please advise this office by September 28, 2009, of the actions planned or taken to implement the recommendations, including target completion dates for any planned actions. Significant contributors to this report were Paige Hamrick and James Nelson. Should you have questions concerning this report, please contact me, or your staff may contact Paige Hamrick, Audit Manager, at (940) 891-8900.

cc: Audit Liaison, FEMA Region V
Audit Liaison, FEMA (Job Code DG9C01)

Schedule of Audited Projects
City of Muncie, Indiana
FEMA Disaster Number 1573-DR-IL

Project Number	Award Amount	Questioned Costs
422	\$ 49,584	\$ 0
508	1,529,562	14,400
525	650,544	0
647	1,200,353	40,599
Totals	<u>\$3,430,043</u>	<u>\$54,999</u>