Department of Homeland Security
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FEMA Hazard Mitigation Grant Funds Awarded to Rebuild Northwest Florida, Pensacola, Florida

DA-12-01

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Office of Inspector General

U.S. Department of Homeland Security
Washington, DC 20528

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MEMORANDUM FOR: Major P. (Phil) May
Regional Administrator, Region IV
Federal Emergency Management Agency

FROM: D. Kaye McTighe for Matt Jadacki
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Hazard Mitigation Grant Funds Awarded to Rebuild Northwest Florida, Pensacola, Florida*
FEMA Disaster Numbers 1539, 1545, 1551, 1561, 1595, and 1602
Audit Report Number DA-12-01

We audited Hazard Mitigation Grant Program (program) funds awarded to Rebuild Northwest Florida (Rebuild), Pensacola, Florida (FIPS Code: 003-U2FBB). The audit objective was to determine whether Rebuild accounted for and expended Federal Emergency Management Agency (FEMA) program funds according to federal regulations and FEMA guidelines.

The Hazard Mitigation Grant Program, authorized under Section 404 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, provides grants to state, local, and tribal governments as well as eligible nonprofit organizations for long-term hazard mitigation measures following a major disaster declaration. The purpose of the program is to reduce the loss of injury and damage to people and property against potential disaster events.

As of December 31, 2010, Rebuild received grant awards totaling $37.6 million under six Florida disaster declarations. The awards were provided under nine award agreements (see Exhibit, Schedule of Agreements Audited) by the Florida Division of Emergency Management (State), a FEMA grantee. The awards provided 75% FEMA funding to (1) wind retrofit low- and moderate-income homes in various locations throughout Escambia and Santa Rosa counties, and (2) install transfer switches to backup generator power systems to at least 28 domestic abuse centers within Florida. As of December 31, 2010, Rebuild had retrofitted more than 4,400 homes and installed transfer switches at 19 domestic abuse centers.

We reviewed costs totaling $32 million under the nine agreements—$31,832,949 for wind retrofitting and $178,843 for installing electric transfer switches to domestic shelters. The audit covered the period from September 7, 2006, to December 31, 2010. During this period, Rebuild received $27 million[1] of FEMA funds under the nine agreements. At the time of our audit, the work was in various stages of completion and Rebuild had not submitted final expenditures to the state.

We conducted this performance audit pursuant to 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 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 disasters.

We reviewed Rebuild's contracting policies and procedures; reviewed samples of judgmentally selected project costs (generally based on dollar value); interviewed Rebuild, State, and FEMA personnel; reviewed applicable federal grant requirements, regulations, and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of Rebuild's internal controls applicable to its grant activities because it was not necessary to accomplish our objective. However, we gained an understanding of Rebuild's method of accounting for grant costs and its policies and procedures for administering the activities provided for under the FEMA awards.

BACKGROUND

Rebuild was formed in November 2004 as a private-not-for profit organization in response to Hurricane Ivan, which struck Florida on September 16, 2004. Rebuild grew from a grassroots effort by a core group of individuals who saw a definitive need to "rebuild" the communities of Escambia and Santa Rosa counties following the devastation of Hurricane Ivan. This effort included private citizens, not-for-profit organizations, interfaith communities, government entities, and businesses, which assisted individual and families in restoring their lives by rebuilding and fortifying their homes. Money received from donations, concerts, and State grants provided Rebuild's original funding. In 2006, Rebuild applied for FEMA hazard mitigation grants as part of Escambia and Santa Rosa counties' local mitigation strategy plan.

RESULTS OF AUDIT

Rebuild did not fully comply with federal post-award grant requirements when procuring services under the awards, which resulted in excessive contract charges of $878,200 (federal share $658,650). Additionally, Rebuild did not maintain proper cash management procedures to minimize the time elapsing between the receipt of advances and the disbursement of those funds, and did not maintain the advances in an interest-bearing account as required. Also, the State did not consolidate working capital advances and did not analyze Rebuild's cash needs before disbursing the advances. Lastly, certain homes modified according to the wind retrofit measures designed by Rebuild's engineer of record may not be able to withstand a wind speed of 130 miles per hour, as required by the grant awards.

[1] This amount includes $2,831,918 of advanced funds held as of December 31, 2010.

<u>Finding A: Contracting Procedures</u>

Rebuild did not fully comply with federal administrative grant requirements when awarding contract work totaling $2.7 million. As a result, we concluded that $878,200 of the charges were excessive. Federal grant requirements, codified at Code of Federal Regulations (CFR) Title 2, Section 215 require, among other things, that—

- All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. (2 CFR 215.43)
- Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. (2 CFR 215.45)
- Procurement files for purchases in excess of the small purchase threshold shall include, at a minimum, (a) basis for contractor selection; (b) justification for lack of competition when competitive bid or offers are not obtained; and (c) basis for award cost or price. (2 CFR 215.46)
- Positive efforts shall be made to use small businesses, minority-owned firms, and women's business enterprises, whenever possible. (2 CFR 215.44(b))

In October 2006, Rebuild solicited bids for construction management services to oversee the wind retrofit of homes by construction contractors. Rebuild advertised the request for proposal (RFP) for 2 weeks in one online business magazine (ONVIA). No other sources such as local newspapers or other local media were used to advertise the contract work. Rebuild received only one proposal in response to the RFP. In November 2006, Rebuild awarded a 2-year contract to the sole bidder for a fixed-fee price of $280 per house with an option to extend the contract for two 1-year periods. Rebuild did not conduct a price or cost analysis to determine the reasonableness of the contractor's proposed price. Further, the post-award procurement process did not ensure open and free competition because the contracting opportunity was not publicized, to the extent practical, to ensure that all sources, including small businesses, minority-owned firms, and women's business enterprises, had an opportunity to compete for the contract.

In May 2007, after completing 65 houses, the contractor requested a price increase of more than 120%, from $280 to $620 per house. Rebuild approved the price increase and began reimbursing the contractor the higher amount. According to the contractor, the price increase was necessary because of costs associated with paying subcontractors; site visit follow-up, which required two or three visits per home to ensure that the work was satisfactory; obtaining approval from each homeowner upon completion of the projects; employee drug testing; and so on. However, the procurement files did not contain any documentation such as a cost/price analysis or other justification for the price increase. Further, we reviewed the RFP and the contractor's bid documentation and disagree with the contractor's assertion. The scope of work listed in the RFP and contractor's original price quote of $280 per house agreed with the work that the contractor performed in fulfilling contractual obligations for the initial 65 houses.

FEMA identified similar post-award procurement issues during a monitoring review conducted in late 2009. In December 2010, Rebuild rebid the construction management services to comply with federal grant requirements in response to the corrective action plan developed from

FEMA's review. Under the rebid process, Rebuild received 11 proposals from the RFP. Two of the proposals were deemed nonresponsive, and three proposals ($420, $580, and $945 per house) were accepted. Rebuild negotiated the $945 proposal down to $580 during the negotiation process. Upon completion of the negotiation process, Rebuild awarded the management services work to three contractors, agreeing to pay one contractor $420 per house and the other two contractors $580 per house.

According to 2 CFR 230, *Cost Principles for Non-Profit Organizations*, appendix A, section A.3., a cost is reasonable "if, in its nature or 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 costs." In determining the reasonableness of a given cost, consideration shall be given to, among other things, the "restraints or requirements imposed by such factors as generally accepted sound business practices, arms-length bargaining, federal and state laws and regulations, and terms and conditions of the award."

Rebuild's failure to comply with federal administrative grant requirements resulted in excessive costs to the grant awards. The price of $620 per house paid under the contract from May 2007 through December 2010 would have been lower had Rebuild followed federal grant requirements. This is supported by the fact that after Rebuild rebid the contract work in December 2010 to fully comply with federal grant requirements, several bids were received from responsive, qualified contractors that lowered the price to $420 and $580 per house. From May 2007 to December 2010, Rebuild claimed a total of $2,722,420 for contract management services related to the wind retrofitting of 4,391 houses at a price of $620 per house. We question $878,200 of the charges as excessive, as shown in table 1, because Rebuild did not take prudent steps to obtain the best possible price for the services.

Table 1. Excessive Contract Charges

Disaster	Contract Agreement No.	Completed Projects After Price Increase	Price increase ($420 – $620 = $200)	Amount Questioned
Charlie	1539-171-R	132	$200	$ 26,400
Charlie	1539-172-R	56	200	11,200
Frances	1545-187-R	2	200	400
Ivan	1551-12-R	3,513	200	702,600
Ivan	1551-32-R	111	200	22,200
Jeanne	1561-172-R	144	200	28,800
Dennis	1595-030-R	360	200	72,000
Katrina	1602-31-R	73	200	14,600
Total		4,391	$200	$878,200

<u>*Rebuild's Response*</u>. Rebuild officials disagreed with the finding. They said that the $620 per house construction management fee was reasonable because the scope of services actually performed by the contractor far exceeded the scope set forth in both the original RFP and the contractor's November 2006 proposal. They said that at the time of the original RFP in October 2006, it was unclear what the construction management requirements were and what the proper compensation should be. Rebuild and the contractor wanted to expedite the process, so they verbally agreed to modify the fee, after completion of several projects, to cover any reasonable additional scope modifications. Rebuild officials also said that, regrettably, the change in scope of services and justification of the increase were not well documented.

OIG Response. We disagree. Rebuild did not fully comply with federal post-award grant requirements and, as a result, did not obtain the best possible price for the contracted services. Further, the procurement files contained no documentation to support the price increase. Therefore, our position remains unchanged.

Finding B: Cash Management

The State did not consolidate working capital advances and did not analyze Rebuild's cash needs before disbursing advances. Additionally, Rebuild did not maintain proper cash management procedures to minimize the time elapsing between the receipt of advances and the disbursement of those funds, and did not maintain the advances in an interest-bearing account as required.

According to 2 CFR 215.22, recipients are to be paid in advance provided they maintain or demonstrate the willingness to maintain written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipients. Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs. Further, advances shall be consolidated to cover anticipated cash needs for all awards made by the federal awarding agency.

Federal regulation 2 CFR 215.22(f) also states—

> If a recipient cannot meet the criteria for advance payments and the Federal awarding agency has determined that reimbursement is not feasible because the recipient lacks sufficient working capital, the Federal awarding agency may provide cash on a working capital basis. Under this procedure, the Federal awarding agency shall advance cash to the recipient to cover its estimated disbursement needs for an initial period generally geared to the awardee's disbursing cycle. Thereafter, the awarding agency shall reimburse the recipient for its actual cash disbursements.

The State routinely provided working capital cash advances to Rebuild when the award agreements were approved. Rebuild did not first exhaust those advanced funds before submitting reimbursements requests to the State. As a result, Rebuild consistently held large amounts of cash that exceeded its immediate needs. During our audit period of September 2006 to December 2010, Rebuild's monthly bank balance averaged \$1.4 million; as of December 31, 2010, it had over \$2.8 million of cash on hand.

In addition, Rebuild maintained the advances in a non-interest-bearing account. According to 2 CFR 215.22(k), a recipient is required to maintain advances of federal funds in an interest-bearing account, unless—

1. The recipient receives less than \$120,000 in federal awards per year;

2. The best reasonably available interest-bearing account would not likely earn interest over $250 per year on federal cash balances; and
3. The depository would require an average or minimum balance so high that it would not be feasible within the expected total cash resources.

We also noted that the State could improve the time it takes to process Rebuild's reimbursement requests. For example, during the 6-month period of February to July 2009, it took the State between 15 to 157 days to process Rebuild's reimbursement requests. The State could reduce working capital advances if it properly analyzed Rebuilds cash needs and provided prompt reimbursements of expenditures.

Rebuild's Response. Rebuild officials said that the State is familiar with its cash flow constraints and needs and is much more knowledgeable of the requirements for working capital advances. Rebuild plans to work with the State to manage the working capital advances better.

Finding C: Wind Retrofit Measures

Certain homes modified according to the wind retrofit measures designed by Rebuild's engineer of record may not be able to withstand a wind speed of 130 miles per hour, as required by the grant awards. In late December 2008 and early January 2009, FEMA conducted a review of Rebuild's contractor mitigation practices and identified several issues that needed to be remedied. One concern was that the engineer's designs for gable end bracing may not provide the intended resistance to a wind speed of at least 130 miles per hour. In July 2010, FEMA approved a corrective action plan submitted by the State to address all issues identified in the review. In the plan, the State provided assurance that the gable end bracing for each home was individually engineered and designed to meet the design parameters of "130 miles per hour wind speed, 3 second gusts, Building Category II, Exposure C, or higher if required." FEMA accepted the State's response without having the engineer provide any structural analysis and calculations to support the designs.

During our fieldwork, we noted that hazard mitigation representatives within the FEMA Florida Recovery Office continued to have concerns that the design specifications for gable end bracing for homes over one story in height, or with a gable end wall width of more than 20 feet, were deficient and would not withstand wind loads certified by the engineer. Their concerns are based on a structural analysis performed on the engineer's design specifications by an independent engineer at the request of a FEMA representative. As of June 28, 2011, neither FEMA nor the State had taken action to look into the design concerns raised by the independent engineer. If the independent engineer's conclusions are based on sound analysis, more than 1,500 homes outfitted with the Rebuild's engineer's design specifications would be affected.

Rebuild's Response. Rebuild officials disagreed with this finding, saying that they had not seen the independent engineer's report on their engineer's design specifications. They said that the retrofit measures had been investigated by FEMA, expert engineers, building officials, the Florida Building Commission, and other construction professionals.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation #1: Disallow $878,200 (federal share $658,650) of excessive contract costs that are ineligible (finding A).

Recommendation #2: Instruct Rebuild to develop written procedures to minimize the time elapsing between receipt of federal funds and the disbursement of those funds, and instruct the State to reimburse Rebuild in a timely manner (finding B).

Recommendation #3: Instruct the State to review the amount of working capital advances needed by Rebuild and to consolidate such advances whenever possible (finding B).

Recommendation #4: Instruct the State to require Rebuild to keep advanced funds in an interest-bearing account (finding B).

Recommendation #5: Impute interest that would have been earned on the advanced funds, and instruct Rebuild to remit the interest to FEMA to be put to better use (finding B).

Recommendation #6: Instruct the State to conduct an independent assessment of the engineer of record's design specifications for gable end bracing for homes over one story in height, or with a gable end wall width of more than 20 feet, to determine if they are adequate to withstand wind loads certified by Rebuild's engineer (finding C).

Recommendation #7: Instruct Rebuild to implement corrective measures on homes where any gable end design specifications are identified as deficient during the independent assessment conducted as a result of Recommendation #6 (finding C).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the audit results with Rebuild, State, 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 held on June 28, 2011. Rebuild officials disagreed with all of our findings. Their comments, where appropriate, were incorporated into the body of the 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 responsible parties and any other supporting documentation necessary to inform us about the 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. To promote transparency, this report will be posted to our website, with the exception of sensitive information identified by your office. Significant contributors to this report were David Kimble, Adrianne Bryant, Mary Stoneham, John Schmidt, and Amos Dienye.

Should you have questions concerning this report, please contact me at (202) 254-4100 or David Kimble at (404) 832-6702.

cc: Administrator, FEMA
Executive Director, FEMA Florida Recovery Office
Audit Liaison, FEMA Region IV
Audit Liaison, FEMA (Job Code G-10-062)
Audit Liaison, DHS

EXHIBIT

Schedule of Agreements Audited
Rebuild Northwest Florida
September 7, 2006, to December 31, 2010
FEMA Disaster Numbers 1539, 1545, 1551, 1561, 1595, and 1602-DR-FL

Disaster	Contract Agreement Number.	Disaster No.	Date of Disaster	Award Amount	Amount Questioned
Hurricane Charley	1539-171-R	1539	August 2004	$2,000,000	$26,400
Hurricane Charley	1539-172-R	1539	August 2004	2,000,000	11,200
Hurricane Frances	1545-187-R	1545	September 2004	100,000	400
Hurricane Ivan	1551-12-R	1551	September 2004	26,671,097	702,600
Hurricane Ivan	1551-32	1551	September 2004	800,000	22,200
Hurricane Jeanne	1561-172-R	1561	September 2004	2,000,000	28,800
Hurricane Dennis	1595-24-F	1595	July 2005	651,837	-
Hurricane Dennis	1595-030-R	1595	July 2005	2,797,305	72,000
Hurricane Katrina	1602-31-R	1602	August 2005	553,209	14,600
Total				$37,573,448	$878,200

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