

DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

City of Kansas City, Missouri

FEMA Disaster Number DR-1403-MO



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Dallas Field Office
Office of Audits

DD-09-06

July 2006



Homeland
Security

July 28, 2006

MEMORANDUM FOR: Richard Hainje, Regional Director
FEMA Region VII

Tonda L. Hadley

FROM: Tonda L. Hadley
Field Office Director

SUBJECT: *City of Kansas City, Missouri*
FEMA Disaster Number 1403-DR-MO
Public Assistance Identification Number 095-38000-00
Audit Report Number DD-09-06

The Office of Inspector General (OIG) audited public assistance funds awarded to City of Kansas City, Missouri (City). The City received an award of \$28.44 million from the State of Missouri, State Emergency Management Agency (SEMA), a Federal Emergency Management Agency (FEMA) grantee, for damages resulting from a severe winter ice storm that took place on January 29, 2002, with an incident period ending February 13, 2002. The award provided 75 percent FEMA funding for 27 large projects and 14 small projects.¹ Our audit objectives were to determine whether SEMA effectively performed its grant management function regarding the City's award and whether the City accounted for and expended FEMA funds according to federal regulations and FEMA guidelines.

We reviewed the costs for 12 large projects and 2 small projects totaling \$26.86 million, representing 94 percent of the total award. The audit covered the period of January 29, 2002, to November 30, 2004, during which the City claimed \$29.29² million and SEMA disbursed \$19.97 million in FEMA funds for direct program costs.

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included interviews of City, SEMA, and FEMA Region VII staffs; tests of the City's accounting records, and other auditing procedures considered necessary under the circumstances. Exhibit A provides additional details of our audit scope and methodology; and Exhibit B lists amounts awarded, claimed, and questioned for the projects included in the audit scope.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$52,000.

² The City claimed an unapproved cost overrun for project 661 of \$853,566, which resulted in its claim exceeding the award.

RESULTS OF AUDIT

Overall, SEMA did not perform its grant management responsibilities in an effective manner or according to federal regulations. Further, the City's systems and processes were ineffective in managing and controlling federal funds; and the City did not account for and expend all FEMA funds according to federal regulations and FEMA guidelines. Our recommendations, if implemented properly, would improve SEMA's grant management, eliminate or reduce the City's noncompliance in future disasters, and recoup \$9,301,699 in improperly expended funds for the audited disaster.

Finding A: SEMA's Grant Management

SEMA's grant management and monitoring activities with regard to the City were ineffective to ensure that the City complied with all applicable federal regulations. Throughout the entire storm cleanup period, SEMA allowed the City to continue to accumulate storm-related costs under the provisions of contracts awarded contrary to federal procurement standards. SEMA did not attend some disaster-related meetings conducted at the City, and did not actively participate as the grant manager for the disaster when they did attend. For example, SEMA did not attend a February 7, 2002, meeting where the Contractor A (largest contractor by dollars received) contract was discussed. Likewise, they did not attend a February 15, 2002, meeting that discussed the debris removal operation, including contracting, operational deficiencies, and documentation. SEMA did attend the March 7, 2002, meeting that discussed Contractor A work, pricing, and contract validity but the minutes of the meeting did not reflect active participation by SEMA.

SEMA paid a large claim (\$2.50 million) filed by the City without adequate substantiation of claim validity. In some instances, SEMA performed closeouts on projects for amounts that the City could not support by invoices. On April 16, 2003, SEMA closed Project 628 at an anticipated amount of \$4.55 million. In the closeout letter to FEMA, SEMA stated that the enclosed documentation supported the final approved amount. In November 2004, when we requested the documentation for review, SEMA determined that they had closed the project without contractor invoices. In addition, they discovered that the City was still negotiating with Contractor A as to the amount of payment. The City provided an undated \$2.50 million invoice from Contractor A. The work description recorded on the invoice was: "STORM WORK PERFORMED AT THE REQUEST OF City of Kansas City." In an August 29, 2003, letter to Contractor A, a City official described the \$2.50 million payment as "a good faith payment." The letter continued with a request for contractor documentation to support that payment as well as the remaining invoices to total the requested payment amount of \$4.55 million.

On May 15, 2002, when FEMA prepared the project worksheet (PW) for Project 637, the project officer recorded that the 700-800 invoices totaling \$6.64 million he reviewed included an estimated \$1.00 million of ineligible costs. He further recorded that Disaster Field Office management directed him to determine eligibility based on total cubic yards of debris hauled as reported on an applicant spreadsheet, instead of using contractor documentation. On June 27, 2002, SEMA closed Project 637 at \$8.90 million stating they had reviewed and approved the documentation. Given FEMA's assessment of the condition of the data approximately 6 weeks earlier, we believe it is unlikely that SEMA performed an effective review of the documentation during the closeout or that they had sufficient knowledge of the project to perform the closeout according to federal regulations and FEMA guidelines. We questioned \$1.89 million in costs claimed for this project as unsupported (\$1,799,044) and ineligible (\$99,503).

SEMA also performed the closeout of Project 661 without a signed claim from the City. Upon its review, FEMA determined SEMA's closeout amount of \$787,868 contained \$141,908 in ineligible work.

According to 44 CFR 13.37(a)(2), states are responsible for ensuring "that subgrantees are aware of requirements imposed upon them by Federal statute and regulation." Further, 44 CFR 13.40(a) requires states to monitor subgrant supported activities to assure compliance with applicable federal requirements. The City's lack of compliance with federal procurement standards clearly demonstrates that the State did not adequately monitor the City's subgrant activities.

Further, SEMA was unaware, until after this audit began, of the adverse opinion and \$4,879,000 million in monetary findings related to the subject PA grant in the City's FY 2002 A-133 Single Audit.³ Under OMB Circular A-133, section ____.400, SEMA's responsibilities included:

- Monitor the activities of the City as necessary to ensure that FEMA grants are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.
- Issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- Consider whether subrecipient audits necessitate adjustment of SEMA's own records.

SEMA's monitoring activities of the City did not ensure that the City complied with all applicable federal regulations. Further, because SEMA did not have a copy of the reporting package, they had not issued a management decision of the audit findings of the City's FY 2002 A-133 audit report and had not adjusted their records to reflect the \$4.9 million in monetary findings.

Conclusion

SEMA did not effectively discharge its grant management duties according to federal regulations. As a result, the City filed claims and received payment for work that was unsupported, ineligible, and unreasonable. Further, SEMA never recouped the \$4.9 million in monetary findings related to the grant, nor did they monitor the material weaknesses and reportable conditions in internal controls (described in Finding B below) to ensure correction so the City could properly safeguard and expend future disaster funding.

³ According to the Missouri State Auditor, as of FY 2003, SEMA had not yet formulated policies to comply with these requirements. In its FY 2003 statewide Single Audit report, the Missouri State Auditor reported that SEMA had not established adequate internal controls to ensure subrecipient monitoring was properly documented, which resulted in inadequate subrecipient monitoring to ensure that an A-133 audit was performed and submitted to SEMA, when applicable.

Recommendation

1. The Regional Director, FEMA Region VII, require SEMA to establish written procedures for improving grant management of the FEMA PA program. At a minimum, these procedures should ensure that SEMA grant management employees:
 - Understand federal regulations and FEMA guidelines regarding the State’s responsibilities, as grantee, to perform effective grant management for all subgrantees and the importance of providing this function;
 - Develop and implement effective grant management and monitoring procedures that preclude subgrantee opportunities to file claims containing costs that cannot be supported under federal regulations and FEMA guidelines;
 - Understand the requirements of OMB Circular A-133 and the importance of adhering to those requirements; and
 - Establish internal controls to ensure all A-133 Single Audit reports are considered and findings are resolved according to federal regulations.

Finding B: City Systems and Processes

The City did not follow applicable federal regulations and FEMA guidelines in accounting for claimed costs of \$26,861,535 for the projects included in our audit scope, awarding certain contracts, and resolving A-133 Single Audit issues. As a result, FEMA had no assurance that all costs claimed for these projects were eligible and valid.

Deficient Accounting System

The City’s accounting practices did not adequately identify the application of federal funds or account for costs by specific project as required by federal regulations and FEMA guidelines. According to 44 CFR 13.20(b), grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Further, FEMA’s *Public Assistance Applicant Handbook* requires applicants to establish a project file (or site file for multiple-site projects) containing the corresponding PW and all documentation pertaining to the project (or site).

In addition to system problems, we also identified accounting procedural deficiencies typified by the following:

- A City official stated: “The documentation is too extensive to be kept together with actual payments. Payments are made against the over all project totals and not necessarily against individual supporting documents. Staff carefully track project expenditures and keep a running list of payments against the approved project totals.”
- Correspondence from the City to Contractor A expressed concerns about the City’s ability to reconcile its claim to the contractor’s records.
- City officials made payments to Contractor A “for various time and material items” with no other support.

- The City made a \$2.5 million payment to Contractor A that was described as a “good faith payment.”
- Following is a description of the City’s disaster fund accounting process according to one City official’s e-mail to us:
 - Intra-agency cooperation on accounting was minimal. Different departments recorded costs differently and then attempted to force their ledgers into the 2993 accounts (storm) with journal vouchers. There could be several account adjustments for one true expenditure. I could not get satisfactory explanations of these charges.
 - Reimbursements were not paid per expenditure, but rather on projects as a whole. Some of those were even divided in illogical ways.
 - Six months after the storm, no accounting review had been done. I believe the assumption was that departments would faithfully charge appropriate costs to the 2993 accounts, which was not the case.
- Another e-mail identified a sum of \$350,000 used to pay annual bills for one department it claimed as disaster work, but we saw no evidence of follow-up to adjust the claim.
- The City paid \$1,133,155 to Contractor C without an invoice, based on a blank payment request form signed by the contractor.

Further, the City’s A-133 Single Audit for FY 2002 describes several similar accounting procedural deficiencies:

- The City did not provide supporting documentation for all journal vouchers selected for the single audit test. These deficiencies in record keeping and reporting may result in noncompliance with FEMA regulations, questioned costs, and duplicate or incorrect payments to vendors.
- Because of lack of evidence of verification of the time and material furnished by the contractor, we are unable to validate the accuracy of the costs claimed in the invoice tested.
- Contractor invoices do not adhere to compensation conditions prescribed in the contract.
- Payments lacked necessary supporting documents.

The independent auditors who performed the FY 2002 A-133 Single Audit pointed to the City’s lack of compliance with its own internal control procedures as the cause for these many and varied violations of internal controls and generally accepted accounting practices. Because we did not audit the City’s internal controls, we cannot confirm that they had controls in place to prevent these discrepancies.

Conclusion

The City did not account for the disaster grant funding according to federal regulations and FEMA guidelines. Consequently, the City generally was unable to adequately identify the application of funds provided for financially assisted grant activities or account for costs by specific project as required. As a result, the City’s claim contained unsupported, unreasonable, and ineligible costs as indicated in the report section on questioned costs.

Recommendation

2. The Regional Director, FEMA Region VII, require SEMA to establish written procedures to ensure that for future disasters, at a minimum, subgrantees understand:
 - Federal regulations and FEMA guidelines regarding accounting for and expending federal disaster grant funds and the importance of following this guidance;
 - The requirement to follow the same or more stringent internal controls when accounting for and expending disaster grant funds as it does for its annual operating revenue; and
 - The importance of maintaining documentation by project, reconciling source documentation to invoices, and determining the validity of all project invoices before filing claims.

Unallowable Contracting Procedures

The City did not always follow applicable federal procurement standards in awarding \$19,581,690 in contracts for debris removal and other disaster work. As a result, full and open competition did not occur and FEMA had no assurance that contract costs claimed were reasonable. Federal procurement standards, as set forth in 44 CFR 13.36:

- Require the performance of procurement transactions in a manner providing full and open competition except under certain circumstances.
- Require that subgrantees maintain records sufficient to detail the significant history of the procurement, including the rationale for the method of procurement, the basis for contractor selection, and basis for the contract price.
- Require a cost or price analysis in connection with every procurement action including contract modifications.
- Prohibit the use of time-and-material type contracts unless no other contract is suitable and the contract includes a ceiling price that the contractor exceeds at its own risk.
- Require negotiation of profits, as a separate element for contracts lacking price competition and in all cases where cost analyses are performed.

Under 44 CFR 13.43(a)(2), failure to comply with applicable statutes or regulations can result in the disallowance of all or part of the cost of the activity or action not in compliance. Because the City disregarded applicable federal procurement standards, FEMA had the authority to disallow all \$19,581,690 in claimed contract costs for these projects. We did not question total costs based solely on noncompliance with procurement standards, but we determined that the claimed contract costs contained questioned costs that resulted from other noncompliance issues described later in this report.

Contractor	Projects	Contract Costs	Questioned Costs	Percent Questioned
A	628, 637, 661	\$ 14,951,428	\$ 4,724,259	31.60
B	179	3,497,107	1,338,993	38.29
C	593	1,133,155	1,192,052	*105.20
	TOTAL	\$19,581,690	\$ 7,255,304	37.05

* Questioned costs for Project 593 included 100 percent of the contract cost plus force account cost allocated to the project.

Contractor A

The City claimed costs of \$14,951,428 for Projects 628, 637, and 661 paid to Contractor A under an existing time and materials (T&M) contract with a \$100,000 cost ceiling. (One portion of the contract was later converted to unit price for tree trimming under Project 628.) The low contract ceiling indicates that the City did not enter into this contract specifically for these projects. The City allowed the contractor to perform T&M debris removal, unit-price tree trimming, and T&M monitoring under this preexisting contract. FEMA halted the T&M debris removal under this contract when they forced the City to bid the remainder of the work. The City allowed the unit-price tree trimming to continue even though the rate was \$11.36 (62.75-51.39) higher than FEMA had approved. The City allowed T&M monitoring work of other contractors under this contract at a rate double (\$34.00 vs. \$17.00) that which FEMA had approved.

The City used four change orders to increase the contract ceiling to \$13,447,500 and changed the contract type from T&M to unit-price for Project 628. They continued to allow work under this contract even after FEMA and OIG officials informed them in late February and March 2002 that the contract had changed sufficiently to negate the competitive bid process.

During the audit process, the City did not provide any documentation suggesting that they performed a cost analysis to substantiate the validity of the initial use of this contract or any of the subsequent modifications. Additionally, the City provided no documentary evidence that a T&M contract was the only suitable contract type and did not provide evidence of adequate contract monitoring as required by FEMA guidelines for a T&M contract. Without adequate monitoring, the City had no assurance that the contractor performed as required under the contract and contractors' billings were for approved work actually performed. Also, this T&M contract did not contain an enforced cost ceiling that Contractor A exceeded at its own risk.

Contractor B

The City claimed costs for Project 179 of \$3,497,107 paid to Contractor B under an existing unit-price contract for the management of leaf and brush sites. Using three amendments, the City changed the original scope of work and \$200,000 cost ceiling to a contract for debris grinding and disposal with a ceiling of \$4,207,000. The City awarded this contract as the result of a pre-disaster Request for Proposal (RFP) that did not mention debris grinding and disposal. The only mention of "storm-work" in the RFP was a statement in the schedule section noting that a storm event may require the sites to be open on weekends and at times outside normal hours. Further, the City provided no documentary evidence that it performed a cost or price analysis at any time and did not negotiate profit as a separate element. According to 44 CFR 13.36(f) (1) through (2), subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications and subgrantees will negotiate profit as a separate element of the price for each contract in all cases where cost analysis is performed. In this case, the City changed the scope of work and awarded the contract modifications without meeting these requirements, which resulted in less than full and open competition.

Contractor C

The City claimed costs for Project 593 of \$1,133,155 paid to Contractor C to pave a parking lot for the City's Sports Complex Authority. The original contract was for \$798,640. At the pre-construction meeting, held 1 day after the contractor notification to proceed with the project, Contractor C suggested an alternative to the original method of work. The City, FEMA, and the Sports Complex Authority accepted the alternate method but none of these parties documented acceptance of the resultant additional cost, later determined to be \$334,515. This action has the appearance of low-ball bidding.⁴ These changes resulted in a parking lot of inferior quality to that which would have resulted from the original bid.⁵ (See questioned costs in Exhibit B)

As described above, the work performed was sufficiently different in cost to negate the validity of the original bid. Additionally, even though the City performed an engineering cost estimate on the original scope of work, it did not provide documentary evidence of a similar estimate on the scope of work actually completed during the repair process.

Conclusion

As discussed above, the City did not follow applicable federal procurement standards in awarding contracts totaling \$19,581,690 in debris removal and other disaster work. We determined that SEMA and FEMA officials failed to enforce federal regulations through the avenues available to them including, as a last resort, refusal to fund. As a result, full and open competition did not occur and FEMA had no assurance that contract costs claimed were reasonable.

Recommendation

3. The Regional Director, FEMA Region VII, require SEMA to establish written procedures to ensure that for future disasters, at a minimum, the City understands:
 - Federal regulations and FEMA guidelines regarding procurement procedures and the importance of following this guidance and
 - Improperly contracted work will result in the total ineligibility for the project.

A-133 Single Audit Resolution Process

The City did not respond to the FY 2002 A-133 Single Audit findings in the manner required by OMB Circular A-133. Under OMB Circular A-133, section ____.315, the City, as auditee, was responsible for follow-up and corrective action on all A-133 audit findings, including the preparation of a corrective action plan. Additionally, for the FY 2003 A-133 Single Audit report, the City did not prepare a summary schedule of FY 2002 A-133 audit findings. These findings had not been resolved and therefore should have been included in a schedule. Without resolution, prior year findings can be

⁴ Low-ball bidding is setting bids artificially low to win contracts and subsequently raising fees.

⁵ We discussed the original and alternate repair methods with personnel in the engineering/construction departments of Texas Department of Transportation, Oklahoma Department of Transportation, and the Missouri Department of Transportation to determine the relative effectiveness of the two repair methods. All three entities stated the original scope of work would produce a superior quality product.

dropped only if they meet all three of the following conditions: 1) at least 2 years have passed since the report was submitted to the federal clearinghouse; 2) the federal agency or the pass-through entity is not currently following up; and 3) a management decision has not been issued.

The document that City officials provided as their corrective action plan, “RESPONSES TO FYE [Fiscal Year Ending] 2002 OMB CIRCULAR A-133 AUDIT FINDINGS,” was generally comprised of arguments and reasoning that the independent auditor had previously rejected. Additionally, most proposed actions were vague with no defined outcome or timelines for completion.

Further, under section __.320 of OMB Circular A-133, the City was also responsible for providing SEMA, as the pass-through entity, a copy of the reporting package that they submitted to the federal clearinghouse. SEMA officials stated that they did not have a copy of the City’s FY 2002 A-133 Single Audit report and City officials could not substantiate that they provided a copy of the reporting package to SEMA.

Conclusion

The City did not fulfill its responsibilities according to the requirements of OMB Circular A-133. As a result, the City neither returned the \$4.9 million in questioned costs related to the PA grant nor corrected the material weaknesses and reportable conditions in internal control to properly safeguard and expend future disaster funding.

Recommendation

4. The Regional Director, FEMA Region VII, require SEMA to ensure that the City develops written procedures and internal control modifications, as necessary, to ensure that A-133 Single Audit reports are transmitted and resolved according to federal requirements.

Finding C: Questioned Costs

The City did not expend and account for FEMA funds according to applicable federal regulations and FEMA guidelines. The City’s failure to competitively bid and properly monitor, record, and substantiate much of the work claimed for this disaster resulted in questioned costs of \$9,301,699 (\$6,976,274 FEMA share) in claimed costs, consisting of unsupported contractor costs (\$4,346,399), ineligible costs (\$2,019,936), unsupported Force Account costs (\$1,581,891) and unreasonable costs (\$1,353,473). The following table summarizes our questioned costs by project and by type of finding:

Project	Claimed Costs	Unsupported Contractor Costs	Ineligible Costs	Unsupported Force Account Costs	Unreasonable Costs	Total Questioned Costs	Percent of Claim Questioned
179	\$ 3,497,107	\$1,191,077	\$ 0	\$ 0	\$ 147,916	\$1,338,993	38.29
637	8,900,792	1,799,044	99,503	0	0	1,898,547	21.33
628	4,551,110	1,082,915	0	0	782,151	1,865,066	40.98
593	1,192,052	0	1,133,155	58,897	0	1,192,052	100.00
661	1,499,526	123,322	413,918	0	423,406	960,646	64.06
652	577,311	0	271,270	306,041	0	577,311	100.00
651	540,489	0	0	540,489	0	540,489	100.00
557	441,155	0	0	441,155	0	441,155	100.00
083	5,178,284	137,697	0	0	0	137,697	2.66
270	157,012	0	0	157,012	0	157,012	100.00
218	230,215	0	102,090	0	0	102,090	44.35
660	78,297	0	0	78,297	0	78,297	100.00
588	12,344	12,344	0	0	0	12,344	100.00
289	5,840	0	0	0	0	0	0
	<u>\$26,861,535*</u>	<u>\$4,346,399</u>	<u>\$2,019,936</u>	<u>\$1,581,891</u>	<u>\$1,353,473</u>	<u>\$9,301,699</u>	<u>34.63</u>

Summary of Questioned Costs (*\$1 variance due to rounding)

According to 44 CFR 13.20(b)(2), grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. Additionally, 44 CFR 13.20(b)(6) lists specific source documentation, including cancelled checks, paid bills, payrolls, time and attendance records, contracts, etc., that is acceptable as supporting documentation. Further, FEMA's *Public Assistance Applicant Handbook* requires subgrantees to establish a project file (or site file for multiple site projects) containing the corresponding PW and all documentation pertaining to the project (or site). The Handbook also states that the subgrantee is responsible for maintaining all source documentation needed to support its large projects. For the costs questioned as unsupported, the City was unable to provide source documentation that was specific enough to support its claimed costs.

To be eligible for financial assistance, an item of work must be required because of the major disaster event (44 CFR 206.223). Therefore, the subgrantee must prove that claimed costs were directly related to the disaster. The subgrantee must also establish a clear relationship between claimed costs and the scope of work recorded on a PW prepared according to the requirements of 44 CFR 206.202(d). The City was unable to provide documentary evidence that certain claimed costs met these conditions; therefore, we questioned those costs as ineligible.

Some projects included in the City's claim contained costs that we deemed unreasonable under federal guidelines. For these projects, the City could not substantiate those costs as reasonable because it:

- Did not follow federal contracting standards in awarding the contracts;
- Performed rate adjustments without the requisite cost or price analysis; or
- Did not demonstrate the cost as reasonable within the meaning of the OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

OMB Circular A-87, Attachment A, subsection C.2, defines a reasonable cost as one that, in nature and amount, 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 cost. The Circular also directs consideration of the following items in determining the reasonableness of a given cost:

- Use of sound business practices; arms length bargaining; federal, state, and other laws and regulations; and terms and conditions of the federal award;
- Market prices for comparable goods or services; and
- Whether the individuals acted with prudence.

Project 179 – Contract Debris Grinding and Disposal

The scope of work for Project 179 was debris grinding and disposal amounting to \$3,497,107. Of that amount, we questioned \$1,338,993, or 38.29 percent. The City did not fully establish monitoring, management, and documentation procedures according to FEMA guidelines. Further, as noted earlier, the City did not award this contract to Contractor B according to procurement procedures outlined in federal regulations at 44 CFR 13.36.

For the first month of operations, the hauling capacities of the trucks used on this project were not certified and no monitoring of actual load capacity occurred. The City claimed a flat 100 cubic yards for each truckload. During that period, the City made no effort to accurately quantify the actual cubic yardage hauled. Thereafter, the City implemented dump tickets to track load quantities but not all trucks recorded on the dump tickets were measured and numbered as required. FEMA Publication 325 *Public Assistance Debris Management Guide* (April 1999, page 30) summarizes the key elements of a unit price contract based on cubic yards, which include the following:

- Accurate account of actual quantities removed.
- Full-time trained contract monitors required.
- Possibility of contractor fraud if loading and dumping is not closely monitored.
- Trucks must be measured and numbered.
- All truckloads must be documented using a pre-numbered load ticket.

Further, FEMA Policy 9580.1 *Public Assistance Debris Operations Job Aid* (August 2000, page 39) states that all contract trucks should have the truck number and the measured capacity of the truck posted and clearly visible on both sides of the truck. Also, the applicant should employ full time, trained debris monitors to account for the actual quantity of debris being hauled and disposed of under a unit price contract.

Our examination of Project 179 documentation resulted in \$1,191,077 of unsupported contract costs for the following reasons:

- \$1,041,134 because numerous trucks lacked certification of hauling capacity, no dump tickets were prepared, and loads were not properly monitored;
- \$83,528 because the cost was claimed twice;
- \$57,175 for over-claimed truck capacity; and
- \$9,240 for daily site charges for non-contracted sites.

As described in Finding B, the City awarded the contract to Contractor B before the disaster, changed the scope of work, and awarded the contract modifications without full and open competition. The main purpose of the contract was not to respond to a major storm event, but to obtain services to grind and reuse leaves and brush. The contract included storm cleanup services at a cost of \$9.85 per cubic yard. Once the magnitude of the debris cleanup for Project 179 was determined, the City did not re-bid the contract based on a reasonable estimate of the total debris volume. Even though there was no evidence that showed the City performed a cost or price analysis to justify its action, it increased the rate from \$9.85 to \$11.00 per cubic yard for storm work. Therefore, the City had no assurance that the contracted rate of \$11.00 was reasonable.

In addition to not performing the required cost or price analysis, the City neglected to consider, as required, sound business practices which would have included the principle of economies of scale. We concluded that a prudent businessperson would at least recognize the potential for economies of scale and perform analyses to negotiate for a lower price, rather than agree to a price increase. Further, as evidenced by an intra-City memo, some City officials felt the \$1.15 price increase was "probably slightly more than required to cover cost." The unit price increase applied to the applicable quantity (128,622 cubic yards) resulted in \$147,916 questioned as unreasonable.

As discussed in Finding B, under 44 CFR 13.43(a)(2), failure to comply with applicable statutes or regulations can result in the disallowance of all or part of the cost of the activity or action not in compliance. Because the City disregarded applicable federal procurement standards, did not monitor debris disposal activities, and did not accurately quantify the actual cubic yardage hauled, FEMA had the authority to disallow all \$3,497,107 in claimed contract costs for this project. We did not question the entire project because it was clear that the contractor had performed work related to the disaster.

Conclusion

For Project 179, the City did not account for and expend all FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$1,338,993 in claimed costs, consisting of unsupported contractor costs (\$1,191,077) and unreasonable costs (\$147,916).

Recommendation

5. The Regional Director, FEMA Region VII, disallow \$1,338,993 in questioned costs for Project 179.

Project 637 – Time and Materials Debris Removal

The scope of work for Project 637 was debris removal totaling \$8,900,792. Of that amount, we questioned \$1,898,547, or 21.33 percent. As discussed earlier, the City did not award this contract according to the procurement procedures outlined in federal regulations at 44 CFR 13.36. Further, the City did not fully establish monitoring, management, and documentation procedures according to FEMA guidelines.

Contractor A performed the work claimed for Project 637 under a pre-disaster T&M contract without an enforced cost ceiling and without adequate monitoring. From our review of Project 637 documentation, we questioned \$1,799,044 of unsupported contract costs, consisting of labor (\$788,279), per diem (\$538,739), equipment (\$340,836), and unidentified cost (\$131,190). Additionally, we questioned \$99,503 as ineligible equipment costs because the City could not substantiate that the costs were disaster related. These ineligible equipment costs contained equipment usage hours for equipment in standby, equipment use outside daylight hours with no charges for lighting equipment that would have been needed after daylight hours, and equipment with no substantiated disaster related purpose.

Of the total \$8,900,792 claimed by Contractor A for Project 637, \$4,449,748 was for work performed by a subcontractor and \$4,451,044 was for work performed by Contractor A. The questioned costs for unsupported labor and equipment (\$1,129,115) were for work performed by Contractor A. The documents provided by the contractor to support the claimed labor and equipment costs that were included in our sample contained a large number of irregularities. The documentation routinely included invoices with more pieces of equipment at 100 percent utilization than they did employees to operate the equipment. Additionally, the documentation routinely included invoices with labor hours in excess of daylight hours during the period. The contractor submitted at least one invoice for payment of labor and equipment where the contractor's employee earnings records did not show that the employees worked or received pay for the period. Further, invoices existed that:

- Included illegible supporting documentation that could not be validated;
- Claimed equipment hours that were greater than the labor hours worked by the employees; and
- Claimed overtime for work performed during regular-time hours.

The invoices reviewed did not have verification from a City representative as to the accuracy of the time and materials furnished by the contractor. Without contract monitoring by the City, FEMA had no assurance of the validity of the claimed costs.

Of the \$538,739 in unsupported per diem costs, the contractor invoiced \$200,760 for the subcontractor employees and the remainder (\$337,979) for contractor employees. The subcontractor stated that it had never charged the contractor for per diem. Further, a contractor representative stated to a City official that the contractor did not pay per diem to its employees. Even though the contractor said it provided some meals and lodging to its employees, the documents provided to substantiate this contention did not contain sufficient information to verify the claim. Specific inadequacies included:

- Lodging receipts were not detailed enough to allow tracing amounts, dates, and workers to specific jobs and invoices and
- Summary meal receipts and cash register tapes did not identify individuals or crews and did not contain verification of delivery or receipt of services.

The business community generally recognizes per diem as an allowance for subsistence expenses such as lodging, meals, and incidental expenses paid to the employees. Because the contractor's statements and records failed to support the claimed per diem payments, we questioned the cost as unsupported.

Conclusion

For Project 637, the City did not account for and expend all FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$1,898,547 in claimed costs consisting of unsupported contractor costs (\$1,799,044) and ineligible costs (\$99,503).

Recommendation

6. The Regional Director, FEMA Region VII, disallow \$1,898,547 in questioned costs for Project 637.

Project 628 – Contract Tree Trimming

The scope of work for Project 628 was tree trimming totaling \$4,551,110. Of that amount, we questioned \$1,865,066, or 40.98 percent. As noted in the section on unallowable contracting procedures, the City did not award this contract according to the procurement procedures outlined in federal regulations at 44 CFR 13.36. Further, the City did not fully establish management and documentation procedures according to FEMA guidelines.

Contractor A performed the work claimed for Project 628 under the component of the pre-disaster contract that was converted from a T&M basis to a unit price basis. Our audit of documentation for Project 628 resulted in \$1,082,915 of unsupported contract costs and \$782,151 of unreasonable costs. The OIG questioned costs as unsupported because the documentation lacked sufficient information to determine the location of the claimed work. We considered the unit rate unreasonable because the City could not demonstrate that they established it according to federal guidance.

During the PW preparation, FEMA performed a field inspection of the work claimed. FEMA designed this inspection to include representatives from FEMA, the City, and Contractor A. The purpose of the inspection was to visually verify trees claimed by the contractor. Once it became apparent that many of the claimed trees could not be located, the contractor representative ceased participation. As a result of these site inspections, FEMA reduced the number of allowable trees from the claimed 95,560⁶ to 57,007 for PW 628 version 0. Subsequent to this field inspection and after the records were moved from the Disaster Field Office to the Regional Office, Region VII management adjusted the number of allowable trees to 70,720. PW records did not identify errors in the field inspection that justified the increase in allowable trees. Further, the documentation used to

⁶ A City official had originally estimated the total trees to be trimmed/removed under this contract at 20,000 units. The official formulated this estimate after the contractor had completed 16,000 units or 80 percent of the estimated total.

determine this adjustment appeared to have been the FEMA-prepared spreadsheet compilation of contractor records that the City provided the OIG as supporting documentation for the claim. Our review of this spreadsheet disclosed that over 17,000 spreadsheet lines (units) had obvious errors, of which more than 15,000 were address errors that would preclude locating trees to verify work performance.

During the audit, OIG personnel performed a field inspection of the work performed in the southern half of Zone 18. Even though this inspection occurred approximately 18 months after the disaster, evidence of tree cuts was still clearly visible. The area we examined contained 1,291 trees that the contractor claimed as trimmed. The contractor provided physical addresses sufficient to identify only 518 (40 percent) of the 1,291 trees. Therefore, our methodology did not rely on particular addresses. Instead, we counted all trees observed with identifiable cuts regardless of the apparent age of the cut or the location. Our inspection yielded 187 trees or 14.48 percent of trees claimed and 36.1 percent of trees with recorded physical addresses.

We visited one address that the contractor used as a reference for 14 claimed trees. We saw no trees, tree stumps, or other evidence that trees had existed at the location for years. In fact, we estimated the nearest tree at approximately 0.2 of a mile with other addresses in much closer proximity. An interview with a FEMA official confirmed that the contractor sometimes listed work at addresses where no trees existed.

Another example of questionable work was the 212 trees claimed for Kelly Road. The contractor identified none of the claimed trees by address and we were unable to locate a single tree that showed evidence of trimming. Further, Kelly Road, north of 147th Street was State-maintained for only a few blocks, then privately maintained to the end. Work performed on the private section of the street would be ineligible for FEMA funding.

Because adequate monitoring did not occur during the project's performance, the only way to validate the 70,720 trees allowed would have been visual inspection of the work. The responsible entities could not verify the completion of this claimed work without sufficient location information; therefore, we questioned all allowed trees with insufficient data to facilitate a visual field inspection. This action reduced the number of eligible trees from 76,690 to 59,180. Therefore, we questioned \$1,082,915⁷ as unsupported costs.

The City provided no documentation of a cost or price analysis to determine the reasonableness of the original T&M rates or the unit cost conversion that resulted from contract change order number two. Even though the City did not perform a cost or price analysis, Contractor A did perform a cost analysis before requesting the unit rate of \$62.75 that the City ultimately approved. Contractor A's cost analysis consisted of the 15,278 trees that were trimmed in the time-period of February 25, 2002, through March 3, 2002, in eight separate areas. The total cost for the period divided by the number of trees trimmed during this period equaled an average cost of \$48.15 per tree. Contractor A did not explain the increase from the \$48.15 average unit price under the agreement to the \$62.75 rate for the per unit agreement. Additionally, the contractor had previously proposed to perform the work for \$51.39 per tree. Further, the City failed to provide justification for the approval of the \$62.75 rate. Lacking documented justification for the increase, the difference between the \$62.75

⁷ \$1,082,915 equals unit difference times contracted unit prices of \$62.75 and \$19.00, respectively [(70,720-53,572x62.75)+(5,970-5,608x19)]

and the \$48.15 appears without basis in sound business practices and is therefore unreasonable under OMB Circular A-87. We questioned \$782,151⁸ as unreasonable costs.

Conclusion

For Project 628, the City did not account for and expend all FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$1,865,066 in claimed costs consisting of unsupported contractor costs (\$1,082,915) and unreasonable contractor costs (\$782,151).

Recommendation

7. The Regional Director, FEMA Region VII, disallow \$1,865,066 in questioned costs for Project 628.

Project 593 – Contract Parking Lot Repaving

The scope of work for Project 593 was parking lot paving amounting to \$1,192,052, of which we questioned 100 percent. As noted in the section on unallowable contracting procedures, the City did not award this contract according to procurement standards outlined in federal regulations at 44 CFR 13.36.

We questioned \$1,133,155 as ineligible because the disaster event did not cause the damage. Parking Lot L was already 5 to 10 years beyond its normal life expectancy and in a state of significant deterioration before the ice storm, due to preexisting sub-base moisture infiltration caused by inadequate maintenance and structural age. Further, the City had contractual recourse, which it failed to exercise, to recover a significant portion of any damages.

Jackson County owned Arrowhead Parking Lot L, which the City used as the main debris collection and grinding site for the disaster. The term of the parking lot use agreement between the City and Jackson County was for 3 months and the rent for this period was \$1.00. Section eight of the license agreement stated that the Licensee had inspected and knew the condition of the premises and accepted the same in its present condition. Further, it stated: “It is understood and agreed that the current Parking Lot L pavement is deteriorating and nearing the end of its expected life. In the event the use of the premises by the City results in damage to that pavement so severe that Licensor determines that repair is not reasonable and practical and the lot, or a portion of the lot must be repaved, it is agreed that the City will not be responsible for the total cost of such repaving, but will instead pay a percentage of the repaving cost based upon the portion of the life expectancy of the current pavement that was lost due to the accelerated wear caused by the City’s use as shall be agreed to by both parties.”

According to a letter written by Jackson County’s pavement consultant, a FEMA official acknowledged its awareness of the City’s liability for only a portion of any repairs to the parking lot. At that time, FEMA estimated the City’s liability at 20 percent for surface repairs and 100 percent for base asphalt and sub-grade work. Based on FEMA’s estimate of the City’s (and its) liability, Jackson County’s pavement consultant recommended that the project design maximize sub-grade

⁸ \$14.60 difference times the 53,572 eligible units.

work in order to maximize FEMA’s participation (“more reconstruction should be performed than surface repairs to increase FEMA participation”). Further, in this letter, the consultant stated that a new parking lot would have a life expectancy of 20 to 25 years.

In a telephone interview, an official from the contractor that originally constructed the subject parking lot stated:

- The lot was originally constructed in approximately 1970 and
- The original construction consisted of 6 inches of rock aggregate overlaid with 5 inches of asphalt. At that time, it was adequate to withstand the load of the debris trucks and grinding machinery.

In his opinion, the reasons for the damage to the lot during the debris operation were:

- The age of the lot exceeded the normal life expectancy for a parking lot and
- The County poorly maintained the lot over its years of service. The surface cracks had not been sealed or sealed properly, which allowed water to seep into the sub-base causing soft spots to form that resulted in potholes, etc.

He further stated the deterioration of the sub-base due to moisture infiltration was the reason that previous attempts to patch the lot had been unsuccessful.

The photographs of Parking Lot L taken before the debris operation clearly show that Parking Lot L had significant surface cracks, potholes, and deteriorating asphalt that did not result from the major disaster event (see example below). Further, FEMA’s *Public Assistance Guide, Publication 322*, page 26, states that potholes and deteriorated asphalt normally are not eligible because they are not a direct result of the disaster.



Additionally, any disaster damage was, or should have been, covered by the City’s contract with the contractors that used the facility. The contract with the contractor retained under Project 083 to haul

debris states in the damage section that the contractor will repair to the satisfaction of the director of parks and recreation any damage resulting from the contractor's employees or equipment. This contractor's trucks loaded with debris may have been the major contributor to the damage of the already deteriorated parking lot. Further, while we disagree with the rationale under which the original estimate was formulated, even under those parameters the City's liability would have been only 20 percent of the cost associated with the original bid for the project, given the fact that the methodology used to repair the parking lot eliminated sub-grade work and the application of base asphalt.

The City did not support the force account labor costs claimed under Project 593 (\$58,897) with time and attendance records, time distribution records, labor foreman activity logs, or equipment utilization records. Further, the City's documentation process was insufficient for the OIG to determine exactly what costs comprised the claim and whether or not those costs were for approved project activities. In fact, 44 percent of the costs recorded on the documents provided by the City to support its claim were for force account equipment and other items unrelated to the scope of work for this project. Further, the timesheets that could have supported the force account labor costs were not specific as to the type of work performed or the project charged. Some timesheets were designated "Ice Storm," others were designated "Arrowhead," but none of the timesheets designated the type of work performed or the specific project charged. Further, these timesheets did not reconcile to the claim amount.

Conclusion

For Project 593, the City did not account for and expend all FEMA funds according to with applicable federal regulations and FEMA guidelines. Consequently, we questioned \$1,192,052 in claimed costs consisting of ineligible costs (\$1,133,155) and unsupported costs (\$58,897).

Recommendation

8. The Regional Director, FEMA Region VII, disallow \$1,192,052 in questioned costs for Project 593.

Project 661 – Time and Materials Monitors for Project 083

The scope of work for Project 661 was monitoring the debris removal of Project 083. The total claimed costs for Project 661 was \$1,499,526. Of that amount, we questioned \$960,646, or 64.06 percent. As noted in the section on unallowable contracting procedures, the City did not award this contract according to procurement procedures outlined in federal regulations at 44 CFR 13.36. Further, the City did not fully establish monitoring, management, and documentation procedures according to FEMA guidelines.

The City provided no documentation of a cost or price analysis to determine the reasonableness of the contract rate of \$34.00 per hour for a "degreed forester or certified arborist." Additionally, the City provided no documentation to justify the need for degreed foresters or certified arborists to monitor debris removal. Further, in late February, a FEMA official advised the City that a \$17.00 per hour base rate was a reasonable rate for debris monitors. The City submitted a \$1,499,526 claim for reimbursement based on the T&M base rate of \$34.00 per hour. The City contended, without a documented analysis, that the \$34.00 base rate was "within range of other temporary inspector cost,

given overhead and profit” and met the federal standard for reasonableness as described in OMB Circular A-87.

To determine the reasonableness of the \$34.00 rate, FEMA staff analyzed the monitoring costs of eight nearby Missouri communities (including Kansas City). The analysis indicated that a reasonable contract rate ranged from \$12.69 to \$29.47 per hour. Therefore, FEMA concluded its original determination of \$17.00 was reasonable and the claimed \$34.00 rate was clearly beyond the range of reasonable cost.

Based on our review of the documents provided by the City and the State during the ongoing appeal process, we support FEMA in its assessment that the \$34.00 rate claimed was not reasonable.

Further, the \$853,566 by which the City’s claim exceeded the approved PW amount was an unapproved cost overrun. The methodology for gaining approval for cost overruns is described in 44 CFR 206.204(e) to include:

- Recognition of the overrun during the execution of approved work;
- Evaluation of each cost overrun;
- Submittal of a request for additional funding (when justified) through the grantee to the [FEMA Regional Director] RD for a determination;
- Providing the RD with sufficient documentation to support the eligibility of all claimed work and cost; and
- Written recommendation by the grantee.

We saw no evidence that the City submitted a request for additional funding or that SEMA requested FEMA’s approval of additional funding until closeout. At that time, both SEMA and FEMA denied the claim for additional funding based on ineligibility (\$292,724) and unreasonableness (\$560,842). The City’s appeal of the FEMA action is pending. We support the Region’s decision to disallow these costs as ineligible and unreasonable; however, based on our audit, the total disallowance should be higher (\$960,646) and distributed differently (unreasonable \$423,406, ineligible \$413,918, and unsupported \$123,322) as displayed below.

The City’s claim included unreasonable labor costs of \$423,406. Because the City claimed labor costs at double the FEMA approved rate (\$34.00 vs. \$17.00), we concluded (as did FEMA) that 50 percent of the claimed labor cost was unreasonable. The difference between the amount FEMA determined to be unreasonable (\$560,842) and the amount we determined unreasonable (\$423,406) was a result of the application of differing amounts of other questioned costs before application of the 50 percent deduction. Moreover, the cost category breakdown provided by the City during the audit was different from the breakdown provided in the closeout documents.

* (R) = unreasonable, (I) = ineligible, (U) = unsupported	CLAIM	CLOSEOUT	AUDIT
TOTAL		\$1,499,526	\$1,499,526
Labor costs *(R) (adjustment)	\$1,249,534	(560,842)	(423,406)
Labor hours *(I) (adjustment)		(127,849)	(106,014)
Equipment *(I) (adjustment)	154,760	(13,625)	(17,151)
Per diem *(U) (adjustment)	95,232	(9,342)	(105,046)
Outside scope *(I) (adjustment)		(141,908)	(290,753)
Not documented *(U) (adjustment)			(18,276)
TOTAL ELIGIBLE	\$1,499,526	\$ 645,960	\$ 538,880

The City’s claim for Project 661 also included ineligible costs of \$413,918. Of these ineligible costs, the City claimed \$290,753 for work outside the project scope. This consisted of monitoring costs for the months of January and February despite the fact that the contract for which the monitors were hired did not commence until March 1, plus the quantity of loads hauled during the first few days of the contract were insufficient to justify a full complement of monitors. For example, on March 1, the hauling contractor hauled one load but the monitoring contractor claimed eight monitors, some of whom claimed 14 hours. The remaining ineligible costs of \$123,165 were claimed for work that the City could not substantiate as disaster related. This consisted of claimed labor and equipment hours in excess of daylight hours without claiming usage of special lighting equipment beyond daylight hours and usage hours for equipment with no substantiated disaster relationship.

Further, the City’s claim for Project 661 included \$123,322 in unsupported costs. Of that amount, \$105,046 was unsupported contractor per diem, and \$18,276 had no supporting documentation. The records were not adequate to determine a split of the per diem between subcontractor and Contractor A personnel. As discussed in Project 637, the subcontractor stated they never charged per diem and Contractor A could not substantiate the payment of per diem.

Conclusion

For Project 661, the City did not account for and expend all FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$960,646 in claimed costs that were unreasonable (\$423,406), ineligible (\$413,918), and unsupported (\$123,322).

Recommendation

9. The Regional Director, FEMA Region VII, disallow \$960,646 in questioned costs for Project 661.

Project 652 – Force Account Debris Removal

The scope of work for Project 652 was force account debris removal totaling \$577,311 of which we questioned 100 percent. The labor and equipment costs that the City claimed (\$306,041) were not

supported by time and attendance records, time distribution records, labor foreman activity logs, or equipment utilization records. The documentation provided by the City in support of this claim was not uniquely identifiable with Project 652. Further, the City did not adequately organize its records to allow the City or us to determine exactly what costs comprised the claim and whether those costs were for approved project activities.

The documentation used to arrive at the closeout costs of the project did not appear to be the same documentation submitted to us to substantiate the claim. Additionally, the documents submitted to support the claim appeared to contain costs (\$350,000) identified in intra-City e-mail as inappropriate for the ice storm; and the time summaries that matched to the claim did not reconcile to source documents with sufficient accuracy to validate the claim. The City's attempt to reconcile the claim to actual payments resulted in a shortfall of \$67,287. Further, the City was unable to match most of the costs included in this reconstruction with the claim.

The City's claim also included ineligible costs of \$271,270. The City claimed costs for the month of February even though the period stated in the scope of work was March 5, 2002, to April 19, 2002.

Conclusion

For Project 652, the City did not account for and expend all FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$577,311 in claimed costs consisting of unsupported force account costs (\$306,041) and ineligible costs (\$271,270).

Recommendation

10. The Regional Director, FEMA Region VII, disallow \$577,311 in questioned costs for Project 652.

Projects 651 & 557 – Force Account Debris Removal

The scope of work for Projects 651 and 557 was force account debris removal totaling \$540,489 and \$441,155, respectively. We questioned these amounts in full. The labor and equipment costs that the City claimed under these projects were not supported by time and attendance records, time distribution records, labor foreman activity logs, or equipment utilization records. Further, the City's records were in such a state of disarray that neither the City nor we could determine exactly what costs comprised the claim and whether those costs were for approved project activities.

We could not trace the labor cost from the claim to the City's documentation (i.e., payroll records and daily log sheets). This lack of verifiable documentation prevented us from substantiating that claimed costs were for approved project activities. Further, our review of the documentation disclosed the following discrepancies:

- The City provided daily log sheets not related to the claim. These daily log sheets listed crew leaders and crew members that could not be traced to payroll records (i.e., crew leader – “Jesus Christ” and crew member – “Mr. Dirty”) and
- Daily log sheets did not adequately describe work performed, and we could not verify that work performed was disaster related.

Likewise, we could not trace equipment costs from the claim to City documentation (i.e., daily log sheets/equipment utilization records); and documents provided did not contain adequate information such as FEMA equipment codes and descriptions of work performed. The City presented no documentation that tied equipment usage on daily log sheets (i.e., usage hours/equipment codes) to the claim. Our review disclosed the following errors in the documentation provided:

- Some daily log sheets did not have a place for the worker to document the equipment number used;
- Log sheets that contained a place to document equipment used were incomplete;
- FEMA codes were not provided for many of the equipment usage claims;
- Daily log sheets did not adequately describe work performed, and we could not verify that equipment usage was directly related to disaster work; and
- The City did not provide a list of City truck/equipment, denoting type, description, and City equipment number.

In addition, for Project 651, the City did not support all claimed items with payment records. The City provided payment records without supporting documentation (journal vouchers) for only \$254,228 of the \$325,447 in force account equipment claimed. The remaining payment records, totaling \$72,057, were for miscellaneous equipment and equipment part purchases not included in the claim; and therefore, not considered relevant to the audit. Similar discrepancies existed for Project 557. Cost data provided by department personnel indicated that all costs were for City-owned equipment usage; however, payment data supplied by finance personnel to support the claim included invoices for equipment parts. The City failed to maintain records or account for costs by project as required; therefore, the City was unable to provide the correct expenditure and payment data to support the claim. Additionally, the records the City did provide contained documents commingled by project as well as claimed and unclaimed costs.

Conclusion

For Projects 651 and 557, the City did not account for and expend all FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$540,489 and \$441,155, respectively, in unsupported force account costs.

Recommendation

11. The Regional Director, FEMA Region VII, disallow \$540,489 and \$441,155 in questioned costs for Projects 651 and 557, respectively.

Project 083 – Contract Debris Removal

The scope of work for Project 083 was to complete the debris removal started in Project 637. The total claimed costs for this project were \$5,178,284. Of this amount, we questioned \$137,697, or 2.66 percent. FEMA forced the City to bid the remaining debris removal work after Contractor A had billed the City \$8.9 million under a T&M contract that according to this audit contained \$1.89 million in unsupported and ineligible costs. Contractor A responded to the bid request but was not the lowest responsible bidder; therefore, the City awarded the contract to a different contractor.

Our review of PW 083 documentation resulted in \$137,697 of unsupported contractor costs for the following reasons:

- \$123,534 for over-claimed truck capacity, and
- \$14,163 for missing dump-ticket support.

Conclusion

For Project 083, the City did not account for and expend all FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$137,697 in unsupported contractor costs.

Recommendation

12. The Regional Director, FEMA Region VII, disallow \$137,697 in questioned costs for Project 083.

Project 270 – Force Account Fire Protection

The City did not support force account labor and equipment costs for Project 270 (\$157,012) with acceptable source documents such as time and attendance records, time distribution records, labor foreman activity logs, or equipment utilization records. The documentation provided by the City did not support the claim by amount or category. The labor summaries contained no data that allowed an assessment of the validity of the claimed overtime (i.e., corresponding regular time) or that allowed us to determine whether the claimed overtime was the direct result of the disaster. The call dispatch logs did not differentiate disaster calls from non-disaster calls; and the City did not denote which calls were included in the claimed labor costs. The only documentation provided to substantiate equipment costs were records of equipment maintenance activities, which are included in the FEMA equipment rate and are therefore ineligible to be claimed separately.

Conclusion

For Project 270, the City did not account for and expend all FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$157,012, or 100 percent in unsupported force account costs.

Recommendation

13. The Regional Director, FEMA Region VII, disallow \$157,012 in questioned costs for Project 270.

Project 218 - Contract Snow/Ice Plowing

The contract costs claimed by the City for Project 218 (\$230,215) included \$102,090 (44.35 percent) of ineligible costs. The City claimed costs for: 1) the month of November of the year prior to the

disaster, 2) an unidentified period, 3) snow routes not specified in the scope of work, and 4) route passes exceeding the number specified in the scope.

Conclusion

For Project 218, the City did not account for and expend all FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$102,090 in ineligible contract costs.

Recommendation

14. The Regional Director, FEMA Region VII, disallow \$102,090 in questioned costs for Project 218.

Project 660 – Force Account Street Sweeping

We questioned the entire PW amount of \$78,297 because the City did not support these force account equipment costs with acceptable source documents showing hourly rates claimed, equipment utilization, and operator time. Further, we noted nothing in the documentation that indicated the claimed costs were disaster related or anything other than the City's normal sweeper routes.

Although the PW stated "force account equipment use included mechanical sweepers, flatbed trucks, dump trucks, tandem trucks and pickups, using FEMA equipment rates . . .," the City did not provide any documentation other than an Ice Storm Sweeping Report for the period of March 7, through May 14, 2002, denoting only the use of a sweeper and an accumulated total of 7,508 miles. FEMA guidelines require costs for equipment other than automobiles and pick-up trucks to be determined using an hourly rate. The City provided no documentation of hours claimed for the sweepers or the rate used. Further, the City's documentation did not explain how the claimed costs were calculated.

Conclusion

For Project 660, the City did not account for and expend all FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$78,297 in force account equipment costs.

Recommendation

15. The Regional Director, FEMA Region VII, disallow \$78,297 in questioned costs for Project 660.

Small Project 588 – Contract Ambulance Service

The scope of work for Project 588 was contract ambulance service totaling \$12,344 for the period January 29, through February 4, 2002. The City's spreadsheet of claimed costs provided no correlation between hours worked and services provided; therefore, the City could not demonstrate that the work was disaster related. In the City's reply to our draft report they agreed that this was an ineligible project and agreed to deobligate the funds.

Conclusion

Small Project 588 was found to be ineligible for FEMA funding. Consequently, we questioned \$12,344 as ineligible contract costs.

Recommendation

16. The Regional Director, FEMA Region VII, disallow \$12,344 in questioned costs for small Project 588.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

On March 29, 2005, we provided a draft copy of the report to FEMA Region VII for its review and distribution to SEMA and the City. On April 13 and 14, 2005, we conducted exit conferences with the Region, the City, and SEMA, respectively. In general, SEMA and the City did not concur with our findings and recommendations. Subsequent to the exit conferences, both SEMA and the City provided additional documentation regarding their respective findings. We reviewed the additional documentation and modified our report where appropriate.

Please advise this office by September 29, 2006, of the actions taken or planned to implement the recommendations, including target completion dates for any planned actions. If you have questions concerning this report, please call Paige Hamrick at (940) 891-8900.

EXHIBIT A

Audit Scope and Methodology

The **scope** of the audit included 12 large projects and 2 small projects totaling \$26.86 million in disaster assistance funds claimed by the City under FEMA disaster number 1403-DR-MO. A brief description of these projects is listed below. The audit covered the period of January 29, 2002, to November 30, 2004.

Project	Description	Award	Claim
083	Contract Debris Removal	\$ 5,178,284	\$ 5,178,284
179	Contract Debris Grinding and Disposal	3,497,107	3,497,107
218	Contract Snow/Ice Plowing	230,215	230,215
270	Force Account Fire Protection	157,012	157,012
557	Force Account Debris Removal	441,155	441,155
593	Contract Parking Lot Repaving	1,192,052	1,192,052
628	Contract Tree Trimming	4,551,110	4,551,110
637	Time and Material Debris Removal	8,900,792	8,900,792
651	Force Account Debris Removal	540,489	540,489
652	Force Account Debris Removal	577,311	577,311
660	Force Account Street Sweeping	78,297	78,297
661	Contract Monitors for Project 083	645,960	1,499,526
289	Contract Repairs (small project)	5,840	5,840
588	Contract Ambulance Service (small project)	12,344	12,344
	TOTAL	\$ 26,007,968	\$ 26,861,535*

*\$1 variance due to rounding

Our original audit scope consisted of five projects totaling 82 percent of the award that we judgmentally selected based on highest dollar value. During the audit, we expanded the scope to other projects based on developing issues. For the projects included in our final scope, the OIG tested 100 percent of the transactions for all projects except Project 637. For Project 637, we tested 58 percent of the dollar value of the transactions. We selected the test transactions using the haphazard sampling method.⁹ We did not employ any projection methodology; therefore, we reported questioned costs based solely on the direct results of our audit testing.

We initiated our audit fieldwork at the FEMA Region VII Office in Kansas City, Missouri. Region VII is the federal regional office that implements FEMA’s disaster policies and programs in the State of Missouri. Our methodology included interviews with FEMA Regional officials to obtain an understanding of the disaster and to identify current issues or concerns relative to SEMA’s management of the disaster and the City’s compliance with federal regulations and FEMA guidelines. Additionally, we obtained and reviewed regional documentation for noncompliance issues.

⁹ A haphazard sample consists of sampling units selected without any conscious bias, that is, without any special reason for including or omitting items from the population.

We interviewed SEMA personnel at their Jefferson City, Missouri, offices to obtain an understanding of their grant management activities and to identify issues or concerns relative to the City's compliance with grant requirements. We obtained payment and closeout information for reconciliation purposes and reviewed these documents for noncompliance issues.

We interviewed City officials from Public Works, Parks and Recreation, Household and Environmental Waste, Department of Environmental Management, Police Department, Finance Department, and the City Manager's office to obtain an understanding of the City's internal controls, as they relate to the grant agreement, and its processes for accounting for and expending FEMA funds. Additionally, we obtained and tested invoices and source documentation relevant to the audit scope in order to assess the accuracy and validity of the claimed amounts. Due to insufficient supporting documentation from Contractor A, we subpoenaed all Contractor A documents (approximately 50,000) relevant to its work for the City for this disaster.

To obtain an understanding of the technical aspects of the various projects, we interviewed third-party officials of Marsh Insurance; Flatland Paving; Superior-Bowen Construction; Texas, Oklahoma, and Missouri Departments of Transportation; Contractor A; and Contractor A's main subcontractor. For clarification of audit issues and follow-up, we interviewed officials of the Missouri State Auditor's Office and JMA, Chartered¹⁰.

We performed follow-up interviews with officials of FEMA Region IV and VII, and a former FEMA official regarding the preparation of project worksheets, work inspections, and documentation of work performed by Contractor A. We performed a field inspection of a sample of the tree trimming work performed by Contractor A in City disaster zone 18. Additionally, we interviewed a DHS-OIG Investigations Division representative regarding a hotline complaint directed toward Contractor A.

We reviewed prior audits conducted within the timeframe of the projects included in our scope, including OMB Circular A-133 Single Audit reports and recent audit reports prepared by the OIG regarding SEMA's grant management.

We performed the audit under the authority of the Inspector General Act of 1978, as amended. The audit was conducted according to *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-1999 Revision).

¹⁰ JMA, Chartered, a local accounting firm, subcontracted a portion of the City's annual financial statement audit from the primary independent audit firm KPMG, LLP.

EXHIBIT B

**Schedule of Audited Projects
City of Kansas City, Missouri
FEMA Disaster Number 1403-DR-MO**

<u>Project Number</u>	<u>Award Amount</u>	<u>Amount Claimed</u>	<u>Questioned Costs</u>
179	\$ 3,497,107	\$ 3,497,107	\$1,338,993
637	8,900,792	8,900,792	1,898,547
628	4,551,110	4,551,110	1,865,066
593	1,192,052	1,192,052	1,192,052
661	645,960	1,499,526	960,646
652	577,311	577,311	577,311
651	540,489	540,489	540,489
557	441,155	441,155	441,155
083	5,178,284	5,178,284	137,697
270	157,012	157,012	157,012
218	230,215	230,215	102,090
660	78,297	78,297	78,297
588	12,344	12,344	12,344
289	5,840	5,840	0
TOTALS	<u>\$26,007,968</u>	<u>\$26,861,535*</u>	<u>\$9,301,699</u>

*\$1 variance due to rounding