

**Wisner-Pilger Public Schools,
Nebraska, Took Corrective
Actions to Comply with
Federal Grant Award
Requirements**





DHS OIG HIGHLIGHTS

Wisner-Pilger Public Schools, Nebraska, Took Corrective Actions to Comply with Federal Grant Award Requirements

August 16, 2016

Why We Did This Audit

Wisner-Pilger Public Schools (Wisner-Pilger) received a \$7.9 million Federal Emergency Management Agency (FEMA) grant award for damages from severe storms, tornadoes, straight-line winds, and flooding in June 2014. We conducted this audit early in the grant process to identify areas where Wisner-Pilger may need additional technical assistance or monitoring to ensure compliance.

What We Recommend

FEMA should work with the Nebraska Emergency Management Agency (Nebraska) to improve its oversight of subgrantees to ensure they are aware of and comply with Federal requirements.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-IG.OfficePublicAffairs@oig.dhs.gov

www.oig.dhs.gov

What We Found

Wisner-Pilger generally accounted for disaster costs correctly but did not follow all Federal procurement standards in awarding \$10.5 million in disaster related contracts. Specifically, Wisner-Pilger did not—

1. take specific affirmative steps to assure the use of disadvantaged firms; or
2. include required provisions in all contracts.

In addition, Wisner-Pilger did not verify that contractors were not debarred or suspended.

However, we are not questioning these costs because Wisner-Pilger—

1. awarded most disaster-related contracts to small, minority, and women-owned firms;
2. took corrective action to add required provisions to its current contracts; and
3. did not use debarred or suspended contractors.

Wisner-Pilger officials said they were not aware of Federal procurement requirements. However, Nebraska, as FEMA's grantee, is responsible for ensuring that Wisner-Pilger officials are aware of and follow Federal regulations.

FEMA Response

FEMA officials agreed with our findings and recommendations (see FEMA's written response in appendix C).

OIG-16-118-D



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Department of Homeland Security

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

August 16, 2016

MEMORANDUM FOR: Beth A. Freeman
Regional Administrator, Region VII
Federal Emergency Management Agency
Thomas M. Salmon

FROM: Thomas M. Salmon
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Wisner-Pilger Public Schools, Nebraska, Took Corrective
Actions to Comply with Federal Grant Award
Requirements*
Report Number OIG-16-118-D

We audited Public Assistance grant funds awarded to Wisner-Pilger Public Schools (Wisner-Pilger). The Nebraska Emergency Management Agency (Nebraska), a Federal Emergency Management Agency (FEMA) grantee, awarded Wisner-Pilger \$7.9 million (\$2.6 million net award after insurance reductions) for damages resulting from severe storms, tornadoes, straight-line winds, and flooding that occurred June 14–21, 2014. The award provided 75 percent Federal funding for eligible work.

We audited three projects totaling \$7.9 million, or 100 percent of the total gross award (see appendix A, table 1). As of April 14, 2016, the cutoff date of our audit, Wisner-Pilger had completed two small projects and started work on the large project. At the time of the audit, Wisner-Pilger had incurred \$2.4 million in disaster-related contract costs but had not requested any cost reimbursements.

We conducted this audit earlier in the Public Assistance process to identify areas where Wisner-Pilger may need additional technical assistance or monitoring to ensure compliance. In addition, by undergoing an audit earlier in the grant cycle, grant recipients have the opportunity to correct noncompliance with Federal regulations before they spend a majority of their funding. It also allows them to supplement deficient documentation before too much time elapses.



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Background

Wisner-Pilger is a Nebraska Department of Education school district that provides Pre-K through 12th grade education. At the time of the disaster, Wisner-Pilger had three campuses: an elementary and a high school in Wisner and a middle school in the Village of Pilger. On June 16, 2014, an EF-4 tornado struck the Village of Pilger, a small rural farming community covering less than a half square mile.¹ The tornado caused 2 fatalities, injured dozens of residents, destroyed or damaged more than 100 structures, and uprooted more than 300 trees. The tornado destroyed the school district's middle school (see figure 1). The President declared a major disaster on July 24, 2014.

**Figure 1: Wisner-Pilger Middle School, Pilger, Nebraska
(before and after disaster)**



Source: Wisner-Pilger Public Schools

Before the disaster declaration, Wisner-Pilger demolished its middle school because two structural analyses indicated that the building was significantly damaged and not cost effective to repair. The school district also purchased temporary classrooms to reopen the school in August. After the declaration, Wisner-Pilger officials requested an improved project to relocate and rebuild a larger middle school in Wisner.²

¹ Based on the Enhanced Fujita (EF) scale, an EF-4 tornado includes wind speeds from 166 to 200 miles per hour.

² An improved project allows the subgrantee to make additional improvements while restoring the damaged facility to its pre-disaster design and function. The subgrantee bears the additional cost of improvements that exceed the original estimated cost of damages.



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Figure 2: Village of Pilger, Nebraska Tornado Damage



Source: Village of Pilger

Results of Audit

Wisner-Pilger accounted for disaster-related costs on a project-by-project basis and maintained supporting documentation as Federal regulations require. However, Wisner-Pilger did not follow all Federal procurement standards in awarding \$10.5 million in disaster-related contracts.³ Wisner-Pilger did not—

1. take specific affirmative steps to assure the use of disadvantaged firms when possible; or
2. include required provisions in all contracts.

In addition, Wisner-Pilger did not verify that contractors were not debarred or suspended.

As a result, Wisner-Pilger's grant funds may be at risk for potential disallowance. However, we are not questioning any contract costs because Wisner-Pilger—

1. awarded most disaster related contracts to small, minority, and women-owned firms;

³ Wisner-Pilger awarded the \$10.5 million in contracts to rebuild a larger middle school in Wisner under improved Project 151. The improved project is capped at the original estimate of \$7,233,995. Wisner-Pilger's insurance will pay \$4,607,372. Therefore, FEMA's net award for Project 151 is \$2,626,623.



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2. took corrective actions to add required provisions to its current contracts; and
3. did not use debarred or suspended contractors.

The problems we identified occurred, in part, because Nebraska did not adequately monitor the school district's subgrant activities to ensure compliance with Federal procurement and contracting requirements. Nebraska, as FEMA's grantee, is responsible for ensuring subgrantees are aware of and comply with these requirements, as well as for providing technical assistance and monitoring grant activities. Nebraska officials said they are aware of the deficiency and are seeking ways to improve. FEMA officials said they would work with Nebraska to improve its grant management procedures to ensure that subgrantees are aware of and follow Federal requirements.

Finding A: Improper Procurement

Wisner-Pilger used its existing procurement process to award contracts for disaster-related work; however, this process did not meet minimum Federal requirements. Wisner-Pilger awarded three disaster-related contracts totaling \$10.5 million but did not comply with Federal procurement standards requiring subgrantees to—

1. take specific affirmative steps to assure the use of small and minority firms, women's business enterprises, and labor surplus area firms when possible (44 Code of Federal Regulations (CFR) 13.36(e)(1));⁴ and
2. include required provisions in all contracts (44 CFR 13.36(i)).

In addition, Wisner-Pilger did not verify that contractors were not debarred or suspended to ensure compliance with 44 CFR 13.35.

As a result, the school district's Federal grant may be at risk for potential disallowance. However, we are not questioning any contract costs because Wisner-Pilger revised its procurement policies to comply with Federal requirements, and it—

1. awarded most disaster-related contracts to small, minority and women-owned firms;
2. took corrective actions to add required provisions to its current contracts; and
3. did not use debarred or suspended contractors.

⁴ In December 2014, FEMA adopted 2 CFR Part 200, or the "Super Circular," for disasters declared on or after December 26, 2014. For disaster declarations before December 26, 2014, 44 CFR Part 13 continues to apply to state and local governments.



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Affirmative Steps — Wisner-Pilger did not take the required affirmative steps to ensure the use of small and minority-owned firms, women’s business enterprises, and labor surplus area firms whenever possible. These steps include placing small, minority-owned, and women’s businesses on solicitation lists; using services and requesting assistance from the Small Business Administration and the Minority Business Development Agency of the Department of Commerce; and requiring prime contractors to take affirmative steps when subcontracting.

Wisner-Pilger officials said they were unaware of this requirement and the architectural and engineering firm responsible for procurement had not taken these specific steps. Regardless, it does appear that these types of businesses received ample opportunities to bid because Wisner-Pilger awarded most of the disaster-related contracts to small, minority, and women-owned firms, including \$9.8 million of the \$10.5 million awarded for the middle school construction.

Required Contract Provisions — Wisner-Pilger did not include federally required provisions in contracts awarded for disaster-related work. These provisions ensure that contractors comply with applicable Federal requirements, policies, and mandates pertaining to employment, labor laws, the environment, and energy efficiency. These provisions also document certain rights and responsibilities of the parties, and minimize the risk of misinterpretations and disputes. During our audit, Wisner-Pilger took corrective actions by adding the required provisions to the two middle school construction contracts.

Debarred/Suspended Contractors — Wisner-Pilger did not have a process to verify whether contractors were debarred or suspended from Federal assistance programs. Although Wisner-Pilger’s procedures did not include this requirement, we verified that Wisner-Pilger did not award any disaster-related contracts to debarred or suspended contractors. In addition, Wisner-Pilger revised its procurement policy to ensure future procurements and contracting comply with Federal requirements.



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Finding B: Grant Management

The problems we identified in this report occurred in part because Nebraska, as grantee, did not adequately manage and monitor subgrant activities to ensure compliance with Federal procurement requirements. Federal regulations at 44 CFR 13.37(a)(2) and 13.40(a) require grantees to (1) ensure that subgrantees are aware of Federal requirements imposed on them, (2) manage the operations of subgrant activity, and (3) monitor subgrant activity to ensure compliance with Federal requirements.

Nebraska officials said they did not review Wisner-Pilger's contracting procedures or contracts for compliance with Federal regulations. Nebraska officials said this occurred because they lacked sufficient resources to reach out to every subgrantee and relied on subgrantees to initiate contact for additional assistance. FEMA officials said they understood Nebraska's challenge because limited resources also require FEMA to selectively conduct reviews and monitoring based on risk. Nevertheless, as agreed upon in the FEMA-State Agreement, Nebraska is responsible for ensuring that subgrantees comply with Federal regulations and FEMA guidelines.

Nebraska officials said they are aware of the deficiency and are seeking ways to improve management. FEMA officials said they would work with Nebraska to improve its grant management procedures. To assist Nebraska officials in identifying typical problems with grant management, we provided them with two of our reports: *Capping Report: FY2013 FEMA Public Assistance and Hazard Mitigation Grant and Subgrant Audits* (OIG-14-102-D, issued June 10, 2014); and *Audit Tips for Managing Disaster-Related Project Costs* (OIG-15-100-D, issued June 8, 2015).

Recommendations

We recommend that the Regional Administrator, FEMA Region VII:

Recommendation 1: Direct Nebraska to ensure Wisner-Pilger revises its procurement policies and procedures to comply with all Federal grant procurement standards. We consider this recommendation to be resolved and closed because Wisner-Pilger revised its procurement manual to comply with Federal requirements (finding A).

Recommendation 2: Direct Nebraska to develop and implement grant management and monitoring procedures and processes to help ensure that subgrantees are aware of and comply with Federal procurement requirements. We consider recommendation 2 to be resolved and closed because FEMA's



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corrective action plan directed Nebraska to take specific corrective actions (finding B).

Discussion with Management and Audit Follow-up

We discussed the results of our audit with FEMA, Nebraska, and Wisner-Pilger officials during and after our audit. We also provided a draft report in advance to these officials and discussed it at exit conferences with FEMA on June 20, 2016, Nebraska on June 7, 2016, and Wisner-Pilger on June 8, 2016. We considered their comments in developing our final report and incorporated their comments as appropriate. Nebraska and Wisner-Pilger officials agreed with our findings and recommendations. FEMA officials agreed with our findings and recommendations in a written response to this report on July 18, 2016 (see appendix C).

The Office of Emergency Management Oversight major contributors to this report are Christopher Dodd, Director; Kathleen Hughes, Audit Manager; Tai Cheung, Auditor-in-Charge; and Patricia Epperly, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Christopher Dodd, Director, Central Regional Office - South, at (214) 436-5200.



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Appendix A
Objective, Scope, and Methodology

We audited Public Assistance grant funds awarded to Wisner-Pilger Public Schools, Nebraska, Public Assistance Identification Number 167-UN2TI-00. Our audit objective was to determine whether Wisner-Pilger accounted for and expended FEMA Public Assistance grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number 4183-DR-NE. Nebraska awarded Wisner-Pilger \$7.9 million (\$2.6 million net award after insurance and other reductions—see table 1) for damages resulting from severe storms, tornadoes, straight-line winds, and flooding that occurred June 14–21, 2014. The award provided 75 percent Federal funding for one large and two small projects.⁵ We audited 100 percent of the award covering the period from June 14, 2014, through April 14, 2016, the cutoff date of our audit. Table 1 describes the projects we audited.

Table 1: Projects Audited

Project Number & Size	Category of Work*	Gross Award Amount	Insurance and Other Reductions	Net Award Amount
113 (Small)	A	\$ 86,073	\$ 84,000	\$ 2,073
119 (Small)	B	539,915	538,842	1,073
151 (Large)	E	7,233,995	4,607,372	2,626,623
Total		\$7,859,983	\$5,230,214	\$2,629,769

Source: FEMA project worksheets and Office of Inspector General (OIG) analysis

*FEMA identifies types of work by category: A for debris removal, B for emergency protective measures, and C–G for permanent work.

⁵ Federal regulations in effect at the time of the disaster set the large project threshold at \$120,000. [Amendment to the Public Assistance Program’s Simplified Procedures Project Thresholds 79 Fed. Reg. 10,686 (Feb. 26, 2014)].



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Appendix A (continued)

We interviewed FEMA, Nebraska, and Wisner-Pilger officials; gained an understanding of Wisner-Pilger's method of accounting for disaster-related costs and its procurement policies and procedures; reviewed Wisner-Pilger's disaster-related contract awards and supporting documents; judgmentally selected and reviewed (generally based on dollar amounts) project costs and procurement transactions; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective. We did not perform a detailed assessment of Wisner-Pilger's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between January 2016 and June 2016 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing requirements. Those requirements 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. In conducting this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.



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Appendix B
Summary of Potential Monetary Benefits

Table 2: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Amount	Federal Share
Questioned Costs – Ineligible	\$ 0	\$ 0
Questioned Costs – Unsupported	0	0
Funds Put to Better Use – (Cost avoidance as a result of corrective actions on Project 151)*	2,626,623	1,969,967
Total	\$2,626,623	\$1,969,967

Source: OIG analysis of findings in this report

* Project 151 net award amount after insurance reductions was \$2,626,623 (see footnotes 2 and 3).



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Appendix C
FEMA Region VII Audit Response

U.S. Department of Homeland Security
Region VII
9221 Ward Parkway, Suite 300
Kansas City, MO 64114-3372



FEMA

July 18, 2016

MEMORANDUM TO: Thomas M. Salmon
Acting Assistant Inspector General
Office of Emergency Management Oversight

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

**BETH A
FREEMAN**
Digitally signed by BETH A FREEMAN
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ou=FEMA, email=BETHA.FREEMAN@DHS.gov,
c=US
Date: 2016.07.18 13:27:02 -0500

SUBJECT: *Wisner-Pilger Public Schools, Nebraska, Took Corrective
Actions to Comply with Federal Grant Award Requirements*
Report Number OIG-16-XXX-D

Thank you for the opportunity to review and comment on this draft report. The Federal Emergency Management Agency (FEMA) Region VII appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report. Region VII recognizes the proactive nature of conducting an audit early in the Public Assistance program process and appreciates the audit teams efforts in working with our office on improvements related to sharing documents and coordination.

The draft report contained two recommendations which FEMA Region VII agrees with. Recommendation 1 is resolved and open because Wisner-Pilger is revising its procurement manual to include the Federal requirements. Wisner-Pilger will be meeting on the matter at the end of July. Recommendation 2 advises FEMA direct the Nebraska Emergency Management Agency (NEMA) to develop and implement grant management and monitoring procedures and processes to help ensure that subgrantees are aware of and comply with Federal procurement and contracting requirements. To that end, we have issued correspondence to NEMA directing those actions and providing how we will assist. The correspondence is attached. We believe the steps taken are reasonable and sufficient to close the recommendation.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you in the future.

Attachment



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Appendix C (continued)

U.S. Department of Homeland Security
FEMA Region VII
9221 Ward Parkway, Ste. 300
Kansas City, MO 64114-3323



FEMA

July 14, 2016

Mr. Bryan Tuma, Assistant Director
Nebraska Emergency Management Agency
2433 Northwest 24th Street
Lincoln, Nebraska 68524-1801

Re: Grants Management & Monitoring

Dear Mr. Tuma:

This correspondence is being provided to share Region VII's lessons learned with regard to implementing the provisions of 2 CFR 200; and to provide insight relating to the actions directed and planned in support of 2 CFR 200.

Most recently, Region VII provided your office with *OIG-16-109-0 Audit Tips for Managing Disaster-Related Project Costs*, July 1, 2016 edition. The Inspector General prepared this guide to assist Disaster Assistance recipients with documenting and accounting for costs, minimizing the loss of FEMA disaster assistance funds, maximizing financial recovery, and preventing fraud, waste and abuse of disaster funds. Please share these tips within your office and with your existing sub-recipients and potential sub-applicants for implementation.

In addition, existing sub-award documents and sub-recipient monitoring documents have been reviewed in consideration of 2 CFR 200. The results of those reviews have provided an opportunity to revise and enhance those documents and practices. Please examine NEMA non-disaster sub-award packages and disaster sub-award packages to ensure all procurement compliance requirements are contained in either category of assistance program. In addition, please examine NEMA non-disaster and disaster sub-recipient monitoring plans and ensure all pass-through monitoring requirements are addressed in both categories of assistance programs.

In order to facilitate the actions outlined and to address the need for compliance with 2 CFR 200, Region VII Grants Business Management teams will be initiating several activities designed to lessen any potential burden on your office. The Award Administration Team will conduct a technical assistance session to discuss minimum requirements, avenues to supplement resources, and any additional concerns. In addition, the Monitoring Section Team will be visiting your office early next year to gauge implementation of the NEMA grants management and monitoring processes and procedures.



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Appendix C (continued)

Page Two –
Grants Management & Monitoring

As always, we are available by phone or email, and your team is welcome to visit our office as well. Thank you in advance for your cooperation. Should you have any questions or concerns, don't hesitate to contact me or the Grants Division.

Sincerely,

**BETH A
FREEMAN**

Digitally signed by BETH A FREEMAN
DN: cn=BETH A FREEMAN, ou=Department
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ou=OIG, ou=HOMELAND SECURITY
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Beth Freeman
Regional Administrator

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