

**Rock County, Minnesota, Highway
Department Has Adequate
Policies, Procedures, and
Business Practices to Effectively
Manage Its FEMA Public
Assistance Grant Funding**





DHS OIG HIGHLIGHTS

Rock County, Minnesota, Highway Department Has Adequate Policies, Procedures, and Business Practices to Effectively Manage Its FEMA Public Assistance Grant Funding

September 9, 2015

Why We Did This

Rock County Highway Department, Minnesota, (Department) received a \$1.25 million grant for damages from a 2014 disaster. We conducted this audit early in the grant process to identify areas where the Department may need additional technical assistance or monitoring to ensure compliance with Federal requirements.

What We Recommend

The report contains no recommendations.

For Further Information:

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

What We Found

The Department has established policies, procedures, and business practices to account for and expend Federal Emergency Management Agency (FEMA) Public Assistance grant funds according to Federal regulations and FEMA guidelines.

FEMA Response

Because the audit did not identify any issues requiring further action from FEMA Region V, we consider this audit closed.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

SEP 9 2015

MEMORANDUM FOR: Andrew Velasquez, III
Regional Administrator, Region V
Federal Emergency Management Agency

FROM: John V. Kelly
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Rock County, Minnesota, Highway Department Has Adequate Policies, Procedures, and Business Practices to Effectively Manage Its FEMA Public Assistance Grant Funding*
Audit Report Number ●IG-15-143-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance grant funds awarded to the Rock County Highway Department in Luverne, Minnesota (Department). We conducted this audit early in the Public Assistance Program process to identify areas where the Department may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines. In addition, by undergoing an audit early in the grant cycle, grant recipients have the opportunity to correct noncompliance before they spend the majority of their grant funding. It also allows them the opportunity to supplement deficient documentation or locate missing records before too much time elapses.

As of March 2015, the Minnesota Department of Public Safety, Division of Homeland Security and Emergency Management (Minnesota), a FEMA grantee, awarded the Department \$1,250,033 for damages resulting from severe storms, flooding, landslides, and mudslides beginning on June 11, 2014, and continuing through July 11, 2014. The award provided 75 percent funding for 19 projects for debris removal, emergency protective measures, and permanent work. To assess the Department's policies, procedures, and business practices, we reviewed costs for three FEMA-approved projects totaling \$339,367 (see appendix A). At the time of our audit, the Department had not begun work on its last and largest project in its grant.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Background

During the incident period of June 11, 2014, through July 11, 2014, torrential rain affected the State of Minnesota causing widespread flooding as rivers and streams crested at near record levels. The President signed a Major Disaster Declaration (DR-4182) on July 21, 2014. Rock County was more than 40 percent underwater during the disaster and was one of the seven hardest-hit areas in the state (see figure 1).

Figure 1: County Road 16 Washed Away



Source: Rock County Highway Department, Minnesota

Results of Audit

The Department has established adequate policies, procedures, and business practices to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. The Department accounted for disaster costs on a project-by-project basis and adequately supported the costs. Further, the contracts the Department awarded to repair flood-related damages met Federal procurement standards.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Project Cost Accounting

The Department has an effective system in place to ensure it accounts for disaster costs on a project-by-project basis and can support disaster-related costs as the following Federal regulations and FEMA guidelines require:

- Grantees must account for large project expenditures on a project-by-project basis (44 Code of Federal Regulations (CFR) 206.205(b)). FEMA requires subgrantees to keep records for all projects on a project-by-project basis (*Public Assistance Guide*, FEMA 322, June 2007, p. 137).
- Grantees and subgrantees must maintain accounting records that adequately identify the source and application of Federal funds and maintain source documentation to support those accounting records (44 CFR 13.20(b)(2) and (6)).

The Department established a cost code to designate all disaster-related expenses and included the location of the specific disaster-related activity that enabled it to account for all costs by project. We assessed the adequacy of the Department's policies and procedures for the \$339,367 of claimed cost documentation for three projects consisting of force account, contract, and direct administrative costs. We determined that the Department properly segregated costs by project and maintained sufficient detailed documentation to support the costs.

Procurement Practices

The Department has adequate procurement practices in place to ensure compliance with Federal procurement standards of 44 CFR 13.36. We discussed the Department's procurement practices with Department officials and reviewed the contracts the Department had awarded. The Department competitively awarded contracts; conducted cost or price analyses; awarded contracts to the lowest bidder; maintained adequate records documenting procurement history; and monitored contractors to ensure they met the contract terms, conditions, and specifications. The Department also has affirmative steps to ensure the use of minority firms, women's business enterprises, and labor surplus area firms when possible.

Other Matters: Insurance

FEMA approved \$6,412 on Project 333 to cover repairs for two County Police squad cars. However, of the \$6,412 awarded, \$1,270 is ineligible because the Department's insurance paid for the repairs. Section 312 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, Public Law 93-288 as amended, prohibits recipients of Federal funds from receiving assistance for



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

losses already compensated for, such as with proceeds from an insurance policy. Additionally, 44 CFR 206.250(c) requires FEMA to deduct actual or anticipated insurance recoveries from eligible costs. We discussed this issue with FEMA officials, and they agreed to deobligate the ineligible costs on Project 333. Because the amount involved here (\$1,270) is not material in relation to the award amount and because FEMA has agreed to take appropriate action, we consider this matter closed.

Discussion with Management and Audit Follow-Up

We discussed the results of our audit with FEMA, Minnesota, and Department officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to these officials and discussed it at an exit conference with Minnesota officials on June 16, 2015. Because there were no findings, FEMA, and County officials declined the final exit conference. Because the audit did not identify any issues requiring further action from FEMA, we consider this audit closed.

The Office of Emergency Management Oversight major contributors to this report are Paige Hamrick, Director; Patti Smith, Acting Audit Manager; Sharon Snedeker, Senior Auditor; and Patricia Epperly, Auditor.

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



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Appendix A

Objective, Scope, and Methodology

We audited FEMA Public Assistance grant funds awarded to the Rock County Highway Department, Minnesota, Public Assistance Identification Number 133-99133-01. Our audit objective was to determine whether the Department's policies, procedures, and business practices are adequate to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number 4182-DR-MN. As of March 18, 2015, the cutoff date of our audit, Minnesota had awarded the Department \$1,250,033 for damages resulting from severe storms, flooding, landslides, and mudslides beginning on June 11, 2014. The award provided 75 percent FEMA funding for debris removal, emergency protective measures, and permanent work for 4 large and 15 small projects.¹

To assess the policies and procedures the Department used for this disaster, we reviewed costs from two large and one small FEMA-approved projects totaling \$339,367 (see table 1).

Table 1: Projects Reviewed

Project Number	Category of Work	Award Amount
295	C – Roads and Bridges	\$ 143,088
333	E – Buildings and Equipment	6,412
334	C – Roads and Bridges	<u>189,867</u>
Total		<u>\$339,367</u>

Source: FEMA project worksheets

We interviewed FEMA, Minnesota, and Department officials; assessed the adequacy of the policies, procedures, and business practices the Department uses and plans to use to account for and expend Federal grant funds and to procure and monitor contracts for disaster work; judgmentally selected and reviewed (generally based on dollar amounts) project costs and procurement transactions for the projects included in our audit scope; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective. As part of our standard

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$120,000.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Appendix A (continued)

audit procedures, we notified the Recovery Accountability and Transparency Board of selected contracts the Department awarded under the grant to determine whether the contractors were debarred or whether there were any indications of other issues related to those contractors that would indicate fraud, waste, or abuse. As of the date of this report, the Recovery Accountability and Transparency Board's analysis was ongoing. When it is complete, we will review the results and determine whether additional action is necessary. We did not perform a detailed assessment of the Department's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit from March 2015 to June 2015, pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. In conducting this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Appendix B

Report Distribution

Department of Homeland Security

Secretary
Chief of Staff
Chief Financial Officer
Under Secretary for Management
Chief Privacy Officer
Audit Liaison, DHS

Federal Emergency Management Agency

Administrator
Chief of Staff
Chief Financial Officer
Chief Counsel
Director, Risk Management and Compliance
Audit Liaison, FEMA Region V
Audit Liaison, FEMA (Job Code G-15-007)

Recovery Accountability and Transparency Board

Director, Investigations

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees

External

Director, Minnesota Department of Public Safety, Division of Homeland
Security and Emergency Management
State Auditor, Minnesota Office of the State Auditor
Engineer, Rock County Highway Department, Minnesota

ADDITIONAL INFORMATION AND COPIES

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov. Follow us on Twitter at: @dhsoig.



OIG HOTLINE

To report fraud, waste, or abuse, visit our website at www.oig.dhs.gov and click on the red "Hotline" tab. If you cannot access our website, call our hotline at (800) 323-8603, fax our hotline at (202) 254-4297, or write to us at:

Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305