

**Iron County Forestry and  
Parks Department,  
Wisconsin, Needs  
Assistance and  
Monitoring to Ensure  
Proper Management of Its  
FEMA Grant**





# DHS OIG HIGHLIGHTS

## *Iron County Forestry and Parks Department, Wisconsin, Needs Assistance and Monitoring to Ensure Proper Management of Its FEMA Grant*

March 20, 2017

### **Why We Did This Audit**

FEMA estimated that the Department had sustained \$3.2 million in damages from severe storms and flooding in July 2016. We conducted the audit early in the grant process to identify areas where the Department may need additional technical assistance and monitoring to ensure compliance with Federal requirements.

### **What We Recommend**

FEMA should not fund \$72,235 of ineligible contract costs and should direct Wisconsin to provide additional technical assistance and monitoring to ensure the Department complies with applicable Federal procurement standards.

#### **For Further Information:**

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

### **What We Found**

Iron County Forestry and Parks Department's, Wisconsin (Department) accounting policies, procedures, and business practices are adequate to account for grant funds according to Federal regulations and Federal Emergency Management Agency (FEMA) guidelines. However, the Department needs to revise its procurement policies and procedures to comply fully with all Federal procurement standards. If the Department makes these revisions and follows them, FEMA should have reasonable assurance that —

- small and minority businesses, women's business enterprises, and labor surplus area firms will receive sufficient opportunities to compete for federally funded work;
- the risk of misinterpretations and disputes relating to contracts will be minimized; and
- contracts are awarded to individuals, companies, or recipients who do not pose a business risk to the government.

At the time of our fieldwork, FEMA had not completed project worksheets to define the scope of disaster work. Because of these uncertainties, Wisconsin, as FEMA's grant recipient, should provide the Department additional technical assistance and monitoring. This should provide FEMA reasonable assurance that the Department will follow Federal procurement standards in spending the estimated \$3.2 million in eligible disaster-related costs.

### **FEMA Response**

FEMA Region V officials generally agreed with our findings and recommendations. FEMA's written response is included at appendix C.



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

March 20, 2017

MEMORANDUM FOR: Janet M. Odeshoo  
Acting Regional Administrator, Region V  
Federal Emergency Management Agency  
*Thomas M. Salmon*

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

SUBJECT: *Iron County Forestry and Parks Department, Wisconsin,  
Needs Assistance and Monitoring to Ensure Proper  
Management of Its FEMA Grant  
Audit Report Number OIG-17-48-D*

We audited the capability of Iron County Forestry and Parks Department, Wisconsin (Department), to manage Federal Emergency Management Agency (FEMA) Public Assistance grant funds. We conducted the audit early in the Public Assistance process to identify areas where the Department may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines. 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.

At the time of our fieldwork, the State of Wisconsin Emergency Management Agency (Wisconsin), a FEMA grant recipient, had not yet awarded any of the approximately \$3.2 million in estimated damages the Department sustained from severe storms and flooding in July 2016. The award will provide 75 percent Federal funding for debris removal, emergency protective measures, and permanent work unless projects meet the eligibility criteria for a higher Federal cost-sharing percentage under the Alternative Procedures Pilot Program for Debris Removal. The disaster caused damage to several of the Department's insurable facilities. However, in October 2016, the Department was still negotiating with its insurance carrier, and FEMA had not yet allocated insurance proceeds to reduce estimated costs to repair damages. At the time of our fieldwork, FEMA had not obligated funds or completed project worksheets to define the scope of work, nor had the Department completed most of its disaster-related work or filed claims for reimbursement.



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### Background

Iron County Forestry and Parks Department, located near the southern shore of Lake Superior, oversees approximately 170,000 acres of forestland for Iron County, Wisconsin, including the facilities at Saxon Harbor. In July 2016, severe storms and flash flooding diverted Oronto Creek that cut a new path to Lake Superior and damaged facilities at Saxon Harbor. The President declared a major disaster on August 9, 2016.

**Figure 1: Aerial view of Saxon Harbor, Wisconsin**



Source: State of Wisconsin Emergency Management Agency

### Results of Audit

The Department's accounting policies, procedures, and business practices are adequate to account for FEMA grant funds according to Federal regulations and FEMA guidelines. The Department should be able to accurately account for disaster-related costs and maintain documentation sufficient to support disaster costs. Additionally, the Department's insurance procedures and practices are sufficient to ensure the Department can properly manage insurance proceeds. However, at the time of our fieldwork, the Department did



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not have adequate procurement policies, procedures, and business practices to comply fully with all Federal procurement standards. Therefore, FEMA should not fund \$72,235 of contract costs the Department improperly procured. FEMA should also direct Wisconsin, as FEMA's grantee, to provide the Department with additional technical assistance and monitoring to ensure the Department follows Federal procurement standards in spending the remaining \$3.17 million (\$3,240,646 minus \$72,235 improperly procured contract costs) of estimated eligible disaster work.

### **Finding A: Policies, Procedures, and Business Practices**

#### **Project Cost Accounting**

The Department has an effective system in place to ensure it accounts for disaster costs and can adequately support disaster-related costs as the following Federal regulation and FEMA guideline require:

- Subrecipients must maintain accounting records that adequately identify the source and application of Federal funds and maintain source documentation to support those accounting records (2 Code of Federal Regulations (CFR) 200.302(b)(3)).
- Applicants must maintain all source documentation supporting project costs. In addition, applicants should file all supporting documentation by project to facilitate closeout and audits (*Public Assistance Program and Policy Guide*, FP 104-009-2, January 2016, p. 134).

The Department designated specific accounting codes for all disaster-related costs. We assessed the adequacy of the Department's policies and procedures to account for contract costs and for its own force account labor, equipment, and material. We determined the Department can properly segregate costs by project and maintain sufficient detailed documentation to support its disaster-related costs.

#### **Insurance**

The Department's insurance procedures and practices are adequate to ensure FEMA deducts accurate anticipated insurance proceeds from eligible projects according to Federal regulations. As of October 20, 2016, the Department was still negotiating with its insurance carrier and had not yet received any insurance proceeds. However, based on insurance records and interviews with Department officials, the Department will be able to properly identify



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anticipated insurance recoveries related to eligible project costs as Federal regulations at 44 CFR 206.250(c) require.

In addition, we confirmed that Department officials are aware that obtaining and maintaining insurance on insurable facilities is a condition of current and future FEMA funding. The Department must obtain and maintain insurance that is reasonable and necessary to protect facilities repaired or replaced using Federal funds against future loss from the types of hazard that caused the major disaster (44 CFR 206.253(b)(1) and (f)).

### **Procurement Practices**

At the time of our audit fieldwork, the Department did not have adequate procurement policies, procedures, and business practices to ensure compliance with the following Federal regulations:

1. take all necessary affirmative steps to assure the use of small and minority businesses, women's business enterprises, and labor surplus area firms when possible (2 CFR 200.321(a));
2. include required provisions in all their contracts (2 CFR 200.326); and
3. confirm contracts are not awarded to debarred, suspended, or otherwise excluded or ineligible contractors (2 CFR 200.213).

As a result, the Department had begun awarding contracts and had incurred \$72,235 in contract costs without complying with these requirements. Compliance is essential to ensure that (1) disadvantaged firms receive sufficient opportunities to bid on federally funded work; (2) the risk of misinterpretations and disputes relating to contracts is decreased; and (3) the government is protected from doing business with individuals, companies, or recipients who pose a business risk to the government. Therefore, FEMA should not fund \$72,235 of ineligible contract costs incurred because the Department did not comply with Federal procurement requirements.

We reviewed the Department's policies, procedures, and business practices in effect at the time of the disaster. We also reviewed the methodology it used to solicit or award contracts for this disaster (see table 1). At the time of our fieldwork, the Department had awarded two contracts — one for debris removal and one for architectural and engineering (A&E) services. The Department had also selected another firm for debris removal, but had not yet awarded the contract. After we made Department officials aware they had not complied with all Federal procurement standards, they informed us that they had decided to terminate the contract for A&E services and cancel the award for the second debris removal contract.



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**Table 1: Procurement Actions Reviewed**

| Scope of Work                 | Amount Awarded or Estimated | Action Taken                                       | Amounts of Ineligible Cost |
|-------------------------------|-----------------------------|--|----------------------------|
| Debris Removal                | \$ 109,928                  | Terminated Before Awarded                          | \$ 0                       |
| Demolition and Debris Removal | 17,250                      | Awarded and Completed                              | 17,250                     |
| A&E                           | 1,587,833                   | Awarded, Terminated Before Completion <sup>1</sup> | 54,985                     |
| <b>Totals</b>                 | <b>\$1,715,011</b>          |  | <b>\$72,235</b>            |

Source: Department procurement records and Office of Inspector General (OIG) analysis

**Disadvantaged Firms** — The Department did not take the required steps to assure the use of disadvantaged firms when possible for any of the three procurement actions we reviewed. These steps include (1) placing qualified small and minority businesses and women’s business enterprises on solicitation lists; (2) assuring such business enterprises are solicited whenever they are potential sources; (3) using the services and assistance, as appropriate, of such organizations as the Small Business Administration and the Minority Business Development Agency of the Department of Commerce; and (4) requiring the prime contractor, if subcontractors are used, to take the affirmative steps as well. Department officials said they were not aware of the requirement to affirmatively solicit these types of disadvantaged businesses. However, the Department had awarded the A&E contract to a small business, and was in the process of awarding a \$109,928 contract for debris removal to another small business.<sup>2</sup>

**Required Contract Provisions** — The Department did not include all required provisions in the contracts it awarded. The required provisions include those for remedies and termination, compliance with labor and environmental laws, and prohibition of “kickbacks.” These provisions describe the rights and responsibilities of the parties and minimize the risk of misinterpretations and disputes.

**Debarred Contractors List** — The Department did not correctly confirm its contractors were not debarred, suspended, or otherwise excluded or ineligible from receiving federally funded contracts. Department officials said they were not aware of the requirement to use the Federal debarment list, but they routinely use Wisconsin’s Department of Natural Resources debarment list. However, Wisconsin officials said the State’s debarment website listed

<sup>1</sup> The Department officials terminated this contract after we informed them of the Federal procurement violations.

<sup>2</sup> According to Department officials, the Department did not want to award the \$109,928 debris removal contract until after we had completed our fieldwork.



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Wisconsin's debarred contractors and may not include federally debarred, suspended, or otherwise ineligible contractors. To be certain, we verified that none of the three contractors was debarred, suspended, or otherwise excluded from participating in Federal programs or activities.

As a result of our audit, the Department revised its procurement policies, which the Iron County Board of Supervisors adopted in December 2016. In addition, because it had not complied fully with Federal procurement standards, the Department terminated its contract with its A&E firm and also did not award the \$109,928 debris removal contract. Department officials acknowledged that they had improperly procured their contracts but said they plan to seek FEMA reimbursement for the \$72,235 in disaster-related contract costs they had incurred.

### **Finding B: Grant Management**

The Department could benefit from additional technical assistance and monitoring to ensure it complies with Federal procurement standards. In its FEMA-State Agreement (FSA-4276-FEMA-DR-WI, p. 2), Wisconsin agreed to comply and require all subrecipients to comply with the requirements of all applicable laws and regulations including the *Stafford Act* and FEMA policies and guidance.<sup>3</sup> In addition, 2 CFR 200.331(d) requires recipients to monitor the subrecipient's activities to ensure "compliance with Federal statutes, regulations, and the terms and conditions of the subaward." Therefore, Wisconsin should provide additional technical assistance to and increase its monitoring of the Department to ensure it complies with Federal procurement standards. Doing so should provide FEMA reasonable assurance the Department will spend the remaining \$3.17 million (\$3,240,646 minus \$72,235 improperly procured contract costs) in estimated damages for eligible disaster work according to Federal procurement standards.

### **Recommendations**

We recommend that the Regional Administrator, FEMA Region V:

**Recommendation 1:** Not fund \$72,235 (\$54,176 Federal share) of ineligible contract costs, unless FEMA grants an exception for all or part of the costs as 2 CFR 200.102(b) allows and determines the costs as reasonable (finding A).<sup>4</sup>

**Recommendation 2:** Direct Wisconsin to provide additional technical assistance and monitoring to the Department to ensure it complies with

<sup>3</sup> *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended (*Stafford Act*)

<sup>4</sup> Because FEMA had not yet obligated these costs, we classify them as a cost avoidance.



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Federal procurement regulations for awarding disaster-related contracts and to prevent the potential improper spending of approximately \$3,168,411 (\$2,376,308 Federal share) in estimated disaster work (finding B).

### **Discussions with Management and Audit Follow-up**

We discussed the results of our audit with FEMA, Wisconsin, and Department officials during our audit. We considered their comments in developing our final report and incorporated their comments as appropriate. We also provided a draft report in advance to these officials and discussed it at exit conferences with FEMA officials on January 12, 2017, and with Wisconsin and Department officials on January 10, 2017, and January 11, 2017, respectively. FEMA, Wisconsin, and Department officials generally agreed with our findings and recommendations.

FEMA Region V officials provided a written response to this report on February 10, 2017, and concurred with our findings and recommendations (see appendix C). FEMA officials stated their regional counsel is working directly with the applicant regarding procurement. However, FEMA did not provide action plans or target completion dates to address either recommendation. Therefore, we consider recommendations 1 and 2 open and unresolved.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your corrective action plan, and target completion date for each recommendation. Also, please include the contact information for the responsible parties and any other supporting documentation necessary to inform us about the status of the recommendations. Please email a signed PDF copy of all responses and closeout requests to [Paige.Hamrick@oig.dhs.gov](mailto:Paige.Hamrick@oig.dhs.gov). Until we receive and evaluate your response, we will consider the recommendations open and unresolved.

The Office of Emergency Management Oversight major contributors to this report were Paige Hamrick, Director; David B. Fox, Audit Manager; Rodney Johnson, Auditor-in-Charge; and Jacqueline Lim, 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.



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### **Appendix A** **Objective, Scope, and Methodology**

We audited the capability of Iron County Forestry and Parks Department, Wisconsin (Department), Public Assistance Identification Number 051-UGWW8-00, to manage Federal Emergency Management Agency (FEMA) Public Assistance grant funds. 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 4276-DR-WI. As of October 20, 2016, the cutoff date of our audit, FEMA had not yet obligated any funding or completed its development of project worksheets for damages resulting from severe storms and flooding during the period July 11–12, 2016. The award will provide FEMA funding for debris removal, emergency work, and permanent work for large and small projects.<sup>5</sup> As of the audit cutoff date, Wisconsin had not paid the Department for any of its projects and the Department had not submitted any reimbursement requests for disaster-related costs.

We interviewed FEMA, Wisconsin, 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; 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 the Department's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between October 2016 and January 2017, 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 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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<sup>5</sup> Federal regulations in effect at the time of the disaster set the large project threshold at greater than \$121,800 [*Notice of Adjustment of Disaster Grant Amounts*, Vol. 80, No. 198, Fed. Reg. 61,836 (Oct. 14, 2015)].



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## Appendix B Potential Monetary Benefits

**Table 2: Cost Avoidance**

| Description of Work and Project Description        | Estimated Cost to Repair | Cost Avoidance* (Finding A) |
|--|--------------------------|-----------------------------|
| Debris Removal and Design and Engineering Services | \$ 72,235                | \$ 72,235                   |
| Saxon Harbor                                       | 3,168,411                | 3,168,411                   |
| <b>Totals</b>                                      | <b>\$3,240,646</b>       | <b>\$3,240,646</b>          |

Source: OIG analysis

\* FEMA has not obligated the estimated \$3,240,646 of damages to the projects on which the Department expects to expend disaster-related costs; therefore, we classify these costs as a cost avoidance.

**Table 3: 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) | 3,240,646          | 2,430,485          |
| <b>Totals</b>                            | <b>\$3,240,646</b> | <b>\$2,430,485</b> |

Source: OIG analysis of report findings



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**Appendix C**  
**FEMA Region V Audit Response**

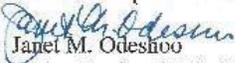
U.S. Department of Homeland Security  
FEMA Region V  
536 South Clark Street, 6th Floor  
Chicago, IL 60605



**FEMA**

FEB 10 2017

MEMORANDUM FOR: Paige Hamrick  
Director, Central Regional Office - North  
Office of Inspector General

FROM:   
Janet M. Odesho  
Acting Regional Administrator

SUBJECT: Management Response to OIG Draft Report: *"Iron County Forestry and Parks Department, Wisconsin, Needs Assistance and Monitoring to Ensure Proper Management of Its FEMA Grant."* FEMA Disaster Number 4276-DR-WI

Thank you for the opportunity to review and comment on this draft report. FEMA Region V appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

The draft report contained two (2) recommendations with which FEMA Region V concurs. Please see the attached for our detailed response to each recommendation. Technical comments were previously provided under separate cover.

If you have any questions contact Jacob Rauen, FEMA Region V Audit Coordinator, at [Jacob.Rauen@fema.dhs.gov](mailto:Jacob.Rauen@fema.dhs.gov) or 312-408-4401. We look forward to working with you in the future.

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**Appendix C (continued)**

**Attachment: FEMA Region V Response to Recommendations Contained in Draft Audit Report**

**Recommendation 1:** Disallow \$72,235 (\$54,176 Federal share) as ineligible contract costs, unless FEMA grants an exception for all or part of the costs as 2 CFR 200.102(b) allows and determines the costs as reasonable (finding A).

**Response:** Concur. FEMA Region V's Regional Counsel is working directly with the applicant regarding procurement.

**Recommendation 2:** Direct Wisconsin to provide additional technical assistance and monitoring to the Department to ensure it complies with Federal procurement regulations for awarding disaster-related contracts and to prevent the potential improper spending of approximately \$7,804,153 (\$5,853,115 Federal share) in estimated disaster work (finding B).

**Response:** Concur.



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### **Appendix D** **Report Distribution**

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Audit Liaison, FEMA Region V  
Audit Liaison, FEMA (Job Code G-16-065)

#### **Office of Management and Budget**

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#### **External**

Director, State of Wisconsin Emergency Management Agency  
Forest Administrator, Iron County Forestry and Parks Department  
State Auditor, Office of the Wisconsin State Auditor

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