

**Colorado County, Texas,  
Has Adequate Policies,  
Procedures, and Business  
Practices to Manage Its  
FEMA Grant**





# **DHS OIG HIGHLIGHTS**

## ***Colorado County, Texas, Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant***

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**May 4, 2017**

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

The County estimated it had sustained approximately \$2.4 million in damages from severe storms and flooding in late April 2016. At the time of our fieldwork, FEMA had not completed project worksheets to define the scope of disaster work. We conducted this audit early in the grant process to identify areas where the County may need additional technical assistance and monitoring to ensure compliance with Federal requirements.

### **What We Recommend**

FEMA should not fund \$458,150 of ineligible contract costs.

#### **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**

Colorado County, Texas' (County) accounting policies, procedures, and business practices are adequate to account for Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines. However, the County did not have adequate procurement policies, procedures, and business practices to comply fully with all Federal procurement standards. As a result, the County awarded two contracts totaling \$458,150 without full and open competition.

Because of our audit, the County revised its procurement policies and procedures to meet Federal requirements. The County plans to complete the majority of its disaster-related repairs using its own labor force. Further, County officials said they do not plan to claim the \$458,150 for the two contracts awarded improperly or any contract costs that do not meet Federal requirements. Therefore, if the County follows its procedures, FEMA should have reasonable assurance that the County will properly manage its Federal grant.

### **FEMA Response**

FEMA officials generally agreed with our finding and recommendation and have taken action sufficient to resolve and close our recommendation. Therefore, we consider this report closed and require no further action from FEMA.



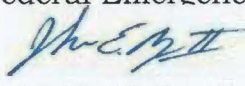
## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

May 4, 2017

MEMORANDUM FOR: George A. Robinson  
Regional Administrator, Region VI  
Federal Emergency Management Agency

FROM:   
John E. McCoy II  
Acting Assistant Inspector General  
Office of Emergency Management Oversight

SUBJECT: *Colorado County, Texas, Has Adequate Policies,  
Procedures, and Business Practices to Manage Its  
FEMA Grant*  
Audit Report Number OIG-17-57-D

We audited the capability of Colorado County, Texas (County), to manage Federal Emergency Management Agency (FEMA) Public Assistance grant funds. We conducted this audit early in the Public Assistance process to identify areas where the County 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.

At the time of our fieldwork, the Texas Department of Public Safety, Texas Division of Emergency Management (Texas), a FEMA grant recipient, had not yet awarded any of the \$2.4 million in estimated damages the County sustained from severe storms and flooding beginning April 17, 2016, and continuing through April 24, 2016. The award will provide 75 percent Federal funding for debris removal, emergency protective measures, and permanent work. The disaster did not cause damage to insurable facilities. Therefore, the County did not receive any insurance proceeds for damages resulting from this disaster or need to obtain insurance to cover similar damages in future disasters. At the time of our fieldwork, FEMA had not completed project worksheets to define the scope of disaster work, and the County had not completed most of its disaster-related work or filed claims for reimbursement.





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### Background

Colorado County is located in south central Texas and is home to nearly 20,878 residents. Beginning on April 17, 2016, heavy rains and severe storms caused flooding that damaged roads and culverts and destroyed one bridge. The President declared a major disaster on April 25, 2016.

**Figure 1: Fussel Road at Eagle Lake, Colorado County**



Source: Colorado County, Texas

### Results of Audit

The County's accounting policies, procedures, and business practices are adequate to account for FEMA grant funds according to Federal regulations and FEMA guidelines. The County should be able to accurately account for disaster-related costs and maintain documentation sufficient to support disaster costs. However, at the time of our fieldwork, the County did not have adequate procurement policies, procedures, and business practices to comply fully with all Federal procurement standards. As a result, the County awarded two bridge construction contracts totaling \$458,150 without full and open competition.

County officials said they plan to complete the majority of disaster-related work using their own labor force and do not plan to claim any contract-related costs. However, if the County decides to seek reimbursement, FEMA should disallow the \$458,150 because the County did not properly award the two contracts.



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For the remaining \$1.9 million (\$2.4 million minus \$458,150 ineligible contract costs) of estimated damages, if the county follows its policies, procedures and business practices, FEMA should have reasonable assurance that the County will properly manage its Federal grant.

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

#### **Project Cost Accounting**

The County has adequate policies, procedures, and business practices to account for FEMA grant funds according to Federal regulations and FEMA guidelines. The County 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 County designated specific accounting codes for all disaster-related costs. We assessed the adequacy of the County's policies and procedures to account for procurement costs and the County's own labor, equipment, and materials. We did not test specific project costs because the County had not summarized its costs as of our audit cutoff date. However, we discussed these accounting policies and procedures with County officials to gain an understanding of how the County will track the costs it intends to claim for FEMA reimbursement, and they appear adequate. We determined that the County could properly segregate costs by project and maintain sufficient detailed documentation to support its disaster-related costs.

#### **Procurement Practices**

The County's procurement policies, procedures, and business practices do not meet all Federal procurement standard requirements. As a result, (1) full and open competition may not always occur, which increases the risk of unreasonable prices, fraud, waste, and abuse; (2) disadvantaged businesses, such as minority firms and women's business enterprises may not have



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received sufficient opportunities to bid on federally funded work; (3) the risk of misinterpretations and disputes relating to contracts may increase; and (4) contract costs may be unreasonable.

Federal procurement standards at 2 CFR 200.317 through 2 CFR 200.326 require, in part, that subrecipients —

- perform procurement transactions in a manner providing full and open competition (2 CFR 200.319(a));
- 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));
- include required provisions in all their contracts (2 CFR 200.326); and
- perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold (2 CFR 200.323).

To evaluate the County's procurement practices, we reviewed its policies and procedures in effect at the time of the disaster and reviewed the methodology it used to award two contracts totaling \$458,150. We also discussed procurement practices with the County's contracting officials.

The County's procurement procedures require it to competitively bid contracts of \$50,000 or more. However, the County awarded two disaster-related bridge construction contracts totaling \$458,150 without full and open competition. Instead of soliciting competitive proposals, the County waived its bidding requirements through various resolutions that cited Texas law as an exception.<sup>1</sup> Regardless, as a condition of the grant, the County must comply with Federal regulations for all procurement transactions.<sup>2</sup> County officials acknowledged the two contracts may have been improperly procured but said they would honor them because they had already committed to the contractors.

In addition, the County did not have adequate policies and procedures in place to assure the use of small and minority businesses, women's business enterprises, and labor surplus area firms when possible. It also did not have procedures in place to include all required provisions in either of the two contracts it awarded and did not perform the federally required cost or price analysis to determine cost reasonableness.

Because of our audit, County officials said they will not claim FEMA reimbursement for either of the two bridge construction contracts totaling \$458,150. We discussed this decision with FEMA officials who said they will be

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<sup>1</sup> Texas Local Government Code, § 262.024, *Discretionary Exemptions*

<sup>2</sup> See 2 CFR 200.318(a) and 2 CFR 200.319(a).



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alert for the costs should the County seek reimbursement for either of the two bridge construction contracts. Further, the County updated its procurement policies to include, among other things: (1) taking the necessary affirmative steps to assure the use of small and minority businesses, women's business enterprises, and labor surplus area firms when possible; (2) including all federally required contract provisions; and (3) performing a cost or price analysis in connection with every procurement action, including contract modifications. Because the County did not compete either of the two bridge construction contracts, FEMA should not fund the \$458,150 bridge construction costs.

### Recommendation

We recommend that the Regional Administrator, FEMA Region VI:

**Recommendation 1:** Not fund \$458,150 (\$343,613 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 are reasonable (finding A).<sup>3</sup> We consider this recommendation to be resolved and closed and require no further action from FEMA because, on January 23, 2017, FEMA agreed to notify the Office of Inspector General (OIG) if the County sought reimbursement, and that it would analyze these requests for reimbursement for eligibility and reasonableness prior to any funding.

### Discussions with Management and Audit Follow-Up

We discussed the results of our audit with FEMA, Texas, and County 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 December 13, 2016, and with Texas and County officials on December 15, 2016. FEMA, Texas, and County officials generally agreed with our finding and recommendation.

On January 23, 2017, we received FEMA's written response to this report (see appendix C). FEMA officials agreed with our finding and concurred with our recommendation. FEMA officials acknowledge the County had informed them that it will not seek reimbursement for the two bridge construction projects. However, FEMA said it will notify OIG in the event the County seeks reimbursement, and that it will analyze these requests for eligibility or reasonableness prior to any funding. Based on FEMA's proposed action, we

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<sup>3</sup> Because FEMA had not yet obligated these costs, we classify them as cost avoidance.



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consider recommendation 1 to be resolved and closed and require no further action from FEMA

The Office of Emergency Management Oversight major contributors to this report are Paige Hamrick, Director; David B. Fox, Audit Manager; and Douglas Denson, Auditor-in-Charge.

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 Colorado County, Texas (County), Public Assistance Identification Number 089-99089-00 to manage Federal Emergency Management Agency (FEMA) Public Assistance grant funds. Our audit objective was to determine whether the County'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 4269-DR-TX. As of September 1, 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 beginning on April 17, 2016, and continuing through April 30, 2016. The County estimated it had sustained approximately \$2.4 million of disaster-related damages. The award will provide 75 percent FEMA funding for debris removal, emergency protective measures, and permanent work for large and small projects.<sup>4</sup> As of the audit cutoff date, Texas had not paid the County for any of its projects; and the County had not submitted any reimbursement requests for its disaster costs.

We interviewed FEMA, Texas, and County officials; assessed the adequacy of the policies, procedures, and business practices the County uses and plans to use to account for and expend Federal grant funds and to procure for and monitor 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 County's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between August and December 2016, 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.

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<sup>4</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 1: Cost Avoidance**

<b>FEMA Category of Work *</b>	<b>Type of Work</b>	<b>Estimated Cost to Repair</b>	<b>Cost Avoidance** (Finding A)</b>
C	Contract	\$ 458,150	\$ 458,150
C	Force Account	1,895,050	0
	<b>Totals</b>	<b>\$ 2,353,200</b>	<b>\$ 458,150</b>

Source: Office of Inspector General (OIG) analysis

\* FEMA classifies disaster-related work by type: debris removal, (Category A), emergency protective measures (Category B), and permanent work (Categories C through G).

\*\* FEMA has not obligated the estimated \$458,150 for damage to the projects on which the County expects to expend contracting costs; therefore, we classify these costs as a cost avoidance.

**Table 2: Summary of Potential Monetary Benefits**

<b>Type of Potential Monetary Benefit</b>	<b>Amount</b>	<b>Federal Share</b>
Questioned Costs – Ineligible	\$ 0	\$ 0
Questioned Costs – Unsupported	0	0
Funds Put to Better Use (Cost Avoidance)	458,150	343,613
<b>Totals</b>	<b>\$ 458,150</b>	<b>\$ 343,613</b>

Source: OIG analysis of report findings



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**Appendix C**  
**FEMA Region VI Audit Response**

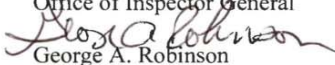
U.S. Department of Homeland Security  
FEMA Region 6  
800 North Loop 288  
Denton, TX 76209-3698



**FEMA**

January 23, 2017

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

FROM:   
George A. Robinson  
Regional Administrator

SUBJECT: Management's Response to OIG Draft Report,  
*Colorado County, Texas, Needs Additional Assistance and  
Monitoring to Ensure Proper Management of Its FEMA Grant*  
FEMA Disaster Number: 4269-DR-TX  
Audit Job Code: G-16-046

Thank you for the opportunity to review and comment on this draft report. The Federal Emergency Management Agency (FEMA) appreciates the Office of Inspector General's (OIG) work in planning and conducting its review and issuing this draft report.

FEMA is pleased to note the OIG's positive recognition that Colorado County's (Applicant) accounting policies, procedures, and business practices are adequate to account for FEMA grant funds according to federal regulations and FEMA guidelines.

The draft report contained one recommendation, with which FEMA concurs. Please see the attached for our detailed response to the recommendation.

Again, we thank you for the opportunity to review and comment on this draft report. We previously provided technical comments on this draft report to your office. If you have any questions, or need further assistance, please contact Kent Baxter, Audit Coordinator at 940-898-5399.

cc: W. Nim Kidd, Chief, TDEM  
Moises Dugan, R6-ORA  
Traci Brasher, R6-REC  
David Lebsack, R6-REC  
Bill Boone, R6-REC-PA  
Michael Crow, R6-REC-PA  
Melinda Dunn, R6-REC-PA  
Kathy Hill, HQ-OCFO  
Gary McKeon, HQ-OPPA-ALO  
Kent Baxter, R6-ORA

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**Appendix C (Continued)**

**Attachment: FEMA Management Response to Recommendations  
Contained in OIG G-16-046**

**Recommendation 1:** *Not fund \$458,150 (\$343,613 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 are reasonable (finding A).*

**Response:** Concur. As confirmed by the report, Colorado County has informed both FEMA and the OIG that it will not seek reimbursement for the costs associated with ineligible contracts for two bridge construction projects. Should the County, at some future date, request reimbursement for these bridge construction contracts, FEMA will notify the OIG of this request for funding. In addition, should a request be submitted by the County for reimbursement related to the contract(s) in question, FEMA will analyze these reimbursement requests to determine if any portion of the costs are eligible for FEMA Public Assistance funding under federal and FEMA requirements (per 2 CFR §200.102(b)), and the amount of those costs that are reasonable (per 2 CFR §200.404, and §200.430(b)) prior to any funding. Based on the above agreement, FEMA recommends that this recommendation and the audit be closed on issuance.

**Estimated Completion Date:** N/A





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Under Secretary for Management  
Chief Privacy Officer  
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Chief of Staff  
Chief Financial Officer  
Chief Counsel  
Chief Procurement Officer  
Director, Risk Management and Compliance  
Audit Liaison, FEMA (Job Code G-16-046)  
Audit Liaison, FEMA Region VI

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

Chief, Homeland Security Branch  
DHS OIG Budget Examiner

#### **Congress**

Congressional Oversight and Appropriations Committees

#### **External**

Director, Texas Department of Public Safety, Division of Emergency  
Management  
State Auditor, Office of the Texas State Auditor  
County Judge, Colorado County, Texas

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Department of Homeland Security  
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