

**FEMA Should Recover  
\$5.57 Million in Grant  
Funds Awarded to Frasier  
Meadows Manor, Inc.,  
Boulder, Colorado**





# DHS OIG HIGHLIGHTS

## *FEMA Should Recover \$5.57 Million in Grant Funds Awarded to Frasier Meadows Manor, Inc., Boulder, Colorado*

February 27, 2020

### Why We Did This Audit

Colorado awarded Frasier Meadows \$11.16 million from FEMA's Public Assistance Program to repair damage to a skilled nursing and assisted living facility, resulting from September 2013 storms and flooding. We conducted this audit to determine whether Frasier Meadows expended and accounted for grant funds according to Federal procurement regulations and FEMA guidelines.

### What We Recommend

We recommend FEMA disallow \$5.57 million as ineligible contract costs and ensure Colorado improves its grant funds oversight.

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

Contact our Office of Public Affairs at (202) 981-6000, or email us at [DHS-OIG.OfficePublicAffairs@oig.dhs.gov](mailto:DHS-OIG.OfficePublicAffairs@oig.dhs.gov).

### What We Found

The Colorado Department of Public Safety, Division of Homeland Security and Emergency Management (Colorado) did not effectively oversee its subrecipient, Frasier Meadows Manor, Inc., to ensure it was aware of and followed Federal procurement regulations and Federal Emergency Management Agency (FEMA) guidelines. In addition, FEMA should have ensured Colorado delivered assistance consistent with the FEMA-State Agreement and State Administrative Plan.

Frasier Meadows accounted for disaster-related costs on a project-by-project basis. However, it did not comply with Federal procurement regulations and FEMA guidelines when awarding \$10.08 million for 10 contracts. Specifically, Frasier Meadows did not ensure open and free competition to promote reasonable costs and fulfillment of FEMA requirements; ensure small businesses, minority-owned firms, and women's business enterprises had sufficient opportunities to bid on federally funded work; or perform a cost or price analysis for the 10 contracts. This noncompliance with procurement regulations led us to question the eligibility of \$5.57 million of the \$10.08 million Frasier Meadows expended for work under 10 contracts, excluding work undertaken when life and property were at risk.

As a result of our audit, Frasier Meadows updated its procurement policies and procedures. If implemented, these corrective actions should provide FEMA reasonable assurance Frasier Meadows will spend any future disaster-related funds according to Federal procurement regulations and FEMA guidelines.

### FEMA Response

FEMA officials agreed with both recommendations. Appendix A includes FEMA's written response in its entirety. Prior to final issuance of this report, FEMA took action to resolve and close both recommendations.



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Department of Homeland Security

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

February 27, 2020

MEMORANDUM FOR: Lee dePalo  
Regional Administrator, Region VIII  
Federal Emergency Management Agency

FROM: Sondra F. McCauley   
Assistant Inspector General for Audits

SUBJECT: *FEMA Should Recover \$5.57 Million in Grant Funds  
Awarded to Frasier Meadows Manor, Inc., Boulder,  
Colorado*

Attached is our final report, *FEMA Should Recover \$5.57 Million in Grant Funds Awarded to Frasier Meadows Manor, Inc., Boulder, Colorado*. We incorporated the formal comments provided by your office.

The report contains two recommendations. Your office concurred with both recommendations. Based on information provided in your responses to the draft report, we consider both recommendations resolved and closed. No further action is required.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the final report on our website for public dissemination.

Please call me with any questions, or your staff may contact Katherine Trimble, Deputy Assistant Inspector General for Audits, at (202) 981-6000.



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**Background**

The Colorado Department of Public Safety, Division of Homeland Security and Emergency Management (Colorado), a Federal Emergency Management Agency (FEMA) recipient, awarded Frasier Meadows Manor, Inc. (Frasier Meadows) \$11.16 million for damage resulting from severe storms, flooding, landslides, and mudslides that occurred in September 2013. Frasier Meadows, a private not-for-profit retirement community in Boulder, Colorado, offers residents independent and assisted living options, as well as skilled nursing care. From September 11 to 30, 2013, severe rainstorms caused flooding to Frasier Meadows’ assisted living and healthcare facilities and its underground parking garage. The President declared a major disaster on September 14, 2013. Figure 1 shows flood damage to Frasier Meadows’ underground garage.



**Figure 1: Flood Damage to Frasier Meadows’ Underground Garage**

Source: Frasier Meadows Manor, Inc., Boulder, Colorado

The \$11.16 million award provided a 75 percent Federal funding cost share for debris removal, emergency protective measures, and permanent repairs to the damaged facilities.<sup>1</sup> A 75 percent Federal funding rate means FEMA will pay

<sup>1</sup> Cost share, also known as “non-Federal share,” or “match,” is the portion of the costs of a federally-assisted project or program not borne by the Federal Government (2 Code of Federal



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75 percent of the eligible costs while the subrecipient will be responsible for the remaining 25 percent.

The disaster caused damage to several insurable facilities. Frasier Meadows, as the grant subrecipient, received insurance proceeds of \$1.84 million for eligible facilities.<sup>2</sup> As of February 21, 2017, Frasier Meadows, with the exception of its hazard mitigation project, had completed disaster-related work for two projects (815 and 853).<sup>3</sup> Table 1 provides information on the two projects and the award amounts.

**Table 1: Gross and Net Awards for Frasier Meadows' Projects 815 and 853**

Project Number	Gross Award Amount	Insurance Reductions	Net Award Amount
<b>815</b> Pump & Extract Flood Water	\$ 135,391	(\$ 40,119)	\$ 95,272
<b>853</b> Facility Repairs (capped) <sup>4</sup>	\$ 7,443,716		
Hazard Mitigation <sup>5</sup>	3,563,578		
Direct Administrative Costs	12,505		
Total Project Cost	<u>\$ 11,019,799</u>	<u>(\$ 1,802,735)</u>	<u>\$ 9,217,064</u>
<b>Totals</b>	<b><u>\$11,155,190</u></b>	<b><u>(\$1,842,854)</u></b>	<b><u>\$9,312,336</u></b>

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

Regulations (C.F.R.) § 215.23 (2013)). The Federal share is the percent paid by Federal funds (2 C.F.R. § 215.2(q)(2013)). We rely upon the 2013 C.F.R. provisions, unless otherwise indicated, because they were in effect at the time the disaster was declared. The Government issued new regulatory guidance on December 26, 2013. See 78 Fed. Reg. 78590 (Final Guidance) (Dec. 26, 2013), clarifying and streamlining existing regulations, which resulted in eliminating 2 C.F.R. Part 215. The clarifications, however, do not change the audit outcome or our related recommendations.

<sup>2</sup> To prevent duplication of benefits, FEMA is required to reduce the amount of the grant by any insurance proceeds the subrecipient anticipates or receives for the insured facility (*Robert T. Stafford Disaster Relief and Emergency Assistance Act* (Stafford Act) § 312, 42 United States Code (U.S.C.) § 5155; and FEMA 322, *Public Assistance Guide*, June 2007, p. 41).

<sup>3</sup> On September 19, 2017, Frasier Meadows submitted a formal request to Colorado asking FEMA to deobligate its \$3.6 million hazard mitigation project.

<sup>4</sup> On January 29, 2013, President Obama signed into law the *Sandy Recovery Improvement Act of 2013* (Pub. L. No. 113-2 (2013)), which amends Title IV of the Stafford Act (42 U.S.C. § 5121 et seq.) and, among other things, authorizes alternative procedures for FEMA's Public Assistance Program. For permanent repair work, the law allows FEMA to make awards based on fixed estimates whereby the amount reimbursed is capped at an agreed upon amount.

<sup>5</sup> Hazard mitigation is any sustained action taken to reduce or eliminate long-term risk to people and property from natural hazards and their effects. See Stafford Act § 406(e), 42 U.S.C. § 5172(e)(1)(ii); see also 42 U.S.C. § 5170c, & 44 C.F.R. § 206.226(e).



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### Results of Audit

#### **Colorado and FEMA Grant Oversight Efforts Were Not Sufficient to Ensure Subrecipient Complied with Federal Requirements**

Colorado did not effectively carry out its responsibilities to monitor Frasier Meadows, its subrecipient, to ensure it met Federal procurement guidelines and FEMA requirements. For its part, FEMA also did not hold Colorado accountable for effective grant management in accordance with Federal regulations, FEMA policies, and FEMA and state agreements.

#### Colorado Did Not Provide Effective Oversight for Its Subrecipient

As grant recipient, Colorado did not effectively monitor Frasier Meadows, its subrecipient.<sup>6</sup> Nor did Colorado ensure Frasier Meadows' purchases complied with Federal procurement processes and procedures. The Code of Federal Regulations (C.F.R.) set out the legal requirements related to grant awards, which, in part, are designed to prevent and detect noncompliance in a grant management process. In accordance with Title 44 C.F.R. section 206.44(a), the Governor, acting for Colorado, and the FEMA Regional Administrator executed a FEMA-State Agreement on September 17, 2013, outlining the understandings, commitments, and conditions under which FEMA would provide Federal disaster assistance. In the FEMA-State Agreement, Colorado agreed to comply with the "requirements of laws and regulations found in the Stafford Act and 44 CFR" and "all applicable laws and regulations ... that govern standard grant management practices."<sup>7</sup>

Colorado also developed a State Administration Plan as required under Title 44 C.F.R. section 206.207 (2013) outlining the actions it would take to fulfill its duties, and further assured FEMA it would "comply with all applicable Federal statutes and regulations in effect during the periods for which it received grant funding."<sup>8</sup> Generally, Title 2 C.F.R. section 215.51 (2013) required recipients to manage and monitor each "project, program, subaward, function or activity

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<sup>6</sup> Under FEMA-4145-DR-CO, Colorado was eligible to receive about \$11.9 million of Federal funding pursuant to Stafford Act section 324 to support its FEMA grant management activities for all subrecipients, including Frasier Meadows. Section 324 describes management costs as indirect costs, administrative expenses, and other expenses a recipient incurs in administering and managing FEMA Public Assistance grants that are not directly chargeable to a specific project. The rate for Major Disaster Declarations is 3.34 percent of the Federal share of assistance granted (44 CFR § 207.5(b)(4)(i)).

<sup>7</sup> *FEMA-State Agreement*, September 17, 2013, pp. 6 and 8, respectively

<sup>8</sup> *State of Colorado Public Assistance Program Administrative Plan for FEMA-4145-DR-CO Declared 09/14/2013*, p. 2



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supported by the award.”<sup>9</sup> For its part, FEMA was to provide oversight of Colorado’s grant management activities.

For grant management to be effective, recipients must regularly monitor their subrecipients and conduct site visits to assess compliance with Federal requirements. However, Colorado did not assess Frasier Meadows’ ability to meet Federal procurement requirements, nor did it take proactive steps to ensure Frasier Meadows was aware of and complied with Federal procurement requirements.

Frasier Meadows submitted its request for FEMA Public Assistance funding on October 23, 2013, after Colorado had already held its applicants’ briefing meeting.<sup>10</sup> Moreover, Colorado and Frasier Meadows did not discuss repair work until late January 2014 — after Frasier Meadows had procured contracts and began repair work. Federal regulations require Colorado to not only ensure potential applicants are aware of available public assistance but also provide them with technical advice and assistance.<sup>11</sup>

In addition, Colorado agreed to monitor the progress and completion of the project and ensure all subrecipient purchases complied with “local, State of Colorado and applicable Federal procurement processes and procedures.”<sup>12</sup> However, we found no evidence of Colorado’s monitoring activities or outreach between October 23, 2013, and January 31, 2014, which should have occurred before Frasier Meadows awarded contracts for repair work. Consequently, Frasier Meadows would have been in a better position to comply with Federal regulations had these discussions occurred before its repair work began.

Frasier Meadows officials said they realized their contracts had been improperly awarded only after they attended Colorado’s June 19, 2014 Public Assistance Roadshow (i.e., a technical assistance conference held for eligible applicants). According to Frasier Meadows’ officials, they were unaware of the specific Federal procurement requirements, but ongoing communication with FEMA and Colorado officials during the preliminary damage assessment and project formation phases led them to believe they had properly awarded their disaster-related repair contracts. Shortly thereafter, Frasier Meadows officials contacted Colorado to discuss potential contracting issues and determine what

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<sup>9</sup> See 2 C.F.R. § 215.51(a) (2013).

<sup>10</sup> The State conducts Applicants’ Briefings to inform prospective applicants of available assistance and eligibility requirements for obtaining Federal assistance under the declared event. Frasier Meadows officials did not attend this meeting because they mistakenly believed they were not eligible to receive Federal Public Assistance grant funding.

<sup>11</sup> 44 C.F.R. § 206.202(b)(1) and (3)

<sup>12</sup> State of Colorado Public Assistance Program Administrative Plan for FEMA – 4145 – DR- CO Declared 09/14/2013, pp. 16 and 17



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remedies might be available. On November 19, 2014, Colorado alerted FEMA of Frasier Meadows' procurement noncompliance issues.

In an effort to establish Frasier Meadows' repair costs were reasonable, Colorado sought approval of a plan for Frasier Meadows to obtain an independent estimate of its disaster-related repairs and to provide a narrative explaining why Frasier Meadows did not comply with Federal procurement regulations. FEMA rejected Colorado's plan, explaining a better approach would be to ask Frasier Meadows if it had historical costs for similar work, or to ask other applicants for costs associated with similar work and compare those costs to the work Frasier Meadows accomplished.

In several previous audit reports, the Department of Homeland Security OIG concluded Colorado did not properly manage or monitor its FEMA grants.<sup>13</sup> As shown in these reports, Colorado did not comply in the past with the terms and conditions of its FEMA-State Agreements, and FEMA did not effectively ensure Colorado enforced the terms of either the FEMA-State Agreements or State Administrative Plans. For example, we reported in 2016 "Colorado should have done more as FEMA's grantee to ensure the City [of Evans, Colorado] was aware of and complied with Federal procurement standards."<sup>14</sup> Consequently, we determined the City did not follow Federal procurement standards in awarding 22 contracts totaling \$3.6 million.<sup>15</sup>

Colorado's inadequate grant management led to Frasier Meadows' noncompliance with Federal procurement regulations. When grant recipients do not manage day-to-day operations, there is increased risk subrecipients will spend taxpayer money on unreasonable or ineligible costs and activities. In addition, subrecipients, such as Frasier Meadows, risk losing Federal funding.

### FEMA Did Not Hold Colorado Accountable

FEMA, as the awarding agency, should have ensured Colorado delivered assistance to Frasier Meadows consistent with the FEMA-State Agreement and the State Administrative Plan. Specifically, the FEMA-State Agreement and

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<sup>13</sup> *Colorado Should Provide the City of Evans More Assistance in Managing FEMA Grant Funds*, OIG-16-78-D, May 3, 2016; *Lyons and Colorado Officials Should Continue to Improve Management of \$36 Million FEMA Grant*, OIG-16-67-D, April 20, 2016; *Longmont and Colorado Officials Should Continue to Improve Management of \$55.1 Million FEMA Grant*, OIG-16-21-D, January 21, 2016; *FEMA Should Disallow Over \$4 Million Awarded to Mountain View Electric Association, Colorado, for Improper Procurement Practices*, OIG-15-113-D, July 16, 2015; and *The City of Loveland, Colorado, Could Benefit from Additional Assistance in Managing its FEMA Public Assistance Grant Funding*, OIG-15-30-D, January 29, 2015

<sup>14</sup> *Colorado Should Provide the City of Evans More Assistance in Managing FEMA Grant Funds*, OIG-16-78-D, May 3, 2016, p. 7

<sup>15</sup> *Colorado Should Provide the City of Evans More Assistance in Managing FEMA Grant Funds*, OIG-16-78-D, May 3, 2016, p. 3



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Colorado's State Administrative Plan hold Colorado accountable to FEMA to comply with all applicable laws and regulations governing standard grant management practices, which include Colorado's responsibility to monitor project progress and ensure all subgrantee purchases comply with applicable "local, State of Colorado and applicable Federal procurement processes and procedures." Without adequate management and monitoring of grants and subgrants, FEMA is at increased risk of inefficient disaster recovery activities or paying ineligible costs.

Because FEMA addressed our earlier recommendation to instruct Colorado officials about their responsibilities for monitoring subgrant activities and administering and managing grants,<sup>16</sup> we are not making a similar recommendation in this report. However, FEMA should direct Colorado to work with Frasier Meadows officials to ensure its updated Federal procurement policies and procedures will be implemented in the event of a future disaster.

### **Frasier Meadows Did Not Comply with Federal Procurement Regulations and FEMA Guidelines**

Frasier Meadows did not comply with Federal procurement regulations and FEMA guidelines when awarding \$10.08 million for 10 contracts — \$8.1 million for non-exigent work and \$1.98 million for exigent work.<sup>17</sup> Specifically, based on our review of contracts for repair, associated project files, and interviews we conducted, Frasier Meadows did not fulfill provisions of the C.F.R., which require in part that subrecipients —

- conduct procurement transactions in a manner providing open and free competition;
- take positive efforts to use small businesses, minority-owned firms, and women's business enterprises, whenever possible;
- perform (and document) some form of a cost or price analysis;
- maintain a contract administration system to (1) ensure contractor conformance with the terms, conditions, and specifications of the contract and to ensure adequate and timely follow-up of all purchases and (2) to evaluate contractor's performance and document, as appropriate, whether contractors have met the terms, conditions and specifications of the contract;
- include required provisions in all contracts;
- obtain bid guarantees and performance and payment bonds; and

<sup>16</sup> *The City of Loveland, Colorado, Could Benefit from Additional Assistance in Managing its FEMA Public Assistance Grant Funding*, OIG-15-30-D, January 29, 2015, Recommendation 6.

<sup>17</sup> Emergency/exigent circumstances are those that may include the existence of a threat to public health or public safety, or other unique circumstances that warrant immediate action. See 2 C.F.R. § 215.43 (2013); see also e.g., 44 C.F.R. § 13.36(d)(4)(i)(B).



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- confirm certain parties who are debarred, suspended, or otherwise excluded, are not participants or principals in contracts under Federal awards or subawards.<sup>18</sup>

Frasier Meadows also did not fully follow FEMA guidelines requiring contracts be of reasonable cost, generally competitively bid, and comply with Federal, State, and local procurement standards.<sup>19</sup>

### Contracts Awarded without Open and Free Competition

Frasier Meadows awarded 10 contracts without open and free competition. Instead of soliciting competitive proposals, Frasier Meadows awarded contracts to vendors it had done business with in the past. Frasier Meadows selected the vendors because of their prior work experience, familiarity with Frasier Meadows' facilities, and contractor availability. Although these factors can be used to evaluate bids, to comply with Federal procurement requirements for open and free competition, requests for proposals must be publicized to an adequate number of sources.

Without open and free competition, FEMA has no assurance costs are reasonable. Open and free competition usually increases the number of bids received and thereby increases the opportunity to obtain reasonable pricing from the most qualified contractors. It also allows greater opportunity for small businesses, minority firms, and women's business enterprises to compete for federally funded work. Open and free competition also helps discourage and prevent favoritism, collusion, fraud, waste, and abuse.

### Limited Opportunities for Small, Minority, and Women-Owned Businesses

Frasier Meadows did not make the required effort to use small businesses, minority-owned firms, and women's business enterprises whenever possible for any of the 10 contracts it awarded. The requirements include making information on forthcoming opportunities available and reserving timeframes to encourage and facilitate participation by disadvantaged firms; considering whether firms competing for larger contracts intend to subcontract with disadvantaged firms; and using the services and assistance, as appropriate, of organizations such as the Small Business Administration and the Minority Business Development Agency of the Department of Commerce. Frasier

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<sup>18</sup> 2 C.F.R. §§ 215.43, 215.44(b), 215.45, 215.47, 215.48, 215.48(c), & 215.13 (2013). See also *Public Assistance Guide*, FEMA 322/June 2007, pp. 51–53, and *Public Assistance Applicant Handbook*, FEMA 323/March 2010, pp. 43–45.

<sup>19</sup> *Public Assistance Guide*, FEMA 322/June 2007, p. 51. See also *FEMA Public Assistance Applicant Handbook*, FEMA 323/March 2010, pp. 43–45.



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Meadows' failure to follow these procurement requirements potentially limited opportunities for small, minority, and women-owned businesses.

### Absence of Cost or Price Analysis

Frasier Meadows did not perform a cost or price analysis for any of the 10 contracts it awarded. Performing a cost or price analysis decreases the risk of unreasonable contract costs and misinterpretations or errors in pricing relative to contract scope of work. Frasier Meadows officials said they did not prepare cost or price analyses for any of their disaster-related work but instead relied on information they received from the individual contractors. Frasier Meadows officials did not provide support for how they used the contractors' cost estimates to assess the reasonableness of the bids. Without the required cost or price analysis, the risk of misinterpretations or errors in pricing relative to scope of work and contract disputes increased.

### Inadequate Contract Administration System

Frasier Meadows did not maintain a contract administration system to ensure its contractors performed work in accordance with the terms, conditions, and specifications of their contracts. Although Frasier Meadows officials said they had a representative onsite, they could not provide documentation to support their monitoring of contractors' work. Lacking a contract administration system and supporting documentation, Frasier Meadows had no effective means of ensuring the contractors fulfilled contract specifications.

### Absence of Required Contract Provisions

None of Frasier Meadows' 10 contracts contained required contract provisions. Federal regulations set forth specific provisions for contracts and subcontracts, including remedies and termination clauses, non-discrimination provisions, compliance with labor laws, bonding notifications, and debarring and suspension requirements. These provisions describe the rights and responsibilities of both parties. Without the provisions, the risk of misinterpretations and disputes increases.

### Absence of Minimum Bonding Requirements

Frasier Meadows did not obtain the required bid guarantee or performance and payment bonds for 4 of the 10 contracts it awarded, totaling \$9,339,320. At a minimum, subrecipients are required to obtain bid guarantees equal to 5 percent of the bid price, and performance and payment bonds equal to 100 percent of the contract price. Bonds protect subrecipients in case of default by their contractor. Rather than obtain the required bonds, Frasier Meadows reviewed its contractors' financial statements to determine their credit



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worthiness. This alternative approach was not an effective way to guarantee contractor price or performance and did not meet the requirements of the C.F.R.<sup>20</sup>

### Insufficient Confirmation of Debarred or Suspended Contractors

Frasier Meadows did not determine whether its contractors were debarred, suspended, or otherwise excluded from participating in Federal assistance awards and subawards. To help protect the Government from doing business with individuals, companies, or recipients who pose a risk to the Federal Government, recipients of Federal funding are not permitted to award contracts to debarred contractors. Although Frasier Meadows did not do so, we verified that none of Frasier Meadows' contractors were debarred, suspended, or otherwise excluded from participating in Federal programs and activities.

### Questioned Costs

As explained previously, Frasier Meadows' noncompliance with multiple Federal procurement regulations, led us to question \$5.57 million in contract costs. We do not question costs for work undertaken when lives and property are at risk<sup>21</sup>; therefore, we did not question \$1.98 million in disaster-related contract costs Frasier Meadows incurred for the cleanup, stabilization, and dehumidification of its assisted living and healthcare facilities. We did, however, question the remaining \$5.57 million (\$7.44 million of capped costs under the Public Assistance Alternative Procedure (PAAP) Pilot Program less \$1.87 million of exigent work) because Frasier Meadows improperly continued to use noncompetitively awarded contracts even after the exigent period. Table 2 shows these questioned costs in more detail.

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<sup>20</sup> See 2 C.F.R. § 215.48(c)(1-4) (2013).

<sup>21</sup> 2 C.F.R. § 215.43 (2013). See also 44 C.F.R. § 13.36(d)(4)(i)(B) (2013). On December 19, 2014, DHS replaced 44 C.F.R. Part 13 references in 2 C.F.R. Parts 200 and 3002 as applicable. See 80 Fed. Reg. 59549-50 (Final Rule) (Oct. 2, 2015).



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**Table 2: Questioned Costs for 10 Contracts Due to Noncompliance**

<b>Contract Scope of Work</b>	<b>Gross Award Amount for Contract Work</b>	<b>Project 815</b>	<b>Project 853</b>
Non-Exigent Work	\$ 8,104,737	\$ 0	\$8,104,737
Exigent Work <sup>22</sup>	1,979,556	103,448	1,876,108
Totals	<u>\$10,084,293</u>	<u>\$103,448</u>	<u>\$9,980,845</u>
<b>Calculation of Questioned Costs:</b>			
PAAP Capped Amount <sup>23</sup> – Project 853			\$7,443,716
Less Exigent Work – Project 853			(1,876,108)
<b>Total Questioned Costs</b>			<b><u>\$5,567,608</u></b>

Source: Frasier Meadows procurement records and OIG analyses

As a result of our on-going audit, Frasier Meadows updated its procurement policies and procedures on June 14, 2017 to comply with Federal procurement standards. If Frasier Meadows implements its updated policies and procedures, FEMA should have reasonable assurance Frasier Meadows will spend any future disaster-related funds according to Federal procurement regulations.

### Recommendations

**Recommendation 1:** We recommend the Regional Administrator, FEMA Region VIII, disallow \$5,567,608 (\$4,175,706 Federal share) for contracts that do not comply with Federal procurement standards, unless FEMA grants an exemption for all or part of the costs as Title 2 C.F.R. section 215.4 or its successor provision allows and determines the costs are reasonable.

**Recommendation 2:** We recommend the Regional Administrator, FEMA Region VIII, direct Colorado to work with Frasier Meadows officials to ensure Frasier Meadows implements its updated Federal procurement policies and procedures in the event of a future disaster.

<sup>22</sup> Frasier Meadows did not competitively award \$1.98 million in clean-up and electrical contracts, but Federal regulations permit noncompetitive procurements during exigent circumstances.

<sup>23</sup> Because Frasier Meadows elected to participate in FEMA’s PAAP Pilot Program for permanent work, the total amount FEMA can fund Frasier Meadows for repairs on its assisted living, healthcare, and parking garage facilities within Project 853 is capped at \$7.44 million. Accordingly, we calculated questioned costs using the capped amount.



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### Management Comment and OIG Analysis

We discussed the results of our audit with FEMA, Colorado, and Frasier Meadows officials. FEMA also provided written comments in response to our draft report, and concurred with both recommendations. We included a copy of FEMA's management comments in their entirety in appendix A.

Subsequent to transmitting the written comments, FEMA took action to resolve and close both recommendations and provided additional information and supporting documentation.

**FEMA Comments to Recommendation #1:** FEMA concurred with our recommendation. During the closeout process, FEMA evaluated the contract costs we questioned. FEMA determined \$5,567,608 in requested contract costs were necessary and reasonable.

**OIG Analysis of FEMA's Response:** FEMA's corrective action to evaluate the questioned costs resolves and closes this recommendation. No further action is required.

**FEMA Comments to Recommendation #2:** FEMA concurred with the recommendation and in December 2019 directed Colorado to ensure Frasier Meadows implements its updated Federal procurement policies and procedures in the event of a future disaster.

**OIG Analysis of FEMA's Response:** FEMA's corrective action directing Colorado to ensure Frasier Meadows implements updated Federal procurement policies and procedures is sufficient to resolve and close the recommendation. No further action is required.

### Objective, Scope, and Methodology

Department of Homeland Security Office of Inspector General was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*.

We audited FEMA Public Assistance grant funds awarded to Frasier Meadows Manor, Inc., Public Assistance Identification Number 013-UL14W-00. Our audit objective was to determine whether Frasier Meadows accounted for and expended FEMA grant funds according to Federal procurement regulations and FEMA guidelines for FEMA Disaster Number 4145-DR-CO.

Colorado awarded Frasier Meadows \$11.16 million (\$9.31 million after reductions for the PAAP cap and insurance) for damages resulting from severe



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flooding occurring September 11–30, 2013. Our audit scope included two large projects totaling \$11.16 million, or 100 percent, of the total award amount (see appendix A, table 3). The award provided 75 percent FEMA funding for debris removal, emergency protective measures, and permanent work for two large projects.<sup>24</sup>

We selected the projects in our scope from FEMA’s Emergency Management Mission Integrated Environment (EMMIE) computerized information system, and verified the payments and claimed costs were supported by source documents. We determined the data we used to support the audit findings, conclusions, and recommendations is reliable. We did not rely solely on information system data or other data we did not test against other systems or collaborate with other source documents. An evaluation of information systems and controls was not necessary to achieve the audit objective.

To accomplish our objective, we interviewed FEMA, Colorado, and Frasier Meadows officials; gained an understanding of Frasier Meadows’ method of accounting for disaster-related costs; reviewed Frasier Meadows’ procurement policies and procedures; judgmentally selected (generally based on dollar value) and reviewed project costs and 10 procurement transactions valued at \$10.08 million for the projects in our audit scope; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective.

This audit is part of a body of public assistance grant audits conducted by our office to identify areas where the grantee or subgrantee may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines. Audit planning, risk assessment, and internal control assessment were limited to the extent necessary to address our audit objective. We conducted our review under the authority of the *Inspector General Act of 1978*, as amended, between February 2017 and February 2018, and followed generally accepted government auditing standards (GAGAS) with the exceptions noted previously. GAGAS requires 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. Unless stated otherwise in this report, to conduct 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>24</sup> Federal requirements in effect at the time of the disaster set the large project threshold at greater than \$67,500 [*Notice of Adjustment of Disaster Grant Amounts*, 77 Fed. Reg. 61423 (Oct. 9, 2012)].



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Office of Audits Major Contributors to this report are Paige Hamrick, Director (Ret); Brooke Bebow, Director; David B. Fox, Audit Manager; Rodney Johnson, Auditor-in-Charge; Douglas Denson, Auditor (Ret); Josh Welborn, Auditor; Evette Fontana, Auditor; Corneliu Buzesan and Kathy Hughes, Independent Reference Reviewers; and Deborah Mouton-Miller, Communications Analyst.



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**Appendix A**  
**FEMA Region VIII Comments to the Draft Report**

U.S. Department of Homeland Security  
Region VIII  
Denver Federal Center, Building 710  
P.O. Box 25267  
Denver, CO 80225-0267



**FEMA**

R8-ORA

November 14, 2019

MEMORANDUM FOR: Katherine Trimble  
Deputy Assistant Inspector General for Audits  
Office of the Inspector General

FROM: Lee K. dePalo   
Regional Administrator

SUBJECT: Management Response to Draft Report: "FEMA Should Recover  
\$5.57 Million in Grant Funds Awarded to Frasier Meadows, Inc.,  
Boulder Colorado"  
(Project No. G-17-015-EMO-FEMA)

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

FEMA leadership is concerned the OIG took nearly three years after this audit was announced on December 22, 2016, to issue this report. Particularly concerning is the fact that the draft report was not released for management comment until 20 months after OIG's fieldwork was completed, with no explanation for the delay provided in the report. U.S. Government Accountability Office-promulgated Generally Accepted Government Auditing Standards state that reports must be timely to be of maximum use to report users.

However, FEMA is pleased to note OIG's recognition that Frasier Meadows updated its procurement policies and procedures on June 14, 2017, more than two years ago, to comply with Federal procurement standards. It is also important to note that during this time FEMA has worked extensively with the State of Colorado to hold it more accountable for effective grant management in accordance with Federal regulations, FEMA policies, and FEMA and state agreements.

FEMA concurs with the two recommendations in this draft report. Attached find our detailed response to each recommendation. FEMA previously submitted technical comments under a separate cover.

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.

Attachments

[www.fema.gov](http://www.fema.gov)



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**Attachment: DHS Management Response to Recommendations Contained in OIG  
Project No. 17-015 Draft Report**

OIG recommended that the Regional Administrator, FEMA Region VIII:

**Recommendation 1:** Disallow \$5,567,608 (\$4,175,706 Federal share) for contracts that do not comply with Federal procurement standards, unless FEMA grants an exemption for all or part of the costs as Title 2 C.F.R. section 215.4 or its successor provision allows and determines the costs are reasonable.

**Response:** Concur. FEMA Region VIII has determined all obligated expenditures were both necessary and reasonable, as defined in Appendix A, Part C of Office of Management and Budget Circular A-87. Specifically, during the closeout process, FEMA evaluated all contract costs and compared them to local rates, historical costs, and RSMeans rates (Note: RSMeans is not an acronym; it is an estimating tool commonly used within the construction industry). FEMA's evaluation of the contract cost comparisons indicated the costs of \$5,567,608 (\$4,175,706 Federal share) to be reasonable under Title 2 C.F.R. section 215.4. Relevant documentation corroborating these actions was provided to the OIG under separate cover.

We request that the OIG consider this recommendation resolved and closed as implemented.

**Recommendation 2:** Direct Colorado to work with Frasier Meadows officials to ensure Frasier Meadows implements its updated Federal procurement policies and procedures in the event of a future disaster.

**Response:** Concur. FEMA Region VIII provided technical assistance to the State of Colorado to ensure Frasier Meadows updated and implements its procurement policies. The State sent successive compliance letters to Frasier Meadows that referenced ongoing guidance from FEMA representatives. These efforts culminated in Frasier Meadows adopting a new procurement policy in June 2017. The State continues to work with Frasier Meadows to ensure it properly implements the new policy. In addition, the State has published procurement-related guidance on its website available to all subrecipients. FEMA will continue reinforcing the importance of Frasier Meadows adhering to the new policy and, in the event of a future disaster, verify compliance.

We request that the OIG consider this recommendation resolved and closed as implemented.



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**Appendix B**  
**Potential Monetary Benefits**

**Table 3: Projects Audited and Questioned Costs**

Project Number	FEMA Category of Work*	Gross Award Amount	Net Award (after insurance reduction)	Questioned Cost (Finding B)
815	B	\$ 135,391	\$ 95,272	\$ 0
853	E	11,019,799	9,217,064	5,567,608
<b>Totals</b>		<b><u>\$11,155,190</u></b>	<b><u>\$9,312,336</u></b>	<b><u>\$5,567,608</u></b>

Source: FEMA project worksheets, Frasier Meadows records, and 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).

**Table 4: Summary of Potential Monetary Benefits**

Rec No.	Type of Potential Monetary Benefit	Amount	Federal Share
1	Questioned Costs – Ineligible	\$ 5,567,608	\$ 4,175,706
	Questioned Costs - Unsupported	0	0
	Funds Put to Better Use (Cost Avoidance)	0	0
	<b>Totals</b>	<b><u>\$5,567,608</u></b>	<b><u>\$4,175,706</u></b>

Source: OIG analysis of report findings



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