

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





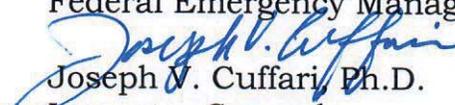
OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

July 14, 2020

MEMORANDUM FOR: The Honorable Peter Gaynor
Administrator
Federal Emergency Management Agency

FROM: 
Joseph V. Cuffari, Ph.D.
Inspector General

SUBJECT: *Houston, Texas Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant*

For your information is our final report, *Houston, Texas Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant*. We did not receive a response to our draft report from your office.

The report contains no recommendations, and as such, we consider this audit closed.

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 report on our website for public dissemination.

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

cc: Regional Administrator, FEMA Region VI



DHS OIG HIGHLIGHTS

Houston, Texas Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant

July 14, 2020

Why We Did This Audit

Houston sustained an estimated \$5.2 billion in disaster-related damages from Hurricane Harvey in 2017. Our audit objective was to determine whether Houston's procurement policies, procedures, and business practices comply with Federal procurement regulations and FEMA guidelines to expend FEMA grant funds.

What We Recommend

This report contains no recommendations.

For Further Information:

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

What We Found

Houston, Texas (Houston) has adequate policies, procedures, and business practices to comply with Federal procurement regulations and Federal Emergency Management Agency (FEMA) guidelines to expend FEMA grant funds. For example, FEMA and Texas provided adequate guidance to Houston, including weekly meetings to provide grant management monitoring, assistance, and guidance. To the extent that Houston follows its procurement policies, procedures, and business practices, FEMA should have reasonable assurance Houston will properly manage potential funding for its grant award to address the \$5.2 billion in estimated damages.

During the course of the audit, we identified an issue outside the scope of our review of Houston's procurement policies and procedures. See Appendix A for more details.

FEMA Response

FEMA did not submit a response to our draft report.



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Background

Houston, Texas, is the fourth largest city in the United States with an estimated population of 2.3 million. Hurricane Harvey struck the Texas coast as a category four hurricane on August 25, 2017. A strong rain band developed over Houston causing flash flooding and raising water levels in some areas 25 feet above flood level. Houston estimated it sustained about \$5.2 billion in disaster-related damages from Hurricane Harvey. Figure 1 shows an aerial view of the flooding.



Figure 1: Aerial view of Houston, Texas

Source: Deputy Chief, Readiness and Contingency Operations, Southwestern Division, U.S. Army Corps of Engineers

Houston's Policies Complied with Federal Requirements

Houston's disaster procurement policies, procedures, and business practices complied with Federal procurement regulations and Federal Emergency Management Agency (FEMA) guidelines with one minor exception. Houston's policies contained Federal requirements for full and open competition, performing cost or price analyses, including certain contract provisions, contracting with small and minority owned businesses, and contracting with women's business enterprises, among other requirements.¹ However, Houston's policies did not address the Federal requirement to contract with labor surplus area firms. In response to our audit, Houston revised its policy to include this requirement and bring its policy into full compliance.

¹ 2 Code of Federal Regulations (C.F.R.) §§ 200.318 – 200.326.



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FEMA and Texas provided adequate guidance to Houston, including weekly meetings to provide grant management monitoring, assistance, and guidance. If Houston follows its procurement policies, procedures, and business practices, FEMA should have reasonable assurance that Houston will properly manage its potential grant award to address \$5.2 billion in estimated damages.

Management Comments and OIG Analysis

We discussed the results of our audit with FEMA, Texas, and Houston officials during our audit. We also provided a notice of findings and recommendations in advance to these officials and discussed it at exit conferences with FEMA officials on September 5, 2019; Texas officials on November 7, 2018; and Houston officials on September 19, 2019. We considered and incorporated agency comments, as appropriate.

FEMA did not submit a response to our draft report, but informally replied that it did not identify any issues requiring further action. We consider this audit closed.

Objective, Scope, and Methodology

The 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*.

Our audit objective was to determine whether Houston's procurement policies, procedures, and business practices comply with Federal procurement regulations and FEMA guidelines to expend FEMA grant funds for FEMA Disaster Number 4332-DR-TX.

To accomplish our objective, we interviewed FEMA, Texas, and Houston officials. We also assessed the adequacy of the procurement policies, procedures, and business practices Houston uses and plans to use to expend Federal grant funds and procure and monitor disaster work. We also 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 Houston's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

We selected Houston for review from a universe of applicants downloaded from FEMA's Emergency Management Mission Integrated Environment (EMMIE) computerized information system based on the highest dollar value of projects in the FEMA Branch II and III areas, respectively. To evaluate Houston's procurement practices, we reviewed its policies and procedures in effect at the time



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of the disaster. We also discussed procurement practices with Houston contracting officials. We reviewed all of the required Federal procurement regulations and corresponding Houston policies and procedures to determine Houston's capacity to procure FEMA-funded work. We did not place any reliance on, nor did we test the data from the system, because it was not necessary to accomplish our objective.

We conducted this performance audit between December 2017 and September 2019. This audit is part of a body of public assistance grant audits conducted by our office early in the public assistance process to identify areas where the subrecipients 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 objectives. We conducted our review under the authority of the *Inspector General Act of 1978*, as amended, and followed generally accepted government auditing standards (GAGAS) with the exceptions previously noted. GAGAS requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Office of Audits major contributors to this report are C. David Kimble (Ret.), Director; Paige Hamrick (Ret.), Director; Loretta Atkinson, Director; J. Eric Barnett, Audit Manager; Jeffery Campora, Auditor-in-Charge; and Brandi Price, Program Analyst; Felipe Rodriguez, Independent Reference Reviewer; and Lindsey Koch, Communications Analyst.



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Appendix A

Other Matter - Potentially Inappropriate Costs Included in Houston's Damage Estimate

During the course of our audit, we identified an issue outside our scope of work that we raised to FEMA for consideration and corrective action, as appropriate. Specifically, we found Houston may have inappropriately included \$73.8 million in disaster damages for a separate entity, the Houston First Corporation (Houston First).

Our review of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*² and related legal authorities confirmed our view that Houston First's costs were not eligible for inclusion in Houston's damage estimate. In examining the Act and information on Houston First operations, we determined:

- Houston First is a separate legal government entity from Houston;
- Although Houston owns the leased property, the lease agreement between Houston and Houston First assigns responsibility for repair of any casualty damage to Houston First;
- Houston First has separate procurement procedures and policies that Houston does not control; and
- Houston does not directly oversee any of Houston First's procurements.

Houston First is a local government corporation that leases convention and performing arts facilities from Houston and, following Hurricane Harvey, used its own procurement policies and procedures to procure work for the disaster damages. Because this entity was outside of the scope of our audit, we did not review Houston First's procurement policies and procedures.

When we raised our concern, FEMA officials disagreed that Houston First is a separate grant applicant, stating that both Houston and Houston First have requisite legal responsibility for the disaster damage. According to FEMA officials, Houston is the owner of the damaged convention and performing arts facilities but had delegated legal authority to Houston First under the terms of an interlocal agreement. Therefore, FEMA officials maintained that Houston legally remained an eligible applicant for Houston First's disaster-related damages. FEMA took corrective action during the course of our audit to address the matter, indicating it would reiterate in writing to Houston the importance of proper oversight of all Houston First disaster benefit claims. As such, we made no recommendation in this regard.

² The Stafford Act is the legal authority that provides for public assistance grants to state and local governments for the repair, reconstruction, or replacement of public facilities.



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