OFFICE OF INSPECTOR GENERAL

FEMA Misapplied the Cost Estimating Format Resulting in an $8 Million Overfund to the Port of Tillamook Bay, Oregon

Homeland Security

May 7, 2015

OIG-15-89-D

DHS OIG Highlights

FEMA Misapplied the Cost Estimating Format Resulting in an $8 Million Overfund to the Port of Tillamook Bay, Oregon

May 7, 2015

Why We Did This

This report focuses solely on the Federal Emergency Management Agency's (FEMA) application of the Cost Estimating Format for the Port of Tillamook Bay, Oregon's (Port) most significant project, an alternate project totaling $44.6 million (Project 936).

What We Recommend

FEMA should disallow $8,021,884 in ineligible costs for the alternate project and exercise increased diligence when applying the Cost Estimating Format to complex projects.

For Further Information:

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

What We Found

FEMA officials did not use the Cost Estimating Format correctly in estimating damages to the Port's railroad. Specifically, FEMA did not follow applicable laws, regulations, and guidelines because it used improper assumptions in calculating estimated project costs using the Cost Estimating Format. As a result, FEMA overstated the Port's construction (base) and non-construction costs, which resulted in FEMA overfunding Alternate Project 936 by $8,021,884.

The misapplication of the Cost Estimating Format occurred because the technical specialists FEMA hired—to physically inspect and assess the disaster-related damages and prepare individual site cost estimates—incorrectly assumed that the entire project would be contracted through a competitive bid process using average National industry standard rates for equipment and labor to establish the estimated contract repair costs. FEMA officials failed to exercise sufficient oversight of its technical specialists to ensure that the cost estimate assumptions and methodology complied with FEMA's criteria, the Port's standard operations, and the Port engineer's cost estimate assumptions and methodology.

FEMA Response

FEMA officials partially concurred with our findings. FEMA's written response is due within 90 days.

May 7, 2015

MEMORANDUM FOR: Kenneth Murphy
Regional Administrator, Region X
Federal Emergency Management Agency

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

SUBJECT: *FEMA Misapplied the Cost Estimating Format Resulting in an $8 Million Overfund to the Port of Tillamook Bay, Oregon*
Audit Report Number OIG-15-89-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance Program grant funds awarded to the Port of Tillamook Bay, Oregon (Port). The Oregon Governor's Office of Emergency Management (Oregon), a FEMA grantee, awarded the Port $48.2 million for damages resulting from severe storms, flooding, landslides, and mudslides that occurred December 1–17, 2007. The award provided 75 percent FEMA funding. This report focuses solely on FEMA's application of the Cost Estimating Format that it used to estimate costs for an alternate project, Project 936. FEMA approved $44.6 million for the alternate project in lieu of funding projects to repair disaster-related damages primarily to the Port's railroad.

Background

Local citizens formed the Port of Tillamook Bay as an Oregon Municipal Corporation in 1911 to manage land at the entrance to the Tillamook Bay.[1] In 1953, the Port acquired the decommissioned U.S. Naval Air Station with its two blimp hangars, administrative and residential quarters, a 5.5-mile railroad spur (which connected with the Southern Pacific Railroad in downtown Tillamook), and more than 1,600 acres of land. The Port expanded its business operations in 1990 with the purchase of a 95-mile railroad line from Tillamook, up the coast to Wheeler, then east through the Coast Range to the Portland, Oregon, area.

The December 2007 storms caused significant damage to the railroad. However, because of the railroad's limited profitability and ongoing operational challenges, the Port decided that it would rather spend the Federal funds on an

[1] The Port of Tillamook Bay, Oregon, obtained its current name in 1953; before that time, the official name was the Port of Bay Ocean, Oregon.

alternate project instead of repairing its railroad. Federal rules allow FEMA to fund alternate projects under certain conditions; usually when an applicant determines that restoring a damaged public facility does not serve the public welfare.[2] This option allows the applicant to receive 90 percent of the estimated Federal funding for an approved project and use the funds for other, non-disaster-related projects.

FEMA approved the Port's request for an alternate project designation (Project 936) and used its *Cost Estimating Format for Large Projects* to estimate the cost to complete the original project: repairing the railroad to its pre-disaster condition. The Cost Estimating Format is a methodology that FEMA uses to estimate eligible construction costs—including labor, materials, and equipment—and incorporate the total as a *base cost* (Part A). FEMA then calculates the Port's non-construction costs (Parts B–H)—such as engineering and design, specialized contractors, and permit processing—as a percentage of the base cost.

For Project 936, FEMA identified 143 separate, disaster-damaged sites that the Port's Commissioners grouped into three sections: East, West, and Middle (where the majority of the damage occurred). Table 1 summarizes the damages FEMA estimated for each of the three sections.

Table 1. Cost Estimating Format Part A – FEMA-Estimated Permanent and Non-Permanent Damages to the Port of Tillamook Bay Railroad Line

Sections	Number of Segments	FEMA-Estimated Permanent Damages	FEMA-Estimated Non-Permanent Damages	Estimated Total Damages
East	14	$752,100	$60,168	$812,268
West	34	388,873	31,110	419,983
Subtotal		**$1,140,973**	**$91,278**	**$1,232,251**
Middle	95	21,983,164	1,758,653	23,741,817
Totals	**143**	**$23,124,137**	**$1,849,931**	**$24,974,068**

Source: FEMA Engineering Site Visit Reports and Cost Estimate Schedules, and Port-Commissioned Geotechnical Site Assessment Reports.

[2] The *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, Section 406 (c)(1); and 44 Code of Federal Regulations (CFR) 206.203(d)(2).

FEMA officials estimated $23,124,137 for permanent costs and $1,849,931 for non-permanent, job-specific costs to obtain a base cost of $24,974,068 for Cost Estimating Format, Part A.[3] They then applied Parts B–H to the base cost to arrive at their total estimate of $49,262,459. FEMA then reduced that amount by $4,926,246 (10 percent) because it is an alternative project and added $260,632 for grant administration.

Results of Audit

FEMA officials did not use the Cost Estimating Format correctly in estimating damages to the Port's railroad. Specifically, FEMA did not follow applicable laws, regulations, and guidelines because it applied improper assumptions in calculating estimated project costs using the Cost Estimating Format by:

- including duplicate debris removal costs,
- including excessive equipment and labor costs,
- including ineligible (excessive) non-construction costs, and
- misapplying the *General Contractor's Overhead and Profit* part.

As a result, FEMA overstated the Port's construction (base) and non-construction costs by $8,913,205, which resulted in FEMA overfunding Alternate Project 936 by $8,021,885 (see table 2).

[3] FEMA's Cost Estimating Format guidelines describe permanent costs as those costs necessary to repair/replace/reconstruct damaged elements of a facility, whereby non-permanent costs are work activities and equipment required to complete the permanent work, but not left in-place at the completion of the construction.

Table 2. Financial Impact of FEMA's Misapplication of the Cost Estimating Format

Finding	FEMA's Errors	Overstated Amount	Overfunding (at 90%, Per Alternate Project Rules)
A	Included Duplicate Debris-Removal Costs in the Base Costs	$1,140,973	$1,026,876
B	Used Excessive Equipment and Labor Rates in the Base Costs	3,000,343	2,700,309
C	Overstated Non-Construction Costs Due to Overstated Base Costs	4,291,898	3,862,708
D	Misapplied the *General Contractor's Overhead and Profit* Part	479,991	431,992
Totals		**$8,913,205**	**$8,021,885**

Source: Office of Inspector General (OIG) Analyses.

The misapplication of the Cost Estimating Format occurred because the technical specialists FEMA hired incorrectly assumed that the Port would contract the entire project through a competitive bid process using average National industry standard rates for equipment and labor to establish the estimated contract repair costs.

Finding A: FEMA Improperly Included Duplicate Debris-Removal Costs in the Cost Estimating Format's Base Costs

FEMA erroneously included $1,140,973 of duplicate debris-removal costs for the Port's East and West sections of track when calculating the base cost of the Cost Estimating Format. Thus, FEMA paid to remove the same debris twice under two separate projects. The Port removed the debris and fully restored pre-disaster functionality to those sections of track through FEMA Project 912 (totaling $578,612). Therefore, the Port's Alternate Project 936 funding of $1,140,973 ($1,026,876 at 90 percent for Alternate Project) for debris cleanup duplicated FEMA benefits (see tables 1 and 2). This condition occurred because of inadequate communication between FEMA, Oregon, and Port officials.

Section 312 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (*Stafford Act*) prohibits FEMA from providing financial assistance twice for the same loss from a major disaster or emergency (*Duplication of Benefits*). Further, FEMA's C*ost Estimating Format Instructional Guide* (Version 2, November 1998, p. 6) prohibits including large-scale debris removal emergency work in the Cost Estimating Format calculations.

FEMA's initial damage assessment of the 143 damaged sites identified debris at the East and West sections. Project 936 included the cost of the identified existing debris removal as being concurrent and incidental to future construction. However, the FEMA personnel who prepared the Cost Estimating Format calculations were unaware that the Port had already removed the debris and restored operations to the East and West sections of track under FEMA Project 912. The Port Commissioners' Regular Meeting Minutes documented that the Port had cleared the tracks with the exception of the heavily damaged Middle section.

To illustrate the communication breakdown that occurred, we asked the FEMA-contracted engineer when the Oregon Coast Scenic Railroad Tour services resumed its operation on the (restored) track in the West section.[4] Although this individual had assisted in the damage site inspections and preparation of the Cost Estimating Format (dated November 20, 2009), he was not aware that the Tour services had resumed on the restored track over 1½ years earlier. Furthermore, none of the FEMA's documentation we reviewed supported sufficient FEMA followup to note the restored activities or return of functionality to the railroad lines in the East or West sections. Had FEMA officials inquired about the updated status of the rail line (instead of relying solely on the initial damage assessments for Project 912), they would have information demonstrating that Project 912 was used to restore functionality to the track; they could have then removed the duplicate work they mistakenly included in the Cost Estimating Format for Project 936.

FEMA officials disagreed that the Port fully restored functionality to the East and West sections of the railroad track under Project 912. Therefore, FEMA contended that it did not duplicate funding to the Port. They told us that work under Project 912 removed rail-blocking debris on the East and West sections of track; however, it did not address all possible repair work. It is their position that the railroad, even if it resumed operations, still did not return to its pre-disaster functionality of being able to accommodate freight. Port officials said

[4] The Oregon Coast Scenic Railroad Tour renewed its operations on the Port's railroad lines in May 2008. We reviewed the daily Track Inspection Reports, which noted the track was acceptable for operations.

that the West section only accommodated tourist activity and not the return of freight transport. Oregon officials withheld comment until after issuance of our final report.

Our position remains unchanged because the Port restored East and West section train services consistent with pre-disaster functionality. As FEMA officials acknowledged, the East and West sections of track experienced relatively small isolated areas of embankment erosion and ballast contamination—which FEMA officials identified *before* they funded system-wide track clearance work under Project 912. The Port sufficiently resolved the minor embankment erosion and ballast contamination after the disaster through FEMA-funded Project 912. In fact, in the East section, freight traffic activity resumed and spanned all 13 of FEMA-identified disaster damage sites to Hillsboro, Oregon, where the rail connects with Class 1 lines.[5] As previously noted, the Port resumed tourist traffic activity in the West section. The Port never restored freight traffic in the West section, not because the railroad track could not accommodate such traffic, but because freight traffic could no longer travel through the major disaster damages concentrated in the railroad's Middle section. Further, all freight shipments shifted to trucks as the alternative transportation option for the entire trip because the remoteness of the Middle section entailed a lack of access to roads. Therefore, the reliable evidence supports that the work performed under FEMA-funded Project 912 returned the East and West sections to their pre-disaster functionality.

Finding B: FEMA Improperly Used Excessive Equipment and Labor Rates in the Cost Estimating Format's Base Costs

In calculating the Port's base cost for the Cost Estimating Format, FEMA inappropriately used National equipment and labor rates instead of the lower local rates that the Port normally used. This error increased the base cost by $3,000,343, which in turn increased the cost for Alternate Project 936 by $2,700,309 (90 percent).

Federal regulations and FEMA guidelines require that subgrantee's costs under a Federal grant—

[5] Before the disaster, the Port operated with a designated crew in the East section of the railroad line, between Banks and Batterson. That staff served the Port's lumber customer located in Banks, Oregon. The Port Commissioners' May 2008 meeting noted the railroad track cleared from Banks to Batterson and that the Port's railroad operations crew renewed service to the Port's lumber customer.

- must be necessary, reasonable, and "consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities" of the subgrantee (2 CFR 225, Appendix A, sections C.1.a and e);
- must not significantly deviate from the subgrantee's established practices, which may unjustifiably increase the Federal award's cost (2 CFR 225, Appendix A, section C,2.e); and
- must comply with the Federal funding principle of reasonableness; the subgrantee cannot alter its normal procedures because of the potential for reimbursement from Federal funds (*FEMA Public Assistance Guide*, FEMA 322, June 2007, p. 41).

In addition, according to FEMA's *Standard Operating Procedure for the Cost Estimating Format* (SOP 9570.8):

> *Project Specialists will request average weighted unit prices (local costs derived from actual contract history) from the applicant or relevant State/regional agency (e.g., Department of Transportation) when preparing Part A of the Cost Estimating Format. The Project Specialist should evaluate the average weighted unit price information for applicability to the eligible scope of work and consistency over a reasonable time period.*

Documentation for Project 936 states that FEMA would base its cost estimates on historic, local costs for materials, labor, suppliers, and the Port's railroad maintenance staff. Further, the Port's contracted engineering firm's report, *Analysis of Estimate of Reconstruction of Storm Damage to Railroad*, noted that the Port, Portland and Western Railroad, or other Oregon short lines could supply locomotive and crews to work with the contracted specialist. The Port regularly bases its contracted heavy equipment operator labor rates on *Prevailing Wage Rates for Public Works Contracts in Oregon*, from the Oregon Bureau of Labor and Industries. Additionally, the Port's disaster and non-disaster operations customarily use the Port's own work train and crews for service and repairs (even when contracting for specialized expertise).[6] However, when calculating estimated repair costs for the Cost Estimating Format, FEMA included costs based on higher National rates. FEMA's estimate did not use Port trains and crews. Rather it assumed a contractor would

[6] We confirmed the Port's practice of using its own work train and crew in both the current and previous FEMA disaster recovery efforts. For the current disaster, FEMA authorized the Port to use work train car equipment hourly rates based on the actual costs for disaster-related work of a modern Alaskan railroad fleet operating in FEMA Region X (*Port Equipment Rate Approval Memorandum*; May 7, 2008). FEMA's liberal assignation of these rates allowed the Port to fund its 25 percent project matching share cost with the Port's force account equipment reimbursements received from FEMA.

physically transport its own train, crew, and heavy equipment operators to the Port. This deviation from the Port's standard practices unnecessarily increased FEMA's estimate of the Cost Estimating Format's base cost by $3,000,343 ($884,938 for equipment and $2,115,405 for labor), which in turn increased the cost for Alternate Project 936 by $2,700,309 (90 percent).

FEMA did not concur with our finding. It questioned the local availability of required resources and therefore based the rates on National industry standards for non-railroad specific cost items (R.S. MEANS 2007 *Heavy Equipment Construction Estimating Guide*) and an engineering firm for railroad-specific equipment rates. Finally, FEMA stated that the limited resources of the Port would make any cost savings associated with using its in-house resources minimal. Port officials confirmed that the Port would not use its own resources, and that it would base cost estimates on contracted resources inclusive of importing a work train with crew. Oregon did not comment on this finding.

We maintain our disagreement with FEMA's methodology and reasoning. FEMA needs to balance providing financial assistance to communities affected by disasters with its fiduciary responsibility to spend taxpayers' money prudently. The worksheet FEMA prepared for Project 936 references local costs for labor, suppliers, and the railroads staff. The engineering firm the Port retained reported that rail system repairs would require specialized contractors, but that "locomotive and crews can be supplied by POTB [Port], Portland & Western Railroad, or other Oregon short lines." The Port's engineer highlighted the use of the Port's own rail cars, supplemented with similar short line carriers, recognizing the railcar usage limitations associated with the Port's rail line infrastructure, such as that only certain size cars operate on the Port's rail line.[7] FEMA provided us a schedule prepared by the (aforementioned) Port's engineers to support FEMA's Cost Estimating Format work train with crew costs, plus separate railroad car costs. However, in FEMA's Cost Estimating Format worksheet, FEMA used locomotive and crew rates that significantly exceeded the rates on *both* the Port's engineers schedule and the May 2008 FEMA-approved Port schedule (see footnote 8).[8] The Port's experience with prior storm-related disasters (such as DR-1672; November 2006) and other current disaster projects demonstrates that the Port normally used its own railroad fleet and crew. The assumptions of FEMA's technical specialist for Alternate Project 936 substantially benefited the Port through increased FEMA

[7] Special Meeting, Port of Tillamook Bay, November 11, 2008 (comments provided by Port's 15-year employee and operations manager during the 1996 flood).
[8] The schedule indicated a ballast car daily rate of $10; we used the FEMA-authorized $8 daily rate; and the Cost Estimating Format used a $20 daily rate. The schedule indicated a 2-car work train with a $30 daily rate; we used FEMA's 3-car work trains' daily rate totaling $24 per day; and the Cost Estimating Format used a $73 daily rate for the 3 railroad cars.

funding. If the Port had actually performed the railroad repairs using contracted trains, and crews, the Port would have foregone acceptance of $3,120,151 in FEMA equipment reimbursement for its own train and crew while paying 25 percent matching share payments totaling $1,597,321 for the contractor's train and crew costs. Our logic is further supported and consistent with the Port's previous 15-year employee who, when serving as its general manager, applied for an Oregon grant for fiscal year 2005–2006 to perform repairs over the Port's railroad system on the tracks, trestles, and bridges. The application noted the Port would use its own, highly qualified employees for force account work to maximize project dollars available to rehabilitate the railroad, instead of paying a contractor's higher prevailing wage rate and overhead costs. It also noted that the project dollars for wages would support Tillamook County local businesses. Therefore, all reasonable assessments of the Port using its own resources versus contracting a train with crew supports that FEMA improperly increased the cost to the Federal grant by $2,700,309 (90 percent) by improperly obligating funding based on National rather than local (Port) costs.

Finding C: FEMA Improperly Overstated Non-Construction Costs as a Result of Overstating Base Costs

The Cost Estimating Format calculates non-construction costs (Parts B–H) as a percentage of the base cost (Part A). FEMA overstated the base cost by improperly including duplicate debris removal costs (finding A) and excessive equipment and labor costs (finding B). Consequently, FEMA improperly overstated its Cost Estimating Format's non-construction costs (Parts A.2-H) by $4,291,898, which increased the Port's Alternate Project 936 obligation by $3,862,708 (90 percent).

The *Cost Estimating Format for Large Projects Instructional Guide* (Version 2, November 1998, pp. 5–6) stipulates that:

- FEMA can only include work with associated costs that are eligible under the Stafford Act and CFR in the Cost Estimating Format's base costs; and
- The Cost Estimating Format does not self-correct for estimated cost deficiencies included in the base costs.

FEMA officials concurred that potential adjustments would be required if their final evaluation of Findings A and B identifies ineligible costs. FEMA officials withheld any further comment subject to completion of their review and

issuance of our final report. Oregon and Port officials declined to comment pending issuance of the final audit report.

Project documentation validates our conclusions in findings A and B. Therefore, FEMA needs to apply the adjustments we identified in finding C.

Finding D: FEMA Misapplied Part D of the Cost Estimating Format

FEMA officials overstated the Port's railroad repair costs by $479,991—adjusted to $431,992 in excessive Alternate Project 936 cost (90 percent)—because they misapplied Part D of the Cost Estimating Format: *General Contractor's Overhead and Profit.*

FEMA officials improperly assumed that the Port would contract a work train and crew, rather than use its own work train and crew. That assumption would require the Port to pay the contractor related overhead costs and profits. We documented that the Port, as its standard practice, used its own work train and crew. The *Cost Estimating Format Instructional Guide* stipulates that, where an applicant's (Port's) equipment and labor are used, FEMA should not apply the General Contractor's Overhead. Because the Port should use its own work train and crews (see previous sections), FEMA misapplied the Cost Estimating Format and improperly inflated its estimate for repairing the Port's railroad by $479,991 ($433,552 for the Contractor's Overhead and Profit plus $46,439 for the additional impact on Parts E through H of the Cost Estimating Format).

FEMA's position is that the size and complexity of the overall repair project necessitates a specialized railroad repair contractor who could acquire the necessary equipment and specialized personnel to perform the required repairs. It is FEMA's opinion that the Port could only provide limited logistical support assistance for most of the repairs, and therefore they considered that any cost savings from using the Port's resources would be minimal. Oregon and Port officials reiterated their support of FEMA's cost assumptions and told us that they would provide additional comments after we issue our final audit report.

We do not agree with FEMA's position. As noted in finding B, FEMA's criteria limit eligible costs to activities consistent with the Port's established practices. For Project 936, the Port's engineering report stated that the Port would use its own railroad equipment with crew, which is consistent with the Port's practice of using its own railroad resources for disaster and non-disaster related work in support of the specialized contractors. We previously noted in finding B the substantial financial benefit to the Port of using its own work train with crew

versus the adverse financial impact of using a contracted work train with crew. Therefore, FEMA improperly based its inclusion of *Contractor's Overhead and Profit* on a deviation from the Port's normal practices, thereby improperly inflating its estimate for repairing the Port's railroad by $479,991. We reiterate the need for FEMA to balance providing financial assistance to communities affected by disasters with its fiduciary responsibility to spend taxpayers' money prudently. This responsibility, alongside FEMA's criteria, supports FEMA's use of the Port's documented resources and cost sources in the Cost Estimating Format's schedule instead of hypothetical National costs.

Conclusion

FEMA overstated the Port's construction costs by $8,913,205, which resulted in overfunding of Alternate Project 936 by $8,021,885 (see table 3 below). This occurred because FEMA officials made unsupportable assumptions and funding decisions when applying the Cost Estimating Format. In the future, FEMA officials must be particularly aware to:

- exclude duplicate debris removal costs;
- exclude excessive equipment and labor costs;
- exclude ineligible (excessive) non-construction costs; and
- apply accurately Part D of the Cost Estimating Format: *General Contractor's Overhead and Profit.*

Table 3. Financial Effects of FEMA's Misapplication of the Cost Estimating Format (CEF) for Project 936

Project Award Amount	FEMA Duplicate Debris-Removal Costs in CEF Base (Finding A)	FEMA Used Excessive Equipment and Labor Rates in CEF Base (Finding B)	Overstated Non-Construction Costs Resulted from Overstated Base (Finding C)	FEMA Misapplied Part D of the CEF (Finding D)	Total
$44,596,845	$1,026,876	$2,700,309	$3,862,708	$431,992	$8,021,885

Source: Port Documentation and OIG Analyses.

Recommendations

We recommend that the Regional Administrator, FEMA Region X:

Recommendation 1: Disallow $1,026,876 (Federal share $770,157) in ineligible costs where FEMA duplicated funding to the Port (finding A).

Recommendation 2: Disallow $2,700,309 (Federal share $2,025,232) in ineligible excessive labor and equipment costs (finding B).

Recommendation 3: Disallow $3,862,708 (Federal share $2,897,031) in FEMA overstated Cost Estimating Format's Parts A.2 through H, non-construction costs (finding C).

Recommendation 4: Disallow $431,992 (Federal share $323,994) in FEMA's misapplication of Part D of the Cost Estimating Format—*General Contractor's Overhead and Profit* (finding D).

Recommendation 5: Direct FEMA officials and its contracted technical specialists to scrutinize its Cost Estimating Format cost components assumptions.

Recommendation 6: Direct FEMA personnel and/or its contracted technical specialists to adhere to repair cost-estimating methodologies consistent with historical practices, and convey to the grantee and applicants that deviations from historical practices that could generate a higher Federal grant obligation are not allowable (which is especially true where the potential for alternate or improved projects exists).

Recommendation 7: Remind FEMA officials and/or its contracted technical specialists that they must supply relevant project documentation to support the factors applied to the Cost Estimating Format parts.

Discussion with FEMA and Audit Follow-Up

We discussed the results of our audit with FEMA, Oregon, and Port officials during our audit and included their comments in this report, as appropriate. We also provided FEMA information on our findings on October 23, 2013, and a written summary of our findings and recommendations in advance on June 9, 2014, and July 7, 2014. FEMA forwarded these materials to Oregon and Port officials. We discussed our findings and recommendations with FEMA

during a pre-exit conference on June 13, 2014, and again at an exit conference on July 29, 2014. We discussed our findings and recommendations at a joint exit conference with Oregon and District officials (also attended by FEMA officials) on September 3, 2014.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for the recommendation. Also, please include the contact information of responsible parties and any other supporting documentation necessary to inform us about the status of the recommendation. Please email a signed pdf copy of all responses and closeout request to Humberto Melara, Director, Western Regional Office, Office of Emergency Management Oversight, at Humberto.Melara@oig.dhs.gov. Until we receive your response, we will consider the recommendation open and unresolved.

Major contributors to this report are Humberto Melara, Director; Devin Polster, Audit Manager; and Curtis Johnson, Senior Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Humberto Melara, Director, Western Regional Office, at (510) 637-1463.

Appendix A

Objective, Scope, and Methodology

We conducted this performance audit between September 2013 and September 2014 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. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

Our audit objective was to determine whether the Port (Public Assistance Identification Number 057-U1ZZV-00) accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number 1733-DR-OR. For this report, we focused solely on FEMA's application of the Cost Estimating Format in awarding funding to the Port for its most significant disaster-repair project (Project 936).

Oregon awarded the Port $48,239,572 for damages resulting from severe storms, flooding, landslides, and mudslides that occurred from December 1–17, 2007. The award provided 75 percent FEMA funding for 6 large projects and 12 small projects.[9] FEMA approved $44,596,845 for Project 936, or 92 percent of the total award, for disaster-related damages primarily to the Port's railroad.

We interviewed FEMA, Oregon, and Port officials; gained an understanding of the Port's method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected and reviewed (generally based on dollar amounts) project costs and procurement transactions for Project 936; assessed FEMA's application of the Cost Estimating Format to Project 936; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We did not perform a detailed assessment of the Port's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective.

[9] Federal regulations in effect at the time of the disaster set the large project threshold at $60,900.

Appendix B

Report Distribution

Department of Homeland Security

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

Federal Emergency Management Agency

Administrator
Chief of Staff
Chief Financial Officer
Chief Counsel
Chief Procurement Officer
Director, Risk Management and Compliance
Audit Liaison, FEMA Region IX
Audit Liaison, FEMA (Job Code G-13-058)

Recovery Accountability and Transparency Board

Director, Investigations

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees

Appendix B (continued)

External

Director, Oregon Governor's Office of Emergency Management
Audit Liaison, Oregon Governor's Office of Emergency Management
Oregon Secretary of State, Audits Division
President of the Board, Port Commission, Port of Tillamook Bay, Oregon

ADDITIONAL INFORMATION AND COPIES

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

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

OIG HOTLINE

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

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