

**Osceola Electric  
Cooperative, Iowa,  
Generally Managed FEMA  
Grant Funds  
According to Federal  
Requirements**





# DHS OIG HIGHLIGHTS

## *Osceola Electric Cooperative, Iowa, Generally Managed FEMA Grant Funds According to Federal Requirements*

December 5, 2017

### Why We Did This Audit

Osceola Electric Cooperative, Inc. (Osceola) received a \$10 million Federal Emergency Management Agency (FEMA) grant award for damages caused by a severe winter storm in April 2013. Although the disaster occurred 4 years ago, Osceola has not completed all FEMA projects. We conducted this audit early in the grant process to identify areas in which Osceola may need additional technical assistance or monitoring to ensure compliance.

### What We Recommend

The report contains no recommendations.

#### **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

Osceola generally accounted for and expended \$10 million FEMA Public Assistance Funds according to Federal regulations and FEMA guidelines. In awarding contracts for disaster work, Osceola —

- performed cost/price analyses to ensure reasonable costs;
- awarded contracts through open and free competition, including providing opportunities for disadvantaged firms to compete for contracts;
- awarded only fixed-price type contracts; and
- included all required provisions in contracts.

The only noncompliance issue we identified was that Osceola awarded contracts for disaster-related work without ensuring the contractors were not debarred or suspended from receiving Federal grant or subgrant funds. We are not questioning costs for this noncompliance because we verified that none of Osceola's contractors had been debarred or suspended, and Osceola took corrective measures to include contractor verification in all future awards for disaster-related projects.

### FEMA Response

Because the audit did not identify any issues requiring further action from FEMA, we consider this audit closed.



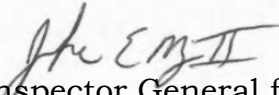
## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

DEC 5 2017

MEMORANDUM FOR: Paul J. Taylor  
Regional Administrator, Region VII  
Federal Emergency Management Agency

FROM: John E. McCoy II   
Acting Assistant Inspector General for Audits

SUBJECT: *Osceola Electric Cooperative, Iowa, Generally Managed  
FEMA Grant Funds According to Federal Requirements*

For your information is our final report, *Osceola Electric Cooperative, Iowa, Generally Managed FEMA Grant Funds According to Federal Requirements*. We audited Public Assistance grant funds awarded to Osceola Electric Cooperative, Inc., Sibley, Iowa (Osceola). The Iowa Homeland Security and Emergency Management Department (Iowa), a Federal Emergency Management Agency (FEMA) grant recipient, awarded Osceola \$10 million for damages resulting from a severe winter storm that occurred April 9–11, 2013. The award provided 75 percent Federal funding for eligible work. Iowa may also contribute up to 10 percent funding for eligible work. We audited four projects totaling \$8 million, or 80 percent of the total award (see appendix A, table 1).

We conducted this audit early in the Public Assistance process to identify areas in which Osceola may need additional technical assistance or monitoring to ensure compliance. In addition, by undergoing the audit earlier, grant recipients and subrecipients have the opportunity to correct noncompliance with Federal regulations before they spend a majority of their funding. It also allows them to supplement deficient documentation before too much time elapses. Although the disaster occurred 4 years ago, Osceola has not completed all FEMA projects. This report contains no recommendations.

Please call me with any questions at (202) 254-4100, or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General at (202) 254-4100.



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### Background

Osceola is a non-profit electric cooperative that provides services to 1,200 metered accounts in rural northwest Iowa. Although no town exists in its service area, Osceola provides power to a critical facility that treats and provides water to eight towns within Osceola County. A winter storm beginning on April 9, 2013, left more than 6 inches of snow on top of ice, damaging about 298 miles of electrical lines (see figure 1). All 1,200 meters were powerless and remained without power for periods that ranged from several hours to 7 days. Osceola employees made initial emergency repairs supplemented by preexisting Mutual Aid Agreements with other electrical cooperatives. From April 9–14, 2013, power was intermittent as Mutual Aid and Osceola crews worked side-by-side to restore emergency power. Osceola received donated resources from local farmers who aided the repairs by donating time and use of personal agricultural tractors to tow electrical equipment in and out of soggy right-of-ways. By April 14, 2013, Osceola restored power to all homes and businesses in its service area. The President declared the major disaster on May 6, 2013.

**Figure 1: Damaged Power-lines, Osceola County, Iowa**



Source: Osceola Electric Cooperative, Inc.



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### Results of Audit

Osceola generally accounted for and expended \$10 million FEMA Public Assistance Funds according to Federal regulations and FEMA guidelines. We did identify one issue related to procurement standards; however, we did not question costs because there was no negative effect.

Osceola awarded contracts totaling \$8.9 million to perform permanent disaster-related repairs.<sup>1</sup> In awarding these contracts, Osceola complied with most procurement standards in accordance with Title 2 Code of Federal Regulations (CFR) Part 215 – Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Learning, Hospitals, and other Non-Profit Organizations (OMB Circular A-110). For example, Osceola —

- performed and documented cost/price analyses to ensure reasonable costs (2 CFR § 215.45);
- awarded contracts through “open and free competition”, including alertness to conflict of interests or anti-competitive conduct among bidders (2 CFR § 215.43);
- awarded only contracts that were in the best interests of “program or project” (2 CFR § 215.44(c)); and
- included all required provisions in contracts (2 CFR § 215.48(a) & (b)).

The only noncompliance issue we identified was that Osceola awarded contracts for disaster-related work without ensuring the contractors were not debarred or suspended from receiving Federal grant or subgrant funds as required by 2 CFR § 215.13. Compliance with this regulation lessens the risk of subrecipients awarding contracts to unscrupulous firms or individuals.

We are not questioning costs for this noncompliance because we verified that none of Osceola’s contractors had been debarred or suspended, and Osceola took corrective measures to include contractor verification in all future awards for disaster-related projects. Osceola officials understood this Federal procurement requirement, but incorrectly presumed that a debarred or suspended contractor would not be able to obtain licensing or bonding.

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<sup>1</sup> The scope of some of these contracts overlapped into two projects outside of our audit scope (see table 2 in appendix A).



## Discussion with Management

We discussed the results of our audit with FEMA, Iowa, and Osceola officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance and discussed it at exit conferences with FEMA, Iowa, and Osceola officials on October 24, 2017. Because the audit did not identify any issues requiring further action from FEMA, we consider this audit closed.

The Office of Audits major contributors to this report are Tonda L. Hadley, Director (retired); Kathy Hughes, Audit Manager; Patricia Epperly, Auditor-in-Charge; Angela McNabb, Senior Auditor; Brandi Price, Auditor; Kevin Dolloson, Communications Analyst; and Aaron Naas, Independent Reference Reviewer.

## Objective, Scope, and Methodology

We audited FEMA Public Assistance grant funds awarded to Osceola (Public Assistance Identification Number 000-ULDO8-00). Our audit objective was to determine whether Osceola accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number DR-4114-IA.

The audit covered the period April 9, 2013, through January 10, 2017. The award provided 75 percent FEMA funding for seven large projects and one small project. For the four projects in our scope, we audited \$8,022,274 for eligibility and supporting documentation of costs (table 1). Additionally, we reviewed procurement procedures Osceola used to award and administer disaster-related contracts totaling \$8,935,508 (table 2). The scope of some of these contracts overlapped into two projects outside of our audit scope.

**Table 1: Projects Audited**

<b>Project Number</b>	<b>Category of Work*</b>	<b>Project Amount</b>	<b>Federal Share</b>
23	B	\$ 14,317	\$ 10,737
56	F	696,892	522,669
83	F	2,935,938	2,201,953
93	F	4,375,127	3,281,345
	<b>Total</b>	<b>\$8,022,274</b>	<b>\$6,016,704</b>

*Source:* FEMA’s project worksheets, as of January 2017; Office of Inspector General analysis



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**Table 2: Contract Costs Reviewed, by Project**

<b>Project Number</b>	<b>Category of Work*</b>	<b>Contract Costs</b>	<b>Federal Share</b>
83	F	\$2,935,938	\$2,201,954
91	F	840,132	630,099
92	F	794,631	595,973
93	F	4,364,807	3,273,605
	<b>Total</b>	<b>\$8,935,508</b>	<b>\$6,701,631</b>

Source: FEMA's project worksheets, as of January 2017, 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).

To accomplish our objectives, we interviewed FEMA, Iowa, and Osceola officials; assessed the adequacy of the procedures Osceola used to account for and expend Federal grant funds and to procure and monitor contracts for disaster work. We reviewed project costs and procurement transactions for the projects in our scope; 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 Osceola's internal controls over its grant activities because it was not necessary to accomplish our audit objective. However, we did gain an understanding of Osceola's accounting system, methods of documenting costs, and procedures used to account for and expend Federal grant funds and to procure and monitor contracts for disaster work.

We conducted this performance audit between January and July 2017 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe 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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