

**Western Farmers Electric
Cooperative, Oklahoma,
Has Adequate Policies,
Procedures, and Business
Practices to Manage Its
FEMA Grant**





DHS OIG HIGHLIGHTS

Western Farmers Electric Cooperative, Oklahoma, Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant

January 10, 2017

Why We Did This Audit

Western Farmers Electric Cooperative (Cooperative) sustained \$6.8 million in damages from winter storms and flooding in December 2015. We conducted the audit early in the grant process to identify areas where the Cooperative may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines. As of our audit cutoff date, FEMA had not obligated any funding and the Cooperative was still developing its disaster claim.

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

What We Found

The Cooperative's accounting policies, procedures, and business practices are adequate to account for FEMA grant funds according to Federal regulations and FEMA guidelines. Specifically, the Cooperative has an effective accounting system in place to ensure it accounts for disaster-related expenditures on a project-by-project basis and can properly support those expenditures. To track disaster expenditures, the Cooperative established accounting codes to track FEMA expenses once FEMA develops projects to fund the repairs.

As of June 2016, Cooperative officials said they completed all disaster repairs using their own resources and contractors. Cooperative officials also said they do not intend to claim \$4.1 million in contracting costs because they believe their contracting methodology did not fully comply with Federal requirements when hiring disaster contractors. Therefore, we did not assess the Cooperative's procurement policies and procedures, nor review its contract costs.

FEMA Response

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



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Department of Homeland Security

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

January 10, 2017

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

FROM: Thomas M. Salmon
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Western Farmers Electric Cooperative, Oklahoma, Has Adequate Policies, Procedures, and Business Practices to Manage its FEMA Grant*
Audit Report Number OIG-17-19-D

We audited the capability of Western Farmers Electric Cooperative, Oklahoma (Cooperative), to manage Federal Emergency Management Agency (FEMA) Public Assistance grant funds. We conducted this audit early in the Public Assistance Program process to identify areas where the Cooperative may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines. In addition, by undergoing an audit early in the grant cycle, grant recipients have the opportunity to correct noncompliance before they spend the majority of their grant funding. It also allows them the opportunity to supplement deficient documentation or locate missing records before too much time elapses.

At the time of our fieldwork, FEMA and the Oklahoma Department of Emergency Management (Oklahoma), a FEMA grantee, had not awarded funding to repair \$6.8 million in damages the Cooperative sustained from severe winter storms and flooding beginning December 26, 2015, and continuing through January 5, 2016. The grant award will provide 75 percent Federal funding for emergency and permanent work. Because the disaster did not impact insurable facilities, Federal regulation does not require the Cooperative to obtain insurance to cover similar damages in future disasters.

Cooperative officials said they had completed all disaster-related repairs; however, they said they will only seek reimbursement for their own force account costs — labor, materials, and equipment — totaling about \$2.7 million. Cooperative officials said they would not claim the approximately \$4.1 million in contracting costs because they believe their contracting methodology did not fully comply with Federal policies and procedures when



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hiring disaster contractors. Therefore, we did not assess the Cooperative's procurement policies and procedures, nor review any contract costs.

Background

The Cooperative, located in Anadarko, Oklahoma, is about 60 miles southwest of Oklahoma City, Oklahoma. With nearly 380 employees, the Cooperative owns and maintains more than 3,700 miles of transmission lines and 330 substations providing electrical service to two-thirds of Oklahoma. From late December to early January, winter storms and flooding caused widespread damage to power lines throughout the service area. Cooperative officials worked quickly to restore power to its customers and said they completed disaster repairs in June 2016.

We previously audited the Cooperative in 2006 (audit report DD-06-06, issued January 17, 2006) and determined that the Cooperative did not comply with Federal procurement standards or FEMA guidelines in awarding contracts worth \$7.9 million for utility repair and debris removal work.

Results of Audit

The Cooperative has adequate policies, procedures, and business practices to account for FEMA Public Assistance grant funds according to Federal regulations and FEMA guidelines. The Cooperative has an effective accounting system in place to ensure it accounts for disaster-related costs on a project-by-project basis and maintains documentation sufficient to support those costs. According to 44 Code of Federal Regulations (CFR) 206.205(b) and the FEMA *Public Assistance Program and Policy Guide* (FEMA FP 104-009-2, January 2016, p. 134), recipients must account for large project expenditures on a project-by-project basis. Also, 2 CFR 200.302(b)(3) requires subrecipients to maintain accounting records that adequately identify the source and application of Federal funds and maintain source documentation to support those accounting records. To track disaster expenditures, the Cooperative established specific accounting codes to track its FEMA-reimbursable expenses after FEMA assigns project numbers and obligates the funding.

Cooperative officials said they would not claim reimbursement from FEMA for contracting costs because they believe their contracting methodology did not fully comply with Federal requirements. We discussed this decision with FEMA officials who said they would fund only eligible force account costs. However, if the Cooperative later decides to claim contracting costs and FEMA agrees to



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fund those costs, FEMA should notify us so we can assess the Cooperative's contracting procedures.

Discussions with Management and Audit Follow-up

We discussed the results of our audit with FEMA, Oklahoma, and Cooperative officials during our audit. We also provided a draft report in advance to these officials and discussed it at exit conferences with FEMA officials on November 17, 2016, and Cooperative officials on December 2, 2016. Oklahoma officials waived their right to exit on December 6, 2016. Because the audit did not identify any issues requiring further action from FEMA, we consider this audit closed.

The Office of Emergency Management Oversight major contributors to this report are Christopher Dodd, Director; Chiquita Washington, Audit Manager; Jacob Farias, Auditor-in-Charge; and Lena Stephenson-George, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Chiquita Washington, Audit Manager, Central Regional Office - South, at (214) 436-5200.



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Appendix A Objective, Scope, and Methodology

We audited the capability of the Western Farmers Electric Cooperative, Public Assistance Identification Number 000-U05EF-00, to manage FEMA Public Assistance grant funds. Our audit objective was to determine whether the Cooperative’s policies, procedures, and business practices are adequate to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number 4256-DR-OK, which the President declared on February 10, 2016. As of August 2016, the cutoff date of our audit, FEMA had not obligated any funding or completed its development of project worksheets for damages resulting from severe winter storms and flooding beginning December 26, 2015, and continuing through January 5, 2016.

Cooperative officials said they would only seek reimbursement for force account costs, or about \$2.7 million (see table 1). The award will provide 75 percent Federal funding for emergency and permanent work. As of the audit cutoff date, the Cooperative had not submitted any reimbursement requests for its disaster costs.

Table 1: Claimed Cost Reviewed

FEMA Category of Work	Disaster Costs Incurred	Expenditures Reviewed
F - Utilities	\$ 6,785,888	\$2,675,454

Source: Office of Inspector General (OIG) analysis

We interviewed FEMA, Oklahoma, and Cooperative officials; assessed the adequacy of policies, procedures, and business practices the Cooperative uses and plans to use to account for and expend Federal grant funds; gained an understanding of the Cooperative’s method of accounting for disaster-related costs; judgmentally selected and reviewed (generally based on dollar amounts) disaster transactions; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective.



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Appendix A (continued)

We did not assess the Cooperative's procurement policies, procedures, and business practices for compliance with Federal procurement standards because Cooperative officials said they would not seek reimbursement for contract costs. If later, FEMA obligates contracting costs or the Cooperative seeks reimbursement for those costs, we will assess whether we should conduct a follow-up review. We did not perform a detailed assessment of the Cooperative's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between August and November 2016 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. In conducting this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.



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