

Milwaukie, Oregon, Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant Funding





DHS OIG HIGHLIGHTS

Milwaukie, Oregon, Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant Funding

June 6, 2017

Why We Did This Audit

The severe winter storms, straight-line winds, flooding, landslides, and mudslides during December 6–23, 2015, caused severe damage to the City of Milwaukie, Oregon (City). City officials estimate that disaster-related costs may exceed \$2.2 million. We conducted this audit early in the Public Assistance process to identify areas where the City may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines.

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 DHSOIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The City has established adequate policies, procedures, and business practices to account for and expend FEMA Public Assistance grant funds according to Federal regulations and FEMA guidelines. For example, the City can account for disaster costs on a project-by-project basis and adequately support the costs. Additionally, the City's procurement policies and procedures are consistent with Federal procurement standards.

Therefore, if the City follows those policies, procedures, and business practices, FEMA has reasonable, but not absolute, assurance that the City will properly manage the FEMA Public Assistance grant funds according to Federal regulations.

FEMA Response

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



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

June 6, 2017

MEMORANDUM FOR: Sharon Loper
Acting Regional Administrator, Region X
Federal Emergency Management Agency



FROM: John E. McCoy II
Acting Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Milwaukie, Oregon, Has Adequate Policies,
Procedures, and Business Practices to Manage Its
FEMA Grant Funding*
Audit Report Number OIG-17-66-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance grant funds awarded to the City of Milwaukie, Oregon (City). We conducted this audit early in the Public Assistance process to identify areas where the City 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.

As of February 2, 2017 (our audit cutoff date), the State of Oregon Office of Emergency Management (Oregon), a FEMA grant recipient, had awarded the City \$575,254 for damages resulting from severe winter storms, straight-line winds, flooding, landslides, and mudslides during December 6–23, 2015. The award will provide 75 percent funding for emergency protective measures and permanent work. At the time of our audit, FEMA had not finalized all project worksheets.

City officials estimate that disaster-related costs may exceed \$2.2 million, and the City was in the process of accounting for those disaster costs. Therefore, our audit assessed the policies, procedures and business practices the City used to account for and expend \$210,711 that we identified as disaster-related costs the City incurred at the time of our audit.



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Background

The City of Milwaukie, located about 7 miles from Portland, Oregon, is home to several of the state's largest employers. During the period December 6–23, 2015, widespread flooding, mud, landslides, and debris slides, as well as high winds, occurred in certain areas of the state. These events caused damages to the City's Riverside Park and Kellogg Creek Bridge. The President signed a major disaster declaration (DR-4258-OR) on February 17, 2016, to provide Oregon and local governments, assistance with recovery efforts.¹ The declaration authorized Federal Public Assistance in the designated areas and Hazard Mitigation throughout Oregon.²

Results of Audit

The City has established adequate policies, procedures, and business practices to account for and expend Federal Emergency Management Agency (FEMA) Public Assistance grant funds according to Federal regulations and FEMA guidelines. For example, the City can account for disaster costs on a project-by-project basis and adequately support the costs. Additionally, the City's procurement policies and procedures are consistent with Federal procurement standards. Therefore, if the City follows those policies, procedures, and business practices, FEMA has reasonable, but not absolute, assurance that the City will properly manage the FEMA Public Assistance grant funds according to Federal regulations.

Accounting Policies and Procedures

The City has an effective system in place to ensure it accounts for disaster-related costs on a project-by-project basis and can support the costs as the following Federal regulations and FEMA guidelines require:

- Recipients must account for large project expenditures on a project-by-project basis (44 Code of Federal Regulations (CFR) 206.205(b)). FEMA requires subrecipients to keep records for all projects on a project-by-project basis (*Public Assistance Program and Policy Guide*, FP 104-009-2/January 2016, p. 134).

¹ Federal Register, Oregon; Major Disaster and Related Determinations, 81 Fed. Reg. 14873 (March 18, 2016).

² FEMA's Public Assistance program awards grants to State, local, and federally recognized tribal governments and certain private non-profit entities to assist them with the response to and recovery from federally declared disasters. Hazard mitigation is any action taken to reduce or eliminate long-term risk to people and property from natural hazards.



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- Subrecipients must maintain accounting records that adequately identify the source and application of Federal funds and maintain source documentation to support those accounting records (2 CFR 200.302(b)(3)).

At the time of our audit, the City was in the process of accounting for disaster costs. We reviewed \$210,711 in disaster-related costs the City had incurred and determined that the City was adequately tracking the costs in its accounting system on a project-by-project basis and had maintained appropriate documentation to support the costs. Therefore, if the City continues to follow its procedures, FEMA and Oregon have reasonable, but not absolute, assurance that the City will account for disaster costs according to Federal regulations.

Procurement Practices

The City has adequate procurement practices in place to provide reasonable assurance that it will comply with Federal procurement requirements at 2 CFR 200.317 through 326. To obtain an understanding of the City's procurement practices, we reviewed its procurement policies, procedures, and contracting files. We also discussed these practices with the City's contracting officials. Nevertheless, as of our audit cutoff date, the City had only awarded four small contracts totaling \$210,711, and had not awarded any large contracts for disaster-related damages. The City's procurement policies and procedures for large contracts require the City to —

- award contracts under full and open competition;
- include required provisions in its contracts;
- conduct price or costs analysis;
- maintain adequate documentation of procurement history;
- monitor contracts; and
- provide small or disadvantaged business enterprises such as minority firms, and women's business enterprises, when possible, sufficient opportunities to bid on Federal work as Congress intended.

Discussion with Management and Audit Follow-Up

We discussed the results of our audit with FEMA, Oregon, and City officials during our audit. We also provided a draft report in advance to these officials and discussed it at exit conferences with FEMA on March 13, 2017 and with Oregon on March 16, 2017; the City did not request an exit conference. Because the audit did not identify any issues requiring further action from FEMA, we consider this audit closed.



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The Office of Emergency Management Oversight major contributors to this report are Humberto Melara, Director; Louis Ochoa, Audit Manager; Renee Gradin, Auditor-in-charge; Arona Maiava, Auditor; Daniel Flores, Auditor; and Victor Du, Independent Referencer.

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



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Appendix A

Objective, Scope, and Methodology

We audited the capability of the City (Public Assistance Identification Number 005-48650-00) to manage FEMA Public Assistance grant funds. Our audit objective was to determine whether the City's policies, procedures, and business practices are adequate to account for and expend FEMA Public Assistance Program grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number 4258-DR-OR.

The City expects to receive a Public Assistance grant award of \$2,255,073 from Oregon, the grant recipient. The award will provide 75 percent FEMA funding for one large project and two small projects (see table 1).³ Our audit covered the period of December 6, 2015, the first day of the incident period, through February 2, 2017, our audit cutoff date. At the time of our fieldwork, the City had received a cost reimbursement for one small project. We assessed the policies and procedures the City used to account for and expend FEMA funds, and audited \$210,711 the City had expended on disaster-related expenditures by the time of our audit cutoff date.

To accomplish our objectives, we interviewed FEMA, Oregon, and City officials; assessed the adequacy of the policies, procedures, and business practices the City uses and plans to use to account for and expend Federal grant funds, and to procure and monitor contracts for disaster work; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective. We limited our review of the City's internal controls to what was necessary to accomplish our audit objectives.

We conducted this performance audit between November 2016 and February 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.

³ Federal regulations in effect at the time of the disaster set the large project threshold at greater than \$121,800 [Federal Register, *Notice of Adjustment of Disaster Grant Amounts*, 80 FR 61836; October 14, 2015].



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Appendix A (Continued)

Table 1: City Projects and Anticipated Award Amounts

Project Number	Category of Work⁴	Anticipated Award Amount
68	C	\$2,130,350
241*	B	89,158
296*	G	35,565
Total		\$2,255,073

Source: Office of Inspector General and Department project listing

* Small project

⁴ FEMA identifies type of work by category: A for debris removal, B for emergency protective measures, and C–G for permanent work.



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