

**Linn County Road  
Department, Oregon, Has  
Sufficient Policies,  
Procedures, and Business  
Practices to Manage Its  
FEMA Grant Funding**





# DHS OIG HIGHLIGHTS

## *Linn County Road Department, Oregon, Has Sufficient Policies, Procedures, and Business Practices to Manage Its FEMA Grant Funding*

June 22, 2017

### Why We Did This Audit

In December 2015, Oregon experienced severe winter storms, straight-line winds, flooding, landslides, and mudslides. These events caused severe damage to the Department's roads. The Department received a \$1.3 million FEMA grant award to repair the disaster-related damages.

We conducted this audit early in the grant process to identify areas where the Department may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines.

### What We Recommend

This 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

Linn County Road Department, Oregon (Department) has adequate policies, procedures, and business practices in place to account for and expend Federal Emergency Management Agency (FEMA) Public Assistance grant funds according to Federal regulations and FEMA guidelines. The Department, however, did not always use the lowest of FEMA and local rates for equipment costs. Department officials agreed with this finding and took immediate corrective action by notifying Oregon that they would revise and resubmit payment reimbursement claims with correct equipment rate costs.

The Department also has adequate procurement policies and procedures that conform to Federal procurement standards. However, the Department did not have written procedures for small procurements that included affirmative steps to ensure the use of disadvantaged business enterprises (DBE), such as small and minority firms and women's business enterprises when possible. During our audit, the Department revised its procurement procedures for small contracts to include affirmative steps and ensure the use of DBEs when possible as 2 Code of Federal Regulations Section 200.321 requires.

Therefore, if the Department conforms to its policies, procedures, and business practices, FEMA has reasonable, but not absolute, assurance that the Department will properly manage the Public Assistance grant funds it receives.

### 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 22, 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: *Linn County Road Department, Oregon, Has Sufficient Policies, Procedures, and Business Practices to Manage Its FEMA Grant Funding*  
Audit Report Number OIG-17-79-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance grant funds awarded to the Linn County Road Department, Oregon (Department). We conducted this audit early in the Public Assistance process to identify areas where the Department 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 January 31, 2017 (our audit cutoff date), the State of Oregon Office of Emergency Management (Oregon), a FEMA recipient, awarded the Department \$1.3 million for damages resulting from severe winter storms, straight-line winds, flooding, landslides and mudslides during December 6 through 23, 2015. The award will provide 75 percent funding for debris removal, emergency protective measures, and permanent work.<sup>1</sup> At the time of our audit, the Department had completed and filed a cost reimbursement claim to Oregon for two large projects and one small project totaling \$378,531. Department officials estimate that disaster-related costs for the remaining large project will be \$741,855 and the Department is in the process of accounting for those costs. Therefore, to determine whether the Department is properly managing the FEMA grant, we assessed the policies, procedures, and business practices the Department used to support the \$378,531 cost claimed.<sup>2</sup>

<sup>1</sup> The Department opted to participate in the Alternative Procedures Pilot Program for Debris Removal and could receive an increased Federal cost share up to 85 percent of debris removal costs.

<sup>2</sup> The cost reimbursement claim was \$193,769 less than the FEMA award amount (see appendix A, table 1).



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### **Background**

The Linn County Road Department's mission is to provide safe and efficient transportation to the citizens and visitors of Linn County, Oregon. The Department is responsible for the maintenance of approximately 1,139 miles of roadway and 326 bridges. During the period December 6 through 23, 2015, widespread damage resulting from severe winter storms, straight-line winds, flooding, landslides and mudslides occurred in certain areas of the state. These events left debris or caused damage to the Department's roads.

The President signed a major disaster declaration (DR-4258-OR) on February 17, 2016, to provide Oregon and local governments, assistance with recovery efforts for the incident period of December 6 through 23, 2015 [Federal Register, Major Disaster and Related Determinations, 81 Fed. Reg. 14873 (March 18, 2016)]. The declaration authorized Federal assistance for Public Assistance in the designated areas and Hazard Mitigation throughout Oregon.<sup>3</sup>

### **Results of Audit**

The Department has adequate policies, procedures, and business practices in place to account for and expend FEMA Public Assistance grant funds according to Federal regulations and FEMA guidelines. During our audit, we determined the Department did not always use the lowest of FEMA and local rates for equipment costs. Department officials agreed with this finding and took immediate corrective action by notifying Oregon that they would revise and resubmit payment reimbursement claims with correct equipment rate costs.

The Department also has adequate procurement policies and procedures that conform to Federal procurement standards. Nevertheless, the Department did not have written procedures for small procurements that included affirmative steps to ensure the use of disadvantaged business enterprises (DBE), such as small and minority firms and women's business enterprises when possible. During our audit, the Department revised its procurement procedures for small contracts to include affirmative steps and ensure the use of DBEs when possible as 2 Code of Federal Regulations (CFR) Section 200.321 requires.

Therefore, if the Department conforms to its policies, procedures, and business practices, FEMA has reasonable, but not absolute, assurance that the Department will properly manage the Public Assistance grant funds it receives.

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<sup>3</sup> 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 an action taken to reduce or eliminate long-term risk to people and property from natural hazards.



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**Finding A: Accounting Policies and Procedures**

The Department has adequate policies, procedures, and business practices in place as the following Federal regulations and FEMA guidelines require:

- Recipients must account for large project expenditures on a project-by-project basis (44 CFR § 206.205(b)). FEMA requires subrecipients to keep all documentation pertaining to each project with the corresponding Project Worksheet (*Public Assistance Program and Policy Guide*, FP 104-009-2/January 2016, p. 134).
- 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 Department was in the process of accounting for disaster costs and had submitted three cost reimbursement claims to Oregon totaling \$378,531. We reviewed the cost reimbursement claims, determined that the Department was adequately tracking disaster-related costs in its accounting system on a project-by-project basis and had maintained appropriate documentation to support the costs. We identified that the Department included some equipment costs that exceeded the allowable FEMA equipment rates. Department officials acknowledged that they strictly applied their local rates without using FEMA equipment rates. Federal regulations at 44 CFR § 206.228(a)(1)(ii) stipulates that “where local guidelines are used to establish equipment rates, reimbursement will be based on those rates or rates in a Schedule of Equipment Rates published by FEMA, whichever is lower.”

After discussing with Department officials the requirement to use the lowest of local or FEMA equipment rates, these officials agreed with the finding and took corrective actions. Department officials notified Oregon of the revised costs claims and that they included corrected equipment rate costs.

Because of the efforts taken by the Department during the time of our audit to address this finding, we consider this finding resolved and closed.

**Finding B: Procurement Practices**

The Department has procurement policies, procedures, and business practices that conform to Federal procurement standards at 2 CFR § 200.317-326. Nevertheless, the Department did not have written procedures for small procurements that included affirmative steps to ensure the use of DBEs such as small and minority firms, women’s business enterprises, and labor surplus area firms when possible, as 2 CFR § 200.321 requires.



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By our audit cutoff date, January 31, 2017, the Department had awarded two small contracts, but no large contracts. Therefore, we reviewed the Department's procurement policies and procedures, and the process Department officials used to award the two small contracts. We determined that the Department's written procurement policies align with Federal standards, except for not having written procedures to ensure the use of DBEs under small procurements.

We are not questioning the costs pertaining to the two small contracts, because the Department awarded one of the two contracts to a women's business enterprise. Department officials stated when they are awarding small contracts their practice is to give consideration first to minority firms and women's business enterprises.

Department officials explained that in practice they implement "affirmative steps" required by 2 CFR § 200.321 when contracting for small and large procurements. These officials added that for procurements less than \$100,000, the Department's practice is to solicit DBEs and invite them to participate in the bidding process, when possible. In addition, for those procurements over \$100,000, the Department uses the County's Civil Rights Manual of 2011, adapted from Oregon's Civil Rights-Title VI, to provide opportunities for DBEs to participate in bidding for large contracts.

Department officials acknowledged that although they had practices to provide opportunities for DBEs to compete for small federally funded contracts, they had not incorporated these practices into the Department's written procurement procedures. Department officials took corrective action for this finding and revised their procurement procedures for small contracts to include affirmative steps to ensure the use of DBEs when possible, as required by 2 CFR § 200.321(b)(1)-(6).

Because of the efforts taken by the Department to address this finding during the time of our audit, we consider this finding resolved and closed.

### **Recommendations**

We recommend that the Regional Administrator, FEMA Region X:

**Recommendation #1:** Direct Oregon to ensure the Department corrects its equipment rate costs, and submits future claims with only appropriate equipment rates (finding A). Because of our audit efforts, the Department took corrective actions and revised its equipment rate costs; therefore, we consider this recommendation resolved and closed.



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**Recommendation #2:** Request Oregon to work with Department officials to ensure their understanding and compliance with all Federal procurement standards and documentation (finding B). Because of our audit, Department officials initiated corrective actions and revised their procurement procedures for small contracts to include affirmative steps to ensure the use of DBEs when possible; therefore, we consider this recommendation resolved and closed.

### **Discussion with Management and Audit Follow-Up**

We discussed the results of our audit with FEMA, Oregon, and Department 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; with Oregon on March 16, 2017; and with the Department on March 17, 2017. 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 Humberto Melara, Director; Louis Ochoa, Audit Manager; Renee Gradin, Auditor-in-charge; Willard Stark, 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 at (202) 254-4100, 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 Department (Public Assistance Identification Number 043-UNE2N-00) to manage FEMA Public Assistance grant funds. We audited FEMA Public Assistance grant funds awarded to the Department. Our audit objective was to determine whether the Department’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 Department expects to receive a Public Assistance grant award of \$1,314,155 from Oregon, the FEMA grant recipient. The award will provide 75 percent FEMA funding for an estimated three large projects and one small project (see table 1).<sup>4</sup> As of January 31, 2017, our audit cutoff date, the Department has submitted to Oregon costs claimed totaling \$378,531 for reimbursement of Public Assistance funding. Our audit covered the period of December 6, 2015, the first day of the incident period, through January 31, 2017, our audit cutoff date. We assessed the policies and procedures the Department used to account for and expend FEMA funds, and audited the \$378,531 cost claimed.

**Table 1: Department Projects and Award Amounts**

<b>Project Number</b>	<b>Category of Work<sup>5</sup></b>	<b>Award Amount</b>	<b>Reimbursement Claims</b>	<b>Difference (Award less Claim)</b>
10*	C	\$ 741,855	\$ 0	\$ 0
154	B	418,795	225,026	193,769
315	A	145,140	145,140	0
316**	B	8,365	8,365	0
<b>Total</b>		<b>\$1,314,155</b>	<b>\$378,531</b>	

*Source:* Office of Inspector General (OIG) and Department project listing  
 \*The Department has yet to submit a reimbursement claim for Project 10  
 \*\*Small project

<sup>4</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$121,800 [Federal Register, *Notice of Adjustment of Disaster Grant Amounts*, 80 FR 61836 (Oct. 14, 2015)].

<sup>5</sup> 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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### Appendix A (Continued)

To accomplish our objectives, we interviewed FEMA, Oregon, and Department officials; assessed the adequacy of the policies, procedures, and business practices the Department 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 Department's internal controls to what was necessary to accomplish our audit objectives.

We conducted this performance audit between October 2016 and January 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 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.



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**Appendix B**  
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Engineer, Linn County Road Department, Linn County, Oregon

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