

**Audit of FEMA Public
Assistance Grant Funds
Awarded to Volunteer Energy
Cooperative, Tennessee,
for February 2015 Severe
Winter Storm**





DHS OIG HIGHLIGHTS

Audit of FEMA Public Assistance Grant Funds Awarded to Volunteer Energy Cooperative, Tennessee, for February 2015 Severe Winter Storm

January 25, 2018

Why We Did This Audit

Volunteer Energy Cooperative, Tennessee, (Volunteer) received an \$8.3 million grant award from the Tennessee Emergency Management Agency (Tennessee), a FEMA grantee, for damages resulting from a severe winter storm in February 2015. We audited one large project with an award totaling \$8.3 million. Our audit objective was to determine whether Volunteer accounted for and expended FEMA funds according to Federal requirements.

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.

What We Found

Volunteer properly accounted for and adequately supported its claim of \$8.3 million for disaster-related activities. However, Volunteer's contracting process did not meet all Federal procurement requirements. Volunteer used its own contracting procedures to award \$6.5 million of noncompetitive contracts for disaster-related work. We concluded that exigent circumstances warranted Volunteer's use of noncompetitive contracts. Although Volunteer's contracting procedures did not meet Federal procurement requirements, Volunteer had completed all contract work necessary for restoring electrical power to its affected customers by March 7, 2015, almost 4 weeks *before* the Presidential disaster.

Under these circumstances, our usual practice would be to question the \$6.5 million of contract work because of the contracting deficiencies. However, because of the exigent nature of the work and extenuating circumstances regarding the timing of the disaster declaration and completion of the contract work, we are not questioning any contract costs in this case.

FEMA Response

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



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Department of Homeland Security

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

JAN 25 2018

MEMORANDUM FOR: Gracia Szczech
Regional Administrator, Region IV
Federal Emergency Management Agency

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

SUBJECT: *Audit of FEMA Public Assistance Grant Funds Awarded to Volunteer Energy Cooperative, Tennessee, for February 2015 Severe Winter Storm*

We audited Public Assistance grant funds awarded to Volunteer Energy Cooperative, Tennessee (Volunteer). Volunteer received a Public Assistance grant award of \$8.3 million from the Tennessee Emergency Management Agency (Tennessee), a Federal Emergency Management Agency (FEMA) grantee, for damages resulting from a severe winter storm in February 2015.¹ The award provided for 75 percent FEMA funding for repairs to Volunteer's electrical distribution systems. The award consisted of one large project totaling \$8.3 million.² At the time of our audit, Volunteer had completed project work and had submitted a final expenditure claim to Tennessee.

Background

During the period February 15–22, 2015, a severe winter storm with flooding and ice caused downed power lines, power outages, and extensive damage to Volunteer's electrical system in various counties of Tennessee (see figure 1). Volunteer used force account labor, equipment and inventory stock of like kind materials, assisted by contractors, to return the electrical system to its pre-disaster design, function and capacity.

¹ The award amount is the gross amount because Volunteer's insurance policies did not cover project costs.

² Federal regulations in effect at the time of disaster set the large project threshold at \$121,600 [Notice of Adjustment of Disaster Grant Amounts, Fed. Reg./Vol.79, No. 202, October 20, 2014)].



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Figure 1: Downed Power Lines from the Disaster



Source: Volunteer Energy Cooperative (www.vec.org)

On April 2, 2015, the President signed a major disaster declaration (4211-DR-TN) to provide Federal financial assistance to areas in Tennessee affected by a severe winter storm during the period February 15–22, 2015. Volunteer applied for FEMA financial assistance for disaster-related costs on April 13, 2015. Volunteer’s claim under the one project consisted mostly of contract work totaling \$6.5 million, which Volunteer procured before the April 2, 2015, Presidential disaster declaration. As the grantee, it is Tennessee’s responsibility to manage and oversee the subgrant to Volunteer, and it is FEMA’s responsibility to hold Tennessee accountable.

Results of Audit

Volunteer properly accounted for and adequately supported its claim of \$8.3 million for disaster-related activities. However, Volunteer’s contracting process did not meet all Federal procurement requirements. Instead of soliciting competitive bids, Volunteer hired time-and-material contractors that it had a previous business relationship with to perform disaster-related work. Volunteer used its own contracting procedures to award the contracts and paid the contractors a total of \$6.5 million. We concluded that exigent circumstances warranted Volunteer’s use of noncompetitive contracts. However, Volunteer did not comply with other Federal procurement requirements. Specifically, Volunteer did not (1) conduct a cost or price analysis (2 Code of Federal



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Regulations (CFR) 200.323) on the contractors' proposed prices; (2) maintain adequate procurement history (2 CFR 200.318(i)); and (3) did not place cost ceilings on the contracts (2 CFR 200.318(j)(1)). Finally, the contracts did not contain the required Federal contract provisions (2 CFR 200.326).

Under these circumstances, our usual practice would be to question the \$6.5 million of contract work because of the contracting deficiencies. However, because of the exigent nature of the work and extenuating circumstances regarding the timing of the disaster declaration and completion of the contract work, we are not questioning any contract costs for the noncompliance. In this particular case, the disaster event (severe winter storm) occurred February 15–22, 2015. Volunteer completed all contract work necessary for restoring electrical power to its affected customers by March 7, 2015, or almost 4 weeks *before* the Presidential disaster declaration on April 2, 2015. Therefore, it was impractical for Volunteer to know and fully comply with Federal award requirements because Volunteer was unaware at the time that it awarded the emergency contract work that a Federal award would be available to cover disaster-related costs.

Discussion with Management and Audit Follow-up

We discussed our audit results with Volunteer, Tennessee, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference on May 23, 2017. Furthermore, we briefed Volunteer officials on Federal procurement requirements and provided them with Federal procurement regulations so that they are fully aware of contracting procedures they must use for contract costs that may be covered under future Federal disasters. Because the audit did not identify any issues requiring further action from FEMA Region IV, we consider this audit closed.

The Office of Emergency Management Oversight major contributors to this report are David Kimble, Director; Felipe Pubillones, Audit Manager; Helen White, Auditor-in-Charge; Calbert Flowers, Auditor; and Doug Denson, Independent Referencer.

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



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Appendix A **Objective, Scope, and Methodology**

We audited Public Assistance funds awarded to Volunteer, FIPS Code 000-U0144-00. Our audit objective was to determine whether Volunteer accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster 4211-DR-TN. Volunteer received a Public Assistance grant award of \$8.3 million from Tennessee, a FEMA grantee, for damages resulting from a severe winter storm in February 2015. The award provided for 75 percent FEMA funding for one large project (Project 200) totaling \$8.3 million for repairs to Volunteer's electrical distribution systems.

The audit covered the period from February 15, 2015, to December 29, 2016, during which Volunteer claimed \$8.3 million in disaster-related expenditures under the project. At the time of our audit, Volunteer had completed work on the project and had submitted a final expenditure claim to Tennessee.

To accomplish our objective, we interviewed Volunteer, Tennessee, and FEMA personnel; gained an understanding of Volunteer's method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected (generally based on dollar amounts) and reviewed project costs and procurement transactions; 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 Volunteer's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. However, we gained an understanding of the Volunteer's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA award.

As part of our standard audit procedures, we also notified our Office of Information Technology Audits of contracts that Volunteer awarded under the grant to determine whether the contractors were debarred or whether there were any indications of other issues related to those contractors that would indicate fraud, waste, or abuse. Subsequent to the exit conference, the Office of Information Technology Audits' completed its analysis of the contracts and concluded that there were no issues related to the contractors indicating fraud, waste, or abuse.



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Appendix A (continued)

We conducted this performance audit between January and April 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. To conduct this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

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Vice President of Accounting, Volunteer Energy Cooperative, Tennessee
Director, Tennessee Emergency Management Agency
State Auditor, Tennessee