

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





DHS OIG HIGHLIGHTS

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

August 19, 2016

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 Portland, Oregon (City). City officials estimate that disaster-related costs may exceed \$11 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 Public Assistance grant funds according to Federal regulations and FEMA guidelines. The City can account for disaster costs on a project-by-project basis and adequately support the costs. Additionally, the City's insurance procedures and practices are adequate to ensure that the City can properly manage anticipated insurance proceeds. The City also has adequate procurement policies and procedures that are consistent with Federal procurement standards. Therefore, if the City follows those policies, procedures, and business practices, FEMA has reasonable assurance that the City 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

August 19, 2016

MEMORANDUM FOR: Kenneth Murphy
Regional Administrator, Region X
Federal Emergency Management Agency
Thomas M. Salmon

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

SUBJECT: *Portland, Oregon, Has Adequate Policies,
Procedures, and Business Practices to Manage Its
FEMA Grant Funding*
Audit Report Number OIG-16-122-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance grant funds awarded to the City of Portland, 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 May 19, 2016 (our audit cutoff date), FEMA and the State of Oregon Office of Emergency Management (Oregon), a FEMA grantee, were in the process of drafting the City's project worksheets to estimate 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 debris removal, emergency protective measures, and permanent work. FEMA had not finalized any project worksheets at the time of our audit, and the City had not yet completed disaster work or filed claims for reimbursement.

City officials estimate that disaster-related costs may exceed \$11 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 \$168,387 we identified as disaster-related costs the City had incurred at the time of our audit.



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Background

The City of Portland, in northwest Oregon, is home to over 600,000 residents and encompasses 133 square miles. During the period December 6–23, 2015, widespread flooding, high winds, mudslides, and landslides occurred along the western region of the state. These events caused damages to the City’s parks and roads and caused culverts to fail throughout multiple locations within the City.

The disaster destroyed homes and businesses and caused extensive damage to agricultural lands and public infrastructure. 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.¹

Results of Audit

The City has established adequate policies, procedures, and business practices to account for and expend Public Assistance grant funds according to Federal regulations and FEMA guidelines. The City can account for disaster costs on a project-by-project basis and adequately support the costs. Additionally, the City’s insurance procedures and practices are adequate to ensure that the City can properly manage anticipated insurance proceeds. The City also has adequate procurement policies and procedures that are consistent with Federal procurement standards. Therefore, if the City follows the policies, procedures, and business practices it has in place, FEMA has reasonable assurance that the City will properly manage the Public Assistance grant funds it receives.

Accounting Policies and Procedures

The City has adequate policies, procedures, and business practices in place to account for disaster-related costs on a project-by-project basis and adequately support those costs as the following Federal regulations and FEMA guidelines require:

¹ 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.



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- 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*, FEMA 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 City had begun the process of accounting for disaster costs but had not submitted a cost claim to Oregon for reimbursement. Therefore, to assess the City's accounting policies and procedures, we reviewed the City's standard administrative and financial procedures for tracking expenditures.

We also discussed these procedures with City officials to gain an understanding of how they plan to track costs they intend to claim for FEMA reimbursement. These officials explained that the administrative and accounting systems they use assign a unique identifying code to each project that will track disaster-related costs by project. The City also has procedures for properly coding disaster-related costs to the correct FEMA project and for ensuring expenditures do not exceed contract award or purchase order amounts.

Insurance Policies and Procedures

The City has adequate insurance policies and procedures in place to ensure it can properly deduct anticipated insurance recoveries from eligible project costs. Therefore, if the City follows these procedures, FEMA and Oregon have reasonable assurance that the City will deduct anticipated and actual insurance proceeds from the cost of eligible facilities and property and that the City will obtain and maintain required insurance on damaged insurable facilities as a condition of current and future FEMA funding.

As of May 19, 2016, our audit cutoff date, the City was in the process of identifying damages and estimating repair costs to its insured and uninsured facilities and had not submitted a claim with its insurance carrier. We anticipate that, based on insurance records and interviews with City officials, the City will properly deduct actual and anticipated insurance recoveries from eligible project costs as 44 CFR 206.250(c) requires.



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In our discussions, we also confirmed that City officials are aware that obtaining and maintaining insurance on damaged insurable facilities is a condition of current and future FEMA funding. The City must obtain and maintain insurance that is reasonable and necessary to protect facilities repaired or replaced using Federal funds against future loss from the types of hazard that caused the major disaster (44 CFR 206.253(b)(1) and (f)).

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 200.318 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. However, as of our audit cutoff date, the City had only awarded two small contracts valued at about \$200,000 and had not awarded any large contracts for disaster-related damages. We found that 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, sufficient opportunities to bid on Federal work when possible 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 an exit conference with the City on July 22, 2016. Because the audit did not identify any issues requiring further action from FEMA or Oregon, FEMA and Oregon officials declined the final exit conference. 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; and Victor Du, Auditor.

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



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Appendix A

Objective, Scope and Methodology

We audited FEMA Public Assistance grant funds awarded to the City of Portland, Oregon, Public Assistance Identification Number 067-59000-00. 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. 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 and prevent improper expenditure of any Federal grant funds for FEMA Disaster Number 4258-DR-OR.

Our audit covered the period of December 6, 2015, the first day of the incident period,² through May 19, 2016, our audit cutoff date. By May 19, 2016, FEMA and Oregon were in the process of drafting the City's project worksheets to estimate damages resulting from the severe winter storms, straight-line winds, flooding, landslides, and mudslides during December 6–23, 2015. The award will provide 75 percent funding for debris removal, emergency protective measures, and permanent work for small and large projects.³ City officials estimate that disaster-related costs may exceed \$11 million. At the time of our audit, the City was in the process of accounting for disaster costs but had not yet submitted a cost claim to Oregon for reimbursement. Therefore, to assess the policies, procedures, and business practices the City used to account for and expend disaster-related costs, we reviewed \$168,387 disaster-related costs the City had incurred at the time of our audit.

² 44 CFR 206.32(f) defines *incident period* as “[T]he time interval during which the disaster-causing incident occurs. No Federal assistance under the [Stafford] Act shall be approved unless the damage or hardship to be alleviated resulted from the disaster-causing incident which took place during the incident period or was in anticipation of that incident. The incident period will be established by FEMA in the FEMA State Agreement and published in the Federal Register.”

³ Federal regulations in effect at the time of the disaster set the small project threshold at \$121,800 [Notice of Adjustment of Disaster Grant Amounts, 80 Fed. Reg. 61836 (Oct. 14, 2015)].



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Appendix A (continued)

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 did not perform a detailed assessment of the City's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between May and July 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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Appendix B
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