

Boulder, Colorado, Has Adequate Policies, Procedures, and Business Practices to Manage Its FEMA Grant Funding





DHS OIG HIGHLIGHTS

Boulder, Colorado, Has Adequate Policies, Procedures, and Business Practices To Manage Its FEMA Grant Funding

January 29, 2016

Why We Did This Audit

The City of Boulder, Colorado, (City) received a Federal Emergency Management Agency (FEMA) grant award of \$19 million for damages resulting from severe storms, flooding, landslides, and mudslides that occurred during September 2013. We conducted this audit early in the grant process to identify areas where the City may need additional technical assistance or monitoring to ensure compliance with Federal requirements.

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 City's policies, procedures, and business practices are adequate to account for and expend Public Assistance grant funds according to Federal regulations and FEMA guidelines. The City accounted for and properly supported disaster-related costs on a project-by-project basis. Additionally, the City has adequate procurement policies and procedures in place that are consistent with applicable Federal procurement standards. Moreover, the City's insurance procedures and practices are adequate to ensure that the City can properly manage anticipated insurance proceeds.

Therefore, the City can provide FEMA and Colorado (FEMA's grantee) reasonable assurance that it has the capacity to comply with Federal grant requirements for this disaster.

FEMA Response

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



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Department of Homeland Security

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

January 29, 2016

MEMORANDUM FOR: Robert Farmer
Acting Regional Administrator, Region VIII
Federal Emergency Management Agency



FROM: John V. Kelly
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Boulder, Colorado, Has Adequate Policies,
Procedures, and Business Practices to Manage
Its FEMA Grant Funding*
Audit Report Number OIG-16-33-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance grant funds awarded to the City of Boulder, Colorado (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 September 3, 2015, the cutoff date for our audit, the Colorado Division of Homeland Security and Emergency Management (Colorado), a FEMA grantee, had awarded the City \$19 million for damages resulting from severe storms, flooding, landslides, and mudslides that occurred in September 2013. The award provided 75 percent FEMA funding for debris removal, emergency protective measures, and permanent work for 30 large and 29 small projects. By September 2015, the City had incurred costs for disaster-related work for large projects totaling \$13.5 million and had received reimbursements from Colorado totaling \$4.8 million. We reviewed the policies and procedures the City used to account for and expend FEMA funds for five large projects totaling \$7.5 million. To evaluate the City's policies and procedures for allocating insurance proceeds, we reviewed an additional nine projects totaling \$1.7 million (see table 1 in appendix A).



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Background

The City of Boulder is located northwest of Denver, Colorado, and is home to more than 103,000 residents populated within 24 square miles. Heavy rains from September 11, through 13, 2013, caused severe flooding that damaged over 34 City-owned buildings and 35 parks and recreation facilities, and destroyed several of the City’s infrastructures. Further, more than 1,700 homes became uninhabitable because of floodwaters, while debris covered more than 60 miles of the City’s roads (see figure 1).

Figure 1: Fourmile Canyon Creek, Boulder City, Colorado



Source: Boulder City, Colorado

The President issued an Emergency Declaration on September 12, 2013, allowing emergency services to supplement State and local efforts, and then signed a Major Disaster Declaration (DR-4145) on September 14, 2013, authorizing FEMA to support State and local response and begin recovery efforts.

Results of Audit

The City’s policies, procedures, and business practices are adequate to account for and expend Public Assistance grant funds according to Federal regulations and FEMA guidelines. The City accounted for and properly supported disaster-related costs on a project-by-project basis. Additionally, the City has adequate procurement policies and procedures in place that are consistent with applicable Federal procurement standards. Moreover, the City’s insurance procedures and practices are adequate to ensure that the City can properly manage anticipated insurance proceeds.



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We concluded, therefore, that the City could provide FEMA and Colorado reasonable assurance that it has the capacity to comply with Federal grant requirements for this disaster. Because the audit did not identify any issues recommending further actions from FEMA, we consider this audit closed.

Accounting for Disaster Cost by Project

The City's policies, procedures, and business practices are generally adequate to account for disaster-related costs on a project-by-project basis as the following Federal regulations require:

- account for large project expenditures on a project-by-project basis (44 Code of Federal Regulations (CFR) 206.205(b)); and
- maintain accounting records that adequately identify the source and application of Federal funds and maintain source documentation to support those accounting records (44 CFR 13.20(b)(2) and (6)).

We reviewed the City's standard administrative procedures for tracking expenditures, and they appear adequate. We discussed these procedures with City officials to gain an understanding of how the City tracks costs they intend to claim for FEMA reimbursement. City officials explained that their administrative and accounting system allows them to track disaster-related expenditures for payroll, force account costs, and vendor payments by project. These officials further explained that they assign a unique identification activity code to each project and ensure that total expenditures do not exceed contract award or purchase order amounts.

To evaluate the policies and procedures the City used for tracking expenditures, we reviewed source documentation such as task orders, invoices, and timesheets for five large projects totaling \$7.5 million. We determined that these records clearly identified the work performed as disaster-related and adequately supported the costs. As of September 3, 2015, our audit cutoff date, the City had received \$3.4 million in reimbursements from Colorado for the five projects, but had not yet submitted a final claim for them.



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Procurement Policies and Procedures

The City has sufficient and adequate procurement policies and procedures to comply with Federal procurement standards. These Federal procurement standards required the City to, among other things—

- conduct procurement transactions in a manner providing full and open competition (44 CFR 13.36(c)(1)). Full and open competition increases the probability of reasonable pricing from the most qualified contractors, and helps discourage and prevent favoritism, collusion, fraud, waste, and mismanagement of Federal resources;
- include specific contract provisions in federally funded contracts (44 CFR 13.36(i)). These Federal contract provisions document the rights and responsibilities of the parties and minimize the risk of contract misinterpretations and disputes. For example, the termination for cause provision gives the subgrantee the right to end an agreement with a contractor for nonperformance; in instances where contractors violate or breach contract terms, the administrative, contractual, or legal remedies provision allows for sanctions and penalties to the contractor as may be appropriate; and the access to records provision gives the subgrantee, grantee, and FEMA the right to examine the contractor's records; and
- ensure the use of small or disadvantaged business enterprises such as minority firms, and women's business enterprises, when possible (44 CFR 13.36(e)(2)(i) through (v)). As a result, FEMA has assurance that these types of firms had sufficient opportunities to bid on Federal work as Congress intended.

To obtain an understanding of the City's procurement practices, we reviewed its policies and procedures and discussed these practices with the City's contracting officials. We also reviewed procurement records such as those for contract selection, basis for contract price, requests for proposals, bid tabulations, agreements, contracts, and contract amendments from two contracts with costs totaling \$4.4 million the City awarded for FEMA-approved work.¹ We determined that the records we reviewed were sufficient to detail the significant history of the procurement as 44 CFR 13.36(b)(9) requires.

Because the City established sufficient and adequate procurement policies and procedures, it can provide FEMA reasonable assurance that the City will

¹ At the time of our audit, the City had awarded 30 contracts totaling \$10.7 million for disaster-related work, including 7 contracts totaling \$5.4 million to disadvantaged business enterprise firms.



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comply with Federal contracting requirements. City officials assured us that, throughout the life of the grant, they would continue to conduct procurements that comply with Federal procurement standards.

Insurance Policies and Procedures

The City's insurance procedures and business practices are adequate to ensure that the City deducts anticipated insurance proceeds from eligible projects in accordance with Federal regulations. The City, for its insurable facilities, received insurance recoveries totaling \$2,843,701 (\$3,143,701 insurance recoveries less \$300,000 deductible). We determined that, based on insurance records and interviews with City officials, the City properly deducted anticipated insurance recoveries from eligible project costs as 44 CFR 206.250(c) requires.²

We also discussed with City officials the need to obtain and maintain insurance on insurable facilities. 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. We also informed City officials that if they did not obtain and maintain insurance on such facilities, the City would not be eligible to receive Public Assistance for those facilities in future disasters.³

Conclusion

The City's policies, procedures, and business practices are adequate to account for disaster-related costs on a project-by-project basis. The City also has adequate procurement policies and procedures in place that are consistent with Federal procurement standards. Further, the City's insurance procedures and practices are adequate to ensure that the City can properly manage anticipated insurance proceeds. Therefore, the City can provide FEMA and Colorado reasonable assurance that the City has the capacity to comply with Federal grant requirements for this disaster.

² As of our audit cutoff date, the City had received \$2,843,701 in net insurance recoveries, of which it had allocated \$656,511 to nine FEMA projects and planned to allocate about \$450,000 in recoveries to three other FEMA projects. The City plans to allocate the remaining insurance recoveries (about \$1.7 million) to non-FEMA projects.

³ Section 311 of the *Robert T. Stafford Disaster Relief and Emergency Act*, Public Law 93-288, 42 U.S.C §5154, as amended, requires recipients of disaster assistance to obtain and maintain such types of insurance "as may be reasonably available, adequate, and necessary, to protect against future loss" to "any property to be replaced, restored, repaired, or constructed with such assistance."



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Discussion with Management and Audit Follow-Up

We discussed the results of our audit with FEMA, Colorado, and City officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to these officials and discussed it at an exit conference with FEMA officials on November 5, 2015. Colorado and City officials declined the final exit conference because there were no negative findings. 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; and Lance Louie, 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 Boulder, Colorado, Public Assistance Identification Number 013-07850-00. 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 for FEMA Disaster Number 4145-DR-CO. As of the cutoff date for our audit, September 3, 2015, Colorado, a FEMA grantee, had awarded the City \$19 million for damages resulting from severe storms, flooding, landslides, and mudslides that occurred in September 2013. The award provided 75 percent funding for debris removal, emergency protective measures, and permanent work for 30 large and 29 small projects.⁴

Our audit covered the period of September 11, 2013, the first day of the incident period, through September 3, 2015, our audit cutoff date. By September 2013, the City had incurred costs for disaster-related work totaling \$13.5 million and had received reimbursement from Colorado totaling \$4.8 million. Therefore, to assess the policies and procedures the City used to account for and expend FEMA funds, we reviewed five large projects totaling \$7.5 million, and to evaluate the City's procedures and practices for allocating insurance proceeds, we reviewed an additional nine projects totaling \$1.7 million (see table 1).

We interviewed FEMA, Colorado, and City officials; assessed the adequacy of the policies, procedures, and business practices the City used or plans to use to account for and expend Federal grant funds and to procure and monitor contracts for disaster work; judgmentally selected and reviewed (generally based on dollar amounts) project costs and procurement transactions for the projects included in our audit scope; 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.

⁴ Federal regulations in effect at the time of the disaster set the large project threshold at \$67,500.



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Appendix A (continued)

Table 1: Projects Reviewed

FEMA Project Number	FEMA Category of Work *	Gross Award Amount	City Insurance Deductions	Net Award Amount
Projects Reviewed for Accounting and Procurement Procedures				
725	B	\$ 279,443	\$ 0	\$ 279,443
840	A	2,257,653	0	2,257,653
866	B	3,421,511	0	3,421,511
1139	D	1,326,382	0	1,326,382
1175	G	187,712	0	187,712
Sub-Total		\$7,472,701	\$ 0	\$7,472,701
Projects Reviewed for Insurance Procedures				
942	E	79,812	76,563	3,249
949	E	47,394	20,267	27,127
963	E	278,581	150,722	127,859
1032	E	153,039	104,508	48,531
1034	G	259,562	15,503	244,059
1093	G	374,864	92,359	282,505
1143	F	101,779	12,430	89,349
1155	F	313,824	182,890	130,934
1180	C	42,729	1,269	41,460
Sub-Total		\$1,651,584	\$656,511	\$ 995,073
Total		\$9,124,285	\$656,511	\$8,467,774

Source: Office of Inspector General (OIG) analyses of FEMA and City documentation

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

We conducted this performance audit between August and November 2015, 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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Appendix B (continued)

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