

**Jamestown, Colorado, Needs
Additional Assistance and
Monitoring to Ensure Proper
Management of Its
\$10.4 Million FEMA Grant**





DHS OIG HIGHLIGHTS

Jamestown, Colorado, Needs Additional Assistance and Monitoring to Ensure Proper Management of Its \$10.4 Million FEMA Grant

February 2, 2016

Why We Did This Audit

The Town of Jamestown, Colorado, (Town) received a \$10.4 million Federal Emergency Management Agency (FEMA) grant award for damages resulting from severe storms, flooding, landslides, and mudslides that occurred in September 2013. We conducted this audit early in the grant process to identify areas where the Town may need additional technical assistance or monitoring to ensure compliance with Federal requirements.

What We Recommend

FEMA should direct Colorado, as the grantee, to continue providing technical assistance and monitoring to ensure the Town (1) complies with all applicable Federal regulations and (2) avoids mispending the \$10.4 million FEMA awarded the Town for disaster-related repairs.

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

Most of the Town'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 Town accounted for disaster-related costs on a project-by-project basis. The Town also has adequate procurement policies and procedures in place that are consistent with Federal procurement standards. Further, the Town's insurance procedures and practices are adequate to ensure that the Town can properly manage anticipated insurance proceeds.

Although the Town had adequate policies, procedures, and business practices, at the time of our audit, the Town lacked the personnel with the necessary financial expertise to perform financial management activities according to Federal standards. Colorado, therefore, should ensure that the Town performs these activities in accordance with Federal standards to avoid improperly spending the \$10.4 million of Federal funding that FEMA approved for the Town's disaster-related repairs.

FEMA Response

FEMA officials agreed with our findings and recommendation. FEMA's written response is due within 90 days.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

February 2, 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: *Jamestown, Colorado, Needs Additional
Assistance and Monitoring to Ensure Proper
Management of Its \$10.4 Million FEMA Grant*
Audit Report Number OIG-16-35-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance grant funds awarded to the Town of Jamestown, Colorado (Town). We conducted this audit early in the Public Assistance process to identify areas where the Town 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 June 19, 2015, the cutoff date for our audit, the Colorado Division of Homeland Security and Emergency Management (Colorado), a FEMA grantee, had awarded the Town \$10.4 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 12 large and 6 small projects.¹ In June 2015, the Town was still in the process of accounting for disaster costs and had submitted only \$378,958 in costs to Colorado for reimbursement. Therefore, to assess the policies and procedures the Town used to account for and expend FEMA funds, we reviewed costs the Town incurred for two large projects totaling \$3.3 million, for which the Town had not submitted a claim (see table 1 in Appendix A).

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$67,500 [Notice of Adjustment of Disaster Grant Amounts, 77 Fed. Reg. 61,423 (Oct. 9, 2012)].



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Background

The Town of Jamestown is a small mountain community located in Boulder County, Colorado, with a population of about 300 residents and a land area of less than one square mile. During the period of September 11, through 13, 2013, the Town sustained heavy rains causing the Town's two primary creeks to overflow. The Town's creeks formed new channels through the middle of Town, undercutting homes and roads and necessitating the evacuation of more than 90 percent of the Town's residents. The flooding and debris flow claimed one life and severely damaged or destroyed the Town's fire station, post office, drinking water plant, bridges, roads, and 62 homes (see figure 1).

Figure 1: Home Damaged by Debris Flow, Main Street, Jamestown, Colorado



Source: The Town of Jamestown, Colorado

On September 14, 2013, the President signed a major disaster declaration (DR-4145-CO) to provide Colorado and local governments assistance with recovery efforts. The declaration authorized Public Assistance and Hazard Mitigation in the designated disaster area.



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Results of Audit

Most of the Town'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 Town accounted for disaster-related costs on a project-by-project basis. The Town also has adequate procurement policies and procedures in place that are consistent with Federal procurement standards. Further, the Town's insurance procedures and practices are adequate to ensure that the Town can properly manage anticipated insurance proceeds.

Although the Town had adequate policies, procedures, and business practices, at the time of our audit, the Town did not have the personnel with the necessary financial expertise to perform financial management activities according to Federal standards. Colorado, therefore, should ensure that the Town performs these activities in accordance with Federal standards to avoid improperly spending the \$10.4 million of Federal funding FEMA approved for the Town's disaster-related repairs.

Finding A: Policies, Procedures, and Business Practices

Most of the Town's policies, procedures, and business practices are adequate to account for disaster-related costs on a project-by-project basis. The Town also has adequate procurement policies and procedures in place that are consistent with Federal procurement standards. Further, the Town's insurance procedures and practices are adequate to ensure that the Town can properly manage anticipated insurance proceeds.

Accounting for Disaster Costs by Project

The Town's policies, procedures, and business practices are generally adequate to account for disaster-related costs as the following Federal standards require:

- account for large project expenditures on a project-by-project basis (44 Code of Federal Regulations (CFR) 206.205(b));
- 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)); and
- compare actual expenditures or outlays with budgeted amounts for each grant or subgrant (44 CFR 13.20(b)(4)).



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We reviewed the Town's standard administrative procedures for tracking expenditures, and they appear adequate. We discussed these procedures with Town officials to gain an understanding of how they track costs the Town intends to claim for FEMA reimbursement. Town officials explained that their administrative and accounting system allows them to track disaster-related costs against FEMA's approved project budgets. 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 Town used for tracking expenditures, we reviewed source documentation such as task orders, invoices, and timesheets from the \$3.3 million the Town had incurred in disaster-related costs for Projects 73 and 684. We determined that these records clearly identified the work performed as disaster-related and adequately supported the costs. As of June 19, 2015, our audit cutoff date, the Town had not yet submitted a claim to Colorado for Projects 73 and 684.

If the Town complies with its stated accounting policies and procedures for the remainder of the work, FEMA will have general assurance that the Town will account for disaster-related costs in accordance with Federal regulations.

Procurement Practices

The Town has established adequate procurement policies and procedures to meet Federal procurement standards at 44 CFR 13.36. These Federal procurement standards require the Town to, among other things:

- conduct procurement transactions in a manner providing full and open competition (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 (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



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- ensure the use of small or disadvantaged business enterprises such as minority firms, and women’s business enterprises, when possible (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 Town’s procurement practices, we reviewed its procurement policies and procedures and discussed them with Town officials. We also reviewed two contracts totaling \$2.9 million—a service agreement for more than \$200,000 in disaster-related work and a repair contract valued at \$2.7 million. Town officials explained that they lack personnel to procure and manage large contracts. Therefore, to complete recovery efforts, the Town manages all procurement activities for small purchases and relies on Boulder County to procure and manage large contracts. Federal procurement standards at 44 CFR 13.36(d)(1) allow the Town to use relatively simple and informal procurement methods to procure services, supplies, or other property that does not exceed the simplified acquisition threshold, currently set at \$100,000. We reviewed task orders totaling about \$200,000 that the Town issued under one service agreement since the date of the disaster. We determined that the Town issued these task orders in accordance with its local small purchase procedures to a minority women-owned firm and had supporting records sufficient to detail the significant history of the procurement as 44 CFR 13.36(b)(9) requires.

For contracts greater than the Federal acquisition threshold, the Town executed an intergovernmental agreement (Agreement) with Boulder County, Colorado (County).² The County, under the Agreement, procures large contracts and performs contract management activities on behalf of the Town. The County advertises the disaster-related work, issues request for proposals, conducts bid tabulations, solicits small and disadvantaged business enterprises, and performs all large contract management activities. We reviewed the County’s procurement records for a \$2.7 million contract that it procured on the Town’s behalf. We determined that the records detailed the significant history of the procurement in accordance with 44 CFR 13.36(b)(9). The County also procured the contract in a manner providing full and open competition; included required contract provisions in the awarded contract; and solicited small or disadvantaged business enterprises, such as minority firms, and women’s business enterprises, when possible, as part of the bid process, consistent with 44 CFR 13.36(c)(1), (e), and (i).

² Under an intergovernmental agreement, a unit of local government enters into a written agreement with any other unit or units of local government(s) for the performance of any or all functions and activities that a party to the agreement, its officers or agencies, have authority to perform. 44 CFR 13.36(b)(5) encourages grantees and subgrantees to enter into intergovernmental agreements to help foster greater economy and efficiency of procurement.



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If the Town complies with its procurement policies and procedures, FEMA will have general assurance that (1) procurement transactions will provide full and open competition, (2) contracts for disaster-related work will include required contract provisions, and (3) small or disadvantaged business enterprises will have sufficient opportunities to compete for federally funded work as Congress intended. Town officials assured us that they would continue to conduct procurement practices that comply with Federal procurement standards.

Insurance

The Town's insurance procedures and business practices are adequate to ensure that the Town deducts anticipated insurance proceeds from eligible projects in accordance with Federal regulations. We interviewed Town officials, reviewed insurance records, and determined that the Town properly allocated and deducted insurance recoveries among eligible FEMA and non-FEMA projects as 44 CFR 206.250(c) requires. During our audit, the Town received insurance proceeds of \$853,635 and expects to receive \$14,000 more for its insurable facilities.

In our discussions with Town officials, we also confirmed that these officials are aware that obtaining and maintaining insurance on insurable facilities is a condition of current and future FEMA funding. The Town 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)).

If the Town complies with its insurance policies and procedures, FEMA will have general assurance that the Town will both (1) properly adjust the amount of the grant for insurance proceeds, and (2) obtain and maintain insurance on insurable facilities in accordance with Federal regulations.

Finding B: Financial Management Activities

Although the Town's policies and procedures for managing its disaster grant are adequate, it lacks personnel with the necessary financial expertise to implement those policies and procedures. Federal cost principles at 2 CFR 225, appendix A, section A.2.a.(3), require that "Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards." Moreover, the *Standards for Financial Management Systems* at 44 CFR 13.20(b) require, in part, that subgrantees maintain a financial management system that ensures reported



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costs are accurate, current, and complete; and maintain effective control of and accountability for subgrant assets. However, the Town cannot provide this assurance because it lacks the necessary personnel.

For example, the Town has not yet reviewed about \$4.5 million of invoices for contract work the County incurred under its intergovernmental agreement with the Town. The \$4.5 million was for completing permanent repairs to the Town's water treatment plant, roads, and bridges; and for performing debris removal and emergency road repairs throughout the Town. The Town, however, has been able to review only \$378,958 of the \$4.5 million the County incurred.

When the disaster occurred in September 2013, the Town did not have adequate financial resources and staffing to start disaster-recovery efforts. To expedite disaster repairs while waiting for FEMA funds, Colorado provided the Town over \$9 million of cash advances from State funds. The Town plans to use the FEMA award to reimburse Colorado's advanced funding. When we started this audit in June 2015, the Town, with help from the County, had made substantial progress towards completing disaster work; however, the Town had not invested enough resources to hire or contract for an adequate number of trained personnel to manage its grant.

FEMA has expressed to Town officials its concerns about the Town's inability to perform financial grant management because of inadequate staffing. Town officials acknowledged that they have not been timely in reviewing costs the County incurred from disaster-related work. The Town plans to overcome these challenges by hiring additional personnel experienced in financial management. Colorado and Town officials said that Colorado offered to train the new personnel on grant management activities and large project closeouts. These officials also stated that Colorado has dedicated a program specialist to provide the Town with additional technical assistance in grant management.

Finding C: Grant Management Issues

Almost 2 years after the disaster occurred, the Town has still not acquired personnel with financial expertise. As a result, the Town has yet to review and submit for reimbursement the majority of costs it had incurred for disaster work. FEMA told us that Colorado officials have consistently provided the Town with adequate guidance, but the Town has been slow in implementing some grant management procedures.

Colorado, as a condition of applying for a FEMA Public Assistance grant, provides assurances to FEMA that, at a minimum, it has the managerial and financial capability to ensure proper planning, management, and completion of FEMA-approved projects. Additionally, Colorado, under the grant agreement it



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signed with the Town, is responsible for ensuring that the Town meets its financial grant management responsibilities.³ Colorado officials confirmed that they had dedicated a Colorado Public Assistance project specialist to assist the Town and to train the Town's new financial specialist personnel in financial grant management and large project closeout activities.

FEMA officials said that Colorado, soon after awarding the subgrant, recognized that the Town did not have the necessary staff with financial expertise to manage the disaster funds and offered the Town funding to hire and train new personnel. FEMA officials noted that the Town has not always been receptive to promptly correcting weaknesses in its grant management process, which has resulted in delays in the hiring and the training of staff with financial expertise.

Federal regulations at 44 CFR 13.37(a)(2) require grantees to ensure that subgrantees are aware of requirements that Federal regulations impose on them. Further, 44 CFR 13.40(a) requires grantees to manage and monitor the operations of subgrant activity to ensure compliance with applicable Federal requirements. Therefore, Colorado, as the grantee, should ensure that the Town performs financial grant management activities according to Federal standards to avoid improperly spending the \$10.4 million of Federal funding FEMA approved for the Town's disaster-related repairs.

Recommendation

We recommend that the Acting Regional Administrator, FEMA Region VIII:

Recommendation: Direct Colorado, as grantee, to continue providing the Town with technical assistance it may need to ensure it complies with all applicable Federal regulations, specifically for maintaining a financial management system, to avoid improperly spending the \$10.4 million (7.8 million Federal share) that FEMA approved for disaster-related repairs (finding B).

³ Public Assistance FEMA-DR-4145-CO:I4-D4145-013, *Grant Agreement between Colorado and the Town of Jamestown*, p. 20.



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Discussion with Management and Audit Follow-Up

We discussed the results of our audit with FEMA, Colorado, and Town officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to these officials in October 2015 and discussed it at exit conferences with FEMA officials on October 28, 2015, and Colorado and Town officials on November 6, 2015. FEMA, Colorado, and Town officials agreed with the findings.

Within 90 days of the date of this memorandum, please provide our office with a written response to this draft report that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for the recommendation. Also, please include the contact information of responsible parties and any other supporting documentation necessary to inform us about the status of the recommendation. Please email a signed pdf copy of all responses and closeout request to Humberto Melara, Director, Western Regional Office, Office of Emergency Management Oversight, at Humberto.Melara@oig.dhs.gov. Until we receive and evaluate your response, we will consider the recommendations open and unresolved.

The Office of Emergency Management Oversight major contributors to this report are Humberto Melara, Director; Louis Ochoa, Audit Manager; Renee Gradin, Auditor-In-Charge; Paul Sibal, 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 Town, Public Assistance Identification Number 013-39195-00. Our audit objective was to determine whether the Town’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 Town may need additional technical assistance, or monitoring to ensure compliance, before expending the majority of the Federal grant funds for FEMA Disaster Number 4145-DR-CO. As of June 19, 2015, our audit cutoff date, Colorado, a FEMA grantee, had awarded the Town \$10.4 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 12 large and 6 small projects.

Our audit covered the period of September 11, 2013, the first day of the incident period, through June 19, 2015, our audit cutoff date. In June 2015, the Town was still in the process of accounting for disaster costs and had submitted only \$378,958 in costs to Colorado for reimbursement. Therefore, to assess the policies and procedures the Town used to account for and expend FEMA funds, we reviewed costs the Town incurred for two large projects totaling \$3.3 million, for which the Town had not submitted a claim (see table 1).

Table 1: Projects Audited

FEMA Project Number	FEMA Category of Work*	Gross Award Amount	Project Costs Incurred (As of June 2015)
73	F	\$1,728,559	\$1,306,738
684	C	5,882,040	1,960,030
Totals		\$7,610,599	\$3,266,768

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

*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)

We interviewed FEMA, Colorado, and Town officials; assessed the adequacy of the policies, procedures, and business practices the Town uses 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 the Town has incurred; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective.

We conducted this performance audit between June 2015 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. 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

Potential Monetary Benefits

Table 2: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Total	Federal Share
Questioned Costs – Ineligible	\$ 0	\$ 0
Questioned Costs – Unsupported	0	0
Funds Put to Better Use (Cost Avoidance)	10,360,695	7,770,521
Totals	\$10,360,695	\$7,770,521

Source: OIG analysis of findings in this report



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Appendix C

Report Distribution

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Appendix C (continued)

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