



Homeland Security

December 30, 2010

MEMORANDUM FOR: Nancy Ward
Regional Administrator
FEMA Region IX

FROM: 
Robert J. Lastrico
Western Regional Director

SUBJECT: *County of Ventura, California*
Public Assistance ID. No. 111-99111-00
FEMA Disaster No. 1577-DR-CA
Audit Report Number DS-11-03

We audited public assistance funds awarded to County of Ventura, California (county). The objective of the audit was to determine whether the county expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The county received a public assistance subgrant award of \$14 million from the California Office of Emergency Services (OES),¹ a FEMA grantee, for emergency protective measures and permanent repairs to facilities damaged by severe storms, flooding, debris flows, and mudslides beginning on December 27, 2004, and continuing through January 11, 2005. Of the \$14 million, FEMA provided 75% federal funding and non-federal sources funded the remaining 25% for 81 projects (40 large projects and 41 small projects²). The audit covered the period of December 27, 2004, to October 27, 2010, and included reviews of four large projects and one small project with a total award of \$1.4 million (see Exhibit). For the projects selected for review, the county had completed one large project and one small project and the remaining three large projects were in various stages of completion as of April 21, 2010. During our fieldwork, we expanded the scope of the audit to include limited reviews of insurance proceeds the county collected for disaster damage on nine projects with a total award of \$2.2 million net of any insurance recovery.

We conducted this performance audit under the authority of 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 and appropriate evidence to provide a

¹ OES became a part of the California Emergency Management Agency (Cal EMA) on January 1, 2009.

² At the time of the disaster, the large project threshold was at \$55,500.

reasonable basis for our findings and conclusions based on our audit objective. The evidence obtained during the audit fulfilled those requirements.

We discussed audit issues with FEMA, Cal EMA, and county officials. We reviewed judgmentally selected samples of cost documentation to support project costs and personnel charges; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the county’s internal controls applicable to subgrant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the county’s method of accounting for disaster-related costs.

RESULTS OF AUDIT

The county generally expended and accounted for FEMA funds according to federal regulations and FEMA guidelines. However, the county received insurance recoveries for disaster damages without notifying FEMA to offset \$1,552,284 of its share of disaster damage costs for nine projects. Also, for one large project reviewed, the county could not support \$21,604 in force account charges.

Finding	Subject	Amount Questioned
A	Insurance Proceeds	\$1,552,284
B	Force Account Labor	21,604
Total		\$1,573,888

Finding A – Insurance Proceeds

The county did not inform FEMA that \$1,552,284 in insurance proceeds it received should have reduced Project Worksheet (PW) disaster estimates or actual costs payable by FEMA. Section 312 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, P.L. 93-288, as amended, prohibits duplication of benefits received from other sources, including insurance proceeds. In addition, Title 44, *Code of Federal Regulations*, Section 206.252(c) [44 CFR 206.252(c)] requires that (1) recipients of federal disaster assistance notify FEMA of any entitlement to insurance settlement or recovery relating to a damaged facility and (2) FEMA reduce the federal contribution of eligible costs by the actual amount of insurance proceeds. Also, FEMA’s *Public Assistance Guide* (FEMA 322, October 1999, pages 89 and 94), requires FEMA to identify insurance coverage for disaster damages and reduce the amount of federal assistance by the anticipated or actual insurance proceeds available for the work.

As of May 2007, the county received about \$2.1 million in insurance reimbursements for damages resulting from the disaster. Based on our analysis of county records, \$1,658,691 of the insurance reimbursements pertained to FEMA-funded disaster repairs on nine PWs. Only three of the nine PWs identified potential insurance reimbursement of \$106,407 against FEMA-estimated project costs. The table below identifies the nine PWs eligible for insurance benefits based on the county’s documented disaster damage, and the \$1,552,284 in additional insurance recoveries the county received that are available to net project costs.

PW#	FEMA PA Award Amount (net of Insurance Recovery)	Insurance Recovery Offset	Insurance Recoveries Not Communicated to FEMA	Note
1381	16,137	0	16,137	(3)
1704	\$ 674,280	\$ 0	\$ 0	(1)
1706	34,913	18,486	32,022	(3)
1716	768,150	0	475,240	(1) & (2)
1938	16,764	0	16,640	(3)
2026	27,018	69,192	0	
2030	0	18,729	0	
2545	2,930	0	2,930	(3)
3143	625,942	0	1,009,315	(1)
Total	\$2,166,134	\$106,407	\$1,552,284	

Notes

- (1) The county plans to apply \$1,009,315 of the insurance proceeds to three PWs (1704, 1716, and 3143), but had not taken steps to determine the appropriate amount to allocate to each PW.
- (2) County documents indicated that a contractor was paid \$475,240 directly from the insurance proceeds for disaster related irrigation repairs at a county-owned golf course. The scope of work that FEMA approved under PW 1716 included golf course and the related irrigation repairs but the insurance proceeds were not netted against the PW. The county disagreed with our conclusion but did not provide documentation to support their assertion that the irrigation repairs were not included in FEMA's approved scope of work.
- (3) The county identified \$67,729 of the insurance proceeds to PWs 1381, 1706, 1938, and 2545.

The county did not comply with federal regulations requiring notification to FEMA of entitlement to insurance settlement or actual recovery [44 CFR 206.252(c)]. In regards to retaining insurance proceeds for more than 3 years without proper notification to FEMA, county officials said that they tried to give the proceeds to Cal EMA, but were told to wait for project close-out. However, there was no evidence that the county notified Cal EMA about the receipt of the additional insurance proceeds.

In addition to the county not informing FEMA about the \$1,552,284 in insurance receipts, the county's Risk Management Division has not allocated \$1.8 million in insurance proceeds for disaster damage reported by two other disaster applicants within the jurisdiction of the County of Ventura³ FEMA records supporting disaster funding for one of the two applicants did not include any information regarding insurance recoveries. FEMA should ensure that the \$1.8 million in insurance proceeds is properly allocated and netted against FEMA project costs if appropriate.

³ The county received total insurance reimbursements of about \$3.4 million related to county, Watershed Protection District, and Waterworks District #1 facilities.

Finding B – Force Account Labor

County records for PW 1222 included \$21,064 in unsupported force account labor costs. According to 44 CFR 13.20(a)(2), the county is required to have fiscal controls and accounting procedures that permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. To meet this financial management standard, the county, at a minimum, should maintain accounting records that identify how FEMA funds are used and ensure the accounting records are supported by source documents such as payroll and time and attendance records, equipment usage logs, and material acquisition reports.

The unsupported force account labor costs related to charges recorded by the county's Sheriff's Department under PW 1222. Sheriff Department officials explained that the force account labor costs were incurred as part of the emergency disaster response. Those officials however, did not provide supporting documentation such as time sheets, or similar records to identify employees who performed the disaster work, the hours worked, the pay rate, and the tasks completed.

Since county records for PW 1222 did not include documentation for the labor costs, we question the \$21,064 as unsupported.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IX:

Recommendation #1. Deobligate \$1,552,284 (federal share \$1,164,213) in unneeded funding, resulting from insurance recoveries, currently obligated to PWs 1381, 1704, 1706, 1716, 1938, 2545, and 3143 (Finding A).

Recommendation #2. Determine if any of the other county applicants (Watershed Protection District, and Waterworks District #1): a) had insurance coverage at the time of the disaster and submitted an insurance claim for damages, and b) should receive a portion of the remaining \$1.8 million in insurance proceeds not yet allocated. Also, take action to decrease the FEMA approved PW costs with actual insurance receipts or potential receipts if the applicants had insurance coverage but did not file a claim (Finding A).

Recommendation #3. Require Cal EMA to disallow \$21,064 in questionable force account charges relating to PW 1222 identified by the county as claimable costs (Finding B).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed our findings and recommendations at an exit conference held with the county on October 18, 2010. The county partially agreed with Finding A but disagreed with Finding B. We also notified FEMA and Cal EMA officials of the audit results on October 12, 2010. They withheld comments pending issuance of the final report.

Please advise this office by March 1, 2011, of the actions planned or taken to implement the recommendations, including target completion dates for any planned actions. Significant contributors to this report include Humberto Melara, Ken Valrance, Renee Gradin, and Greg Suko.

Should you have any questions, please contact me at (510) 637-1482, or your staff may contact Humberto Melara, Audit Manager, at (510) 637-1463.

cc: Audit Liaison, FEMA Region IX
Audit Liaison, FEMA (Job Code: G-10-016-EMO-FEMA)

**Schedule of Projects Reviewed
County of Ventura, California
FEMA Disaster Number 1577-DR-CA**

PW	Award Amount	Questionable Labor Costs	Funds Put to Better use**	Finding Reference
Audit sample				
1041	\$ 227,991			
1222	271,655	\$21,604		B
1223	208,697			
1485	700,000			
1944	11,619			
Subtotal	\$1,419,962	\$21,604		
Insurance review				
1381	\$ 16,137		\$ 16,137	A
1704*	674,280			
1706	34,913		32,022	A
1716*	768,150		475,240	A
1938	16,764		16,640	A
2026	27,018			
2030	0			
2545	2,930		2,930	A
3143*	625,942		1,009,315	A
Subtotal	\$2,166,134		\$1,552,284	
Total	\$3,586,096	\$21,604	\$1,552,284	

* As noted in Finding A – Note (1), the county plans to apply \$1,009,315 of the insurance proceeds to PWs 1704, 1716, and 3143, but had not taken steps to determine the appropriate amount to allocate to each PW.

** In addition to the amounts identified in this table, FEMA Region IX needs to determine the nature of \$1.8 million in insurance proceeds the county has collected for damage experienced by two other county disaster applicants (Finding A and audit recommendation #2).