



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Atlanta Field Office - Audit Division
3003 Chamblee Tucker Rd
Atlanta, GA 30341

August 21, 2003

MEMORANDUM

TO: Kenneth O. Burris, Jr.
Regional Director, FEMA Region IV

FROM: Gary J. Barard
Field Office Director

SUBJECT: City of Jacksonville, North Carolina
FEMA Disaster 1134-DR-NC
Audit Report No. DA-22-03

The Office of Inspector General (OIG) audited public assistance funds awarded to the City of Jacksonville, North Carolina. The objective of the audit was to determine whether the City accounted for and expended FEMA funds according to federal regulations and FEMA guidelines.

The City received an award of \$1.9 million from the North Carolina Division of Emergency Management, a FEMA grantee, to remove debris, provide emergency protective measures, and repair facilities damaged as a result of Hurricane Fran in September 1996. The award provided 90 percent FEMA funding for three large projects¹ and 16 small projects. Audit work was limited to the \$1,752,795 awarded and claimed under the three large projects, as follows:

Table with 3 columns: Project Number, Amount Awarded, Amount Claimed. Rows include project numbers 69678, 40361, 26424 and their respective awarded and claimed amounts, with a total of \$1,752,795.

The audit covered the period September 1996 to July 2002. During this period, the City received \$1,577,515 of FEMA funds under the three large projects.

1 According to FEMA regulations, a large project cost \$44,800 or more and a small project costs less than \$44,800.

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included tests of the City's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

The City's claim included questioned cost of \$100,930 (federal share \$90,837), resulting from charges that were excessive, unauthorized, and ineligible.

- A. Excess Contract Charges. The City's claim under Project 26424 included \$77,046 of excessive contract costs for the removal of debris. The excess costs consisted of \$72,135 for overhead and profit, and \$4,911 for insurance and bond costs.

Under the terms of the debris removal contract, overhead and profit for subcontracts was limited to five percent of the contract amount. However, for a change order that increased subcontract cost by \$687,000, the City paid the contractor and claimed \$106,485 for overhead and profit. The appropriate amount should have been \$34,350. Accordingly, the OIG questions the \$72,135 in excess of the five percent threshold.

Similarly, under the same change order, the City paid the contractor and claimed \$17,314 for insurance and bond costs. However, in this case, the contract limited such cost to 1.8 percent of the direct contract costs, which totaled \$689,040. Thus, the proper amount should have been \$12,403 ($\$689,040 \times 1.8$ percent). The OIG questions the \$4,911 of excess charges.

- B. Unauthorized Charges. The City claimed \$18,331 under Project 69678 for repairs that were not authorized or related to the project. The project was awarded to clean debris from City owned drainage ditches and channels. However, the City claimed \$17,131 for constructing a concrete header wall at Doris Avenue, and \$1,200 for placing rocks on the bank of the drainage ditch at the same location. However, these activities were not authorized or related to debris removal efforts.

Federal regulation (OMB Circular A-87, Attachment A, C.1) requires that for cost to be allowable under a federal grant program, it must be authorized and allocable to the program. Accordingly, the OIG questions these charges.

- C. Ineligible Contract Cost. Federal regulations (44 CFR 206.223) prohibit charges to a federal grant that are attributable to neglect. However, the City claimed \$5,553 of contract charges under Project 40361 for repairing damages to a sewer pipeline that were caused by neglect.

While performing repair work under the project, a City contractor damaged the sewer. Article 7 of the contract obligated the contractor to, "...be responsible for the protection of existing utilities, sidewalks, roads, buildings, and other permanent fixtures." Moreover, Article 8 of the contract obligated the City to, "...furnish all information, documents, and utility locations necessary for the commencement of the work." Therefore, the City as well as the contractor had a contractual obligation to avoid damages to existing facilities and structures.

However, the OIG found that the City did not inform the contractor of the sewer pipeline location. As a result, neither the City nor the contractor exercised due diligence to avoid damage to the sewer pipeline. Accordingly, the OIG questions the \$5,553 claimed.

RECOMMENDATION

The OIG recommends that the Regional Director, in coordination with the grantee, disallow the \$100,930 of questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of our audit with City, grantee, and FEMA officials on June 6, 2003. City officials withheld comments pending receipt of the report.

Please advise the Atlanta Field Office-Audit Division by September 22, 2003 of the actions taken to implement the recommendation. Should you have any questions concerning this report, please contact George Peoples or me at (770) 220-5242.