



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Denton Field Office - Audit Division
3900 Karina Street, Room 224
Denton, Texas 76208

March 28, 2003

MEMORANDUM FOR: David I. Maurstad
Regional Director, FEMA Region VIII

FROM: *Tonda L. Hadley*
Tonda L. Hadley
Audit Manager

SUBJECT: Benson County, North Dakota
FEMA Disaster Number 1220-DR-ND
Public Assistance Identification Number 005-00000
Audit Report Number DD-01-03

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

The County received an award of \$1.49 million from the North Dakota Division of Emergency Management (NDDEM), a FEMA grantee, for damages caused by flooding and ground saturation starting on March 2, 1998. The award provided 75 percent FEMA funding for 4 large projects and 13 small projects.¹ We examined the costs for 4 large projects and 1 small project totaling \$1.41 million, representing 94 percent of the total amount awarded. The audit covered the period March 2, 1998, to February 20, 2001, during which the County claimed \$1.49 million and NDDEM disbursed \$1.12 million in FEMA funds for direct program costs (see Exhibit).

We 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 County's accounting records, a judgmental sample of expenditures, and other auditing procedures we considered necessary under the circumstances.

¹ According to FEMA regulations in effect at the time of the disaster, a large project was defined as a project costing \$47,100 or more and a small project was defined as one costing less than \$47,100.

BACKGROUND

Two of the four large projects, Projects 99900 and 71424, were for work at multiple sites with estimated costs totaling \$1,121,286 and \$113,493, respectively. Region VIII wrote them as large projects for administrative purposes, but treated each site under the two large projects as a small project because estimated costs for each site fell below the small project threshold. Although this procedure does not conform to regulations, and the Region no longer does it, in auditing these projects we applied criteria applicable to small projects. The primary differences in small-project criteria are that subgrantees are awarded grants based on the estimate of a project's cost, rather than the actual final cost, and the subgrantee is not required to refund amounts that exceed the actual project cost.

Another practice that does not conform to regulations also affected this audit. Before the closeout of a grant, grantees are required to certify that projects were completed in accordance with FEMA approvals. However, for this disaster, the County's certification was submitted before the work was completed. Therefore, the certification was not valid and provided no assurance that projects were completed as required. FEMA OIG Report Number C-04-03, *North Dakota's Compliance with Disaster Assistance Program Requirements*, issued February 21, 2003, states in part:

[ND]DEM required subgrantees to certify that PA and HM projects were complete and all payments had been made to the subgrantee before project completion or claim payment.

The forms a subgrantee signs at the time the Damage Survey Report(DSR)/Project Worksheet (PW) is written indicate that a project is complete, and that all costs were eligible, regardless of whether the project has actually been completed. No further certification is obtained from the subgrantee after assuring that all projects have been completed. For PA, the certification indicates that all records of expenditures will be kept on a site-by-site basis

In its response to this finding, NDDEM stated, "The Certification Agreement has been amended to take into consideration work that has been completed. We now ensure that projects have been completed and all payments have been made for the subgrantee before submitting closeout documentation to the region . . ." However, for Disaster 1220, which occurred in March 1998, NDDEM required the County to certify that all projects were complete before the County received claim payment and before work on most projects had begun. Further, NDDEM did not inspect any of the projects to verify completion and only examined supporting documentation for two large projects totaling \$170,799 (Projects 71358 and 99893).

RESULTS OF AUDIT

The County's claim included questionable costs of \$111,844 (FEMA share - \$83,883), consisting of uncompleted projects (\$52,269) and uncompleted scopes of work (\$59,575).

- A. Uncompleted Projects. The County claimed \$52,269 for road repairs performed at three sites under Project 99900, but was unable to provide documentation as evidence of costs incurred or work performed at the three sites. According to 44 CFR 206.205(a), "The

federal payment for small projects shall not be reduced if all of the approved funds are not spent to complete a project. However, failure to complete a project may require that the federal payment be refunded.” It was the County’s policy to keep records of costs incurred to complete work at each site. Project 99900 consisted of 104 sites, each treated as a small project. The County was able to provide records for 101 of the 104 sites, but could not provide documentation of costs incurred or evidence of work performed for three sites identified as site 11 (\$39,578), site 18 (\$9,955), and DSR 63750 (\$2,736).² This lack of documentation, combined with the County’s invalid certification of projects’ completion, caused us to question the completion of the three projects and the \$52,269 claimed for these sites.

- B. Uncompleted Scopes of Work. The County claimed \$59,575 for three small projects (under Project 99900) without completing the FEMA-approved scope of work and without obtaining FEMA’s approval to alter the scope of work. Federal regulation 44 CFR 206.205(a) requires that small projects be completed in accordance with FEMA approvals.

DSR 99913 was for \$22,700 to repair roads in McClellan Township to conform to the Strategic Road Plan for Benson County, which included mitigation items to prevent future damage to the roads from rising water. The County completed only two of the six items in the scope of work and failed to mitigate future damage. Consequently, we question the \$22,700 because the County failed to complete the FEMA-approved scope of work.

DSR 71420 was for \$11,975 to retrieve and rework a wooden bridge deck, 18 feet wide and 31-feet long, and reset it on its existing girders. Instead, the County installed a pipe, 50 feet long and 4 feet in diameter, which did not restore the original function of the bridge. Therefore, we question \$11,975 because the County failed to complete the FEMA-approved scope of work.

DSR 63944 was for \$24,900 in engineering fees to monitor other projects and ensure that repair work and materials conformed to the approved scope of work and complied with industry standard codes, guidelines, and practices. The only documentation the County could provide was an activity log completed by the contractor hired to do the work. The log contained short, daily entries such as “office,” “shop,” or “FEMA site.” It did not include sufficient information to provide reasonable assurances that the contractor completed the scope of work approved for the project. In addition, the absence of a valid certification that the work was completed, combined with the above evidence that projects that should have been monitored by the contractor were not completed, caused us to question whether the project was completed according to the FEMA-approved scope of work. Consequently, we question the \$24,900 claimed for the work.

² Under the large projects, some individual worksites treated as small projects were identified by assigned numbers and others by DSR numbers.

RECOMMENDATION

We recommend that the Regional Director, in coordination with NDDEM, disallow \$111,844 of questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with FEMA officials on February 27, 2003, and with NDDEM and County officials on February 24, 2003. County officials reserved their comments on our findings and recommendations, stating that they are searching for additional documentation to supplement that provided to us during the audit.

Pursuant to FEMA Instruction 1270.1, please advise the Denton Field Office-Audit Division by May 27, 2003, of the actions taken to implement our recommendations. Should you have any questions concerning this report, please contact me at (940) 891-8900. Key contributors to this report were Chuck Riley, Doug Denson, and Bill Lough.

EXHIBIT

Schedule of Audited Projects
Benson County, North Dakota
FEMA Disaster Number 1220-DR-ND

<u>Project Number</u>	<u>Amount Claimed/Awarded</u>	<u>Amount Questioned</u>
99900	\$1,121,286	\$111,844
71424	113,493	0
71358	81,661	0
99893	89,138	0
59477	<u>2,255</u>	<u>0</u>
Totals	<u>\$1,407,833</u>	<u>\$111,844</u>