



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General – Office of Audits
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February 4, 2004

MEMORANDUM

TO: Jeff Griffin
Regional Director
FEMA, Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico
Field Office Director

SUBJECT: Audit of Santa Barbara County
Santa Barbara, California
Public Assistance Identification Number 083-00000
FEMA Disaster Number 1044-DR-CA
Audit Report Number DS-07-04

The Office of Inspector General (OIG) audited public assistance grant funds awarded to Santa Barbara County, Santa Barbara, California (County). The objective of the audit was to determine whether the County expended and accounted for Federal Emergency Management Agency (FEMA) funds awarded for FEMA Disaster Number 1044-DR-CA according to federal regulations and FEMA guidelines. The OIG also concurrently reviewed the award for FEMA Disaster Number 1046-DR-CA and issued a separate report on February 4, 2004 (Audit Report Number DS-08-04).

The County received an award of \$9.9 million from the California Office of Emergency Services (OES), a FEMA grantee, for emergency and protective measures, debris removal, and repair and replacement of damaged public facilities. The award resulted from severe storms and flooding that occurred from January 3, 1995, through February 10, 1995. The award provided 75 percent FEMA funding for 116 small projects and 25 large projects.¹ The

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$43,600.

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audit covered the period from January 3, 1995, to June 14, 2000, and included a review of 17 small projects and 23 large projects with a total award of \$7 million (see Exhibit A).

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to *Government Auditing Standards* issued by the Comptroller General of the United States. The audit included a review of FEMA, OES, and County records, and other auditing procedures considered necessary under the circumstances. The 17 small projects were reviewed to verify work completion and to ensure cost items were not included in other claims.

RESULTS OF AUDIT

The County's claim included questionable costs of \$433,303 (FEMA's share - \$324,977). The questionable costs consisted of \$144,442 in small projects not started or costs not documented, \$120,929 in duplicative contract and materials costs, \$94,607 for excessive force account equipment costs, \$66,505 for costs covered under FEMA's statutory administrative allowance, and \$6,820 in unsupported contract costs.

Finding A – Small Projects Not Started or Costs Not Documented

The County's claim for 17 small projects included \$144,442 for work that was not started or for costs that were not documented. Exhibit B provides project numbers, amount awarded, costs reported, and questioned costs. As discussed below, the OIG questioned the costs awarded for these small projects because of inadequate procedures and controls over the accounting for and recording of disaster-related expenditures to ensure that costs were properly allocated to specific projects. According to Title 44, Code of Federal Regulations, Section 206.204 [44 CFR 206.204], repairs must be completed no later than 18 months after the disaster declaration date unless a time extension has been requested and granted. In addition, 44 CFR 206.205 provides that failure to complete a project may require a refund of federal payments. Also, 44 CFR 13.20 provides that accounting procedures must be sufficient to establish that funds were not used in violation of applicable laws, and accounting records must be supported by source documents such as cancelled checks and contracts.

- The claim for 10 small projects included \$85,400 in costs for which there was no documentation that the projects were ever started or cost records indicating that costs were incurred and allocated to the projects. In fact, for 8 of the 10 projects, an April 8, 1999 County memorandum to FEMA stated that no costs were claimed on these projects. However, at project closeout, FEMA's final award included the eight projects and the County received payment as though the projects were completed. The OIG did not determine whether FEMA received this memorandum prior to closeout. For the remaining two projects, no costs were allocated to these projects and County officials agreed that FEMA should not reimburse the County for these projects.

- As indicated in the table below, the claim for seven small projects included \$59,042 in unsupported costs. County records did not include documented evidence the projects were completed according to the approved scope or that the costs to complete the projects were correctly allocated. As noted in the table below, County records for five projects did not include any support for \$6,552 in costs reported, such as invoices or similar documentation. For four of the five projects, County records included worksheets that detailed force account charges; however, the costs either did not reconcile to the amounts reported or were not related to the project scope. More importantly, the amounts of costs claimed for each project, even if supported by documentation, were not adequate to have completed the project scope of work. For project 20605, the documents supporting the claim showed the costs were claimed under large project 95029. For project 95152, the County supported the award of \$3,228 with a document showing a charge of \$8 for copying documents. The charge did not pertain to work required in the project scope that entailed reshaping eroded roadway shoulders, berms, and roadside drainage ditches.

<u>Small Projects</u>	<u>Amount Awarded</u>	<u>Costs Reported</u>	<u>Questioned Costs</u>	<u>Reported Costs Were:</u>
19523	\$ 3,077	\$ 41	\$ 3,077	Not Supported and Inadequate
19606	3,339	138	3,339	Not Supported and Inadequate
92710	5,084	1,156	5,084	Not Supported and Inadequate
95052	8,943	1,323	8,943	Not Supported and Inadequate
98467	<u>10,965</u>	<u>3,894</u>	<u>10,965</u>	Not Supported and Inadequate
Subtotals	\$31,408	\$6,552	\$31,408	
20605	24,406	2,742	24,406	Charged to Large Project
95152	<u>3,228</u>	<u>8</u>	<u>3,228</u>	Not related to project scope
Subtotals	\$27,634	\$2,750	\$27,634	
Totals	<u>\$59,042</u>	<u>\$9,302</u>	<u>\$59,042</u>	

Accounting for and Recording of Disaster-Related Expenditures. Small project costs claimed by the County were questioned because the County's procedures and controls over the accounting for and recording of disaster-related expenditures did not ensure that costs were properly allocated to specific projects. For example, source documents indicated that substantial charges were incurred for FEMA Disaster Number 1046 but claimed for FEMA Disaster Number 1044, and vice versa. Also, the County did not maintain master control invoices² to ensure that costs were properly allocated, which resulted in over-allocations and duplications of various invoices. The audit disclosed at least 15 instances in which the County allocated costs to small projects and allocated those same costs to large projects. Since the County did not have records supporting the costs claimed for the above seven projects, the OIG was unable in all cases to determine if the costs were: (1) actually incurred, (2) claimed under other projects, or (3) funded by another source.

² The County used a form entitled "Services and Supplies Used for Emergencies" to capture individual invoice information. However, the County did not consistently complete the forms with accurate information as to all Damage Survey Reports (projects) for which invoice costs were allocated.

The auditing of the County's claim was further complicated because some of the approved large projects contained broad County-wide scopes of work, and likewise, some of the documentation was broad in scope. The County primarily used time and materials contracting without cost ceilings or clearly defined scopes of work. This created difficulty in determining what costs should be allocated to the various projects. For example, invoice number 1790 for \$10,373 was for equipment rental at Cortona Drive but did not contain additional detail of the type of work performed. The general work description on the invoice as well as a County-wide large project contributed to the County claiming the full amount of this invoice twice--once on small project 26280 for FEMA Disaster Number 1046, and again on large project 95029 for FEMA Disaster Number 1044.

As to the difference between charging one large project versus another, this generally was determined by the OIG to be non-consequential in terms of eligible reimbursement since large projects are reimbursed on the basis of actual costs. However, since small projects are reimbursed on the basis of the project estimate and not on actual costs, the County should have identified and collected adequate documentation to support the allocation of costs to the small projects that in turn would support small project completion. In cases such as these, the documentation need not show that the County incurred as much cost as the project estimate, but should minimally cover the costs required to accomplish the project scope of work.

During the audit, the OIG requested that County officials provide documentation showing all costs related to the projects in question. The OIG advised these officials that the information was necessary to establish project completion and to verify that any costs incurred were correctly allocated and not funded by other sources such as large disaster projects. County officials said they were unaware that, for small projects, FEMA required proof that costs were properly allocated among projects and documentation showing the actual costs incurred to complete the projects' scopes of work. These officials also stated their certification of completion should be adequate for FEMA. Nonetheless, the administrative requirements specified in 44 CFR 13.20(a) and (b) do not differentiate between large and small projects in terms of financial management systems and accountability, recordkeeping, and records retention.

The County responded to this finding in a letter dated December 5, 2003, and agreed with the \$85,400 in questioned costs for those projects with no costs allocated to them. However, the County disagreed with the \$59,042 in questioned costs noting that at least some costs were allocated to the seven projects and project completion was certified by the County. The County did not address the issue of whether costs were properly allocated. Since the County did not start the ten projects and did not have documentation to verify proper allocation and source of funding for the remaining seven projects, the OIG questioned \$144,442 which was the total amount awarded for all 17 projects.

Finding B – Duplicative Contract and Materials Costs

The County claimed \$120,929 in duplicative costs for eight projects (see Exhibit C). The County posted invoice amounts to various disaster projects without master control invoices to ensure that costs were properly allocated. In some cases, the total allocated for specific invoices exceeded the invoice amount. Examples of duplicative costs are provided below:

- Invoice number 20316C, with an amount of \$42,217, was posted to three different projects with entries totaling \$84,435, or \$42,218 over the invoiced amount. The allocations included \$65,620 to project 19648, \$13,929 to project 19646, and \$4,886 to small project 39924. The OIG questioned \$42,218 out of \$65,620 allocated to project 19648.
- For various invoices claimed on project 95029, the County duplicated or over-allocated \$29,118 as follows: (1) \$10,373 was claimed on project 95029 and also claimed on small project 26280 under FEMA Disaster Number 1046, (2) \$2,704 was claimed twice on project 95029, (3) \$2,342 was claimed on project 95029 and on small project 95040, and (4) \$13,699 was claimed on project 95029 and on large project 98458.

County officials agreed the entries identified for the eight projects were erroneously recorded in duplicate and therefore, agreed with the \$120,929 questioned by the OIG.

Finding C – Excessive Force Account Equipment Costs

The County's claim for three projects included \$94,607 for force account equipment hours recorded in excess of actual hours worked by the operator identified with the equipment. Pursuant to 44 CFR 206.228(a)(1)(iii), the County claimed hourly equipment rates using the FEMA Schedule of Equipment Rates. This Schedule provides for rates that incorporate operating costs, such as fuel, repairs, etc. and therefore does not allow standby time. Also, according to 44 CFR 13.20(b)(6), accounting records must be supported by such source documentation as payrolls, time and attendance records, etc.

The following table identifies the three projects, hours claimed, actual operators hours, excess hours claimed, and questioned cost.

Project Number	Claimed Equipment Hours	Actual Operator Hours	Excess Hours	Questioned Costs
16895	5,421	1,591	3,830	\$28,676
95029	11,151	2,629	8,522	64,751
98455	77	30	47	1,180
Total	<u>16,649</u>	<u>4,250</u>	<u>12,399</u>	<u>\$94,607</u>

The County's support for the claim consisted of two spreadsheets that listed equipment items claimed, and included identifying information, such as date, equipment number, and work location. One of the spreadsheets contained the names of employees associated with the

equipment. Based on the employee names provided, the OIG compared the operator hours worked with the equipment hours claimed and determined the equipment hours exceeded the operator hours.

The OIG requested the County to provide documentation that would explain the excess hours claimed or would show the actual equipment operating time. The OIG requested specific source documents, such as daily logs or timesheets. County officials did not provide any additional documentation.

Based on the operating method used by the County in claiming rates, the equipment hours claimed should normally be significantly less than the operator's hours, due to such factors as repair or service time, operator transportation time, and down time associated with the project. Since the County did not provide documents showing that the hours claimed for equipment usage were supported with hours worked by the operators, the OIG questioned \$94,607 as excessive force account equipment costs.

Finding D – Costs Covered Under FEMA's Statutory Administrative Allowance

The County's claim for three projects included \$66,505 in force account labor costs covered by FEMA's statutory administrative allowance. According to 44 CFR 206.228(a)(2)(ii), the County is reimbursed for the direct and indirect costs associated with requesting, obtaining, and administering public assistance based on a statutory percentage allowance. According to FEMA's Public Assistance Guide (FEMA 322, Page 41), examples of the activities that this allowance is intended to cover include identifying and assessing damages.

Based on direct project costs claimed by the County, FEMA paid an administrative percentage allowance of \$85,246. However, the County also claimed as direct project costs \$50,739 for project 98455, \$12,834 for project 16895, and \$2,932 for project 98458. The charges included costs for general administrative tasks and for performing damage assessments of County owned facilities. County officials agreed the claimed costs were administrative in nature and should not have been claimed as direct project costs.

Since the regulations limit administrative costs to the percentage allowance, such costs claimed as direct project costs are ineligible for FEMA reimbursement. Therefore, the \$66,505 was questioned by the OIG.

Finding E – Unsupported Contract Costs

The County claimed \$6,820 in unsupported costs for project 95029. While the County claimed total contract costs of \$497,296, the itemized listings of invoices totaled only \$490,476, or \$6,820 less than the amount claimed. The County could not provide any information or documentation to explain the additional amount claimed over the invoice amounts. According to 44 CFR 13.20(b), the County is required to maintain records to support disaster related expenditures such as cancelled checks, paid bills, and invoices. As such, the unsupported \$6,820 was questioned.

RECOMMENDATION

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES, disallow \$433,303 of questionable costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW UP

The OIG discussed the audit results with County officials on December 3, 2003. These officials agreed with findings B, C, D, and E, and partially agree with finding A as it related to the 10 small projects not started. County officials disagreed on the questioned costs for seven small projects on the basis that some costs were allocated to the small projects and they had certified the completion of the projects. The OIG informed OES and FEMA Region IX officials of the audit results on December 9, 2003.

Please advise this office by April 5, 2004, of the actions taken to implement the recommendation. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Jack Lankford and Montul Long.

Schedule of Projects Audited
Santa Barbara County, California
Public Assistance Identification Number 083-00000
FEMA Disaster Number 1044-DR-CA

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Questioned Costs</u>	<u>Finding Reference</u>
<u>Large Projects</u>			
12537	\$ 939,584	\$ 0	
16895	191,567	41,510	C & D
19027	155,641	0	
19543	93,820	0	
19603	122,858	4,443	B
19630	1,041,166	13,139	B
19634	391,903	0	
19646	300,663	0	
19648	710,605	42,218	B
19650	322,203	21,466	B
19656	526,805	0	
19659	337,613	2,570	B
19662	48,286	0	
20604	113,061	0	
20613	43,710	0	
20680	55,872	0	
39768	57,545	0	
39863	96,423	462	B
39871	158,804	0	
95029	634,714	100,689	C, B, & E
95032	58,433	0	
98455	96,282	51,919	D & C
98458	<u>331,508</u>	<u>10,445</u>	B & D
Subtotals	\$6,829,066	\$288,861	
17 Small Projects (see Exhibit B)	<u>144,442</u>	<u>144,442</u>	A
Totals	<u>\$6,973,508</u>	<u>\$433,303</u>	

Schedule of Projects Audited (continued)
Santa Barbara County, California
Public Assistance Identification Number 083-00000
FEMA Disaster Number 1044-DR-CA

Finding Reference Legend:

- A – Small Projects Not Started or Costs Not Documented
- B – Duplicative Contract and Materials Costs
- C – Excessive Force Account Equipment Costs
- D – Costs Covered Under FEMA's Statutory Administrative Allowance
- E – Unsupported Contract Costs

Schedule of Small Projects Audited
 Santa Barbara County, California
 Public Assistance Identification Number 083-00000
 FEMA Disaster Number 1044-DR-CA

<u>Small Projects</u>	<u>Amount Awarded</u>	<u>Costs Reported</u>	<u>Questioned Costs</u>
<u>Small Projects Not Started</u>			
29657	\$ 5,584	\$ 0	\$ 5,584
20619	23,237	0	23,237
46572	7,817	0	7,817
58653	27,906	0	27,906
00860	1,454	0	1,454
93328	2,514	0	2,514
95045	1,415	0	1,415
95046	5,514	0	5,514
95047	5,959	0	5,959
95069	<u>4,000</u>	<u>0</u>	<u>4,000</u>
Subtotals	\$85,400	\$ 0	\$ 85,400
<u>Small Projects Costs Not Documented</u>			
19523	\$ 3,077	\$ 41	\$ 3,077
19606	3,339	138	3,339
20605	24,406	2,742	24,406
92710	5,084	1,156	5,084
95052	8,943	1,323	8,943
95152	3,228	8	3,228
98467	<u>10,965</u>	<u>3,894</u>	<u>10,965</u>
Subtotals	\$ 59,042	\$9,302	\$ 59,042
Totals	<u>\$144,442</u>	<u>\$9,302</u>	<u>\$144,442</u>

Schedule of Duplicative Contract and Materials Costs
 Santa Barbara County, California
 Public Assistance Identification Number 083-00000
 FEMA Disaster Number 1044-DR-CA

<u>Large Projects</u>	<u>Amount Awarded</u>	<u>Questioned Costs</u>
19603	\$ 122,858	\$ 4,443
19630	1,041,166	13,139
19648	710,605	42,218
19650	322,203	21,466
19659	337,613	2,570
39863	96,423	462
95029	634,714	29,118
98458	<u>331,508</u>	<u>7,513</u>
Totals	<u>\$3,597,090</u>	<u>\$120,929</u>