



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 1046-DR-CA
Audit Report Number DS-08-04

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 1046-DR-CA according to federal regulations and FEMA guidelines. The OIG also concurrently reviewed the award for FEMA Disaster Number 1044-DR-CA and issued a separate report on February 4, 2004 (Audit Report Number DS-07-04).

The County received an award of \$3.8 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 February 13, 1995, through April 19, 1995. The award provided 75 percent FEMA funding for 85 small projects and 21 large projects.¹ The audit covered the period from February 13, 1995, to July 25, 2000, and included a review of 11 small projects and all 21 large projects with a total award of \$2.9 million (see Exhibit).

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

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 the County records, and other auditing procedures considered necessary under the circumstances. The 11 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 \$218,848 (FEMA's share - \$164,136). The questionable costs consisted of \$126,215 in small projects costs not documented, \$63,508 in duplicative contract and materials costs, \$24,737 for costs covered under FEMA's statutory administrative allowance, and \$4,388 in excessive costs for force account equipment.

Finding A – Small Projects Costs Not Documented

The County's claim for 11 small projects included \$126,215 in costs not sufficiently documented. As discussed below, the OIG questioned these costs because of inadequate procedures and controls over the accounting for and recording of disaster-related expenditures. The County's records did not include documented evidence showing that project costs were properly allocated and supported and that projects were started and completed. More importantly, the costs claimed, even if supported by documentation, were not adequate to have completed the scopes of work for the projects. The table below identifies project numbers, amounts awarded, costs reported, and questioned costs.

<u>Small Projects</u>	<u>Amount Awarded</u>	<u>Costs Reported</u>	<u>Questioned Costs</u>
12237	\$ 10,165	\$ 2,177	\$ 10,165
19510	23,382	4,900	23,382
19513	2,332	461	2,332
19628	10,239	30	10,239
19632	4,910	1,566	4,910
20608	9,741	133	9,741
46557	13,100	408	13,100
46568	26,466	14	26,466
94750	3,582	290	3,582
95021	18,417	2,829	18,417
95675	3,881	124	3,881
Totals	<u>\$126,215</u>	<u>\$12,932</u>	<u>\$126,215</u>

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.

Accounting for and Recording of Disaster-Related Expenditures. As similarly reported in Santa Barbara County Audit Report Number DS-07-04 for FEMA Disaster Number 1044-DR-CA, small projects costs claimed for FEMA Disaster Number 1046-DR-CA were questioned. This was due to the inadequate procedures and controls over the accounting for and recording of disaster-related expenditures that did not ensure that costs were properly allocated to specific projects.

The County did not maintain master control invoices² and expenditures were claimed in excess of invoiced amounts. In addition, some of the approved large projects contained broad County-wide scopes of work, and likewise, some of the documentation was also 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.

The County was not able to provide documentation showing costs related to the projects in question. County officials said they were unaware that, for small projects, FEMA required proof that costs were properly allocated among projects and documentation showing the

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.

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 OIG noted that 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.

In a letter dated December 5, 2003, the County disagreed with the questioned costs noting that at least some costs were allocated to the 11 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 have documentation to verify proper allocation and source of funding for the 11 small projects, the \$126,215 was questioned.

Finding B – Duplicative Contract and Materials Costs

The County's claim for five projects included \$63,508 in duplicative costs. 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 invoiced amount. For example, invoice number 03184, totaling \$16,904, was posted twice; once under FEMA Disaster Number 1044-DR-CA (project 39768) and again under the subject disaster (project 39776) for a total allocation of \$33,808.

The following table identifies the five projects with duplicative costs.

<u>Project Number</u>	<u>Duplicative Costs</u>
19507	\$ 1,000
19642	20,594
19657	22,913
39776	16,904
95023	<u>2,097</u>
Total	<u>\$63,508</u>

County officials agreed the entries identified for the five projects were erroneously recorded in duplicate, and therefore, agreed with the \$63,508 questioned by the OIG.

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

The County's claim for project 98454 included \$24,737 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 \$48,951. However, the County also claimed as direct project costs \$24,737 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 \$24,737 was questioned by the OIG.

Finding D – Excessive Costs for Force Account Equipment

The County's claim for projects 98454 and 95023 included \$4,388 in questionable costs for force account equipment.

- For project 98454, the County claimed \$3,198 for hours recorded in excess of actual hours worked by the operator identified with the equipment. County records supporting the claimed costs identified the equipment items claimed and operator. The OIG compared the operator hours worked with the equipment hours claimed and determined the equipment hours were overstated. County officials were unable to provide documentation to explain the excess hours claimed. According to 44 CFR 13.20(b)(6), the County is required to support accounting records with source documentation such as payrolls, and time and attendance records.
- For project 95023, the County claimed \$1,190 in excess force account equipment costs that exceeded FEMA's hourly rates in effect at the time of the disaster. According to 44 CFR 206.228(a)(1), the FEMA Schedule of Equipment rates is the basis for reimbursement.

County officials agreed the claimed force account equipment hours were overstated and the rates exceeded FEMA's established rates and therefore, agreed with the \$4,388 questioned by the OIG.

RECOMMENDATION

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES, disallow \$218,848 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 and D but disagreed with finding A. 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 1046-DR-CA

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Questioned Costs</u>	<u>Finding Reference</u>
<u>Large Projects</u>			
19507	\$ 162,448	\$ 1,000	B
19571	86,000	0	
19574	84,825	0	
19579	105,000	0	
19582	52,620	0	
19639	251,047	0	
19642	178,964	20,594	B
19645	155,593	0	
19649	229,682	0	
19657	290,046	22,913	B
39771	74,192	0	
39776	57,904	16,904	B
39927	135,286	0	
91531	84,830	0	
93326	167,211	0	
95023	121,703	3,287	B & D
95063	47,572	0	
95154	61,862	0	
95679	321,630	0	
98452	87,382	0	
98454	<u>52,818</u>	<u>27,935</u>	C & D
Subtotals	<u>\$2,808,615</u>	<u>\$ 92,633</u>	
11 Small Projects	<u>126,215</u>	<u>126,215</u>	A
Totals	<u>\$2,934,830</u>	<u>\$218,848</u>	

Schedule of Projects Audited (continued)
Santa Barbara County, California
Public Assistance Identification Number 083-00000
FEMA Disaster Number 1046-DR-CA

Finding Reference Legend:

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