

Department of Homeland Security **Office of Inspector General**

FEMA Should Recover \$1.6 Million of Public Assistance Grant Funds Awarded to Palm Beach County, Florida – Hurricane Frances



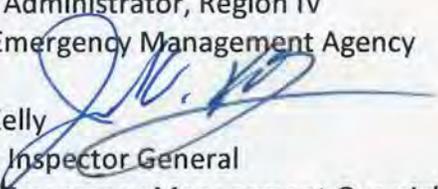


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Washington, DC 20528 / www.oig.dhs.gov

JUL 10 2013

MEMORANDUM FOR: Major P. (Phil) May
Regional Administrator, Region IV
Federal Emergency Management Agency

FROM: John V. Kelly 
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Recover \$1.6 Million of Public Assistance Grant
Funds Awarded to Palm Beach County, Florida – Hurricane Frances*
FEMA Disaster Number 1545-DR-FL
Audit Report Number DA-13-22

We audited Public Assistance grant funds awarded to Palm Beach County, Florida (County) (FIPS Code 099-99099-00). Our audit objective was to determine whether the County accounted for and expended Federal Emergency Management Agency (FEMA) funds according to Federal regulations and FEMA guidelines.

The County received a Public Assistance grant award totaling \$40.1 million from the Florida Division of Emergency Management (State), a FEMA grantee, for damages resulting from Hurricane Frances, which occurred in September 2004. The award provided 100 percent FEMA funding for the first 72 hours of emergency protective measures and debris removal activities, and 90 percent funding thereafter for these two activities. The award also provided 90 percent FEMA funding for permanent repairs to buildings, roads, and recreational facilities. The award consisted of 88 large projects and 222 small projects.¹

We audited 16 large and 7 small projects with awards totaling \$24.7 million (see Exhibit, Schedule of Projects Audited) for debris removal, emergency protective measures, and permanent repairs to building and recreational facilities. We limited our review of small projects to determining whether the County (1) completed the projects and (2) received duplicate benefits for the projects. The audit covered the period September 24, 2004, to March 7, 2013, during which the County claimed \$24.7 million of FEMA funding under the projects reviewed. At the time of our audit, the County had completed work on all large projects and had submitted a final claim to the State for project expenditures.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$54,100.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

We conducted this performance audit between July 2012 and April 2013 pursuant to 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, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. To conduct this audit we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We judgmentally selected project costs (generally based on dollar value); interviewed County, State, and FEMA personnel; reviewed the County's procurement policies and procedures; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the County's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. However, we gained an understanding of the County's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA award.

RESULTS OF AUDIT

FEMA should recover \$1,595,744 (Federal share \$1,439,998) of grant funds awarded to the County. The County did not account for projects on a project-by-project basis as required by Federal regulations and FEMA guidelines. In addition, the County's claim included \$1,595,744 of questionable costs, as follows:

- \$1,013,578 of unsupported contract costs;
- \$277,596 of costs covered by insurance;
- \$156,651 of ineligible project costs;
- \$113,507 of duplicate benefits;
- \$9,222 of excessive costs; and
- \$25,190 of ineligible administrative costs.

Finding A: Grant Accounting

The County did not account for large projects on a project-by-project basis. According to 44 Code of Federal Regulations (CFR) 13.20(a)(2), fiscal control and accounting procedures of a State and its subgrantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

restrictions and prohibitions of applicable statutes. Further, 44 CFR 206.205(b) requires that large project expenditures be accounted for on a project-by-project basis.

The County initially set up FEMA disaster-account codes to record disaster costs. However, it recorded very little expenditure in the accounts. Instead, the County commingled nearly all disaster-related receipt and expenditure transactions with nondisaster transactions in its general accounts, with no separate accounting establishing project balances, receipts, or expenditures. As a result, we could not readily identify and trace total costs claimed under each individual project to supporting documentation without direct assistance from County officials.

County officials disagreed that project expenditures were not recorded separately in the County's accounting system. As discussed above, the County recorded project expenditures in several disaster and general ledger accounts, which made it difficult to identify project expenditures on a project-by-project basis.

Finding B: Supporting Documentation

The County did not have adequate documentation to support \$1,013,578 of costs claimed under several projects. Cost principles at 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, Section (C)(1)(j), state that a cost must be adequately documented to be allowable under Federal awards. We question the \$1,013,578, as follows:

- The County claimed \$765,586 under Project 8079 for vehicles and equipment (pickup trucks, flatbeds, trailers, generators, etc.) used by County employees in repair work completed by the water utilities department. The County did not have equipment activity logs or equivalent documentation that provided specific periods of use (e.g., dates of use, along with beginning and ending times of use) for the equipment costs claimed. The County provided us force account equipment summaries with very limited pages that did not support the entire claim. Also, for generator use, the summaries did not show which operators were assigned generators so that we could at least compare the generator hours claimed to labor hours worked by the operator to determine the reasonableness of the equipment hours claimed. Therefore, we question the \$765,586 as unsupported.
- The County claimed \$180,000 of contract charges under Project 8107 for grinding, loading, hauling, and disposing of tree stumps. However, it did not have supporting documentation such as load tickets that included the stump location, quantity, size, etc. The County provided a task order and summary invoices but no other documentation to support the invoices. Therefore, we question the \$180,000.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

- The County claimed \$32,703 under Project 8079 for items such as hoses, pumps, couplings, pipes, and nails taken from stock inventory in the water utilities department for water main break repairs and other disaster-related repairs. However, the inventory requisition summary provided by the County as support for the items did not identify actual inventory items, quantity, dates, inventory tickets, etc., required for us to validate the accuracy and eligibility of the charges. Therefore, we question the \$32,703.
- The County claimed \$34,370 under emergency protective measures Project 7738 for various items such as mattresses, sheets, and blankets taken from the sheriff's department inventory supply and used by employees during the disaster. The scope of work stated that the sheriff's department purchased and placed the items in inventory and then withdrew them as needed for the disaster. However, the inventory requisition summary sheet that the County provided as support for the items did not include the actual inventory item, quantity, dates of use, etc. As a result, the supporting documentation was insufficient for us to determine what items were used during the disaster. Therefore, we question \$14,532.
- The County claimed \$14,517 under emergency protective measures Project 8079 for food items purchased by the water utilities department. A County official said that the food purchases were for meals provided to the employees of mutual aid utility companies that assisted the County during the disaster. However, the mutual aid agreements and County policy do not require the County to provide food to mutual aid employees. Therefore, we question \$14,517.
- The County claimed \$20,880 of contract labor charges under debris removal Project 7907 for a project engineer. The charges were based on the engineer working 174 hours at a contract rate of \$120 per hour during the period of September 18–30, 2004. However, the County did not have time and attendance records to support 52 of the 174 hours billed. Therefore, we question \$6,240 of charges related to the 52 hours that were unsupported.

County officials agreed with the finding for Project 7738. However, they disagreed with the finding for Project 8107, saying that they believed the task order and the invoices were sufficient supporting documentation for the debris activities performed. They also disagreed with the findings for Projects 8079 and 7907, saying that they would review their project files and provide supporting documentation to FEMA to show that the costs are eligible.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Finding C: Costs Covered by Insurance

The County’s claim included at least \$277,596 of costs covered by insurance. Section 312 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, states that no entity will receive assistance for any loss for which financial assistance has already been received from any other program, from insurance, or from any other source.

At the time of our audit, a FEMA insurance specialist had not conducted a full review of the County’s insurance proceeds. Therefore, insurance proceeds were not applied to reduce eligible project costs. Nonetheless, in our limited analysis of the County’s insurance settlement, we noted that \$277,596 of costs claimed by the County under several projects were for work that was covered by insurance and, therefore, not eligible for FEMA funding.

FEMA awarded the County \$2,813,707 under several projects, which included a deduction of \$527,088 for estimated insurance proceeds. However, based on actual insurance proceeds, the projects’ eligible costs should have been reduced an additional \$277,596. Therefore, we question the \$277,596 as shown in table 1.

Table 1: Costs Covered by Insurance

Project Number	Project Size	Project Description	Award	Estimated Insurance Proceeds	Actual Insurance Proceeds	Amount Questioned ²
8289	Large	Building 503	\$2,632,691	\$458,358	\$ 598,358	\$140,000
7724	Large	Palm Tran Connection	116,694	–	407,758	116,694
3967	Small	Fire Station No. 43	30,761	11,861	15,460	3,599
4050	Small	Paul Rardin Park – Picnic Shelters	19,987	23,266	30,466	7,200
3704	Small	Fire Station No. 15	9,471	19,678	25,678	6,000
3975	Small	Fire Station No. 29	4,103	13,925	18,122	4,103
Total			\$2,813,707	\$527,088	\$1,095,842	\$277,596

County officials disagreed with this finding. They said that they would provide FEMA with additional supporting documentation showing that the costs are eligible.

² The differences between the insurance deducted by FEMA and the insurance actually paid for Projects 7724 and 3975 were more than the award amounts. Therefore, we limited the differences questioned to the award amounts.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Finding D: Ineligible Costs

The County's claim included \$156,651 of ineligible contract and force account charges. We question the \$156,651, as follows:

- The County claimed \$134,891 of contract labor charges under Project 7907 for debris monitors whose performance was outside the project's authorized scope of work. The County claimed \$1,193,954 of contract charges for debris monitors that performed work under the project. We reviewed the County's supporting documentation and identified \$134,891 of charges that were for the period of October 1–15, 2004, which was the period related to Hurricane Jeanne activities, which followed Hurricane Frances later in September. According to 44 CFR 206.205(b), payments under large projects must be based on actual costs incurred for eligible work. Also, 2 CFR 225, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment A, Section C.1(a) states that costs under Federal awards must be both reasonable and necessary. We question the \$134,891 because it is for work outside the authorized disaster period of Hurricane Frances. However, we recommend that FEMA review the contract labor charges for the period of October 1–15, 2004, and make a determination on the eligibility of the costs for Hurricane Jeanne. Therefore, we question the \$134,891.

County officials agreed with this finding, saying they would request that FEMA and the State review these costs to determine their eligibility under Hurricane Jeanne.

- The County claimed \$14,360 under Project 7738 for food provided to County employees who worked overtime on project activities. However, the County did not have a policy that required it to provide meals to the employees when they worked overtime. Federal regulations at 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, Paragraph C(1)(e) state that to be allowable under Federal awards, costs must be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. The ineligible claim occurred because a FEMA inspector inadvertently allowed the cost despite the absence of a County policy specifying that the County was required to provide the meals. We question the \$14,360.
- The County claimed \$61,800 of contract charges under Project 8107 for stump removal. However, we noted that 6 stumps ranging from 24 to 75 inches in diameter were removed from the jurisdiction of the city of Palm Beach Gardens, a neighboring city, for a total of \$7,400. Federal regulation 44 CFR 206.223(a)(3) states that to be eligible for financial assistance an item of work must be the legal responsibility of the applicant. Therefore, we question the \$7,400.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

County officials agreed with the finding for Project 7738. However, they disagreed with the questioned costs for Project 8107. County officials provided us with additional documentation for our consideration after the exit conference. However, none of the documentation provided was sufficient to support the costs questioned. Therefore, our findings remain unchanged.

Finding E: Duplication of Benefits

The County’s claim included \$113,507 of debris removal costs funded by the Federal Highway Administration (FHWA). According to Section 312 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, no entity will receive assistance for any loss in which the entity has already received financial assistance from any other program, from insurance, or from any other source. We question \$113,507 as follows:

- The County claimed \$77,687 of debris removal costs under several projects. However, based on actual FHWA proceeds received for activities covered by the projects, the County should have reduced the projects’ eligible costs by \$19,237. Therefore, we question the \$19,237 as shown in table 2.

Table 2: Costs Covered by FHWA Funding

Project Number	Amount Awarded	Questioned Costs
7477	\$12,875	\$3,796
7530	30,956	9,292
7496	33,856	6,149
Total	\$ 77,687	\$ 19,237

- The County received \$3,635,139 of FHWA funding for debris removal activities on federal-aid roads, but credited only \$3,540,869 to the FEMA projects, leaving an unapplied balance of \$94,270. We were unable to determine the methodology used by the County to allocate the FHWA funding to the FEMA projects. Therefore, we question the unapplied balance of \$94,270 under Project 7469 because it was the project under which the largest volume of debris was removed from federal-aid roads.

County officials disagreed with this finding. They said that they would review project supporting documentation.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Finding F: Excessive Costs

The County's claim under Project 7738 included \$9,222 of excessive costs because of a mathematical error. According to 2 CFR 225, *Cost Principles for State, Local and Indian Tribal Governments*, Appendix A, Section(C)(1)(a), costs under Federal awards must be both reasonable and necessary. In addition, 44 CFR 206.205(b) requires that payments under large projects be based on actual costs incurred for eligible work.

The County claimed \$25,557 under Project 7738 for the use of two helicopters. However, the claim was overstated by \$9,222 because a FEMA inspector inadvertently multiplied an incorrect hourly rate for the helicopters during project closeout. Applying the correct hourly rate, total costs should have been \$16,335 instead of \$25,557. Therefore, we question the difference of \$9,222.

County officials agreed with this finding.

Finding G: Administrative Allowance

The County received \$25,190 of ineligible administrative allowance funding under Project 2400. Under Section 406(f) of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, the County is entitled to an administrative allowance based on a statutory formula to cover the costs associated with requesting, obtaining, and administering FEMA awards.³ Federal regulation 44 CFR 206.228(a)(3)(ii) limits administrative costs to that allowance.

FEMA advanced \$7,264,304 under Project 2400 for debris removal activities completed by the County. The funding consisted of \$7,192,080 for debris removal activities and \$72,224 for the administrative allowance. The County provided documentation to support the advance. However, FEMA deobligated \$7,192,080 for debris removal funding and only \$47,034 for the administrative allowance, leaving a balance of \$25,190 administrative allowance obligated. FEMA later reallocated the debris funding (direct costs and administrative allowance) to other projects, but mistakenly did not deobligate the \$25,190 of administrative allowance that remained for Project 2400. Therefore, we question the \$25,190.

County officials agreed with this finding.

³ While Section 406(f) was used to establish management cost rates at the time of the disaster, it was repealed in 2007 when FEMA promulgated regulations at 44 CFR Part 207.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation #1: Instruct the State to reemphasize to the County its need to account for FEMA project expenditures on a project-by-project basis as required by Federal regulations and FEMA guidelines (finding A).

Recommendation #2: Disallow \$1,013,578 (Federal share \$912,220) of unsupported contract costs unless the County provides additional support for the costs questioned (finding B).

Recommendation #3: Disallow \$277,596 (Federal share \$249,837) of insurance benefits not deducted from project costs unless the County can provide sufficient evidence that the costs were not covered by insurance (finding C).

Recommendation #4: Conduct a full review of the County's statement of insurance losses and proceeds and reduce project costs accordingly (finding C).

Recommendation #5: Disallow \$156,651(Federal share \$140,986) of ineligible projects costs. We also recommend that FEMA reviews the contract labor charges for the period of October 1–15, 2004, and make a determination on the eligibility of the costs (finding D).

Recommendation #6: Disallow \$113,507(Federal share \$103,465) of debris removal activities that were funded by the Federal Highway Administration (finding E).

Recommendation #7: Disallow \$9,222(Federal share \$8,300) of excessive costs (finding F).

Recommendation #8: Disallow \$25,190 (Federal share \$25,190) of ineligible administrative allowance paid to the County (finding G).



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with County, State, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference held on April 29, 2013. County officials' comments, where appropriate, are incorporated into the body of this report.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until we receive and evaluate your response, we will consider the recommendations as open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Major contributors to this report are David Kimble, Eastern Region Audit Director; Adrienne Bryant, Audit Manager; Helen White, Auditor-in-charge; Vilmarie Serrano, Senior Auditor; and Jerry Aubin, Program Analyst.

Please call me with any questions at (202) 254-4100, or your staff may contact David Kimble, Eastern Region Audit Director, at (404) 832-6702.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Exhibit

Schedule of Projects Audited

Project Number	Project Scope	FEMA Category of Work	Amount Awarded	Amount Questioned	Federal Share	Finding
7469	Debris Removal – Solid Waste Authority	A	\$ 2,827,196	\$94,270	\$84,843	E
7593	Debris Removal – Solid Waste Authority	A	2,491,566			
7602	Debris Removal – Solid Waste Authority	A	1,373,622			
7907	Debris Removal – Solid Waste Authority	A	1,193,954	141,131	127,018	B, D
8107	Debris Removal – Solid Waste Authority	A	1,062,995	187,400	168,660	B, D
7487	Debris Removal – Solid Waste Authority	A	693,382			
2400	Debris Removal – Solid Waste Authority	A	–	25,190	25,190	G
7738	Protective Measures – Sheriff’s Dept.	B	1,790,753	38,114	34,303	B, D, F
7727	Protective Measures – Sheriff’s Dept.	B	1,616,572			
8079	Protective Measures – Water Utilities Dept.	B	1,313,037	812,806	731,525	B
8289	Public Buildings and Facilities – Building 503	E	2,632,691	140,000	126,000	C
7829	Public Buildings and Facilities – Emergency Remediation	E	938,463			
8084	Public Utilities – Solid Waste Authority	F	916,112			
1508	Recreational Facilities – Beach Renourishment	G	4,072,264			
1438	Recreational Facilities – Beach Renourishment	G	1,549,166			
7724	Public Buildings and Facilities – Palm Tran Connection	E	116,694	116,694	105,025	C
Large Project Total			\$24,588,467	\$1,555,605	\$1,402,564	
7477	Debris Removal – Solid Waste Authority	A	12,875	3,796	3,796	E
7530	Debris Removal – Solid Waste Authority	A	30,956	9,292	9,292	E
7496	Debris Removal – Solid Waste Authority	A	33,856	6,149	5,534	E
3967	Public Buildings and Facilities – Fire Station No. 43	E	30,761	3,599	3,239	C
4050	Public Buildings and Facilities – Paul Rardin Park Picnic Shelters	E	19,987	7,200	6,480	C
3704	Public Buildings and Facilities – Fire Station No. 15	E	9,471	6,000	5,400	C
3975	Public Buildings and Facilities – Fire Station No. 29	E	4,103	4,103	3,693	C
Small Project Total			\$ 142,009	\$ 40,139	\$37,434	
Total			\$24,730,476	\$1,595,744	\$1,439,998	



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Appendix

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