

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

**Santa Cruz County, California,
Generally Followed Regulations for Spending
FEMA Public Assistance Funds**






OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

October 31, 2013

MEMORANDUM FOR: Nancy Ward
Regional Administrator, Region IX
Federal Emergency Management Agency

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

SUBJECT: *Santa Cruz County, California, Generally Followed
Regulations for Spending FEMA Public Assistance Funds*
FEMA Disaster Number 1646-DR-CA
Audit Report Number OIG-14-03-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance grant funds awarded to Santa Cruz County, California (County), Public Assistance Identification Number 087-99087-00. Our audit objective was to determine whether the County accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines.

The California Governor's Office of Emergency Services (Cal OES), a FEMA grantee, awarded the County \$6,214,400 for costs resulting from storms, flooding, debris flows, and mudslides from March 29, through April 16, 2006.¹ The award provided 75 percent FEMA funding for 17 large projects and 26 small projects.² Our audit covered the period from March 29, 2006 to September 6, 2013. We audited 7 large and 16 small projects totaling \$4,628,127 (see exhibit). As of the date of this report, Cal OES was in the process of reviewing the County's final claim.

We conducted this performance audit between March and September 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

¹ At the time of this disaster, the grantee's name was the Governor's Office of Emergency Services (OES). However, OES became part of Cal EMA from January 1, 2009 to June 30, 2013—including during the time of our fieldwork. As of July 1, 2013, Cal EMA transitioned back to the California Governor's Office of Emergency Services (Cal OES).

² Federal regulations in effect at the time of the disaster set the large project threshold at \$57,500.



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audit objective. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We interviewed FEMA, Cal OES, and County officials; reviewed judgmentally selected project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the County’s internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. However, we did gain an understanding of the County’s method of accounting for disaster-related costs and its procurement policies and procedures.

BACKGROUND

Santa Cruz County is located on the California coast, approximately 65 miles south of San Francisco, California. It is the Gateway to the Monterey Bay National Marine Sanctuary with 29 miles of beaches, six state parks, and six state beaches. The County also has more than 200 miles of bike lanes and paths for commuters and recreational riders. The County’s Public Works Department is responsible for maintaining more than 600 miles of County roads. However, the heavy rains that occurred during the incident period caused flooding and mudslides, which severely damaged several hillside roads throughout the County. Figure 1 shows damage that occurred to one of the County’s roads.



Figure 1: Project 268, Santa Cruz County – road damage at two sites of Vine Hill Road
Source: Santa Cruz County



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RESULTS OF AUDIT

County officials generally accounted for and expended FEMA Public Assistance grant funds according to Federal regulations and FEMA guidelines. However, the County received \$213,574 for 16 small projects and approximately \$81,760 for 1 large project they did not complete. According to 44 CFR 206.204(d)(2), FEMA will not provide funding if an eligible applicant fails to complete a large or small project. Therefore, FEMA should disallow \$213,574 as ineligible for 16 small projects the County did not complete and deobligate \$81,760 in funds the County did not use to complete 1 large project.

County officials concurred with the finding and confirmed that they did not perform any work on the 16 small projects and 1 large project. Cal OES and FEMA officials also concurred with the finding. After our September 2013 exit conferences, FEMA disallowed and deobligated \$213,574 for the 16 uncompleted small projects and deobligated \$81,760 for the uncompleted large project. Therefore, we consider the recommendations for this report to be resolved and closed.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IX:

Recommendation #1: Disallow \$213,574 (Federal share \$160,181) as ineligible for 16 small projects the County did not complete.

Recommendation #2: Deobligate \$81,760 (Federal share \$61,320) in unused funding for Project 85 and put those funds to better use.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with County officials during our audit and included their comments in this report, as appropriate. We also provided a written summary of our finding and recommendations in advance to FEMA on September 6, 2013. We discussed the summary document at an exit conference with Cal OES and County officials on September 6, 2013, and with FEMA officials on September 24, 2013. Those officials agreed with the finding and recommendations.

After our exit conferences, FEMA provided proof that it had disallowed and deobligated \$213,574 for the 16 uncompleted small projects and deobligated \$81,760 for the uncompleted large project. We consider these actions sufficient to resolve and close the



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recommendations we included in this report. Therefore, we require no further actions and consider this report closed.

Consistent with our responsibility under the *Inspector General Act*, we will provide 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 Humberto Melara, Director; Louis Ochoa, Audit Manager; and Renee Gradin and Arona Maiava, Senior Auditors.

Please call me with any questions at (202) 254-4100, or your staff may contact Humberto Melara, Director, Western Regional Office, at (510) 637-1463.



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Exhibit

Schedule of Projects Audited, Questioned Costs, and Unused Funding

Project Number	FEMA Category of Work	Net Award Amount	Costs Claimed	Questioned Costs	Unused Funding
Large Projects					
85	C	\$81,760		\$0	\$81,760
92	C	977,694	\$977,694		
94	C	822,232	812,296		
266	C	633,662	633,662		
268	C	829,539	829,539		
524	A	227,640	256,140		
531	C	823,462	823,462		
Small Projects					
62	C	\$9,415		\$9,415	
65	C	7,757		7,757	
66	C	8,523		8,523	
67	C	8,641		8,641	
313	C	2,681		2,681	
363	C	2,888		2,888	
448	C	11,943		11,943	
455	C	7,560		7,560	
509	C	12,742		12,742	
521	C	7,161		7,161	
529	C	44,003		44,003	
530	C	5,774		5,774	
569	C	2,728		2,728	
575	C	40,484		40,484	
582	C	10,228		10,228	
587	C	31,046		31,046	
Totals		\$4,609,563	\$4,332,793	\$213,574	\$81,760

Note: The audit amount of \$4,628,127 consists of costs claimed totaling \$4,332,793 (including \$18,564 in cost overruns) plus \$213,574 the County received for uncompleted small projects plus \$81,760 in unused funding for a large project the County did not complete.



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(continued)**

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