

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

**City of Flagstaff, Arizona, Generally Accounted for and
Expended FEMA Grant Funds Properly, But FEMA
Should Disallow \$124,443 and Deobligate \$57,941 of
Public Assistance Grant Funds**





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

August 14, 2014

MEMORANDUM FOR: Karen Armes
Acting Regional Administrator, Region IX
Federal Emergency Management Agency



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

SUBJECT: *City of Flagstaff, Arizona, Generally Accounted for and Expended FEMA Grant Funds Properly, But FEMA Should Disallow \$124,443 and Deobligate \$57,941 of Public Assistance Grant Funds*
FEMA Disaster Number 1940-DR-AZ
Audit Report Number OIG-14-125-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance grant funds awarded to the City of Flagstaff, Arizona (City), Public Assistance Identification Number 005-23620-00. Our audit objective was to determine whether the City accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines.

The Arizona Division of Emergency Management (Arizona), a FEMA grantee, awarded the City \$3.5 million for damages resulting from severe storms and flooding during the incident period of July 20, to August 7, 2010. The award provided 75 percent FEMA funding for one large project and four small projects.¹ The audit covered the period of July 20, 2010, to August 8, 2013. We audited the one large project (Project 12) for a total of \$3.3 million or 97 percent of the award. At the time of our audit, the City had completed work on the large project and submitted its final claim to Arizona. However, Arizona had not completed its review of the City's final claim; therefore, the project remained open.

We conducted this performance audit between May and July 2014, 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

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$63,900.



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obtained provides a reasonable basis for our findings and conclusions based upon our 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, Arizona, and City officials; reviewed judgmentally selected project costs (generally based on dollar value) and performed other procedures considered necessary to accomplish our objective. As part of our standard auditing procedures, we also notified the Recovery Accountability and Transparency Board of all contracts the City awarded under the grant to determine whether the contractors were debarred or whether there were any indications of other issues related to those contractors that would indicate fraud, waste, or abuse. As of the end of our audit fieldwork, the Recovery Accountability and Transparency Board's analysis of contracts was ongoing. When it is complete, we will review the results and determine whether additional action is necessary. We did not assess the adequacy of the City'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 City's method of accounting for disaster-related costs and its procurement policies and procedures.

BACKGROUND

The City of Flagstaff, Arizona, at nearly 7,000-foot elevation, is nestled near the base of the San Francisco Peaks (the remains of an extinct volcano), surrounded by one of the largest ponderosa pine forests on earth. In 1898, the City installed a 13-mile pipeline to transport the City's drinking water from the Inner Basin of the San Francisco Peaks to a reservoir near Flagstaff. The City also constructed a utility roadway that covers the length of the pipeline.

During June 2010, the Shultz Fire burned over 15,000 acres of ponderosa pines and mixed conifer forest that lined the edge of the utility roadway.² The loss of the tree canopy and vegetation significantly affected the hydrologic behavior of the landscape. Soon after the Shultz Fire, severe storms from July 20, to August 7, 2010, produced major debris flows and flooding that damaged the pipeline and utility road in several locations (see figure 1). FEMA awarded the City about \$3.3 million under Project 12 to cover the costs of disaster repairs to the water pipeline and the utility road.

² The Shultz Fire was a federally declared disaster (FM-2846). FEMA funded the cost of fighting the fire under its Fire Management Grant Program.



Figure 1: Damaged pipeline and utility roadway from the declared event.

Source: City of Flagstaff

RESULTS OF AUDIT

The City generally accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines. However, FEMA should disallow \$124,443 of ineligible costs for the design and construction of 14 retaining walls the City included in its claim for Project 12. This amount represents about 4 percent of the \$3,304,755 million the City claimed. Additionally, FEMA should deobligate \$57,941 that the City no longer needs to complete the project, and put those funds to better use.

Finding A: Ineligible Project Costs

The City claimed \$124,443 for the construction of 14 new retaining walls that were not required as a direct result of the disaster and, thus, not eligible for Federal funding. According to 44 Code of Federal Regulations (CFR) 206.223(a)(1), an item of work must be required as the result of the major disaster event to be eligible for financial assistance.

FEMA's approved scope of work for Project 12 allowed for construction of four new retaining walls. The City, however, constructed 14 additional new walls and requested Federal funding for the costs. Arizona, as the grantee, informed the City that the only eligible repair costs was for four new walls approved by FEMA because that work related to disaster damage. The City's position was that it constructed the additional



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14 retaining walls to shore up eroded sections of the utility road for the safety of the workers making the repairs (see figure 2). They contended that the costs were therefore eligible for funding under FEMA’s Public Assistance Program. We reviewed project records and determined that the City’s pre-construction plans included the extra 14 retaining walls. Those project records, however, did not include evidence that these walls were required as a direct result of the disaster, or were necessary to protect workers. In addition, the City did not timely notify FEMA about the increase in project scope and cost.



Figure 2: Retaining wall installed to maintain the integrity of the utility roadway.

Source: DHS-OIG

FEMA told us that, along with Arizona, they inspected the damaged sites immediately after the disaster event and during construction. FEMA measured sections of the utility road to determine the extent of disaster damage to the pre-existing width of the road. However, FEMA did not identify conditions that would justify construction of an additional 14 new retaining walls. FEMA also told us that the City did not notify Arizona or FEMA within 60 days from the October 2010 Kickoff Meeting of any additional damage to road sites that would necessitate extra new retaining walls.³ The City notified Arizona about the need for the walls in November 2011, over a year later.

³ 44 CFR 206.202(d)(1)(ii) requires applicants to identify and report all disaster damage within 60 days of the Kickoff Meeting. The Kickoff Meeting is a milestone in the Public Assistance Program. It not only starts the process of assistance for an applicant, it also marks the beginning for some key deadlines. For instance, the applicant must identify damaged facilities and emergency work and report it to FEMA within 60 days of the Kickoff Meeting.



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Therefore, we question \$124,443 the City claimed under Project 12 for the construction of 14 retaining walls as ineligible for Federal funding because they were not required as a direct result of the disaster.

FEMA, Arizona, and City officials agreed with our conclusion. City officials stated that the 14 new retaining walls were not road improvements, but cost-effective repairs, using salvaged logs and City employees, to shore up roads for the safety of construction crews. They also stated that the City would not seek reimbursement from FEMA for the costs of the walls.

Finding B: Unneeded Funds

FEMA should deobligate \$57,941 of funds awarded to the City and put those funds to better use because the City no longer needs the funding to cover project costs. The City confirmed that its final claim for Project 12 is \$3,304,755, or \$57,941 less than the \$3,362,696 FEMA obligated for disaster repairs.

Federal appropriations laws and the Statement of Federal Financial Accounting Standards (SFFAS) require Federal agencies to record obligations in the accounting records on a factual and consistent basis throughout the government.⁴ That is, the agency must increase or decrease obligated funds when probable and measurable information becomes known (7 *Government Accountability Office-Policy and Procedures Manual* § 3.5.D; B-300480, April 9, 2003, and SFFAS Number 5, paragraphs 19, 24, 25, and 29).

FEMA, Arizona, and City officials agreed that Project 12 is completed, and the City would not need the \$54,941 to cover additional costs. FEMA, therefore, should deobligate the Federal funds and put them to better use.

RECOMMENDATIONS

We recommend that the Acting Regional Administrator, FEMA Region IX:

Recommendation #1: Disallow \$124,443 (Federal share \$93,332) of ineligible costs for construction of 14 retaining walls (finding A).

Recommendation #2: Deobligate \$57,941 (Federal share \$43,456) the City no longer needs, and put those funds to better use (finding B).

⁴ *U.S. General Accounting Office's (GAO) Principles of Federal Appropriations Law*, 3rd edition, volume II, February 2006, chapter 7, section B: Criteria for Recording Obligations (31 U.S.C. § 1501).



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DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed these findings with City officials during the course of this audit and included their comments in this report, as appropriate. We also provided a written summary of our findings and recommendations in advance to FEMA on July 1, 2014, and to Arizona and City officials on July 7, 2014. We discussed the findings and recommendations at exit conferences on July 16, 2014, with FEMA, Arizona, and City officials. These officials agreed with our findings and recommendations. We incorporated their comments, as appropriate, 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 the contact information of responsible parties and any other supporting documentation necessary to inform us about the status of the recommendations. Until we receive and evaluate your response, we will consider the recommendations open and unresolved.

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; Arona Maiava, Auditor-In-Charge; and Willard Stark, Auditor.

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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