

# Department of Homeland Security Office of Inspector General

**FEMA Should Recover \$3.7 Million in Unneeded Funds  
and Review the Eligibility of \$344,319 of \$5.84 Million in  
Public Assistance Grant Funds Awarded to the  
Borough of Beach Haven, New Jersey, for Hurricane  
Sandy Debris Removal Activities**



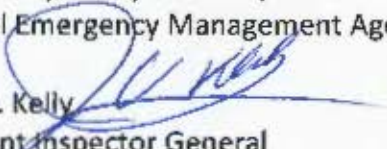


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Department of Homeland Security

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MAR 21 2014

**MEMORANDUM FOR:** John Covell  
Director  
New Jersey Sandy Recovery Office  
Federal Emergency Management Agency

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

**SUBJECT:** *FEMA Should Recover \$3.7 Million in Unneeded Funds and Review the Eligibility of \$344,319 of \$5.84 Million in Public Assistance Grant Funds Awarded to the Borough of Beach Haven, New Jersey, for Hurricane Sandy Debris Removal Activities*  
FEMA Disaster Number 4086-DR-NJ  
Audit Report Number OIG-14-54-D

We audited Public Assistance grant funds awarded to the Borough of Beach Haven, New Jersey (Borough) (FIPS Code 029-034940-00) for debris removal activities. Our audit objective was to determine whether the Borough accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines. We conducted this audit early in the Public Assistance process with the goals of (1) providing applicants an opportunity as soon as possible after the disaster event to locate documentation or corroborating evidence to support costs claimed for disaster damages, and (2) mitigating the impact of fraud, waste, and abuse of disaster assistance.

As of September 30, 2013, the cut-off date of our review, the Borough received a Public Assistance award of \$5.84 million from the New Jersey Office of Emergency Management (State), a FEMA grantee, for damages resulting from Hurricane Sandy which made landfall on October 29, 2012. The award provided 90 percent FEMA funding for debris removal activities, emergency protective measures, and repairs to roads and bridges. The award consisted of five large projects and three small projects.<sup>1</sup>

We audited one large project (Project 26) for debris removal activities with an award totaling \$4.85 million. The audit covered the period October 26, 2012, to September 30,

<sup>1</sup> Federal regulations in effect at the time of Hurricane Sandy set the large project threshold at \$67,500.



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2013, during which the Borough received an advance payment of \$1.82 million from the State. At the time of our audit, the Borough had completed work under the project but had not submitted any claims for reimbursement of project expenditures to the State. The Borough provided us with a list of debris removal expenditures (labor, equipment, and materials; contract costs; and direct administrative costs) totaling approximately \$1.2 million that it planned to claim to the State under the award. We used this list of expenditures to conduct the audit.

We conducted this performance audit between May 2013 and December 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 in effect at the time of the disaster.

We judgmentally selected and reviewed project expenditures (generally based on dollar value) that the Borough provided; reviewed applicable documents that the Borough, the State, and FEMA provided; interviewed Borough representatives and State and FEMA officials; reviewed the Borough'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 Borough'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 Borough'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

The Borough accounted for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. Additionally, the Borough complied with applicable Federal procurement regulations for contracts (time-and-material) it awarded for debris removal activities. However, we identified the following:

- \$3,688,066 of funding that FEMA can deobligate and put to better use because the Borough no longer needs it to complete work under the project;
- \$651,592 of cash advanced under the project that the Borough can return to the State because final project costs are less than the amount advanced; and



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- \$344,319 of debris removal costs that the Borough plans to claim under the FEMA award that were either (1) not supported by adequate documentation or (2) not eligible under the Public Assistance program. Therefore, FEMA should disallow the \$344,319 if the Borough claims the costs, unless the Borough provides FEMA with adequate supporting documentation for the costs, or provides additional documentation to show that the costs are eligible.

### **Finding A: Unneeded Funds**

FEMA should deobligate \$3,688,066 of funds awarded to the Borough and put those funds to better use because the Borough no longer needs the funding to cover project costs. FEMA awarded the Borough \$4,858,359 under Project 26 to cover the costs of the Borough's debris removal activities. At the time of our audit, Borough officials told us that the Borough had completed all authorized debris removal work under the project and had incurred project costs totaling \$1,170,293. Therefore, FEMA should deobligate \$3,688,066 of unneeded funding (\$4,858,359 less \$1,170,293) and put it to better use.

The unneeded funding occurred because the Borough entered into a shared services agreement with Ocean County for debris removal activities shortly after FEMA approved the \$4,858,359 of funding under the project. Under the agreement, Ocean County accepted full responsibility for debris removal activities within the Borough beginning on November 19, 2012, and would claim such costs to FEMA under a separate project worksheet. Consequently, the Borough no longer needs all of the project funding that FEMA initially obligated.

### **Finding B: Overpayment**

The Borough received an overpayment of \$651,592 from the State for costs incurred under Project 26. The overpayment occurred because the Borough's final project costs were less than the cash payment amount the State advanced for project costs.

In late December 2012, the State advanced \$1,821,885 to the Borough under immediate needs funding criteria to cover the estimated costs of debris removal. At the time of our audit, the Borough had completed all project work and had incurred costs totaling only \$1,170,293, or \$651,592 less than the amount advanced. Therefore, the State should recover the \$651,592 of excess funds advanced under the project.



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**Finding C: Supporting Documentation**

The Borough could not provide adequate documentation to support \$321,229 of project expenditures. Federal cost principles at 2 Code of Federal Regulation (CFR) Part 225, Appendix A, Section C.1.j., require that costs be adequately documented to be allowable under a Federal award. The unsupported costs included:

- \$225,019 that two time-and-material contractors billed for labor and equipment hours that the Borough could not support with time sheets and equipment activity reports. Of the \$225,019, \$166,714 resulted from one contractor that could not provide any support to the Borough; the remaining \$58,305 resulted from the other contractor not being able to support 3 days of debris removal work to the Borough;
- \$46,309 for debris removal contract (\$42,610) and landfill costs (\$3,699). The Borough provided a one-page summary document to support the costs, but could not provide source documentation such as contractor invoices and landfill load tickets to support the summary document;
- \$30,000 in equipment rental charges that the Borough could not support with invoices;
- \$11,764 in force account equipment costs that the Borough could not support with equipment activity logs or equivalent documentation;
- \$3,000 in force account labor costs that the Borough could not support with time and attendance records;
- \$4,137 of overtime costs for several Borough employees that the Borough could not support with time and attendance records indicating that the employees worked overtime on the days claimed; and
- \$1,000 that the Borough's disaster support services consultant billed for direct administrative tasks from May 29, 2013, through August 1, 2013, that the Borough could not support with activity reports or timesheets.



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**Finding D: Applicable Credits**

The Borough should reduce project expenditures it intends to claim by \$17,227 for the net proceeds it realized from the sale of scrap metal. FEMA's debris removal pilot program authorized under the *Sandy Recovery Improvement Act of 2013* allows applicants to keep program income derived from recycled debris; however, the Borough did not make a request to FEMA to participate in the voluntary pilot program.

The Borough earned \$17,227 from the sale of disaster-related scrap metal during the period of November 13, 2012, through February 18, 2013. Borough employees collected scrap metal while removing disaster debris. To be allowable under Federal awards, costs must be net of all applicable credits (2 CFR 225, Appendix A, Sections C.1.i and C.4). In addition, FEMA Disaster Assistance Policy 9525.12 (*Disposition of Salvageable Materials*-July 18, 2008) holds that costs directly tied to the performance of eligible work are generally eligible for reimbursement, but the applicant must reduce the costs by all applicable credits, such as insurance proceeds and salvage values, and must also cost-share any income with FEMA

**Finding E: Duplicate Costs**

The Borough's claim included \$5,863 of duplicate costs as follows:

- The Borough included invoice 13-1004 for \$4,843 twice in its list of time-and-material expenditures.
- The Borough included landfill ticket numbers 1503110 (\$468.58) and 1504719 (\$551.42) twice. The Borough included the tickets once under a list of force account material expenditures and again under a list of time-and-material expenditures.

**RECOMMENDATIONS**

We recommend the Director, New Jersey Sandy Recovery Office:

**Recommendation #1:** Deobligate \$3,688,066 (Federal share \$3,319,259) of unneeded project funding (finding A).

**Recommendation #2:** Instruct the State to recover the \$651,592 of excess funds it advanced to the Borough under the project (finding B).



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**Recommendation #3:** Disallow \$321,229 (Federal share \$289,106) of unsupported costs unless the Borough provides additional documentation to adequately support these costs (finding C).

**Recommendation #4:** Disallow \$17,227 (Federal share \$15,504) as ineligible for unapplied credits the Borough received from the sale of disaster-related scrap metal unless FEMA authorizes the Borough to participate in the debris removal pilot program, which allows a subgrantee to retain income derived from recycled debris (finding D).

**Recommendation #5:** Disallow \$5,863 (Federal share \$5,277) of ineligible, duplicate costs (finding E).

### DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with Borough, State, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conferences held with FEMA and State officials on December 3, 2013, and with Borough officials on December 4, 2013. Borough officials generally agreed with the findings. FEMA and State officials did not comment on the findings.

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 for 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 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 contributions to this report are David Kimble, Director; William H. Johnson, Audit Manager; Nadine F. Ramjohn, Auditor-in-Charge; and, Gary Alvino, Program Analyst.

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



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