

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

Santa Cruz Port District Generally Followed Regulations for Spending FEMA Public Assistance Funds





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Department of Homeland Security

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March 24, 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: *Santa Cruz Port District Generally Followed Regulations for
Spending FEMA Public Assistance Funds*
FEMA Disaster Number 1628-DR-CA
Audit Report Number OIG-14-56-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance grant funds awarded to the Santa Cruz Port District, California (District), Public Assistance Identification Number 087-U1TDI-00. Our audit objective was to determine whether the District accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines.

The California Governor's Office of Emergency Services (State), a FEMA grantee, awarded the District \$2,540,374 for costs resulting from severe storms, flooding, mudslides, and landslides from December 17, 2005, through January 3, 2006. The award provided 75 percent FEMA funding for one large project and one small project.¹ Our audit covered the period from December 17, 2005, to July 2, 2013. We audited the one large project (Project 2186) totaling \$2,532,324. During our audit fieldwork, FEMA closed the District's grant in July 2013.

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

We selected this grant for audit because of the significant delay on the part of the State to close the one large project (Project 2186) and other issues that came to our attention pertaining to project obligations and disaster costs.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$57,500.



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We interviewed FEMA, State, and District officials; reviewed judgmentally selected project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our objective. We also notified the Recovery Accountability and Transparency Board of all contracts the District 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. We did not assess the adequacy of the District'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 District's method of accounting for disaster-related costs and its procurement policies and procedures.

BACKGROUND

The Santa Cruz Port District's mission, in part, is to ensure that Santa Cruz Harbor is a viable operational and financial entity, providing a full array of boating and marine-related opportunities for the public. The District comprises a 37-square mile area that includes the City of Santa Cruz and receives its statutory authority from the Harbors and Navigation Code of the State of California.

The disaster flooding and mudslides caused increased sediment accumulation in boat channels and slip areas of the Santa Cruz Harbor. The one large project in our audit scope provided the District funding to dredge 37,148 cubic yards of sediment from the Harbor. The dredging operation consisted of three phases. The District implemented the first phase in 2007 and the other two in 2008. As of the date of our audit, the District had completed all FEMA-funded work.

RESULTS OF AUDIT

District officials generally accounted for and expended FEMA Public Assistance grant funds according to Federal regulations and FEMA guidelines. However, the District's claim for Project 2186 included \$99,215 in disaster costs that were duplicate, ineligible, or unsupported. This amount represents less than 4 percent of the \$2,532,324 we audited. Specifically, the District's claim included the following questionable costs:

- \$56,878 in duplicate costs,
- \$36,830 for unsupported labor costs, and
- \$5,507 for miscellaneous ineligible costs.

Therefore, FEMA should disallow \$99,215 of duplicate, ineligible, or unsupported costs. In addition, the State needs to improve its procedures for closing disaster grants more timely.



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Finding A: Duplicate Costs

District officials erroneously claimed \$56,878 in duplicate costs for Project 2186. In effect, by claiming costs more than once, the District requested duplicate benefits. Section 312(a) of the Stafford Act, *Duplication of Benefits*, states that no entity will receive assistance for any loss for which they have received financial assistance from any other program, from insurance, or from any other source.² Therefore, we question these costs as ineligible. Table 1 summarizes the duplicate costs:

Type of Cost	Amount
Trucking Costs	\$ 3,255
Equipment Rental	6,258
Fringe Costs-Vacation	11,827
Worker's Compensation	12,900
Fringe Costs-Union	22,638
Total	\$56,878

Finding B: Unsupported Labor Costs

The District did not provide adequate documentation to support \$36,830 in claimed labor costs for one salaried employee. Cost principles at 2 Code of Federal Regulations (CFR) 225, Appendix A, section C.1.j, state that a cost must be adequately documented to be allowable under Federal awards. Also, 44 CFR 13.20(b)(6) requires subgrantees to support their accounting records with source documentation such as canceled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents.

The District's support for the labor costs consisted of a summary worksheet that did not include documentation to show the disaster tasks performed and the corresponding hours the employee worked. Therefore, we question \$36,830 as unsupported.

Finding C: Miscellaneous Ineligible Costs

The District claimed \$5,507 in costs for Project 2186 that are not eligible for the following reasons:

- \$2,670 in professional services costs the District incurred before the disaster event. According to 44 CFR 206.223(a)(1), an item of work must be required as a result of a major declared disaster event to be eligible for FEMA financial assistance.

² Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended, 42 U.S.C. 5121, *et seq.*



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- \$2,837 in unauthorized costs, including \$1,935 for handheld radios and \$902 for a turbo meter. The FEMA approved scope of work did not include the purchase of handheld radios or a turbo meter to complete the disaster repairs. In addition, the District did not have documentation to show that it used the turbo meter for disaster work. Therefore, these expenses are ineligible because FEMA did not authorize them. Cost principles at 2 CFR 225, Appendix A, Section C.1.d, require that for costs to be allowable under Federal awards, costs must conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

Therefore, we question the \$5,507 as ineligible.

Finding D: Grant Management

The State needs to improve its grant management procedures to ensure the timely completion of large project closeouts. Federal regulations at 44 CFR 13.40(a) requires the State to manage the day-to-day operations of subgrant activity and monitor subgrant activity to ensure compliance with applicable Federal requirements.

The District completed Project 2186, a large project, in March 2008. The State, however, did not provide FEMA with the closeout information until June 2013. According to 44 CFR 206.205(b)(1), the State is required to make an accounting to FEMA of eligible costs for each approved large project, as soon as practicable after a subgrantee has completed the approved work and requested payment. In addition, FEMA's Standard Operating Procedure 9570.14, Section 9.2.1, requires the State to reconcile costs within 90 days from the date a subgrantee completes a project.

In conclusion, the State is accountable for grant management and responsible for completing project closeouts in a timely manner. Therefore, the State should take steps to improve its grant management procedures and provide FEMA better assurance on the timely closeout of large projects.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IX:

Recommendation #1: Disallow \$56,878 (\$42,658 Federal share) as ineligible, duplicate costs (finding A).

Recommendation #2: Disallow \$36,830 (\$27,622 Federal share) as unsupported costs unless the District can provide adequate documentation to support the costs (finding B).



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Recommendation #3: Disallow \$5,507 (\$4,130 Federal share) as ineligible costs (finding C).

Recommendation #4: Reemphasize to the State its grantee responsibilities and the need to provide FEMA better assurance on the timely closeout of large projects (finding D).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed these results with District officials during our audit. We also provided a written summary of our findings and recommendations in advance to the State and the District on August 29, 2013, and to FEMA on December 11, 2013. We discussed the findings and recommendations with State and District officials on September 4, 2013, and with FEMA officials on December 18, 2013. District officials did not agree with the findings and noted that they would provide further clarification to the State after we issue the final report. FEMA and State officials elected to withhold formal comments until after we issue our final 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 current 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; Renee Gradin; Auditor; and Connie Tan, 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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