

Department of Homeland Security Office of Inspector General

**FEMA Should Review the Eligibility of \$689,138 of
\$5.57 Million in Public Assistance Grant Funds
Awarded to Little Egg Harbor Township, New Jersey,
for Hurricane Sandy Debris Removal Activities**





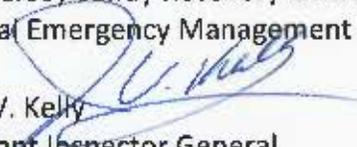
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March 24, 2014

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 Review the Eligibility of \$689,138 of \$5.57
Million in Public Assistance Grant Funds Awarded to Little
Egg Harbor Township, New Jersey, for Hurricane Sandy
Debris Removal Activities*
FEMA Disaster Number 4086-DR-NJ
Audit Report Number OIG-14-57-D

We audited Public Assistance grant funds awarded to Little Egg Harbor Township, New Jersey (Township) for debris removal activities (FIPS Code 029-40560-00). Our audit objective was to determine whether the Township 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 16, 2013, the cut-off date of our audit, the Township had received a Public Assistance award of \$5.57 million from the 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; repairs to roads and bridges; and repairs to buildings, equipment, and other facilities. The award consisted of four large and seven small projects.¹

We audited one large project (Project 558) for debris removal activities with an award totaling \$4.46 million. The audit covered the period October 29, 2012, to September 16, 2013, during which the Township received an advance payment of \$1.67 million of

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



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FEMA funding from the State. At the time of our audit, the Township had completed work under the project, but had not submitted any claims for reimbursement of project expenditures to the State. The Township provided us with a list of debris removal expenditures (labor, materials, and equipment; and contract costs) totaling approximately \$4.6 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. We conducted this audit by applying the statutes, regulations, and FEMA policies in effect at the time of the disaster.

We judgmentally selected and reviewed project expenditures (generally based on estimated dollar value) the Township provided to us; reviewed applicable documents provided to us by the Township, the State, and FEMA; interviewed Township representatives and the State and FEMA officials; reviewed the Township's procurement policies and procedures; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We also notified the Recovery Accountability and Transparency Board of all contracts the subgrantee 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 Township'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 Township's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA award.

BACKGROUND

Hurricane Sandy severely affected the Township when it made landfall on October 29, 2012. The Township received \$4.46 million in FEMA Public Assistance grant funds for debris removal activities resulting from the disaster (see Figure 1: Debris at Temporary Staging Site). In December 2012, the State authorized a \$1.67 million advance payment under "immediate needs funding" to assist the Township with cash flow challenges.



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Figure 1: Debris at Temporary Staging Site

Source: Little Egg Harbor Township Department of Public Works

The Township took full responsibility to manage and execute its debris removal operation under Township supervision and FEMA guidance using a combination of time-and-material contracts, a unit-price contract, and force account labor and equipment. The Township removed 2,032 loads of debris weighing about 33,429 tons from rights-of-way, local streets, residences, and public areas. According to Township personnel, the Township completed all debris removal work in February 2013.

RESULTS OF AUDIT

The Township accounted for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. In addition, the Township complied with Federal procurement regulations for contracts (time-and-material and unit-price) it awarded for debris removal activities. Township officials contacted several local contractors before the storm to gather pertinent information in preparation for the impending hurricane. Immediately following landfall, the Township initiated an official solicitation for bids to assist with debris removal while following emergency procurement procedures specified in the State's Local Finance Notice. By planning in advance of the storm and seeking bid proposals from several local contractors immediately thereafter, the Township was able to ensure they received the best rates for their debris removal needs.



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However, we identified \$689,138 of debris removal costs that the Township planned 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 \$689,138 if the Township claims the costs, unless the Township provides FEMA with adequate supporting documentation for the costs, or provides additional documentation to show that the costs are eligible.

Finding A: Force Account Labor

The Township's claim included force account labor charges totaling \$328,213, of which \$296,769 was unsupported and \$31,444 was ineligible. We specifically address the unsupported and ineligible claim in the following paragraphs.

- **Unsupported Force Account Labor.** The Township provided us with labor costs totaling \$296,769 (5,502 hours of straight time and 3,005.05 hours of overtime) for employees assigned to its public works department during the period November 1–30, 2012 but did not have adequate documentation to support its claim. According to *Cost Principles for State, Local and Indian Tribal Governments*, 2 Code of Federal Regulations (CFR) Part 225, Appendix A, Section C.1.j., grant recipients must adequately document costs under a Federal award. Further, FEMA *Debris Management Guide* (FEMA 325, July 2007, p. 14) requires applicants to maintain source documentation such as timesheets, work logs, and equipment-use sheets that show the work was disaster-related. These documents must support the hours claimed on the force account summary forms the applicant submitted for the project.

Township officials said that they planned to claim the labor costs for its department personnel during that 1-month period. The Township had employee timecards and payroll records to support the costs but did not have any other documentation, such as activity or work logs, to indicate which of the employees performed disaster-related debris removal activities and the specific hours the employees worked under the project. Therefore, we question \$296,769 of force account labor as unsupported. However, we advised Township officials that if they could produce documentation, such as activity or work logs, to indicate which of the employees performed disaster-related debris removal activities and the specific hours the employees worked under the project, the \$296,769 claim would no longer be questioned in its entirety.

- **Ineligible Force Account Labor.** The Township's claim included \$31,444 of ineligible force account labor charges. According to 44 CFR 206.205(b), the grantee must certify that it based payments under large projects on actual



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costs that applicants incurred for eligible work. Also, 2 CFR 225, Appendix A, Section C, requires costs under Federal awards to be both reasonable and necessary (C.1.a.) and authorized (C.1.c.). The Township's claim included \$22,293 of force account labor costs for Township personnel who performed emergency protective measures work after the storm, which was outside the scope of the FEMA-approved project worksheet. The \$22,293 was for 627.2 hours of straight time and overtime charges for 11 employees, for a 6-day period (November 7–12, 2012) that the Township also claimed for the same period under another project (Project 151). Therefore, the \$22,293 is ineligible because it represented both unauthorized and duplicate costs. The Township also claimed \$9,151 for labor costs that did not relate to eligible work. The Township claimed the \$9,151 for 239.5 hours of straight time and overtime for Thanksgiving Day, a Township holiday, despite the fact that no public works department personnel worked that day. Therefore, we question \$31,444 of ineligible force account labor costs (\$22,293 plus \$9,151).

According to Township personnel, they accounted for debris removal expenses according to oral guidance their assigned FEMA Project Specialist provided. However, such guidance does not meet Federal regulations and FEMA requirements. The Township is reviewing and compiling additional documentation to support force account labor charges under the project.

Township officials concurred with this finding and said that our early engagement in the Public Assistance process was helpful and a positive experience for the Township. The officials also said that they have gathered and submitted additional support for the unsupported labor charges such as global positioning satellite data from trackers attached to their vehicles to account for employee locations during debris removal operations. They also said that they have removed the ineligible labor costs from their claim.

Finding B: Force Account Equipment

The Township's claim included force account equipment charges totaling \$348,402, of which \$338,448 was unsupported and \$9,954 was ineligible. We address the reasons for the unsupported and ineligible claims in the following paragraphs.

- **Unsupported Force Account Equipment.** The Township did not provide adequate documentation to support \$338,448 (12,018.25 hours) of equipment charges. According to 2 CFR Part 225, Appendix A, Section C.1.j., grant recipients must adequately document costs under a Federal award. Further, FEMA's *Debris Management Guide* (FEMA 325, July 2007, p. 14) requires applicants to maintain source documentation such as timesheets, work logs, and equipment-use sheets



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that show the work was disaster-related. These documents must support the hours on the force account summary forms the applicant submitted for the project.

The Township provided us with spreadsheets that listed summary information for equipment (vehicles and heavy equipment) that public works department employees used under the project. However, the Township did not provide any source documentation to support the summary sheets such as equipment activity logs or equivalent documentation to identify the dates and the beginning and ending times the employees used the equipment. Therefore, we question \$338,448 of unsupported force account equipment costs. However, we pointed out to Township personnel that, because the Township's equipment and vehicles have global positioning trackers, they have access to information they need to prepare adequate supporting documentation. As a result, the Township is gathering additional documentation to substantiate the equipment charges we question.

- ***Ineligible Force Account Equipment.*** The Township's claim included \$9,954 (348 hours) of ineligible force account equipment charges. According to 44 CFR 206.205(b), the grantee must certify that it based payments under large projects on actual costs that applicants incurred for eligible work. Also, 2 CFR 225, Appendix A, Section C.1.a., states that costs under Federal awards must be both reasonable and necessary. The Township provided us with spreadsheets that listed summary information for equipment (vehicles and heavy equipment) that public works department employees used under the project. However, the spreadsheets included 348 hours of equipment usage that was not for eligible work because the hours were for Thanksgiving Day when public works department personnel did not work. Therefore, we question \$9,954 of ineligible force account equipment costs.

Township officials concurred with these findings as presented. Township officials said they will use the global positioning satellite data from trackers installed on its equipment to generate supporting documentation for their equipment claim. Township officials also said that they removed the ineligible force account equipment from their claim.

Finding C: Ineligible Project Costs

The Township's project expenditures included \$2,865 of costs that were either outside the project's authorized scope of work or not eligible for FEMA reimbursement. Project 558 authorized the reimbursement of eligible debris removal costs. Cost principles at 2 CFR Part 225, Appendix A, Section C.1.a. and c., require that a cost be



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authorized and be necessary and reasonable for proper and efficient performance and administration of Federal Awards. We discuss the ineligible expenditures below.

- Computer. The Township's project expenditures included \$1,021 for the purchase of a computer. According to a Township official, the Township did not use the computer for debris removal operations, but instead made it available for Township residents to file claims for FEMA Individual Assistance. Because the Township did not use the computer for debris removal operations, its purchase is not within the scope of the project and therefore ineligible.
- Dumpster Registration Decals. The Township's project expenditures included \$330 for registration decals the Township purchased for 11 newly procured 30-cubic yard dumpsters it used for disaster debris removal operations. The New Jersey Department of Environmental Protection requires all solid, medical, and hazardous waste transporters to register with the Department before transporting or disposing waste in New Jersey. However, the \$330 of costs is ineligible as a separate charge because the Township is claiming reimbursement for using the dumpsters under State equipment rate guidelines. These rates include all ownership and operational costs; therefore, the \$330 is ineligible as a duplicate cost (44 CFR 206.228(a)(1)(i)).
- Water Pump/Fuel Injector. The Township's project expenditures included \$1,514 for a "water pump/fuel injector" the Township purchased for a generator. According to FEMA Disaster Assistance Policy 9525.8, "Equipment damaged or requiring maintenance due to routine use under normal working conditions for which the equipment was designed will not be eligible for any reimbursement costs other than those designated in the FEMA Schedule of Equipment Rates or other FEMA-approved rates (44 CFR 206.228(a)(1))." Moreover, the repaired generator did not appear on any Township-provided asset list, nor did it appear in the Township's list of force account equipment expenditures. Therefore, the cost is ineligible because (1) the equipment rates include such costs, therefore it is a duplicate cost; and (2) there is no evidence that the equipment use was related to the disaster. To be eligible for reimbursement, an item of work must result from the major disaster event (44 CFR 206.223(a)(1)).

Township officials concurred with these findings. They said that they misstated the use of the computer when preparing the documentation for their claim and that they actually used the computer to account for material handled at the debris staging area. The officials said they will correct the documentation to show the computer's actual use and resubmit the claim with the correct usage of the computer annotated on the claim.



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Finally, Township officials said that they will remove the invoice for dumpster decal registration from their claim.

Finding D: Applicable Credits

The Township should reduce project expenditures it intended to claim by \$9,658 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 State had not made a request to FEMA to participate in the voluntary pilot program at the time of our audit.

The Township earned \$9,658 (\$11,533 of gross proceeds less \$1,875 of expenses to recover the metal) from the sale of disaster-related scrap metal on December 2–4, 2012. Township employees and contractor personnel collected the 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 applicants must reduce costs by all applicable credits, such as insurance proceeds and salvage values and must also cost-share any income with FEMA.

Township officials concurred with this finding, but said that they would request that FEMA include New Jersey in FEMA's debris removal pilot program so that the Township would not have to reduce project expenditures for the scrap metal income.

RECOMMENDATIONS

We recommend that the Director, New Jersey Sandy Recovery Office:

Recommendation #1: Disallow \$296,769 (Federal share \$267,092) of unsupported force account labor costs unless the Township provides additional documentation to support the costs (finding A).

Recommendation #2: Disallow \$31,444 (Federal share \$28,300) of ineligible force account labor costs that the Township planned to claim unless the Township provides evidence that the costs are eligible (finding A).

Recommendation #3: Disallow \$338,448 (Federal share \$304,603) of unsupported force account equipment costs unless the Township provides additional documentation to support the costs (finding B).



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Recommendation #4: Disallow \$9,954 (Federal share \$8,959) of ineligible force account equipment costs that the Township planned to claim unless the Township provides evidence that the costs are eligible (finding B).

Recommendation #5: Disallow \$2,865 (Federal share \$2,579) of ineligible debris removal costs unless FEMA determines the costs are eligible (finding C).

Recommendation #6: Disallow \$9,658 (Federal share \$8,692) as ineligible for unapplied credits the Township received from the sale of disaster-related scrap metal unless FEMA authorizes the Township to participate in the debris removal pilot program, which allows a subgrantee to retain income derived from recycled debris (finding D).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with the Township, the 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 December 3, 2013. Township officials concurred with the findings. We incorporated Township officials' comments, where 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 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 contributors to this report are David Kimble, Director; William Johnson, Audit Manager; Anthony Colache, Auditor-in-Charge; and Tia Jackson and Keith Lutgen, Program Analysts.

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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