



# Homeland Security

August 31, 2009

MEMORANDUM FOR: Jonathan Sarubbi, Regional Administrator  
FEMA Region III

FROM: C. David Kimble, Director  
Eastern Region Office

A handwritten signature in black ink that reads "C. David Kimble".

SUBJECT: *City of Richmond, Virginia*  
Public Assistance Identification Number: 760-67000-00  
FEMA Disaster No. 1661-DR-VA  
Report Number: DA-09-24

We audited public assistance funds awarded to the City of Richmond, Virginia. The audit objective was to determine whether the city accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

As of March 2, 2009, the city had received a public assistance grant award of \$42.5 million from the Virginia Department of Emergency Management (VDEM), a FEMA grantee, for damages to the Battery Park area resulting from Tropical Storm Ernesto in August 2006. The award provided 75% FEMA funding for emergency protective measures, repairs to utilities, and other disaster-related activities.

We limited our review to \$39.1 million claimed under 8 large projects (see Exhibit).<sup>1</sup> The audit covered the period August 29, 2006, to March 2, 2009, during which the city received \$32.3 million of FEMA funds under the 8 large projects. At the time of our audit, FEMA was in the process of closing out all large projects except for Projects 117 and 282, which had not been completed. As a result, we reviewed the inspectors work in developing some of the findings disclosed in this report.

We conducted this performance audit under the authority of 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 on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>1</sup> Federal regulations in effect at the time of Tropical Storm Ernesto set the large project threshold at \$57,500.

We reviewed the city's disaster grant accounting system and contracting policies and procedures; selected judgmental samples of project expenditures (generally based on dollar value); interviewed city, grantee, and FEMA personnel; reviewed applicable federal regulations and FEMA guidelines; and performed other procedures considered necessary under the circumstances. We did not assess the adequacy of the city's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objectives. We did, however, gain an understanding of the city's method of grant accounting and its policies and procedures for administering the activities provided for under the FEMA award.

## RESULTS OF AUDIT

The city accounted for FEMA funds on a project-by-project basis consistent with federal regulations for large projects. However, we identified \$783,598 (FEMA Share \$587,699) of questioned costs resulting from contract charges that were excessive, ineligible, duplicative, and unsupported. We also identified \$24,219 of unremitted interest earned on FEMA advances. Prior to issuance of this report, the city worked with VDEM and FEMA to ensure the de-obligation of the \$783,598 of questioned costs. The city also remitted the interest earned on the advances to the grantee.

- A. Interest Earned on FEMA Advances. Federal regulation 44 CFR 13.21(c) states that sub-grantees shall be paid in advance provided they maintain or demonstrate a willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and their disbursement. Additionally, 44 CFR 13.21(h) requires that any interest earned on cash advances be promptly, but at least quarterly, remitted to the federal agency.<sup>2</sup>

Under Project 282 for sinkhole repairs, the entire project award amount of \$604,906 was advanced to the city by VDEM in two installments, one in July 2007 and the other in September 2007. At the time of our review, the city had only incurred expenses of \$47,905, which was for the installation of a protective fence around the sinkhole. Due to contract delays, the remaining balance of the advanced funds was deposited into an interest bearing account where it remained until the city secured a contractor to repair the sinkhole. During this period, we calculated that the city earned \$24,219 of interest on the funds.

- B. Contract Charges. The city claimed \$783,598 of contract charges that were excessive, ineligible, duplicate, and unsupported. We question the charges, as follows:
1. *Excessive Charges.* The city's claim under Projects 182 and 257 included \$567,556 of excessive charges related to (1) the ratio of supervisors to employees (e.g. six supervisors were hired to supervise only three employees), (2) car rental fees for a larger SUV class of vehicle than FEMA deemed was necessary to accomplish the authorized work, (3) equipment rental fees based on weekly rates rather the contracted monthly rate, and (4) miscellaneous items (portable radios, phones, office supplies, etc.) that were more than what was necessary to accomplish the work required under the projects. OMB Circular A-87 (*Cost Principles for State, Local, and Indian Tribal Governments*), Attachment A, Paragraph C(2), states that costs under federal awards must be both necessary and reasonable. The circular defines a reasonable cost as cost that does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

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<sup>2</sup> The subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

2. *Ineligible Charges.* The city's claim under sewer repair Projects 182 and 281 included \$10,328 of ineligible charges. The charges included \$3,888 of tunnel decontamination expenses incurred after the tunnel was placed back into service (Project 182) and \$6,440 for the purchase of office furniture (Project 281) that was not authorized under the repair project.

Also, the scope of work authorized under Project 279 included the replacement of the Battery Park tunnel sewer, the installation of a temporary sewage pumping system, and emergency bypass pumping service while the original sewer system was being replaced. However, the city's claim under the project included \$145,212 for items such as restoration of sidewalks, annual fees to a security company, utility fees, and repairs/restoration to various areas of the Richmond First Tee Golf Facility.

3. *Duplicate Charges.* The city's claim under Projects 257 and 279 included duplicate charges of \$34,429 and \$17,380, respectively, resulting from numerous contractor hours that were charged twice under several invoices.
4. *Unsupported Charges.* Federal regulation 44 CFR 13.20(b)(6) requires that costs claimed under federal programs be adequately supported by source documentation such as cancelled checks, payroll, and invoices. However, the city's claim under Project 279 included \$8,693 of repair crew expenses related to the replacement of the Battery Park Trunk sewer that were not supported by documentation such as hotel invoices, travel receipts, food receipts, etc.

## **RECOMMENDATION**

Prior to the exit conference, FEMA de-obligated the questioned costs of \$783,598, and the city remitted the \$24,219 of earned interest. Therefore, this report contains no recommendations.

## **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP**

We discussed the audit results with city, grantee, and FEMA officials on July 24, 2009. City officials concurred with our findings and worked closely with the grantee and FEMA to settle the questioned costs. We commend the city for taking such prompt action to resolve the findings.

Since this report contains no recommendations, a response is not required. Should you have any questions concerning this report, please call me at (404) 832-6702 or Modupe Akinsika, Audit Manager, at (404) 832-6704. Key contributors to this assignment were Modupe Akinsika, Adrienne Bryant, and Larry Jones.

City of Richmond, Virginia  
FEMA Disaster No. 1661-DR-VA  
Schedule of Amount Awarded, Costs Claimed, and Amount Questioned  
August 29, 2006 through March 2, 2009

Project Number	Amount Awarded	Costs Claimed	Amount Questioned	Funds Put to Better Use
68	\$247,894	\$247,894	\$-	\$-
117	\$262,088	\$196,566	\$-	\$-
182	\$2,412,989	\$2,776,605	\$363,616	\$-
257	\$5,358,956	\$5,639,231	\$242,258	\$-
261	\$538,147	\$538,147	\$-	\$-
279	\$28,223,641	\$26,199,021	\$171,284	\$-
281	\$3,861,457	\$3,621,995	\$6,440	\$-
282	\$626,846	\$47,905	\$-	\$24,219
<b>Total</b>	<b>\$41,532,018</b>	<b>\$39,267,364</b>	<b>\$783,598</b>	<b>\$24,219</b>