



Homeland Security

April 20, 2011

MEMORANDUM FOR: Tony Russell, Regional Administrator
FEMA Region VI
Tonda L. Hadley

FROM: Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *City of Austin, Texas*
FEMA Disaster Number 1606- and 1624-DRs-TX
Hazard Mitigation Grant Program
Audit Report Number DD-11-13

We audited Hazard Mitigation Grant Program (HMGP) funds awarded to the City of Austin, Texas (City). Our audit objectives were to determine whether the City accounted for and expended FEMA funds according to federal regulations and FEMA guidelines, the projects met FEMA eligibility requirements, and project management complied with applicable regulations and guidelines.

The City received awards for two HMGP projects, totaling \$11,609,411 (\$8,707,058 federal share) from the Texas Division of Emergency Management (TDEM), a FEMA grantee, between June 2006 and March 2008. TDEM selected the City's projects for submission to FEMA from applications it received following Hurricane Rita (1606-DR-TX) and an extreme wildfire threat (1624-DR-TX).

The purpose of the awards was to acquire and remove residential properties to mitigate against future losses. The awards provided FEMA funding for 75% of eligible project costs. At the time of our audit, the projects were completed, but not closed. The audit covered the period from project submittal in January 2006 to the completion of our audit work in March 2011. During this time, the City claimed \$10,350,297 in direct project costs. We audited 100% of the costs claimed for both projects.

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 and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the City's compliance with federal procurement standards; reviewed 100% of the City's claimed costs for the two projects; interviewed FEMA, TDEM, and City officials, and performed other procedures considered necessary to accomplish our objectives. 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 objectives. However, we did gain an understanding of the City's method of accounting for HMGP costs and its procurement policies and procedures.

BACKGROUND

FEMA provides HMGP grants on a cost-shared basis to eligible applicants within a federally declared state to implement measures designed to reduce the loss of life and property from natural disasters. FEMA's eligibility criteria require that an applicant have a FEMA-approved hazard mitigation plan and that projects be cost effective, comply with environmental and historic preservation requirements, and provide a long-term beneficial impact. Eligible applicants include state and local governments, certain private non-profit organizations and institutions, and Indian tribes or tribal organizations.

RESULTS OF AUDIT

The City's project management generally complied with applicable regulations and guidelines. However, the City did not always account for FEMA funds according to federal regulations and FEMA guidelines, and one project did not meet FEMA HMGP eligibility requirements. As a result, we question \$831,629 (\$623,722 federal share) in ineligible costs.

Finding A: Project Eligibility

The City did not demonstrate that Project 1624-28 was cost effective. As a result, the project is not eligible for FEMA funding and we question \$596,150 (\$447,113 federal share) in total project costs. Federal regulations at 44 CFR 206.434(c)(5)(ii), require that a project be cost effective (have a benefit-to-cost ratio of one or greater). The City's data assumption sheet stated that the benefit cost ratio was equal to one; however, the City did not use its stated assumptions in calculating the project's cost effectiveness.¹ If the City had used its data assumptions, the benefit cost ratio would have equaled 0.48, making the project ineligible.²

Finding B: Eligibility of Indirect Force Account Labor Costs

In Project 1606-4, the City claimed \$375,631 (\$281,723 federal share) in force account labor costs. The City used interservice agreements with other City agencies for acquisition and

¹ The assumption sheet included square foot values to calculate fair market value, the percentage of property damage needed to calculate when it would be more cost effective to demolish the property, the percentage of the building's market value used to estimate content value, and miscellaneous displacement costs. The City used these costs to calculate the project's benefit cost ratio.

² TDEM and FEMA reviewed project summary data to approve the project and did not verify the data the City inputted into the benefit cost module.

demolition services to complete the approved work. Force account labor charges for these services included \$235,479 in ineligible indirect labor costs; such as department overhead costs, phone allowances, and fringe benefits. According to 44 CFR 206.439(c)(2), no indirect costs of a subgrantee are separately eligible because of the administrative allowance already provided in 44 CFR 206.439(b)(1)(ii). The ineligible costs were comprised of the following:

- \$220,217 in indirect labor costs for acquisition services
- \$15,262 in indirect labor costs for demolition services

Therefore, we question \$235,479 (\$176,609 federal share) in ineligible indirect force account labor costs.³

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation #1: Disallow \$596,150 (\$447,113 federal share) as ineligible because the project did not meet HMGP eligibility requirements (Finding A).

Recommendation #2: Disallow \$235,479 (\$176,609 federal share) in ineligible indirect force account labor costs (Finding B).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with FEMA, TDEM, and City officials during our audit and included their comments in this report, as appropriate. We also provided written summaries of our findings and recommendations in advance to these officials and discussed them at exit conferences held with FEMA on March 17, 2011, and TDEM and the City on March 25, 2011. FEMA officials agreed with our findings and recommendations. State officials agreed with Finding B, but stated that they needed more time to review Finding A before providing their comments.

City officials disagreed with our findings and recommendations and submitted a letter dated March 24, 2011, to FEMA to express their disagreement. In reference to Finding A and Recommendation 1, the City stated that, because FEMA previously approved the eight properties in Project 1624-28 under Project 1606-4, those properties should have remained eligible under Project 1624-28.⁴ The City submitted Project 1624-28 with a benefit-to-cost ratio of one but was unable to demonstrate this level of cost effectiveness. Additionally, the City did not provide any additional information in its March 24, 2011, letter to demonstrate that Project 1624-28 was cost effective.

³ Project 1624-28 included indirect costs that we would have questioned if we were not already questioning the entire project.

⁴ In Project 1606-4, the City aggregated the benefit-to-cost ratio of 152 properties and FEMA approved the acquisition and demolition of up to 118 of those properties.

In reference to Finding B and Recommendation 2, City officials stated that their use of interservice agreements were the most efficient use of FEMA funds. However, we based our determination on HMGP regulations, which do not allow a subgrantee to charge indirect costs to a project.

Please advise this office by July 19, 2011, of the actions planned or taken to implement our recommendations, including target completion dates for any planned actions. To promote transparency, this final report and your response to this report, including your corrective actions planned, will be posted to our website, with exception of sensitive information identified by your office. Significant contributors to this report were Moises Dugan, Lori Smith, and Cheryl Spruiell. Should you have any questions concerning this report, please contact me, or your staff may contact Moises Dugan, Audit Manager, at (214) 436-5200.

cc: Audit Liaison, FEMA (Job Code G-10-063)
Audit Liaison, FEMA Region VI
Audit Liaison, DHS

EXHIBIT

**Schedule of Audited Projects
City of Austin, Texas
FEMA Disaster Numbers 1606- and 1624-DRs-TX**

Disaster Number	Project Number	Award Amount	Claimed Amount	Questioned Costs
1606	4	\$10,570,931	\$ 9,754,147	\$235,479
1624	28	<u>1,038,480</u>	<u>596,150</u>	<u>596,150</u>
Totals		<u>\$11,609,411</u>	<u>\$10,350,297</u>	<u>\$831,629</u>