



Homeland  
Security

January 27, 2005

MEMORANDUM FOR: Karen E. Armes  
Acting Regional Director  
FEMA, Region IX

*Robert J. Lastrico*

FROM: Robert J. Lastrico  
Field Office Director

SUBJECT: *Audit of Glenn County  
Willows, California  
Public Assistance Identification Number 021-00000  
FEMA Disaster Number 1203-DR-CA  
Audit Report Number DS-07-05*

The Office of Inspector General (OIG) audited public assistance funds awarded to Glenn County, Willows, California (County). The objective of the audit was to determine whether the County expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The County received a public assistance grant award of \$2.6 million from the California Office of Emergency Services (OES), a FEMA grantee, for damage as a result of flooding that occurred from February 2, 1998, through April 30, 1998. The award provided 75 percent federal funding for 15 large projects, and 30 small projects.<sup>1</sup> The audit covered the period February 2, 1998, to June 28, 2004, and included a review of 13 large projects and 2 small projects with a total award of \$1.9 million (see Exhibit).

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to *Government Auditing Standards* issued by the Comptroller General of the United States. The audit included a review of FEMA, OES, and County records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

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<sup>1</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$47,100

## RESULTS OF AUDIT

The County expended and accounted for public assistance grant funds according to federal regulations and FEMA guidelines for 8 of the 13 large projects reviewed. However, for the remaining five large projects, the OIG questioned \$114,662 because the County's claim included \$80,800 in unsupported costs, \$23,408 in ineligible project costs, and \$10,454 in excessive charges. FEMA's share of the costs questioned by the OIG is \$85,996 (75% of \$114,662).

### **Finding A – Unsupported Costs**

The County's claim for two projects included \$80,800 in costs not supported with documentation proving the charges were disaster related. According to 44 CFR § 13.20(b)(6), the County is required to maintain accounting records that identify how FEMA funds are used and the accounting records must be supported by source documentation such as paid invoices. In addition, 44 CFR § 13.42 requires recipients of federal assistance to maintain accounting records for at least 3 years following financial closure of a federal award. The Project Completion and Certification Report (P-4 Alternate) used by the subgrantee to report to the grantee that all projects were complete and no further project expenditures would be made, was signed by the County on March 14, 2002 and by OES on April 4, 2002. Thus, at a minimum, the County was required to retain its records through March 15, 2005.

- For project 26860, the County's accounting records did not support \$50,044 in debris removal costs.
  - In one instance, the County claimed \$34,126 in debris removal costs that were not supported with truck weight tickets. For disaster clean up work, the County required contractors to support debris removal charges with truck weight tickets. However, records supporting the claim did not include the tickets and the County could not locate the documents. The County explained that while truck weight tickets were not available for OIG review, the County's internal controls ensure that only adequately supported vendor charges are paid. Thus, the County asserted that when paid, the \$34,126 in debris removal costs must have been adequately supported with truck weight tickets.
  - In another instance, the County could only support \$107,904 of \$123,822 claimed for debris removal costs. Therefore, an additional \$15,918 in costs claimed by the County was unsupported. County officials explained that the claimed costs were based on estimates and not on actual costs.
- For project 26858, the County's accounting records for \$30,756 in claimed costs were not specific enough for us to determine that these expenses were incurred as a direct result of the disaster. The unsupported costs consisted of \$20,804 for toilet rentals, \$6,893 for food, \$1,404 for material, \$720 for meals, \$626 for force account labor overtime, and \$309 for lodging. The County's accounting records showed that these costs were paid, but the County was unable to provide invoices, receipts or other similar documentation to show the costs were incurred for disaster related activities.

The County agreed with the auditor's conclusion pertaining to the \$626 claimed for force account labor overtime. For the remaining balance of \$30,130 (\$30,756 minus \$626), the County

explained that payments to vendors were supported with adequate documents and that the 3-year record retention requirement for keeping the documents had expired. As previously noted, the County did not maintain supporting documentation for 3 years after it reported that no additional expenditures would be incurred and thus could not prove that the expenditures we questioned were disaster related. Further, on August 13, 2004, OES notified the County by letter that “All records must be retained for three years from the date of this letter.”

Since the County accounting records did not support the amounts claimed for the two projects, the OIG questions \$80,800 as unsupported cost.

### **Finding B – Ineligible Project Costs**

The County’s claim included \$23,408 in ineligible project costs as follows:

- For project 26869, the County’s claim did not include a \$15,000 fair market value credit relating to a pre-fabricated bridge (Railroad Flatcar without decking) that was temporarily used for disaster work. According to FEMA’s Public Assistance Policy Digest (FEMA Publication 321, page 45), FEMA may require compensation for the fair market value of equipment purchased with disaster funds but no longer needed.

The bridge was purchased with FEMA funds and was used in a detour route while the County reconstructed one of its bridges damaged during the disaster. The temporary bridge was not damaged during use and was placed in storage after the work was completed. Project records showed the County paid approximately \$30,000 for the pre-fabricated bridge. To determine the fair market value of the bridge, the OIG contacted a supplier of pre-fabricated bridges and was informed that the bridge could be re-sold for about \$15,000.

- For project 26864, the County’s claim included \$8,408 for the cost of materials not used in disaster related work. County officials explained the materials were not used as originally intended and were stored at the County’s Road Maintenance facility. According to 44 CFR § 206.223(a)(1) an item of work must be required as a result of a major disaster event to be eligible for financial assistance.

The County agreed with the \$23,408 questioned by the OIG by recognizing in its January 7, 2005 letter that it did not credit FEMA with the fair market value of the bridge and claimed the cost of material not used in disaster recovery efforts.

### **Finding C – Excessive Charges**

The County’s claim for project 26865 included \$10,454 in excessive debris removal charges not consistent with the County’s local cost code. According to 44 CFR § 13.20(b)(5), subgrantees are required to follow Office of Management and Budget (OMB) cost principles, agency program regulations, and the terms of grant and subgrant agreements in determining reasonable costs. OMB Circular A-87, Attachment A, Section C.2 provides that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person.

The County developed an average rate of \$80 per ton to compensate contractors for disaster debris clean up and assigned local cost codes to accumulate clean up costs. The rate included the costs of landfill fees, hauling, excavation, loading, grading, shaping of ditches, and traffic control and was consistently applied to all clean up projects except for project 26865. For this project, the County paid a contractor for disaster debris cleanup costs at rates ranging between \$90 and \$103 per ton. Because clean up efforts for this project were similar in volume, debris condition, and hauling distance to other County debris removal projects, the OIG concluded that the use of the higher debris removal rate resulted in excessive and unreasonable charges of \$10,454. The County disagreed that the charges were excessive and unreasonable but did not provide the OIG with justification showing that the higher rates were due to variances in volume, debris condition, or hauling distance. In addition, the County did not competitively procure the debris removal services. The clean up work was added as a change order to an existing contract the County had in place with the contractor. The contract was for disaster work pertaining to road and bridge repairs and did not initially include clean up efforts.

### **RECOMMENDATION**

The OIG recommends that the Acting Regional Director, FEMA Region IX, in coordination with OES, disallow \$114,662 in costs claimed by the County.

### **DISCUSSIONS WITH MANAGEMENT AND AUDIT FOLLOW UP**

The OIG discussed the results of this audit with County officials on December 14, 2004. In a letter dated January 7, 2005, the County partially agreed with Finding A, agreed with Finding B, and disagreed with Finding C. The County's comments are summarized above in the "Results of Audit" section of this memorandum. The OIG also notified FEMA and OES officials of the audit results on January 7, 2005.

Please advise this office by March 28, 2005, of actions taken to implement our recommendation. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Humberto Melara, Arona Maiava, and Gloria Conner.

Schedule of Projects Audited  
 Glenn County, California  
 Public Assistance Identification Number 021-00000  
 FEMA Disaster Number 1203-DR-CA

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Questioned Costs</u>	<u>Finding Reference</u>
<u>Large Projects</u>			
26860	\$ 161,409	\$ 50,044	A
26865	75,836	10,454	C
75629	55,945	0	
75634	63,144	0	
26848	79,612	0	
26858	122,218	30,756	A
26861	115,942	0	
26863	206,710	0	
26864	93,335	8,408	B
26869	91,021	15,000	B
75616	217,261	0	
75619	301,343	0	
75636	<u>237,954</u>	<u>0</u>	
Subtotal	<u>\$1,821,730</u>	<u>\$114,662</u>	
<u>Small Projects</u>			
02286	11,488	0	
01098	<u>43,854</u>	<u>0</u>	
Subtotal	55,342	\$0	
Total	<u>\$1,877,072</u>	<u>\$114,662</u>	

Finding Reference Legend:

A – Unsupported Costs

B – Ineligible Project Costs

C – Excessive Charges