



Homeland
Security

March 14, 2005

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

Robert J. Lastrico

FROM: Robert J. Lastrico
Field Office Director
Office of Audits

SUBJECT: *Audit of the City and County of San Francisco, California
Public Assistance Identification Number 075-00000
FEMA Disaster Numbers 1155-DR-CA and 1203-DR-CA
Audit Report Number DS-12-05*

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

CCSF received public assistance grant awards totaling \$8.7 million from the California Office of Emergency Services (OES), a FEMA grantee, for recovery efforts resulting from severe winter storms and flooding. For Disaster 1155, CCSF received an award of \$4.7 million for damage that occurred from December 28, 1996, to April 1, 1997. This award provided 75 percent federal funding for 9 large projects and 45 small projects.¹ For Disaster 1203, CCSF received an award of \$4.0 million for damage that occurred from February 2, 1998 to April 30, 1998. This award provided 75 percent federal funding for 12 large projects and 23 small projects.²

This audit covered the period December 28, 1996, to May 28, 2003. For Disaster 1155, the OIG reviewed 2 large projects and the 45 small projects with a total award amount of \$4.1 million. For Disaster 1203, the OIG reviewed 3 large projects and the 23 small projects with a total award amount of \$2.8 million (see Exhibit).

¹ Federal regulations in effect at the time of the Disaster 1155 set the large project threshold at \$46,000.

² Federal regulations in effect at the time of the Disaster 1203 set the large project threshold at \$47,100.

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 CCSF records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

For Disaster 1155, CCSF expended and accounted for public assistance grant funds according to federal regulations and FEMA guidelines. However, for Disaster 1203, the OIG questions \$226,759 in costs we concluded were ineligible because they were (1) unsupported, (2) claimed as a result of accounting errors, or (3) claimed after the time period covered by the project. FEMA's share of cost questioned by the OIG is \$170,069. In addition, Finding B of this report notes that FEMA Region IX needs to improve procedures for reviewing and accepting appeals for Net Small Project Cost Overruns (henceforth referred to as NSPO) and for approving project time extensions.

Finding A – Ineligible Costs

CCSF's claim for project 03126 (Disaster 1203) included \$226,759 in costs we concluded were ineligible because they were unsupported, claimed as a result of accounting errors, or claimed after the time period covered by the project. This project provided funding for the operation of shelters to house victims of the disaster and pre-disaster homeless persons; and covered expenditures incurred from February 2, 1998 to April 30, 1998. We found that the claim included:

- \$189,424 in costs not supported with documentation proving that the charges were disaster related. CCSF records supporting the claim consisted of summary schedules of services, labor, and material costs incurred by three CCSF entities (Department of Public Health, Department of Human Services, and the Community Health Network). The schedules were not supported with invoices, receipts, contracts, or similar documents proving the expenditures were actually incurred and were disaster related. According to 44 CFR § 13.20(b)(2) and § 13.20(b)(6),³ CCSF is required to maintain accounting records that identify how FEMA funds are used and to support those records with source documentation.

Following the audit exit conference with CCSF on February 1, 2005, the OIG allowed CCSF additional time to submit documents to support the claimed costs. Subsequently, CCSF provided invoices, receipts, and other similar documentation to support expenditures relating to animal control, garbage services, and the construction of a homeless shelter. As a result of reviewing this additional information, the OIG accepted and removed from the initial questioned cost \$3,679 for garbage service and \$134,658 for the construction of the homeless shelter. The OIG however, did not accept the documents CCSF provided to support animal control expenditures. Those documents included information that was not consistent with data recorded in accounting records pertaining to the amount spent and date the costs were incurred.

³ All Finding A references to 44 CFR are taken from the Code revised as of October 1, 1997.

- \$29,831 in accounting errors. The OIG provided the details of these errors to CCSF officials who agreed that the \$29,831 was claimed in error. According to 44 CFR § 13.20(b)(1), CCSF is required to accurately report the results of financially assisted activities.
- \$7,504 in costs incurred outside the time period approved in the project scope. Vendor invoices and transaction records supporting the claim showed that \$7,504 was incurred after April 30, 1998, namely, the time period covered by the project. Thus, those costs were not eligible for federal assistance. The \$7,504 claimed, consisted of \$5,632 for the rental of portable showers, clean rooms, and toilets, and \$1,872 for water and sewage services. 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.

Since the CCSF was not able to provide documentation for the unsupported charges, and the claim included accounting errors and charges outside the time period covered in the project scope, the OIG questions \$226,759 in costs claimed by CCSF.

Finding B – Review and Approval of NSPO Appeals and Approval of Project Time Extensions

CCSF received \$795,601 in additional disaster funding as a result of NSPO appeals for Disasters 1155 (\$576,964) and 1203 (\$218,637). In reviewing project files, the OIG noted that CCSF’s appeals did not include all required documentation to properly assess the merits of the additional funding being requested. Although FEMA accepted the appeals and subsequently approved the additional funding without sufficient documentation to do so, the OIG concluded that the appeals related to disaster damage work and were therefore eligible for federal assistance. In addition, FEMA did not follow federal regulations and FEMA policy when approving a time extension for one small project included in the NSPO appeal for Disaster 1155. Details are as follow:

- CCSF submitted both NSPO appeals to OES without sufficient documentation to support its claims for additional disaster funds. According to 44 CFR § 206.204(e)(3),⁴ an applicant’s request for additional funding (appeal) may be submitted to FEMA within 60 days following the completion of all small projects and should include sufficient documentation to support the eligibility of all claimed work and costs. While OES recognized that the appeals lacked the required documentation and could not make a funding determination, OES forwarded the appeals to FEMA. The appeals did not support the costs overruns claimed for some projects and did not include any cost documentation to support the actual costs incurred for projects with no costs overruns. Thus, the documentation was insufficient to validate the NSPOs or to determine that the claims were for eligible disaster work.

Despite the shortcomings in CCSF’s appeals, FEMA accepted them and made funding determinations without sufficient supporting documentation to do so. For example, for Disaster 1155, FEMA approved additional funding of \$576,964 pertaining to six small projects with a net cost overrun. Project records showed the appeal lacked the required documentation and the

⁴ Finding B references to 44 CFR are identical in the Codes revised as of October 1, 1996 and October 1, 1997.

award was the result of FEMA and OES inspectors, in coordination with representatives from CCSF, revisiting all sites in question. Because all projects were complete when the sites were revisited, FEMA determined eligible costs based on a 'best guess' by extrapolating eligible costs from the actual completed work records as applied to the original scope of work. While CCSF's appeals did not meet the documentation standards established by federal regulation, the OIG concluded that the appeals related to disaster damage work and were therefore eligible for federal assistance.

- Records showed that FEMA approved a time extension for small project 74003 (Disaster 1155), although the statutory time for approving the extension had lapsed. According to 44 CFR § 206.204(d), an applicant may request a time extension to complete a permanent work project after the initial 18 months allowed for such project, if the project has experienced extenuating circumstances or unusual project requirements beyond the control of the applicant. This regulation provides that the grantee (OES) may approve time extensions up to 48 months⁵ after the declaration date of the disaster. All time extensions granted after this must be approved by FEMA and must include the dates and provision for all previous time extensions, and a complete justification for any delays and a projected completion date. In addition to the cited federal regulation, FEMA informed OES on January 27, 1997 that "Time extensions received after the date projects were to be completed will not be approved; requests are to be submitted prior to that date." FEMA also reiterated the specific requirements of the regulations and noted that delays may significantly increase the cost of a project.

Project 74003 initially provided funding of \$23,634 to cover the costs of repairs on Hetch Hetchy Road. Although the regulatory 18 months time limit for completing the project was July 5, 1998, project records did not include evidence showing that the CCSF had formally requested any time extensions. In fact, records showed that as early as July 10, 1999, CCSF certified to FEMA that project 74003 was complete at the initial approved funding. Nevertheless, 3 ½ years after July 5, 1998 (or 72 months), CCSF formally requested and FEMA approved a time extension for the project through January 22, 2002. The primary reason stated in CCSF's request was the lengthy project approval process within CCSF's Public Utilities Commission. The OIG concluded that CCSF's reason for requesting the extension did not constitute an extenuating circumstance or an unusual project requirement beyond CCSF's control. Nonetheless, FEMA granted the request although the time period for approving such requests had lapsed, and neither FEMA nor OES had previously approved time extensions for the project. Further, following FEMA's approval, CCSF submitted its appeal for a NSPO for Disaster 1155 and obtained \$67,008 in additional funding for project 74003.

CCSF officials explained that they followed OES instructions when submitting its NSPO appeals. They also explained that the 2002 request for the time extension was only a formality since the issue had been discussed with OES and FEMA on numerous occasions. However, FEMA and OES records for the projects did not support the statements made by CCSF officials and the records did not support FEMA's time extension approval for project 74003.

⁵ The grantee can approve an additional 30 months after the initial 18 months of regulatory time limit.

From our review of project records, we determined that FEMA's review and acceptance of CCSF's NSPO appeals for both disasters did not comply with applicable federal regulations. Further, FEMA's time extension approval for project 74003 was not in compliance with federal regulations and was contradictory to the guidance FEMA provided OES on January 27, 1997. As a result, we concluded FEMA Region IX needs to improve internal procedures for reviewing and accepting NSPO appeals, and for approving project time extensions. Improved procedures would provide the Region with assurances that FEMA staff, as well as grantees and subgrantees, are complying with federal regulations and FEMA policy; and that public assistance awards are for eligible disaster costs.

RECOMMENDATIONS

The OIG recommends that:

The Acting Regional Director, FEMA Region IX, in coordination with OES, disallow questioned costs of \$226,759.

The Acting Regional Director, FEMA Region IX take necessary steps to improve internal procedures for reviewing and accepting NSPO appeals, and for approving project time extensions; including requirements that OES and its subgrantees adhere to the provisions of the federal regulations and FEMA guidance cited in this report.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW UP

The OIG discussed the results of this audit with the CCSF officials on February 1, 2005. The CCSF officials withheld comment pending receipt of this report and asked that the OIG give them additional time to provide documentation supporting claimed amounts. The OIG received additional documentation from CCSF on February 7, 2005 and, as appropriate, made adjustments to Finding A of this report. The OIG informed FEMA and OES officials of the results of the audit on March 1, 2005.

Please advise this office by May 13, 2005 of any actions taken in response to the recommendations in this report. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Humberto Melara, Kenneth B. Valrance, Greg Suko and Venetia Gatus.

Schedule of Audited Projects
City and County of San Francisco, California
Public Assistance Identification Number 075-00000
FEMA Disaster Number 1155-DR-CA and 1203-DR-CA

Project Number	Amount Awarded	Amount Questioned	Finding Reference
<u>1155-DR-CA</u>			
Large Projects			
66184	\$2,639,388	\$ 0	
66157	543,633	0	
Small Projects	<u>902,754</u>	<u>0</u>	
Subtotal	\$4,085,755	\$ 0	
 <u>1203-DR-CA</u>			
Large Projects			
03126	\$1,118,345	\$226,759	A
51920	487,864	0	
65967	526,050	0	
Small Projects	<u>645,646</u>	<u>0</u>	
Subtotal	\$2,777,907	\$226,759	
Total	<u>\$6,863,662</u>	<u>\$226,759</u>	

Finding Reference Legend:

A - Ineligible Costs