



Homeland
Security

August 6, 2004

MEMORANDUM FOR: Ron Castleman
Regional Director, FEMA Region VI

Paige Hamrick
for

FROM: Tonda L. Hadley
Field Office Director

SUBJECT: *Audit of Hempstead County, Arkansas*
FEMA Disaster Number 1354-DR-AR
Public Assistance Identification Number 057-99057-00
Audit Report Number DD-12-04

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

The County received an award of \$10.79 million from the Arkansas Department of Emergency Management (ADEM), a FEMA grantee, for damages caused by severe ice storms on December 12, 2000. The award provided funding for nine large projects and eight small projects. Two of the large projects for debris removal were funded at 100 percent, with the remaining seven large projects and the eight small projects¹ funded at 75 percent. The audit covered the period December 12, 2000, to September 21, 2001, during which the County claimed \$10.79 million and ADEM funded \$10.59² million in FEMA funds for direct program costs. We examined the costs of all projects totaling \$10.79 million, or 100 percent of the total award (see Exhibit).

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included tests of the County's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary to accomplish the audit objective.

¹ Federal regulations in effect at the time of the disaster defined a large project as a project costing \$50,600 or more and a small project as one costing less than \$50,600.

² This figure does not include overpayments of \$610,530. (see Finding B)

RESULTS OF AUDIT

The County accounted for and expended \$9,975,777 of contract costs claimed for debris removal according to federal regulations and FEMA guidelines. However, the County's records did not adequately support \$539,412 (\$404,559 FEMA share) of costs claimed for road repair projects completed by County employees. Further, ADEM overpaid the County \$610,530 in federal grant funds, on which the County earned \$16,954 of ineligible interest. Accordingly, we questioned \$1,166,896 (\$539,412 + \$610,530 + \$16,954).

Finding A: Unsupported Costs

The County claimed \$539,412 under seven large projects for road repairs completed by its Road Department; however, these costs were not adequately supported. The County's records did not identify the costs to eligible disaster work. After the disaster, the County maintained records for costs incurred by its Road Department, but did not segregate costs for eligible disaster work from costs for ordinary, non-disaster work. Instead, the County assembled its claim for road repairs 2 years after the disaster by arbitrarily allocating costs between ordinary and disaster work. Specifically, the documentation submitted included (1) work logs that were either missing, incomplete, or did not indicate to which projects they related; (2) material invoices that did not identify where the material was used or how much was used; and (3) payroll records that did not indicate which projects County employees worked on for any given day. Further, the County could not provide equipment logs to identify equipment hours charged to each project.

According to 44 CFR 206.223 (a)(1), to be eligible for financial assistance, an item of work must be "required as the result of the major disaster event." Further, Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, states that, to be allowable, costs must be allocable to federal awards (Attachment A, Section C.1.b.) and adequately documented (Attachment A, Section C.1.j.). The OMB Circular also states that direct costs are those that can be identified specifically with a particular final cost objective (Attachment A, Section E.1) and states that typical direct costs chargeable to federal awards include the following (Attachment A, Section E.2.):

- Compensation of employees for the time devoted and identified specifically to the performance of those awards.
- Costs of materials acquired, consumed, or expended specifically for the performance of those awards.

We inspected a sample of road repairs and verified that the work listed in the scope of the Project Worksheets (PWs) was completed. However, there was no way to verify the actual amount expended on those repairs. County Officials acknowledged that they did not maintain documentation required to verify project costs. However, they stated that FEMA and State officials did not instruct them on proper documentation procedures. The OIG contends that the documentation requirements were no more stringent than those imposed by any federal grant and that the County accepted and was aware that these were federal funds. Accordingly, the OIG questioned \$539,412 as unsupported because

the County's records contained no evidence that the costs were allocable to the federal grant or that the work was a result of the major disaster event.

Finding B: Over-Payment and Interest Earned

ADEM paid the County \$610,530 more than the federal share claimed by the County. In addition, the County earned \$17,254 of interest on federal grant funds from February 7, 2001 through December 31, 2003. According to 44 CFR 13.20(b)(7), *Cash management*, grantees and subgrantees are to follow procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Further, 44 CFR 13.21(i), *Interest earned on advances*, states that grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances of federal funds, except that they may keep interest amounts up to \$100 per year for administrative expenses.

The County stated that when they informed State officials of the overpayment, those officials instructed them to keep the funds until the projects were closed and that the State would reconcile the funds at that time. According to federal regulations, the County can only retain \$300 in interest (\$100 per year for 2001 through 2003). Accordingly, we questioned the \$610,530 overpayment plus interest of \$16,954 (\$17,254 less \$300 administrative expenses) plus any interest that has accrued since December 31, 2003.

OTHER MATTERS

The County incurred but did not claim \$150,877 of contractor monitoring costs. ADEM initially identified the monitoring costs as an eligible expense on PW 1123, but the County inadvertently failed to include these costs in its claim. The OIG determined that these monitoring costs were adequately supported and would have been eligible for FEMA funding if the County had included them in its claim.

This finding is for informational purposes only and does not suggest that additional funds be provided to the County. The decision to disburse additional funds rests solely with FEMA based on the County's request that FEMA consider adding the additional costs to its claim.

RECOMMENDATION

The Office of Inspector General recommended that the Regional Director, in coordination with the Arkansas Department of Emergency Management (ADEM):

1. Disallow \$539,412 of questionable costs claimed and recover the federal share.
2. Recover the \$610,530 overpayment of federal funds plus accrued interest, which was \$16,954 (\$17,254 less \$300 administrative expenses) as of December 31, 2003.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of the audit with FEMA Region VI on February 5, 24, and 25, 2004; with the Arkansas Division of Emergency Management on March 1, 2004; and with Hempstead County on March 2, 2004. All parties agreed with the findings. However, State and County officials did not agree with Recommendation 1, stating that the work was completed and they plan to appeal to the Region to allow the reasonable cost of road repairs and ask the Region to allow the County to claim reimbursement for the monitoring costs not previously claimed.

Please advise us by November 4, 2004, of the actions taken or planned to implement the recommendations, including target completion dates for any planned actions.

Should you have any questions concerning this report, please contact me at (940) 891-8900. The major contributors to this report were Charles Riley, William Lough, and Jerry Prem.

**Schedule of Amounts Audited and Questioned
Hempstead County
FEMA Disaster Number 1354-DR-AR**

<u>Description</u>	<u>Category Of Work</u>	<u>Amount</u>	<u>Amount Questioned</u>
Large Projects			
1123	A	\$ 7,749,041	\$ 0
2672	A	2,226,736	0
2718	C	102,554	102,554
2710	C	97,454	97,454
2715	C	82,066	82,066
2799	B	74,878	74,878
2713	C	68,150	68,150
2714	C	60,617	60,617
2707	C	<u>53,693</u>	<u>53,693</u>
	Subtotal	<u>\$10,515,189</u>	<u>\$ 539,412</u>
Small Projects			
2708	C	\$ 47,272	\$ 0
2763	B	43,805	0
2711	C	41,250	0
2716	C	38,720	0
2717	C	39,660	0
2709	C	26,575	0
2712	C	22,000	0
1125	B	<u>17,099</u>	<u>0</u>
	Subtotal	<u>\$ 276,381</u>	<u>\$ 0</u>
Total All Projects		<u>\$10,791,570</u>	<u>\$ 539,412</u>
Overpayment			\$ 610,530
Ineligible Interest			<u>16,954</u>
Total Questioned			<u>\$1,166,896</u>