



# Homeland Security

August 31, 2010

MEMORANDUM FOR: Tony Russell, Regional Administrator  
FEMA Region VI

FROM: *Christopher Dodd*  
for Tonda L. Hadley, Director  
Central Regional Office

SUBJECT: *Lamar University, Beaumont, Texas*  
FEMA Disaster Number 1606-DR-TX  
Public Assistance Identification Number 000-UODYP-00  
Audit Report Number DD-10-16

We audited public assistance funds awarded to Lamar University (University) for disaster recovery work related to Hurricane Rita. Our audit objective was to determine whether the University accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

The University received an award of \$25.9 million from the Texas Division of Emergency Management (TDEM), a FEMA grantee, for damages caused by Hurricane Rita beginning on September 23, 2005. The award provided 100% FEMA funding for 34 large and 15 small projects.<sup>1</sup> We audited all large and two small projects totaling \$25.7 million, or 99% of the total award (see Exhibit A). The audit covered the period September 23, 2005, to September 23, 2009, during which the University received \$19.9 million of FEMA funds.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We interviewed FEMA, TDEM, and University officials; reviewed judgmentally selected transactions (generally based on dollar value); and performed other procedures considered necessary

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<sup>1</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$55,500.

to accomplish our objective. We did not assess the adequacy of the University's internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however gain an understanding of the University's method of accounting for disaster-related costs and its procurement policies and procedures.

## **BACKGROUND**

Hurricane Rita made landfall as a strong Category 3 storm on September 24, 2005, just east of Sabine Pass, Texas, causing serious damage to the University campus. After quickly assessing the damage, University staff and contractors began the work of restoring the campus with the goal of returning students to class in time to complete the fall 2005 semester. Many buildings needed to be dried out and restored; roofs needed repair; and debris and damaged trees needed to be cleared. Faculty and staff returned to work on October 17, and classes resumed on October 19, 2005.

## **RESULTS OF AUDIT**

The University did not account for and did not always expend FEMA grant funds according to federal regulations and FEMA guidelines. The University's claim included unsupported costs, cost overruns, unused federal funds, and costs for ineligible work. As a result, we question \$26,935,162, which excludes amounts questioned in this report under multiple findings and amounts questioned in a previous OIG audit report.<sup>2</sup> At the close of our audit fieldwork, University officials were working with TDEM to correct these problems.

### **Finding A: Integrity of Claimed Costs**

The University's grant accounting system did not account for costs on a project-by-project basis as required. University officials could not provide a complete and reliable listing of costs for its large projects and stated that its claims were incorrect. Therefore, we question \$26,871,254 as unsupported costs.

The University submitted inaccurate Completion and Certification Reports (P-4s) for all large projects. As shown in the examples below, the University's record of costs incurred did not reconcile with its certified claim submitted to TDEM or with FEMA's obligations.

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<sup>2</sup> *FEMA's Practices for Evaluating Insurance Coverage for Disaster Damage and Determining Project Eligibility and Costs*, DS-10-08, June 7, 2010.

<b>PW #</b>	<b>PW Amount Obligated</b>	<b>University's Record of Costs Incurred</b>	<b>University's Certified Costs</b>
200	\$511,106	\$489,122	\$511,106
876	\$7,811,627	\$7,581,101	\$7,810,427
2614	\$2,602,257	\$2,121,006	\$2,305,964
3636	\$1,239,156	\$1,339,548	\$1,308,580
515	\$422,532	\$358,193	\$324,822
849	\$296,962	\$47,743	\$43,943

The University should have had a financial and record keeping system in place that could accurately track costs. FEMA Publication 322, *Public Assistance Guide*, Chapter 5 – Project Management, states that it is critical that the applicant establish and maintain accurate records of events and expenditures related to disaster recovery work. Further, 44 CFR 206.205(b) requires that project expenditures be accounted for on a project-by-project basis. The importance of maintaining a complete and accurate set of records for each project cannot be overemphasized.

University officials signed P-4s certifying that all work and costs claimed were completed, eligible, and fully paid. University officials said that its record of costs and the P-4s were inaccurate because University employees did not know how to administer disaster grant funds, and employees originally tasked with accounting for the claim no longer worked for the University. During the audit, we asked the University to provide corrected cost listings for 5 of the 34 large projects. Although University officials provided us with new cost listings, they said the costs were not reliable and they would not certify as to their completeness or accuracy until they had thoroughly reviewed the costs of all the projects.

After our audit began, the University obtained TDEM's permission to revise its claim and re-submit its P-4s. The University also requested TDEM's assistance in correcting its claim and has hired a consultant to help get the claim in order. However, because the University could not provide a complete and reliable accounting of its costs, we question \$26,871,254 as unsupported until such time the University can get its claim in order. We question some of these costs in other findings; therefore, we are recommending FEMA disallow \$22,832,786 for this finding, which is comprised of \$26,871,254 net of \$4,038,468 also questioned in Findings B and D below, as well as amounts we questioned in a previous audit report (see Exhibit B).

**Finding B: Cost Overruns**

The University's claim included \$2,639,112 of cost overruns. A cost overrun exists when project costs exceed the amount obligated on the PW. Although the University claimed cost overruns on 16 of the 34 large projects, the University did not submit justifications or requests to TDEM to approve the cost overruns. According to 44 CFR 206.204(e)(2), subgrantees must evaluate cost overruns and, when justified, submit a request for additional funding through the grantee to FEMA for final

determination. It further requires that requests contain sufficient documentation to support the eligibility of all claimed work and costs. Because the University did not justify the cost overruns or submit the required requests to the state, we question the \$2,639,112.

### **Finding C: Unused Federal Funds**

The University claimed costs totaling \$1,377,271 less than amounts obligated for 13 PWs. The University does not need the excess funds to complete its projects. Therefore, FEMA should deobligate the funds and put them to better use.

### **Finding D: Eligibility of Costs**

The University's claim included \$85,993 for items described below that were not eligible because they were either not the direct result of the disaster or were for administrative costs.

- \$59,833 for replacing seats at Vincent Beck Baseball Stadium. The new stadium seats were not included in the PW scope of work, and University officials indicated on both the demolition purchase order for the old seating and the replacement purchase order for the new seating that the work was not disaster-related.
- \$17,030 for stadium improvements including the cost of installing sidewalks, catch basins, a drainage flume, and a storm sewer pipe—all items not existing at the time of the disaster.
- \$8,560 for moving the stadium scoreboard.
- \$570 of administrative costs for copying and shipping.

To be eligible for financial assistance, all work must be required as a result of the major disaster event (44 CFR 206.223(a)(1)). Further, administrative costs cannot be claimed separately because they are covered by the applicant's administrative allowance (44 CFR 206.228(a)(2)(ii)). Therefore, we question \$85,993 as ineligible.

### **Other Matters**

#### **Other Audit Findings**

On June 7, 2010, the Office of Inspector General (OIG) issued *FEMA's Practices for Evaluating Insurance Coverage for Disaster Damage and Determining Project Eligibility and Costs*, Report DS-10-08. The report included a finding regarding the University's claim for roof replacements under disaster 1606-DR-TX and a recommendation to disallow \$1,313,363 in funding for projects associated with total roof replacements. We allocated the \$1,313,363 questioned to appropriate PWs in Exhibit A, but did not include this amount in costs questioned in this report.

## **PW 2614 – Unresolved Brick Fascia Costs**

PW 2614 included costs for damage to the Mary and John Gray Library. FEMA assessed the library's damage, including pre-disaster damage, and issued a memorandum allowing 35% of the brick fascia costs as eligible for federal reimbursement. However, FEMA used total building repair cost, instead of only the amount necessary to repair the brick fascia, in estimating the amount of eligible costs on the PW. Because FEMA's wording in the ruling and methodology for estimating eligible costs was ambiguous, we asked FEMA to clarify and correct, if necessary, the estimated eligible costs for the repairs.

### **RECOMMENDATIONS**

We recommend that the Regional Administrator, FEMA Region VI:

1. Disallow the \$22,832,786 of unsupported costs (see Exhibit B).
2. Monitor the state's progress assisting the University in revising and finalizing its claim.
3. Disallow the \$2,639,112 of ineligible cost overruns.
4. Deobligate the \$1,377,271 of unused federal funds and put them to better use.
5. Disallow the \$85,993 of ineligible costs not related to the disaster.

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

We discussed the results of our audit with University 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 FEMA, TDEM, and University officials and discussed them at exit conferences held with FEMA on July 21, 2010, with TDEM on July 22, 2010, and with the University on July 21, 2010. These officials generally reserved comment until the University corrects and resubmits its claim. Please advise this office by November 1, 2010, of the actions planned or taken to implement the recommendations, including target completion dates for any planned actions. Significant contributors to this report were Christopher Dodd, Patti Smith, and Doug Denson. Should you have questions concerning this report, please contact me, or your staff may contact Christopher Dodd, Audit Manager, at (214) 436-5200.

cc: Audit Liaison, FEMA Region VI  
Audit Liaison, FEMA (Job Code G-10-021-EMO-FEMA)

**EXHIBIT A**

**Schedule of Audited and Questioned Costs  
Lamar University  
FEMA Disaster Number 1606-DR-TX<sup>3</sup>**

<b>Project Number</b>	<b>Award Amount</b>	<b>Finding A</b>	<b>Finding B</b>	<b>Finding C</b>	<b>Finding D</b>	<b>Previously Questioned (DS-10-08)</b>	<b>Total Questioned</b>
876	\$ 7,811,627	\$ 7,810,427		\$ 1,200			\$ 7,811,627
202	3,259,923	3,259,923					3,259,923
2614	2,602,257	2,305,964		296,293			2,602,257
3636	1,239,156	1,308,580	\$ 69,424		\$85,993		1,308,580
1749	945,590	1,170,426	224,836			(\$ 56,425)	1,114,001
850	744,809	730,703		14,106			744,809
1822	723,875	796,951	73,076				796,951
1317	671,816	509,272		162,544		(149,424)	522,392
845	594,450	735,221	140,771			(137,501)	597,720
847	576,091	645,959	69,868			(137,498)	508,461
200	511,106	511,106					511,106
1789	504,000	1,485,860	981,860				1,485,860
515	422,532	324,822		97,710			422,532
875	417,217	417,217					417,217
856	410,645	551,499	140,854			(99,248)	452,251
1339	387,392	576,351	188,959				576,351
1792	364,239	159,868		204,371		(82,500)	281,739
1327	358,286	569,919	211,633			(68,749)	501,170
855	340,582	641,766	301,184			(82,500)	559,266
1796	308,318	234,823		73,495			308,318
843	303,984	425,140	121,156			(137,498)	287,642
849	296,962	43,943		253,019			296,962
844	294,222	280,748		13,474		(66,330)	227,892
1794	261,111	296,240	35,129			(56,100)	240,140
854	234,722	238,558	3,836			(57,199)	181,359
853	203,519	139,090		64,429		(48,114)	155,405
1786	187,328	196,507	9,179			(46,200)	150,307
1825	121,822	96,958		24,864			121,822
842	119,051	161,616	42,565			(29,502)	132,114
1342	116,650			116,650			116,650
815	82,500	27,384		55,116		(58,575)	23,925
1826	71,124	95,906	24,782				95,906
1347	62,448	62,448					62,448
3580	60,059	60,059					60,059
796	35,750						
1321	34,920						
<b>Totals</b>	<b><u>\$25,680,083</u></b>	<b><u>\$26,871,254</u></b>	<b><u>\$2,639,112</u></b>	<b><u>\$1,377,271</u></b>	<b><u>\$85,993</u></b>	<b><u>(\$1,313,363)</u></b>	<b><u>\$26,935,162</u></b>

<sup>3</sup> Amounts questioned in Findings B and D are also questioned in Finding A (see Exhibit B). Therefore, Total Questioned in this Exhibit is the sum of Findings A and C, less amounts Previously Questioned.

**Costs Questioned Under Multiple Criteria  
Lamar University  
FEMA Disaster Number 1606-DR-TX**

We questioned unsupported costs in Recommendation 1 (Finding A) in our report that, in some instances, were questioned for more than one reason. As shown in the table below, we questioned \$26,871,254 in Finding A, which includes \$2,639,112 also questioned in Finding B, \$85,993 questioned in Finding D, and \$1,313,363 questioned in a previous OIG audit report (DS-10-08). Therefore, if FEMA does not disallow these costs for Findings B, D and DS-10-08, FEMA should add them back to the amount recommended for disallowance in Finding A.

<b>Questioned Costs</b>		
<b>Finding</b>	<b>Amount</b>	<b>Totals</b>
A. Unsupported Costs	\$26,871,254	
Less costs also questioned in B	(2,639,112)	
Less costs also questioned in D	(85,993)	
Less costs previously questioned in DS-10-08	<u>(1,313,363)</u>	
Net amount questioned in A		<u>\$22,832,786</u>
B. Cost Overruns		2,639,112
C. Unused Federal Funds		1,377,271
D. Ineligible Costs		<u>85,993</u>
<b>Total</b>		<b><u>\$26,935,162</u></b>