




Homeland
Security

SEP 02 2011

MEMORANDUM FOR: Nancy Ward
Regional Administrator
Federal Emergency Management Agency, Region IX

FROM: Matt Jadacki 
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Public Assistance Grant Funds Awarded to
City of Petaluma, California*
FEMA Disaster Number 1628-DR-CA
Public Assistance Identification Number 097-56784-00
Audit Report Number DS-11-11

We audited Public Assistance (PA) grant funds awarded to the City of Petaluma, California (City). Our audit objective was to determine whether the City accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

The City received a PA award of \$5.2 million from the California Emergency Management Agency (Cal EMA),¹ a FEMA grantee, for debris removal, emergency protective measures, and permanent repairs to facilities damaged as a result of severe winter storms that occurred from December 17, 2005, through January 3, 2006. The award provided 75% FEMA funding for 8 large and 18 small projects.² The audit covered the period of December 17, 2005, to January 18, 2011. We audited three large projects with a total award of \$3.8 million, or about 73% of the total award amount (see Exhibit, Schedule of Projects Audited).

We conducted this performance audit pursuant to 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, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit based upon the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We discussed issues related to this audit with FEMA, Cal EMA, and City officials; reviewed judgmentally selected samples of project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the

¹ At the time of the disaster, the grantee's name was the California Office of Emergency Services, which became a part of Cal EMA on January 1, 2009.

² Federal regulations in effect at the time of the disaster set the large project threshold at \$57,500.

City's internal controls applicable to subgrant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the City's methods of accounting for disaster-related costs.

RESULTS OF AUDIT

The City generally expended and accounted for FEMA funds according to federal regulations and FEMA guidelines. However, the City did not use \$2,172,514 of FEMA-approved funds; therefore, FEMA should deobligate those federal funds and put them to better use. Also, City officials planned to request reimbursement for costs that FEMA had not yet approved and, for one project, spent significantly more than the approved amount without notifying FEMA about the increases.

Finding A: Funds Not Used for Permanent Work

FEMA estimated and approved Project 3803 for \$1,757,280 to dispose of 58,576 cubic yards of sediment from the Petaluma River. In September 2009, the City completed the FEMA-approved scope of work (SOW) for a total cost of \$588,551. Therefore, FEMA should deobligate the difference of \$1,168,729 and put those federal funds to better use.

Finding B: Funds Not Used for Emergency Work

FEMA estimated and approved Project 3348 for \$1,188,574 to dredge and dispose of 27,654 cubic yards of debris material (Category A—Emergency work). However, the City dredged and disposed of only 4,315 cubic yards of debris material for a total cost of \$184,789. Therefore, FEMA should deobligate the difference of \$1,003,785 and put those federal funds to better use. The total incurred cost consisted of—

- \$47,360 for equipment mobilization and demobilization. The City initially overcharged the project by \$139,134. City officials agreed to provide FEMA with the correct amount at project closeout; and
- \$89,212 for dredging 4,315 cubic yards of debris material plus \$48,217 for disposal of the material.

City officials stated that they will incur additional cost because they had completed only 4,315 cubic yards of the approved 27,654 cubic yards for the debris material cleanup. However, any additional cost that the City might charge to the project would be ineligible because an urgent need for emergency debris disposal no longer exists. For instance—

- The immediate threat to lives, public health, and safety is no longer present;
- During meetings with City officials, they did not identify any immediate threat as a result of the excess debris; and
- According to the harbormaster, the marina had already returned to normal operating conditions, as illustrated in figure 1.



Figure 1: Petaluma Marina
Source: OIG site visit, August 30, 2010

Other Matters: Potential Unauthorized and Ineligible Project Costs

During our audit, City officials informed us that they plan to claim costs for Projects 2285, 3348, and 3803 for work FEMA had not authorized in the projects' SOWs. In addition, City officials had not requested FEMA's approval for a cost overrun they incurred under Project 2285.

Costs Not Authorized in SOWs: City officials planned to charge Projects 2285, 3348, and 3803 more than \$1 million for professional services that FEMA did not authorize in the SOWs, including—

- More than \$600,000 for general consulting services;
- More than \$280,000 for project management services; and
- More than \$160,000 for legal, engineering, administrative, and other services.

According to 44 CFR 206.223(a)(1), an item of work must be required as a result of a major disaster to be eligible for financial assistance. City officials agreed that the costs they incurred were for work not included in FEMA's approved SOWs. However, they disagreed that the cost of more than \$1 million for professional services was ineligible.

Cost Overrun: The City incurred a cost overrun of more than \$250,000 under Project 2285 for disaster-related repairs it completed at four of the nine project sites: Pineview Way, S. McDowell, Fairgrounds Drive, and 1st & H Streets. However, at the time of our audit, City officials had not requested additional FEMA funding for the cost overrun and were unable to provide sufficient support for the additional cost. City officials further stated that they will wait for project closeout to inform FEMA about the cost overrun.

According to 44 CFR 206.204(e)(1)–(2), subgrantees may find during project execution that actual project costs exceed approved project estimates. The subgrantee must evaluate each cost overrun and, when justified, submit a request for additional funding for a final determination.

RECOMMENDATIONS

We recommend that the FEMA Region IX Administrator, in coordination with Cal EMA:

Recommendation #1: Deobligate \$1,168,729 (federal share \$ 876,547) for permanent work to dispose of sediment under Project 3803 and put those federal funds to better use (finding A).

Recommendation #2: Deobligate \$1,003,785 (federal share \$752,839) for emergency debris dredging and disposal under Project 3348 and put those federal funds to better use (finding B).

Recommendation #3: Ensure that the City claims only authorized and eligible disaster costs for Projects 2285, 3348, and 3803 (Other Matters).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of this audit with City officials and included their comments in this report, as appropriate. We discussed these findings and recommendations at an exit conference with Cal EMA and City officials on January 18, 2011. City officials partially concurred with findings A, B, and C. We also provided written summaries of our findings and recommendations in advance to FEMA on January 19, 2011. FEMA and Cal EMA officials withheld comments until after we issue our final report.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. To promote transparency, this report will be posted to our website, with the exception of sensitive information identified by your office. Significant contributors to this report were Humberto Melara, Jack Lankford, Louis Ochoa, Greg Suko, Curtis Johnson, and Willard Stark.

Should you have questions concerning this report, please contact me at (202) 254-4100 or Humberto Melara at (510) 637-1463.

cc: Administrator, FEMA
Audit Liaison, FEMA Region IX
Audit Liaison, FEMA (Job G-09-012-EMO-FEMA)
Audit Liaison, DHS

EXHIBIT

**Schedule of Projects Audited
City of Petaluma, California
Public Assistance Identification Number 097-56784-00
FEMA Disaster Number 1628-DR-CA**

Project Number	Amount Awarded	Recommended Deobligations	Finding Reference
2285	\$ 814,452	\$ 0	
3348	1,188,574	1,003,785	B
3803	1,757,280	1,168,729	A
Total	\$3,760,306	\$2,172,514	