

Department of Homeland Security **Office of Inspector General**

The Town of San Anselmo, California,
Did Not Properly Account for and Expend FEMA's
Public Assistance Grant Funds



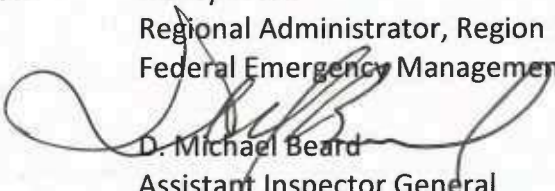


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Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

DEC 27 2012

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

FROM: 
D. Michael Beard
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Interim Report – The Town of San Anselmo, California, Did Not Properly Account for and Expend FEMA’s Public Assistance Grant Funds*
FEMA Disaster Number 1628-DR-CA
Audit Report Number DS-13-02

We are currently auditing Federal Emergency Management Agency (FEMA) Public Assistance (PA) grant funds awarded to the Town of San Anselmo, California (Town), PA Identification Number 041-64434-00, for disaster recovery work related to storms, that caused flooding and mudslides during the period of December 17, 2005, through January 3, 2006. Our audit objective is to determine whether the Town accounted for and expended FEMA PA grant funds according to Federal regulations and FEMA guidelines. The purpose of this memorandum is to advise you that, although we have not yet completed a final audit of the Town for the aforementioned disaster, we nevertheless identified systemic accounting and documentation issues with the Town’s first appeal for additional funding under Project 3625 that require immediate attention.

We are conducting 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 applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster. At the conclusion of our audit, we plan to issue our final audit report (notwithstanding the issuance of any additional interim reports), including any other findings and recommendations.



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This interim report focuses on Project 3625. As part of this audit, we reviewed applicable Federal regulations and FEMA guidelines, as well as previously issued audit reports and audit documentation relating to the Town's claims for project costs, and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the Town's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. However, we gained an understanding of the Town's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA grant.

BACKGROUND

Severe storms caused the San Anselmo Creek to overflow its banks, overwhelming the storm and sanitary sewer systems. As a result, 2 feet of floodwater entered the ground floor of the Town's police station, Town Council chambers, and Town Hall lobby. FEMA initially approved Project 3625 with a total estimated cost of \$660,659—of which FEMA deducted \$646,609 for anticipated insurance proceeds, leaving an approved amount of \$14,050 related to hazard mitigation work (dry flood-proofing work). The project's scope of work (SOW) consisted of funding for building repairs (police station and council chambers), replacement of building contents not covered by insurance, and repair of damaged vehicles.

Subsequently, FEMA approved project worksheet versions 1 to 4 and increased funding to \$830,672 based on actual costs and insurance adjustments. However, during project closeout, the Town submitted to FEMA a cost claim of \$1,599,777, or \$769,105 more than what FEMA approved.

FEMA reviewed the Town's submission and determined that the additional charges were associated with project improvements that substantially changed the approved SOW and classified it as an improved project—and capped project funding at \$830,672.¹ The Town has requested reimbursement for project-related costs totaling \$1,599,777, and appealed FEMA's funding determination. At the time of our audit fieldwork, FEMA was evaluating the Town's first appeal for Project 3625.

RESULTS OF AUDIT

We were unable to verify the validity and supportability of the \$1,599,777 in disaster costs the Town charged to Project 3625 and is claiming as part of a first appeal. The claim

¹ Title 44 Code of Federal Regulations (CFR) 206.203(d)(1) limits funding for improved projects to the original estimate to repair the facility to its predisaster condition.



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includes costs that are unsupported or ineligible for PA funding, and the Town's records were insufficient to provide an audit trail in support of the claim. As a result, we question the Town's claim in its entirety.

Finding A – The Claim Includes \$577,961 in Unsupported Costs

The Town's claim for Project 3625 includes \$577,961 in unsupported costs. The Town's records did not include either documentation proving the charges were for FEMA-approved expenditures or a justification for incurring the costs.

Federal regulation and FEMA guidelines stipulate the following:

- Eligibility to receive Federal funds is contingent upon having fiscal controls and accounting procedures that permit the tracing of funds, and maintaining records to adequately identify the source and application of funds provided for financially assisted activities (44 CFR 13.20(b)(2)).
- Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract, or subgrant award documents (44 CFR 13.20(b)(6)).
- Records must be retained for 3 years from the date that the grantee (California Emergency Management Agency, or Cal EMA) submits the Town's final expenditure report to FEMA (44 CFR 13.42(b)(c)).

Federal criteria require the Town to establish and maintain accurate records of events and expenditures related to disaster recovery work. The Town did not follow these requirements and did not present adequate documentation to support the following:

- \$495,107 in charges to repair the Town's police station, council chambers, and lobby
 - Repair charges from the prime contractor totaled \$627,275. The Town claimed that about 80 percent or \$495,107 of the expenses relate to FEMA-eligible work and 20 percent to non-FEMA-eligible tasks. The Town's methodology for allocating the costs is not supported by the contractor's billings, as the billings only provide charges for line items and do not identify the completion of the FEMA work approved in the project's SOW. FEMA has previously informed the Town that repair costs must be separated through the performance and billing of the work.



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- \$42,438 in force account labor costs for disaster-related work
 - The Town did not retain all timecards related to this expenditure that could identify the employee, the disaster task, and the hours charged.
- \$40,416 to replace two police motorcycles damaged by the disaster (see figure 1)

Figure 1.



**Motorcycles reported damaged were in a shed during the disaster.
Source: Town of San Anselmo, CA, July 25, 2012.**

- The Town records do not include written justification documenting the cost-effectiveness of replacing versus repairing the equipment or the availability of similar used police motorcycles.² Town officials explained that the motorcycle vendor suggested that purchasing new equipment was cost effective. The Town, however, did not have documentation to support this assertion.
- Additionally, records show that the damaged motorcycles were less than 3 years old and had a cost value of \$40,097. The Town used them as trade-ins, and the vendor valued them at a total of \$5,000.

² When equipment, including vehicles, is not repairable, FEMA will approve the cost of replacement with used items that are approximately the same age, capacity, and condition. Replacement of an item with a new item may be approved only if a used item is not available within a reasonable time and distance (FEMA's *Public Assistance Guide*, FEMA 322 (1999), p. 57).



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We determined that the unsupported costs occurred because the Town did not maintain a complete and accurate set of records to account for FEMA-eligible disaster work – thus, not providing a sufficient audit trail to validate the supportability and eligibility of the project costs.³

Without adequate supporting documentation, the Town is not eligible to receive reimbursement from FEMA totaling \$577,961 under Project 3625.

Finding B – The Claim Includes Costs Not Eligible for Disaster Assistance

The Town has charged Project 3625 with \$81,757 in ineligible costs for services rendered, repair work, and equipment replacement.

Federal regulations stipulate the following:

- The grantee shall make an accounting to the Regional Director, FEMA, of eligible costs for each approved large project. In submitting the accounting, the grantee shall certify that reported costs were incurred in the performance of eligible work, that the approved work was completed, that the project is in compliance with the provisions of the FEMA-State Agreement (44 CFR 206.205(b)(1)).
- An item of work must be required as a result of a major disaster to be eligible for financial assistance (44 CFR 206.223(a)(1)).
- To be allowable under Federal awards, costs must be necessary, reasonable, and adequately documented (2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, Section C.1.a.j).⁴

The Town did not comply with these Federal requirements when charging costs to Project 3625. We identified the following examples of ineligible costs in the Town’s claim:

- \$32,705 in ineligible charges for services rendered pertaining to the restoration of the Town’s police station (see table 1)

³ Each local government shall establish necessary accounting records, consistent with the local government’s financial management system, to account for funds received and disbursed and to provide an audit trail. FEMA auditors and the Comptroller General of the United States or their duly authorized representatives shall, for the purpose of audits and examination, have access to any books, documents, papers, and records that pertain to Federal funds, equipment, and supplies received under these regulations (FEMA’s *Public Assistance Guide*, FEMA 322, Attachment C (1999), p. C-55).

⁴ Office of Management and Budget Circular A-87 relocated to 2 CFR 225 on August 31, 2005, in effect at the time of the disaster.



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Table 1. Ineligible Service Costs

Service Description	Ineligible Costs	Reason for Cost Ineligibility
Transfer 911 emergency system	\$20,000	Cost was paid by another source
Portable restroom rentals	7,625	Charges were for a period not covered by the disaster
Utility costs	5,080	General operating costs
	\$32,705	

- \$22,936 in repairs not included in the FEMA-approved scope of work that included hazard mitigation (see table 2)

Table 2. Ineligible Repair Costs

Repair Not in the SOW	Ineligible Costs
Remove and replace ceiling tiles	\$12,436
Frame a new Spanish tile roof; copper gutters; two downspouts; painting	10,500
	\$22,936

- \$26,116 for the purchase of new equipment not damaged by the disaster (see table 3)

Table 3. Replaced Equipment

Item Description	Quantity Replaced	Total Cost
Laptop	1	\$1,345
Personal computers with software	4	4,610
911 computer	1	7,478
Computer monitors	3	1,036
Keyboards/chairs	Multiple	1,013
Stack chairs	1	8,527
Telephones	4	977
Lamps	4	394
New stovetop and microwave	1	736
Total		\$26,116

- The disaster flooded the police station with 2 feet of water. Town officials took action to save the equipment prior to the event. Figure 2 shows an example of these actions, such as raising the equipment to table and desktop surfaces.



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Figure 2.



**Three computers located at the Town's first floor police station.
Source: Town of San Anselmo, July 25, 2012.**

- Town officials said that after protecting the equipment from the flood, they moved the equipment to the temporary location from which police were operating and continued using it. Since the equipment was not damaged, the Town is not eligible to receive Federal reimbursement for the replacement costs.

We conclude that the \$81,757 the Town charged to Project 3625 is ineligible for FEMA reimbursement.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IX:

Recommendation #1: Disallow the Town's first appeal claim for the \$1,599,777 in costs for Project 3625 (Federal share \$1,199,833) and require the Town to submit a revised claim with only project expenses that are eligible for Federal disaster assistance, and are supported with adequate documentation.

Recommendation #2: Remind the Town of its responsibilities:

- Fiscal controls and accounting procedures must permit the tracing of funds, and records must be maintained to identify the source and application of funds provided for financially assisted activities.



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- Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, or contract and subgrant award documents.

Recommendation #3: Evaluate thoroughly for eligibility any costs the Town submits for Project 3625 and disallow costs not in compliance with Federal requirements and FEMA guidelines.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the findings and recommendations at an exit conference with Town, Cal EMA, and FEMA officials on September 18, 2012. We also provided a written summary of our findings and recommendations in advance to FEMA on September 14, 2012, and to Cal EMA on September 17, 2012. FEMA and Cal EMA officials withheld comment until after we issue our final report. Town officials agreed to document cost adequately and resubmit a revised cost claim for Project 3625..

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 recommendations. 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. We will post the report on our website for public dissemination.

Major contributors to this report are Humberto Melara, Western Region Audit Director; Louis Ochoa, Audit Manager; Renee Gradin, Auditor-in-Charge; Paul Sibal, Auditor; and Elizabeth Finn, Program Analyst.

Please call me with any questions, or your staff may contact Humberto Melara, Western Region Audit Director, at (510) 637-1463.



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