



**Homeland
Security**

January 29, 2010

MEMORANDUM FOR: Nancy Ward
Regional Administrator
FEMA Region IX

FROM: *Robert J. Lastrico*
Robert J. Lastrico
Western Regional Director

SUBJECT: *County of Santa Cruz, California*
Public Assistance Identification Number 087-99087-00
FEMA Disaster Number 1628-DR-CA
Audit Report Number DS-10-01

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

The County received a public assistance subgrant award of \$6 million from the California Office of Emergency Services (OES)¹, a FEMA grantee, for emergency protective measures and permanent repairs to facilities damaged by severe storms beginning on December 17, 2005. Of the \$6 million, FEMA provided 75% federal funding and non-federal sources funded the remaining 25% for 34 projects (22 large projects and 12 small projects²). The audit covered the period of December 17, 2005, to October 29, 2009, and included a review of 10 large projects with a total award of \$5.1 million (see Exhibit). As of October 29, 2009, the County had completed 4 of 10 large projects. The other 6 projects were in various stages of completion.

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. The evidence obtained during the audit fulfilled those requirements. We interviewed FEMA, CalEMA, and County officials; reviewed judgmentally selected samples of cost documentation to support invoices; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the County's internal controls applicable to subgrant activities because it was

¹ Under a State of California reorganization, the grantee services formerly performed by OES became the responsibility of the California Emergency Management Agency (CalEMA) as of January 1, 2009.

² At the time of the disaster, the large project threshold was at \$57,500.

not necessary to accomplish our audit objective. We did, however, gain an understanding of the County's method of accounting for disaster-related costs.

RESULTS OF AUDIT

We question \$88,693 in disaster costs that the County recorded and intends to claim for five projects (the federal share of the cost questioned in this report totals \$66,520). The questioned costs consist of \$74,514 in charges for repairs not included in the scope of work approved by FEMA and \$14,179 in excessive force account equipment charges. We are also recommending that FEMA reduce project funding by \$545,111 (the federal share is \$408,833) since the funds are no longer needed for disaster repairs.

Finding A – Scope of Work Change

The County received \$619,625 in project funding for project worksheet (PW) 3484 to construct a timber lagging retaining wall to support a roadway embankment. Instead of constructing the retaining wall as specified in the PW scope of work (SOW), the County built a riprap rock wall with rock slope protection at a cost of \$74,514. In addition to not following the SOW, the County did not request FEMA's approval prior to completing the work. Consequently, there is no assurance that the work satisfactorily repaired the facility to its pre-disaster condition, and more importantly, that the repairs will prevent future damage from occurring.

County officials explained that the SOW under this PW was complex and required months of road closure. They also explained that an alternate permanent repair methodology was performed to gain immediate access to the roadway which serves as a bypass route for commuters. Nonetheless, according to Title 44, *Code of Federal Regulations*, Section 13.30(d)(1) [44 CFR 13.30(d)(1)], whenever there is an anticipated revision to the scope of work, subgrantees must obtain FEMA's prior approval.

The County has requested reimbursement for the \$74,514 in repair costs under PW 3484. However, as of the date of our field work, CalEMA had not made a final determination on the claim. FEMA officials need to determine whether the actual SOW performed under PW 3484 satisfies the intent of the PW as originally written, and if not, the claimed amount of \$74,514 should be disallowed. Additionally, FEMA should reduce project funding by \$545,111 (\$619,625 less \$74,514) as those funds are no longer needed since the project, as envisioned, was not accomplished.

Finding B – Costs Based on Equipment Rates

The County's recorded costs for four large projects (PWs 1404, 3138, 3417 and 3815) included \$14,179 in force account equipment charges that exceeded locally established equipment rates. Project records showed that in recording costs for the four projects, the County used rates provided in FEMA's Schedule of Equipment Rates that were higher than the County established rates. According to 44 CFR 206.228(a)(1)(ii), where local guidelines are used to establish equipment rates, reimbursement will be based on those rates or rates in FEMA's Schedule of Equipment Rates, whichever is lower. However, if an applicant wishes to claim an equipment rate which exceeds the FEMA schedule, it must document the basis for that rate and obtain FEMA approval for an alternate rate [44 CFR 206.228(a)(1)(ii)].

The County used various items of equipment for disaster related work and recorded claimable costs for force account equipment of \$39,215 based on FEMA's Schedule of Equipment Rates. Using the County's equipment rate, the total claimable costs for the equipment is \$25,036 or \$14,179 less than the recorded amount. For example, in one instance (PW 3815), the County used a passenger van for 61 hours of disaster related tasks. Using the FEMA hourly rate of \$14.75, the County recorded \$900 (\$14.75 times 61 hrs) in equipment usage costs. The County's hourly rate for the same piece of equipment is \$10 and produces a lower equipment usage cost of \$610 (\$10 times 61 hrs).

County officials agreed with our conclusion. Those officials noted that they would adjust recorded force account equipment costs to reflect the lower of the FEMA or County rates. Since the County's rates exceeded the FEMA's rates, the difference of \$14,179 is questionable (\$39,215 less \$25,036). The Exhibit at the end of this report identifies the questionable amount for each of the PWs.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IX, in coordination with CalEMA:

Recommendation #1. Determine whether the actual SOW performed under PW 3484 satisfies the intent of the PW as originally written, and if not, disallow the claimed amount of \$74,514 (Finding A).

Recommendation #2. Reduce funding for PW 3484 by \$545,111, since the funds are no longer needed to accomplish the FEMA approved scope of work (the federal share of the unneeded project funding is \$408,833) (Finding A).

Recommendation #3. Disallow \$14,179 in unallowable equipment costs (Finding B).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of this audit with County officials on October 29, 2009. County officials generally agreed with findings and their verbal responses have been incorporated in the report. We also notified CalEMA and FEMA of the audit results on November 17, 2009, and on December 4, 2009, respectively. Both FEMA and CalEMA withheld responses pending issuance of the final audit report.

Please advise this office by March 30, 2010, of actions planned or taken to implement our recommendations. Please note that your responses should include target completion dates for actions planned and actual completion dates for actions taken. Should you have questions concerning this report, please call me at (510) 637-1482, or your staff may contact Humberto Melara, Supervisory Auditor, at (510) 637-1463. Key contributors to this assignment were Humberto Melara and Renee Gradin.

cc: Audit Liaison, FEMA Region IX
Audit Liaison, FEMA (Job Code: DG9W18/G-09-071-EMO-FEMA)

County of Santa Cruz
 Santa Cruz, California
 Public Assistance Identification Number 087-99087-00
 FEMA Disaster Number 1628-DR-CA

PW Number	Work status	PW Award Amount	Questionable Costs	Funds No Longer Needed for Project Accomplishment	Finding reference
1404	Complete	\$ 607,267	\$ 9,630		B
2749	In progress	399,518	0		
2750	In progress	440,505	0		
3135	In progress	289,869	0		
3138	Complete	436,708	3,610		B
3417	Complete	506,478	600		B
3475	In progress	679,696	0		
3484	Complete	619,625	74,514	\$545,111	A
3666	In progress	449,873	0		
3815	In progress	639,424	339		B
Total		\$5,068,963	\$88,693	\$545,111	