




Homeland
Security

May 12, 2011

MEMORANDUM FOR: Major P. (Phil) May, Regional Administrator
FEMA Region IV

FROM: C. David Kimble, Director 
Eastern Regional Office

SUBJECT: *City of Vero Beach, Florida — Disaster Activities Related to
Hurricane Jeanne*
Public Assistance Identification Number 061-74150-00
FEMA Disaster No. 1561-DR-FL
Report Number DA-11-18

We audited public assistance funds awarded to the City of Vero Beach, Florida (City). The audit objective was to determine whether the City accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

As of December 19, 2010, the cut-off day of our review, the City had received a public assistance award totaling \$10.1 million from the Florida Division of Emergency Management (FDEM)¹, a FEMA grantee, for damages related to Hurricane Jeanne that occurred in September 2004.² The award provided 100% FEMA funding for the first 72 hours of debris removal and emergency protective measures undertaken during the disaster and 90% funding thereafter. The award also provided 90% FEMA funding for repairs to facilities and other public buildings.

We reviewed costs totaling \$7.6 million under the disaster, which consisted of \$7.3 million under 13 large projects and \$269,078 for 17 small projects (see Exhibit). Our review of small project costs was limited to project implementation and insurance coverage. The audit covered the period September 24, 2004, to December 19, 2010, during which the City received \$7.0 million under the projects reviewed. At the time of our audit, the City had not submitted final claims on project expenditures to FDEM.

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

¹ The Florida Division of Emergency Management is administratively housed within the Florida Department of Community Affairs.

² The award consisted of 25 large projects and 46 small projects. Federal regulations in effect at the time of Hurricane Jeanne set the large project threshold at \$54,100.

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 reviewed the City's disaster grant accounting system and contracting policies and procedures; reviewed judgmentally selected project cost documentation (generally based on dollar value); interviewed City, FDEM, and FEMA personnel; reviewed applicable federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the City's internal controls applicable to its grant activities because it was not necessary to accomplish our objective. We did, however, gain an understanding of the City's method of grant accounting and its policies and procedures for administering the activities provided for under the FEMA award.

RESULTS OF AUDIT

The City's accounting system did not separately account for large project expenditures on a project-by-project basis as required by federal regulation. We also identified \$1.4 million (federal share \$1.3 million) of ineligible and unsupported project costs. Additionally, the City did not always comply with FEMA guidelines and federal regulations when contracting for debris removal activities.

Finding A: Project Accounting

The City's grant accounting system did not separately account for project expenditures on a project-by-project basis (44 CFR 206.205) or permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the applicable regulations and guidelines (44 CFR 13.20(a)(2)). The City established special accounts within its general ledger to record disaster expenditures and revenues. However, individual project receipts and expenditures could not be readily identified and traced to supporting documentation without direct assistance from City officials. In addition, disaster expenditures and revenues for Hurricanes Jeanne were commingled with Hurricane Frances, a disaster that occurred a few weeks before Jeanne.

The City did maintain separate folders by project number that contained invoices, time sheets, equipment usage records, and payment records for expenditures related to FEMA projects. We used these records to conduct the audit.

City Response. City officials said that they employed standard accounting procedures that had been accepted for federal grants in the past and they had no reason to believe they would not be accepted for FEMA grants. City officials also said that there were no expenditures or revenues that were identified as being misclassified and that all expenditures and revenues could be identified with the related assistance.

OIG Response. We disagree. We identified several transactions that were misclassified as a result of commingling expenditures and revenues for Hurricane Jeanne with Hurricane Frances.

Finding B: Losses Covered by Insurance

The City’s claim included \$762,012 of losses that were covered by insurance. Section 312 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, prohibits duplicate benefits such as the use of public assistance funds for damages covered by insurance.

At the time of our audit, FEMA had not completed its insurance review because the City did not have a statement of loss to identify disaster damages and did not have an adequate accounting of insurance proceeds received or paid directly to contractors performing disaster-related work. According to City officials, its insurance carrier has been unresponsive since 2005 to many requests for a schedule of insurance settlement.

We reviewed the City’s insurance policy, which included the Schedule of Properties insured. The Schedule identified the location, building number, address, occupancy, construction structure, and building and personal limit coverage for insured facilities. Using this information and scopes of work authorized on individual project worksheets, we identified \$762,012 of claimed costs that were covered under the City’s insurance policy. We question the \$762,012 as shown in the table below.

Description of Activities	Number of Projects	Total Amount Claimed	Number of Projects Covered by Insurance	Questioned Costs
Repairs of Building and Contents	5	\$ 50,550	2	\$ 20,748
Repairs of Utilities	13	3,218,547	6	738,775
Repairs of Recreation Facilities and Other	7	286,774	1	2,489
Total	25	\$3,555,871	9	\$762,012

City Response. City officials said they have been working diligently to get the needed information from their insurance carrier so that FEMA and FDEM can complete its review.

Finding C: Supporting Documentation

Cost Principles at 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, Section C.1.j, state that a cost must be adequately documented to be allowable under federal awards.³ The City’s claim included \$490,139 of contract labor and equipment charges that were not adequately supported by source documentation such as time and attendance records and/or foreman labor activity logs and equipment usage records. We question the \$490,139 of unsupported charges, as follows:

³ OMB Circular A-87, in effect at the time of the disaster, was relocated to 2 CFR, Part 225, on August 31, 2005.

- Under Project 1863, the City claimed \$1,745,515 of contract labor costs for repairing and replacing damaged poles, transformers, insulators, etc., but had documentation to support only \$1,654,721, or \$90,794 less than the amount claimed.
- Under Project 2293, the City claimed \$1,669,065 of contract labor costs for removing trees from electrical distribution lines, but had source documentation to support only \$1,269,720, or \$399,345 less than the amount claimed.

City Response. City officials said that the project’s costs had been reviewed and closed out by FDEM and FEMA in 2009 and 2010, respectively. They believed that sufficient records had been maintained to support the costs and that the costs should not be questioned 6 plus years after the work had been completed.

OIG Response. We could not validate the eligibility of the contractor’s billings without adequate source documentation. Although the costs may have been accepted during the close-out process, it does not affect a federal agency’s right to disallow costs and recover funds on the basis of a later audit (44 CFR 13.51(a)). In addition, 44 CFR 13.42(b) and (c) require that records be retained for 3 years after the grantee submits the final expenditure report to the awarding agency.

Finding D: Contracting Procedures

Federal procurement regulations at 44 CFR 13.36 required the City to:

- Perform procurement transactions in a manner providing full and open competition except under certain circumstances. One allowable circumstance is when there is a public exigency or emergency for the requirement that will not permit a delay resulting from competitive solicitation (13.36(c)(1) and (d)(4)(i)).
- Perform a cost or price analysis in connection with every procurement action, including contract modifications (13.36(f)(1)).
- Use time-and-material contracts only after a determination that no other contract is suitable and the contract contains a ceiling price that the contractor exceeds at its own risk (13.36(b)(9)).

Under Project 1863, the City awarded several non-competitive time-and-material (T&M) contracts totaling \$1.7 million to restore electrical power (repairing and replacing poles, transformers, insulators, etc.) using emergency contracting procedures. Exigent circumstances warranted the use of non-competitive contracting. However, the City did not make a determination that no other contract type was suitable and did not perform a cost or price analysis to determine the reasonableness of the contractors’ prices. As a result, FEMA has no assurance that the contract work was obtained at a fair and reasonable price.

According to 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, Section C.1.a., costs under federal awards must be both reasonable and necessary. In determining reasonableness, the cost principles require grant recipients to consider sound business practices, federal regulations and guidelines, and market price for comparable goods and services. We performed a price comparison of the contractors’ rates and determined that the City’s claim included \$113,337 of unreasonable contract labor charges, as follows:

- A contractor billed \$261,665 based on time-and-a-half and double-time hourly rates that ranged from \$87.11 to \$330.29. However, other contractors that performed similar work billed at hourly rates that ranged from \$64.06 to \$252.75. Using these rates, we question \$63,737 as shown below:

Job Title	Contractors Billing				Eligible Hours and Rates				Excess Charges
	Time	Hours	Hourly Rates	Labor Charges	Time	Hours	Hourly Rates	Contract Labor	
Foreman	OT	200.00	\$ 87.11	\$ 17,422	RT	210.00	\$64.06	\$ 13,453	\$ 3,969
Foreman	OT/DT	377.00	130.67	49,263	OT	367.00	96.10	35,269	13,994
Lineman	OT	240.00	220.19	52,846	RT	240.00	168.50	40,440	12,406
Three Man Crew	OT	430.33	330.29	142,134	RT	430.33	252.75	108,766	33,368
Grand Total				\$ 261,655				\$197,928	\$63,737

- A contractor billed \$407,889 based on time-and-a-half hourly rates for all hours worked. However, other contractors that performed similar work billed reasonable straight time hourly rates for all hours worked (hourly rates charged depended upon the position/title). As a result, we question \$49,600 of unreasonable hourly rate charges.

City Response. City officials said that the contract costs should be allowed because FDEM and FEMA approved such costs during project close-out.

OIG Response. The City’s failure to perform a cost analysis resulted in unreasonable contract costs. Although the costs may have been accepted during the close-out process, it does not affect a federal agency’s right to disallow costs and recover funds on the basis of a later audit (44 CFR 13.51(a)).

Finding E: Small Project Work Not Completed

According to 44 CFR 206.205(a), failure to complete work under a small project may require that the federal payment be refunded. In addition, FEMA’s *Public Assistance Guide* (FEMA 322, April 1999, p. 114), states that a grant recipient has 18 months from the disaster declaration date to complete work under permanent repair projects. The State may grant extensions for an additional 30 months under extenuating circumstance, and FEMA may grant extensions beyond the State’s authority appropriate to the situation.

The City received \$39,312 of FEMA funding under two small projects to complete permanent repairs (recreational and other buildings) related to Hurricane Jeanne, which occurred in September 2004. However, the City was unable to provide documentation showing that \$35,388 of items listed in the projects’ scope of work had been completed. Because FEMA had not granted time extensions beyond the State’s authority (48 months), we question the \$35,463 as shown in the following table.

Project Number	Amount Awarded/Received	Amount Questioned
3386	\$ 6,452	\$ 2,603
3451	32,860	32,860
Total	\$39,312	\$35,463

City Response. City officials said that FEMA told them of their obligation to complete the repairs and that small projects were to their advantage because they did not require audits or close-outs.

OIG Response. All projects are subject to audit and federal regulation requires that authorized work under small projects be completed for funding to be retained.

Finding F: Unapplied Credit

Cost Principles at 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, Section C.1.i, states that costs claimed under a federal award must be net of applicable credits. Such credits, whether accruing or received by the governmental unit, shall be credited to the federal award either as a cost reduction or cash refund, as appropriate.

The City received \$14,854 of proceeds from the sale of scrap material (transformers, aluminum poles, copper, etc.) during the period of October 2004 through January 2006. Based on our review of records maintained by the City, we determined that \$5,809 of the proceeds were disaster related and should have been credited to Project 3379. Therefore, we question the \$5,809.

City Response. City officials said that they had been more concerned with the tens of millions of dollars in damages from Hurricane Jeanne rather than such a small amount of revenues. Therefore, the City did not apply the credit to any particular storm account.

OIG Response. Although the amount may be small when compared to the total claim, federal regulation requires that all claims should be net of all applicable credits.

RECOMMENDATIONS

We recommend the Regional Administrator, FEMA Region IV:

Recommendation #1: Instruct the City, for future declarations, to account for FEMA funding on a project-by-project basis as required by federal regulations (Finding A).

Recommendation #2: Disallow \$762,012 (federal share \$685,811) of ineligible costs for activities covered by insurance (Finding B).

Recommendation #3: Disallow \$490,139 (federal share \$441,125) of unsupported project charges (Finding C).

Recommendation #4: Instruct the City, for future declarations, to comply with federal regulations and FEMA guidelines governing contracting practices (Finding D).

Recommendation #5: Disallow \$113,337 (federal share \$102,003) of contract labor charges determined to be ineligible because they are excessive (Finding D).

Recommendation #6: Disallow \$35,463 (federal share \$31,917) of ineligible costs for small project work that was not fully completed (Finding E).

Recommendation #7: Disallow \$5,809 (federal share-\$5,228) of project costs determined to be ineligible because they were not reduced by an applicable credit (Finding F).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the audit results with FEMA, City, and FDEM officials during the course of our audit. We also provided written summaries of our findings and recommendations in advance to these officials and discussed them at an exit conference on January 13, 2011. City officials disagreed with all audit findings included in the audit report. Their comments, where appropriate, are included in the body of this report.

Please advise me by August 9, 2011, of the actions taken or planned to implement the recommendations contained in this report, including target completion dates for any planned actions. To promote transparency, this final report and your response to this report, including your corrective actions planned, will be posted to our website, with exception of sensitive information identified by your office. Should you have any questions concerning this report, please contact me at (404) 832-6702, or Felipe Pubillones, Audit Manager, at (404) 832-6705. Key contributors to this assignment were Felipe Pubillones, Vilmarie Serrano, and Nadine Ramjohn.

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EXHIBIT

City of Vero Beach, Florida
FEMA Disaster 1561 DR-FL
Schedule of Amount Awarded, Claimed, and Questioned
September 24, 2004 to December 19, 2010

Project Number	Amount Awarded	Amount Claimed/Reviewed	Amount Questioned
Large Projects:			
350	\$1,137,825	\$1,137,825	\$ 0
361	405,620	405,620	0
1863	1,745,151	1,745,151	204,131
1864	252,737	252,737	0
2018	56,290	56,290	56,290
2293	1,669,065	1,669,065	399,345
3379	642,502	642,502	5,809
3693	458,000	458,000	458,000
4935	59,114	59,114	59,114
5438	284,730	284,730	0
5586	99,052	99,052	99,052
5773	343,798	343,798	0
5780	177,590	177,590	0
Sub-Total	\$7,331,474	\$ 7,331,474	\$ 1,281,741
Small Projects:			
198	\$ 2,518	\$ 2,518	\$ 0
367	17,919	17,919	0
434	6,676	6,676	0
2623	24,853	24,853	0
2709	8,978	8,978	0
3300	41,465	41,465	0
3386	6,452	6,452	2,603
3449	3,973	3,973	0
3451	32,860	32,860	32,860
3652	2,489	2,489	2,489
3655	6,074	6,074	6,074
3656	14,141	14,141	0
3657	7,999	7,999	0
5190	11,688	11,688	0
5411	50,840	50,840	50,840
5461	15,479	15,479	15,479
5588	14,674	14,674	14,674
Sub-Total	\$ 269,078	\$ 269,078	\$ 125,019
Grand Total	\$ 7,600,552	\$ 7,600,552	\$ 1,406,760