



Homeland Security

March 8, 2011

MEMORANDUM FOR: Tony Russell, Regional Administrator
FEMA Region VI
Tonda L. Hadley

FROM: Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *City of Port Arthur, Texas*
FEMA Disaster Number 1606-DR-TX
Public Assistance Identification Number 245-58820-00
Audit Report Number DD-11-10

We audited public assistance grant funds awarded to the City of Port Arthur, Texas (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 an award of \$10 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 30 large and 94 small projects.¹ We audited seven large and nine small projects totaling \$5 million, or 50% of claimed costs (see Exhibit). The audit covered the period September 23, 2005, to September 13, 2010, the cut-off date of our audit.

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 City officials; reviewed judgmentally selected transactions (generally based on dollar value) of the City's claimed costs; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the City's internal controls applicable to grant activities because it was not necessary to accomplish our audit

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

objective. We did, however gain an understanding of the City's method of accounting for disaster-related costs and its procurement policies and procedures.

RESULTS OF AUDIT

The City generally accounted for and expended FEMA grant funds according to federal regulations and FEMA guidelines. However, we question \$262,967 because the City's claim included \$161,980 of unsupported fuel delivery costs and \$100,987 of ineligible funds for projects not completed. Further, FEMA has not completed allocation of insurance proceeds to the City's projects.

Finding A: Fuel Delivery Costs

The City did not provide adequate supporting documentation for \$161,980 of contract fuel delivery costs. Specifically, neither the City nor the fuel delivery contractor could provide invoices supporting the claimed costs. *Cost principles for State, Local and Indian Tribal Governments* require that costs be adequately documented to be allowable under a federal award (2 CFR 225 Appendix A, C.1.j). Therefore, we question \$161,980 of unsupported contractor costs. City officials agreed with the finding.

Finding B: Completion of Projects

The City did not complete work on one large and seven small projects totaling \$100,987. City officials provided several reasons for not completing the projects. For example, after receiving insurance proceeds for a damaged fire department snorkel truck, the City decided not to repair it. According to 44 CFR 206.205(a), *Small Projects*, failure to complete a small project may require the repayment of federal funds. In addition, 44 CFR 206.205(b), *Large Projects*, requires an accounting and certification that large project costs were incurred and that approved work was completed. Because the City decided not to complete the projects, we question \$100,987 of ineligible funds.

Finding C: Insurance

The City received \$8.3 million of property insurance proceeds. However, FEMA allocated only \$5.4 million of the proceeds to the City's projects. Some of the insurance proceeds were for disaster damages not claimed under the grant; however, we estimated that up to \$684,905 of additional insurance proceeds should be used to reduce project amounts. Conversely, the projects were not increased by approximately \$500,000 in eligible expenses for the insurance deductibles.

According to 44 CFR 206.253(a), eligible costs must be reduced by the actual amount of insurance proceeds relating to the eligible costs. In addition, FEMA's *Public Assistance Guide* (FEMA 322, October 1999), page 97, states that insurance deductibles are eligible costs. Therefore, FEMA should complete its insurance review, allocate applicable insurance proceeds to the City's projects, and ensure that all appropriate insurance deductibles are included in the City's claim. FEMA Region

VI officials acknowledged that they had not applied the actual insurance proceeds to the projects; however, the officials said they plan to perform the insurance review and apply the deductibles before closing the projects.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation #1: Disallow \$161,980 (\$161,980 federal share) of unsupported fuel delivery costs (Finding A).

Recommendation #2: Disallow \$100,987 (\$100,987 federal share) of ineligible funds for projects not completed (Finding B).

Recommendation #3: Complete the insurance review, allocate the applicable insurance proceeds to the City's projects, and ensure that all appropriate insurance deductibles are included in the City's claim (Finding C).

DISCUSSION WITH MANAGEMENT

We discussed the results of our audit with FEMA, TDEM, and City 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 these officials and discussed them at exit conferences held with FEMA, TDEM and the City on February 14, 2011. These officials agreed with the audit findings. Please advise this office by June 6, 2011, of the actions planned or taken to implement the recommendations, 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. 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-10-056)
Audit Liaison, DHS

EXHIBIT

**Schedule of Audited and Questioned Costs
Port Arthur, Texas
FEMA Disaster Number 1606-DR-TX**

Project Number	Award Amount	Finding A	Finding B	Total Questioned
2551	\$1,841,036	\$161,980	0	\$161,980
3086	1,019,705	0	0	0
3598	889,361	0	0	0
705	675,000	0	0	0
2359	251,886	0	0	0
3475	165,564	0	0	0
818	71,500	0	\$71,500	71,500
3417	55,116	0	0	0
1001	38,271	0	0	0
824	10,900	0	10,900	10,900
992	6,682	0	6,682	6,682
1829	3,606	0	3,606	3,606
1963	2,835	0	2,835	2,835
3431	2,500	0	2,500	2,500
1828	1,868	0	1,868	1,868
995	1,096	0	1,096	1,096
Totals	<u>\$5,036,926</u>	<u>\$161,980</u>	<u>\$100,987</u>	<u>\$262,967</u>