

# Department of Homeland Security Office of Inspector General

**FEMA Should Recover \$985,887 of Ineligible and Unneeded Public Assistance Grant Funds Awarded to Cobb County, Georgia, as a Result of Severe Storms and Flooding**





**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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August 7, 2014

MEMORANDUM FOR: Andrew Velasquez III  
Acting Regional Administrator, Region IV  
Federal Emergency Management Agency

*John V. Kelly*

FROM: John V. Kelly  
Assistant Inspector General  
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Recover \$985,887 of Ineligible and Unneeded Public Assistance Grant Funds Awarded to Cobb County, Georgia, as a Result of Severe Storms and Flooding*  
FEMA Disaster Number 1858-DR-GA  
Audit Report Number OIG-14-124-D

We audited Public Assistance funds awarded to Cobb County, Georgia (County) (FIPS Code 067-99067-00). Our audit objective was to determine whether the County accounted for and expended Federal Emergency Management Agency (FEMA) funds according to Federal regulations and FEMA guidelines.

The County received a Public Assistance grant award of \$7.7 million from the Georgia Emergency Management Agency (Georgia), a FEMA grantee, for damages resulting from severe storms and flooding, which occurred in September 2009. The award provided 75 percent FEMA funding for debris removal, emergency protective measures, and permanent repairs to buildings and facilities. The award consisted of 32 large projects and 184 small projects.<sup>1</sup>

We audited 12 large and 19 small projects with awards totaling \$3.0 million (see Exhibit, Schedule of Projects Audited and Questioned Costs). The audit covered the period September 18, 2009, to June 21, 2013, during which the County incurred \$2.6 million in costs for the projects reviewed. At the time of our audit, the County had completed work on all large projects included in our scope, but had not submitted a final claim to Georgia for all project expenditures.

Table 1 shows the gross and net award amounts before and after insurance reductions for all projects and for those in our audit scope.

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<sup>1</sup> Federal regulations in effect at the time of disaster set the large project threshold at \$64,200.

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**Table 1. Gross and Net Award Amounts**

	<b>Gross Award Amount</b>	<b>Insurance Reductions</b>	<b>Net Award Amount</b>
All Projects	\$10,508,786	(\$2,775,426)	\$7,733,360
Audit Scope	\$2,999,170	(\$7,813)	\$2,991,357

**Source:** FEMA Project Worksheets

We conducted this performance audit between January 2014 and June 2014 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. To conduct this audit we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We interviewed County, Georgia, and FEMA personnel; gained an understanding of the County's method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected and reviewed (generally based on dollar amounts) project costs and procurement transactions for the projects included in our review; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. As part of our standard auditing procedures, we also notified the Recovery Accountability and Transparency Board of all contracts the subgrantee awarded under the grant to determine whether the contractors were debarred or whether there were any indications of other issues related to those contractors that would indicate fraud, waste, or abuse. As of the date of this report, the Recovery Accountability and Transparency Board's analysis of contracts was ongoing. When it is complete, we will review the results and determine whether additional action is necessary. We did not perform a detailed assessment of the County's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective.

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## RESULTS OF AUDIT

FEMA should recover \$985,887 of the \$7.7 million in grant funds awarded to the County. Although the County accounted for FEMA funds on a project-by-project basis, the County's claim included \$557,943 of project costs that insurance covered. We also identified \$427,944 of unneeded project funding that FEMA can deobligate and put to better use. Finally, the County did not include all required contract provisions in contracts it awarded for disaster work and did not adhere to the *Single Audit Act* requirements.

### **Finding A: Costs Covered by Insurance**

The County claimed \$557,943 in duplicate benefits for costs that its insurance covered. Section 312 of the *Robert T. Stafford Disaster and Emergency Assistance Act*, as amended, states that no entity will receive assistance for any loss for which it has received financial assistance from any other program, insurance, or any other source.

At the time of our fieldwork, FEMA had not conducted a final review of insurance proceeds the County received from its insurance carrier. As a result, FEMA was unsure of the amount of insurance proceeds it should apply to adjust obligated project amounts. Federal agencies must increase or decrease obligated funds when probable and measurable information becomes known.<sup>2</sup>

We reviewed the County's insurance policy, schedule of values, and settlement statement that identified the location of damages, contractors the County used, invoice amounts, and amounts insurance paid. Based on our analysis of this information, we identified \$557,943 of insurance coverage that FEMA had not applied to reduce approved project costs. Therefore, we question the \$557,943 as shown in table 2.

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<sup>2</sup> *Government Accountability Office-Policy and Procedures Manual* § 3.5.D, B-300480, April 9, 2003; and *Statement of Federal Financial Accounting Standards (SFFAS) Number 5*, paragraphs 19, 24, 25, and 29.

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**Table 2. Project Costs That Insurance Proceeds Covered**

Project Number	Description of Damages	Amount Questioned
373	Marietta City Library – Water Extraction	\$ 2,008
374	Sweetwater Tennis Center – Siding/Drywall	1,910
862	Windy Hill Senior Center – Water Extraction	4,323
883	Mountain View Library – Water Extraction	2,435
1081	Powder Springs Park Concession Building	15,394
1082	Sweetwater Tennis Center - Contents	4,934
1354	NW Plant – Fence and Tree	1,270
1355	NW Plant – Wastewater Controls	3,879
1358	County Line Pump Station - Sub grade	2,002
1563	NW Plant – Girt Chambers	43,910
1573	RL Sutton - UV Lighting System Replacement	234,068
1580	RL Sutton – Scum System	26,182
1622	Six Flags Pump Station Repair	58,119
1705	Debris Removal – East Cobb Park	15,644
1748	Cobblestone Golf Course – various repairs	11,600
2102	Noonday Creek Park Sand Removal	9,455
2111	Debris Removal - Powder Spring Park	5,065
2114	Fullers Park Football Field Repairs	1,400
2165	Powder Springs Park - Athletic Field Repairs	51,625
2167	Powder Springs Swimming Pool Repairs	62,720
Total		\$557,943

*Source:* FEMA Project Worksheets, County Records, and OIG Analysis

At the exit conference, County officials partially disagreed with this finding, saying that they believe the amount will be less when Georgia reviews the County’s claim and applies the proceeds at project closeout. However, our position remains unchanged because we based our finding on insurance documentation the County provided to us.

## **Finding B: Funds Put To Better Use**

FEMA should deobligate \$427,944 of project funding and put those funds to better use because the County no longer needs the funding to complete project work. Federal appropriations laws and the Statement of Federal Financial Accounting Standards (SFFAS) require Federal agencies to record obligations in the accounting records on a

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factual and consistent basis throughout the government.<sup>3</sup> The overrecording and underrecording of obligations are equally improper, as both practices make it impossible to determine the precise status of Federal appropriations. When the precise amount is not known at the time that the obligation is incurred, agencies appropriately record an obligation based on the best estimate at the time. Agencies, however, must periodically adjust that obligation as more precise data on the liability become available. That is, the agency must increase or decrease obligated funds when probable and measurable information becomes known. Agencies must document both the initial recordings and the adjustments to recorded obligations.

Under Project 1573, FEMA obligated \$552,051 to replace the ultraviolet lighting system at the R.L. Sutton facility. The County completed the authorized work under the project in February 2011 for \$234,068, or \$317,983 less than the amount FEMA obligated. Similarly, under Project 1622, FEMA obligated \$168,080 for various repairs to the Six Flags Pump Station. The County completed the authorized work in December 2009 for \$58,119, or \$109,961 less than the amount FEMA obligated. At the time of our audit, the \$427,944 (\$317,983 and \$109,961) of excess project funding remained obligated. Therefore, FEMA should deobligate the \$427,944 and put those funds to better use.

County officials agreed with this finding.

## **Finding C: Contracting Procedures**

Although the County used full and open competition in awarding contracts for disaster-related work and took affirmative steps to solicit small, minority, and women-owned firms, the County did not include all contract provisions that 44 Code of Federal Regulations (CFR) 13.36(i) require. Federal regulation 44 CFR 13.36(i) requires subgrantees to include specific provisions in their contracts, such as Equal Employment Opportunity compliance, compliance with labor laws, and prohibition of “kickbacks.” These contract provisions document the rights and responsibilities of the parties and minimize the risk of contract misinterpretations and disputes. County officials said that they were unaware of the required provisions, but that they would work with the County’s legal counsel to modify the contracts.

County officials agreed with this finding.

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<sup>3</sup> Government Accountability Office *Principles of Federal Appropriations Law*, 3<sup>rd</sup> Edition, Volume II, February 2006, Chapter 7, Section B: *Criteria for Recording Obligations* (31 U.S.C. Section 1501).

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## **Finding D: Single Audit Requirements**

The County did not comply with the *Single Audit Act's* requirements for annual audits of Federal awards.<sup>4</sup> This Act and Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, help ensure that grant recipients spend Federal funds properly. The circular states that non-Federal entities that expend \$500,000 or more in a year in Federal awards must obtain a single or program specific audit for that year. The County did obtain annual single audits, but these audits did not cover the Federal funds the County expended for the FEMA award (Disaster Number 1858). County officials said that they mistakenly failed to provide the County's auditing firm with the financial information related to FEMA award. Therefore, FEMA and Georgia, as the grantee, did not have an opportunity to review Single Audit report results that might have detected the same conditions our audit identified. As a result, these conditions continued longer than necessary.

County officials agreed with this finding.

## **RECOMMENDATIONS**

We recommend that the Regional Administrator, FEMA Region IV:

**Recommendation #1:** Disallow \$557,943 (Federal share \$418,457) of project costs that the County's insurance covered unless the County provides evidence that insurance did not cover the costs (finding A).

**Recommendation #2:** Deobligate and put to better use \$427,944 (Federal share \$320,958) of unneeded Federal funding (finding B).

**Recommendation #3:** Instruct Georgia to remind the County to include contract provisions that 44 CFR 13.36(i) require when acquiring goods and services under a FEMA award (finding C).

**Recommendation #4:** Instruct Georgia to remind the County of its responsibility to comply with the requirements of the Single Audit Act (finding D).

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<sup>4</sup> The *Single Audit Act of 1984*, as amended in 1996.

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## DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with County, Georgia, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference on June 25, 2014. Cobb County officials partially agreed to the findings. We included their comments, as appropriate, in the body of this 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 the contact information for responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until we receive and evaluate your response, we will consider the recommendations open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we will provide 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 contributions to this report are David Kimble, Director; Adrienne Bryant, Audit Manager; John Schmidt, Auditor-in-Charge; and Omar Russell, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact David Kimble, Director, Eastern Regional Office, at (404) 832-6702.



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**EXHIBIT**

**Schedule of Projects Audited and Questioned Costs**

Project Number	Category of Work	Project Scope	Net Amount Awarded	Amount Questioned	Funds Put to Better Use	Federal Share (75%)	Finding
Large Projects:							
593	A	Debris Removal – County Wide	\$ 378,177	\$ 0	\$ 0	\$ 0	
1563	F	NW Plant – Girt Chambers	67,769	43,910	0	32,933	A
1573	E	RL Sutton - UV Lighting System Replacement	552,051	234,068	317,983	414,038	A,B
1594	C	Regents Park Lane Road Repair	167,838	0	0	0	
1622	E	Six Flags Pump Station Repair	168,080	58,119	109,961	126,060	A,B
1914	C	Arthur’s Court NE Road Repairs	197,647	0	0	0	
1953	E	Fire Truck Replacement	165,996	0	0	0	
2143	C	Running Fox Drive Road Repairs	165,816	0	0	0	
2165	G	Powder Springs Park - Athletic Field Repairs	141,247	51,625	0	38,719	A
2167	G	Powder Springs Swimming Pool Repairs	97,391	62,720	0	47,040	A
2169	C	Netherstone Drive NE Road Repairs	276,369	0	0	0	
2315	A	Demolition of Private Structures	301,949	0	0	0	
Subtotal			\$2,680,330	\$450,442	\$427,944	\$658,790	
Small Projects:							
373	E	Marietta City Library – Water Extraction	\$ 2,191	\$ 2,008	\$ 0	\$ 1,506	A
374	E	Sweetwater Tennis Center – Siding/Drywall	12,721	1,910	0	1,432	A
862	E	Windy Hill Senior Center – Water Extraction	4,431	4,323	0	3,242	A
883	E	Mountain View Library – Water Extraction	2,460	2,435	0	1,826	A
891	E	Proctor Creek Pump Repairs	18,903	0	0	0	
1081	E	Powder Springs Park Concession Building	23,138	15,394	0	11,546	A
1082	E	Sweetwater Tennis Center – Contents	5,580	4,934	0	3,701	A
1354	G	NW Plant – Fence and Tree	1,331	1,270	0	952	A
1355	F	NW Plant – Wastewater Controls	8,399	3,879	0	2,909	A
1358	F	County Line Pump Station - Sub grade	2,288	2,002	0	1,502	A
1580	F	RL Sutton – Scum System	26,246	26,182	0	19,636	A
1661	E	Vehicle Repair/Replacement	40,648	0	0	0	
1705	A	Debris Removal – East Cobb Park	17,058	15,644	0	11,733	A
1748	G	Cobblestone Golf Course – various repairs	12,974	11,600	0	8,700	A
1954	E	Vehicle Repair/Replacement	11,917	0	0	0	
2102	G	Noonday Creek Park Sand Removal	56,303	9,455	0	7,091	A
2103	E	Powder Springs Park Press box/Dugouts	11,325	0	0	0	
2111	A	Debris Removal - Powder Spring Park	11,305	5,065	0	3,799	A
2114	G	Fullers Park Football Field Repairs	41,809	1,400	0	1,050	A
Subtotal			\$ 311,027	\$107,501	\$ 0	\$ 80,625	
Totals			\$2,991,357	\$557,943	\$427,944	\$739,415	

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