



Homeland Security

May 12, 2011

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

FROM: C. David Kimble, Director
Eastern Regional Office

A handwritten signature in black ink that reads "C. David Kimble".

SUBJECT: *City of Vero Beach, Florida — Disaster Activities Related to Hurricane Frances*
Public Assistance Identification Number 061-74150-00
FEMA Disaster No. 1545 DR-FL
Report Number DA-11-19

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 \$9.6 million¹ from the Florida Division of Emergency Management (FDEM)², a FEMA grantee, for damages related to Hurricane Frances that occurred in September 2004. 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 \$8.3 million under the disaster, which consisted of \$7.7 million for 23 large projects (see Exhibit A) and \$645,364 for 34 small projects (see Exhibit B). Our review of small project costs was limited to project implementation and insurance coverage. The audit covered the period of September 3, 2004, to December 19, 2010, during which the City received \$7.5 million of FEMA funds under the projects reviewed. At the time of our audit, the City had not submitted final claims on all 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 standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a

¹ The award consisted of 29 large projects and 65 small projects. Federal regulations in effect at the time of Hurricane Frances set the large project threshold at \$54,100

² The Florida Division of Emergency Management is administratively housed within the Florida Department of Community Affairs.

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 awards.

RESULTS OF AUDIT

The City's accounting system did not separately account for project expenditures on a project-by-project basis as required by federal regulation. We also identified \$2.6 million (federal share \$2.3 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) nor 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 Frances were commingled with Hurricane Jeanne, a disaster that occurred a few weeks after Frances.

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 Frances with Hurricane Jeanne.

Finding B: Losses Covered by Insurance.

The City’s claim included \$2.1 million 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 to determine insured losses 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 and paid directly to contractors performing disaster-related work. According to City officials, its insurance carrier had 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 \$2,141,652 of claimed costs that were covered under the City’s insurance policy. We question the \$2,141,652 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	19	\$ 1,778,512	12	\$1,491,562
Repairs of Utilities	9	2,091,401	4	531,345
Repairs of Recreation Facilities and Other	14	549,096	4	118,745
Grand Total	42	\$ 4,419,009	20	\$2,141,652

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,³ state that a cost must be adequately documented to be allowable under federal awards. The City’s claim of \$651,202 under Project 4123 included \$351,950 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. Therefore, we question the unsupported charges of \$351,950.

City Response. City officials said that the project’s costs had been reviewed and closed out by FDEM and FEMA in 2009. 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.

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

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: 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 \$113,054 of FEMA funding under seven small projects to complete permanent repairs related to Hurricane Frances, which occurred in September 2004. However, the City was unable to provide documentation showing that \$69,672 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 \$69,672 as shown in the following table.

Project Number	Category of Work ⁴	Amount Awarded/Received	Amount Questioned
598	Category G	\$ 7,108	\$ 5,904
1655	Category E	18,023	11,957
2658	Category E	4,677	4,579
3590	Category G	3,769	970
3631	Category G	47,269	14,054
3648	Category G	11,234	11,234
8662	Category G	20,974	20,974
Total		\$113,054	\$69,672

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 E: Time-and-Material Contract Charges

The City’s claim under Project 4123 included \$29,550 of excessive contract labor charges. After the storm, the City used contractors to remove trees and limbs from around electrical lines to facilitate power restoration. The City hired the contractors using its emergency contracting procedures and paid them a total of \$651,202 on a time-and-material basis. However, the time-and-material debris removal work continued beyond FEMA’s 70-hour window allowing this type of contract (FEMA

⁴ Category G represents permanent work for recreational and other buildings, and Category E represents permanent work for public buildings and facilities.

325, April 1999, p. 28); and the City did not perform a cost or price analysis to determine the reasonableness of the contractors' proposed prices (44 CFR 13.36(f)).

One contractor charged the City double-time and time-and-a half hourly rates for all hours worked while another contractor charged straight time rates for a 40-hour work week and overtime rates for all hours worked beyond 40. According to 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, 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. It was unreasonable for the City to pay one contractor significantly more than another for similar work. Therefore, we did not question the contractor's charges for the first 70-hours of emergency work, but adjusted the remaining billing hours to reflect the billing method used by the other contractor (straight time rates for the first 40-hours of work and overtime rates for all hours worked in excess of 40). This calculation resulted in \$29,550 of excessive contract labor charges. Therefore, we question \$29,550.

City Response. City officials said the finding should be dropped because FEMA had accepted the costs during project close out.

OIG Response. The fact that FEMA or the grantee may have accepted the costs during the close-out process 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, costs under federal awards must be reasonable to be eligible for federal funding.

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 \$2,141,652 (federal share \$1,927,486) of ineligible costs for activities covered by insurance (Finding B).

Recommendation #3: Disallow \$351,950 (federal share \$316,755) of unsupported project charges (Finding C).

Recommendation #4: Disallow \$69,672 (federal share \$62,705) of ineligible costs for small project work not fully completed (Finding D).

Recommendation #5: Instruct the City, for future declarations, to comply with federal regulations and FEMA guidelines governing contracting practices (Finding E).

Recommendation #6: Disallow \$29,550 (federal share \$26,595) of contract labor costs determined to be ineligible because they were excessive (Finding E).

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.

cc: Mary Lynne Miller, Deputy Regional Administrator
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EXHIBIT A

City of Vero Beach, Florida
FEMA Disaster 1545 DR-FL
Schedule of Amount Awarded, Claimed, and Questioned
September 3, 2004, to December 19, 2010
Large Projects

Project Number	Amount Awarded	Amount Claimed/Reviewed	Amount Questioned
613	\$1,578,759	\$1,578,759	\$ 0
621	790,979	790,979	0
630	65,859	57,772	0
631	246,223	7,500	0
1605	88,404	88,404	0
1698	223,679	223,679	0
3592	193,332	193,332	0
3629	62,427	62,427	0
4123	651,203	651,203	381,500
4125	369,799	369,799	0
4126	565,184	565,184	0
5716	603,140	603,140	0
7769	371,702	371,702	371,702
8127	84,191	84,191	0
8300	172,042	137,219	137,219
8574	222,514	222,514	222,514
8575	577,158	577,158	520,510
8578	445,629	445,629	445,629
8609	128,462	128,462	128,462
8647	168,020	168,020	0
8651	59,030	59,030	0
8652	229,729	229,729	0
8669	56,456	56,456	0
Total	\$7,953,921	\$7,672,288	\$2,207,536

EXHIBIT B

City of Vero Beach, Florida
FEMA Disaster 1545 DR-FL
Schedule of Amount Awarded, Claimed, and Questioned
September 3, 2004, to December 19, 2010
Small Projects

Project Number	Amount Awarded	Amount Claimed/Reviewed	Amount Questioned
252	\$ 39,547	\$ 39,547	\$ 39,547
598	7,108	7,108	5,904
1655	18,023	18,023	11,957
1878	2,047	2,047	2,047
1879	23,277	23,277	23,277
1896	31,997	31,997	0
1900	40,023	40,023	29,392
1905	41,329	41,329	25,662
2658	4,677	4,677	4,579
2737	13,978	13,978	13,978
3202	14,665	14,665	14,665
3590	3,769	3,769	970
3594	46,799	46,799	46,799
3596	7,520	7,520	5,874
3631	47,269	47,269	14,054
3648	11,234	11,234	11,234
4715	8,021	8,021	0
4719	13,912	13,912	0
5349	1,896	1,896	0
6260	10,500	10,500	10,500
6261	1,710	1,710	1,710
7810	44,835	44,835	0
8307	52,347	52,347	52,347
8317	11,370	11,370	11,370
8362	31,148	31,148	26,524
8363	11,152	11,152	0
8648	11,924	11,924	11,924
8649	11,870	11,870	0
8657	20,508	20,508	0
8658	5,140	5,140	0
8659	12,533	12,533	0
8661	5,829	5,829	0
8662	20,974	20,974	20,974
8672	16,433	16,433	0
Total	\$645,364	\$645,364	\$ 385,288