

Department of Homeland Security **Office of Inspector General**

FEMA Should Recover \$2.8 Million of Public
Assistance Grant Funds Awarded to the Town of
Dauphin Island, Alabama – Hurricanes Gustav and Ike



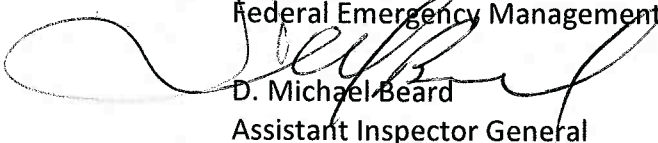


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Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

NOV 6 2012

MEMORANDUM FOR: Major P. (Phil) May
Regional Administrator, Region IV
Federal Emergency Management Agency

FROM: 
D. Michael Beard
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Recover \$2.8 Million of Public Assistance Grant Funds Awarded to the Town of Dauphin Island, Alabama – Hurricanes Gustav and Ike*
FEMA Disaster Numbers 1789 and 1797
Audit Report Number DA-13-02

We audited Public Assistance (PA) funds awarded to the Town of Dauphin Island, Alabama (Town) (FIPS Code 097-19744-00). Our audit objective was to determine whether the Town accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

As of November 11, 2011, the Town had received PA awards totaling \$5.5 million from the Alabama Emergency Management Agency (State), a FEMA grantee, for damages resulting from hurricanes Gustav and Ike, which occurred in August and September 2008, respectively. The awards provided 75 percent FEMA funding for debris removal activities and repair of damaged roads and culverts. Table 1 identifies the specifics for each disaster.

Table 1. Disaster-Specific Information

Disaster	Disaster Number	Disaster Date	Amount Awarded (Millions)	Large Projects ¹ Awarded	Small Projects Awarded
Hurricane Gustav	1789	August 29, 2008	\$2.6	4	3
Hurricane Ike	1797	September 12, 2008	2.9	5	4
Total			\$5.5	9	7

We reviewed costs totaling \$5.3 million claimed under the nine large projects awarded under both disasters (see Exhibit A, Schedule of Projects Audited). The audit covered the period August 29, 2008, to March 23, 2012, during which the Town received \$3.4 million of FEMA

¹ Federal regulations in effect at the time of hurricanes Gustav and Ike set the large project threshold at \$60,900.



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funds under the projects reviewed. At the time of our audit, the Town had not completed work on all projects, and therefore had not submitted a final project expenditure claim to the State.

We conducted this performance audit between January and July 2012 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. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We reviewed 100 percent of contract costs, interviewed Town, State, and FEMA officials; reviewed the Town's procurement policies and procedures; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the Town's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. However, we gained an understanding of the Town's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA award.

BACKGROUND

Hurricanes Gustav and Ike occurred within a few weeks of each other, which made it difficult for FEMA to separately identify damages for the two disasters. Therefore, based on the preliminary damage assessments, FEMA decided to allocate 55 percent of the damages to Gustav and 45 percent to Ike when preparing project worksheets.

RESULTS OF AUDIT

FEMA should recover \$2.8 million of PA funding. Although the Town generally accounted for FEMA funds on a project-by-project basis, as required by Federal regulations and FEMA guidelines, we identified \$1,969,541 of project funding that should be deobligated and put to better use because work under the projects is complete and the funding is no longer needed. We also identified \$912,782 of Federal funds that the State overpaid the Town under several projects, and \$6,919 of ineligible project costs.

Finding A: Unneeded Funds

PA funding totaling \$1,969,541 should be deobligated because work under the projects is complete and the funding is no longer needed. The Town completed all authorized work under



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the projects as of April 2010 and incurred actual costs totaling \$2,833,242. This amount is \$1,969,541 less than the total amount FEMA estimated and obligated under the projects. Therefore, FEMA should deobligate the \$1,969,541 of unused funds and put them to better use. Table 1 shows the affected projects.

Table 1. Funds Put to Better Use—Hurricanes Gustav and Ike

Project Number	Disaster	Amount Awarded	Actual Costs	Unneeded Funding
64	Hurricane Gustav	\$2,005,998	\$1,270,433	\$735,565
87	Hurricane Gustav	81,400	16,246	65,154
Subtotal		\$2,087,398	\$1,286,679	\$800,719
7	Hurricane Ike	\$1,641,271	\$1,039,445	\$601,826
15	Hurricane Ike	456,732	443,502	13,230
18	Hurricane Ike	550,782	50,324	500,458
20	Hurricane Ike	66,600	13,292	53,308
Subtotal		\$2,715,385	\$1,546,563	\$1,168,822
Total		\$4,802,783	\$2,833,242	\$1,969,541

According to 44 CFR §206.205 (b)(1), the grantee shall account for eligible costs for each large project and certify to FEMA that the reported costs were for eligible disaster work as soon as practicable after the subgrantee has completed the approved work and requested payment. Further, FEMA will review the accounting, and determine the eligibility of the costs whether project funds should be obligated or deobligated. However, as of January 2012, approximately 29 to 36 months after the work had been completed, several projects had not been deobligated. On April 9, 2009, State officials asked FEMA to close project 18. However, FEMA did not close the project. FEMA officials said that they rely on the grantee to conduct closeout activities. On March 23, 2012, we learned that FEMA and the State were in the process of closing the projects and deobligating the unneeded funds.

According to FEMA *Standard Operating Procedure 9570.14, Program Management and Grant Closeout*, paragraph 9.2.1, the grantee should reconcile costs within 90 days of the date that the subgrantee completes the project. We consider 90 days after the subgrantee has completed the approved work and requested final payment a reasonable amount of time for the grantee to complete its review of costs claimed and submit an accounting of eligible costs to FEMA. Further, Federal appropriations laws and the Statement of Federal Financial Accounting Standards (SFFAS) require Federal agencies to record obligations in the accounting records on a factual and consistent basis throughout the Government.² Reducing unneeded funding in a timely manner (1) releases funds to cover cost overruns on other projects associated with the disaster, (2) provides a more accurate status of PA costs for a disaster, and

² U.S. General Accounting Office's Principles of Federal Appropriations Law, 3rd edition, volume II, February 2006, chapter 7, section B: Criteria for Recording Obligations (31 U.S.C. § 1501).



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(3) is consistent with appropriations law and SFFAS Number 5, which require obligations/liabilities in FEMA’s accounting system to be recorded accurately and supported. Therefore, FEMA should promptly deobligate the \$1,969,541 of unneeded funding under the projects and put those funds to better use.

State and Town Response. State and Town officials agreed that the FEMA funding for the projects should be adjusted to account for actual eligible documented costs. They said that they welcome the assistance of FEMA personnel in completing final inspections on the projects.

Finding B: Overpayments

The State overpaid the Town \$912,782 of Federal funds for several projects under hurricanes Gustav and Ike. The State paid \$3,037,714 of Federal funds under the projects. However, based on actual eligible costs, the Town should have received \$2,124,932. The \$912,782 of overpayments were made between March 10, 2009, and April 10, 2010. As of January 2012, the State has not recovered the overpayments. FEMA should instruct the State to promptly recover the overpayments from the Town and return the excess funds to the agency. Table 2 shows the affected projects and related overpayments.

Federal regulation 44 CFR 13.20(a)(2) states that a State’s accounting procedures must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Table 2. Overpayments Made Under Hurricanes Gustav and Ike

Project Number	Disaster	Payments	Federal Share (75%)	Overpayment
64	Hurricane Gustav	\$1,354,049	\$952,825	\$401,224
87	Hurricane Gustav	61,050	12,184	48,866
Subtotal		\$1,415,099	\$965,009	\$450,090
7	Hurricane Ike	\$1,045,448	\$779,584	\$265,864
20	Hurricane Ike	49,950	9,969	39,981
18	Hurricane Ike	184,715	37,743	146,972
15	Hurricane Ike	342,502	332,627	9,875
Subtotal		\$1,622,615	\$1,159,923	\$462,692
Total		\$3,037,714	\$2,124,932	\$912,782

The overpayments occurred because the State did not adequately monitor and reconcile the payments made to the Town. Some of the State’s payments appear to be based on the award amount rather than documented actual incurred costs. Further, State officials told us that the overpayments under debris removal Projects 64 and 7 for hurricanes Gustav and Ike,



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respectively, most likely occurred because the total debris removal costs of the two disasters had been allocated between the two projects. As a result, debris removal invoices for the two projects may not have been properly reconciled before payments were made to the Town. The Town did not promptly identify the overpayments and return them to the State because it was not regularly reconciling project receipts and expenditures.

The Federal overpayments identified in this audit are not isolated incidents. During our reconciliation of the payments made by the State, we noted that the State made similar overpayments to the Town, totaling \$859,785, under two other disasters (hurricanes Ivan³ and Katrina) that were not part of this review. The State identified and recouped the \$859,785 by reducing payments to the Town under hurricanes Gustav and Ike.

State and Town Response. State and Town officials said that they have agreed on a reasonable repayment plan associated with the overpayments identified in this report. This payment plan will be initiated once FEMA has determined the actual documented cost of the open large projects. In addition, State officials said that they will review disbursement procedures for all large projects to ensure that all PA programmatic guidance governing disbursements is followed. State officials also said that they will review the Town's procedures for compiling and maintaining documentation to ensure that eligible costs charged to FEMA projects are adequately supported.

Finding C: Nondisaster Charges

The Town's claim of \$326,837 under Project 84 (West End Park) included \$6,919 of charges for damages unrelated to the disaster. This claim consisted of \$6,044 of charges to repair an irrigation system and \$875 to construct a volleyball court in the park. Town officials told us that the park did not include a volleyball court prior to hurricanes Gustav or Ike. Further, we noted that the damages to the facilities were caused by earlier storms. Federal regulation 44 CFR 206.223(a)(1) states that an item of work must be required as a result of a major declared disaster event to be eligible for FEMA financial assistance. Therefore, we question the \$6,919.

State and Town Response. State and Town officials agreed with this finding and related recommendation.

³ Hurricane Ivan was not included in our audit.



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RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation #1: Deobligate \$1,969,541 (Federal share \$1,477,156) of unneeded Federal funding and put it to better use (finding A).

Recommendation #2: Instruct the State to promptly recover the Federal overpayments totaling \$912,782 and return them to FEMA (finding B).

Recommendations #3: Instruct the State to review its cash disbursement and reconciliation procedures to ensure that payments to subgrantees are in compliance with 44 CFR 13.21(b) (finding B).

Recommendations #4: Instruct the State to notify the Town to implement procedures to ensure that project receipts and expenditures are properly reconciled (finding B).

Recommendation #5: Disallow \$6,919 (Federal share \$5,189) of ineligible costs claimed for nondisaster-related damages (finding C).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with Town, State, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference held on July 11, 2012. After the exit conference, State and Town officials provided a written coordinated response to the audit findings and recommendations. Their comments, where appropriate, have been incorporated into 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 responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing 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.



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Major contributors to this report were David Kimble, Eastern Region Audit Director; Adrienne Bryant, Audit Manager; Mary Stoneham, Auditor-in-charge; and Amos Dienne, Auditor.

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



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EXHIBIT A

Schedule of Projects Audited
August 29, 2008, to March 23, 2012
Town of Dauphin Island, AL
FEMA Disaster Numbers 1789 and 1797-DR-AL

Project Number	Scope	Amount Awarded	Amount Claimed	Amount Questioned	Findings
Hurricane Ike:					
64	Sand Removal	\$2,005,998	\$2,005,998	\$1,136,789	A & B
84	Repairs to Park	326,837	326,837	\$6,919	C
87	Hauling Debris	81,400	81,400	114,020	A & B
61	Monitoring	76,761	76,761	-	
Subtotal		\$2,490,996	\$2,490,996	\$1,257,728	
Hurricane Gustav:					
7	Sand Removal	\$1,641,271	\$1,641,271	\$867,690	A & B
18	Clean Drain Ditches	550,782	550,782	647,430	A & B
15	Rock to Stabilize Roads	456,732	456,732	23,105	A & B
20	Hauling Debris	66,600	66,600	93,289	A & B
6	Monitoring	62,804	62,804	-	
Subtotal		\$2,778,189	\$2,778,189	\$1,631,514	
Total		\$5,269,185	\$5,269,185	\$2,889,242	



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EXHIBIT B

Report Distribution List
Town of Dauphin Island, Alabama
FEMA Disaster Numbers 1797 and 1789-DR-AL

Department of Homeland Security

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Chief Financial Officer
Under Secretary for Management
Audit Liaison, DHS

Federal Emergency Management Agency

Administrator
Chief of Staff
Chief Financial Officer
Chief Counsel
Director, Risk Management and Compliance
Audit Liaison, FEMA Region IV
Audit Liaison, FEMA (Job Code G-12-009)

Grantee

Public Assistance Coordinator, Alabama Division of Emergency Management

State

State Auditor, Alabama

Subgrantee

Mayor, Dauphin Island, Alabama

ADDITIONAL INFORMATION AND COPIES

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