

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

**The City of Chattanooga, Tennessee,
Properly Accounted For and Expended
FEMA Public Assistance Grant Funds**





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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DEC 11 2013

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

FROM: *for Jonda Hadley*
John V. Kelly
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *The City of Chattanooga, Tennessee Properly Accounted For and Expended FEMA Public Assistance Grant Funds*
FEMA Disaster Number 1974-DR-TN
Audit Report Number OIG-14-15-D

We audited Public Assistance funds awarded to the City of Chattanooga, Tennessee (City) (FIPS Code 065-14000-00). 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 a Public Assistance award totaling \$25.3 million from the Tennessee Emergency Management Agency (TEMA), a FEMA grantee, for damages resulting from severe storms, tornadoes, straight-line winds, and associated flooding that occurred in April 2011. The award provided 75 percent FEMA funding for debris removal, emergency protective measures, and permanent repairs to buildings, utilities, and recreational facilities. The award consisted of 11 large projects and 20 small projects.¹

We audited six large projects and five small projects with awards totaling \$23.8 million (see Exhibit, Schedule of Projects Audited and Questioned Costs) for debris removal, emergency protective measures, and repairs to roads and utilities. We limited our review of small projects to determining whether: (1) the City completed the projects, and (2) another funding source covered the project costs. The audit covered the period from April 25, 2011, to July 25, 2013, during which the City claimed \$23.8 million of costs under the projects reviewed. At the time of our audit, the City had completed work on all projects included in our scope and had submitted a final claim to TEMA for project expenditures.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$63,900.



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We conducted this performance audit between March 2013 and September 2013 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 judgmentally selected and reviewed project costs (generally based on dollar value); interviewed City, TEMA, and FEMA personnel; reviewed the City'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 City'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 City's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA award.

RESULTS OF AUDIT

The City generally accounted for and expended FEMA funds according to Federal regulations and FEMA guidelines. However, the City claimed \$71,040 of excessive contract costs (less than 0.3 percent of its total award). Code of Federal Regulation (CFR) 2 CFR 225, *Cost Principles for State, Local and Indian Governments*, Appendix A, Section C.1.a., states that costs under Federal awards must be both reasonable and necessary. We question the \$71,040 as follows:

- Under Project 1315, the City claimed \$44,353 of excessive fuel costs. The City's Electric Power Board hired several contractors to assist with restoring damaged electrical power and fiber optic services. The contractors billed the City based on contracted hourly rates for labor and equipment use. One of the contractors charged the City \$44,353 of fuel cost for the use of 55-foot bucket trucks, pick-up trucks, and derrick diggers. However, the contracted hourly equipment rates for those pieces of equipment already included the cost of fuel. Therefore, the contractor should not have billed the City any additional fuel costs for the equipment. We question the \$44,353 as ineligible costs because they duplicate costs that equipment rates covered.



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City officials agreed with this finding. They said that their corrective action plan will be to implement new internal control procedures to properly review all invoices to prevent future duplicate costs.

- Under Project 1312, the City claimed \$26,687 of excessive contract labor costs. A contractor billed the City \$114,217 of labor costs for debris removal and tree trimming services related to project work. However, the contractor did not bill the City at the contracted hourly labor rates. Based on the agreed-upon rates, the contractor should have billed the City \$87,530 for labor, or \$26,687 less than the \$114,217 it billed. The overbilling occurred because the City did not properly review the contractor's invoices for adherence to the contracted hourly rates. Therefore, we question \$26,687 as ineligible.

City officials agreed with this finding.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation #1: Disallow \$44,353 (Federal share \$33,265) of ineligible contract fuel charges.

Recommendation #2: Disallow \$26,687 (Federal share \$20,015) of ineligible contract labor costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with City, TEMA, 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 September 16, 2013. We incorporated comments City officials provided into the body of this report where appropriate.

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 of 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 consider the recommendations as open and unresolved.



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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 contributors to this report are David Kimble, Director; Adrienne Bryant, Audit Manager; Amos Dienye, Auditor-in-charge; and Jerry Aubin, Program Analyst.

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	Project Scope	FEMA Category of Work	Amount Awarded	Amount Questioned	Federal Share
Large Projects:					
351	Debris Removal – Public Works Department	A	\$631,327	\$0	\$0
373	Debris Removal – Public Works Department	A	\$867,076	\$0	\$0
717	Protective Measures – Public Works Department	A	\$850,107	\$0	\$0
1312	Debris Removal – Electric Power Board	A	\$904,898	\$26,687	\$20,015
1313	Protective Measures – Electric Power Board	B	\$4,929,038	\$0	\$0
1315	Public Utilities – Electric Power Board	F	\$15,384,886	\$44,353	\$33,265
Small Projects:					
77	Debris Removal – Public Works Department	A	\$29,752	\$0	\$0
714	Debris Removal – Public Works Department	A	\$61,488	\$0	\$0
616	Protective Measures – Police Dept.	B	\$53,965	\$0	\$0
1237	Road Repairs – Public Works Department	C	\$53,224	\$0	\$0
1245	Public Utilities – Electric Power Board	F	\$50,626	\$0	\$0
Total			\$23,816,387	\$71,040	\$53,280



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