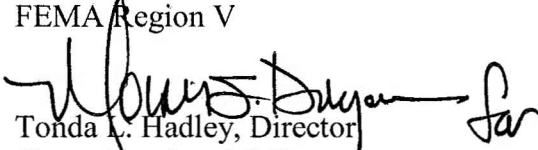




Homeland Security

April 15, 2010

MEMORANDUM FOR: Janet Odeshoo,
Acting Regional Administrator
FEMA Region V

FROM: 
Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *City of Bucyrus, Ohio*
FEMA Disaster Numbers 1484- and 1720-DRs-OH
Hazard Mitigation Grant Program
Audit Report Number DD-10-09

We audited Hazard Mitigation Grant Program (HMGP) funds awarded to the City of Bucyrus, Ohio (City). Our audit objectives were to determine whether the City accounted for and expended FEMA funds according to federal regulations and FEMA guidelines, the projects met FEMA eligibility requirements, and project management complied with applicable regulations and guidelines.

The City received awards for three HMGP projects, totaling \$2,599,099 (federal share \$1,804,061) from the Ohio Emergency Management Agency (OEMA), a FEMA grantee, between January 2005 and February 2009 (see Exhibit A). OEMA selected the City's projects for submission to FEMA from applications it received following severe storms, tornadoes, and flooding that occurred from July 21, through August 25, 2003 (1484-DR), and from August 20, through August 28, 2007 (1720-DR).

The purpose of the awards was to mitigate against future flood losses. All three awards provided funding to acquire residential properties (as many as 40 in total). One of the awards also provided funding to retrofit seven residential properties. The OEMA awards provided FEMA funding of between 61% and 75% of eligible project costs under FEMA disasters 1484- and 1720-DRs-OH.

At the time of our audit, two of the three projects were complete. The audit covered the period from grant award in January 2005 to the completion of our audit work in January 2010. During this time, the City claimed \$1,242,542 in direct project costs. We audited \$1,234,485 or 99% of these costs.

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 objectives. We believe that the

evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the City's compliance with federal procurement standards; judgmentally selected and reviewed transactions of the City's claimed costs (selected based on dollar value); interviewed FEMA, OEMA, and City officials; and performed other audit procedures necessary to accomplish the audit objectives. We did not assess the adequacy of the City's controls applicable to its grant activities because it was not necessary to accomplish our audit objectives. We did, however, gain an understanding of the City's method of accounting for HMGP costs and its procurement policies and procedures.

BACKGROUND

FEMA provides HMGP grants on a cost-shared basis to eligible applicants within a federally declared state to implement measures designed to reduce the loss of life and property from natural disasters. FEMA's eligibility criteria require that an applicant have a FEMA-approved (unless delegated to the state) hazard mitigation plan and that projects be cost effective, comply with environmental and historic preservation requirements, and provide a long-term beneficial impact. Eligible applicants include state and local governments, certain private non-profit organizations and institutions, and Indian tribes or tribal organizations.

RESULTS OF AUDIT

The City's project management generally complied with applicable regulations and guidelines. However, the City did not always account for FEMA funds according to federal regulations and FEMA guidelines, and one project did not meet FEMA HMGP eligibility requirements. As a result, we questioned \$40,399 (\$27,041 federal share) in unsupported labor costs and \$474,551 (\$345,297 federal share) as ineligible.

Finding A: Accounting for Labor Costs

The City did not specify the work its employees performed on the HMGP projects and did not require employees to sign time records to verify the time spent on projects. This information is required by 2 CFR Part 225, Appendix B, Section 8.h.(5).(a) and (d) and is necessary to determine whether the work performed is eligible for reimbursement. City officials said they were unaware of these documentation requirements. Therefore, we questioned \$18,523 (\$13,478 federal share) as unsupported for 1484-13R, and \$21,876 (\$13,563 federal share) for 1720-3R.¹

Finding B: Benefit Cost Analysis – Project 1484-13R

OEMA and the City could not demonstrate that Project 1484-13R was cost effective. As a result, the project was not eligible for FEMA funding and we questioned \$474,551, the entire amount claimed for the project (\$345,297 federal share). FEMA considers a project cost effective when mitigation costs are less than the present value of future projected losses. However, the City's historical loss

¹ The \$18,523 questioned in Finding A for Project 1484-13R is also included in the total amount questioned in Finding B.

data indicates that its loss levels were approximately one third of the amount needed to justify the estimated cost of the project.

FEMA approved the project because OEMA's original application indicated that the project was cost effective. However, OEMA did not use documented loss frequency data to prepare its cost effectiveness calculations, as FEMA requires. Instead, OEMA developed its calculations from incomplete loss data. Further, OEMA did not document and current OEMA staff could not explain how OEMA actually estimated future losses.

Although OEMA did not have the necessary loss frequency data to calculate cost effectiveness, OEMA developed, in response to our review, revised calculations that indicated the project was cost effective. In its revised calculations, OEMA forecasted that significant future flood events and related losses would increase three-fold from past documented levels. OEMA said that it forecasted this increase to account for undocumented prior losses from lesser flood events. However, this increase is inconsistent with the number and severity of events that occurred over the past 31-year time period (see Exhibit B). Additionally, OEMA used the actual project costs (which were lower than the anticipated costs listed in the City's application), and inflated the value of benefits and costs to 2009 dollars, rather than 2005 dollars, which was the year FEMA approved the application.

OEMA prepared its original and revised cost effectiveness calculations without the required frequency data and prepared its revised calculations without using the original project cost estimates and valuations. In addition, the City's flood damage history did not support OEMA's assumptions that future losses would increase significantly from the amounts and frequencies reported in prior years. Therefore, the project did not meet FEMA's HMGP eligibility criteria because OEMA and the City did not demonstrate that Project 1484 -13R was cost effective.

FEMA and OEMA officials agreed that OEMA incorrectly prepared the cost effectiveness calculations it submitted to support the City's HMGP application. An OEMA official said that he did not have the information necessary to document the flood frequencies that FEMA required. FEMA officials, for their part, said they did not identify these problems at the time FEMA approved the City's application in January 2005 because FEMA did not have the requisite trained staff to validate the calculations. Both OEMA and FEMA officials said they have since improved their procedures to prepare and review HMGP applications.

RECOMMENDATIONS

We recommend that the Acting Regional Administrator, FEMA Region V:

1. Disallow \$21,876 (\$13,563 federal share) for Project 1720-3R for unsupported labor costs.
2. Disallow \$474,551 (\$345,297 federal share) for Project 1484-13R as ineligible because the project did not meet HMGP eligibility requirements.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the audit results with FEMA, OEMA, and City officials on March 24, 2010. FEMA officials said they would provide us with a written response after we issue the final report. OEMA officials stated that they had no comment concerning Recommendation 1 to disallow unsupported labor costs of \$21,876. Further, they disagreed with Recommendation 2 to disallow ineligible costs of \$474,551 (the entire funding for Project 1484-13R). City officials said they were not at fault with respect to either finding, because they documented labor hours as instructed and they were not responsible for determining whether the project was cost effective. Therefore, the City disagreed with both recommendations. Please advise this office by June 14, 2010, of the actions planned or taken to implement our recommendations, including target completion dates for any planned actions.

Significant contributors to this report were Moises Dugan, William Haney, William Lough, and Jacob Farias. Should you have any questions concerning this report, please contact me, or your staff may contact Moises Dugan, Audit Manager, at (214) 436-5200.

cc: Audit Liaison, FEMA (Job Code DG9C07)
Audit Liaison, FEMA Region V

Schedule of Audited Projects
City of Bucyrus, Ohio
FEMA Disaster Numbers 1484- and 1720-DRs-OH

Disaster Number	Project Number	Award Amount	Questioned Costs
1484	13R	\$ 720,046	\$474,551
1720	3R	824,520	21,876
1720	7R	<u>1,054,533</u>	<u>0</u>
Totals	<u>3</u>	<u>\$2,599,099</u>	<u>\$496,427</u>

**Inflation Adjusted Flood Damages for Project 1484-13R Proposed Acquisitions
City of Bucyrus, Ohio
FEMA Disaster Numbers 1484- and 1720-DRs-OH**

The chart presents the total flood damages, adjusted to 2005 dollars, sustained by the eight properties the City planned to acquire under Project 1484-13R. The chart indicates that the most significant damage events for these properties occurred between 1973 and 1978. The only significant damage event since the 1970s occurred in 2003. The 2003 event caused less damage than any of the three significant 1970s events.

