



# Homeland Security

January 10, 2007

MEMORANDUM FOR. William E. Peterson,  
Regional Director, FEMA Region VI

*Tonda L. Hadley*

FROM: Tonda L. Hadley, Director  
Central Regional Office

SUBJECT: **City** of Houston, Houston, Texas  
FEMA Disaster Number 1379-DR-TX  
Public Assistance Identification Number 201-35000-00  
Audit Report Number DD-07-04

The Office of Inspector General (OIG) audited public assistance funds awarded to the City of Houston, Texas (City). The objective of the audit was to determine whether the City expended and accounted for Federal Emergency Management Directorate (FEMA) funds according to federal regulations and FEMA guidelines.

The City received an award of \$38.68 million from the Texas Governor's Division of Emergency Management (GDEM), a FEMA grantee, for damages resulting from Tropical Storm Allison, beginning on June 5, 2001, and continuing. The award provided 75 percent FEMA funding for 63 large projects and 256 small projects.<sup>1</sup> At the time of our audit, most of the permanent work projects (categories C through G) were not complete; therefore, we focused on emergency work projects (categories A and B). We examined the costs for eight large emergency work projects totaling \$16.04 million, representing 41.5 percent of the total award (see Exhibit A). The audit covered the period of June 5, 2001, to November 30, 2005, during which the City claimed \$17.80 million for the 8 projects and GDEM disbursed \$11.14 million in FEMA funds for direct program costs.

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included interviews, tests of the City's accounting records, judgmental samples of project expenditures, and other auditing procedures considered necessary under the circumstances. Exhibit B describes the audit scope and methodology in more detail.

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<sup>1</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$50,600.

## RESULTS OF AUDIT

The City did not expend and account for FEMA funds according to federal regulations and FEMA guidelines. We questioned \$2,737,128 (\$2,052,846 FEMA share) in claimed costs, consisting of unsupported contract costs (\$539,794), ineligible contract costs (\$312,506), duplicate contract costs (\$208,291), unsupported force account costs (\$1,602,416), duplicate force account costs (\$194,445), ineligible force account costs (\$6,388), and reductions (\$126,712). Exhibit C lists the criteria we used to question costs. The following table summarizes these questioned costs.

Project	TOTAL QUESTIONED COSTS							Total Questioned Costs
	Unsupported Contract Costs	Ineligible Contract Costs	Duplicate Contract Costs	Unsupported Force Account Costs	Duplicate Force Account Costs	Ineligible Force Account Costs	Reductions <sup>2</sup>	
19	\$ 0	\$ 0	\$ 60,986	\$ 0	\$ 0	\$ 0	\$ 0	\$ 60,986
20	15,404	0	0	0	0	0	0	15,404
960	0	0	0	924,315	194,445	6,388	108,057	1,017,091
1151	4,005	0	0	0	0	0	0	4,005
730	72,820	151,566	21,488	0	0	0	9,048	236,826
759	247,565	160,940	125,817	0	0	0	9,607	524,715
761	200,000	0	0	0	0	0	0	200,000
55	0	0	0	678,101	0	0	0	678,101
<b>Totals</b>	<b><u>\$ 539,794</u></b>	<b><u>539,794</u></b>	<b><u>\$ 208,291</u></b>	<b><u>\$ 1,602,416</u></b>	<b><u>\$ 194,445</u></b>	<b><u>\$ 6,388</u></b>	<b><u>\$ 126,712</u></b>	<b><u>\$ 2,737,128</u></b>

### Questioned Costs

Of the eight projects we reviewed for this audit, the City's Solid Waste Department administered four projects totaling \$9,260,049, the City's Convention and Entertainment Department administered 3 projects totaling \$7,852,165, and the City's Fire Department administered 1 project totaling \$685,218. Of those totals, we questioned \$1,097,486 or 11.9 percent of the Solid Waste Department claims, \$961,541 or 12.2 percent of the Convention and Entertainment Department claims, and \$678,101 or 99.0 percent of the Fire Department claim. The details of these questioned costs are discussed below.

<sup>2</sup> The \$108,057 is a FEMA reduction to claimed costs for ineligible brush (\$85,955) and a State reduction for ineligible October costs (\$22,102). The \$9,048 and \$9,607 reductions are audited costs in excess of contract ceilings the City did not claim and a net underpayment to the City resulting from a State closeout audit of Project 730. In addition to these adjustments, applicable questioned costs are net of reductions for the difference between costs reviewed and costs claimed; and for another State reduction.

## **Solid Waste Department**

### Project 960 – Force Account Debris Collection and Transport

The scope of work for Project 960 was force account (City employees) debris removal totaling \$1,678,512. Of that amount, we questioned \$1,017,091, or 60.6 percent, consisting of unsupported costs (\$924,315), duplicate costs (\$194,445), ineligible costs (\$6,388). Questioned costs are net of reductions for a FEMA adjustment for ineligible brush (\$85,955), and for a State adjustment for ineligible October costs (\$22,102). The City commingled the costs for the removal and disposal of storm debris with regularly scheduled residential waste removal and claimed overtime labor for permanent employees, overtime and regular time for temporary employees, and all equipment costs for a 5-month period including costs incurred for the removal and disposal of ordinary residential waste.

The City's claim included \$924,315 in unsupported costs. Because the City commingled their costs, we questioned all \$724,078 (net of a \$9,598 credit) regular time equipment hours (normally eligible) because employees would have worked their normal 40 hours regardless of the disaster. We reduced the amount questioned for total regular time equipment hour costs (\$733,676) by \$9,598 to allow credit for loads that were disaster related. We analyzed a sample of Operator Daily Reports, Daily Activity Reports, Dump Tickets/Landfill Manifests, and Load Tickets for substantiation of disaster or FEMA related work. Based on our initial sample, the City supported only 10.2 percent of the claimed quantities as disaster related. The City will have the opportunity to reduce these questioned costs if they provide additional documents to verify more FEMA loads. We questioned these costs as unsupported because the City did not provide documentation as required by 44 CFR 13.20(b)(2) and (6) to prove that costs were related to the disaster.

We questioned an additional \$198,135 in unsupported costs because labor and equipment hours did not coincide for a given day (overtime labor claimed with no associated equipment hours and equipment claimed with no associated labor hours). The remaining \$2,102 was miscellaneous unsupported costs due to a math error.

The City claimed \$194,445 that consisted of \$194,114 in duplicate costs that we questioned because the employees' titles indicated that they were performing work covered by the Statutory Administrative Allowance. Under the Stafford Act, a subgrantee is entitled to an administrative allowance based on a statutory formula to cover the costs associated with requesting, obtaining, and administering FEMA awards. Federal regulations limit funding for administrative costs to that allowance (44 CFR 206.228(a)(2)(ii) and (3)(ii)). The remaining \$331 was miscellaneous inadvertent duplicate costs.

We questioned \$6,388 as ineligible because the City incurred these costs outside the project's eligible period of June 11, 2001, through October 31, 2001.

### ***Conclusion***

For Project 960, the City did not account for and expend FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$1,017,091 in claimed force

account costs that were unsupported (\$924,315), duplicated (\$194,445), ineligible (\$6,388), reduction for a FEMA adjustment for ineligible brush (\$85,955), and reduction for a State adjustment for ineligible October costs (\$22,102).

***Recommendation***

1. The Regional Director, FEMA Region VI, disallow \$1,017,091 in questioned costs for Project 960.

**Project 19 – Contract Disaster Debris Collection and Transport**

The scope of work for Project 19 was disaster debris collection and transport totaling \$1,782,981. Of that amount, we questioned \$60,986, or 3.4 percent, as duplicate costs. The duplications resulted from discrepancies between contractor invoicing and the contract Scope of Work. The contract Scope of Work states, "The unit price per cubic yard must include all subsidiary costs, including mobilization and demobilization . . . . Compensation will be based solely on the volume of debris hauled as documented by completed haul tickets administered and validated by City monitors." However, the contractor invoiced the City for mobilization and demobilization as separate cost items. Because these costs should have been included in the unit rate, we questioned the \$60,986 for this project as duplicate costs.

***Conclusion***

For Project 19, the City did not account for and expend FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$60,986 in duplicate contract costs.

***Recommendation***

2. The Regional Director, FEMA Region VI, disallow \$60,986 in questioned costs for Project 19.

**Project 1151 – Contract Debris Collection and Transport**

The scope of work for Project 1151 was debris collection and transport through October 31, 2001, amounting to \$2,975,250. Of that amount, we questioned \$4,005, for-unsupported contract costs. We questioned these costs as unsupported because the City did not provide landfill manifests for 33 tons of debris.

***Conclusion***

For Project 1151, the City did not account for and expend FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$4,005 in unsupported claimed costs.

***Recommendation***

3. The Regional Director FEMA Region VI, disallow \$4,005 in questioned costs for Project 1151.

## Project 20 – Contract Debris Disposal

The scope of work for Project 20 was for waste disposal to landfills with total costs of \$2,823,306. Of that amount, we questioned \$15,404, for unsupported costs. We reviewed invoice details and supporting documentation such as load tickets, manifests, and truck lists of three contractors to verify the number of cubic yards disposed. We questioned \$15,404 as unsupported due to capacity discrepancies between the load tickets and truck lists (\$11,652) and discrepancies between rates claimed by the City and rates billed by a contractor (\$3,752).

### ***Conclusion***

For Project 20, the City did not account for and expend FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$15,404 in unsupported claimed costs.

### ***Recommendation***

4. The Regional Director, FEMA Region VI, disallow \$15,404 in questioned costs for Project 20.

## **Convention and Entertainment Department**

### Projects 730, 759, and 761 – Contract Dewatering and Cleanup

The City claimed \$3,807,870 for Projects 730 (\$1,926,670) and 759 (\$1,881,200). The scope of work for these projects was dewatering and cleanup of two City-owned Theatre District underground parking garages and connecting tunnels. The contractors that performed the work (referred to below as Contractors A, B, C, and D) commingled costs at the contractor invoice level and the City allocated costs at the project level according to the garages' respective volumes.<sup>4</sup> We sampled \$3,351,180 (91.6 percent) of total costs provided for review for the four largest contractors.<sup>5</sup> We also reviewed an additional \$200,000 in cleanup costs claimed under Project 761.

Of the amount reviewed, we questioned \$961,541, or 27.1 percent, consisting of costs that were ineligible (\$312,506), unsupported (\$520,385), and duplicate (\$147,305). We reduced questioned costs by the amount in excess of the contract ceiling (\$13,369), and for a net underpayment on Projects 730 and 759 (\$5,286). We allocated questioned costs on Projects 730 and 759 according to the percentages established by the City in its claim, except for \$170,241 unsupported costs and \$103,000 duplicate costs that relate only to Project 759 (see "Other" below).

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<sup>4</sup> The City applied 51.5 percent and 48.5 percent to the total contractor costs less amounts over the contract ceilings (\$3,647,055), and allocated the costs between Projects 730 and 759, respectively.

<sup>5</sup> Total costs claimed (\$3,807,870) exceeded the actual contractor costs the City submitted for review (\$3,660,382). The contractor costs included amounts in excess of contract ceilings that the City did not claim; therefore, we reduced questioned costs by the excess ceiling amounts (\$13,369).

QUESTIONED COSTS FOR PROJECTS 730,759, and 761									
Project	(a) Ineligible Costs	(b) Unsupported Costs	(c) Duplicate Costs	(d) Subtotal (a+b+c)	(e) Costs In Excess Of Ceiling	(f) Net Under- Payments	(g) Total Questioned Costs (d-e-f)	(h) Total Insurance Offsets *	(i) Total Project Dollars (g-h)
730	\$ 151,566	\$ 72,820	\$ 21,488	\$245,874	\$ 6,484	\$2,564	\$236,826	\$236,826	\$ 0
759	160,940	247,565	125,817	534,322	6,885	2,722	524,715	0	524,715
761	0	200,000	0	200,000	0	0	200,000	0	200,000
<b>Totals</b>	<b>\$ 312,506</b>	<b>\$ 520,385</b>	<b>\$ 147,305</b>	<b>\$ 980,196</b>	<b>\$ 13,369</b>	<b>\$ 5,286</b>	<b>\$ 961,541</b>	<b>\$ 236,826</b>	<b>\$ 724,715</b>

\* Questioned costs for project 730 represent reductions to insurance offsets applied to project 730.

### Contractor A

Of the \$1,006,866 reviewed for Contractor A, we questioned \$194,074 because these costs ineligible (\$201,191) and unsupported (\$1,300). We reduced questioned costs for amounts reviewed in excess of the contract ceiling (\$6,866) and an underpayment on Projects 730 and 759 (\$1,551).

We questioned various ineligible costs (\$201,191) as follows:

- \$155,493 for costs invoiced by Contractor A for automobile decontamination because the work was outside the scope of eligible work as described on the project worksheets.
- \$29,624 (\$26,654 labor and \$2,970 equipment) for ineligible standby (described as "Rescue Standby") on Contractor A's invoices.
- \$15,148 because Contractor A invoiced the City costs plus a 15 percent markup for some third party billings and cost plus percentage of cost contracts are specifically prohibited according to 44 CFR 13.36.
- \$926 for equipment billed at unreasonable rates.

Additionally, the City claimed \$1,300 for work invoiced by Contractor A for unsupported operator hours, per diem costs, and cellular telephone charges.

### Contractor B

Of the \$1,806,461 reviewed for Contractor B, we questioned \$120,310 because costs were duplicated (\$44,305), unsupported (\$43,844), ineligible standby (\$6,675), ineligible mark-ups (\$5,135), and overpaid on Projects 730 and 759 (\$26,854). We reduced total questioned costs by \$6,503 for the amount reviewed in excess of the contract ceiling.

The City claimed \$44,305 in costs that were duplicated. The contract allowed a fixed amount for a general description of costs. The contractor billed for the allowed amount according to the contract and billed additional amounts for items that were covered under the general description.

The City claimed costs of \$43,844 for work invoiced by Contractor B that it did not support with adequate documentation. This total included \$33,842 of unsupported labor rates. The City entered into two contracts with Contractor B that contained different rates for security personnel. The contractor applied the higher of the two contracted labor rates to security personnel resulting in \$33,842 of unsupported costs. Claimed costs also included \$10,002 for unsupported personnel costs that contained discrepancies between contractor personnel logs and a city employee's log (\$8,224), an unsupported rate (\$1,580), and miscellaneous duplicate costs (\$198).

Contractor B invoiced the City \$6,675 for ineligible standby costs. The questioned costs were for what the contractor described as "Stand-by" time" on the invoice supporting documentation. Additionally, Contractor B billed cost plus 15 percent above cost for some third party billings (\$5,135). Cost plus percentage of cost contracts are specifically prohibited according to 44 CFR 13.36, therefore we questioned these costs as ineligible.

### Contractor C

Of the \$450,033 reviewed for Contractor C, we questioned \$305,000 for payments to Contractor C for subcontractor costs incurred to hot water power wash the City-owned Theatre District garages under Projects 730, 759, and 761. Contractor C entered into an agreement with Contractor B for hot water power washing of the Theatre District garages with a not-to-exceed amount of \$200,000 under Project 761. Contractor C subsequently increased the agreement to \$305,000 by adding an additional \$100,000 plus a 5 percent fee. The scope of work for this agreement was to complete the removal of oily residue from the City-owned Theatre District garages using a hot water power washer.

The City had previously awarded a contract directly to Contractor B with a \$1,200,000 not-to-exceed clause for cleaning, wash-down, and sanitizing these same City Theater District garages. Contractor B, an environmental cleaning business, performed a pre-proposal site inspection, and should have known that the garage surfaces would require a cleaning process designed to remove oil residue and should have included all such contingencies in its \$1,200,000 proposal for the cleaning contract. Further, this cleaning contract did not specify the equipment the contractor would use or stipulate the number of washings that the contractor would perform to accomplish the task. Therefore, Contractor B should have completed the total job of cleaning, wash-down, and sanitizing the City's Theater District garages under this original \$1,200,000 cleaning contract.

In order to circumvent two not-to-exceed contracts, the City allowed Contractor C to enter into a \$305,000 agreement with Contractor B to perform a portion of the same work originally awarded directly to Contractor B. Contractor C then claimed the contract allowed amount of \$200,000 under Project 761 and claimed the overage amount of \$105,000 under Projects 759 and 730. Therefore, we questioned the \$305,000 in claimed costs because \$305,000 was a duplicate payment for the same work.

### Contractor D

Of the \$287,820 reviewed for Contractor D, we questioned \$68,403 because costs were ineligible (\$99,505). We reduced questioned costs by \$31,102 for an underpayment on Projects 730 and 759.

The City claimed \$99,505 for work invoiced by Contractor D that was outside the scope of work for Projects 730 and 759. The scope of work on the project worksheets was to perform required "pumping of floodwater, cleaning, and wash down" of the two City-owned Theatre District underground parking garages and connecting tunnels. The questioned costs were for permanent work such as replacement of carpets and ductwork.

### Other

In addition to the questioned costs attributed to specific contractors, we questioned \$273,754 that included \$273,241 the City claimed for Project 759 for the following reasons:

- \$170,241 because the amount obligated to the City exceeded the claim.
- \$103,000 of administrative fees as a duplicate cost because administrative fees are covered by the statutory administrative allowance. The project worksheet states that these costs are "considered not eligible."

Further, we questioned \$513 in overpayments to the City for Projects 730 and 759.

### *Conclusion*

For Projects 730, 759, and 761, the City did not account for and expend FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$961,541 in claimed costs consisting of ineligible costs (\$312,506), unsupported costs (\$520,385), and duplicate costs (\$147,305). We reduced total questioned costs by \$13,369 for costs reviewed in excess of contract ceilings and \$5,286 for a net underpayment on Projects 730 and 759.

### *Recommendation*

5. The Regional Director, FEMA Region VI, disallow \$961,541 in questioned costs for Projects 730, 759, and 761.

## **Fire Department**

### Project 55 - Force Account Fire Protection

The scope of work for Project 55 was force account search and rescue operations totaling \$685,218. Of that amount, we questioned \$678,101, or 99.0 percent, as unsupported costs.

The City did not support the force account labor costs for Project 55 with acceptable source documents such as time and attendance records, time distribution records, and labor foreman activity logs. The labor claim spreadsheet contained no data that allowed us to assess the validity of the claimed overtime (i.e., corresponding regular time) or that allowed us to determine whether claimed overtime was the direct result of the disaster. In addition, the dispatch logs did not differentiate disaster calls from non-disaster calls; and the City did not denote which calls were included in the claimed overtime labor cost. Therefore, we defined dispatch log descriptions "drowning accident," "flooding," and "water rescue" as disaster-related and questioned costs if there was no correlation

between overtime hours claimed for a given employee and a disaster-related event in the dispatch log.

### ***Conclusion***

For Project 55, the City did not account for and expend FEMA funds according to applicable federal regulations and FEMA guidelines. Consequently, we questioned \$678,101 in unsupported force account costs.

### ***Recommendation***

6. The Regional Director, FEMA Region VI, disallow \$678,101 in questioned costs for Project 55.

## **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP**

We discussed the results of the audit with officials from FEMA Region VI on August 30, 2006, and with GDEM and City officials on September 13, 2006. City officials representing the Solid Waste Department generally agreed with our findings and recommendations. They withheld comment on our findings for unsupported costs stating that they would provide additional documentation.

A City official representing the Convention and Entertainment Department generally withheld comment on our findings and recommendations. She stated she would provide additional documentation for our finding on automobile decontamination (\$155,493 ineligible costs) and administrative fees (\$103,000 ineligible costs). She agreed with two findings for Contractor A (\$926 ineligible costs and \$1,300 unsupported costs). She also agreed with \$170,241 for costs obligated in excess of the claim.

A City official representing the Fire Department withheld comment on our finding for unsupported costs stating that she would provide additional documentation.

Please advise us by April 10, 2007 of the actions taken or planned to implement the recommendations, including target completion dates for any planned actions. Should you have any questions concerning this report, please call me, or your staff may contact Paige Hamrick at (940) 891-8900.

cc: Wayne Rickard, FEMA Region VI Audit Liaison

**EXHIBIT A**

Schedule of Audited Projects  
 City of Houston, Texas  
 FEMA Disaster Number 1379-DR-TX

<u>Project Number</u>	<u>Category Of Work</u>	<u>Awarded Amount</u>	<u>Claimed Amount</u>	<u>Questioned Cost</u>
19	A	\$ 1,782,981	\$ 1,782,981	\$ 60,986
20	A	2,823,306	2,823,306	15,404
55	B	685,218	685,218	678,101
730 <sup>6</sup>	B	0	1,926,670	236,826
759 <sup>7</sup>	B	2,051,441	1,881,200	524,715
761	E	4,044,295	4,044,295	200,000
960	A	1,678,512	1,678,512	1,017,091
1151	A	<u>2,975,250</u>	<u>2,975,250</u>	<u>4,005</u>
<b>TOTAL</b>		<b><u>\$ 16,041,003</u></b>	<b><u>\$ 17,797,432</u></b>	<b><u>\$ 2,737,128</u></b>

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<sup>6</sup> Project 730 was originally written for \$1,926,670 and reduced to zero for anticipated insurance proceeds. FEMA deobligated \$257,411 due to the State's closeout audit that reduced the project to \$1,669,259 (also reduced to zero for anticipated insurance proceeds).

<sup>7</sup> We questioned the difference between the amounts awarded and claimed of \$170,241.

**EXHIBIT B**

**Audit Scope and Methodology**

The **scope** of the audit included eight large projects totaling \$16.04<sup>8</sup> million in disaster assistance funds awarded the City under FEMA disaster number 1379-DR-TX. A brief description of these projects is listed below.

<b>Project</b>	<b>Description</b>	<b>Award</b>	<b>Claim</b>
019	Contract Debris Removal	\$ 1,782,981	\$ 1,782,981
020	Debris disposal (tipping fees)	2,823,306	2,823,306
055	Force Account Emergency Response	685,218	685,218
* 730	Contract Wash-down and Sanitizing;	0	1,926,670
759	Contract Wash-down and Sanitizing	2,051,441	1,881,200
761	Permanent Work and Wash-down	4,044,295	4,044,295
960	Force Account Debris Removal	1,678,512	1,678,512
1151	Force Account Debris Removal	<u>2,975,250</u>	<u>2,975,250</u>
	<b>TOTAL</b>	<b><u>\$16,041,003</u></b>	<b><u>\$17,797,432</u></b>

\* See footnote 6 in Exhibit A.

The audit covered the period of June 5,2001, to November 30,2005. Our original audit scope consisted of five projects totaling 29 percent of the award that we judgmentally selected based on highest dollar value. During the course of the audit, we expanded the scope by three additional projects based on developing issues. The resultant total of our review was 41 percent of the award. We judgmentally selected test transactions based on the highest dollar charged by contractors, the percentage of cubic yards hauled using a threshold for individual amounts chosen, the greatest numbers of units hauled, every first entry per invoice page or every tenth entry within the invoice. We also performed 100 percent testing of specific exception types. The OIG did not employ any projection methodology; therefore, we reported questioned costs based solely on the direct results of our audit testing.

We initiated our audit fieldwork with FEMA Region VI at the Tropical Storm Allison Close-Out Facility in Houston, Texas. Region VI is the federal regional office that implements FEMA's disaster policies and programs in the State of Texas. Our **methodology** included interviews with FEMA Regional officials to obtain an understanding of the disaster and to identify current issues or concerns relative to GDEM's management of the disaster and the City's compliance with federal regulations and FEMA guidelines. We obtained and reviewed region documentation for noncompliance issues. Throughout the course of the audit, we conducted additional conversations with a FEMA Region VI official regarding the preparation of project worksheets and scopes of work for the Solid Waste Department.

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<sup>8</sup> We reviewed additional costs for Project 730 totaling to \$1,669,259 that were not included in this \$16.04 million because the original project amount of \$1,926,670 was offset by anticipated insurance. See Footnote 6 for additional information.

We interviewed GDEM personnel at the Tropical Storm Allison Close-Out Facility in Houston, Texas to obtain an understanding of their grant management activities and to identify issues or concerns relative to the City's compliance with grant requirements. We obtained payment and closeout information for reconciliation purposes and reviewed state documents for noncompliance issues.

We had discussions with City officials from Solid Waste, Convention and Entertainment, Finance and Administration, and Fire Departments as well as an official from the City's Office of Emergency Management to obtain an understanding of the City's internal controls, as they related to the grant agreement, and its processes for accounting for and expending FEMA funds. Additionally, we obtained and tested invoices and source documentation relevant to the audit scope in order to assess the accuracy and validity of the claimed amounts. Lastly, we worked with a Solid Waste contractor at its offices to review and copy landfill documents regarding the City's claim.

**Criteria**

Eligibility

To be eligible for FEMA funds, an item of work must be required because of the major disaster event (44 CFR 206.223). Therefore, the subgrantee must substantiate that its claimed costs directly relate to the disaster. The subgrantee must also establish a clear relationship between claimed costs and the scope of work recorded on a project worksheet prepared according to the requirements of 44 CFR 206.202(d). In addition, 44 CFR 206.205 (b) requires that the grantee, in the processing of large project claims, certify that all reported costs were incurred for eligible work.

Supporting Documentation

According to 44 CFR 13.20(b)(2), grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. Additionally, 44 CFR 13.20(b)(6) provides a list of specific source documentation, including cancelled checks, paid bills, payrolls, time and attendance records, contracts, etc., that is acceptable as supporting documentation for accounting records. Office of Management and Budget (OMB) Circular A-87, Attachment A, section C.1.j., reinforces the CFR requirement by stating that claimed costs must be adequately documented to be allowable for federal awards.

Reasonableness

OMB Circular A-87, Attachment A, section C.1.a. states that costs must be reasonable to be allowable and section C.2. defines a reasonable cost as one that, in nature and amount, does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The Circular also directs consideration of the following items in determining the reasonableness of a given cost:

- Whether the cost was ordinary and necessary
- Use of sound business practices; arms length bargaining; federal, state, and other laws and regulations; and terms and conditions of the federal award
- Market prices for comparable goods or services
- Whether the individuals acted with prudence
- Significant deviations from established practices

Administrative Costs

According to 44 CFR 206.228, a subgrantee is awarded an administrative allowance to cover the necessary costs of requesting, obtaining, and administering federal disaster assistance subgrants and no other administrative costs or indirect costs of the subgrantee are eligible because of this allowance.