

**FEMA Should Recover
\$2.2 Million of \$27.2 Million in
Public Assistance Grant Funds
Awarded to Nashville-Davidson
County, Tennessee, for May 2010
Flood Emergency Work**





DHS OIG HIGHLIGHTS

FEMA Should Recover \$2.2 Million of \$27.2 Million in Public Assistance Grant Funds Awarded to Nashville-Davidson County, Tennessee, for May 2010 Flood Emergency Work

July 15, 2016

Why We Did This Audit

Nashville-Davidson County, Tennessee (County) received a net grant award of \$69.8 million from the Tennessee Emergency Management Agency (Tennessee), a Federal Emergency Management Agency (FEMA) grantee, for damages resulting from a May 2010 flood. We audited 14 projects for emergency work totaling \$19.3 million, or 71 percent of the \$27.2 million awarded for emergency work.

What We Recommend

FEMA should disallow \$2,164,282 of ineligible costs and direct Tennessee to monitor the County's performance for compliance with Federal grant requirements.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov.

What We Found

Because of the complexity of the projects and the dollar amount of the award, we divided the audit into two phases. In this first phase, we reviewed project awards the County received for emergency work—debris removal and emergency protective measures. For the projects we reviewed, the County generally accounted for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. However, we identified \$2,164,282 (Federal share \$1,947,853) of project costs that FEMA should disallow. These costs consisted of \$2,022,296 of unreasonable equipment costs, \$113,851 of unsupported costs, and \$28,135 of unapplied credits.

During the second phase of the audit, we will review project awards the County received for permanent restoration of damaged roads and facilities.

The findings we discuss in this report occurred primarily because the County was not fully aware of FEMA Public Assistance reimbursement and documentation requirements and Federal grant requirements. However, the grantee (Tennessee) is responsible for monitoring subgrant activities and ensuring that its subgrantee (the County) is aware of and complies with grant requirements.

FEMA Response

FEMA officials agreed with our findings and recommendations. Appendix C includes FEMA's written response in its entirety.



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Department of Homeland Security

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

July 15, 2016

MEMORANDUM FOR: Gracia Szczech
Regional Administrator, Region IV
Federal Emergency Management Agency

Thomas M. Salmon

FROM: Thomas M. Salmon
Acting Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Recover \$2.2 Million of \$27.2 Million in Public Assistance Grant Funds Awarded to Nashville-Davidson County, Tennessee, for May 2010 Flood Emergency Work*
Audit Report Number OIG-16-112-D

We audited Public Assistance funds awarded to Nashville-Davidson County, Tennessee (County). The County received a Public Assistance grant award of \$69.8 million (net of insurance and other adjustments) from the Tennessee Emergency Management Agency (Tennessee), a Federal Emergency Management Agency (FEMA) grantee, for damages resulting from a May 2010 flood. The award provided 90 percent FEMA funding and included \$27.2 million for emergency work (debris removal and emergency protective measures) and \$42.6 million for permanent restoration of damaged roads and facilities. Table 1 provides a summary of the total projects awarded.

Table 1: Summary of Total Projects Awarded

Activity	FEMA Description of Work	Number of Projects Awarded ¹		Net Amount Awarded (Millions)
		Large	Small	
Debris Removal	Emergency Work	10	53	\$ 7.1
Emergency Protective Measures	Emergency Work	19	88	20.1
Subtotal		29	141	27.2
Restoration of Damaged Roads & Facilities	Permanent Work	84	507	42.6
Total		113	648	\$69.8

Source: FEMA project worksheets

¹ Federal regulations in effect at the time of disaster set the large project threshold at \$63,200 [Notice of Adjustment of Disaster Grant Amounts, 74 Fed. Reg. 51,297 (Oct. 6, 2009)].



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Because of the complexity of the projects and the dollar amount of the award, we divided the audit into two phases. In this first phase, we reviewed project awards the County received for emergency work. We audited eight large projects and six small projects with awards totaling \$19.3 million (see appendix B, table 3). At the time of our audit, the County had completed work on all emergency projects in our audit scope and had submitted final claims to Tennessee. FEMA closed out the projects between August and November 2014. During the second phase of the audit, we will review project awards the County received for permanent restoration of damaged roads and facilities.

Background

In 1963, the City of Nashville and Davidson County governments consolidated into one metropolitan unit of government, the Metro Government of Nashville-Davidson County, located in middle Tennessee. In early May 2010, unprecedented flooding impacted the County and surrounding areas, damaging homes, businesses, and public facilities, and blocking roads with debris. The President signed a Major Disaster Declaration (DR-1909) on May 4, 2010, authorizing FEMA to support State and local response and begin recovery efforts.

Figure 1: Downtown Nashville Streets Flooded by the Cumberland River



Source: Nashville-Davidson County



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Results of Audit

For the projects we reviewed, the County generally accounted for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. However, we identified \$2,164,282 (Federal share \$1,947,853) of project costs FEMA should disallow, which represents about 11 percent of the \$19,391,788 we reviewed. These costs consisted of \$2,022,296 of unreasonable equipment costs, \$113,851 of unsupported costs, and \$28,135 of unapplied credits.

Finding A: Unreasonable Equipment Costs

The County's claim of \$3,980,304 for police vehicle use under three emergency protective measures projects included \$2,022,296 of unreasonable costs. According to Federal cost principles (*Cost Principles for State, Local, and Indian Tribal Governments*) at 2 Code of Federal Regulations (CFR) 225, Appendix A, section C.1.a., costs must be reasonable to be allowable under a Federal award. Section C.2 of the cost principles defines a reasonable cost as one that, in nature and amount, does not exceed that which a prudent person would incur under the circumstances prevailing at the time.

The County claimed a total of \$3,980,304 under Projects 3551, 4654, and 5540, for 1,093 vehicles that police department personnel used to perform emergency protective measures necessitated by the disaster and its aftermath. The claim covered police activities for the period May 1, 2010, to January 31, 2011. According to project worksheet documentation, floodwaters from the disaster inundated homes and streets requiring police to block streets, re-route traffic, assist stranded motorists, and perform other emergency protective measures. The floodwaters also left over 1,000 homes unoccupied or abandoned. The affected structures were a haven for juvenile offenders, vandalism, recreational drug use, and personal crimes such as assault that required increased police patrols and response in the hardest hit areas.

The County calculated its claim using the *FEMA Schedule of Equipment Rates* and claimed each vehicle's use at \$18.00 per hour based on the number of eligible daily work hours the police officer worked on a given day. Before we began our audit, in October 2014 a FEMA closeout specialist reviewed and accepted the County's documentation for vehicle use and approved costs totaling \$3,980,304 at the rate of \$18.00 per hour. According to project worksheet documentation, the closeout specialist found that the costs were reasonable based on his review of the County's documentation. However, we disagree with the closeout specialist's conclusion on cost reasonableness because the basis of FEMA's reimbursement for police vehicle usage depends



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on *how* the vehicle is used. According to the *FEMA Schedule of Equipment Rates*, FEMA reimburses police vehicles used in patrolling activities at \$0.63 per mile and at \$18.00 per hour when used as barricades (stationary with engine running). In this case, the County used the police vehicles for patrolling activities, but calculated the cost at the \$18.00 hourly rate, which resulted in excessive or unreasonable costs. For example, the County claimed \$288.00 for vehicle use of a police officer who worked a 16-hour shift on June 26, 2010 (16 hours times \$18.00 per hour). However, the County's supporting documentation showed that the police officer actually drove the vehicle 71 miles over the 16-hour work shift. Therefore, based on the County's actual use of the vehicle, its claim for the vehicle for that particular officer's work shift should have been \$44.73 (71 miles times \$0.63 per mile), or \$243.27 less than the amount the County claimed. This is one of many examples of unreasonable costs that we identified when reviewing the County's project documentation.

To estimate reasonable costs, we reviewed the County's documentation that it used to support its claim for vehicle use. The documentation consisted of a spreadsheet that contained daily summary information on the number of hours claimed for each officer's vehicle. It also consisted of voluminous hard copy records that included extra-time vouchers and officer's daily activity reports that supported the spreadsheet. These records generally contained a description of the equipment, vehicle number, operator's name, dates of use, location, disposition activity code, mileage start and end, total hours used, and the hourly equipment rate of \$18.00. The documentation, however, did not list vehicle mileage data in every case. According to County officials, the County generally did not record mileage data for the vehicles used for FEMA project work because they relied on guidance from FEMA officials who told them that FEMA would reimburse all vehicle use at an hourly rate.

Despite the lack of complete mileage records, we obtained a mileage summary report from the County's fleet department for all police vehicles used during the period the project worksheets covered. Using the vehicle report, we determined that the officers drove their assigned vehicles an average of 50 miles each day. Using the universe of vehicles the County claimed for project work, we estimated that the County's claim for police vehicle use should have been \$1,958,008 or \$2,022,296 less than the amount it claimed. Therefore, we question the \$2,022,296 of unreasonable costs as table 2 shows.

County officials disagreed with this finding, saying that they relied upon advice and technical assistance that FEMA personnel provided to them after the disaster. They also said that they believe the application of the FEMA mileage rate of \$0.63 per mile does not reflect their actual cost of conducting police patrols. However, FEMA policy is to reimburse police vehicles used for



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patrolling activities at \$0.63 a mile, which FEMA calculates annually using cost components for depreciation, overhead, equipment overhaul (labor, parts, and supplies), maintenance (labor, parts, and supplies), lubrication, tires, and fuel.

Table 2: Unreasonable Equipment Costs

Project Number	Periods of Work	Amount Claimed	Amount OIG Determined Reasonable	Amount Questioned
3551	5/1/10 – 6/6/10	\$ 2,126,598	\$ 1,283,215	\$ 843,383
4654	6/7/10 – 8/29/10	1,089,383	434,826	654,557
5540	8/30/10 – 1/31/11	764,323	239,967	524,356
Total		\$3,980,304	\$1,958,008	\$2,022,296

Source: FEMA project worksheets, County records, and Office of Inspector General (OIG) analyses

Finding B: Supporting Documentation

The County did not have adequate documentation to support \$113,851 of project costs it claimed. As a result FEMA has no assurance that these costs are valid and eligible. Federal cost principles (*Cost Principles for State, Local, and Indian Tribal Governments*) at 2 CFR 225, Appendix A, section C.1.j., require costs to be adequately documented to be allowable under a Federal award. Therefore, we question the \$113,851 as we explain below:

- Under Project 3551, the County claimed \$24,857 for County-owned specialty equipment such as helicopters, boats, canoes, and trailers that the police department used to perform emergency protective measures. To support its claim, the County provided summary information on a spreadsheet that listed the equipment type, equipment identification number, number of hours used, and *FEMA Schedule of Equipment Rate* it applied to arrive at total costs claimed for each piece of equipment. However, the County could not provide documentation to support the hours of use listed on the spreadsheet for each piece of equipment such as equipment operator and usage records, foreman activity logs, or equivalent documentation. As a result, we could not validate the accuracy and eligibility of the County’s claim. Therefore, we question the \$24,857 of unsupported costs.

County officials disagreed with this finding, saying that we should not question the costs because FEMA approved the costs as reasonable



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during project closeout. However, Federal cost principles require the County to maintain supporting documentation for all claimed costs and make such documentation available for review during audits of grant activities.

- Under Project 2031, FEMA awarded the County \$1,334,914 during final inspection of the project based on the disposal of 190,702 cubic yards of construction and demolition debris. However, the County could provide load tickets to support only 178,188 cubic yards of debris, or \$88,994 less than the amount FEMA awarded the County. The excess award amount occurred because the FEMA inspector did not thoroughly review the County's project documentation for the correct quantities of debris removed. Therefore, we question the \$88,994 of unsupported costs.

County officials agreed with this finding.

Finding C: Unapplied Credit

The County mistakenly failed to reduce project costs under debris removal Project 2031 for a \$28,135 credit it received from its debris removal contractor for billing overcharges. According to 2 CFR 225, Appendix A, section C.4.a, costs under Federal awards must be net of applicable credits. Applicable credits refer to those receipts or reduction of expenditure type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. Therefore, we question the unapplied credit of \$28,135.

County officials agreed with this finding.

Finding D: Grant Management

The findings we discuss in this report occurred primarily because the County was not fully aware of FEMA Public Assistance reimbursement and documentation requirements and Federal grant requirements. However, the grantee (Tennessee) is responsible for monitoring subgrant activities and ensuring that its subgrantee (the County) is aware of and complies with grant requirements.² Therefore, Tennessee should monitor the County's performance

² 44 CFR 13.37(a)(2) and 44 CFR 13.40(a).



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and provide technical assistance to ensure compliance with Federal grant requirements for the County's open projects.

Tennessee officials disagreed with this finding, saying that they believed they monitored the County's grant activities appropriately given the staffing levels they had at the time of the disaster. However, we disagree. Had Tennessee proactively monitored the County's activities, it could have advised the County early on in the disaster that its methodology for claiming police vehicle use on an hourly basis was not in compliance with FEMA policy and that it should base such costs on vehicle mileage.

Recommendations

We recommend the Regional Administrator, FEMA Region IV:

Recommendation 1: Disallow \$2,022,296 (Federal share \$1,820,066) in unreasonable equipment costs the County claimed unless FEMA determines that some or all of the costs we question are reasonable (finding A).

Recommendation 2: Disallow \$113,851 (Federal share \$102,466) of unsupported costs under Projects 3551 and 2031 unless the County provides adequate documentation to support the costs (finding B).

Recommendation 3: Disallow \$28,135 (Federal share \$25,322) of ineligible unapplied credits unless the County provides adequate evidence to FEMA that the costs are eligible (finding C).

Recommendation 4: Instruct Tennessee to proactively monitor subgrant activities of the County's open projects to ensure compliance with all Federal grant requirements (finding D).

Discussion with Management and Audit Follow-up

We discussed the results of our audit with County, Tennessee, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference on May 18, 2016.

FEMA Region IV officials provided a written response on June 16, 2016, agreeing with our findings and recommendations (see appendix C). The response indicated that FEMA expects to implement its proposed corrective actions to address all recommendations by December 9, 2016. Therefore, we consider all four recommendations contained in this report to be resolved, but



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open. We will evaluate for closure upon documentation that FEMA has implemented its proposed corrective actions. Please email closeout documentation and request to Carl.Kimble@oig.dhs.gov.

The Office of Emergency Management Oversight contributors to this report are David Kimble, Director; Adrienne Bryant, Audit Manager; Angelica Esquerdo, Auditor-in-Charge; and Carolyn Berry, Auditor.

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



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Appendix A

Objective, Scope, and Methodology

We audited Public Assistance funds awarded to the County, FIPS Code 037-52004-00. Our audit objective was to determine whether the County accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster 1909-DR-TN. The County received a Public Assistance grant award of \$69.8 million (net of insurance and other adjustments) from Tennessee, a FEMA grantee, for damages resulting from a May 2010 flood. The award provided 90 percent FEMA funding and included \$27.2 million for emergency work (debris removal and emergency protective measures) and \$42.6 million for permanent restoration of damaged roads and facilities.

Because of the complexity of the projects and the dollar amount of the award, we divided the audit into two phases. In this first phase, we reviewed project awards the County received for emergency work. We audited eight large projects and six small projects with awards totaling \$19.3 million (see appendix B, table 3). The audit covered the period from May 1, 2010, to April 18, 2016, during which the County claimed \$19.3 million for the projects in our scope. At the time of our audit, the County had completed work on all projects in our audit scope and had submitted final claims to Tennessee. During the second phase of the audit, we will review project awards the County received for permanent restoration of damaged roads and facilities.

To accomplish our objective we interviewed County, FEMA, and Tennessee personnel; gained an understanding of the County's method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected (generally based on dollar amounts) and reviewed project costs and procurement transactions for the projects in our audit scope; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. As part of our standard audit procedures, we also notified our Office of Information Technology Audits of all contracts the subgrantee awarded under the grant that we reviewed to determine whether the contractors were debarred or whether there were any indications of other issues related to those contractors that would indicate fraud, waste, or abuse. As of the date of this report, the Office of Information Technology Audits' analysis of contracts was ongoing. When it is complete, we will review the results and determine whether additional action is necessary. We did not perform a detailed assessment of the County's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective.



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Appendix A (continued)

We conducted this performance audit between July 2015 and May 2016 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 the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. Unless stated otherwise in this report, to conduct this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.



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Appendix B

Potential Monetary Benefits

Table 3: Projects Audited and Questioned Costs

Project Number	FEMA Category of Work ³	Type of Project	Amount Awarded	Amount Questioned	90 Percent Federal Share	Finding
1858	A	Large	\$ 1,185,034	\$ 0-	\$ 0	
1893	A	Large	1,055,382	0	0	
1894	A	Large	1,343,820	0	0	
2031	A	Large	1,334,914	117,129	105,416	B,C,
3551	B	Large	5,816,102	868,240	781,416	A,B
4654	B	Large	4,200,463	654,557	589,101	A
5294	B	Large	1,207,774	0-	0	
5540	B	Large	2,907,580	524,356	471,920	A
1969	B	Small	63,053	0	0	
3108	B	Small	51,158	0	0	
4651	B	Small	55,752	0	0	
4786	B	Small	57,233	0	0	
5448	B	Small	50,514	0	0	
5513	B	Small	63,009	0	0	
Total			\$19,391,788	\$2,164,282	\$1,947,853	

Source: FEMA project worksheets, County records, and OIG analysis

Table 4: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Amounts	Federal Share
Questioned Costs – Ineligible	\$ 2,050,431	\$ 1,845,387
Questioned Costs – Unsupported	113,851	102,466
Funds Put to Better Use	0	0
Total	\$2,164,282	\$1,947,853

Source: OIG analysis of findings in this report

³ FEMA classifies disaster-related work by type: debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C through G).



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Appendix C

FEMA Region IV Audit Response

U.S. Department of Homeland Security
Region IV
3003 Chamblee Tucker Road
Atlanta, GA 30341

 **FEMA**

JUN 16 2016

MEMORANDUM FOR: C. David Kimble
Director
Eastern Regional Office
Office of Disaster Assistance Oversight

FROM: Gracia Szczech 
Regional Administrator
FEMA Region IV

SUBJECT: Management Response to Draft Report
*"FEMA Should Recover \$2.2 Million of \$27.2 Million in
Public Assistance Grant Funds Awarded to Nashville-
Davidson County, Tennessee, for Emergency Work
Resulting from a May 2010 Flood"*
FEMA Disaster: 1909-DR-TN
Draft Audit Report Number: OIG-16-XX-D

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

The Department is pleased to note OIG's positive recognition that Nashville-Davidson (County) generally accounted for and expended Federal Emergency Management Agency (FEMA) funds according to Federal requirements. The OIG did however, identify \$2,164,282 of costs that it recommends that FEMA disallow for the reasons contained in the audit findings.

FEMA concurs with the draft report's four recommendations. Specifically:

Recommendation 1: "Disallow \$2,022,296 (Federal share \$1,820,066) in unreasonable equipment costs the County claimed unless FEMA determines that some or all of the costs we questioned are reasonable (finding A)."

Response: Concur. FEMA will review Project Worksheets (PW) 3551, 4654 and 5540 to determine if the claimed equipment costs were reasonable for the work performed and disallow any costs that FEMA determines unreasonable. Estimated Completion Date (ECD): 12/09/2016.



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Appendix C (continued)

Recommendation 2: “Disallow \$113,851 (Federal share \$102,466) of unsupported costs under Projects 3551 and 2031 unless the County provides adequate documentation to support the costs (finding B).”

Response: Concur. FEMA will review documentation provided by the County and disallow any costs that are not adequately documented. ECD: 12/09/2016.

Recommendation 3: “Disallow \$28,135 (Federal share \$25,321) of ineligible unapplied credits unless the County provides adequate evidence to FEMA that the costs are eligible (finding C).”

Response: Concur. FEMA will deobligate \$28,135 from PW 2031 to correct a duplication of benefits caused when the County received a credit from its debris removal contractor to correct billing overcharges unless the County provides FEMA with documentation to demonstrate the credit was already accounted for in the PW. ECD: 08/12/2016.

Recommendation 4: “Instruct Tennessee to proactively monitor subgrant activities of the County’s open projects to ensure compliance with all Federal grant requirements (finding D).”

Response: Concur. FEMA will remind Tennessee to proactively monitor subgrant activities for the County’s open PWs and ensure compliance with Federal grant requirements. ECD: 08/12/2016.

Again, thank you for the opportunity to review and comment on this draft report. We look forward to working with you in the future.



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