

DISASTER RECOVERY

Adjusters International Disaster Recovery Consulting — FEMA recovery issues for decision-makers and leaders **TODAY**

Completion, Inspection and Audit



EDITOR'S NOTE

With Issue No. 8 of Disaster Recovery Today, we complete the review of Adjusters International's nine-step FEMA grant management process. Our grant development strategy offers a comprehensive guide to acquiring and retaining the funding you need to rebuild.

This article includes advice on how to prepare for the final inspection and audit and what to expect from the state and FEMA inspectors assigned to the task of closing down the grant.

—Sheila E. Salvatore, Editor

What to expect as the grant closes

By Jeff Shaw

So far in *Disaster Recovery Today*, the series has described the FEMA grant cycle, the roles of the players and stakeholders involved, and how they interact and work together. Key to the entire grant cycle is documentation and accurate record-keeping. An organized, well-documented grant management strategy pays off during the final review of the project work

during closeout and audit, and helps ensure that grant funding remains intact.

Since the date of the federal disaster declaration is often months, or even years, prior to a final review, an organization needs to take the necessary steps to prepare for the final review and to meet the expectations of project closeout teams.



When it's time for the applicant, the state and FEMA to review a project, the applicant's records will be expected to show a reconciliation of the projects undertaken and funds spent against the projects written and the funds received from all sources: FEMA, other federal programs, and insurance. Insufficient documentation can cause FEMA to reduce its original funding and require the return of grant funds.

Where any significant amount of financial assistance has been provided under the FEMA Public Assistance Program, project completion typically involves two processes: final inspection and final audit.

Final inspection focuses on eligibility issues, whereas the audit primarily focuses on accounting processes and documentation issues. There is, however, some similarity between the processes, and for this reason, they are discussed together in this issue.

Final Inspection

Final inspection occurs when a project is complete. Final inspection reconciles the actual scope of work and costs incurred with the scope of work and estimated costs as described in the Project Worksheet (PW).

The process also verifies costs against work eligibility: did spending address the approved scope of work, comply with applicable codes and standards, and use reasonable and cost-effective methods to complete the project?

The basic objectives of the final inspection are accomplished with an



To prove that the project is complete, the applicant must demonstrate that all costs have been incurred and payments have been made, all documentation is in place, and that any problems and issues associated with the project have been resolved.

office visit to review the applicant's documentation and a site inspection to confirm the project work is complete.

Applicants initiate final inspection proceedings with the state when the applicant determines that the project is complete. The state is responsible for conducting a final inspection and making recommendations to FEMA. (It is not uncommon for FEMA to participate in the process.)

All Large Projects (projects with costs greater than a dollar threshold set by FEMA) are subject to

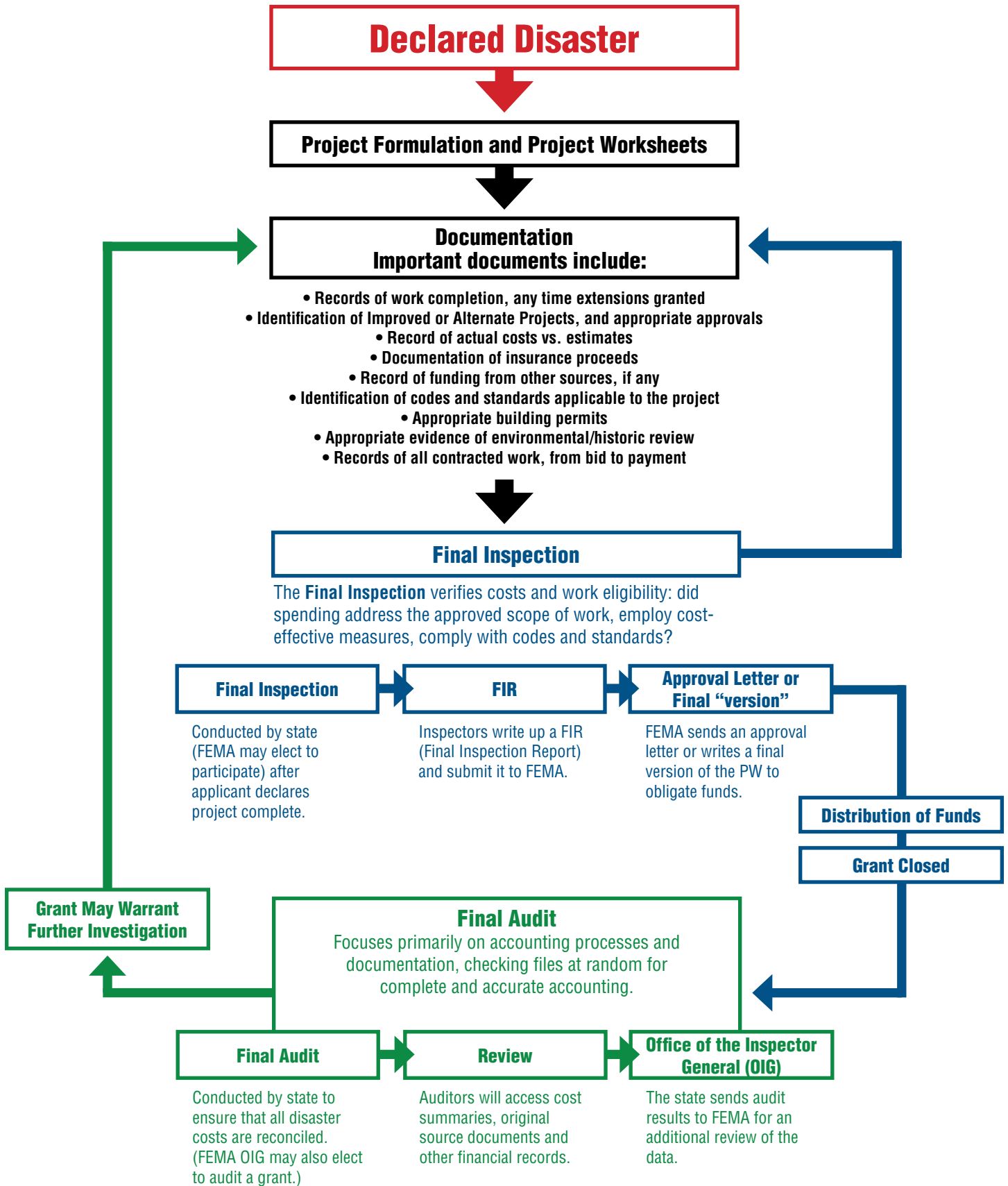
a final inspection. In addition, a selection of small projects may be inspected.

To prove that the project is complete, the applicant must demonstrate that all costs have been incurred and payments have been made, all documentation is in place, and that any problems and issues associated with the project have been resolved. The documentation—segregated by PW—should be made available to the inspectors, and the applicant should be prepared to address the following issues during the site visit:

- Comparison of estimates, actual costs incurred, and approved PW expenditures;
- Identification of any Improved Projects together with evidence of prior written approval by the state;
- Identification of any Alternate Projects together with evidence of prior written approval by FEMA;
- Evidence as to whether the work was accomplished within the regulatory timeframes (6 months for emergency work and 18 months for permanent work), or if not, whether the appropriate extensions were requested and obtained;
- Physical inspection of all permanent work categories, including any PWs for work that was not initiated or for any projects that were abandoned;
- Comparison of the work approved to the work performed (this will include a review of the plans/specifications and engineering reports, substantiated by applicable codes and standards);
- Determination of any insurance settlements received;
- Determination if funds were received from any other state or federal funding bodies.



The Final Review of the Grant: Inspection & Audit





Closeouts and audits may occur several years after an event, and in some cases due to normal attrition, those staff members involved in the original disaster recovery process may no longer be available to defend the applicant's actions.



The inspector(s) also require access to documentation related to the actual expenditures and scope of work, including:

- Appropriate building permits;
- Correspondence or evidence of environmental/historic review or permits;
- A copy of proof of insurance, or waiver;
- Copies of bid documentation and proof of payment for all contracted work, including procurement procedures/solicitation, bidders list with a summary of bids, applicable bonds, contracts and change orders;
- Summary schedules and backup for force account labor costs.

During the site inspection, the inspectors gather the information required to produce a Final Inspection Report (FIR). The state then submits this report to FEMA. FEMA reviews the FIR and requests any additional information deemed necessary. When FEMA is satisfied that the stated objectives

have been met, an approval letter is sent to the state. In turn, the letter is forwarded to the applicant. If any cost adjustments are required, FEMA prepares a supplemental PW or "version."

This final PW version is then obligated, and applicant funds are credited or debited. The applicant signs a final certification, the Governor's Authorized Representative countersigns, and FEMA closes the grant.

Final Audit

Audits are the last hurdle of the Public Assistance process. Audit requirements, found under the Single Audit Act of 1984 (P.L. 98-502), cover all federal assistance received by the state or local government.

An audit is conducted by the state to ensure that all disaster costs are reconciled. A final audit is normally initiated based on certain monetary thresholds, or if there are discrepancies in the source

documentation that supports an applicant's accounting of costs.

The audit process is a formal process with an entrance and exit conference. Auditors require access to cost summaries, original source documents, and other important financial records.

They complete an in-depth review of an applicant's accounting functions to document and substantiate disaster-related costs. This compares to the random sampling of source documentation carried out during final inspection.

The results of the final audit are forwarded to the FEMA Office of the Inspector General (OIG). A special purpose review or investigation is performed when unusual information about an applicant's project is detected.

Although an audit is normally a state process, FEMA may elect to conduct a program audit of certain grants through the OIG. OIG



audits can occur during a project's life, at the end of a single project, or after all projects are completed up to three years from closeout.

Planning for Scrutiny

Start planning for your project close and audits from day one. Bear in mind that these activities occur several years after an event, and in some cases due to normal attrition, those applicant staff members involved in the original disaster recovery process may no longer be available to defend the applicant's actions.

Unfortunately, even if an applicant follows state/FEMA policy to the letter, a poorly prepared and presented project file can lead to audit failure and de-obligation of project funds.

The best project file presents a crystal-clear picture of what happened, what was done to remedy any issues, and how much the remedy cost—in fine detail.

Remember, auditors were not there the day after the disaster, nor were they privy to field determinations and negotiations between FEMA,

the state and the applicant. They were also not on site during contractor procurement, safety inspections ... and the list goes on.

All the time and effort spent on the Public Assistance grant application process can be undone by the inability to prove how the funds were spent. Therefore, it may be useful to keep in mind these tips throughout the process:

Tip #1: Document Everything

Keep a copy of all documents, emails, records of conversations, meeting minutes, etc., in the project files. Ensure that these files are backed up and otherwise preserved in the event of a second disaster.

Tip #2: Verify that Records are "FEMA-Complete"

Most agencies maintain original source documents within their central departments. For example, time cards are generally maintained by the payroll department; purchase orders, invoices, and payment records by the accounts payable/disbursing department; and contracts by the purchasing/procurement department.

Within these departments, source documents are filed on a basis that is best suited for the type of source document—e.g., time cards are filed by payroll period and employee, and purchase orders are filed by vendor and/or P.O. number. This type of filing system provides an effective way to trace eligible costs back from the accounting system to the original source documents.

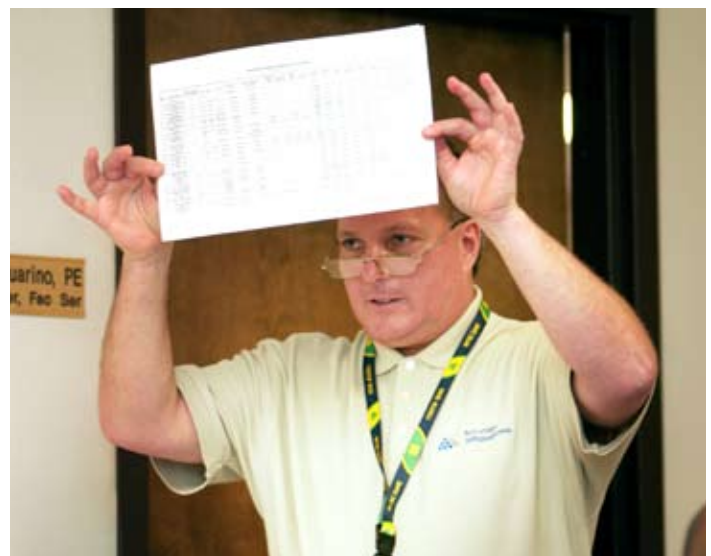
However, there are additional filing system requirements related to the Public Assistance program. It is useful to create project-specific files containing the following information and documents:

- Detailed assessments and discussion of the damage and what was done at the site;
- Photos of the site at every stage of work: before, during, and after;
- Lists of damaged and destroyed equipment and contents;
- Cost summaries and associated category schedules (force account labor, equipment use, materials and purchases for supplies, and procurement records and contracts);

Lead Cost Summary (Sample 1)

PW No. 1234 Date prepared: 4/24/06
Prepared by: J. Smith

Line Item	Total Eligible Costs Incurred to Date	Total Eligible Costs per PW
Force Account Labor	\$ 4,000	\$ 5,500
Materials	\$ 2,500	\$ 3,000
Equipment Usage	\$ 800	\$ 900
Contract	\$50,000	\$80,000





- Contractor agreements: Explanations of how the contract was executed and the procurement method. If price was not competitively determined, an explanation of how the price was determined; Authorizations to perform the work by department head, legislative authority (council/supervisors), or executive authority (manager/county administrator);
- Correspondence with state/FEMA;
- Insurance information/settlements;
- Appeals information including engineering documents and explanations.

This information does not have to be moved into a central filing system. Pieces can remain in specific departments, according to the organization's procedures.

Once the applicant has determined how to organize its files, it should designate a person to be responsible for administering the files.

Tip #3: Keep a Project Narrative

Prepare a timeline or narrative at project inception that succinctly describes the project from start to finish. Remember an auditor is not an engineer, project manager or building specialist. An auditor

is geared toward a review of final numbers, not the repairs generating the numbers. The auditor's task is to justify those numbers in relationship to the eligible work.

The project narrative also provides a basis for those staff members faced with defending the project to the auditors, especially for those who were hired after the event and the project work took place.

Tip #4: Organize Records According to Project Worksheet

Summaries of eligible costs should be prepared for each PW. The categories included on the cost

Invoices (Sample 2)

Rental Equipment

Rental equipment invoices should include:

- **Vendor name**
- **Type of equipment used**
- **Usage rate**
- **Total cost**
- **Date and amounts paid**
- A handwritten description of the **work for which the equipment was used** and at **what location it was used**
- **Project/PW number**

Materials

Materials invoices should include:

- **Vendor name**
- **Type of material**
- **Quantity**
- **Unit price**
- **Total price**
- **Date purchased**
- **Date(s) used**
- **Used by**
- **Site/location**
- **Description of material usage**
- **Project/PW number**

Timecards

Timecard invoices should include:

- **Name of employee**
- **Date, length of time and hours worked** by the employee on PW-funded projects
- **Site work performed**
- **Description of work performed** including sufficient detail to tie **the task to the scope of work** set out in the PW
- **Project/PW number**

Equipment Usage

Equipment usage logs should include:

- **Type of equipment**
- **Work performed**
- **Site**
- **Employee using the equipment**
- **Length of time used**
- **Project/PW number**

Contracted Work

Contracted work invoices should include:

- **Contractor name**
- **Amount of contract** (or amount of progress billing to date)
- **Description of work performed**
- **Dates worked by contractor**
- **Scope of work**
- **Location of work performed**
- Ideally the contractor should **refer to the specific PW number**
- Where the contractor is performing work at sites covered by more than one PW, either **separate invoices should be required** or where one invoice is provided it should **clearly segregate and cost the work** for the separate PWs
- **Project/PW number**



summaries should mirror the line items shown on the PW. The major categories are Force Account Labor; Equipment Usage; Force Account Materials and Purchases; and Procurements and Contracts.

More than one cost summary may be required, especially for larger PWs. Sample no. 1, page 5, exhibits how a lead cost summary may be set up. Additional supporting summary schedules should then be prepared for each line item.

These supporting cost summaries should provide sufficient detail to enable the auditor to trace the costs, listed in the summaries, back to the source document.

The cost summaries should be updated, at least monthly, and included in the PW file. Regular updates and reviews of cost summaries assist the applicant to better manage the funding process and decide whether a supplemental PW needs to be requested.

Tip #5: Support Costs with Source Documentation

Accurate and complete documentation helps accelerate the Public Assistance process, maximize reimbursements, and minimize deobligations during the final inspection and audit processes.

All eligible costs must be supported by source documentation that clearly identifies costs related to the disaster.

Source documentation supporting eligible costs can be the product of applicant systems and procedures that are already in place. If current records do not provide the necessary amount of detail, supplemental documentation will be required.



In recent years, FEMA has taken an active role in monitoring the performance of contractors and vendors.

The FEMA Project Officers (POs) who write the original PW's typically only perform a random review of source documentation. However, during the final audit, a state or FEMA auditor performs a more detailed review. Where adequate source documentation is not available, applicants may be required to repay any FEMA funding related to that cost.

Clearly it is more efficient (and likely to produce more accurate results) if adequate source documentation is required and maintained by the applicant at the time that the costs are incurred.

As a rule of thumb, all source documentation intended to support eligible disaster-related costs should include the details of to whom, where, what, when and why the cost was incurred. A few basic checklists for the most frequently used types of source documentation are displayed in Sample no. 2, page 6.

Applicants should ensure that systems are in place to capture all the details required by FEMA and the state *at the time the documentation is created and approved*. Only adequately detailed supporting

documentation should be included in summary sheets used for tracking disaster-related costs.

If, for example, a contractor neglects to include specific details on an invoice, such as time, site and a detailed description of duties performed, etc., authorization for payment of that invoice should be withheld until the requisite details have been included.

Tip #6: Keep Tabs on Contractors

In recent years, FEMA has taken an active role in monitoring the performance of contractors and vendors. For example, FEMA has sent out "Debris Police" to ensure that contractors and/or departments are not overcharging for debris removal. In effect, FEMA charges an applicant to take the same precautions they would take if it were their money being spent (e.g. not paying an invoice until it is reconciled and signed off on by a project manager).

When working with contracts, applicants should keep the following in mind:

- If a contract involves a per-unit pay scale, the applicants should always be on hand to verify the amount being claimed.
- Where possible, items such as debris should actually be weighed as opposed to guessing the cubic yards or tonnage.
- No contractor invoice should be paid unless the project manager has approved it.
- If a contractor is working on a time-and-expense basis (if no other alternative exists), applicants must be reasonably certain that the hours charged are actually being worked.



- If a contractor is in violation of a contract, the applicant should address the issue formally and then document it in the appropriate PW file.
- If a contractor performs any services outside of the FEMA-approved scope of work, those costs must be segregated and invoiced separately.
- When possible, before letting a large contract (where FEMA funds will be used), applicants should gain approval from the state.
- When dealing with FEMA disaster-related contracts, contractors must provide a greater level of detail on their invoices than normal.

Tip #7: Check Parameters of Official Accounting Systems

In addition to creating and maintaining a clear audit trail, adequate source documentation, and an acceptable filing system, all eligible costs must be reconcilable to the official accounting records of the applicant. The approach taken to document and summarize eligible costs will determine the amount of reconciliation required.

Some institutions' accounting systems may not be capable of tracking costs at sufficient levels of detail to support a disaster recovery program. In that case, all or part of the disaster program costs must be tracked outside the

official accounting system—but must remain reconcilable to it.

Other institutions' accounting systems may effectively support a disaster recovery program. This type of system can provide cost accounting that can track by disaster site and segregate eligible and ineligible costs. The former approach would require a significant amount of reconciliation, while the latter may require none.

Tip #8: Track Deadlines and Extensions

Title 44 of the Code of Federal Regulations (44 CFR) imposes deadlines for many disaster response and recovery activities undertaken by FEMA grant applicants. Deadlines are delineated for submitting the Notice of Interest, for identifying damage, for completing work, and for filing appeals, to list a few.

Please note that certain deadlines can be further extended, if justified by the disaster. A special request from the state (acting on the applicant's behalf) to FEMA must be submitted, and, of course, the notice of approval properly saved to the appropriate file.

Summary

The FEMA grant process requires sound management from beginning to end.

Plan and prepare for the closing of your projects, and never assume that you have too much information. If the auditors open detailed, well-organized project files, they will be able to answer their questions with minimal effort and inquiries—and then move on to the next file and, eventually, the next applicant.

Staying ahead of documentation requirements will keep your FEMA grant intact, and assist with the smooth completion and closeout of your project. Remember, nobody understands what was done, why it was done and how it was done better than the applicant. Successful closeouts and audits hinge on your ability to articulate these items, and nothing speaks louder than clear, concise documentation.



Jeff Shaw
Adjusters International



CORPORATE OFFICE

126 Business Park Drive
Utica, New York 13502

1-800-382-2468

Outside U.S. (315) 797-3035

FAX: (315) 272-2054

editor@disasterrecoverytoday.com

PUBLISHER

Ronald A. Cuccaro, SPPA

EDITOR

Sheila E. Salvatore

WEB ADDRESSES

www.adjustersinternational.com

www.disasterrecoverytoday.com

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