

Department of Homeland Security Office of Inspector General

FEMA Needs To Deobligate \$1.1 Million in Unneeded
Funding and Disallow \$52,812 in Unsupported Costs
Associated With the FEMA PA Grant Awarded to
Pima County, Arizona



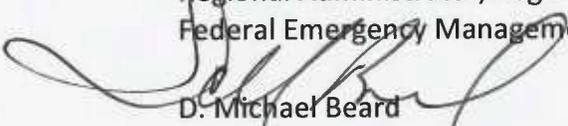


OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 16 2013

MEMORANDUM FOR: Nancy Ward
Regional Administrator, Region IX
Federal Emergency Management Agency

FROM: 
D. Michael Beard
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Needs To Deobligate \$1.1 Million in Unneeded
Funding and Disallow \$52,812 in Unsupported Costs
Associated With the FEMA PA Grant Awarded to
Pima County, Arizona*
FEMA Disaster Number 1660-DR-AZ
Audit Report Number DS-13-08

We audited Public Assistance (PA) grant funds awarded to Pima County, Arizona (County), Public Assistance Identification Number 019-99019-00. Our audit objective was to determine whether the County accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

The County received a PA award of \$7.5 million from the State of Arizona Division of Emergency Management (ADEM), a FEMA grantee, for damages resulting from severe storms and flooding, which occurred from July 25 to August 4, 2006. The award provided 75 percent FEMA funding for 28 large and 19 small projects.¹ The audit covered the period from July 25, 2006, to February 19, 2013. We audited seven large projects with award amounts totaling \$4.1 million and project charges totaling \$3.5 million. We also performed a limited review of one small project and 16 large projects with award amounts totaling \$2.3 million and project charges totaling \$1.8 million, to identify any unused funds that should be deobligated and put to better use (see exhibit).

We conducted this performance audit between December 3, 2012, and February 19, 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

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$57,500.



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believe that the evidence obtained provides a reasonable basis for our findings and conclusions. To conduct this audit we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We interviewed FEMA, ADEM, and County officials; reviewed judgmentally selected project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the County'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 County's method of accounting for disaster-related costs and its policies and procedures.

RESULTS OF AUDIT

Of the \$5,227,507 in project charges we reviewed, the County generally expended and accounted for PA funds according to Federal regulations and FEMA guidelines for the seven projects we audited. However, we identified \$1,123,565 of unneeded Federal funding that should be put to better use, and \$52,812 in force account labor charges not eligible for reimbursement.

Finding A: \$1.1 Million in Unneeded Funding

County officials indicated that they would not be claiming cost reimbursements totaling \$1,123,565 on 20 large projects and 1 small project during the FEMA closeout (see exhibit). The 20 large projects were completed for less than the original estimate, and another party repaired the damages for the small project at no cost to the County.²

Federal regulations stipulate the following:

- Federal appropriations laws and the Statement of Federal Financial Accounting Standards (SFFAS) require Federal agencies to record obligations in the accounting records on a factual and consistent basis.³ That is, the agency must increase or decrease obligated funds when probable and measurable information becomes known (7 Government Accountability Office (GAO) - Policy and Procedures Manual § 3.5.D (May 1993); B-300480, April 9, 2003; and SFFAS Number 5, paragraph 29). Agencies must document both the initial recordings and the adjustments to recorded obligations.

² County officials informed ADEM that they will not be seeking reimbursement at project closeout.

³ U.S. Government Accountability Office, *Principles of Federal Appropriations Law*, 3rd edition, volume II, February 2006, chapter 7, section B: Criteria for Recording Obligations (31 U.S.C. § 1501).



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- The grantee shall make an accounting of eligible costs for each large project and certify to FEMA that the reported costs were for eligible disaster work as soon as practicable after the subgrantee has completed the approved work and requested payment (44 CFR 206.205(b)(1)).
- Final payment of the Federal share for small projects will be made to the grantee upon approval of the Project Worksheet. The grantee must certify that all such projects were completed in accordance with FEMA approvals. The Federal payment for small projects shall not be reduced if all of the approved funds are not spent to complete a project. However, failure to complete a project may require that the Federal payment be refunded (44 CFR 206.205(a)).

The County submitted closeout documentation as of February 2013, identifying \$1.1 million in unused funds for 21 projects. ADEM awarded the County \$6.4 million for 24 projects and the County spent only \$5.2 million on 23 large projects. In addition, officials told us that the County did not complete one small project because another party repaired the damages at no cost to the County.

FEMA and ADEM should deobligate unneeded funds in a timely manner because it—

- Releases funds to cover cost overruns on other projects associated with the disaster;
- Provides a more accurate status of PA program costs for a disaster; and
- Is consistent with appropriations law and SFFAS Number 5, which requires accurate recording and support of obligations/liabilities in FEMA's accounting system.

Therefore, FEMA should deobligate \$1,123,565 in unneeded PA funding and put those funds to better use. ADEM and County officials agree with this finding.

Finding B: Force Account Labor Costs Not Eligible for Federal Reimbursement

The County charged a total of \$52,812 in force account labor costs under Projects 311, 318, 320, and 326 that are not eligible for Federal reimbursement (see table).



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Table. Costs Not Eligible for Federal Reimbursement

| Project Number | Costs Claim | Costs Outside FEMA's Scope of Work | Unsupported Costs |
|-----------------------|--------------------|---|--------------------------|
| 311 | \$21,174 | \$21,174 | |
| 318 | 10,687 | 10,687 | |
| 320 | 9,996 | 9,996 | |
| 326 | 10,955 | | \$10,955 |
| Total | \$52,812 | \$41,857 | \$10,955 |

Federal regulations and FEMA guidelines stipulate the following:

- For costs to be eligible, the subgrantees must have fiscal controls and accounting procedures that permit funds to be traced to a level of expenditure adequate to establish that such funds are not used in violation of applicable laws (44 CFR 13.20(a)(2)).
- Subgrantees must ensure that grant funds are used only for eligible work. FEMA will not provide funds for costs that are outside the approved scope of work (FEMA *Applicant Handbook*, FEMA 323 (1999), p. 52).

The \$52,812 in force account labor costs incurred by the County includes—

- \$41,857 in labor charges not authorized under FEMA's approved scope of work for Projects 311, 318, and 320. The costs estimates for these projects included only contract work.
- \$10,955 of unsupported costs incurred under Project 326, as the County did not provide records such as timesheets to ensure that the costs incurred were for work performed on disaster-related activities.

ADEM officials indicated that even though the \$41,587 charged to Projects 311, 318, and 320 is outside FEMA's scope of work, they plan to request reimbursement for the charges. Regarding the \$10,955 charged to Project 326, ADEM officials explained that they are still working on getting the documentation to support these costs. Therefore, we question a total of \$52,812 in force account labor costs that the County charged to Projects 311, 318, 320, and 326, and have determined that the costs are not eligible for Federal reimbursement.



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RECOMMENDATION

We recommend that the FEMA Region IX Administrator:

Recommendation #1: Deobligate \$1,123,565 (Federal share \$842,674) in unneeded funding related to 21 projects (finding A).

Recommendation #2: Disallow \$41,857 (Federal share \$31,393) in ineligible force account labor costs pertaining to Projects 311, 318, and 320 (finding B).

Recommendation #3: Disallow \$10,955 (Federal share \$8,216) in unsupported force account labor costs pertaining to Project 326, unless the County can provide adequate support (finding B).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of this audit with ADEM officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to FEMA and ADEM officials on February 1, 2013. We discussed the draft report at an exit conference with ADEM officials on February 19, 2013, and they generally agreed with the findings. FEMA and County officials did not require an exit conference.

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 responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendations. Until we receive and evaluate your response, we will consider the recommendations open and unresolved.

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 Humberto Melara, Western Region Audit Director; Louis Ochoa, Audit Manager; Renee Gradin, Auditor-in-Charge; and Willard Stark, Auditor.

Please call me with any questions, or your staff may contact Humberto Melara, Western Region Audit Director at (510) 637-1463.



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EXHIBIT

Schedule of Audited Projects
July 25, 2006, to February 19, 2013
Pima County
FEMA Disaster Number 1660-DR-AZ

| Project Number | Project Category ⁴ | Project Award Amount | Project Charges Claimed | Project Charges Reviewed | Project Costs Recommended for Deobligation | Questionable Project Costs |
|---|-------------------------------|----------------------|-------------------------|--------------------------|--|----------------------------|
| Projects Subjected To Full Audit Review | | | | | | |
| 311 | D | 895,863 | 657,217 | \$657,217 | 238,646 | \$21,174 |
| 314 | A | 254,616 | 254,616 | 254,616 | | |
| 318 | D | 513,276 | 473,568 | 473,568 | 39,708 | 10,687 |
| 320 | D | 998,032 | 649,327 | 649,327 | 348,705 | 9,996 |
| 321 | B | 218,096 | 218,096 | 218,096 | | |
| 322 | A | 573,920 | 573,543 | 573,543 | 377 | |
| 326 | D | 632,385 | 632,385 | 632,385 | | 10,955 |
| Subtotal | | \$4,086,188 | \$3,458,752 | \$3,458,752 | \$627,436 | \$52,812 |
| Projects Subjected To Limited Audit Review | | | | | | |
| 18 | C | \$57,500 | \$4,124 | \$4,124 | \$53,376 | |
| 92 | C | 61,065 | 30,993 | 30,993 | 30,072 | |
| 103 | B | 96,857 | 70,340 | 70,340 | 26,517 | |
| 142 | A | 165,429 | 143,286 | 143,286 | 22,143 | |
| 146 | C | 124,506 | 109,866 | 109,866 | 14,640 | |
| 147 | B | 68,396 | 59,032 | 59,032 | 9,364 | |
| 177 | G | 61,978 | 47,500 | 47,500 | 14,478 | |
| 180 ⁵ | C | 7,389 | 0 | 0 | 7,389 | |
| 184 | G | 83,406 | 80,241 | 80,241 | 3,165 | |
| 312 | A | 121,095 | 100,836 | 100,836 | 20,259 | |
| 315 | A | 212,080 | 159,780 | 159,780 | 52,300 | |
| 316 | D | 396,752 | 391,447 | 391,447 | 5,305 | |

⁴ The types of disaster-related work are as follows: Category A = debris removal; Category B = emergency protective measures; Category C = roads and bridges; Category D = water control facilities; Category E = buildings and equipment; Category F = utilities; Category G = parks, recreational facilities, and other items.

⁵ Small project – the County will not be seeking reimbursement at project closeout.



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| Project Number (continued) | Project Category | Project Award Amount | Project Charges Claimed | Project Charges Reviewed | Project Costs Recommended for Deobligation | Ineligible Force Account Costs |
|--------------------------------------|-------------------------|-----------------------------|--------------------------------|---------------------------------|---|---------------------------------------|
| 317 | B | 159,382 | 115,150 | 115,150 | 44,232 | |
| 319 | B | 185,954 | 135,950 | 135,950 | 50,004 | |
| 325 | B | 233,291 | 198,643 | 198,643 | 34,648 | |
| 327 | F | 129,804 | 82,605 | 82,605 | 47,199 | |
| 328 | E | 100,000 | 38,962 | 38,962 | 61,038 | |
| Subtotal | | \$2,264,884 | \$1,768,755 | \$1,768,755 | \$496,129 | \$0 |
| Totals | | \$6,351,072 | \$5,227,507 | \$5,227,507 | \$1,123,565 | \$52,812 |



Appendix A

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