DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Dallas Field Office – Audit Division
3900 Karina Street, Room 224
Denton, Texas 76208

September 5, 2003

MEMORANDUM

TO: Gary Jones, Acting Regional Director
FEMA, Region VI

Tonda L. Hadley

FROM: Tonda L. Hadley, Field Office Director

SUBJECT: State of Texas, Division of Emergency Management
FEMA Disaster Number 3127-EM-TX
Public Assistance Identification Number 000-92199
Audit Report Number DD-12-03

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

The State received an award of $45.03 million from FEMA for pre-staging federal and state fire suppression assets from June 4, 1998, through November 3, 1998, in anticipation of extreme fire hazards. The award provided 75 percent FEMA funding for 17 large projects and 1 small project.[1] The audit covered the period June 4, 1998, through February 28, 2000, during which the State claimed $45.03 million and FEMA disbursed $33.77 million in direct program costs. The audit scope included a review of 15 large projects and 1 small project totaling $43.99 million, or 98 percent of the amount awarded.

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and, except as explained in the following paragraph, according to generally accepted government auditing standards. The audit included tests of the State's accounting records, judgmental samples of project expenditures, and other auditing procedures considered necessary under the circumstances.

The State was able to provide only summary documentation to support $40.39 million paid to the United States Department of Agriculture (USDA) Forest Service, which comprised 89.71 percent of the State's total claim. Further, the USDA Forest Service was unable to provide source

---

[1]Federal regulations in effect at the time of the disaster defined a large project as a project costing $47,100 or more and a small project as one costing less than $47,100.

documentation to support 76.88 percent of the costs judgmentally selected for review. The State's and USDA Forest Service's inability to provide source documentation severely limited the scope of audit work. Consequently, the OIG was unable to achieve its audit objective of determining whether the State expended and accounted for FEMA funds according to federal regulations and FEMA guidelines.

BACKGROUND

In anticipation of extreme fire hazards, the State requested federal financial assistance from FEMA to pre-stage fire suppression resources in areas that posed a high fire threat. On June 4, 1998, the State and FEMA entered into a FEMA/State Agreement that stipulated FEMA would reimburse the State for eligible costs associated with the pre-staging of federal and state assets.

Both federal and state organizations participated in the pre-staging effort, which commenced on June 4, 1998, and ceased on November 3, 1998. Costs for federal fire suppression resources were eligible for the entire 153 days, while costs for state fire suppression resources were eligible for 83 days (June 4, 1998, to August 4, 1998, and August 19, 1998, to September 8, 1998)[2]. The Texas Forest Service maintained accounting records for costs associated with the pre-staging of state assets. However, the USDA Forest Service billed the State for all costs associated with the pre-staging of assets owned by federal agencies, including the USDA Forest Service; and the Bureau of Land Management, National Park Service, and Bureau of Indian Affairs, which are agencies within the U.S. Department of the Interior (DOI). The following table summarizes expenditures the State claimed for participating organizations:

Organization	Organization Type	Claim	Percent of Total
USDA Forest Service	Federal	$35,910,804	79.75%
DOI Bureau of Land Management	Federal	2,546,497	5.66%
DOI National Park Service	Federal	402,081	0.89%
DOI Bureau of Indian Affairs	Federal	170,848	0.38%
Total Federal Direct		39,030,230	86.68%
Administration Fees		1,363,036	3.03%
Total Federal		40,393,266	89.71%
Texas Forest Service	State	3,600,275	8.00%
Texas National Guard	State	946,778	2.10%
Civil Air Patrol	State	86,229	0.19%
Total State		4,633,282	10.29%
TOTALS:[3]		$45,026,548	100.00%

[2] To be eligible for reimbursement, costs for pre-staging state assets had to be incurred 2 weeks before the beginning of an incident period for an approved fire grant. Costs for pre-staging federal assets were eligible during the entire incident period.

[3] These amounts do not include a FEMA statutory administrative allowance, which FEMA adds to the entire award (approved claim), including the non-federal share.

RESULTS OF AUDIT

The OIG questioned $702,834 ($527,126 FEMA share) of ineligible costs, consisting of duplicate costs ($295,372), excessive administrative fees to the USDA Forest Service (Forest Service) ($160,905), costs incurred outside the eligible time period ($159,493), and out-of-scope costs billed by the Forest Service ($87,064). Further, the OIG concluded that the State's claim likely included additional ineligible costs not identified. The OIG based this conclusion on the results of its limited review of Forest Service documentation; GAO's action of placing the Forest Service on its High Risk list because of severe weaknesses in accounting and financial reporting; and the USDA OIG's adverse, qualified, or disclaimers of opinion on Forest Service financial statements for the years 1991 through 2001.

Finding A: Duplicate Costs

FEMA erroneously added $286,546 to the State's claim for Forest Service charges. To support its claim for Forest Service billings, the State submitted summary documents of entries contained in Forest Service transaction registers. In addition to the summary documents, the State also submitted supplemental documents to support some Forest Service transactions. While reviewing the State's claim documentation, FEMA personnel mistakenly added $286,546 in costs supported by the supplemental documents to the State's total claim amount. However, these costs were already included in the State's total claim and supported by summary documents. Therefore, the OIG questioned $286,546 in costs that the State inadvertently claimed twice, plus associated administrative fees of $8,826 (3.08 percent of $286,546), or a total of $295,372.

Finding B: Excessive Forest Service Administrative Fees

The State's claim included $160,905 of excessive administrative fees billed by the Forest Service. The Forest Service billed the State for administrative fees based on an agreed-upon rate of 3.08 percent of direct federal costs. However, the Forest Service billed $1,363,028, or 3.08 percent of $44,254,140, which represented estimated, rather than actual direct federal costs. The administrative fees should have been $1,202,131, or 3.08 percent of the $39,030,230 actual direct federal costs. Accordingly, the OIG questioned $160,905 ($1,363,036 - $1,202,131) in excessive administration fees.

Finding C: Costs Incurred Outside the Eligible Time Period

FEMA disallowed $189,114 of the State's $4,822,396 claim for pre-staging state assets because the claim included costs incurred during 6 days outside the eligible period. However, FEMA miscalculated the amount and should have disallowed an additional $159,493. FEMA calculated the $189,114 disallowance by applying a 3.92 percent rate to the $4,822,396. The 3.92 percent rate was the result of dividing the 6 days by the 153 days included in the eligible period, June 4, 1998, to November 3, 1998. However, 153 days was the eligible period for pre-staging federal assets. The eligible period for pre-staging state assets was only 83 days (June 4, 1998, to August 4, 1998, and August 19, 1998, to September 8, 1998). Therefore, FEMA should have calculated a rate of 7.23 percent (6 days divided by 83 days) that would have resulted in a disallowance of $348,607. Accordingly, the OIG questioned $159,493 ($348,607 - $189,114) for costs incurred outside the eligible time period.

Finding D: Out-of-Scope Forest Service Costs

The State's claim included $84,463 billed by the Forest Service for costs associated with fire fighting, which was an activity outside the scope of the FEMA grant and therefore ineligible. The FEMA/State Agreement authorized FEMA to reimburse the State for costs associated with pre-staging fire suppression resources, but not for costs associated with actual fire fighting. Accordingly, the OIG questioned $84,463 for out-of-scope work, plus associated administrative fees of $2,601 (3.08 percent of $84,463), or a total of $87,064.

Finding E: Likelihood of Additional Ineligible Costs

The OIG concluded that the State's claim likely included additional ineligible costs not identified because of the severely limited audit scope. The OIG based this conclusion on the results of its limited review of Forest Service documentation; GAO's action of placing the Forest Service on its High Risk list because of severe weaknesses in accounting and financial reporting; and the USDA OIG's adverse, qualified, or disclaimers of opinion on Forest Service financial statements for the years 1991 through 2001.

The State was able to provide only summary documentation to support the $40.39 million paid to the Forest Service for federal resources, which comprised 89.71 percent of the State's total claim. Therefore, the OIG reviewed the summary documentation and judgmentally selected a sample of costs paid to the Forest Service for detailed testing. The costs in the sample totaled $998,688, or about 2.5 percent of the total. According to 44 CFR 13.20(a), "the State, as well as its subgrantees and cost-type contractors" must maintain accounting records supported by source documentation, such as "cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc." Therefore, the OIG requested such source documentation directly from the Forest Service to support the costs selected for testing.

After months of research, Forest Service personnel said they could not locate the majority of the source documentation requested and they refused to search further. They provided the OIG with source documentation to support only $230,885, or 23 percent of the $998,688 in costs selected for testing. After reviewing the source documentation provided, the OIG determined that $84,463, or 37 percent, of the $230,885 in costs were ineligible (Finding D). There was no way to determine whether the 37 percent rate of ineligibility was representative of the entire $40.39 million paid to the Forest Service. However, it is very unlikely that Forest Service billings included only $84,463 in ineligible costs.

The OIG discussed the Forest Service's inability to provide source documentation with USDA OIG audit officials at their office in Temple, Texas. Their perspective was that they had been unable to audit the Forest Service for several years because of problems in its accounting system and lack of source documentation. They also said that the accounting system was not integrated, which meant there were a "lot of manual data entries and a lot of mistakes."

In January 1999, the General Accounting Office placed the Forest Service on its High-Risk list because of severe weaknesses in accounting and financial reporting. To be removed from the list, the Forest Service must, at minimum, have received an unqualified opinion on its financial statements for 2 consecutive years. From 1991 through 2001, the financial statements received poor opinions (adverse, qualified, or disclaimers). Finally, in 2002, the financial statements

received an unqualified opinion. However, the audit report on the 2002 financial statements included the following remarks by the USDA's Assistant Inspector General for Audit:

> The Forest Service does not yet operate as an effective, sustainable, and accountable financial management organization. The fiscal year 2002 ending account balances were primarily derived from a 2 year audit effort on beginning balances and numerous statistical samples of fiscal year 2002 transactions. As a result of these efforts, multiple adjustments were processed to the general ledger and/or subsidiary ledgers. For example, the financial statement line-item "General Property, Plant and Equipment, Net" was reduced by over $1 billion dollars based on the audit coverage. The achievement of an unqualified opinion, therefore, did not necessarily result from improvement in underlying financial management systems, but rather as an extensive ad hoc effort.

These described weaknesses in the Forest Service's financial management systems, together with the results of the OIG's limited review, led to the conclusion that Forest Service billings may not be accurate or supported. Accordingly, FEMA grantees and subgrantees should carefully review Forest Service billings to ensure that the costs are accurate, supported, and for work that is within the scope of the grant. Federal regulations require claimed costs to be adequately supported, therefore, FEMA may choose not to reimburse claimed costs that are not supported by source documentation.

RECOMMENDATIONS

The OIG recommended that the Regional Director:

(1) Disallow $702,834 of questionable costs;

(2) Provide a copy of this report to all states within FEMA Region VI; and

(3) For future FEMA grants, require grantees and subgrantees to review source documentation to support claims for payments made to federal agencies, including the USDA Forest Service, and to maintain detailed records of those reviews. At minimum, grantees and subgrantees should select samples of billed costs and request source documents to support the sampled items.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of the audit with the State of Texas, Division of Emergency Management, officials on April 17, and July 23, 2003; and Texas Forest Service officials on April 30, 2003. These officials agreed with all of the audit findings and recommendations. On April 2, 2003, the OIG discussed the results of the audit with FEMA Region VI officials.

Please advise this office by October 6, 2003, of the actions taken or planned to implement our recommendations. Please include target completion dates for any planned actions.

Should you have any questions concerning this report, please contact me at (940) 891-8900. Major contributors to this report were Charles Riley, Daniel Ramsey, and Jerry Meeker.