



## DEPARTMENT OF HOMELAND SECURITY

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

September 25, 2003

### MEMORANDUM

TO: David I. Maurstad, Regional Director  
FEMA Region VIII

*Tonda L. Hadley*

FROM: Tonda L. Hadley, Field Office Director

SUBJECT: Review of Indirect Costs for Fire Suppression Assistance Grants  
FEMA Region VIII, Fiscal Years 2000 through 2001  
Audit Report Number DD-14-03

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On January 7, 2003, the Office of Inspector General (OIG) issued "Audit of the State of Colorado, Administration of Disaster Assistance Funds" (Audit Report Number C-02-03). The overall objectives of that audit were to determine whether the State of Colorado (1) administered Federal Emergency Management Agency (FEMA) disaster assistance grant programs according to federal regulations, (2) properly accounted for and expended FEMA funds, and (3) submitted accurate financial expenditure reports.

An OIG contractor performed the audit under the authority of the Inspector General Act of 1978, as amended, according to generally accepted government auditing standards. The audit included reviews of FEMA and State documents and accounting records, interviews of FEMA and State personnel, and other procedures considered necessary under the circumstances.

The audit disclosed that FEMA Region VIII (Region) was not correctly applying approved indirect cost rates to direct costs claimed for three fire suppression assistance (FSA) grants to the State of Colorado. However, because that finding did not relate to the State of Colorado's performance, it was not included in the report.

That finding led the OIG to perform a limited review of the Region's procedures for determining indirect costs on FSA grants to all states included in the Region for fires that began in fiscal years 2000 through 2001. During that period, the Region awarded 17 FSA

grants to 5 states (the 17 grants included the 3 Colorado FSA grants).<sup>1</sup> The 5 states claimed \$52.1 million in total direct costs under the 17 grants (see Exhibit).

The limited review included interviews of officials with FEMA Region VIII, U.S. Department of Health and Human Services (HHS), Colorado State University, and Colorado State Forest Service (CSFS); an analysis of direct and indirect costs related to FSA grants; and other procedures considered necessary under the circumstances.

## **RESULTS OF REVIEW**

During the “Audit of the State of Colorado, Administration of Disaster Assistance Funds,” auditors under contract with the OIG found that the Region did not correctly apply indirect cost rates to three Colorado FSA grants. The OIG’s limited review of the Region’s procedures for determining indirect costs on 17 FSA grants disclosed that the Region was also not correctly applying indirect cost rates to FSA grants to other states in the Region. Further, the six states in the Region either did not include, or did not document inclusion of, the direct costs of fire suppression in the calculation of their approved indirect cost rates. Therefore, the six states were not entitled to receive indirect costs on direct costs claimed under FSA grants. Accordingly, the OIG recommended that the Region not pay \$4,210,595 (\$4,123,697 FEMA share) indirect costs related to the direct costs claimed under the 17 FSA grants. The OIG also assisted the Region in developing procedures for correctly applying indirect costs rates to the direct costs claimed on all FSA and Fire Management Assistance (FMA)<sup>2</sup> grants.

### **Finding from Audit of Colorado’s Administration of Disaster Assistance Funds**

During the “Audit of the State of Colorado, Administration of Disaster Assistance Funds,” auditors under contract with the OIG found that FEMA Region VIII (Region) did not correctly apply indirect cost rates to three Colorado FSA grants (numbers 2308, 2309, and 2338). According to 44 CFR 13.20(b)(5), applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs. The Colorado State Forest Service (CSFS), an entity organized and funded under Colorado State University, administered FSA grants awarded to the State of Colorado. OMB Circular A-21, *Cost Principles for Educational Institutions*, outlines cost principles for determining the allowability of costs incurred by CSFS.

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<sup>1</sup> FEMA Region VIII includes six states: North Dakota, South Dakota, Wyoming, Utah, Colorado, and Montana. North Dakota did not receive FSA grants during the period reviewed.

<sup>2</sup> On October 30, 2001, the Fire Management Assistance Grant Program replaced the Fire Suppression Assistance Program. The Fire Management Assistance Grant Program, authorized by the Stafford Act and amended by the Disaster Mitigation Act of 2000, provides for the mitigation, management, and control of fires that threaten such destruction as would constitute a major disaster.

OMB Circular A-21 defines indirect costs as those costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular project or activity. Such costs could include depreciation and use allowances, operation and maintenance expenses, and general administrative expenses. The U.S. Department of Health and Human Services (HHS) is the federal cognizant agency responsible for establishing annual indirect cost rates for CSFS, including a rate for off-campus activities such as fire suppression. This rate should be used to determine eligible indirect fire suppression costs that can be allocated to and reimbursed by federal agencies. As specified by OMB Circular A-21 and the cognizant agency, the rate should be applied to a project's "modified total direct costs." Modified total direct costs include all salaries and wages, fringe benefits, materials, supplies, and travel incurred by the entity and the first \$25,000 of any subgrants or subcontracts (pass-through funds). Specifically excluded are equipment, capital expenditures, rental costs, and all but the first \$25,000 of any subgrants or subcontracts.

The approved indirect cost rate for off-campus CSFS activities was 26 percent<sup>3</sup>. However, for each of the three Colorado FSA grants, the Region used the wrong indirect cost rate when preparing the grant awards and, in each case, applied the rate to costs specifically excluded by OMB Circular A-21. At the time of the audit, the Region had not yet reconciled and formally closed the three FSA grants. However, in determining the total grant amount obligated for each of the three FSA grants, the Region applied a 13.7 percent indirect cost rate to all estimated direct costs. Estimated direct costs included equipment rental and aircraft usage, both of which should have been excluded. Also included were all estimated reimbursements to federal agencies and local entities (fire departments, city agencies, etc.). All but the first \$25,000 of each of the estimated reimbursements to federal and local entities should have been excluded. Because such reimbursements resemble pass-through funds, application of the indirect cost rate resulted in an indirect cost allowance significantly greater than any indirect costs CSFS may have incurred to process the reimbursements. For example, under FSA 2309, \$2 million of the \$3.3 million in obligated federal funds represented a lump-sum reimbursement by CSFS to the USDA Forest Service. The cost to CSFS of processing such reimbursements would have been minimal. Further, applying the approved indirect cost rate of 26 percent to \$1.3 million (\$338,000) would have resulted in less costs than applying the 13.7 percent rate to the entire \$3.3 million (\$452,100) for FSA 2309.

The improper use of the 13.7 percent rate occurred because the Region was uncertain as to what indirect cost rates should be used and how to determine indirect cost allowances.

### **Findings from the OIG Review of Indirect Cost for 17 FSA Grants**

Because the Region was uncertain as to what indirect cost rates should be used and how to determine indirect cost allowances, the OIG reviewed the Region's procedures for

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<sup>3</sup> The 26 percent rate was in effect for the three Colorado FSA grants within the scope of the OIG audit and review (fiscal years 2000 through 2001). Further, in the indirect cost rate agreement dated June 2001, HHS approved the 26 percent rate for CSFS off-campus activities for the period July 1, 2001, through June 30, 2004.

determining indirect costs on 17 FSA grants. The review disclosed that FEMA Region VIII was also not correctly applying indirect cost rates to FSA grants to other states in the Region. At the time of the review, the Region had not yet paid any indirect costs on the 17 FSA grants.

To assist the Region, the OIG conducted a training class for the Region's employees on the correct application of indirect cost rates. The OIG also attended several meetings with the Region and other federal and state officials and assisted in developing procedures for the correct application of indirect cost rates to FSA and FMA grants. While developing these procedures, the OIG and the Region determined that the six states in the Region either did not include, or did not document inclusion of, the direct costs of fire suppression in the calculation of their approved indirect cost rates. Therefore, the states were not entitled to receive indirect costs on direct costs claimed under FSA grants.

Based on this determination, the Region decided that it was not appropriate to pay indirect costs on FSA or FMA grants to the six states within Region VIII. This decision resulted in cost savings (funds put to better use) of \$4,210,595 (\$4,123,697 FEMA share).

## **RECOMMENDATIONS**

The Office of Inspector General recommended that the FEMA Regional Director:

1. Develop and implement procedures for correctly applying indirect costs rates to the direct costs claimed on all Fire Suppression Assistance and Fire Management Assistance grants.
2. Disallow \$4,210,595 indirect costs applied to the direct costs claimed under 17 Fire Suppression Assistance grants.

## **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP**

The OIG discussed the results of the review with FEMA Region VIII officials several times during the review and again on September 8, 2003. These officials agreed with the findings and recommendations.

FEMA Region VIII officials have already completed actions to implement the recommendations in this report. Therefore, the findings and recommendations are considered closed, and no further action is necessary. If you have questions concerning this report, please contact me at (940) 891-8900.

Exhibit

Schedule of Funds Put to Better Use  
 Indirect Costs on Fire Suppression Assistance Grants  
 FEMA Region VIII, Fiscal Years 2000 through 2001

FSA No.	Date Declared	State	Name of Fire	Direct Costs	Indirect Costs	Indirect Cost Rate	FEMA Share %	FEMA Share \$
2308	6/12/00	CO	Bobcat Gulch	\$ 1,479,938	\$ 202,752	13.70%	100%	\$ 202,752
2309	6/12/00	CO	Hi Meadow	3,197,347	438,037	13.70%	100%	438,037
2314	7/24/00	MT	Central Zone 3B	16,663,639 3,035,570	916,500 200,348	5.50% 6.60%	100%	916,500 200,348
2315	7/31/00	WY	Dead Horse	693,123	57,376	9.84%	70%	40,163
2317	8/5/00	MT	Southwestern Zone 2	12,587,706	830,789	6.60%	100%	830,789
2318	8/8/00	MT	Central Zone 3C	86,248	5,692	6.60%	100%	5,692
2319	8/13/00	SD	Flagpole Complex	1,500,883	181,607	12.10%	70%	127,125
2320	8/14/00	MT	Northwestern Zone 1	5,319,395	351,080	6.60%	100%	351,080
2321	8/16/00	MT	South Central Zone 4	18,783	1,240	6.60%	100%	1,240
2324	8/25/00	SD	Jasper	2,496,379	302,062	12.10%	100%	302,062
2326	8/28/00	MT	Willie	70,842	4,676	6.60%	100%	4,676
2338	9/16/00	CO	Eldorado	1,367,127	187,296	13.70%	100%	187,296
2367	7/26/01	WY	Green Knoll	2,670,814	406,571	15.43%	100%	406,571
2369	8/1/01	SD	Elk Mountain #2	418,828	50,678	12.10%	70%	35,475
2370	8/1/01	WY	Elk Mountain #2	334,734	47,500	15.43%	100%	47,500
2381	8/19/01	UT	Mollie	76,695	0	0	70%	0
2382	9/04/01	WY	McFarland Divide	76,945	26,391	15.43%	100%	26,391
TOTALS				\$52,094,996	\$4,210,595			\$4,123,697