

**DEPARTMENT OF HOMELAND SECURITY**  
**Office of Inspector General**

Michigan State Police, Emergency  
Management Division, Lansing,  
Michigan

FEMA Disaster Number 1226-DR-MI



**Dallas Field Office**  
**Office of Audits**

**DD-09-04**

**June 2004**



# Homeland Security

June 16, 2004

MEMORANDUM FOR: Edward G. Buikema  
Regional Director, FEMA Region V

*Tonda L. Hadley*

FROM: Tonda L. Hadley  
Field Office Director

SUBJECT: *Audit of Michigan State Police, Emergency Management Division  
Lansing, Michigan*  
FEMA Disaster Number 1226-DR-MI  
Public Assistance Identification Number 000-92050  
Audit Report Number DD-09-04

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

MSP, a FEMA grantee, received an award of \$19.86 million, for damages caused by severe windstorms on May 31, 1998. The award provided 75 percent funding for six large projects.<sup>1</sup> The audit covered the period May 31, 1998, to October 4, 2002, during which MSP claimed \$19.86 million and received \$14.90 million in FEMA funds for direct program costs. We audited the costs of three large projects totaling \$19.74 million (99 percent of the total award) and performed a limited review of costs for the remaining projects (see Exhibit 1). We also audited an additional \$621,478 in contract costs that MSP inadvertently omitted from its claim (see Other Matters).

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included tests of MSP's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary to accomplish the audit objective.

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<sup>1</sup> 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. Final costs for two of the six projects were under \$47,100, but the two projects retained the classification of large projects because estimated costs were initially higher than the threshold.

## RESULTS OF AUDIT

MSP did not account for and expend FEMA funds according to federal regulations and FEMA guidelines. MSP's claim included \$4,492,408 (\$3,402,632 FEMA share) of costs that the OIG found questionable. The questioned costs included unreasonable contractor profits (\$3,386,606), ineligible mobilization costs (\$894,601), ineligible subgrantee administrative allowance (\$133,303), unsupported engineering costs (\$56,435), and ineligible travel costs (\$21,463).

### **Finding A: Unreasonable Contractor Profits**

MSP did not act prudently in awarding debris removal contracts totaling \$19,460,518. As a result, MSP's claim contained \$3,386,606 of contractor profits that were unreasonable. Although federal regulations allow states, as grantees, to follow their own procurement policies and procedures, they are still bound to certain restrictions under federal grants. The following criteria applied to MSP as a state grantee:

#### 44 CFR 13.22, Allowable costs:

- (a) *Limitation on use of funds.* Grant funds may be used only for:
- (2) Reasonable fees or profit to cost type contractors. . . .

#### 44 CFR 13.36, Procurement:

- (a) *States.* When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurement from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

#### 44 CFR 13.40, Monitoring and reporting program performance:

- (a) *Monitoring by grantees.* Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

#### Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, § C, Basic Guidelines:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must . . . [b]e necessary and reasonable for proper and efficient performance and administration of federal awards.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
- c. Market prices for comparable goods or services.
- d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.
- e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

FEMA Public Assistance Policy 9580.4:<sup>2</sup>

*Fact Sheet: Debris Operations – Clarification: Emergency Contracting vs. Emergency Work*

Applicants should comply with state laws and regulations, but should be aware that non-competitive contracting is acceptable ONLY in rare circumstances where there can be no delay in meeting a requirement.

FEMA's division of disaster work into "emergency" and "permanent" is generally based on the period of time during which the work is to be performed, and not on the urgency of that work. Therefore, the award of non-competitive contracts cannot be justified on the basis of "emergency work", as defined by FEMA.

In some situations, such as clearing road for emergency access (moving debris off the driving surface to the shoulders or rights-of-way), or removal of debris at a specific site, awarding a non-competitive contract for site-specific work may be warranted; however, normally, non-competitive bid awards should not be made several days (or weeks) after the disaster or for long-term debris removal. Obviously, the latter situations do not address a public exigency or emergency, which "will not permit a delay resulting from competitive solicitation".

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<sup>2</sup> Although this policy was published January 19, 2001, after this disaster occurred, it clarifies 44 CFR regulations that were in effect at the time of the disaster.

Michigan State's Management and Budget Policy, 0510.09 *Emergency purchases* (issued August 31, 1998):<sup>3</sup>

An emergency purchase is defined as: 1) a purchase in an emergency situation of a commodity or service which has a value in excess of a department's delegated purchasing authority, and 2) a purchase made to protect the immediate health, safety, or welfare of individuals or property.

MSP did not act responsibly in procuring contractors under this federal grant. Contracts were awarded on a time-and-material basis, without competition or meaningful cost ceilings. MSP did not attempt to negotiate profit as a separate element of cost or analyze proposed contract costs to determine the rate of profit included in the hourly rates. Further, MSP could provide no evidence that any of the debris removal work was monitored to ensure that the debris was eligible and that the hours billed were based on actual work.

MSP disagreed with this finding, stating that they were operating under emergency conditions and did not have time to bid the contracts. They stated that the Department of Management and Budget's Acquisition Services was involved in the contracting and MSP had not acted in a void. Acquisition Services stated that they waived the requirement to follow even normal emergency contracting procedures because this disaster was "an unusual and compelling emergency."

We recognize that the windstorms affected a large area of the state and that initially there may have been some damage that posed an immediate threat to the public, such as debris in roadways. However, by the time MSP's contractors began work (8 days after the storms) any debris on road surfaces should have already been moved to the right-of-ways. Therefore, any immediate safety concerns to individuals or property would have been removed. MSP, therefore, had sufficient time to develop a clear scope of work and solicit competitive bids for debris clearance on a lump-sum or fixed-unit-price basis. Instead, MSP awarded time-and-material type (hourly) contracts without negotiating profit as a separate element or analyzing elements of contract costs

If MSP had analyzed the elements of costs, they would have discovered, as we did, that the lead contractor's \$77.75 hourly rate included profits that were 45.8 percent of costs. Further, the contractor marked up its subcontractors' costs by 10 percent. This method of contracting (cost-plus-a-percentage-of-costs) provides a disincentive to save costs because the higher the costs, the higher the profits. In fact, the original \$15,349,940 estimate for debris removal grew to an actual cost of \$19,460,518, as the contractors and subcontractors continued to submit their bills for removing debris throughout 13 counties in the State of Michigan.

MSP assured us that the debris removed was eligible because individual County Road Commissioners provided debris removal monitoring in their respective counties. However, these monitoring efforts were not adequate because MSP did not maintain logs or records of monitoring to compare to contractor billings. Without adequate monitoring, there could be no assurance that

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<sup>3</sup> Although procedure 0510.09 was not issued officially until 3 months after the disaster, it appears that it is the basis of MSP's emergency purchase procedures used during the disaster.

contractors performed as required and in an efficient manner or that contractor billings were for approved work actually performed.

We have found that the most efficient method of determining the reasonableness of the cost of debris removal is to compare the cost per ton or cubic yard to rates charged in similar situations. Calculating the rate is a simple matter of dividing total costs by the number of units of debris removed. We asked MSP how much debris was removed, but MSP had no idea, stating that the debris had been taken to county staging areas and became the counties' responsibility; therefore, no records were kept. The contractors' invoices also contained no evidence of the amount of debris removed because the work was billed on a time-and-material basis, rather than the more common and practical unit-cost method.

Because the amount of debris removed was not measured, we examined the reasonableness of contract costs by analyzing the hourly rates charged. The lead contractor, who billed MSP \$18,416,717, provided us with a breakdown of its \$77.75 rate per man-hour that included labor, benefits and fringe, equipment, insurance, lodging, meals, overhead, and a 31.4 percent profit margin (profit as a percentage of price), which equaled a 45.8 percent profit rate (profit as a percentage of costs). We considered this profit rate to be excessive and took exception to other elements of costs. In our analysis, we made adjustments to cost elements that decreased the contractor's \$77.75 hourly rate to \$58.45, a reduction of \$19.30 per hour, or 25 percent ( $\$19.30 / \$77.75$ ).

As shown in Exhibit 2, the largest adjustment to the contractor's hourly rate resulted from reducing the contractor's profit rate to 7 percent. We discussed the contractor's profit rate with FEMA Region V officials who advised that 7 percent of costs on a \$19-million contract for this type of work was a reasonable rate of profit. These officials concurred that a contractor's risk is minimal under a cost reimbursement/hourly contract when compared to the risks involved under a fixed price (lump sum) or fixed-unit-price contract, which should have been used in this case.

Based on their judgment and experience, OIG auditors agreed with the Region's suggested 7 percent profit rate, but gathered corroborating evidence from two other sources. First, we discussed profit rates with three contracting managers who work for the U.S. General Services Administration (GSA)<sup>4</sup>. The GSA contracting managers concurred that, for the type of work involved, 10 percent would define the high end for a reasonable rate of profit. One stated that 7 percent would be more appropriate for projects costing millions of dollars. As a second source of evidence, we reviewed FEMA's Cost Estimating Format (CEF) for construction projects, which indicated that a 10 percent profit rate is a maximum, but for projects of \$10 million or more, 3 percent is reasonable.<sup>5</sup>

Based on the Region's advice and information from two other sources, we concluded that 7 percent was a reasonable profit rate for MSP's contractors and that \$58.45 was a reasonable price per man-hour for the lead contractor. A second debris removal contractor billed MSP \$1,665,278, but did not

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<sup>4</sup>GSA's Federal Supply Service (FSS) provides a source for virtually every commercial product or service an agency might need. With a business volume topping \$25 billion, FSS offers more services than any commercial enterprise in the world and brings hundreds of thousands of federal customers together with more than 9,000 contractors. (source: GSA's website).

<sup>5</sup> The CEF is a forward pricing methodology FEMA developed to better estimate the cost of large projects. Additional information about the CEF is available at <http://www.fema.gov/rrr/pa/cef2.shtm>.

provide a breakdown of his \$85.00 rate. To calculate a reasonable rate, we reduced it by \$21.25, or 25 percent, the same reduction percentage applied to the lead contractor (see Exhibit 3).

In addition to excessive profits contained in hourly rates, we found that markups on subcontractor costs also represented unreasonable profit. Subcontractors invoiced the lead contractor \$6,522,479 and he passed these costs through to MSP with an added \$647,859, as a mark-up on cost without evidence that he had incurred any additional cost for subcontractors. We found no evidence that MSP or the contractor monitored the work of these subcontractors or attempted to negotiate rates.

Accordingly, we questioned \$3,386,606 as unreasonable profits paid to MSP's debris removal contractors. Exhibit 3 provides additional information and a breakdown of the unreasonable profits by contractors and subcontractors.

MSP contends that the OIG's estimate of unreasonable profits was invalid because the cost figures provided by the contractor were not accurate and OIG's analysis of these figures was subjective. In rebuttal, we assume that the contractor was more familiar with its own rate structure than MSP or anyone else. We do agree that analyzing contract costs in hindsight is subjective. However, considering that MSP did not allow open competition to set a fair market price, did not perform a timely analysis of contractor rates, and did not know the amount of debris removed, we challenge them to provide credible evidence that the \$19,460,518 paid for debris removal was a reasonable price. We maintain that, given the information available, our analysis of contract costs was fair, conservative, and reasonable.

### **Finding B: Ineligible Mobilization Costs**

MSP's claim included \$894,601 billed by a contractor for mobilization of its employees traveling to and from the disaster area. The \$894,601 was for 11,329 man-hours charged to mobilize workers to the disaster area before disaster work began, back home after disaster work was completed, and at various times in between. However, these costs were ineligible because they were included in the fixed hourly rate charged by the contractor whose written contract included the following billing-rate provisions:

The billing rate for labor and standard equipment, i.e. bucket truck with dump boxes, chip trucks, chippers, and pick-ups include mobilization, meals, and lodging as follows:

- Straight Time & Overtime Rate: \$77.75 per man-hour
- Sunday & Holiday Rate: \$89.75 per man hour

We questioned these mobilization costs as duplicate costs because the contractor billed mobilization costs separately while including them in its hourly rates. Further, even if the contract had allowed separate billing for mobilization, we would have questioned some portion of the costs because the hours charged were unreasonable for the distance traveled. For example, timesheets documented one group of people traveling 900 miles in 35 hours (an average of 26 miles per hour) and another group traveling 12 miles in 4 hours (an average of 3 miles per hour). These examples indicate that the contractor charged for every hour that workers were in travel status without excluding time for meals, rest, or idle time.

MSP disagreed with this finding stating that its understanding of “mobilization” was moving workers from site to site within the disaster area. However, because the contract did not define “mobilization,” we used the commonly accepted meaning of the term. Based on OIG experience auditing FEMA grants, “mobilization” refers to the movement of people and equipment to the designated disaster area and back to their point of origin, rather than movement between different sites within a designated disaster area. Therefore, we maintain that the \$894,601 represented duplicate costs that were already built into the hourly rates agreed upon in the contract.

### **Finding C: Ineligible Subgrantee Statutory Administrative Allowance**

FEMA paid the State \$218,237 for statutory administrative allowances as both the grantee (\$84,934) and the subgrantee (\$133,303). As the grantee, the State was not entitled to receive the \$133,303 statutory administrative allowance as the subgrantee.

According to 44 CFR 206.228(a), *Statutory Administrative Costs*, grantees and subgrantees receive an administrative allowance based on a sliding scale<sup>6</sup>. The grantee’s allowance covers the State’s extraordinary costs to prepare damage survey reports, final inspection reports, project applications, final audits; and make related field inspections. Eligible costs include overtime pay and per diem and travel expenses, but not regular time. FEMA uses a management grant to reimburse the state for the ordinary costs of administering the grant. The subgrantee’s allowance covers the “necessary costs of requesting, obtaining, and administering Federal disaster assistance subgrants.” There was no subgrant; therefore, there was no subgrantee. Accordingly, we questioned \$133,303 because the State was not entitled to receive statutory administrative costs intended for a subgrantee.

MSP disagreed with the finding stating that they were acting as the subgrantee. We maintain that one entity cannot act as both the grantee and the subgrantee; and, therefore, MSP is not entitled to administrative costs for both. In fact, states, as grantees, are subject to federal regulations different from those that apply to other grantees and subgrantees. Accordingly, if FEMA determines that MSP acted as the subgrantee in this case, the OIG would question the grantee administrative allowance and revise Finding A in accordance with 44 CFR 13.36 (b) through (i), which are the procurement regulations applicable to subgrantees.

### **Finding D: Unsupported Engineering Costs**

MSP’s claim included \$56,435 for the costs of damage surveys; however, these costs were not adequately supported. According to 44 CFR 13.20 (b)(6), subgrantees must maintain accounting records that identify how FEMA funds are used, and the accounting records must be supported by source documentation such as cancelled checks, paid bills, payrolls, and time and attendance records. MSP claimed damage survey costs of \$275,206. However, documents from the engineering firms performing the work only supported \$218,771. Accordingly, we questioned \$56,435 as unsupported.

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<sup>6</sup> The grantee’s allowance is paid on the federal share of eligible costs, while the subgrantee’s allowance is paid on all eligible costs. The allowance is based on the following percentages: 3 percent of the first \$100,000, 2 percent of the next \$900,000, 1 percent of the next \$4 million, and ½ percent of amounts over \$5 million.

### **Finding E: Ineligible Travel Costs**

MSP claimed \$21,463 of travel costs associated with the damage survey process performed by seven engineering firms. During a review and appeal process, FEMA's Office of Financial Management (OFM) determined that travel costs were ineligible as a project cost because they were an extraordinary expense covered under the grantee's statutory administrative allowance.<sup>7</sup> We concurred with OFM and questioned the \$21,463 of travel costs as ineligible.

## **OTHER MATTERS**

### **Unclaimed Contractor Costs**

We identified \$621,478 of contractor labor costs that MSP inadvertently failed to include in its claim for reimbursement. We reviewed these costs and determined that they were supported and were for work within the scope of Project 98186. However, the additional costs included the same unreasonable profit margin described in Finding A. Accordingly, if the \$621,478 had been included in MSP's claim, we would have questioned \$155,370 in unreasonable profits, thus reducing the amount to \$466,108. Further, the costs constituted a cost overrun that exceeded the approved project estimate. According to 44 CFR 206.204(e), cost overruns must be approved in writing by the FEMA Regional Director. We found no evidence that FEMA approved this cost overrun.

This finding is for informational purposes only and does not suggest that additional funds be provided to MSP. The decision to disburse additional funds rests solely with FEMA Region V based on MSP's request that FEMA consider adding the additional costs to its claim.

## **RECOMMENDATIONS**

The Office of Inspector General recommended that the Regional Director:

1. Disallow \$4,492,408 of questionable costs.
2. Develop and implement procedures for future disasters to ensure that grantees and subgrantees are knowledgeable of and follow federal regulations and FEMA guidelines related to contracting.

## **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP**

We met with FEMA Region V officials on September 9, 2003, and with MSP officials on September 10, 2003, to discuss the results of the audit. Further, during October and November 2003, we discussed the audit findings in more detail numerous times with FEMA, MSP, and State officials

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<sup>7</sup> Finding C discusses the type of expenses covered by the grantee's statutory administrative allowance.

and reviewed additional documentation provided by MSP. In general, MSP does not agree with the audit findings and recommendations. Their comments have been summarized within the report.

Please advise this office by September 14, 2004, 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. The major contributors to this report were Paige Hamrick, Charles Riley, William Lough, and Sharon Snedeker.

Schedule of Projects  
Michigan State Police, Emergency Management Division  
FEMA Disaster Number 1226-DR-MI

<u>Project Number<sup>8</sup></u>	<u>Category</u>	<u>Amount Awarded/ Claimed</u>	<u>Amount Questioned</u>	<u>Finding Reference</u>
06931	A	\$15,349,940		
98186	A	<u>4,110,578</u>		
		<u>\$19,460,518</u>	\$4,281,207	A-B
38806	G	275,206	77,898	D-E
89706	G	61,893	0	
89011	G	34,771	0	
89309	G	<u>30,044</u>	0	
Total Projects		<u>\$19,862,432</u>		
Subgrantee Administrative Allowance			<u>133,303</u>	C
Total Questioned			<u>\$4,492,408</u>	

<sup>8</sup> We performed a limited review on Projects 89706, 89011, and 89309 totaling \$126,708.

Calculation of Reasonable Rate per Man-Hour  
Michigan State Police, Emergency Management Division  
FEMA Disaster Number 1226-DR-MI

<u>Cost Category</u>	<u>Cost per Contractor</u>	<u>OIG Adjustments</u>	<u>Reasonable Cost per OIG</u>	<u>Notes</u>
Labor per Hour – Foreman	\$ 24.57		\$ 24.57	1
Labor per Hour- Journeyman	22.55		22.55	1
Benefits & Fringe per Crew	20.91		20.91	2
Equipment per Crew	20.42		20.42	3
Insurance per Crew	4.71		4.71	
Lodging per Crew	8.34	(\$ 4.17)	4.17	4
Meals per Crew	4.17	( 2.17)	2.00	5
Subtotal Costs per Crew Hour	<u>\$105.67</u>	<u>(\$ 6.34)</u>	<u>\$ 99.33</u>	
Administrative OH per Crew	<u>1.00</u>	<u>\$ 8.93</u>	<u>9.93</u>	6
Total Costs per Crew Hour	<u>\$106.67</u>	<u>\$ 2.59</u>	<u>\$109.26</u>	
Profit per Crew Hour (.01 adjustment)	<u>\$ 48.83</u>	<u>(\$ 41.18)</u>	<u>\$ 7.65</u>	7
Rate per Crew Hour(Costs+Profit)	<u>\$155.50</u>	<u>(\$ 38.59)</u>	<u>\$116.91</u>	
Rate per Man Hour (Crew Rate / 2)	<u>\$ 77.75</u>	<u>(\$ 19.30)</u>	<u>\$ 58.45</u>	8

Notes

- The contractor calculated the following labor rates assuming a 72-hour workweek with overtime (over 40 hours) paid at time and one-half the regular rate.
  - Foreman  $(\$20.10 \times 40) + [(\$20.10 \times (1.5 \times 32)) = \$1,768.80/72 \text{ Hours}] (\$24.57)$
  - Journeyman  $(\$18.45 \times 40) + [(\$18.45 \times (1.5 \times 32)) = \$1,623.60/72 \text{ Hours}] (\$22.55)$
- The \$20.91 rate for benefits and fringe per [2-man] crew hour included pension (\$6.13), vacation and holiday (\$3.30), wage taxes (\$4.00), health and welfare (\$5.60), and bonus and other (\$1.88).

EXHIBIT 2  
(Continued)

3. The \$20.42 rate for equipment per crew hour included a chipper (\$4.50), lift truck (\$14.92), and saws and tools (\$1.00).
4. Reduced lodging rate from \$50.00/day to \$25.00/day. OIG researched 1998 room rates and determined with at least double occupancy and weekly discounts, \$25.00 a day per man was a realistic cost. (2 man crew =  $(\$50.00/12 \text{ hrs}) = \$4.17$ ).
5. Reduced costs for meals and incidentals from \$25.00/day to actual of \$12.00/day as indicated on several timesheets. (2 man crew =  $(\$50/12 \text{ hr} = \$4.17$ , reduced to  $\$24/12\text{hr} = \$2.00$ , Difference = \$2.17).
6. The contractor's \$1.00 rate for "administrative overhead" per crew-hour appeared low compared to most for-profit entities. Therefore, we increased the \$1.00 rate to \$9.93 based on 10 percent of other costs before profit ( $\$99.33 \times 10\%$ ), which was more reasonable based on OIG judgment and experience.
7. Based on our analysis, we decreased the profit rate (profit as a percentage of costs) to 7.0 percent ( $\$7.65 / \$109.26$ ), which equates to a profit margin (profit as a percentage of price) of 6.5 percent ( $\$7.65 / \$116.91$ ). Based on costs per the contractor, the contractor's profit rate was 45.8 percent ( $\$48.83 / \$106.67$ ) and profit margin was 31.4 percent ( $\$48.83 / \$155.50$ ).
8. Reduced excessive profit rate of 45.8 percent ( $48.83 / 106.67$ ) to a reasonable rate of 7.0 percent ( $7.65 / 109.26$ ).

Calculation of Unreasonable Profits  
Michigan State Police, Emergency Management Division  
FEMA Disaster Number 1226-DR-MI

	<u>Amount</u> <u>Invoiced to MSP</u>	<u>Unreasonable</u> <u>Profits</u>	<u>Notes</u>
Lead Contractor:			
127,116.25 reg/OT hours at \$77.75	\$ 9,883,288	\$ 2,453,344	1
1,267 Sunday/holiday hours at \$89.75	113,713	24,453	2
Management fees: 45 days X \$1,200	54,000	0	3
Subcontractors	6,522,479	0	4
Markup on subcontractors	647,859	647,859	5
Equipment	300,776	0	
Mobilization	<u>894,601</u>	<u>0</u>	
Total for Lead Contractor	\$ 18,416,716	\$ 3,125,656	
2 <sup>nd</sup> Contractor: 19,591.50 hours at \$85.00	\$ 1,665,278	\$ 260,950	6
	<u>(621,478)</u>	<u>0</u>	7
Total for 2 <sup>nd</sup> Contractor	\$ 1,043,800	\$ 260,950	
Total	* <u>\$ 19,460,516</u>	<u>\$ 3,386,606</u>	

\* \$19,460,518 claimed, component-rounding difference of \$ 2.00.

Notes

1. Exhibit 2 shows the calculation of a \$58.45 per hour rate that we considered reasonable for this contractor. The OIG's rate is \$19.30 less than the \$77.75 charged for regular/overtime hours, or a 25 percent reduction (127,116.25 X \$19.30 = \$2,453,344).
2. The contractor did not provide a breakdown for his Sunday and holiday rate of \$89.75. We reduced this rate by \$19.30, the same reduction applied to regular/overtime rates (1,267 X \$19.30 = \$24,453).
3. The lead contractor included a provision in his contract for a management fee of \$1,200 per day, in addition to hourly charges.
4. Subcontractors charged the lead contractor various hourly rates.
5. We questioned the markups on subcontractor costs as unreasonable profit to the lead contractor. We found no evidence that MSP or the contractor monitored the work of these subcontractors or attempted to negotiate rates.

EXHIBIT 2  
(Continued)

6. The second contractor did not provide a breakdown for his \$85.00 cost rate. To calculate a reasonable rate, we reduced it by \$21.25, or 25 percent, the same reduction percentage applied to the lead contractor ( $12,280 \times \$21.25 = \$260,950$ ).
7. Amount invoiced by contractor and paid by MSP, but inadvertently excluded from reimbursement claim.