



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
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April 1, 2003

MEMORANDUM FOR: Jeff Griffin
Regional Director, FEMA Region IX

FROM: *Robert J. Lastrico*
Robert J. Lastrico
Audit Manager

SUBJECT: Los Angeles County Department of Public Works
Alhambra, California
Public Assistance Identification Number 037-91012
FEMA Disaster Number 0979-DR-CA
Audit Report Number DO-01-03

The Office of Inspector General audited public assistance funds awarded to the Los Angeles County Department of Public Works, Alhambra, California (Department). The objective of the audit was to determine whether the Department expended and accounted for FEMA funds according to Federal regulations and FEMA guidelines.

The Department received an award of \$22.7 million from the California Office of Emergency Services (OES), a FEMA grantee, for damage resulting from severe winter storms, mud and rock slides, and flooding that occurred from January 5, 1993, to March 20, 1993. The award provided 75 percent FEMA funding for 98 large projects and 186 small projects.¹ The audit covered the period January 1993 to November 2001. We judgmentally selected and audited 20 large projects with an award of \$14,217,198, including costs associated with employee benefits (Exhibit A). For the remaining 78 large projects, we performed a limited scope review of the reasonableness of \$742,772 claimed by the Department for employee straight time and overtime fringe benefits costs (Exhibit B).

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 a review of FEMA's and OES' records, tests of the Department's accounting records, a judgmental sample of project expenditures, and other auditing procedures we considered necessary under the circumstances.

¹ According to Federal regulations in effect at the time of the disaster, a large project was defined as a project costing \$41,300 or more, and a small project was defined as one costing less than \$41,300.

RESULTS OF AUDIT

The Department's claim contained \$2,064,796 in questionable costs (FEMA share – \$1,548,597) consisting of \$1,914,100 of costs outside the scope of the project, \$133,510 of unsupported fringe benefits costs on overtime labor, \$13,057 of ineligible force account labor charges, and \$4,129 of unsupported project costs (See below).

- A. Costs Outside the Scope of the Project. The Department's claim for project 16665 included \$1,914,100 in debris removal costs outside the scope of the project. The scope of the project entailed the removal of debris from Morris Reservoir (reservoir) that resulted from a prior Federally declared disaster (Disaster 935). Because Disaster 935 debris had not been removed from the reservoir due to environmental issues existing prior to the Disaster 979 declaration, FEMA agreed to pay eligible Disaster 935 project costs using Disaster 979 funds. However, FEMA did not approve debris removal costs associated with Disaster 979 because, after various appeals, it was determined that the U.S. Army Corps of Engineers had responsibility for permanent repairs at the reservoir; and that the Disaster 979 debris was not significant, did not create an immediate threat, and was not adequately documented.

An August 1998 internal Department memorandum indicated that FEMA was informed that Disaster 935 debris was estimated at 620,000 cubic yards (cy) and removal costs were estimated at \$2,644,700. The memorandum explained that those estimates represented a prorated comparison of the cost of removing an estimated 2.5 million cy of eligible and ineligible debris at an estimated cost of \$10.7 million.² Because eligible Disaster 935 debris was not easily distinguishable from ineligible Disaster 979 debris, FEMA accepted the Department's proration methodology, funded project 16665 based on the Department's scope and cost estimates, and categorized the project as an improved project.³

The Department claimed estimated project costs of \$2,644,700 as the actual costs of accomplishing the scope of work (removal of an estimated 620,000 cy of debris). However, review of the Department's records showed that the Department actually removed 2,098,172 cy of debris at a cost of \$2,472,462. Although actual costs were less than estimated project costs, the Department removed 1,478,172 cy of debris in excess of the estimated scope of the project (2,098,172 cy minus 620,000 cy). Department officials explained that while they had estimated \$10.7 million to complete the removal of eligible and ineligible debris, only \$2,472,462 was actually incurred.

² In order to fund eligible Disaster 935 debris under Disaster 979, the Department estimated what portion of the total debris in the reservoir was attributed to Disaster 935 as follow: $620,000 \text{ cy} / 2,500,000 \text{ cy} \times \$10.7 \text{ million} = \$2,644,700$.

³ In a second appeal analysis regarding the eligibility of removing Disaster 979 debris, FEMA recognized that the reservoir also contained debris from the winter storms of 1995 (Disasters 1044 and 1046). Those disasters occurred before the improved project to fund eligible work under Disaster 935 was awarded by FEMA.

Minimally, the Department's final claim should have been limited to actual costs incurred under the project (\$2,472,462) versus the project estimate (\$2,644,700). If we had reasonable assurance that only eligible Disaster 935 debris was removed from the reservoir, we would only question the difference between the amount claimed and the actual costs incurred, or \$172,238 (\$2,644,700 minus \$2,472,462). However, we believe the same methodology used to determine the estimated scope of work and associated costs should be applied to the actual scope of work and costs because:

- Eligible work could only be estimated from inception to completion of the project,
- Project funding was based on the Department's own proration methodology,
- There was no assurance that any of the 1,478,172 cy of debris in excess of the estimated scope of the project was eligible, and
- Applying the Department's own methodology for estimating eligible debris removal costs to the actual costs incurred results in a reasonable estimate of actual project costs incurred under project 16665.

Using this methodology, we estimated that only \$730,600 of the total actual costs incurred by the Department was related to project 16665.⁴

According to Federal regulation 44 CFR 206.223(a)(1), to be eligible for financial assistance, an item of work must be required as the result of a major disaster event. Since the removal of the additional 1,478,172 cy of debris from the reservoir could not be reasonably construed to be within the approved project scope, we question \$1,914,100 (\$2,644,700 minus \$730,600) as ineligible project costs claimed by the Department.

- B. Unsupported Fringe Benefits Costs on Overtime Labor. The Department claimed fringe benefits costs of \$133,510 on its force account overtime labor that were not supported with sufficient documentation. The Department used fringe benefits rates of 44.85 percent on its regular pay and 18.81 percent on the overtime pay. The records provided to us by the Department indicate that the fringe benefits rate for regular pay was reasonable; however, the rate for the overtime labor was overstated because it included costs for retirement, sick leave, and unemployment insurance. Normally, these costs are based on the regular salaries of the employees and do not vary with the payment of overtime costs. Based on the records provided by the Department, the actual fringe benefit rate for overtime, excluding retirement, sick leave, and unemployment insurance was 3.36 percent. The Department did not respond to our request to provide documentation showing that retirement, sick leave and unemployment insurance benefits vary with the payment of overtime wages and were

⁴ $620,000 \text{ cy} / 2,098,172 \text{ cy} \times \$2,472,462 = \$730,600$

required by law, governmental unit, employee agreement, or an established policy. Exhibit B provides the details of the unsupported fringe benefit costs for overtime applicable to each of the projects we reviewed.

According to Federal regulation 44 CFR 13.20(b), the Department is required to maintain accounting records that identify how FEMA funds are used. Also, according to Office of Management and Budget Circular A-87, Attachment B, paragraph 11d(1), the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit. Because the fringe benefits rate applied to overtime labor was not supported by source documentation and was not reasonable, we question \$133,510.

- C. Ineligible Force Account Labor. The Department claimed \$13,057 for force account labor costs not related to the scope of the projects. For project 65457, the Department inadvertently included \$7,564 in charges relating to routine maintenance activities, such as flat tire repairs and routine service calls. For project 65994, the Department included \$5,493 in charges for vegetation control and real property management.

According to Federal regulation 44 CFR 206.223(a)(1), to be eligible for financial assistance, an item of work must be required as the result of a major disaster event. Consequently, we question the \$13,057 (\$7,564 plus \$5,493) claimed by the Department for force account labor costs not related to the scope of the projects.

- D. Unsupported Project Costs. The Department claimed \$4,129 in project costs that were not supported with invoices or similar documentation proving the charges were project related. The costs pertained to the following three projects:

<u>Project Number</u>	<u>Questioned Costs</u>
46218	\$1,750
84312	1,436
65447	943
<u>Total</u>	<u>\$4,129</u>

According to Federal regulation 44 CFR 13.20(b), the Department is required to maintain accounting records that identify how FEMA funds are used. Since the Department did not maintain adequate records supporting the charges, we question the \$4,129 as unsupported project costs.

RECOMMENDATION

We recommend that the Regional Director, in coordination with OES, disallow questioned costs of \$2,064,796.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed our audit results with Department and OES officials on October 31, 2002. These officials concurred in principle with the findings and recommendation. We also discussed the results of our audit with Region IX officials on March 13, 2003.

Pursuant to FEMA Instruction 1270.1, please advise this office by June 2, 2003, of actions taken to implement our recommendation. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this audit were Ravinder Anand, Gloria Conner, and James Kane.

Schedule of Audited Costs

Los Angeles County Department of Public Works
FEMA Disaster Number 0979-DR-CA

Project Number	Amount Awarded	Amount Questioned	Finding Reference
46387	\$ 174,295		
65447	117,553	\$ 943	D
65458	135,899		
84312	244,562	1,436	D
97290	278,183		
97291	367,005		
97292	56,804		
97293	232,059		
16665	2,644,700	1,914,100	A
65457	232,514	7,564 *	C
65994	274,743	5,493 *	C
46218	201,998	1,750	D
65208	584,649		
85215	576,291		
85217	380,737		
45965	4,433,103		
45967	1,641,274		
96307	299,975		
95791	274,220		
65206	1,066,634		
Overtime Benefits	<u>See Exhibit B</u>	<u>133,510</u>	B
Total	<u>\$14,217,198</u>	<u>\$2,064,796</u>	

* Questioned costs associated with overtime benefits are included in the Exhibit B total below (\$133,510).

Legend:

- A. Costs Outside the Scope of the Project
- B. Unsupported Fringe Benefits Costs on Overtime Labor
- C. Ineligible Force Account Labor
- D. Unsupported Project Costs

Schedule of Unsupported Overtime Fringe Benefit Claim Costs

Los Angeles County Department of Public Works
FEMA Disaster Number 0979-DR-CA

FEMA Project Number	Total Force Account Overtime Claimed	Claimed Amount for Overtime Fringe Benefits (18.81%)	Actual Cost of Overtime Fringe Benefits (3.36%)	Unsupported Claim for Overtime Fringe Benefits
46387	\$ 9,091.01	\$ 1,710.02	\$ 305.46	\$ 1,404.56
65447	5,925.77	1,114.63	199.11	915.52
65458	24,156.46	4,544.03	811.66	3,732.37
84312	2,033.90	382.44	68.34	314.10
97291	391.22	73.59	13.14	60.45
97292	120.41	22.64	4.05	18.59
46218	11,659.94	2,193.23	391.77	1,801.46
65457	95,224.07	17,911.65	3,199.53	14,712.12
65994	4,619.61	835.09	155.22	679.87
83633	172.91	32.52	5.81	26.71
65208	89,123.31	16,764.09	2,994.54	13,769.55
85215	64,095.07	12,056.28	2,153.59	9,902.69
85217	27,547.10	5,181.61	925.58	4,256.03
45967	18,228.62	3,428.80	612.48	2,816.32
95791	1,979.54	372.35	66.51	305.84
96307	473.69	89.10	15.92	73.18
65206	7,819.85	1,470.91	262.75	1,208.16
46235	31,700.51	5,962.86	1,065.14	4,897.72
46645	92.42	17.38	3.11	14.27
46646	207.72	39.07	6.98	32.09
46660	4,398.08	827.28	147.78	679.50
65203	8,840.73	1,662.94	297.05	1,365.89
65371	454.01	85.40	15.25	70.15
65440	26,009.09	4,892.31	873.91	4,018.40
65445	15,658.55	2,945.37	526.13	2,419.24
65448	6,786.48	1,276.54	228.03	1,048.51
85214	19,209.40	3,613.28	645.44	2,967.84
85221	54,064.83	10,169.58	1,816.58	8,353.00
85274	24,696.19	4,645.36	829.79	3,815.57
91798	3,670.02	690.32	123.31	567.01
92358	1,583.82	297.92	53.22	244.70
92361	115.23	21.67	3.87	17.80
95485	164.78	30.99	5.54	25.45
96303	716.54	134.78	24.08	110.70
46143	719.40	135.32	24.17	111.15
46208	1,345.01	253.00	45.19	207.81
65217	2,926.79	550.53	98.34	452.19
65438	18,141.68	3,412.45	609.56	2,802.89

Schedule of Unsupported Overtime Fringe Benefit Claim Costs

Los Angeles County Department of Public Works
FEMA Disaster Number 0979-DR-CA

FEMA Project Number	Total Force Account Overtime Claimed	Claimed Amount for Overtime Fringe Benefits (18.81%)	Actual Cost of Overtime Fringe Benefits (3.36%)	Unsupported Claim for Overtime Fringe Benefits
65442	37,743.99	7,099.64	1,268.20	5,831.44
65443	14,523.11	2,731.80	487.98	2,243.82
65446	35,544.36	6,685.89	1,194.29	5,491.60
84676	6,949.77	1,307.25	233.51	1,073.74
85276	31,456.26	5,916.92	1,056.93	4,859.99
91771	12,247.79	2,303.81	411.53	1,892.28
96306	6,402.98	1,204.40	215.14	989.26
96377	136.97	25.76	4.60	21.16
46212	1,208.88	227.39	40.62	186.77
46214	516.29	97.11	17.35	79.76
46243	3,418.76	643.07	114.87	528.20
65223	759.80	142.92	25.53	117.39
64753	1,894.16	356.29	63.64	292.65
65404	1,578.30	296.88	53.03	243.85
65410	2,755.38	518.29	92.58	425.71
65416	6,965.84	1,310.27	234.05	1,076.22
65419	11,464.07	2,156.39	385.19	1,771.20
65421	6,808.17	1,280.62	228.75	1,051.87
65422	7,808.66	1,468.81	262.37	1,206.44
65423	9,417.63	1,771.46	316.43	1,455.03
65424	8,235.92	1,549.18	276.73	1,272.45
65483	2,372.91	446.34	79.73	366.61
65484	4,831.14	908.74	162.33	746.41
65485	5,328.96	1,002.38	179.05	823.33
65486	6,894.53	1,296.86	231.66	1,065.20
65575	6,496.32	1,221.96	218.28	1,003.68
65579	4,257.69	800.87	143.06	657.81
65580	782.40	147.17	26.29	120.88
65582	1,188.15	223.49	39.92	183.57
65583	6,205.62	1,167.28	208.51	958.77
65586	1,438.19	270.52	48.32	222.20
65588	1,710.12	321.67	57.46	264.21
65589	1,560.81	293.59	52.44	241.15
84600	1,107.63	208.35	37.22	171.13
96222	1,709.75	321.60	57.45	264.15
96253	5,965.77	1,122.16	200.45	921.71
65209	2,870.66	539.97	96.45	443.52
65426	5,995.50	1,127.75	201.45	926.30

Schedule of Unsupported Overtime Fringe Benefit Claim Costs

Los Angeles County Department of Public Works
 FEMA Disaster Number 0979-DR-CA

FEMA Project Number	Total Force Account Overtime Claimed	Claimed Amount for Overtime Fringe Benefits (18.81%)	Actual Cost of Overtime Fringe Benefits (3.36%)	Unsupported Claim for Overtime Fringe Benefits
45730	622.16	117.03	20.90	96.13
45964	837.73	157.57	28.15	129.42
46150	1,746.69	328.55	58.69	269.86
85212	<u>8,436.02</u>	<u>1,586.81</u>	<u>283.45</u>	<u>1,303.36</u>
Total	<u>\$864,359.60</u>	<u>\$162,552.14</u>	<u>\$29,042.48</u>	<u>\$133,509.66</u>

Note: 80 projects reviewed/audited.