



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Oakland Field Office - Audits Division
1111 Broadway, Suite 1200
Oakland, California 94607-4052

June 16, 2003

MEMORANDUM

TO: Jeff Griffin, Regional Director, FEMA Region IX

FROM: *Robert J. Lastrico*
Robert J. Lastrico, Field Office Director

SUBJECT: Los Angeles County Department of Public Works
Alhambra, California
Public Assistance Identification Number 037-91012
FEMA Disaster Numbers 1005-DR-CA and 1044-DR-CA
Audit Report Number DO-12-03

The Office of Inspector General (OIG) audited public assistance funds awarded to the Los Angeles County Department of Public Works, Alhambra, California (Department). The objective of this audit was to determine whether the Department's force account labor fringe benefits claim was reasonable and in accordance with federal regulations and Federal Emergency Management Agency (FEMA) guidelines.

For Disaster 1005, the Department received an award of \$5.4 million from the California Office of Emergency Services (OES), a FEMA grantee, for damage resulting from wildland fires, flooding, and mudslides that occurred from October 26, 1993, to April 22, 1994. This award provided 75 percent FEMA funding for 15 large projects and 27 small projects. For Disaster 1044, the Department received \$9.4 million from OES for damage resulting from flooding that occurred from January 3, 1995, to February 10, 1995. This award provided 75 percent FEMA funding for 29 large projects and 134 small projects.¹

The scope of this audit was limited to the fringe benefits costs claimed by the Department based on two prior OIG audits that identified problems with the Department's methodology for determining eligible costs.² This audit covered the period October 26, 1993, to April 27,

¹ Federal regulations in effect at that time of the two disasters defined large projects as those costing \$42,400 or more and \$43,600 or more, respectively. Small projects were those costing less than the aforementioned amounts.

² Disaster 979 - Audit Report Number DO-01-03, Disaster 1046 - Audit Report Number W-08-03

2001, and included a review of 15 projects with a \$5.1 million award for Disaster 1005 and 28 projects with \$7.5 million award for Disaster 1044 (Exhibit A).

The OIG 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, OES' and the Department's records, test of the Department's accounting records for force account labor and fringe benefits costs, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

The Department's claim included questionable costs of \$100,252 (FEMA's share \$75,189) for unsupported fringe benefits costs on overtime labor (\$45,446 for Disaster 1005 and \$54,806 for Disaster 1044).

The Department used fringe benefits rates of 44.85 percent on its regular pay and 18.81 percent on the overtime pay and stated that these rates were approved by the State Controller's Office. The records provided to the OIG by the Department indicated 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 benefits. Generally, 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 time, and unemployment insurance was 3.36 percent.

Department officials were unable to provide documentation showing that retirement, sick leave and unemployment insurance benefits varied with the payment of overtime wages and were required by law, governmental unit, employee agreement, or an established policy. At the exit conference, Department officials agreed that the fringe benefits claimed on overtime were overstated but noted they had under charged fringe benefits on the regular pay. Subsequently, Department officials provided the OIG revised costs that differed from those provided during the audit field work but confirmed that fringe benefits costs on overtime labor were overstated. Also, the Department applied a methodology not approved by the State Controller and not consistent with other County Departments. For example, the Department's revised costs used net salaries and wages instead of the gross salaries and wages to compute the regular time fringe benefit rate. In addition, the revised fringe benefits costs included retiree health insurance; a cost specifically disallowed by the State Controller's office because it pertained to prior periods, was not attributable to any current program, and FEMA derived no benefits from the expenditure. Exhibit B provides the details of the unsupported fringe benefit costs for overtime applicable to each of the projects the OIG reviewed.

Title 44, Code of Federal Regulations, Section 13.20(b) requires grant recipients to maintain accounting records that identify how FEMA funds are used. Also, Office of Management and Budget Circular A-87, Attachment B, paragraph 11d(1), states that 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 questioned \$100,252.

RECOMMENDATION

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES, disallow questioned costs of \$100,252.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the audit results with Department and OES officials on April 14, 2003. Department officials agreed that fringe benefits costs on overtime labor were overstated but disagreed with the audit recommendation. The OIG also discussed the audit results with Region IX officials on May 12, 2003.

Pursuant to FEMA Instruction 1270.1, please advise this office by August 15, 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 Humberto Melara, Ravinder Anand and Greg Suko.

Schedule of Large Projects Audited
Los Angeles County Department of Public Works
FEMA Disaster Number 1005-DR-CA

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Questioned</u>
06394	\$ 110,020	\$ 0
06733	1,962,304	7,219
12654	214,598	3,030
12662	604,725	11,419
48780	70,245	6,551
48786	68,486	2,841
68801	97,711	0
68803	76,515	0
68804	725,217	0
68836	62,545	1,198
68859	322,088	2,171
68865	80,678	1,986
73806	115,760	1,120
73880	442,762	5,572
73890	104,271	2,339
Total	<u>\$5,057,925</u>	<u>\$45,446</u>

Schedule of Large Projects Audited
Los Angeles County Department of Public Works
FEMA Disaster Number 1044-DR-CA

<u>Project Number</u>	Amount Awarded	Amount <u>Questioned</u>
19044	\$ 443,228	\$ 3,333
19952	149,134	666
19957	44,890	0
19964	53,396	0
19969	165,974	0
20231	101,971	2,498
20246	333,934	0
20254	114,460	0
20255	295,351	1,222
20262	332,340	0
37198	93,025	764
92996	103,972	4,421
95401	395,471	8,051
95406	100,845	2,566
95410	133,045	8,936
95413	138,584	4,618
95457	92,716	2,824
95458	61,461	836
95463	45,300	0
95485	120,803	1,326
95499	295,029	1,880
98635	158,212	1,378
98639	101,479	2,272
98643	95,686	1,609
98645	127,264	1,974
98646	72,798	1,185
06246	3,235,994	879
06483	67,150	1,568
Total	<u>\$7,473,512</u>	<u>\$54,806</u>

Schedule of Unsupported Overtime Fringe Benefits
Los County Angeles Department of Public Works
FEMA Disaster Number 1005-DR-CA

Project Number	Total Force Account Overtime Claims	Claimed Amount for Overtime Fringe Benefit (18.81%)	Actual Cost of Overtime Fringe Benefit (3.36%)	Unsupported Claim for Overtime Fringe Benefit	
06394	\$3,019.35	\$567.94	\$101.45	\$466.49	*
06733	46,727.58	8,789.45	1,570.05	7,219.40	
12654	19,613.49	3,689.29	659.01	3,030.28	
12662	73,908.00	13,902.09	2,483.31	11,418.78	
48780	42,405.38	7,976.45	1,424.82	6,551.63	
48786	18,390.63	3,459.28	617.93	2,841.35	
68801	3,229.14	607.41	108.50	498.81	*
68803	255.18	48.00	8.57	39.43	*
68804	2,347.28	441.52	78.87	362.65	*
68836	7,751.36	1,458.03	260.45	1,197.58	
68859	14,053.22	2,643.42	472.19	2,171.23	
68865	12,853.28	2,417.70	431.87	1,985.83	
73806	7,250.54	1,363.83	243.62	1,120.21	
73880	36,061.97	6,783.26	1,211.68	5,571.58	
73890	15,136.54	2,847.18	508.59	2,338.59	
	<u>\$303,002.94</u>	<u>\$56,994.66</u>	<u>\$10,180.88</u>	<u>\$46,813.84</u>	

* Questioned costs of less than \$500 per project have not been included in the results of audit. Thus, questioned unsupported fringe benefits costs are \$45,446 (46,814-1,368).

Schedule of Unsupported Overtime Fringe Benefits
Los Angeles County Department of Public Works
FEMA Disaster Number 1044-DR-CA

Project Number	Total Force Account Overtime Claims	Claimed Amount for Overtime Fringe Benefit (18.81%)	Actual Cost of Overtime Fringe Benefit (3.36%)	Unsupported Claim for Overtime Fringe Benefit	
19044	\$21,574.76	\$4,058.22	\$724.91	\$3,333.31	
19952	4,311.72	811.03	144.67	666.16	
19957	1,397.78	262.92	46.97	215.95	*
19964	0	0	0	0	
19969	279.72	52.62	9.40	43.22	*
20231	16,168.05	3,041.21	543.25	2,497.96	
20246	1,043.15	196.22	35.05	161.17	*
20254	1,654.91	311.29	55.60	255.69	*
20255	7,907.89	1,487.47	265.71	1,221.76	
20262	110.99	20.88	3.73	17.15	*
37198	4,944.05	929.97	166.12	763.85	
92996	28,616.86	5,382.83	961.53	4,421.30	
95401	52,109.31	9,801.75	1,750.87	8,050.88	
95406	16,610.25	3,124.39	558.10	2,566.29	
95410	57,839.96	10,879.70	1,943.42	8,936.28	
95413	29,892.49	5,622.77	1,004.39	4,618.38	
95457	18,281.46	3,438.74	614.26	2,824.48	
95458	5,409.62	1,017.55	181.76	835.79	
95463	151.52	28.50	5.09	23.41	*
95485	8,579.66	1,613.83	288.28	1,325.55	
95499	12,165.45	2,288.32	408.76	1,879.56	
98635	8,918.40	1,677.55	299.66	1,377.89	
98639	14,703.29	2,765.69	494.03	2,271.66	
98643	10,417.02	1,959.44	350.01	1,609.43	
98645	12,778.29	2,403.60	429.35	1,974.25	
98646	7,669.20	1,442.57	257.69	1,184.88	
06246	5,687.42	1,069.80	191.10	878.70	
06483	10,148.25	1,908.89	340.98	1,567.91	
	<u>\$359,371.47</u>	<u>\$67,597.56</u>	<u>\$12,074.66</u>	<u>\$55,522.86</u>	

* Questioned costs of less than \$500 per project have not been included in the results of audit. Thus, questioned unsupported fringe benefits costs are \$54,806 (55,523-717).