

**Victor Valley Wastewater
Reclamation Authority,
California, Provided FEMA
Incorrect Information for
Its \$33 Million Project**





DHS OIG HIGHLIGHTS

Victor Valley Wastewater Reclamation Authority, California, Provided FEMA Incorrect Information for Its \$33 Million Project

April 26, 2018

Why We Did This Audit

The Authority received a \$41 million FEMA grant award for damages from heavy rainfall and flooding that occurred in December 2010 and January 2011.

We audited more than \$33 million that FEMA awarded for the relocation and replacement of the Authority's pipeline.

This report (the second of two) focuses on the incorrect data the Authority and its engineering contractor provided to FEMA.

What We Recommend

FEMA should disallow the more than \$33 million in grant funds awarded to the Authority for Project 828 and coordinate with DHS for any applicable suspension and debarment actions.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

Victor Valley Waste Water Reclamation Authority, California (Authority), through its main engineering contractor, provided incorrect information to the Federal Emergency Management Agency (FEMA). FEMA relied on this information and awarded the Authority more than \$33 million to replace and relocate its wastewater pipeline.

We are not commenting on the appropriateness of the pipeline repair strategy. Rather, we are reporting on the incorrect information Authority officials provided FEMA in obtaining more than \$33 million in grant funds.

In our previous report (OIG-17-25-D; January 24, 2017), we determined that Authority officials did not comply with Federal procurement regulations in their award and administration of three contracts totaling \$31.7 million and did not properly account for costs.

FEMA Response

FEMA officials provided us their written response on March 14, 2018, and concurred with three of our four recommendations. They stated they are awaiting additional documentation from the California Governor's Office of Emergency Services (FEMA's grantee) and the Authority for the remaining recommendation before making a determination.



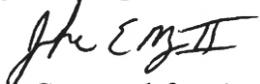
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Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

April 26, 2018

MEMORANDUM FOR: Robert J. Fenton, Jr.
Regional Administrator, Region IX
Federal Emergency Management Agency

FROM: John E. McCoy II 
Assistant Inspector General for Audits

SUBJECT: *Victor Valley Wastewater Reclamation Authority,
California, Provided FEMA Incorrect Information for Its
\$33 Million Project*

We audited Federal Emergency Management Agency (FEMA) Public Assistance Program grant funds awarded to the Victor Valley Wastewater Reclamation Authority, California (Authority). The California Governor's Office of Emergency Services (California), a FEMA grantee, awarded the Authority \$41 million for damages resulting from severe winter storms, flooding, debris, and mud flows that occurred in December 2010 and January 2011. The award provided 75 percent FEMA funding for four large projects and two small projects. We audited one large project (Project 828) totaling about \$33 million, or 80 percent of the total amount awarded. Because of the complexity of the issues involved, we divided this audit into two parts: one related to the Authority's contracting and accounting practices, and the other related to the information the Authority provided to FEMA to justify its construction repair choice (this report). Our first report questioned \$31.7 million in grant funding for three contracts the Authority awarded without following Federal regulations.¹

This report has four recommendations that address the ways by which the Authority accounted for and expended FEMA grant funds for the relocation and replacement of its pipeline according to Federal regulations and FEMA guidelines for FEMA Disaster Number FEMA-1952-DR-CA. FEMA concurred with three of the four recommendations, and is awaiting additional documentation from the grantee and subgrantee for the remaining recommendation, before making a determination.

Based on information provided in your response to the draft report, we consider recommendations 1 and 2 open and unresolved pending your office's review of the Authority's information, once submitted. As prescribed by the Department of Homeland Security Directive 077-01, *Follow-Up and Resolutions*

¹ OIG-17-25-D; issued January 24, 2017.



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for the Office of Inspector General Report Recommendations, within 90 days of the date of this memorandum, please provide our office with a written response that includes your agreement or disagreement, corrective action plan, and target completion date for this recommendation. Also, please include contact information for responsible parties and any other supporting documentation necessary to inform us about the status of the recommendation. Until your response is received and evaluated, the recommendation will remain open and unresolved. We consider recommendations 3 and 4 open and resolved. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendations. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts. Please send your response or closure request to OIGAuditsFollowup@oig.dhs.gov.

Please call me with any questions, or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General at (202) 254-4100.

Background

The Victor Valley Wastewater Reclamation Authority is a California Joint Powers Authority that owns, operates, and maintains wastewater collection, treatment, and disposal facilities.² The Authority serves about 279 square miles in the High Desert area of San Bernardino County. Its facilities included more than 40 miles of sewer pipes that collected sewage from the southern portion of the service area and routed it to the Regional Wastewater Reclamation Facility, located at the northern portion of the service area. A significant portion of these pipes was constructed in the 1970s and early 1980s. With a population expansion in the service area, the Authority estimated in its 2011 fiscal year budget that some of its facilities — such as the South Apple Valley pipeline — could reach capacity as early as 2012. As a result, Authority officials planned a number of capital improvement projects to address these capacity issues. Authority officials estimated that the upgrade, rehabilitation, and expansion of its facilities would cost about \$170 million.

On December 29, 2010, severe winter storms, flooding, debris, and mud flows caused a break in the Authority's wastewater pipeline, a portion of which ran under the Mojave River (figure 1) — the river that flows from South to North in the service area.³ The following month, the Authority's engineering contractor

² Joint Powers Authority is a separate government organization created by the member agencies to share resources and combine services (California State Legislature – Senate Local Government Committee; August 2007; *Governments Working Together: A Citizen's Guide to Joint Powers Agreements*). (Please see <http://sgf.senate.ca.gov> for additional information.)

³ Federal Register; *California; Major Disaster and Related Determinations*; FR Doc. 2011-2654 Filed 2-7-11; 02/08/2011 (<https://www.federalregister.gov/documents/2011/02/08/2011-2654/california-major-disaster-and-related-determinations>).



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(Contractor A) inspected the damages and evaluated a number of permanent repair options.⁴ In March 2011, Authority officials hired another engineering firm (Contractor C) to assist them with obtaining FEMA funding and to further assess those permanent repair options.⁵

The repair options that Contractor C officials evaluated and for which they provided cost estimates to FEMA were:

- Alternative #1 – Repair the damaged section of pipe, without moving the footprint of the pipeline.
- Alternative #2 – Construct a replacement pipeline outside of the Mojave Riverbed. This replacement and relocation method involved a variety of construction methods, such as horizontal directional drilling and tunneling, to dig thousands of feet under the river, railroad, and city streets.
- Alternative #3 – Similar to Alternative #1, but would include hazard mitigation measures to reinforce the pipeline against future disaster damages.⁶

As the Authority's designated agent and project engineer, Contractor C provided FEMA damage descriptions, cost data, and an assessment of repair options on behalf of the Authority. Contractor C's information — that Alternative #2 was the *least expensive* option — resulted in FEMA's decision to fund Alternative #2.

FEMA initially awarded the Authority \$11,135,937 for Alternative #2 under Project 828 (figure 2). However, at the time of this report, FEMA had already obligated \$33,024,002 for this project alone. In April 2016, the Authority requested an additional \$6,036,462 for cost overruns on the project, which FEMA is currently reviewing.⁷

⁴ In response to the disaster, FEMA funded the construction and operation of a temporary bypass pipeline (Project 1136) until the permanent repairs were completed.

⁵ The Authority received bids from three engineering contractors for Project 828 (Contractors A, B, and C) and selected Contractor C to perform the work.

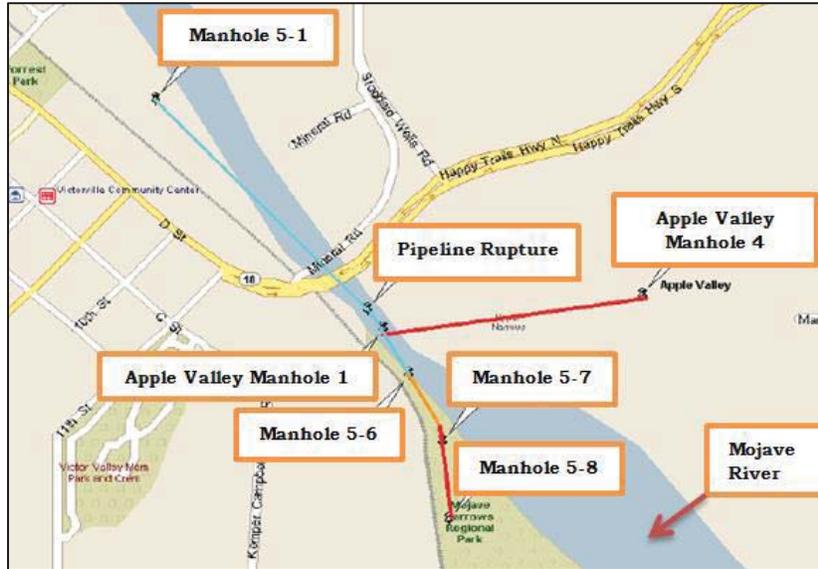
⁶ Hazard Mitigation is any action taken to reduce or eliminate long term risk to people and property from natural disasters. FEMA provides funding for eligible mitigation activities that reduce disaster losses and protect life and property from future disaster damages. (See Stafford Act Section 404, codified at 42 U.S.C. § 5170c; FEMA Recovery Policy RP9526.1; <https://www.fema.gov/95261-hazard-mitigation-funding-under-section-406-stafford-act.>)

⁷ In April 2016, Authority officials requested FEMA to provide the Authority an additional \$6,036,462 — and thereby increase its funding to \$39,160,464 — to pay for the Authority's cost overruns on the project. However, the Authority's documentation supported only \$33 million in total costs (including change orders). We asked Authority officials about this request for additional funding and they told us that their \$6 million request included duplicate costs and the cost overruns were therefore actually about \$2.8 million.



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**Figure 1: Original Location of the Authority’s Pipeline
(Only parts of the pipeline were in the Mojave Riverbed)**



Source: FEMA and Office of Inspector General (OIG)

Figure 2: New Location of the Authority’s Pipeline



Source: Contractor C



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Results of Audit

The Authority, through its main engineering contractor (Contractor C), presented incorrect data and misinformed FEMA in obtaining a Federal grant of more than \$33 million for its pipeline replacement and relocation project. Authority officials wanted to move the pipeline outside of the Mojave Riverbed, but noted the high cost to do so. Authority officials knew that replacing and relocating the pipeline was the most expensive repair option, as their Contractors A and C informed them. However, through Contractor C, Authority officials repeatedly provided FEMA incorrect data that made Alternative 2 appear to be the least expensive.

Based on the incorrect information Authority officials provided, FEMA funded \$11 million for the replacement and relocation project in 2013 and an additional \$22 million in 2014, a total of \$33 million. We question the entire \$33 million as ineligible because the Authority did not comply with Federal regulations, and FEMA policies and procedures, in preparing cost estimates for FEMA.⁸

These requirements stipulate that —

- only disaster-related repair work is eligible for FEMA funding (44 CFR 206.223 (a)(1));
- using local costs derived from actual contract history is preferred because national publications “may not always provide work items that are appropriate or applicable to the construction activities required to complete the project” (*CEF Instructional Guide*, 2009, p. 4–8); and
- “In order to develop the most accurate and sound estimates, FEMA depends on a strong partnership with grantees and subgrantees. The local officials and local technical professionals (i.e., engineers and architects) commonly are in the best position to develop the estimates of eligible costs....” (SOP9570.8).

Furthermore, because Authority and Contractor C officials repeatedly provided FEMA incorrect information, FEMA should coordinate with the U.S. Department of Homeland Security for any applicable actions (e.g., suspension and/or debarment).

⁸ 44 CFR Subpart H – Public Assistance Eligibility; FEMA’s “CEF [Cost Estimating Format] for Large Projects Instructional Guide V2.1,” (September 2009) (*CEF Instructional Guide*); FEMA’s “Cost Estimating Format Standard Operating Procedure,” SOP9570.8 (SOP9570.8).



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The Authority Provided Incorrect Information to FEMA for Its \$33 Million Project

The Authority presented Alternative #2 (relocating and replacing the pipeline outside of the Mojave Riverbed) to FEMA as the *least expensive* option, even after the Authority’s two engineering firms (Contractors A and C) informed Authority officials that Alternative #2 was the *most expensive* option.

Authority officials — through Contractor C — provided FEMA estimates that:

- I. Overstated the costs for Alternatives #1 and #3 by about \$9 million.
- II. Understated the cost for Alternative #2. Contractor C submitted data to FEMA that showed Alternative #2 could cost as little as \$12 million. However, to date, total funding requests have exceeded \$39 million.

This led FEMA to fund Alternative #2 under the premise that it was the least expensive option.

I. The Authority Overstated the Costs for Alternatives #1 and #3

Alternative #1. Through Contractor C, the Authority overstated the repair work needed by almost \$9 million — including \$4 million in overstated costs (that FEMA identified and removed from the Authority’s \$16 million estimate) and another almost \$5 million of non-disaster related costs (see table 1):

Table 1: Non-disaster Related Costs in Alternative #1	
Cost	Amount
Undamaged Apple Valley Interceptor	\$124,122
Overstated Cofferdam	3,458,716
Total Non-disaster Related Construction Costs	\$3,582,838
Other Non-disaster Related Costs (design, project management, etc.)	1,159,578
Total Non-disaster Related Costs	\$4,742,416

Source: Authority data and OIG analyses

- **South Apple Valley Interceptor.** Contractor C did not inspect the Apple Valley pipeline. When the Authority’s initial engineering firm (Contractor A) inspected the pipeline using both sonar and video methodologies, which was the only inspection performed, it did not inspect the Apple Valley section of pipeline or note any damage to that section. However, Contractor C informed FEMA that inspection confirmed the disaster damaged about 1,455 feet of the Apple Valley pipeline (manholes 1 to 4 as shown in figures 1 and 3). Contractor C stated, “Reconnaissance of the damage was performed ... and the existing Mojave River gravity sewer



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interceptor and the Apple Valley Feeder were damaged beyond repair....” However, Contractor C did not provide documentation to support this. Because of the lack of documented damage to the Apple Valley pipeline, the Authority cannot support the \$124,122 cost to repair the 1,455 feet of pipeline as disaster-related.

- **Cofferdam.**⁹ Contractor C’s cost estimate for Alternative #1 included the cost of a 4,540 foot long temporary cofferdam to repair the Authority’s pipeline, including the South Apple Valley Interceptor.¹⁰ However, the Authority’s records indicate that only 1,379 feet of pipeline rested in the riverbed (see figure 1). Therefore, Authority officials could not support the need for a cofferdam for the remaining 3,161 feet of pipeline or the \$3,458,716 in additional costs.
- **Other Costs (including design and project management).**¹¹ The total estimate for Alternative #1 also included other costs associated with the overstated 3,161 feet of the cofferdam and with the repair of the South Apple Valley Interceptor. These costs — an additional \$1,159,578 — are ineligible for FEMA funding because they were for non-disaster work.

⁹ A cofferdam is a temporary structure designed to create dry work area for construction below the waterline. (Kamran M. Nemati, 2007, Temporary Structures, via <http://courses.Washington.edu>; <https://ahdictionary.com/word/search.html?q=cofferdam>; or <https://www.britannica.com/technology/cofferdam>.)

¹⁰ \$1,591,009 or 46 percent (1,455 feet/3,161 feet) of the overstated cofferdam costs were for the Apple Valley line.

¹¹ FEMA’s cost estimating process or “Cost Estimating Format (CEF)” is a methodology for estimating the total eligible funding at the beginning of a project. Using a worksheet containing the base construction costs (Part A), the user applies a series of factors that represent additional eligible project costs not captured in the base construction costs (Parts B through H), such as design and project management costs (*CEF Instructional Guide* p. 1-2).



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Figure 3: Contractor C’s Presentation to FEMA of the Damaged Pipeline



Source: Contractor C

Although Federal regulations stipulate that only disaster-related repair work is eligible for FEMA funding (44 CFR 206.223 (a)(1)), we determined that Authority officials misrepresented the damage and overstated the work needed for Alternative #1 by including ineligible costs unrelated to the disaster.

Alternative #3. For Alternative #3, Contractor C officials added mitigation costs (additional work to prevent future damages to the pipeline) to their already overstated estimate for Alternative #1. This made Alternative #3 appear to be the most expensive option and therefore effectively ensured that FEMA would not consider it.¹²

Authority’s and Contractor C’s Comments

We requested an explanation of the need for a cofferdam for the entire length of the project, rather than just the section located within the riverbed, and supporting documentation. Contractor C officials — the designer of the cofferdam — did not address our question. Instead, they said FEMA prepared the cost estimates. Authority officials told us the entire length of pipe was

¹² In January 2011, Contractor A evaluated repair methods similar to Alternatives #2 and #3. Contractor A concluded that Alternative #2 would cost more than twice the cost of Alternative #3 (\$17 million vs. \$8 million).



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located within a flood zone and the cofferdam was needed to protect the project in the event of flooding, as well as for dewatering the project due to the high groundwater conditions.

Regarding the South Apple Valley Interceptor, Authority officials acknowledged that there was no evidence that the pipeline was damaged. They said, however, replacing the Apple Valley line was intended to comply with Executive Order 11988 (Floodplain Management) and to minimize the impact to natural habitats.

OIG's Response

We acknowledge that FEMA completed the final computations of the cost estimate for Alternative #1. Nevertheless, that estimate was based on Contractor C's damage description and cofferdam design; therefore, the overestimation of costs for Alternative #1 was the direct result of the incorrect data Contractor C officials provided to FEMA. Furthermore, we found Authority officials' explanation of the cofferdam dimension inconsistent with Contractor C's documents. These documents indicate that the cofferdam was designed on the premise that all 4,540 feet of pipeline were within the riverbed (which was not accurate) – not for floodplain management (see figure 1). Thus, documents prepared by Contractor C — the engineer of the cofferdam — contradict Authority officials' explanation. Consequently, Authority officials could not establish that the \$3,458,716 in cofferdam costs for the section of pipe located outside the riverbed was disaster-related.

Furthermore, there is no documentation supporting that the additional 1,455 feet of pipeline (for the South Apple Valley Interceptor) included in the Authority and Contractor C's estimates were required for environmental-related (or other) reasons. In fact, the repair options that the Authority hired Contractor C to review did not originally include the Apple Valley pipeline. Contractor C added the Apple Valley pipeline to both Alternatives #1 and #3, noting it was "damaged beyond repair," despite no evidence of damage. Additionally, Contractor A (who also reviewed repair options for the Authority) did not include any work on the Apple Valley pipeline in its repair-in-place options — for environmental or any other reasons.¹³ Therefore, the \$124,122 for the Apple Valley pipeline was not eligible for FEMA funding because it was not disaster related. Lastly, as a result of including the Apple Valley pipeline in its scope of work, the Authority also overstated the cofferdam cost estimate by an additional \$1.6 million in non-disaster related costs (see footnote 10).

¹³ Both contractors' relocation options (Alternative #2) included the Apple Valley pipeline. Because the pipeline (from manholes 5-1 to 5-8) intersects the Apple Valley pipeline in the Riverbed, the inclusion of the Apple Valley pipeline in Alternative #2 is necessary in order to relocate the Authority's pipeline completely out of the riverbed.



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II. The Authority Understated Costs for Alternative #2

Authority and Contractor C officials understated costs for Alternative #2. Through Contractor C, Authority officials submitted documents to FEMA presenting Alternative #2 as the least expensive option, at \$13 million, while knowing it could cost about \$20 million.

Contractor C officials understated costs by drastically misrepresenting the complexity of Alternative #2's scope of work (table 2).

Item of Work	Cost Estimate Presented to FEMA	Winning Bid ¹⁴	Difference
Tunneling/Drilling & Shafts	\$5,521,983	\$16,341,050	\$10,819,067
Mobilization	0	2,305,000	2,305,000
Manhole System	114,164	742,000	627,836
Total	\$5,636,147¹⁵	\$19,388,050	\$13,751,903

Source: Authority data and OIG analyses

For example, they —

- Understated costs of tunneling/drilling and tunneled shafts by more than \$10.8 million.¹⁶ Alternative #2 required digging thousands of feet into hard rock and drilling deep below the riverbed, yet Contractor C included only \$966 per foot for tunneling/drilling and \$66,609 for each shaft. The average bid price was \$3,115 per foot for tunneling/drilling and \$1,116,500 per shaft.
- Excluded more than \$2.3 million in mobilization costs.
- Understated prices for specialized manhole systems by \$627,836.¹⁷ Through Contractor C, the Authority provided data to FEMA that each cast-in-place manhole would cost an average of \$15,989. However, the Authority knew that for a pipeline project below the riverbed, the

¹⁴ These amounts reflect the lowest overall bidder's price for each item of work.

¹⁵ The Authority's data showed the total base construction cost for Alternative #2 was \$7,835,671. FEMA awarded the Authority \$11,135,937, which included other construction-related costs, such as architecture, engineering, and project management.

¹⁶ See table 2: \$9,202,284 + \$1,616,783 = \$10,819,067.

¹⁷ See table 2: \$742,000 - \$114,164 = \$627,836.



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manhole system pricing would be substantially more, which it was; the average bid price the Authority received was \$76,927 per manhole.¹⁸

To develop the most accurate and sound estimates, FEMA depends on its subgrantees' and their engineers/technical professionals to provide FEMA with appropriate data. FEMA policies stipulate that —

- using local costs derived from actual contract history is preferred because national publications may not always provide work items that are appropriate or applicable to the construction activities required to complete the project (*CEF Instructional Guide*, 2009, p. 4–8).
- FEMA depends on a strong partnership with grantees and subgrantees. The local officials and local technical professionals (i.e., engineers and architects) commonly are in the best position to develop the estimates of eligible costs (FEMA Standard Operating Procedure 9570.8).

Contractor C — with key staff on the project, claiming years of FEMA project experience and expertise in pipeline projects — did not follow these FEMA policies.¹⁹ Instead of using local cost data, Contractor C officials used data from internet sources, which resulted in significantly understated costs for Alternative #2.²⁰ Moreover, Contractor C had local cost data. In March and May 2011, while preparing cost estimates for Alternative #2, Contractor C officials received bids for the Santa Ana River Interceptor relocation project for another client. Through two competitive bidding processes, Contractor C received a total of 28 bids on the construction of the Santa Ana Mainline and of the Santa Ana Yorba Linda Spur pipeline, which were located less than 90 miles from the Authority.

A comparison of our estimate using the cost data from the Yorba Linda Spur line to Contractor C's estimates (based on internet sources) reveals significantly understated costs to FEMA for Alternative #2 (table 3) — ²¹

¹⁸ Authority officials told us this price is appropriate for manhole systems in residential areas, and manhole systems for projects like Authority's would cost substantially more.

¹⁹ For example, Contractor C represented its Project Director to be an expert in pipeline design and cost estimation. In another example, Contractor C represented its Project Manager to be a highly experienced former FEMA Project Officer who had worked on 90 FEMA projects for 18 different public agencies across 5 counties and 3 States. Contractor C officials used these qualifications—including proficiency at cost-estimating—as a selling point when submitting their proposal to the Authority.

²⁰ We determined the cost for Alternative #2 would exceed \$16 million using the bid results from the Santa Ana project.

²¹ Contractor C, which engineered the Santa Ana project, received 14 bids in March 2011 for the Yorba Linda Spur pipeline and another 14 bids in May 2011 for the Santa Ana Mainline. The 14 bids we compared were for the Yorba Linda Spur pipeline, which Contractor C provided to FEMA to support costs for minor work items (such as dewatering). Contractor C never provided us the bid results for the Santa Ana Mainline project work items.



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Item of Work	Cost Estimate Using Data from Yorba Linda Spur Line²²	Understated Cost Data Presented to FEMA
Mobilization	\$593,214	\$0
Tunneled Shaft/each	\$521,571	\$66,609
Manhole System/each	\$91,107	\$15,989

Source: Authority data and OIG analyses

Our analyses determined that if Contractor C officials used local cost data, their cost estimates for Alternative #2 would have ranged from a minimum of \$16 million (based on the lowest bid for Yorba Linda Spur line) and as high as \$22 million (based on the lowest bid for Santa Ana Mainline).²³ Had Contractor C officials followed Federal regulations and FEMA policies, FEMA could have concluded that Alternative #2 was the most expensive alternative (table 4).

Source	Alternative #1	Alternative #2	Alternative #3
Authority/Contractor C Provided to FEMA	\$16 Million	\$13 Million	\$18 Million
OIG Analyses	\$7 Million ²⁴	\$16 Million ²⁵	\$13 Million ²⁶
Overstated (Understated)	\$9 Million	(\$3 Million)	\$5 Million

Source: Authority data and OIG analyses

However, Contractor C officials did not follow Federal regulations or FEMA policies. As a result, they overstated costs for Alternatives #1 and #3, and understated costs for Alternative #2. Contractor C's actions led FEMA to conclude that Alternative #2 was the least expensive option and the best option to fund.

²² These amounts reflect the average of 14 bids received for the Yorba Linda Spur line.

²³ Our calculation is based on the lowest bids for the Santa Ana Mainline (\$2,142 per foot = \$41,850,000/19,536 feet) and the Yorba Linda Spur line construction cost (\$1,539 per foot = \$7,210,400/4,685 feet).

²⁴ \$16 million estimated by the Authority and Contractor C less \$9 million overstated costs (see page 5) = \$7 million.

²⁵ In addition to costs discussed in table 3, Authority/Contractor C also underestimated costs related to contingencies (monetary provisions for uncertainties about performing the work and unforeseeable costs); escalation (monetary provisions to account for potential cost increases over the duration of the project); and other cumulative costs (which would increase in parallel with the increase in individual costs).

²⁶ \$7 million OIG calculated Alternative #1 costs plus \$6 million mitigation costs = \$13 million.



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Authority's Comments

We asked Authority officials to explain the overstated costs for Alternatives #1 and #3, as well as the understated costs for Alternative #2, and to provide documentation to support their assertions. Authority officials told us they relied on Contractor C to prepare their estimates. Authority officials stated the estimates were “order of magnitude” (preliminary) and not reliable for decision making. They said there may have been costs that were omitted because the engineering work was not complete. For example, Alternative #1 may have required additional work, such as road improvements, steel piling removal, and relocating the emergency pipeline. They also stated that Contractor C excluded mobilization costs from all cost estimates. Authority officials told us they were not concerned with the accuracy of the estimated costs because Contractor C had advised them that once FEMA accepted Alternative #2, FEMA would provide the funds necessary to complete the project.

OIG's Response

Authority officials acknowledged that Contractor C's estimates were incomplete. Because FEMA funds projects based on preliminary estimates, FEMA policy requires applicants (e.g., the Authority) to notify California (and thus FEMA) as soon as possible when they discover additional work or funds are needed (FEMA *Public Assistance Guide*, FEMA 322, June 2007, p. 140). This would allow FEMA to reassess the appropriateness and completeness of the Authority's estimates. However, the Authority did not comply with this requirement. Before they put out the contract for bid, Contractor C officials had estimated the construction cost for Alternative #2 to be \$10,100,000, a significant increase from their previous estimate of \$6,335,077. Contractor C should have provided FEMA (and California) with an updated estimate of the total project cost based on the \$10 million estimate, but they did not do so. After the Authority published the Invitation For Bid in September 2012, contractors raised a variety of questions concerning the “substantially low” estimate; the lack of geotechnical information needed for assessing complex tunneling work; and inaccurate work quantities in the bid schedule. These questions prompted Contractor C to revise the bid document and add work items. Between September 2013 and January 2014, Contractor C amended the bid document for Alternative #2 eight times, adding millions of dollars in additional work, without notifying California or FEMA.²⁷ As a result, FEMA did not reassess the appropriateness of its initial decision to fund Alternative #2.

²⁷ For example, Contractor C added four items related to tunneling. Based on the lowest overall bidder's price, the total cost of these added items was more than \$6 million.



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Authority Officials Repeatedly Misinformed FEMA about the Cost of the Alternatives

From January 2011 through March 2014, Authority and Contractor C officials repeatedly provided FEMA with incorrect information and withheld important information (figure 4) —

- In January 2011, Authority and Contractor A officials evaluated the repair options and concluded that Alternative #2 was the most expensive method compared to the other Alternatives.²⁸ Nonetheless, there is no documentation supporting that Authority officials or Contractor C shared this information with FEMA.
- In April and May 2011, Contractor C presented Authority officials cost estimates for Alternative #2 as the most expensive option, at about \$20 million (\$7 million *more* than Alternative #1). However, at the same time (May 2011), Contractor C prepared cost estimates for FEMA presenting Alternative #2 as the least expensive option, at around \$13 million — which became the basis for FEMA’s (May 2011) decision to fund Alternative #2.
- In May 2011, Contractor C officials wrote to FEMA, stating inspection had confirmed damages to the Apple Valley pipeline. However, no such inspection was performed on the Apple Valley pipeline and no damages were documented.
- In December 2011, Contractor C received the geotechnical report from its subcontractor. This report stated that thousands of feet of the planned tunneling for Alternative #2 would encounter granite rock and difficult excavation conditions, which could escalate costs. There is no documentation that Authority or Contractor C officials shared this report with FEMA.
- In January 2012, Contractor C officials reduced the construction cost estimate and total cost estimate for Alternative #2 to \$6.3 million and \$10.5 million, respectively, and reaffirmed in writing to California (and FEMA) that Alternative #2 was the least expensive option. These estimates were significantly understated. For example, Contractor C included only \$77,176 for removal of contaminated soil, which was only about 13 percent of the lowest overall bidder’s price.
- In June 2013, Authority officials approved \$16 million for the pipeline project in its own budget (fiscal year 2013–2014), indicating that they

²⁸ Authority and Contractor A also concluded that Alternative #3 would produce similar results as Alternative #2 but would cost less.



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knew Alternative #2 would cost more than the \$10.5 million they presented to FEMA.

- In June 2013, FEMA awarded the Authority \$11,135,937 for Alternative #2, under the premise that it was the least expensive option.
- In late September 2013, Authority officials advertised the pipeline project for bids, estimating the construction cost to be \$10,100,000 — a significant increase from their previous estimate of \$6,335,077 to California and FEMA.
- Between September 2013 and January 2014, Authority officials amended the bid schedule eight times, adding items costing millions; yet, there is no evidence they ever notified California (and FEMA), as required (FEMA *Public Assistance Guide*, FEMA 322, June 2007, p. 140).
- In January 2014, when the Authority received the construction bids for Alternative #2, the *lowest* bid was \$26.5 million — \$15.3 million more than the amount FEMA initially funded.
- In January 2014, upon receiving these bids, the Authority held a board meeting. In this meeting, Authority leadership acknowledged that the estimate Contractor C provided to FEMA was about \$10 million less than the estimate Contractor C provided to the Authority.
- In January 2014, the Authority requested FEMA to increase project funding from \$11 million to \$33 million (\$26.4 million for construction plus \$6.6 million for engineering). In responding to FEMA's request for a cost comparison between Alternatives #1 and #2, Contractor C officials restated to FEMA (March 2014) that Alternative #1 — at about \$36 million — would cost significantly more than Alternative #2.

To arrive at its \$36 million figure, Contractor C officials multiplied the original estimate of \$12 million for Alternative #1²⁹ by the nearly 300 percent increase in the cost of Alternative #2.³⁰ This was inappropriate because the cost increase for Alternative #2 was largely due to tunneling and tunnel shafts, which were never part of the scope of work for Alternative #1 (table 2).

Contractor C officials did not reveal to FEMA that they calculated the \$36 million estimate for Alternative #1 using basic math. Instead, they

²⁹ Contractor C's estimate for Alternative #1 was \$16 million. FEMA removed \$4 million in overstated costs and adjusted the estimate to \$12 million.

³⁰ The cost for Alternative #2 increased by 297.47 percent (i.e., the revised estimate of \$33,124,000 divided by the project's initial funding of \$11,135,937).



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portrayed their calculation as based on engineering principles and construction data, which obscured the inappropriateness of their calculation.³¹ As a result, Contractor C could not support its conclusion (that Alternative #1 would cost more than Alternative #2) with proper analysis because of the considerable difference in the two alternatives' scope of work.

Authority's Comments

Authority officials acknowledged that Contractor C “made mathematical assumptions, not based on engineering principles” in estimating the cost increase for Alternative #1. They said, however, Contractor C’s assumptions were logical considering that: FEMA had agreed to provide the additional funds requested for Alternative #2 when FEMA requested the cost comparison of the two alternatives; “stakeholders did not expect the Authority should incur additional costs to refining an estimate” for Alternative #1 because FEMA agreed to fund Alternative #2; and unforeseen environmental and historical issues that increased Alternative #2’s cost would also increase Alternative #1’s cost. They also said that “the development of cost estimates is FEMA’s responsibility” and FEMA “can choose or ignore the information provided by recipients.”

OIG's Response

We recognize that FEMA had already agreed to fund the additional costs before receiving Contractor C’s letter that stated Alternative #1 would cost about \$36 million more than Alternative #2. However, when FEMA requested a cost comparison of the two alternatives, Contractor C officials were required to address FEMA’s request properly, which they did not. In order for Contractor C’s mathematical assumption — that environmental and historical issues would increase the costs of both alternatives proportionally — to be valid, Alternative 1 and Alternative 2 would need to have similar scopes. However, because the two alternatives had major differences in scopes of work (e.g., construction methods), neither the Authority nor Contractor C could demonstrate how environmental and historical issues would increase the two alternatives proportionally. Therefore, we question Contractor C’s conclusion — that Alternative #1 would cost more than Alternative #2 — as unsupported.

Furthermore, we acknowledge that FEMA is responsible for reviewing cost estimates. However, the Authority and Contractor C were required to provide appropriate data to FEMA, which they did not do. Moreover, the Authority and Contractor C were also required to timely inform FEMA about additional costs,

³¹ Contractor C officials noted that they used an “E Ratio” and stated it was based on published construction costs data. However, “E Ratio” is not an engineering term; instead, it was derived through a basic mathematical calculation of dividing their revised estimate for Alternative #2 (\$33,124,000) by the project’s initial funding amount (\$11,135,937).



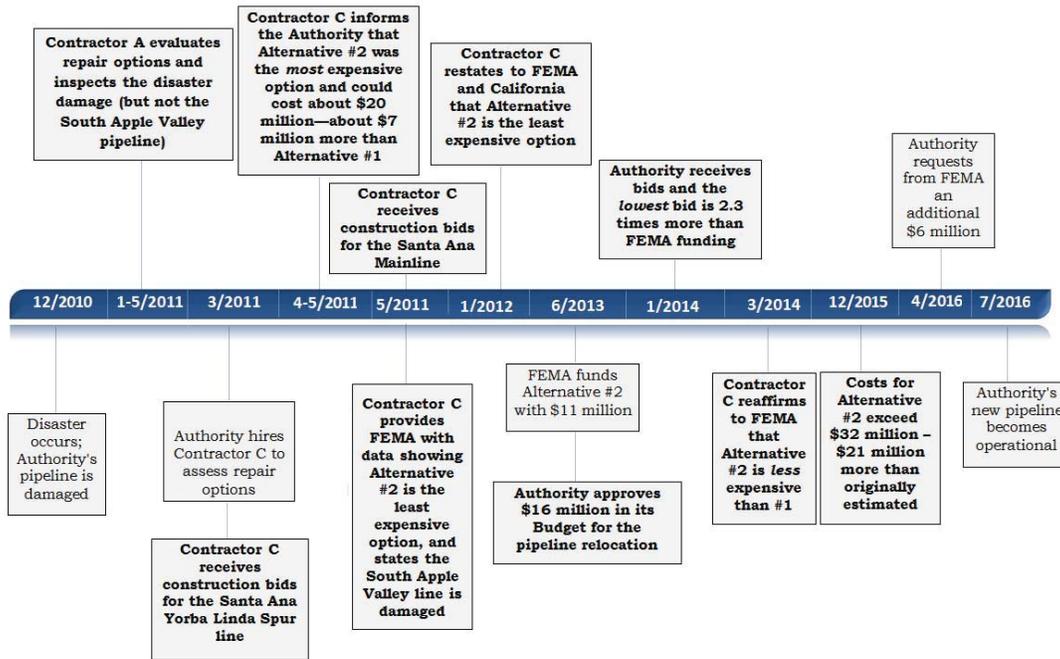
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which they also did not do. During the nearly 3-year period from May 2011 to March 2014, Authority officials — through Contractor C — provided FEMA with an unsupported damage description and incorrect cost estimates, which greatly diminished FEMA’s ability to adequately evaluate the costs of the alternatives.

The Authority did not explain why Contractor C claimed that inspection confirmed the damages to the Apple Valley pipeline when no inspection was performed on that pipeline, nor why Contractor C provided FEMA a much lower estimate for Alternative #2 than the one it provided to the Authority.

The California Code of Regulations for professional engineering prohibits misrepresenting data and/or its relative significance in any professional engineering report (Title 6; Division 5; Section 475(c) (11)). In the absence of reasonable explanations, we question whether Contractor C conducted itself in accordance with these requirements. Consequently, we have referred this matter to the appropriate officials for further review.

Figure 4: Timeline of Key Events



Source: OIG via FEMA and Authority Data



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Conclusion: The Authority Provided Incorrect Data to FEMA for Its \$33 Million Project

We are not commenting on the most appropriate pipeline repair strategy. Instead, we are reporting on how Authority and Contractor C officials repeatedly provided incorrect, misleading data to FEMA in obtaining more than \$33 million in grant funds.

The Authority misrepresented the extent of disaster-related damages and repeatedly informed FEMA that Alternative #2 was the least expensive option, while knowing it was the most expensive one; both Contractor A and Contractor C informed them of this. Consequently, the incorrect data the Authority and Contractor C provided FEMA resulted in FEMA funding more than \$33 million for Alternative #2 on the basis that it was the least expensive repair option. In addition to the \$33 million already funded, the Authority continues to request millions in additional funding from FEMA and California.

Recommendations, Management Comments, and OIG Analysis

We discussed the results of this audit with FEMA, California, and Authority officials throughout our audit. California declined an exit conference on this report and the Authority and FEMA responded to our draft report in writing (see appendix C for FEMA's response, in its entirety).

FEMA officials concurred with recommendations 2, 3, and 4, and stated they were awaiting documentation to make a final determination related to recommendation 1. We consider recommendations 1 and 2 open and unresolved, and recommendations 3 and 4 open and resolved.

Recommendation 1: We recommend that the Regional Administrator, FEMA Region IX, disallow the \$33,124,002 (Federal share \$24,843,002) in grant funds awarded to the Authority for Project 828; or \$1,410,433 (Federal share \$1,057,825) if FEMA disallows \$31,713,569 of ineligible costs we questioned in our previous report (OIG-17-25-D; January 2017; Recommendation 1).

FEMA Response to Recommendation 1: FEMA does not concur with this recommendation. In response to our previous report focusing on the Authority's improper procurement and accounting practices (OIG-17-25-D), FEMA concurred with the OIG's Recommendation #1 to disallow \$31,713,569. However, that concurrence was based on two points: (1) that FEMA's final review of all the documentation submitted with the Project Completion and Certification Report (P.4) revealed ineligible costs and program compliance issues; and (2) that FEMA elected not to grant exceptions to administrative requirement in accordance with 44 CFR 13.6 (c) as noted in OIG's Recommendation #1. As of this date, the California Governor's Office of



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Emergency Services (California) has not submitted the P.4; therefore, FEMA has not been able to review the final documentation and claim. Upon receipt of the P.4 from Cal OES, FEMA will review the submitted documentation and make a final determination. FEMA considers this recommendation resolved and open, with an estimated completion date 90 days after submittal of the closeout package from Cal OES.

OIG Analysis: We consider FEMA's planned action partially responsive to recommendation 1 and consider the recommendation unresolved and open. We will resolve and close this recommendation when the Authority presents FEMA: a valid explanation of the discrepancies in the costs estimates Contractor C submitted to FEMA, as well as the estimates Contractor C presented to the Authority; and sufficient evidence supporting Contractor C's assertions that Alternative #2 was the least expensive repair option.

Recommendation 2: We recommend that the Regional Administrator, FEMA Region IX, not obligate the \$6,036,462 (Federal Share \$4,527,347) in additional funds Authority officials requested for project cost overruns.

FEMA Response to Recommendation 2: FEMA concurs with this recommendation. In September 2016, California forwarded and supported a request from the Authority for supplemental funding of \$6,036,462. In May 2017, FEMA denied the request, noting that the project was completed and this claim would be processed at closeout. FEMA will make a determination of final funding after receiving the P.4 report and all supporting documentation from California. To date, FEMA has not received the P.4 from California. FEMA considers this recommendation resolved and open, with an estimated completion date 90 days after submittal of the closeout package from California.

OIG Analysis: We consider FEMA's planned action partially responsive to recommendation 2 and consider the recommendation unresolved and open. We will resolve and close this recommendation when either FEMA: decides against funding the Authority's project overruns; or the Authority presents FEMA with the following: a valid explanation of the discrepancies in the costs estimates Contractor C submitted to FEMA, as well as the estimates Contractor C presented to the Authority; sufficient evidence supporting Contractor C's assertions that Alternative #2 was the least expensive repair option; and adequate documentation supporting the eligibility of the cost overruns.

Recommendation 3: We recommend that the Regional Administrator, FEMA Region IX, coordinate with FEMA and the Department of Homeland Security's Suspension and Debarment Official and Office of Inspector General to address and enforce any applicable actions related to regulatory and ethical infractions, gross mismanagement, or the lack of business integrity by the responsible



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Authority and Contractor C officials, per 2 Code of Federal Regulation (CFR) 180.

FEMA Response to Recommendation 3: FEMA concurs with this recommendation and stated that matters covered by 2 CFR Part 180 related to FEMA grants should be referred to the FEMA Suspension and Debarment Official (SDO) – to which the OIG may refer matters directly. If the OIG refers the matter to the FEMA SDO, FEMA Region IX will provide any assistance requested by the SDO and take appropriate action. FEMA considers this recommendation resolved and open, with an estimated completion date 90 days after submittal of the closeout package from Cal OES.

OIG Analysis: We consider FEMA’s planned action responsive to recommendation 3 and consider the recommendation resolved and open. We will close this recommendation when any applicable party has referred the matters conveyed in this report appropriately to the SDO.

Recommendation 4: We recommend that the Regional Administrator, FEMA Region IX, review the additional \$8.2 million in FEMA-awarded funding for the five projects outside of our audit scope for any ineligible costs; notify the OIG of the results; and timely disallow ineligible costs.

FEMA Response to Recommendation 4: FEMA concurs with this recommendation and stated it reviews all the documentation and claims for each project following the submittal of the P.4, and makes eligibility determinations based on statute, regulation and policy. Based upon the OIG report and recommendations, FEMA will carefully review or re-review all the Authority’s projects for this disaster. FEMA considers this recommendation resolved and open, with an estimated completion date 90 days after submittal of the closeout package from California.

OIG Analysis: We consider FEMA’s planned action responsive to recommendation 4 and consider the recommendation resolved and open. We will close this recommendation when FEMA: (1) makes a verifiable final eligibility determination on the costs associated with those projects; (2) informs us of its results; (3) and makes the corresponding documentation available in the event of further review.



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Appendix A **Objective, Scope, and Methodology**

We audited FEMA Public Assistance Program grant funds awarded to the Victor Valley Wastewater Reclamation Authority, California; Public Assistance Identification Number 071-UI89M-00. Our audit objective was to determine whether Authority officials accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number FEMA-1952-DR-CA. California, a FEMA grantee, awarded the Authority \$41.3 million for damages resulting from severe winter storms, flooding, debris and mud flows from December 17, 2010, through January 4, 2011. The award provided 75 percent FEMA funding for four large projects and two small projects.³²

This part of the audit focused on the how the Authority and its engineering contractor/authorized agent provided incorrect data to FEMA officials, who awarded the Authority more than \$33 million to relocate and replace its wastewater pipeline. (Our previous report focused on the Authority's improper procurement and accounting practices.) We audited Project 828, with obligated funding of \$33 million, or 80 percent of the total \$41.3 million award (table 5). The audit covered the period from December 17, 2010, to May 25, 2017. In April 2016, the Authority requested FEMA provide an additional \$6,036,462 to fund the cost overruns on the project. In their response to this report, Authority officials said the amount requested included duplicate costs and the correct amount was about \$2.8 million.

To accomplish our objectives, we interviewed FEMA, California, and Authority officials; gained an understanding of the Authority's method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected and reviewed (generally based on dollar amounts) project costs and procurement transactions for the project in our audit scope; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We did not perform a detailed assessment of the Authority's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the Authority's method of accounting for disaster-related costs and its procurement policies and procedures.

³² Federal regulations in effect at the time of the disaster set the large project threshold at \$63,900 (Notice of Adjustment of Disaster Grant Amounts, Vol. 75, No. 194; October 6, 2010).



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Appendix A (continued)

Table 5: Schedule of Projects and Questioned Costs

Project Number	Category of Work ³³	Award Amount	Costs Audited and Questioned
Project Audited			
828	F	\$33,124,002	\$33,124,002
Less Questioned Costs in Report #1			(31,713,569)
Subtotal		\$33,124,002	\$1,410,433
Projects Not Audited			
890	A	\$1,010	\$0
891	F	65,029	0
892	F	163,387	0
906	F	23,930	0
1136	B	7,954,740	0
Subtotal		\$8,208,096	\$0
Totals		\$41,332,098	\$1,410,433

Source: FEMA, Authority documentation, and OIG analyses

We conducted this performance audit (including the part related to the Authority’s contracting and accounting practices, OIG-17-25-D) between December 2014 and May 2017, pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

The Office of Audits major contributors to this report are Humberto Melara, Director; Devin Polster, Audit Manager; Curtis Johnson, Senior Auditor; Connie Tan, Senior Auditor; Arona Maiava, Senior Auditor; Anthony J. Colache, Independent Reference Reviewer; Jacqueline Ferrand, Attorney; and Kevin Dolloson, Communications Analyst.

³³ FEMA identifies type of work by category: A for debris removal, B for emergency protective measures, and F for public utilities (including water treatment and delivery systems).



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Appendix B
Potential Monetary Benefits

Table 6: Summary of Potential Monetary Benefits From This Report			
Type of Potential Monetary Benefit	Rec. No.	Total	Federal Share
Total Questioned Costs – Ineligible ³⁴	#1	\$33,124,002	\$24,843,002
Less Costs Questioned in Report #1 (OIG-17-25-D)	#1	(31,713,569)	(23,785,177)
Remaining Questioned Costs	#1	\$1,410,433	\$1,057,825
Funds Put to Better Use (Cost Avoidance/Other Savings)	#2	\$6,036,462	\$4,527,346
Total Potential Net Monetary Benefits From This Report		\$7,446,895	\$5,585,171

Source: OIG analyses of findings in this report

³⁴ \$31,713,569 of this amount is also questioned in our first Report (OIG-17-25-D; January 24, 2017), related to the Authority’s noncompliance with Federal procurement and accounting regulations.



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Appendix C
FEMA Region IX Audit Response

U.S. Department of Homeland Security
Region IX
1111 Broadway, Suite 1200
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FEMA

MAR 14 2018

MEMORANDUM FOR: Humberto U. Melara
Director, Western Regional Office
Office of Inspector General

FROM: Robert J. Fenton
Regional Administrator
FEMA Region IX 

SUBJECT: FEMA-1952-DR-CA, P.A. ID: 071-UI89M-00
Subrecipient: Victor Valley Wastewater Reclamation Authority
Updated Response to Draft Audit Report Number OIG-17-XX-D
FEMA Log: 310200.5

Thank you for the opportunity to comment on the draft report. The findings in the report will be used to strengthen the effectiveness and efficiency of how we execute and measure our programs. We recognize the need to continue to improve the process, including addressing the recommendations raised in this report. Our responses to the recommendations are as follows:

Recommendation #1: Disallow the \$33,124,002 (Federal share \$24,843,002) in grant funds awarded to the Authority for Project 828; or \$1,410,433 (Federal share \$1,057,825) if FEMA disallows \$31,713,569 of ineligible costs we questioned in our previous report (OIG-17-25-D; January 2017; Recommendation #1).

FEMA's Response to Recommendation #1: FEMA does not concur with this recommendation.

On April 27, 2017, in response to OIG-17-25-D, FEMA concurred with the OIG's Recommendation #1 to disallow \$31,713,569. However, that concurrence was based on two (2) points: (1) that our final review of all the documentation submitted with the Project Completion and Certification Report (P.4) revealed ineligible costs and program compliance issues; and (2) that FEMA elected not to grant exceptions to administrative requirement in accordance with 44 CFR 13.6 (c) as noted in OIG's Recommendation #1. As of this date, the California Office of Emergency Services (Cal OES) has not submitted the P.4.; therefore, we have not been able to review the final documentation and claim. Upon receipt of the P.4 from Cal OES, FEMA will review the submitted documentation and make a final determination.

FEMA considers this recommendation resolved and open.

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Appendix C (continued)

Mr. Humberto U. Melara
Draft Audit Report Number OIG-17-XX-D
FEMA-1952-DR-CA, FEMA Log: 310200.5
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Estimated Completion Date: 90 days after submittal of the closeout package from Cal OES.

Recommendation #2: Do not obligate the \$6,036,462 (Federal Share \$4,527,347) in additional funds that the Authority requested for its cost overruns.

FEMA's Response to Recommendation #2: FEMA concurs with this recommendation.

In September 2016, Cal OES forwarded and supported a request from the Subrecipient for supplemental funding of \$6,036,461.64. In May 2017, FEMA denied the request, noting that the project was completed and this claim would be processed at closeout. FEMA will make a determination of final funding after receiving the P.4 report and all supporting documentation from Cal OES. To date, FEMA has not received the P.4 from Cal OES.

FEMA considers this recommendation resolved and open.

Estimated Completion Date: 90 days after submittal of the closeout package from Cal OES.

Recommendation #3: Coordinate with the Department of Homeland Security's Suspension and Debarment Official and Office of Inspector General to address any applicable actions related to regulatory and ethical infractions, gross mismanagement, or the lack of business integrity by the responsible Authority and Contractor C officials, per 2 CFR 180.

FEMA's Response to Recommendation #3: FEMA concurs with this recommendation.

Matters covered by 2 CFR Part 180 related to FEMA grants should be referred to the FEMA Suspension and Debarment Official (SDO). The OIG may refer matters directly to the FEMA SDO. If the OIG refers the matter to the FEMA SDO, Region IX will provide any assistance requested by the SDO and take appropriate action.

FEMA considers this recommendation resolved and open.

Estimated Completion Date: 90 days after submittal of the closeout package from Cal OES.

Recommendation #4: Review the additional \$8.2 million in FEMA-awarded funding for the five (5) projects outside of our audit scope for any ineligible costs. Notify the OIG of the results and disallow ineligible costs timely.

FEMA's Response to Recommendation #4: FEMA concurs with this recommendation.

FEMA reviews all the documentation and claims on each project worksheet (PW) following the submittal of the P.4, and makes eligibility determinations based on statute, regulation and policy. Based upon the OIG report and recommendations, FEMA will carefully review or re-review all the Subrecipients' projects for this disaster.

FEMA considers this recommendation resolved and open.



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Appendix C (continued)

Mr. Humberto U. Melara
Draft Audit Report Number OIG-17-XX-D
FEMA-1952-DR-CA, FEMA Log: 310200.5
Page 3 of 3

Estimated Completion Date: 90 days after submittal of the closeout package from Cal OES.

In summary, FEMA concurs with Recommendations #2, 3 and 4 and has taken the actions noted above. FEMA does not concur with Recommendation #1. FEMA is unable to make a final determination in regards to Recommendations #1, 2, and 4 at this time as the Subrecipient has not yet claimed the costs in question. FEMA will provide the OIG with a final determination upon receipt and review of the P.4s.

If you have any questions or require additional information, please contact Mark Wingate, Acting Recovery Division Director, at (510) 627-7250.



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Appendix D
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Appendix D (continued)

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