

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

**State of California's Administration of
the Fire Management Assistance Grant Program
for the Canyon Fire**



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Homeland Security

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Preface

The U.S. Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (*Public Law 107-296*) by amendment to the Inspector General Act of 1978. This is one of a series of audits, inspections, and special reports published as part of our oversight responsibilities to promote economy, effectiveness, and efficiency within the department.

The attached report presents the results of the audit of the State of California's Administration of the Fire Management Assistance Grant Program awarded by the Federal Emergency Management Agency for the Canyon Fire. We contracted with the independent public accounting firm of Brown & Company CPAs, PLLC to perform the audit. The contract required that Brown & Company CPAs, PLLC perform its audit according to generally accepted government auditing standards and guidance from the Robert T. Stafford Disaster Relief and Emergency Assistance Act, Title 44 of the Code of Federal Regulations, and the Office of Management and Budget. Brown & Company CPAs, PLLC reported four areas in which the State of California's administration of the Fire Management Assistance Grant Program could be improved. The report contains eight recommendations addressed to the Regional Administrator, Federal Emergency Management Agency Region IX.

Brown & Company CPAs, PLLC is responsible for the attached auditor's report dated August 29, 2008, and the conclusions expressed in the report. The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Robert J. Lastrico".

Robert J. Lastrico
Western Regional Director



BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

August 29, 2008

Western Regional Director
Office of Emergency Management Oversight
Office of Inspector General
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Brown & Company CPAs, PLLC performed an audit of the State of California's management of the Federal Emergency Management Agency's funds awarded under the Fire Management Assistance Grant Program. The audit was performed in accordance with our Task Order TPD-ARC-BPA-08-0001 dated 11/27/2007.

This report presents the results of the audit and includes recommendations to help improve management of the audited Fire Management Assistance Grant Program.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, July 2007 revision. Although the audit report comments on costs claimed by the State of California, we **did not perform** a financial audit, the purpose of which would be to render an opinion on the State of California's financial statements or the funds claimed in the financial status reports submitted to the Federal Emergency Management Agency.

We appreciate the opportunity to have conducted this audit. Should you have any questions, or if we can be of further assistance, please call me on (240) 492-1403.

Sincerely,

Brown & Company CPAs, PLLC

Gail H. Jenifer, CPA, CISA, CGFM
Member

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Abbreviations

BIA	Bureau of Indian Affairs
BLM	Bureau of Land Management
CALFIRE	California Department of Forestry and Fire Protection
CALFIRE/Riverside	Riverside County Fire Department
DHS	U.S. Department of Homeland Security
FEMA	Federal Emergency Management Agency
FMAG	Fire Management Assistance Grant
GAR	Governor's Authorized Representative
OES	Office of Emergency Services
OIG	Office of Inspector General
PW	Project Worksheet
USFS	U.S. Forest Service

Executive Summary

Brown & Company CPAs, PLLC audited the State of California's (the state's) administration of the Fire Management Assistance Grant (FMAG) Program for the Canyon Fire (FMAG Declaration 2487). The objective of the audit was to determine whether the state administered the FMAG Program in an efficient and effective manner. To accomplish the objective, we considered the overall impact of material deficiencies on grant program administration. Specifically, we determined how well the state (1) coordinated and communicated with Federal Emergency Management Agency (FEMA) and subgrant applicants, (2) ensured compliance with federal laws and FEMA guidelines, and (3) accounted for and expended FMAG Program funds. See Appendix A for additional details on the objectives, scope, and methodology of this audit.

On July 25, 2003, FEMA Region IX awarded \$2,760,056 under FMAG Declaration 2487 to the State of California Governor's Office of Emergency Services (OES). FEMA programmatically closed this declaration on August 16, 2004. OES submitted the final financial status report and requested closure of the FMAG on April 23, 2008. Although the audit scope included a review of costs reimbursed under the grant, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on the state's financial statements or the funds claimed in the financial status reports submitted to FEMA.

OES administered the FMAG Program effectively and efficiently, but did not always comply with federal laws and FEMA guidelines. Specifically, OES: (1) allowed a duplicate recovery of assistance for \$515,430 by a subgrantee; (2) reimbursed \$30,180 in expenditures that were not properly supported; (3) did not correctly calculate some employee overtime and equipment usage rates; and (4) did not submit the final financial status report in a timely manner.

We recommend that the Regional Administrator, FEMA Region IX: (1) seek reimbursement of \$515,430 for the recovery of duplicate costs; (2) disallow \$30,180 in unsupported costs; (3) require the state to improve the procedures for the preparation, review, and submission of Project Worksheets to ensure that all costs are correctly calculated and supported; and (4) require the state to comply with the reporting requirements for grant close-out.

We held exit conferences with FEMA Region IX and OES on April 24, 2008. FEMA and OES concurred with our findings and recommendations.

Background

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, (Stafford Act), signed into law November 23, 1988, authorizes the President to provide federal funds to state and local governments under the FMAG Program for mitigation, management, and control of any fire burning on public or private forestland or grassland. The FMAG Program replaced the Fire Suppression Assistance Program on October 30, 2001. Title 44, Code of Federal Regulations (44 CFR), Part 204 provides the procedures for the declaration and grants management processes for the FMAG Program and details applicant eligibility and the eligibility of costs to be considered under the program.

Declaration Process

A declaration request must be submitted while a fire is burning uncontrolled and threatens such destruction as would constitute a major disaster. The Governor or the Governor's Authorized Representative (GAR) is authorized to submit requests to the FEMA Regional Administrator or Regional Fire Duty Liaison for fire management declarations. Due to the magnitude and impact of a fire, the Governor or GAR can expedite the process by verbally requesting the declaration but must follow-up promptly after the date of an initial telephone request with all official forms and written information.

Upon declaration approval by FEMA, the Governor or GAR will enter into a standing FEMA/State Agreement (the Agreement) for the declared fire and for future declared fires in that calendar year. The state must have a current and signed Agreement before receiving federal funding under the FMAG Program. The Agreement states the understandings, commitments, and conditions under which FEMA will provide federal assistance, including the 75% federal and 25% non-federal cost share provision and articles of agreement necessary for the administration of the grants. The Agreement must identify the state legislative authority for firefighting, as well as the state's compliance with the laws, regulations, and other provisions applicable to the FMAG Program.

Grant Application and Reimbursement Process

Following a declaration, the state is required to submit a grant application package to the FEMA Regional Administrator within 9 months of the declaration. The Regional Administrator may grant an extension of up to 3 months upon receipt of a written request from the state that includes the justification for an extension. The grantee must document the total eligible costs for a declared fire on Project Worksheets (PW), which are submitted with the grant application. The Regional Administrator has 45 days from the

receipt of the state's initial grant application, or an amendment to the state's grant application, to approve or deny the application package or amendment, or to notify the state of a delay.

By submitting PWs, the grantee certifies that all reported costs were incurred for work that was performed in compliance with laws, federal regulations and FMAG Program policy and guidance, as well as the terms and conditions outlined in the FMAG Program FEMA/State Agreement. Upon approval of the grant application, FEMA obligates funds after determining that: (1) the state's eligible costs meet or exceed the individual or cumulative fire cost thresholds; and (2) the state has up-to-date State Administrative and Hazard Mitigation Plans approved by the Regional Administrator.

Subgrantee requests for FMAG Program funding are submitted on a Request for Fire Management Assistance Subgrant (FEMA Form 90-133) to the grantee according to state procedures and within timelines set by the grantee. This request must be submitted not longer than 30 days after the close of the incident period. The grantee will review and forward the request to the Regional Administrator for final review and determination.

Results of Audit

OES administered the FMAG Program in an efficient and effective manner and properly coordinated and communicated with FEMA and subgrantees. However, OES received a duplicate benefit of \$515,430 and had \$30,180 in expenditures that were not properly supported. In addition, OES did not always comply with federal laws and FEMA guidelines. The following exceptions were noted.

Cost Reimbursement Agreement Payment

FEMA's reimbursement to OES included a duplicate payment of \$515,430. Specifically, OES reimbursed California Department of Forestry and Fire Protection (CALFIRE) for fire suppression benefits that were also received under the terms of a cost-reimbursement agreement. According to 44 CFR 204.62(a), FEMA provides supplementary assistance which generally may not duplicate benefits by the applicant from other programs. An applicant must notify FEMA of all benefits received or anticipated from other sources for the same purpose. The FMAG grant is to be reduced by the amount available for the same purpose from other sources.

CALFIRE personnel told us that CALFIRE entered into a cost-reimbursement agreement with the U.S. Forest Service (USFS), the Bureau of Land Management (BLM), and the U.S. Department of the Interior's Bureau of Indian Affairs (BIA) for the Canyon Fire incident. Neither FEMA Region IX

nor OES was aware of the cost reimbursement agreement. Under the terms of the agreement, CALFIRE received \$870,290 (\$181,157 from USFS and BLM and \$689,133 from BIA) for the reimbursement of total costs incurred. CALFIRE personnel said that they also claimed the federal share of the total cost for reimbursement under the FMAG Program. CALFIRE determined that when the total costs of \$870,290 are adjusted for personnel costs at straight time and for agency administrative time, the amount due FEMA for duplicate benefits received is \$515,430 for the federal share.

Recommendations

We recommend that the Regional Administrator, FEMA Region IX, require that OES:

Recommendation #1. Reimburse FEMA \$515,430 for the duplicate costs reimbursed to CALFIRE under the USFS, BLM, and BIA reimbursement agreement and under the FMAG award.

Recommendation #2. Develop and implement procedures to ensure that subgrantees identify all actual and anticipated agreements that provide benefits for the same purpose as the FMAG.

Management Comments

FEMA Region IX and OES officials concurred with the finding during our exit briefing. FEMA officials said an adjustment PW will be processed for the duplicate funding even though this declaration is in the process of being closed. In addition, PWs for subgrantees that are parties to Agreements will have a note about the likely need to adjust funding in the future to avoid duplicate payments. The note will be inserted into a calendar as a reminder to follow up.

During fieldwork exit conferences, OES verbally agreed to discuss the reimbursement of the FMAG funds with CALFIRE. OES plans to develop and implement procedures requiring subgrantees to identify all actual and anticipated agreements that provide benefits for the same purpose as the FMAG.

Supporting Documentation for Expenditures

OES reimbursed CALFIRE for costs that were not properly supported. Specifically, CALFIRE accepted invoices from other local agencies that did not describe the equipment or labor category being invoiced or clearly describe the services provided. The local agencies only provided rates and hours. The total cost claimed and reimbursed on these invoices was \$30,180.

According to 44 CFR, Part 204, the PW identifies and reports the actual costs incurred by eligible applicants. Section 204.53(a) states that by submitting the subgrantee's PW, OES is certifying that all costs reported were incurred for work performed in compliance with applicable laws, regulations, policy and guidance. Without having the detail to support the invoice total, the allowability of the cost and the accuracy of the invoice cannot be determined.

Recommendation

We recommend that the FEMA Regional Administrator, Region IX:

Recommendation #3. Disallow the unsupported costs totaling \$30,180 and require the OES to comply with FEMA regulations regarding support for eligible costs.

Management Comments

FEMA Region IX, OES, and CALFIRE officials concurred with the finding during our exit briefings. FEMA officials said that in addition to the adjustment to the CALFIRE PW for the duplicate funding, an additional adjustment will be made for the unsupported costs.

Project Worksheet Supporting Documentation

OES needs to accurately review supporting documentation to ensure that only actual costs incurred are claimed. According to 44 CFR 204.3, the PW identifies the actual costs incurred by eligible applicants as a result of the eligible firefighting activities. Details of those instances where the PW submitted by OES did not represent actual costs incurred are presented below:

- CALFIRE used the incorrect Agreement for Local Government Fire Suppression Rate Letter when determining the reimbursement support for equipment. The May 1, 2002 rate letter was erroneously used rather than the April 3, 2003 rate letter. The net effect was an immaterial overcharge of \$84 claimed for reimbursement.
- CALFIRE overcharged the grant for overtime costs totaling \$18,399. CALFIRE reviewed the reimbursement rate structure for personnel costs in December 2006 to make it more accurate. Changes in components of the rate resulted in a change in the reimbursement rate¹ for categories charged, with some category costs increasing and others decreasing. The

¹ We did not audit the rate development process.

difference of \$18,399 represented the net difference between the old and new rates.

CALFIRE also applied the new rates to all FMAG incidents for the period FY 2001-2005. According to their calculations, the application of the new rate results in an under-billing on the PWs of \$231,979. The state is not pursuing this amount.

- The overtime labor rates claimed for CALFIRE personnel are category averages and not the actual overtime rate paid the employee. While the individual employees received correct overtime payments, their hours may be either over-claimed or under-claimed for reimbursement on the PW as a result of using category averages. CALFIRE officials said that its system does not have the capability to handle the different labor rates for the number of personnel at a declared fire and consequently, CALFIRE decided to use the average rates for reimbursement purposes. Therefore, costs claimed were not consistent with pay rates and did not represent actual personnel costs incurred.
- CALFIRE/Riverside incorrectly recorded personnel time for reimbursement in 4 of 14 records tested. The equipment hourly rates charged to the FMAG did not agree with the supporting activity records in 3 of 48 records tested. This was a result of not properly reviewing the supporting documentation for the claimed costs. Additionally, the overtime amounts for personnel costs charged to the FMAG were incorrectly calculated inasmuch as fringe benefit amounts were erroneously included in the computation. CALFIRE/Riverside did not provide the basis for the overtime fringe benefit calculation.

CALFIRE/Riverside explained to the auditor that it did not prepare the FEMA Applicant's Benefit Calculation Worksheet (Form 90-128) during the period of the FMAG Canyon Fire and therefore, was unable to provide the basis for the overtime fringe benefit calculation. Because we did not have the basis for the overtime fringe benefit calculation, we were unable to verify that the correct fringe benefit overtime rate was used in the calculation of the claim for reimbursement. However, according to 44 CFR 204.3, the PW identifies the actual costs incurred by eligible applicants as a result of the eligible fire fighting activities. The PW submitted did not reflect the actual costs incurred.

Recommendations

We recommend that the Regional Administrator, FEMA Region IX:

Recommendation #4. Require OES to perform an adequate review of expenditures submitted for reimbursement to ensure that all costs are properly supported.

Recommendation #5. Determine an appropriate disposition of the \$18,399 overcharged to the grant as a result of changing the reimbursement rate structure for personnel costs.

Recommendation #6. Validate that CALFIRE's use of category averages in calculating the reimbursement of overtime rates is a reasonable method of claiming these costs, and if appropriate, approve use of category averages for use in future FMAG awards.

Recommendation #7. Require OES to ensure that FMAG subgrantees perform adequate reviews of expenditures submitted by assisting firefighting organizations (in this case, Riverside County Fire Department) to ensure that all costs are properly documented and supported.

Management Comments

FEMA Region IX, OES, and CALFIRE officials concurred with the finding. FEMA Region IX personnel provided the following comments:

- Recommendations # 4 and 7: These recommendations will require that OES include stronger language in the applicant briefings about the need for proper cost documentation and support from both the subgrantees and organizations that support the subgrantees.
- Recommendation # 5: The denial of under billed labor costs for other CALFIRE FMAG Programs claims which exceed the amount over charged on the Canyon Fire will address this recommendation.
- Recommendation # 6: The use by CALFIRE of average labor rates affects the Public Assistance Program as well as FMAG Program. FEMA Region IX will require a sampling of the claims under both programs to determine if there are consistent overcharges relative to actual labor cost.

During fieldwork exit conferences, CALFIRE verbally agreed to discuss the disposition of the calculated overcharge in personnel reimbursement costs, and the use of category averages in calculating the overtime rates with FEMA Region IX.

Compliance with FMAG Program Requirements

OES needs to fully comply with the required procedures for the grants management processes described in 44 CFR. OES did not submit a final financial status report (FEMA Form 20-10) within 90 days of the performance period expiration date as required under 44 CFR 204.64 (a). Grantees and subgrantees report all costs incurred within the incident period and all administrative costs incurred within the performance period on the form. The performance period is defined in 44 CFR 204.3 as the time interval designated in block 13 on the Application for Federal Assistance (Standard Form 424) for the grantee and subgrantees to submit eligible costs and have those costs processed, obligated, and closed-out by FEMA.

FEMA granted OES an initial extension of performance period to July 25, 2004 and then granted an additional 6-month extension. However, OES did not submit the final financial status report and request closure of the FMAG until April 23, 2008. The FEMA Region IX Public Assistance Coordinator said that although the grant was still open for this period, no additional PWs were accepted.

Recommendation

We recommend that the Regional Administrator, FEMA Region IX:

Recommendation #8. Require the OES to comply with the financial status reporting requirements described in the regulations.

Management Comments

FEMA Region IX and OES officials concurred with the finding. FEMA officials said they are inserting a 90-day closeout statement in all final programmatic obligation notifications to OES.

Objectives

The objective of the audit was to determine whether the state administered the FMAG Program in an efficient and effective manner. To accomplish the objective, we considered the overall impact of material deficiencies on grant program administration. Specifically, we determined how well the state (1) coordinated and communicated with FEMA and subgrant applicants, (2) ensured compliance with federal laws and FEMA guidelines, and (3) accounted for and expended FMAG Program funds.

We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we were neither required to nor expressed an opinion on the costs claimed for the grant programs included in the scope of the audit. Had we been required and performed additional procedures or conducted an audit of the financial statements according to generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the state.

Scope

We audited the Fire Management Assistance Grant that was awarded by FEMA to the state on July 25, 2003. The grant, totaling \$2,760,056, was programmatically closed on August 16, 2004.² OES submitted the final financial status report and requested closure of the FMAG on April 23, 2008. This FEMA grant award was selected for review because the award was significantly higher than other fire declarations within the same FEMA Region. OES administered the FMAG Program. OES' subgrantees included: Department of Forestry and Fire Protection (CALFIRE), California Highway Patrol, and Riverside County Fire Department (CALFIRE/Riverside).

Methodology

We performed fieldwork at FEMA Region IX, OES, CALFIRE, the California Highway Patrol, and CALFIRE/Riverside. To obtain an understanding of the grant procedures, we reviewed FEMA regulations, the Stafford Act as amended, pertinent sections of Title 44 of the CFR, and Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

To achieve the objective of this audit, we:

² FMAG Programs are considered programmatically closed if all work has been completed and final costs submitted to FEMA have been obligated.

Appendix A
Objectives, Scope, and Methodology

- 1) Interviewed FEMA, state, and subgrantee personnel to obtain an understanding of policies and procedures followed and to identify potential internal control weaknesses and their causes;
- 2) Reviewed grant files to determine whether sufficient documentation was present to support proper administration of the grant;
- 3) Reviewed the state's internal controls over accounting for grants to ensure that the State properly recorded and reported grant expenditures;
- 4) Reviewed a statistical sample of project worksheets to determine whether grant monies were spent according to laws and regulations. We used appropriate formulas to develop a variable sampling approach coupled with the risk model promulgated by the American Institute of Certified Public Accountants.
- 5) Reviewed prior audit reports to determine whether deficiencies had been noted in the reports with respect to the state's administration of the FMAG Program or internal controls over grant fund accounting.

We conducted a performance audit by executing tests, conducting interviews, making observations, and examining documentation in the following areas:

1. Applicant Eligibility
2. Cost Eligibility
3. Procurement
4. Grantee's Accounting System and Internal Controls
5. Project Worksheet Review
6. Grant Reporting

We conducted our audit between during the periods February 25-29, March 10-12, April 7-11, 2008 and April 16-24, 2008, and performed our work according to the *Government Auditing Standards* prescribed by the Comptroller General of the United States (July 2007 Revision).



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