Department of Homeland Security
Office of Inspector General

Federal Emergency Management Agency
Working Capital Fund
FY 2009

(Unclassified Version)

OIG-10-35

February 2010

Office of Inspector General

U.S. Department of Homeland Security
Washington, DC 20528

FEB 19 2010

Preface

(U) The 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 audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

(U) This report addresses the Federal Emergency Management Agency's management of its Working Capital Fund. It is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and a review of applicable documents pertaining to staffing structure, budget and cost calculations, and the costs allocated to tenants. We contracted with the independent public accounting firm KPMG, LLP to assess the operations of the Federal Emergency Management Agency Working Capital Fund. KPMG, LLP's report identifies conditions where the Federal Emergency Management Agency Working Capital Fund could be improved, resulting in seven recommendations addressed to the Administrator, Federal Emergency Management Agency. KPMG, LLP is responsible for the attached draft auditor's report and the conclusions expressed in it.

(U) The recommendations herein have been developed to the best knowledge available to our office, and have been discussed with those responsible for implementation. We trust 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.

Richard L. Skinner
Inspector General

KPMG LLP
2001 M Street, NW
Washington, DC 20036

December 1, 2009

Ms. Anne L. Richards
Assistant Inspector General for Audits
Office of the Inspector General
U.S. Department of Homeland Security
Washington, DC 20528

Dear Ms. Richards:

Unclassified When Separated From Original Report

(U) – This report represents the results of our work conducted to address the scope of work relative to the Federal Emergency Management Agency's (FEMA) Working Capital Fund (WCF). The scope and objectives of this work are set forth in Task Order TPDFIGBPA70011, *Performance Work Statement for the Audit of the Federal Emergency Management Agency's Working Capital Fund 9/12/2008*, section 2. Our procedures were performed using the documentation provided to us by the Mount Weather Emergency Operations Center (MWEOC) beginning February 12, 2009. Interviews with FEMA personnel, including officials at MWEOC, and other test work were performed at various times through June 2, 2009, and our results reported herein are as of June 2, 2009.

(U) – This scope of work did not constitute an audit of the financial statements of the WCF in accordance with *Government Auditing Standards*, nor did it constitute an attestation engagement in accordance with the *Statements of Standards for Attestation Engagements*.

We appreciate the opportunity to have conducted this review. Should you have any questions, or if we can be of any further assistance, please contact Ron Longo at 202-533-4014.

Sincerely,

KPMG LLP

(U) -Table of Contents/Abbreviations

Executive Summary 1

Background 2

Results of Review 2

Appropriateness of the FEMA WCF's Staffing Structure 2
Recommendations 5
Management Comments and Auditor Analysis 6

Appropriateness of the Budget and the Cost Calculations/Analysis 7
Recommendations 8
Management Comments and Auditor Analysis 8

Fairness of Cost Allocations to Tenants 9
Recommendations 9
Management Comments and Auditor Analysis 10

Appendices

Appendix A: Purpose, Scope, and Methodology 11
Appendix B: Management Comments to the Draft Report 13
Appendix C: Report Distribution 16

Abbreviations

CFO	Chief Financial Officer
COOP	Continuity of Operations Program
FEMA	Federal Emergency Management Agency
FY	Fiscal Year
MWEOC	Mount Weather Emergency Operations Center
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget
WCF	Working Capital Fund

Executive Summary

(U) - The objective of this engagement was to determine whether the Federal Emergency Management Agency's working capital fund at the Mount Weather Emergency Operations Center has been operating efficiently and effectively. More specifically, we reviewed: (1) the appropriateness of the working capital fund staffing structure, (2) the appropriateness of the budget and the cost calculations/analysis, and (3) the fairness of cost allocations to tenants.

(U) - In general, the Federal Emergency Management Agency's working capital fund has been operating effectively. The staff structure is appropriate; however, our comparison of transactions processed by the working capital fund finance office and the Federal Emergency Management Agency's finance office at Emmittsburg, Maryland showed significant differences in the number of accounting transactions processed per person in the respective offices. Most Federal Emergency Management Agency entities under the working capital fund have clearly defined organizational responsibilities and assignments of functions, but the fund manager is not overseeing the development of operating plans and capital budgets and is not providing direction and assistance in the areas of cost accounting and rate development as stated in the working capital fund charter. In addition, the charter does not clearly define whether responsibility for working capital fund accounting operations rests with the Federal Emergency Management Agency's Office of the Chief Financial Officer or with working capital fund staff.

(U) - The working capital fund budget and cost calculations/analysis are appropriate. However, the budget plan does not provide the fund manager and other interested parties with a summary of budget to actual costs on at least an annual basis. In addition, the fund manager and the working capital fund finance office do not reconcile the components of the fund balance with treasury account and the working capital fund operations budget to properly identify funds available for future operations and capital improvements.

(U) - We are making recommendations to the Administrator of the Federal Emergency Management Agency that, if implemented, will help clarify issues with the staffing structure of the working capital fund, enhance the budget and cost information provided to those responsible for management of the working capital fund, and result in a rate structure that more closely reflects the costs required to support Areas A and B. The Chief Financial Officer, Federal Emergency Management Agency commented on a draft of this report, neither concurring nor nonconcurring with our recommendations, but providing clarifications and information on actions taken to improve in each of the recommendation areas.

Background

(U) - A working capital fund (WCF) is a revolving fund established by an agency and approved by Congress to provide support to multiple agencies on a cost-reimbursable basis. The Federal Emergency Management Agency (FEMA) received approval for the establishment of a WCF on September 26, 1996, in the *Department of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act of 1997*, Public Law 104-204, Stat. 2915. This Act established the FEMA WCF to be available without fiscal year (FY) limitation for operations of such administrative services that the FEMA Administrator determines may be performed more advantageously through central services. Since FY 1997, FEMA has used the WCF to support centralized services provided to selected facilities. The centralized services include provision of office, warehouse, conference, and training space; utilities, billeting, food services, emergency health care, transportation, payroll, accounting, printing, office supplies, security, fire protection, building maintenance, and information technology support. The primary customers for the services include both FEMA organizations and other federal agencies.

(U) - The WCF board was established to recommend activities for inclusion in the fund and advise the FEMA Administrator, Fund Manager, and Activity Managers concerning the WCF. The WCF board consists of:

- A chairperson(s);
- An activity manager for each separate business line under the WCF;
- A fund manager;
- An Assistant Administrator for the Office of National Continuity Programs;
- A Department of Homeland Security representative;
- Six representatives of the Mount Weather Business Line for both Areas A and B, of which three are members of the Mount Weather Steering Committee; and
- A representative of the Olney Business Line.

Results of Review

Appropriateness of the FEMA WCF's Staffing Structure

(U) - The WCF staff structure is appropriate; however, our comparison of transactions processed by the WCF finance office and the Federal Emergency Management Agency's finance office at Emmittsburg, Maryland showed significant differences in the number of accounting transactions processed per person in the respective offices. Most Federal Emergency Management Agency entities under the WCF have clearly defined organizational responsibilities and assignments of functions, but the fund manager is not overseeing the development of operating plans and capital budgets and is not providing

direction and assistance in the areas of cost accounting and rate development as stated in the WCF charter. In addition, the charter does not clearly define whether responsibility for WCF accounting operations rests with the Federal Emergency Management Agency's Office of the Chief Financial Officer (OCFO) or with WCF staff.

Organization and Staffing

(U) - The WCF organizational structure is established in accordance with the FEMA WCF charter signed on October 7, 2008, by the FEMA Administrator, R. David Paulison. The charter, among other things, describes the organization structure of the fund and establishes the operating principles for the fund. The organizational structure of the fund is in compliance with the WCF charter and the operating principles are being followed.

(U) - With respect to the staffing of the fund, based on the documentation and explanations we received, the Security, Operations and Maintenance, and Logistics Divisions each have sufficient written justification to support the number of full-time equivalent staff needed for their missions. National Programs and Engineering provided oral explanations that were sufficient to justify their full-time equivalent staff.

(U) - The written documentation provided by WCF finance office included information about the transactional processing workload of the WCF accounting operations staff. To assess the workload of the finance office, we requested transaction processing information from other FEMA offices. The FEMA OCFO provided us information about the transaction processing workload of the FEMA Emmittsburg office, which we compared to the WCF finance office. Our comparison reflected significant differences in the number of transactions processed per person between the FEMA Emmittsburg and WCF finance offices. Without information about other duties performed by accountants of the respective offices, we were unable to draw conclusions from this comparison. It would be beneficial for FEMA management to complete this analysis to determine the appropriate number of staff needed for the transaction processing workload.

(U) - Further, we determined through interviews and review of documentation that the FEMA WCF was authorized 461 full-time equivalent staff and actually employed approximately 410 full-time equivalents in 2008. Based on interviews and documentation reviews, the FEMA WCF has planned for 461 full-time equivalents in FY 2009 and 2010. The FEMA WCF has not prepared a formal full-time equivalent staffing plan for beyond 2010.

(U) - Based on our discussions with division directors, we found that most recurring functions are performed by FEMA WCF employees and not by contractors. The full-time equivalent staff total three. Certain daily information technology services are provided to the FEMA WCF under contract. The FEMA WCF does not formally monitor the full-time equivalents of contractors used.

Roles, Responsibilities, and Assignment of Functions

(U) - Most departments have clearly defined organizational responsibilities and assignments of functions. Based on our interviews with department directors and other employees, personnel positions are evaluated to determine mission needs and the functions required to fulfill those needs. Also, divisions consider using contractors to perform certain duties that are short term in nature. For example, the engineering division will contract with an architecture and engineering firm to prepare drawings if current WCF engineering division staff are at full production capacity.

(U) - WCF personnel are being trained and fulfilling functions that could otherwise be performed by contractors. We were advised that on-site personnel must be able to perform repairs and/or maintenance during emergency operations. For example, personnel are being trained for repairs of certain types of equipment that could be performed by a contractor. WCF personnel are being trained because the security and clearance requirements dictated by the mission of the FEMA WCF make it difficult to obtain contractor support in a timely fashion.

(U) - We interviewed FEMA WCF division directors and other employees to gain an understanding of the roles, responsibilities, training, and functions of each division and its assigned personnel. Our interviews included analyses of the division directors' responsibilities with respect to the FEMA WCF mission, financial operations including budget preparation and execution, and staffing requirements. We inquired about the use of government personnel employed by the FEMA WCF versus the use of contractors and the basis for such determinations.

(U) - Further, staffing levels appear to be appropriate to meet normal and emergency operational requirements. Within emergency services, fire and police personnel are all federal employees due to the sensitivity of the MWEOC and the need for cleared personnel. Prior to the events of September 11, 2001, the police were contracted personnel; however, due to the heightened level of security following that day, the site moved to a fully federal police staff. One area within emergency services that is sometimes contracted out is medical services. Emergency Medical Technicians from the City of Winchester, VA and the Winchester Medical Center will provide additional medical services on site when needed. MWEOC also executed a separate memorandum of understanding with surrounding local jurisdictions to provide assistance during emergencies.

(U) - FEMA WCF division directors and other employees provided us with an understanding of the appropriateness of staff and functions performed to meet normal and emergency operational requirements. We also requested documentation to support the

staffing levels required by FEMA WCF personnel, with augmentation by other federal agencies and contractors.

Fund Manager Responsibilities

(U) - We obtained the WCF Charter approved by the FEMA Administrator on October 7, 2008. Under the charter, the duties of the Fund Manager are the responsibility of the FEMA OCFO. As Fund Manager of the WCF, FEMA's Chief Financial Officer (CFO) or designee will:

- Maintain a budget and accounting system to capture all WCF financial activities;
- Prepare financial reports;
- Prepare Office of Management and Budget (OMB) and Congressional budgets in coordination with the appropriate Activity Manager, based on approved WCF Board recommendations;
- Coordinate with the Inspector General in the preparation and performance of WCF audits;
- Provide direction and assistance in the areas of cost accounting and rate development;
- Provide oversight in the development of operating plans and capital budgets;
- Provide such other financial management support and services as the Administrator, activity managers, or the FEMA WCF board require or recommend; and
- Sign incoming interagency agreements for accepting funding for operating expenses or tenant requirements.

(U) - However, the FEMA OCFO told us and our review confirmed that the charter is not specific with respect to the responsibility for cost accounting and rate development, or the responsibility for providing oversight of the development of operating plans and capital budgets. As a result, these functions are performed by the Program Office at MWEOC. However, the charter does not articulate whether the FEMA OCFO or the WCF finance office is responsible for processing accounting transactions. Currently, both offices process accounting transactions. Economies could be achieved if these responsibilities were combined.

(U) - To determine whether staff assigned to the WCF Finance Office report to the FEMA CFO or to the program office, we interviewed personnel from the fund manager's office and the WCF finance office.

Recommendations

(U) - We recommend that the FEMA Administrator direct the Acting Director for the Mount Weather Emergency Operations Center and the FEMA Chief Financial Officer to:

1. Determine the reasons for the differences in the number of transactions processed by the WCF finance office and the FEMA accounting operations staff at FEMA Emmittsburg.
2. Ensure that the Fund Manager designated by the FEMA CFO and approved by the WCF board performs the duties of the fund manager as described in the WCF charter.
3. Develop and implement a plan to bring the WCF accounting operations in line with the accounting operations of other FEMA activities to obtain potential economies of scale.

Management Comments and Auditor Analysis

(U) The Chief Financial Officer, Federal Emergency Management Agency provided comments on a draft of this report, neither concurring nor nonconcurring with our recommendations, but providing clarifications and information on actions taken to improve in each of the recommendation areas. A copy of the comments is included in Appendix B.

(U) The FEMA WCF response to recommendation 1 provided detailed information about the activities of the WCF finance office, highlighting matters that could explain the differences between the transactions processed by the WCF finance office and the FEMA accounting operations staff at FEMA Emmittsburg. FEMA provided verbal explanation in this regard at the exit conference for this review, but did not substantiate its comments with documentation that we could use as a basis for conducting and including an updated analysis in this report. FEMA needs to perform an updated analysis of its WCF finance office activities in comparison with those of accounting operations staff at Emmittsburg to determine the extent of the differences and the related causes. This recommendation is resolved, but will remain open until FEMA provides a copy of the analysis for our review.

(U) In response to recommendation 2, the OFCO believes that it performs the duties of the Fund Manager. However, we believe that the charter should be more specific in differentiating the role of the Fund Manager and the Activity Manager at the MWEOC with respect to the development and approval of operating plans and capital budgets. This recommendation is resolved, but will remain open until FEMA provides a revised charter, differentiating duties of the Fund Manager.

(U) In response to recommendation 3, FEMA said that discussion will take place about transferring financial duties from MWEOC to the FEMA finance center as appropriate, subject to security concerns related to processing Mt. Weather documents. We have no comments on FEMA's response. This recommendation is resolved, but will remain open until FEMA demonstrates that the financial duties have been centralized as appropriate.

Appropriateness of the Budget and the Cost Calculations/Analysis

(U) - The WCF budget and cost calculations/analysis are appropriate. However, the budget plan does not provide the fund manager and other interested parties with an organization-wide summary of budget to actual costs on at least an annual basis. In addition, the fund manager and the WCF finance office do not reconcile the components of the fund balance with treasury account and the WCF operations budget to properly identify funds available for future operations and capital improvements.

(U) - The WCF finance office does not provide a organization-wide summary level comparison of the initial budget to actual expenditures. Our own analysis found that for FY 2008 in total, the difference between the budgeted and actual costs was less than 1%. However, when we analyzed the components of the budget, we determined that budgeted payroll costs exceeded actual payroll costs by $3,673,360 and that actual capital improvement costs exceeded the amounts budgeted by $6,567,866. We were advised that payroll costs are recovered through the rate structure and capital improvements are funded by appropriations. Through our analysis we were able to determine that operating funds obtained through the rate setting process are being used to fund capital improvements. This funding approach was not readily transparent using the existing reports provided by the WCF finance office.

(U) - A summary comparison of budget to actual is not prepared on a routine basis by the WCF finance office to provide transparency of financial results. As a result, the fund managers and other interested parties, such as the WCF board, are not being provided with the information needed to assess the accuracy of the budget and thus the rate structure.

(U) - To make these determinations about the accuracy of the budget process, we reviewed management reports prepared by the WCF finance office. We also interviewed employees of the WCF finance office who provided an understanding of the process and basis for developing the WCF estimates. In FY 2007, the WCF revised its process for developing estimates in efforts to more accurately estimate future costs of the fund. The budget process was broken down into four areas: Payroll and Position Management, Building Maintenance, Asset Management, and Overhead. Each category was calculated separately.

(U) - Another concern we have with the development of the budget plan and the rate structure is the lack of analysis by the Fund Manager and the WCF finance office regarding the makeup of the fund balance with treasury account to determine the plan for using the available fund balance. We determined through discussions with the Fund Manager and the WCF finance office that an analysis of the fund balance was not been performed in the past. Because no analysis of the fund balance with treasury had been

performed, we conducted the following analysis to determine the major components of the fund balance with treasury at September 30, 2008.

(U) - TABLE 1: Fund Balance with Treasury Analysis

As of September 30, 2008		
Fund Balance with Treasury	$	109,814,829
Carryover (Unobligated Balance)		(35,759,108)
Subtotal	$	74,055,721
Unpaid Obligations per Statement of Budgetary Resources	$	74,106,099
Difference	$	(50,378)

(U) - The fund balance with treasury as of September 30, 2008, reported in the financial statements provided by the Fund Manager was $109,814,829. We obtained from the WCF finance office an unobligated balance amount of $35,759,108 at year end carried forward into FY 2009. This amount was reconciled between the Fund Manager and the WCF finance office. Our analysis disclosed a difference of $50,378 between unpaid obligations as reported on the statement of budgetary resources and the unpaid obligation amount we calculated. Due to the immaterial amount, we did not attempt to determine the cause of the difference. In addition, we did not attempt to determine how much of the unobligated balance ($35,759,108) and the unpaid obligations ($74,106,099) were for capital improvement projects or operations.

Recommendations

(U) - We recommend that the FEMA Administrator direct the Acting Director for the Mount Weather Emergency Operations Center to ensure that:

4. The WCF finance office include a summary comparison of budget to actual in financial reports provided to all those responsible for managing the FEMA WCF.
5. The WCF finance office perform a quarterly analysis to determine the components of the fund balance with treasury account and how much of the unobligated balances and unpaid obligations are for funding capital improvement projects or operations.

Management Comments and Auditor Analysis

(U) The Chief Financial Officer, Federal Emergency Management Agency neither concurred nor nonconcurred with recommendations 4 and 5.

(U) In response to recommendation 4, FEMA said a summary comparison of budget to actual has been added in the financial reports. We have no comments on the FEMA WCF response to recommendation 4. This recommendation is resolved, but will remain open until FEMA provides a copy of the summary comparison.

(U) In response to recommendation 5, FEMA said that the WCF will perform quarterly analyses of the fund balance with treasury to identify unobligated balances and unpaid capital improvement obligations. We have no comments on the FEMA response. This recommendation is resolved, but will remain open until FEMA provides documentation of the quarterly analyses conducted.

Fairness of Cost Allocations to Tenants

(U) - The rate per square foot charged to tenants of Areas A and B are not fairly allocated. The allocation of costs to the respective areas also is not supported by a detailed analysis.

(U) - The services provided by the MWEOC are necessary to operate each tenant's program for a specified period of time. Through inquiries of each chief of the Engineering, Logistics, Emergency Services, National Programs, and Operations and Maintenance divisions, we did not identify any services unrelated to the mission of the MWEOC.

Recommendations

(U) - We recommend that the FEMA Administrator direct the Acting Director for the Mount Weather Emergency Operations Center to ensure that the WCF finance office:

6. Conduct an analysis and develop a rate structure that reflects the costs required to support Areas A and B by (a) determining the direct costs incurred to support area A; (b) determining the direct costs to support Area B; and (c) identifying those costs that cannot be attributed directly to either Area A or B. Those costs that cannot be directly attributed to either area will require an allocation on some predetermined basis.

7. Develop a plan to adjust, within a reasonable period of time, the square footage rate between the two areas so that the rates charged are equitable according to the services provided to tenants in each area.

Management Comments and Auditor Analysis

The Chief Financial Officer, Federal Emergency Management Agency neither concurred nor nonconcurred with recommendations 6 and 7.

(U) In response to recommendation 6, FEMA said that it has completed the analysis to split costs between areas A and B and is using it to develop one of the rate options. However, the methodology used for splitting the cost still needs to be documented in order to provide more clarity to the rate calculations. We have no comments on the FEMA WCF response to recommendation 6. This recommendation is resolved, but will remain open until FEMA provides a copy of the analysis supported by a documented methodology.

(U) In response to recommendation 7, FEMA said that the Board of Directors determines the rates charged to tenants annually based on multiple options presented to the Board for approval. FEMA's response does not address the intent of this recommendation. As such, this recommendation is unresolved and will remain open until FEMA provides its plan to adjust the square footage rate between the two areas so that the rates charged are equitable according to the services provided to the tenants in each area.

Appendix A
Purpose, Scope, and Methodology

(U) - The objective of this engagement was to determine whether the FEMA WCF has been operating efficiently and effectively. More specifically, we reviewed: (1) the appropriateness of the FEMA WCF staffing structure, (2) the appropriateness of the budget and the cost calculations/analysis, and (3) the fairness of cost allocations to tenants.

(U) - To gain an understanding of FEMA's WCF staffing structure and the functions they performed we interviewed FEMA WCF personnel. Our work included a review of:

- Organization structure, including management operations and determinations of whether the funded full-time employees are appropriate;
- Number of employees and contractors employed by the WCF;
- Functions performed by employees and contractors;
- Appropriateness of staff to meet normal and emergency operational requirements; and
- Reporting relationships among assigned staff of the Accounting Operation, the FEMA OCFO, and the program office.

(U) - We reviewed the FEMA WCF budget to determine:

- The process used to develop estimates for the WCF;
- The FEMA WCF rate structure to support fees needed to operate and maintain the WCF;
- The FEMA WCF costs to adequately support customers of the WCF in line with its mission; and
- The FEMA WCF life cycle costs to adequately support and sustain future WCF missions.

(U) - We also reviewed the FEMA WCF budget to determine the fairness of cost allocations to tenants. Specifically, we examined:

- Square footage calculations to learn whether they are properly determined and allocated;
- Centralized services to determine whether they are calculated properly and allocated equitably and fairly;
- Fees to see if they capture all related costs and are appropriately allocated by security requirement and mission need; and
- Services offered by the WCF to determine whether they fall within the mission of the MWEOC.

Appendix A
Purpose, Scope, and Methodology

(U) - We conducted this review from February 2009 to June 2009 at the MWEOC in Berryville, VA. The term "review" means to gather sufficient documentation to garner a conclusion and/or recommendation about the process and documents provided. The performance of "review" procedures to meet these objectives is not intended to meet the context of a review as set forth in *Statement of Standards for Attestation Engagements*. This work was not done in accordance to *Generally Accepted Government Auditing Standards*.

(U) - KPMG, LLP also was 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. This report relates only to the programs specified and does not extend to any FEMA financial statements. While the review was performed and the report was prepared under contract, the review results are being reported by the Department of Homeland Security Office of Inspector General to appropriate FEMA officials.

(U) - We planned and performed the review to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the review objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the review objectives.

U.S. Department of Homeland Security
500 C Street, SW
Washington, D.C. 20472

FEMA

RESPONSE TO FEMA WORKING CAPITAL FUND AUDIT DRAFT REPORT DATED SEPTEMBER 2009

Appropriateness of the FEMA WCF's Staffing Structure

Recommendations

1) Determine the reasons for the differences in the number of transactions processed by the WCF finance office and the FEMA accounting operations staff at FEMA Emmittsburg.

2) Ensure that the Fund Manager designated by the FEMA CFO and approved by the WCF board performs the duties of the fund manager as described in the WCF charter.

3) Develop and implement a plan to bring the WCF accounting operations in line with the accounting operations of other FEMA activities to obtain potential economies of scale.

Management Comments

1) The primary reason for the differences in the average number of transaction processed per employee by the WCF Finance Office and the FEMA accounting operations staff at FEMA Emmittsburg is that the analysis fails to recognize vacancies and new hires that result in less than a full FTE worth of work. In FY07 one employee had his duties changed to non-transactional duties half way through the fiscal year. Another newly hired/certified was assigned transactional duties for only the last 5 pay periods. Another employee was on leave without pay for 5 pay periods. However in the analysis performed, these employees were used in the calculations as full year employees. If an FTE calculation would have been made, the comparison would be 1,214 transactions per person for Emmittsburg versus 1,105 transactions for Mt. Weather. The same discrepancy exists for the FY08 analysis. If FTE were used, the comparison would be 1,105 transactions per person for Emmittsburg versus 916 transactions for Mt. Weather. The difference in the number of transactions per person can be best explained by the number of additional non-transactional duties carried out by the financial staff and the classified environment in which they operate. The failure to use FTE in the analysis and the list of non-transactional duties were brought to the auditors' attention but the information was ignored.

2) In accordance with the Working Capital Fund Charter, the FEMA CFO is the Fund Manager. It is our opinion that the FEMA OCFO performs the duties of the Fund Manager which include:
   - Maintain a budget and accounting system to capture all WCF financial activities
   - Prepare financial reports
   - Prepare Office of Management and Budget (OMB) and congressional budgets in coordination with the appropriate Activity Manager, based on WCF Board recommendations
   - Coordinate with the Inspector General in the preparation and performance of WCF audits
   - Provide direction and assistance in the areas of cost accounting and rate development
   - Provide oversight in the development of operating plans and capital budgets
   - Provide such other financial management support and services as the Administrator, activity managers, or the FEMA WCF board require or recommend; and
   - Sign incoming interagency agreements for accepting funding for operational expenses or tenant requirements.

3) Discussions will take place concerning the transfer of financial duties from Mt. Weather to the FEMA Finance Center. Although there are some activities that can be centralized, there are security concerns related to the processing of Mt. Weather documents.

Appropriateness of the Budget and the Cost Calculations/Analysis

Recommendations

4) The WCF Finance Office include a summary comparison of budget to actual in financial reports provided to all those responsible for managing the FEMA WCF.

5) The WCF finance office perform a quarterly analysis to determine the components of the fund balance with treasury account and how much of the unobligated balances and unpaid obligations are for funding capital improvement projects or operations.

Management Comments

4) The WCF Finance Office has modified the budget report to include a summary comparison of budget to actual and will make the budget available to any interested partners.

5) The WCF Finance Office will conduct the quarterly reconciliations.

2

Fairness of Cost Allocations to Tenants

Recommendations

6) Conduct an analysis and develop a rate structure that reflects the costs required to support Areas A and B by (a) determining the direct costs incurred to support area A; (b) determining the direct costs to support Area B; and (c) identify those costs that cannot be attributed to either area will require an allocation on some predetermined basis.
7) Develop a plan to adjust, within a reasonable period of time, the square footage rate between the two areas so that the rates charged are equitable according to the services provided to tenants in each area.

Management Comments

6) The analysis to split operating costs between areas A and B has occurred and is used as the basis for developing one of the rate options. The rationale needs to be documented to fortify and better explain the numbers assigned.

7) The operating rate charged to tenants is one of multiple options presented to the Board of Directors annually for approval. The Board then decides the rate to be charged.

Norman S. Dong, Chief Financial Officer

11-16-05
Date

Unclassified went separated from original report

Appendix C
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff for Operations
Chief of Staff for Policy
Deputy Chiefs of Staff
General Counsel
Executive Secretariat
Director, GAO/OIG Audit Liaison Office
Assistant Secretary for Office of Policy
Respective Under Secretary

Federal Emergency Management Agency

Administrator
Director of Mount Weather Emergency Operation Center
Chief Financial Officer

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees, as appropriate

ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this report, please call the Office of Inspector General (OIG) at (202) 254-4100, fax your request to (202) 254-4305, or visit the OIG web site at www.dhs.gov/oig.

OIG HOTLINE

To report alleged fraud, waste, abuse or mismanagement, or any other kind of criminal or noncriminal misconduct relative to department programs or operations:

- Call our Hotline at 1-800-323-8603;
- Fax the complaint directly to us at (202) 254-4292;
- Email us at DHSOIGHOTLINE@dhs.gov; or
- Write to us at:
  DHS Office of Inspector General/MAIL STOP 2600,
  Attention: Office of Investigations - Hotline,
  245 Murray Drive, SW, Building 410,
  Washington, DC 20528.

The OIG seeks to protect the identity of each writer and caller.