

# Department of Homeland Security **Office of Inspector General**

FEMA Should Disallow \$21,113 of the \$654,716 in  
Public Assistance Grant Funds Awarded to the Alaska  
Department of Natural Resources, Wasilla, Alaska





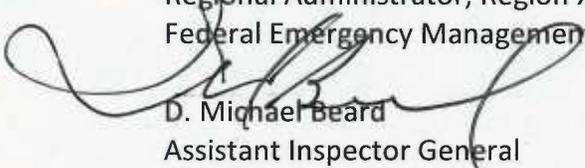
## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

MAR 8 2013

MEMORANDUM FOR: Kenneth Murphy  
Regional Administrator, Region X  
Federal Emergency Management Agency

FROM:   
D. Michael Beard  
Assistant Inspector General  
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Disallow \$21,113 of the \$654,716 in Public Assistance Grant Funds Awarded to the Alaska Department of Natural Resources, Wasilla, Alaska*  
FEMA Disaster Number 1663-DR-AK  
Audit Report Number DS-13-04

We audited Public Assistance (PA) grant funds awarded to the Alaska Department of Natural Resources, Wasilla, Alaska (Department), Public Assistance Identification Number 000-U0421-00. Our audit objective was to determine whether the Department accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

The Alaska Division of Homeland Security and Emergency Management (ADHSEM), a FEMA grantee, awarded the Department \$654,716 for costs due to damages from severe storms, flooding, landslides, and mudslides from August 15 through 25, 2006. The award provided 75 percent FEMA funding for three large projects and four small projects.<sup>1</sup> Our audit covered the period from August 15, 2006, to January 9, 2013. We audited all seven projects with incurred charges totaling \$305,319. As of January 2013, the Department has not submitted final costs claimed for two large projects (see Exhibit).

We conducted this performance audit between July 2012 and January 2013 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 applying the statutes, regulations, and FEMA policies in effect at the time of the disaster.

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<sup>1</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$59,700.



We interviewed FEMA, ADHSEM, and Department officials; reviewed judgmentally selected project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the Department’s internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the Department’s method of accounting for disaster-related costs and its procurement policies and procedures.

### RESULTS OF AUDIT

Of the \$305,319 in project charges we reviewed, the Department generally managed FEMA’s PA grant funds according to Federal grant regulations and FEMA guidelines. However, the Department charged Projects 79, 81, and 84 with a total of \$21,133 of ineligible administrative and force account labor costs (see table).

**Table – Summary of Questioned Costs by Finding**

<b>Finding</b>	<b>Subject</b>	<b>Questioned Costs</b>
A	Ineligible Administrative Costs	\$16,176
B	Ineligible Force Account Labor Costs	4,957
<b>Total</b>		<b>\$21,133</b>

#### **Finding A: Ineligible Administrative Costs**

Department officials charged to Projects 79 and 81, as direct project costs, \$16,176 in expenditures covered by FEMA’s statutory administrative allowance.

Federal regulations and FEMA guidelines stipulate that—

The costs associated with requesting, obtaining, and administering public assistance subgrants are covered by FEMA's statutory administrative allowance (44 CFR 206.228(a)(2)(ii)).

Administrative allowance covers direct and indirect costs incurred in requesting, obtaining, and administering PA. The allowance is intended to cover activities such as identifying damage, assessing damage, and developing cost estimates (FEMA 322, *Public Assistance Guide*, October 1999, pp.41–42).

The Department charged \$12,988 to Project 79 and \$3,188 to Project 81 for a total of \$16,176, in administrative-related tasks consisting of project planning, damage assessment, statement of work development, and meetings with FEMA. Because the charges are covered by FEMA’s statutory administrative allowance, the Department



cannot charge them separately as direct project costs. FEMA officials generally agree with our conclusion. Therefore, we question \$16,176 (\$12,988 plus \$3,188) of ineligible administrative costs charged to Projects 79 and 81.

**Finding B: Ineligible Force Account Labor Costs**

The Department charged \$4,957 to Projects 79 (\$4,304) and 84 (\$653) in force account labor costs not eligible for Federal reimbursement.

Federal regulations stipulate that—

Costs are adequately documented to be allowable under a Federal award (2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, Section C.1.j).<sup>2</sup>

Subgrantees have fiscal controls and accounting procedures that permit the tracing of funds to a level of expenditure adequate to establish that such funds are not used in violation of applicable laws (44 CFR 13.20(a)(2)).

The Department’s accounting records for Projects 79 and 84 do not support that the \$4,957 in force account charges pertain to disaster related tasks.<sup>3</sup> Department officials explained that the discrepancy may be related to a coding error in their accounting system. Those officials indicated that they would research the issue, and if they determine that the costs are not disaster related, they would not submit for reimbursement the \$4,304 pertaining to Project 79. With regard to Project 84, FEMA noted that they would recoup from the Department the \$653 in already reimbursed force account labor—if the charges are determined not eligible for Federal disaster assistance. Therefore, we question the \$4,957 in force account labor the Department has charged to Projects 79 (\$4,304) and 84 (\$653).

**RECOMMENDATIONS**

We recommend that the FEMA Region X Administrator:

**Recommendation #1:** Disallow \$16,176 (Federal share \$12,132) of ineligible administrative costs charged to Projects 79 and 81 (finding A).

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<sup>2</sup> OMB Circular A-87 was moved to 2 CFR 225 effective August 31, 2005.

<sup>3</sup> At the time of our field work, the Department had not requested total reimbursement for Project 79 and had closed out and received full reimbursement for Project 84.



**Recommendation #2:** Disallow \$4,304 (Federal share \$3,228) of ineligible force account labor costs charged to Project 79, if these costs are included in the final cost claim (finding B).

**Recommendation #3:** Recoup \$653 (Federal share \$490) of ineligible force account labor costs charged to Project 84 (finding B).

### **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP**

We discussed the results of our audit with Department officials during our audit and included their comments in this report, as appropriate. We also provided a draft report to FEMA, ADHSEM, and Department officials. We discussed the draft report at an exit conference held with FEMA officials on January 9, 2013, and they generally agreed with our findings and recommendations. ADHSEM and Department officials did not request an exit conference.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendations. The recommendations will be considered open and unresolved until your response is received and evaluated.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Major contributors to this report are Humberto Melara, Western Region Audit Director; Louis Ochoa, Audit Manager; Connie Tan, Auditor-in-Charge; and Paul Sibal, Auditor.

Please call me with any questions, or your staff may contact Humberto Melara, Western Region Audit Director at (510) 637-1463.



Schedule of Audited Projects  
August 15, 2006, to January 9, 2013  
Department of Natural Resources, Wasilla, Alaska  
FEMA Disaster Number 1663-DR-AK

Project Number	Project Award Amount	Project Charges Reviewed	Ineligible Administrative Costs (Finding A)	Ineligible Force Account Labor Costs (Finding B)	Total Costs Questioned
44	\$2,825	\$2,825			\$0
54	41,917	41,917			0
79 <sup>1</sup>	225,171	55,732	\$12,988	\$4,304	17,292
81 <sup>1</sup>	318,088	138,130	3,188		3,188
84	56,031 <sup>2</sup>	56,031		653	653
89	8,377	8,377			0
90	2,307	2,307			0
<b>Totals</b>	<b>\$654,716</b>	<b>\$305,319</b>	<b>\$16,176</b>	<b>\$4,957</b>	<b>\$21,133</b>

<sup>1</sup> As of January 2013, final costs claimed have not been submitted for Projects 79 and 81. Therefore, we audited the accumulated incurred charges.

<sup>2</sup> Large Project 84 was initially awarded for a total of \$131,992. At project closeout, FEMA reimbursed the Department final costs of \$56,031 and deobligated \$75,961 in unneeded funding.



**Report Distribution**  
**FEMA Disaster Number 1663-DR-AK**

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