

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

**Los Angeles County, California,  
Did Not Properly Account for or Expend  
About \$14,000 in FEMA Grant Funds**



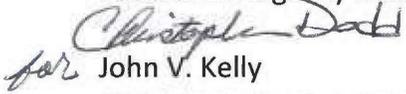


**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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

September 9, 2013

MEMORANDUM FOR: Nancy Ward  
Regional Administrator, Region IX  
Federal Emergency Management Agency

FROM: *for*  John V. Kelly  
Assistant Inspector General  
Office of Emergency Management Oversight

SUBJECT: *Los Angeles County, California, Did Not Properly Account for or Expend About \$14,000 in FEMA Grant Funds*  
FEMA Disaster Number 1577-DR-CA  
Audit Report Number DS-13-12

We are currently auditing Federal Emergency Management Agency (FEMA) Public Assistance (PA) grant funds awarded to Los Angeles County, California (County), PA Identification Number 037-99037-00. Our audit objective is to determine whether the County accounted for and expended FEMA PA grant funds according to Federal regulations and FEMA guidelines.

The California Governor's Office of Emergency Services (Cal OES), a FEMA grantee, awarded the County \$54.9 million for costs resulting from storms, flooding, debris flows, and mudslides during the period of December 27, 2004, through January 11, 2005.<sup>1</sup> The award provided 75 percent FEMA funding for 143 large projects and 35 small projects.<sup>2</sup> Our audit covered the period from December 27, 2004 to May 1, 2013.

Because of the size of the award and number of projects, we divided this audit into segments, which has resulted in four previous OIG audit reports.<sup>3</sup> This fifth report

<sup>1</sup> At the time of this disaster, the grantee's name was the Governor's Office of Emergency Services (OES). However, OES became part of Cal EMA from January 1, 2009 to June 30, 2013—including during the time of our fieldwork. As of July 1, 2013, Cal EMA transitioned back to the California Governor's Office of Emergency Services (Cal OES).

<sup>2</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$55,500.

<sup>3</sup> These reports include (1) *Interim Report on FEMA Public Assistance Grant Funds Awarded to Los Angeles County, California* (DS-12-06; March 2012), (2) *LA County Charges FEMA for Unauthorized Fringe Benefits Costs* (DS-13-07; April 2013), (3) *Unneeded Funding and Management Challenges Associated with the FEMA Grant Awarded to Los Angeles County, California* (DS-13-10; June 2013), and (4) *Los Angeles County, California, Did Not Properly Account For and Expend \$3.9 Million in FEMA Grant Funds for Debris-Related Costs* (DS-13-11; July 2013).



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focuses exclusively on force account costs the County claimed for two large projects (2890 and 2940).<sup>4</sup> The County claimed about \$5.3 million in total for the two projects, which included force account costs of \$410,914—the amount we reviewed (see Exhibit, *Schedule of Costs Questioned*). At the conclusion of our audit, we plan to issue our final audit report (notwithstanding the issuance of any additional interim reports), including any other findings and recommendations.

We conducted this segment of this performance audit between January 2013 and May 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 by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We interviewed FEMA, State, and County officials; reviewed judgmentally selected project costs (generally based on dollar value); evaluated applicable Federal regulations and FEMA guidelines; reviewed cost documentation; and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the County's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. However, we gained an understanding of the County's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA grant.

### RESULTS OF AUDIT

We reviewed \$410,914 that the County claimed for force account labor and equipment it used for work under Projects 2890 and 2940. Of that amount, County officials did not account for or expend \$13,543 according to Federal regulations and FEMA guidelines.<sup>5</sup> Therefore, we question \$13,543, which includes \$7,482 ineligible costs and \$6,061 unsupported costs.

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<sup>4</sup> The term *force account* denotes, where indicated, the subgrantee's regularly employed personnel (labor) or owned equipment.

<sup>5</sup> Two of our previous audit reports on the County (DS-12-06 and DS-13-11) included several findings on these same two projects. For Projects 2890 and 2940, the two reports recommended FEMA deobligate about \$2.4 million and put those Federal funds to better use and disallow about \$2.3 million as ineligible or unsupported.



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**Finding A: Ineligible Force Account Costs**

County officials improperly claimed a total of \$7,482 of force account labor and equipment costs already included in FEMA's equipment rates. Federal regulations and FEMA guidelines specify that—

- The FEMA *Schedule of Equipment Rates* sets the amounts subgrantees may claim in Federal assistance funding for force account equipment. (44 CFR 206.228(a))
- The FEMA *Schedule of Equipment Rates* provides authorized reimbursement rates for subgrantee-owned equipment, and includes parts and labor for normal maintenance. Equipment rates typically include operation, insurance, depreciation, and maintenance. These rates also cover most damage to equipment subgrantees use under emergency conditions. (FEMA Policy 9525.8 and FEMA *Public Assistance Guide*, FEMA 322, October 1999, p. 37)

The County used the FEMA *Schedule of Equipment Rates* to calculate its force account equipment costs. However, the County also separately claimed \$7,482 of direct force account labor and other normal maintenance costs that the FEMA rates include. Specifically, the County claimed—

- \$4,377 for force account labor and use of vehicles to maintain County equipment it used on Project 2940.
- \$3,105 for replacing 20 grader blades it used on Project 2890.

We therefore conclude that \$7,482 in costs claimed for Project 2940 (\$4,377) and Project 2890 (\$3,105) are ineligible because they duplicated costs included in FEMA's equipment rates.

Cal OES officials agree that FEMA equipment rates cover normal maintenance; therefore, claiming such costs separately would duplicate costs. However, Cal OES and County officials believe that, in this case, such costs are eligible—per FEMA Policy 9525.8—because of the extraordinary conditions that existed as a result of severe operating conditions.

This FEMA Policy stipulates that—

*FEMA's Equipment Rates are expected to cover most damage to equipment used under emergency conditions. However, when equipment sustains*



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*unusual damage or requires extraordinary maintenance as a result of emergency use under severe conditions (e.g., high water or very rough terrain), and such damage cannot be reasonably avoided, repair and/or maintenance costs may be eligible for reimbursement. For eligible reimbursement, damage to equipment must be disaster-related and not included in the FEMA Schedule of Equipment Rates or in other FEMA-approved rates; and Equipment must have been operated in severe or unusual conditions.*

We did not find—nor did County or Cal OES officials provide when asked—any documentation to support that (1) severe conditions existed that caused *unusual* damage; (2) County personnel operated the equipment in severe or unusual conditions; (3) the County’s equipment sustained unusual damage; (4) the County’s equipment required extraordinary maintenance as a result of emergency use; (5) the County could not reasonably avoid the damage; or (6) damage to equipment was disaster-related and not included in the *FEMA Schedule of Equipment Rates*. Therefore, we maintain our finding.

FEMA officials told us that they will withhold comment on this finding until after they review their records and documents associated with the County’s final claim.

### **Finding B: Unsupported Force Account Labor Costs**

County officials claimed \$6,061 under Project 2940 for various force account labor costs, including disaster safety inspections, clerical services, investigations, and transportation of supplies, for which they could not provide corresponding, supporting documentation.

Federal regulations and FEMA guidelines require subgrantees to sufficiently document disaster costs claimed to ensure eligibility for FEMA financial assistance. Specifically, subgrantees must—

- Adequately document costs for those costs to be allowable under a Federal award. (2 CFR Part 225, *Cost Principles for State, Local and Indian Tribal Governments*, Appendix A; Section C(1)(j))
- Establish and maintain accurate records of events and expenditures related to disaster recovery work. (*FEMA Public Assistance Guide*, FEMA 322, October 1999, pp. 113–114)
- Perform work that is derived from the project’s FEMA-approved scope, to be eligible for Federal funding. (*FEMA Public Assistance Guide*, FEMA 322, October



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1999, pp. 73 and 115–116; and FEMA *Applicant Handbook*, FEMA 323, September 1999, pp. 21–22, 32, and 52)

- Claim costs for work required as a result of the disaster. (44 CFR 206.223)
- Have fiscal controls and accounting procedures that permit the tracing of funds sufficiently to establish that the subgrantee did not use them in violation of any legal restrictions, and maintain records to adequately identify the source and application of funds for financially assisted activities. (44 CFR 13.20(a)(2) and (b)(2))

We therefore question \$6,061 associated with Project 2940 as unsupported because County officials did not maintain sufficient documentation to support the costs they claimed.

County officials agreed that they do not have documentation to support these costs, but maintained that the costs are nonetheless related to the projects under which they are claimed. Cal OES officials stated that it is customary for subgrantees to incur disaster safety inspection costs, but also acknowledged that the County does not have sufficient documentation to support the charges totaling \$6,061. FEMA officials told us that they will withhold comment on this finding until after they review their records and documents associated with the County's final claim.

In addition to identifying \$6,061 unsupported charges for Project 2940, we noted that County officials may have claimed for Federal reimbursement other force account costs for disaster-related projects that are unsupported and not related to the FEMA-approved scope of work. Because of the low materiality and volume of these costs (across various County projects), we have opted to not calculate (and thus specifically question) the costs at this time. The costs relate to items such as patching potholes, administrative work, and yard maintenance. County officials acknowledged that they do not have documentation to support the eligibility of these claimed costs. We therefore urge FEMA, Cal OES, and County officials to review such force account costs and take appropriate corrective action.

### RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IX:

**Recommendation #1:** Disallow \$7,482 (Federal share \$5,612) in ineligible (duplicate) equipment maintenance costs for Project 2940 (\$4,377) and Project 2890 (\$3,105) (finding A).



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**Recommendation #2:** Disallow \$6,061 (Federal share \$4,546) in unsupported costs the County claimed for Project 2940, unless the County can provide adequate documentation to support these costs (finding B).

**Recommendation #3:** Review the entirety of the County's FEMA-funded projects to determine sufficient support for those force account costs that the County claimed for Federal reimbursement, and disallow those costs if the County cannot provide sufficient support (finding B).

### DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the audit results with County officials during the course of this audit and included their comments in this report, as appropriate. We also provided a written summary of our findings and recommendations in advance to FEMA, Cal OES, and County officials on December 3, 2012. We discussed the findings and recommendations at an exit conference with Cal OES and County officials on January 23, 2013, and with FEMA officials on May 1, 2013.

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. Until we receive and evaluate your response, we will consider the recommendations open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we will provide 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, Director; Devin Polster, Audit Manager; Ravi Anand, Senior Auditor; and Montul Long, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Humberto Melara, Director, Western Regional Office, at (510) 637-1463.



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**Exhibit**

**Schedule of Costs Questioned**

Project Number / FEMA Category of Work	Project Award Amount	Project Costs Claimed / Incurred	Force Account Labor + Equipment Costs Claimed	Costs Questioned		
				Ineligible Force Account Labor + Equipment Costs (Finding A)	Unsupported Force Account Labor Costs (Finding B)	Total Costs Questioned
2890 / A	\$2,959,095	\$565,410	\$96,432	\$3,105		\$3,105
2940 / A	2,357,432	2,357,432	314,482	4,377	\$6,061	10,438
<b>Totals</b>	<b>\$5,316,527</b>	<b>\$2,922,842</b>	<b>410,914</b>	<b>\$7,482</b>	<b>\$6,061</b>	<b>\$13,543</b>



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**Appendix  
(continued)**

**Subgrantee (Los Angeles County, California)**

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