

U.S. Department of Homeland Security  
Central Regional Office  
Office of Emergency Management  
Oversight  
7460 Warren Parkway, Suite 275  
Frisco, Texas 75034



**Homeland  
Security**

January 13, 2010

MEMORANDUM FOR: Janet M. Odeshoo, Acting Regional Administrator  
FEMA Region V

FROM:   
Tonda L. Hadley, Director  
Central Regional Office

SUBJECT: *City of Springfield, Illinois*  
FEMA Disaster Number 1633-DR-IL  
Public Assistance Identification Number 167-72000-00  
Audit Report Number DD-10-04

We audited public assistance funds awarded to the City of Springfield, Illinois (City). Our audit objective was to determine whether the City accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

The City received an award of \$11.4 million from the Illinois Emergency Management Agency (IEMA), a FEMA grantee, for damages resulting from severe storms and tornadoes that occurred during March 2006. The award provided 75% funding for 10 large and 31 small projects.<sup>1</sup> We audited 5 large projects and 1 small project totaling \$10.1 million, or 89% of the award, (see Exhibit A). The audit covered the period March 12, 2006, through February 9, 2009, during which the City claimed \$8.6 million for direct program costs.

We conducted this performance audit under the authority of 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 and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>1</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$57,500.

We interviewed FEMA, IEMA, and City officials; reviewed judgmentally selected transactions (generally based on dollar value) for the City's claimed costs; and performed other procedures we considered necessary to accomplish the audit objective. We did not assess the adequacy of the City'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 City's grant accounting system for disaster-related costs and its procurement policies and procedures.

## RESULTS OF AUDIT

The City accounted for FEMA grant funds on a project-by-project basis according to federal regulations.<sup>2</sup> However, the City did not expend the funds according to federal regulations and FEMA guidelines. The City's claim included ineligible, duplicate, and unsupported costs. As a result, we questioned \$3,020,631 (\$2,265,473 FEMA share).

### **Finding A: Mutual Aid Costs**

The City's claim included \$2,406,210 for mutual aid costs to complete work that FEMA classified as permanent work (Category F). FEMA Public Assistance Policy 9523.6, *Mutual Aid Agreements for Public Assistance*, section 7.E.1.b.(i) states, "Examples of mutual aid work that are not eligible, include permanent recovery work." The City used mutual aid cooperatives, contractors, and force account labor to restore power during the emergency period. However, because FEMA classified all of the work as permanent rather than emergency protective measures (Category B), the costs were not eligible based on the FEMA policy.

FEMA can classify electrical work as either permanent or emergency work. We recognize that the majority of electrical work is often permanent; however, FEMA should classify all power restoration work to residential customers and critical facilities as Category B emergency protective measures because this work may save lives and property. Further, classifying power restoration work as emergency work clearly delineates the period of time when exigent circumstances exist, which sometimes justify relaxed procurement procedures, such as non-competitive contracts and time-and-material contracts. When lives are at risk, there is often not enough time for full-and-open competition or for preparing a detailed scope of work necessary for lump sum or unit price contracts.

If FEMA had classified power restoration work as Category B emergency protective measures, the \$2.4 million claimed for mutual aid costs would have been eligible. However, 44 CFR 206.228(a)(4) states that regular-time force account labor is not eligible for emergency work. Therefore, if FEMA had classified the work as Category B emergency work, the City's claim for \$940,548 for regular-time labor to restore power would not have been eligible. Based on FEMA's policy and the Category F classification, we questioned the \$2,406,210 of mutual aid costs as not eligible for work classified as permanent. We recommended disallowance of \$1,625,556, which is the \$2,406,210 net of \$780,654 also questioned in Findings B and D (see Exhibit B).

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<sup>2</sup> 44 CFR 13.20(b)(2).

### **Finding B: Mark-ups on Cost**

The City's claim included \$762,007 in mark-ups on pass-through contract costs billed to the City for mutual aid labor.<sup>3</sup> One mutual aid contractor marked up its labor costs by a percentage of its total labor costs. The mark-ups ranged from 9.98% to 82.52% of billed labor costs. Although the mutual aid agreement included a provision for a 25% mark-up on loaded labor costs, these mark-ups are a form of cost-plus-a-percentage of cost contracts that are strictly prohibited by federal regulations (44 CFR 13.36(f)(4)). Therefore, we questioned the \$762,007 of unallowable mark-ups.

### **Finding C: Force Account Labor Costs**

We questioned \$608,442 of force account labor costs claimed for hours that were both unreasonable and unsupported. For 11 days, the City paid employees for 24 hours per day, and in some instances, more than 24 hours in a single day. The City paid employees for 24 hours when the employees worked at least 16 hours. Employees cannot physically work 24 hours per day for extended periods; therefore, the City's claimed costs were not reasonable and therefore not eligible. Further, the City did not provide a written compensation policy or union agreements requiring the City to pay employees 24 hours per day.

According to 2 CFR 225, to be allowable, costs must be reasonable and adequately documented. When employees worked more than 16 hours, the City did not document the number of hours its employees actually worked in excess of 16. Therefore, these labor charges are also unsupported. Subgrantees must maintain records that adequately identify the source and application of funds (44 CFR 13.20(b)(2)) and support accounting records with source documentation such as cancelled checks, paid bills, payrolls, and time and attendance records (44 CFR 13.20(b)(6)).

City officials said they were bound by union agreements to pay personnel for 24 hours if union labor worked beyond 16 hours per day. However, the City did not provide any evidence it was required to pay for 24 hours. Further, following the storm, City officials issued a memorandum that extended the same 24-hour pay policy to some non-union supervisors. FEMA does not reimburse a grant recipient for increases in its compensation or benefits in the aftermath of disasters. Federal regulations state that in determining the reasonableness of costs, consideration will be given to significant deviations from the established practices of the grant recipient, which may unjustifiably increase the federal award's cost (2 CFR 225 Appendix A, C.2.e). In addition, FEMA Public Assistance Policy 9525.7, *Labor Costs – Emergency Work*, section 7.D. states, "Straight time and overtime will be determined according to the applicant's written policies and labor contracts in effect prior to the disaster."

Because the City did not provide records of actual hours employees worked beyond 16, we estimated daily hours based on a combination of FEMA policy and judgmentally selected transactions for hours worked by the City's disaster repair contractors. FEMA policy recognizes the need for a standard, reasonable amount of force account labor hours. Several months

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<sup>3</sup> This amount is included in the \$2,406,210 questioned in Finding A above (see Exhibit B).

following this disaster, FEMA issued a revision to FEMA Policy 9525.7, section VII.H. – *Labor Costs – Emergency Work*. The revision states,

Reimbursement of labor costs for employees performing emergency work is limited to actual time worked, even when the applicant is contractually obligated to pay for 24 hour shifts. It is not reasonable for a person to work more than 48 hours continuously without an extended rest period. Therefore FEMA will reimburse up to 24 hours for the first two days, and up to sixteen hours for each of the following days for emergency work. All requested time must be for actual time worked. Standby time is not allowed under the Public Assistance Program.<sup>4</sup>

To estimate the number of hours allowable for this disaster, we calculated an average of the hours worked by the City’s disaster repair contractors. Based on the hours billed for 3 days at the height of the emergency period, the average number of hours worked by the City’s four largest contractors was about 16 hours per day. Because the City did not provide time records that showed actual time worked over 16 hours and based on the average hours worked by contractors and the FEMA policy, we concluded that a claim for 16 hours of work per day was reasonable.

We did not consider that billing 24 hours per day during the first 2 days was reasonable, and the City did not document the actual hours worked. Further, the City’s equipment charges during the first 2 days did not support 24 hours per day of work.

#### **Finding D: Duplicate Costs**

The City’s claim included \$18,647 in duplicate costs.<sup>5</sup> The City claimed reimbursement for a mutual aid power restoration invoice twice, once under Project Worksheet 172 and once under Project Worksheet 108. Therefore, we questioned the \$18,647 as ineligible because the City claimed it twice.

#### **Finding E: Force Account Equipment Costs**

The City claimed \$5,979 for its equipment based on rates that exceeded FEMA’s published allowable rates. According to 44 CFR 206.228(a)(ii), where local guidelines are used to establish equipment rates, reimbursement will be based on those rates or rates in a Schedule of Equipment Rates published by FEMA, whichever is lower. Therefore, we questioned the \$5,979 for equipment costs charged at rates exceeding allowable rates.

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<sup>4</sup> Although the revised FEMA Policy 9525.7 was not in effect at the time of the disaster, we referred to this policy to establish a reasonable number of daily work hours.

<sup>5</sup> This amount is included in the \$2,406,210 questioned in Finding A (see Exhibit B).

## **Other Matters**

We identified \$20,000 of eligible costs that the City erroneously excluded from its claim. We discussed the omission with City officials, but they have not informed us whether they plan to pursue a claim for the additional cost.

## **RECOMMENDATIONS**

We recommend that the Acting Regional Administrator, FEMA Region V:

1. Disallow \$1,625,556 of ineligible costs for mutual aid work (see Exhibit B).
2. Disallow \$762,007 for unallowable mark-ups.
3. Disallow \$608,442 for unreasonable force account labor costs.
4. Disallow \$18,647 for the duplicate invoice charge.
5. Disallow \$5,979 for equipment costs charged at unallowable rates.

## **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP**

On December 16, 2009, we discussed the results of our audit with FEMA officials, who concurred with all findings except Finding A. We also discussed the results of our audit with IEMA officials and City officials on December 16, 2009. Please advise this office by March 12, 2010, of the actions planned or taken to implement the recommendations, including target completion dates for any planned actions. Significant contributors to this report were Chris Dodd, Patti Smith, and Doug Denson. Should you have questions concerning this report, please contact me, or your staff may contact Chris Dodd, Audit Manager, at (214) 436-5200.

cc: Audit Liaison, FEMA Region V  
Audit Liaison, FEMA (Job Code DG9C05)

**EXHIBIT A**

Schedule of Audited Projects  
City of Springfield, Illinois  
FEMA Disaster Number 1633-DR-IL

<b>Project Number</b>	<b>Award Amount</b>	<b>Questioned Costs</b>
86	\$ 608,878	\$ 0
108	137,896	137,896
109	327,531	0
168	565,950	5,979
170	53,125	0
172	8,419,454	2,876,756
<b>Totals</b>	<b><u>\$10,112,834</u></b>	<b><u>\$3,020,631</u></b>

**EXHIBIT B**

Costs Questioned Under Multiple Criteria  
City of Springfield, Illinois  
FEMA Disaster Number 1633-DR-IL

We questioned costs in our report related to mutual aid work (Finding A) that, in some instances, were questioned for more than one reason. Recommendation 1, which related to Finding A, was to disallow questioned costs net of \$780,654 also questioned in Findings B (\$762,007) and D (\$18,647).

As shown in the table below, we questioned \$2,406,210 in Finding A, which includes \$762,007 also questioned in Finding B and \$18,647 also questioned in Finding D. Therefore, if FEMA does not disallow these costs for Findings B and D, FEMA should add them back to the amount recommended for disallowance for Finding A.

<b>Questioned Costs</b>		
<b>Finding</b>	<b>Amount</b>	<b>Totals</b>
A. Mutual Aid Costs:	\$2,406,210	
Less costs also questioned in B	(762,007)	
Less costs also questioned in D	<u>(18,647)</u>	
Net amount questioned in A		\$1,625,556
B. Mark-ups on Costs		762,007
C. Force Account Labor Costs		608,442
D. Duplicate Costs		18,647
E. Force Account Equipment Costs		<u>5,979</u>
<b>Total</b>		<b><u>\$3,020,631</u></b>