



**Homeland
Security**

October 28, 2010

MEMORANDUM FOR: Tony Russell, Regional Administrator
FEMA Region VI

FROM: 
Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *University of Texas, MD Anderson Cancer Center*
FEMA Disaster Number 1379-DR-TX
Hazard Mitigation Grant Program
Audit Report Number DD-11-01

We audited Hazard Mitigation Grant Program (HMGP) funds awarded to the University of Texas, MD Anderson Cancer Center (Hospital). Our audit objectives were to determine whether the Hospital accounted for and expended FEMA funds according to federal regulations and FEMA guidelines, the projects met FEMA eligibility requirements, and project management complied with applicable regulations and guidelines.

The Hospital received awards for 11 HMGP projects totaling \$36.6 million (\$27.5 million federal share) from the Texas Division of Emergency Management (TDEM), a FEMA grantee, between June 2004 and September 2007. TDEM selected the Hospital's projects for submission to FEMA from applications it received following Tropical Storm Allison.

The purpose of the awards was to mitigate hospital facilities against future flood damages. The majority of the mitigation funding was to relocate and replace critical electrical and mechanical systems above flood elevations and protect basements with perimeter flood protection. The awards provided FEMA funding for 75% of eligible project costs. At the time of our audit, all of the projects were completed, but not programmatically closed. The audit covered the period from project submittal in December 2001 to the completion of our audit work in September 2010. During this time, the Hospital claimed \$36.6 million in direct project costs. We audited three projects totaling \$18.4 million or 50% of the costs claimed. We also expanded the scope of the audit to include the costs to recruit a project manager to provide services for three additional projects (see Exhibit).

FEMA did not retain project eligibility documentation as required.¹ FEMA hired a contractor to conduct benefit cost analyses (BCA) necessary for determining the eligibility of the Hospital's projects, but neither FEMA nor its contractor could provide the BCA support data. As a result, our audit scope was limited because we could not verify the data, assumptions, and calculations that FEMA used to determine project eligibility.

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 objectives. Except for the scope limitation discussed above, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the Hospital's compliance with federal procurement standards; judgmentally selected and reviewed transactions of the Hospital's claimed costs (selected based on dollar value); interviewed FEMA, TDEM, and Hospital officials, and the lead contractor; and performed other procedures considered necessary to accomplish our objectives. We did not assess the adequacy of the Hospital's internal controls applicable to grant activities because it was not necessary to accomplish our audit objectives. However, we did gain an understanding of the Hospital's method of accounting for HMGP costs and its procurement policies and procedures.

BACKGROUND

FEMA provides HMGP grants on a cost-shared basis to eligible applicants within a federally declared state to implement measures designed to reduce or eliminate the long-term risk to human life and property from natural hazards. FEMA's eligibility criteria require that projects be cost effective, comply with environmental and historic preservation requirements, and provide a long-term beneficial impact. Eligible applicants include state and local governments, certain private non-profit organizations and institutions, and Indian tribes or tribal organizations.

RESULTS OF AUDIT

The Hospital's project management generally complied with applicable regulations and guidelines. However, due to the missing records discussed above, we could not determine whether the Hospital's HMGP projects met FEMA eligibility requirements. Further, the Hospital did not always account for FEMA funds according to federal regulations and FEMA guidelines. As a result, we question \$596,670 (\$447,503 federal share) in unsupported and ineligible costs.

¹FEMA Manual 5400.2 dated December 20, 2006, states, "Contract provision should require the submission of program and administrative documentation, including background and technical documentation, to the FEMA program office. The contracts should also specify which records need to be kept by the contractor for audit or other administrative purposes and the length of time they are to be maintained."

Finding A: Documentation of Contract Costs

For the three audited projects, the Hospital claimed \$18.4 million in contractor costs. Of that amount, \$510,491, or 2.8%, was unsupported. Federal regulation at 2 CFR 215.21(b)(7), requires that the financial management system of federal grant recipients provide source documentation to support cost accounting records. However, neither the Hospital nor its contractors could provide sufficient source documentation to support the following claimed amounts:

- \$189,566 for subcontractor's material costs.
- \$304,540 for contract labor hours for the three audited projects.
- \$16,385 for expenses related to the contractor's on-site administration and management of the project. This included costs related to temporary facilities, office supplies, project utilities, and equipment rentals.

Therefore, we question \$510,491 (\$382,868 federal share) as unsupported costs. A Hospital official said that he plans to obtain the supporting documentation for the Hospital's claims from the contractor.

Finding B: Eligibility of Contract Costs

The Hospital's claimed costs for the audited projects included \$86,179 for contract costs that were ineligible. The lead contractor billed the Hospital for subcontract costs that were contractually unallowable. The lead contractor questioned these costs based on its own internal audit and recovered the costs from its subcontractor. However, the contractor could not provide evidence that it credited the Hospital for these charges. The ineligible costs were comprised of the following:

- \$17,652 in fees that a subcontractor added to its labor costs for tools and warehouse.
- \$44,492 in subcontract costs for tool rentals and the purchase of tools costing under \$500.
- \$24,035 charged by a subcontractor for the recruiting and monthly subsistence of a project manager.

According to 2 CFR 220, Appendix A, subsection C.5, allowable costs should be net of applicable credits. Therefore, we question \$86,179 (\$64,634 federal share) as ineligible contract costs. The lead contractor said that it plans to provide evidence that the contractor credited these ineligible costs to the Hospital.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation #1: Disallow \$510,491 (\$382,868 federal share) for unsupported costs (Finding A).

Recommendation #2: Disallow \$86,179 (\$64,634 federal share) for ineligible costs (Finding B).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with FEMA, TDEM, and Hospital officials and have included their comments in this report, as appropriate. We also provided written summaries of our findings and recommendations in advance to these officials and discussed them at exit conferences held with FEMA on October 4, 2010, TDEM on October 6, 2010, and with the Hospital on October 5, 2010. FEMA and TDEM officials agreed with our findings and recommendations. MD Anderson officials neither agreed nor disagreed with our findings and recommendations but requested additional time to provide support documentation. We told MD Anderson officials that we will consider any additional documentation provided to us during audit follow-up.

Please advise this office by December 27, 2010, of the actions planned or taken to implement our recommendations, including target completion dates for any planned actions. Significant contributors to this report were Moises Dugan, William Lough, Lori Smith, Jacob Farias, and Cheryl Spruiell. Should you have any questions concerning this report, please contact me, or your staff may contact Moises Dugan, Audit Manager, at (214) 436-5200.

cc: Audit Liaison, FEMA (Job Code G-10-031)
Audit Liaison, FEMA Region VI

**Schedule of Audited Projects
University of Texas, MD Anderson Cancer Center
FEMA Disaster Number 1379-DR-TX**

Project Number	Claimed Amount	Questioned Costs
50	\$ 6,036,334	\$189,550
79	6,712,310	149,503
152	5,617,981	244,542
52 *	4,357,834	6,475
62 *	4,214,613	3,300
72 *	<u>3,217,500</u>	<u>3,300</u>
Totals	<u>\$30,156,572</u>	<u>\$596,670</u>

* For three projects, we limited our review to the \$13,075 claimed for the recruiting and monthly subsistence of a project manager.