

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

**State of Washington's Administration of the Fire
Management Assistance Grant Program
for the Middle Fork Fire**



DS-08-09

September 2008

Office of Inspector General
Office of Emergency Management Oversight

U.S. Department of Homeland Security
300 Frank H Ogawa Plaza, Ste. 275
Oakland, CA 94612



**Homeland
Security**

September 22, 2008

Preface

The U.S. 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 audits, inspections, and special reports published as part of our oversight responsibilities to promote economy, effectiveness, and efficiency within the department.

The attached report presents the results of the audit of the State of Washington's Administration of the Fire Management Assistance Grant Program for the Middle Fork Fire. We contracted with the independent public accounting firm of Williams, Adley & Company, LLP to perform the audit. The contract required that Williams, Adley & Company, LLP perform its audit according to generally accepted government auditing standards and guidance from the Robert T. Stafford Disaster Relief and Emergency Assistance Act, Title 44 of the Code of Federal Regulations, and the Office of Management and Budget. Williams, Adley & Company, LLP reported two areas in which the State of Washington's administration of the Fire Management Assistance Grant Program could be improved. The report contains three recommendations addressed to the Regional Administrator, Federal Emergency Management Agency, Region X.

Williams, Adley & Company, LLP is responsible for the attached auditor's report dated August 29, 2008, and the conclusions expressed in the report. The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that 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.


Robert J. Lastrico
Western Regional Director



August 29, 2008

Western Regional Director,
Office of Emergency Management Oversight
Office of Inspector General
U.S. Department of Homeland Security
300 Frank H. Ogawa Plaza, Ste. 275
Oakland, CA 94612

Williams, Adley & Company, LLP performed an audit of the State of Washington's management of the Federal Emergency Management Agency's funds awarded under the Fire Management Assistance Grant Program. The audit was performed in accordance with our Task Order TPD-ARC-BPA-07-0014 dated September 27, 2007.

This report presents the results of the audit and includes recommendations to help improve management of the audited Fire Management Assistance Grant Program.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, July 2007 revision. Although the audit report comments on costs claimed by the State of Washington, we **did not perform** a financial audit, the purpose of which would be to render an opinion on the State of Washington's financial statements or the funds claimed in the Financial Status Reports submitted to the Federal Emergency Management Agency.

We appreciate the opportunity to have conducted this audit. Should you have any questions, or if we can be of further assistance, please call me on (202) 371-1397.

Sincerely,

Williams, Adley & Company, LLP


Jocelyn Hill
Partner

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Abbreviations

CFR	Code of Federal Regulations
DHS	U.S. Department of Homeland Security
DNR	Department of Natural Resources
FEMA	Federal Emergency Management Agency
FMAG	Fire Management Assistance Grant
GAR	Governor's Authorized Representative
OIG	Office of Inspector General
PW	Project Worksheet
WMD-EMD	Washington Military Department-Emergency Management Division

Executive Summary

Williams, Adley & Company, LLP audited the State of Washington's (the state) administration of the Fire Management Assistance Grant (FMAG) Program for the Middle Fork Fire (FMAG Declaration 2477). The objective of the audit was to determine whether the state administered the FMAG Program in an efficient and effective manner. To accomplish the objective, we considered the overall impact of material deficiencies on grant program administration. Specifically, we determined how well the state (1) coordinated and communicated with Federal Emergency Management Agency (FEMA) and subgrant applicants, (2) ensured compliance with federal laws and FEMA guidelines, and (3) accounted for and expended FMAG Program funds. See Appendix A for additional details on the objectives, scope, and methodology of this audit.

On July 12, 2003, FEMA Region X awarded \$1,456,420 under FMAG Declaration 2477 to the Washington Military Department-Emergency Management Division (WMD-EMD). WMD-EMD used the services of two subgrantees: the Department of Natural Resources and the Washington State Patrol. FEMA programmatically closed this declaration on February 11, 2005. Although the audit scope included a review of costs reimbursed under the grant, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on the state's financial statements or the funds claimed in the financial status reports submitted to FEMA.

WMD-EMD administered the FMAG Program for the Middle Fork Fire in an efficient and effective manner with respect to properly coordinating and communicating with FEMA and subgrant applicants, but did not always comply with federal laws and guidelines. Specifically, WMD-EMD: (1) requested and FEMA paid \$505,988 in expenditures that were not properly supported, and (2) reimbursed demobilization costs, incorrectly requested by the subgrantee, prior to the subgrantee's submission of all other eligible costs.

We recommend that the Regional Administrator, FEMA Region X (1) disallow the unsupported costs totaling \$505,988, (2) require the state to maintain proper documentation to support costs incurred according to the grant records retention policy, and (3) advise the state to adhere to best practices by requiring that subgrantees claim demobilization costs only after submittal of all other eligible costs.

We held an exit conference with FEMA Region X and WMD-EMD officials on August 20, 2008. FEMA Region X and WMD-EMD non-concurred with the first finding and recommendations and concurred with the revised second finding and recommendation. A synopsis of the verbal comments we received is included in the Results of Audit section of this report.

Background

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, (Stafford Act), signed into law November 23, 1988, authorizes the President to provide federal funds to state and local governments under the FMAG Program for mitigation, management, and control of any fire burning on public or private forestland or grassland. The FMAG Program replaced the Fire Suppression Assistance Program on October 30, 2001. Title 44, Code of Federal Regulations (44 CFR), Part 204 provides the procedures for the declaration and grants management processes for the FMAG Program and details applicant eligibility and the eligibility of costs to be considered under the program.

Declaration Process

A declaration request must be submitted while a fire is burning uncontrolled and threatens such destruction as would constitute a major disaster. The Governor or the Governor's Authorized Representative (GAR) is authorized to submit requests to the FEMA Regional Administrator or Regional Fire Duty Liaison for fire management declarations. Due to the magnitude and impact of a fire, the Governor or GAR can expedite the declaration process by verbally requesting the declaration but must follow-up promptly after the date of an initial telephone request with all official forms and written information.

Upon declaration approval by FEMA, the Governor or GAR will enter into a standing FEMA/State Agreement (the Agreement) for the declared fire and for future declared fires in that calendar year. The state must have a current and signed Agreement before receiving federal funding under the FMAG Program. The Agreement states the understandings, commitments, and conditions under which FEMA will provide federal assistance, including the 75% federal and 25% non-federal cost share provision and articles of agreement necessary for the administration of the grants. The Agreement must identify the state legislative authority for firefighting, as well as the state's compliance with the laws, regulations, and other provisions applicable to the FMAG Program.

Grant Application and Reimbursement Process

Following a declaration, the state is required to submit a grant application package to the FEMA Regional Administrator within 9 months of the declaration. The Regional Administrator may grant an extension of up to 3 months upon receipt of a written request from the state that includes the justification for an extension. The grantee must document the total eligible costs for a declared fire on Project Worksheets (PWs), which are submitted with the grant application. The Regional Administrator has 45 days from the

receipt of the state's initial grant application, or an amendment to the state's grant application, to approve or deny the application package or amendment, or to notify the state of a delay.

By submitting PWs, the grantee certifies that all reported costs were incurred for work that was performed in compliance with laws, federal regulations and FMAG Program policy and guidance, as well as the terms and conditions outlined in the FMAG Program FEMA/State Agreement. Upon approval of the grant application, FEMA obligates funds after determining that: (1) the state's eligible costs meet or exceed the individual or cumulative fire cost thresholds; and (2) the state has up-to-date Public Assistance State Administrative and Hazard Mitigation Plans approved by the Regional Administrator.

Subgrantee requests for FMAG Program funding are submitted on a Request for Fire Management Assistance Subgrant (FEMA Form 90-133) to the grantee according to state procedures and within timelines set by the grantee. This request must be submitted no later than 30 days after the close of the incident period. The grantee will review and forward the request to the Regional Administrator for final review and determination.

Results of Audit

WMD-EMD administered the FMAG Program for the Middle Fork Fire in an efficient and effective manner with respect to properly coordinating and communicating with FEMA and subgrant applicants. However, WMD-EMD did not always comply with federal laws and FEMA guidelines or ensure that FMAG Program expenditures were properly supported based on the following exceptions.

Supporting Documentation

WMD-EMD lacked sufficient documentation to support \$505,988 in FMAG Program expenditures. Specifically,

1. WMD-EMD was unable to provide any documentation to support \$448,028 in expenditures claimed by its subgrantee, the Department of Natural Resources (DNR), for equipment and other charges, and
2. WMD-EMD was unable to provide complete documentation to support \$57,960 in payroll costs also claimed by DNR. For 49 of the 198 (25%) payroll transactions tested in conjunction with our review of PW #4, we were provided with payroll-related documentation with the exception of the employees' pay rate. As a result, we could not recalculate and validate payroll costs totaling \$57,960.

According to 44 CFR 44.13 20(b)(6), the accounting records of grantees and subgrantees must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. Additionally, 44 CFR 13.42(a) through (c) provide guidance for the retention of all financial and programmatic records, supporting documents, statistical records, and other records and state that:

- Records must be retained for 3 years from the date the grantee submits its final expenditure report; or
- If any litigation, claim, negotiation, audit or other action involving the records has been started before the expiration of the 3-year period, the records must be retained until completion of the action.

Furthermore, 44 CFR 204.53 stipulates that by submitting applicants' PWs to FEMA, the grantee is certifying that all costs reported on those PWs were incurred for work that was performed in compliance with FEMA laws, regulations, policy and guidance applicable to the FMAG Program, as well as with the terms and conditions outlined for the administration of the grant in the FEMA/State Agreement for the FMAG Program.

Recommendations

We recommend that the Regional Administrator, FEMA Region X,

Recommendation #1. Disallow unsupported costs totaling \$505,988.

Recommendation #2. Require the state to enhance its review system to ensure that all expenditures are in compliance with the laws and regulations that govern the FMAG Program and that proper documentation is maintained to support the costs incurred according to the grant records retention policy.

Management Comments

FEMA Region X and WMD-EMD officials did not verbally concur with the finding and recommendations during the exit conference because they were not aware of the specific costs identified as unsupported and had not had the opportunity to determine if such documentation could be located.

The auditor previously reported unsupported costs approximating \$652,000 during a status meeting at the end of fieldwork. At that time, DNR and WMD-EMD officials requested additional time to submit supporting documentation, and the auditor agreed. DNR subsequently provided supporting documentation that reduced the questioned costs from

approximately \$652,000 to the \$505,988 currently being reported. During the time period granted by the auditor to submit supporting documentation, DNR was unable to locate documentation for the total amount of questioned costs. Until the grantee provides documentation to support the costs claimed, we continue to question the \$505,988 reported in this finding.

During the exit conference, the auditor agreed to provide FEMA Region X and WMD-EMD officials with sufficient detail of the unsupported costs so that a search for the supporting documentation could be made. The auditor contends that the total amount of questioned costs associated with the unsupported expenditures may be reduced subsequent to the issuance of the final report if WMD-EMD personnel are able to obtain supporting documentation for some or all of the expenditures in question, and the auditor concludes that such documentation is sufficient.

Project Worksheet Cost Inclusion

WMD-EMD should have ensured that its subgrantee, DNR, properly included program expenditures on the PW it submitted to WMD-EMD. DNR claimed reimbursement for demobilization costs on a PW before including all other eligible costs incurred during the approved incident period. Specifically, DNR did not include incident period costs that were incurred on July 18, 2003 but did include demobilization costs that were incurred outside of the incident period. Lack of adherence to FMAG Program policies and procedures could result in reimbursement of ineligible expenditures or the state or subgrantee not being reimbursed for legitimate costs that were processed incorrectly.

According to FMAG Program policies and procedures, demobilization costs may be claimed after submittal of other eligible costs if deployment involves one or more declared fires. If resources are being used on more than one declared fire, mobilization and demobilization costs must be claimed against the first declared fire on which they are used.

Claiming demobilization costs only after submittal of all other eligible costs is a best practice that ensures all costs have been accounted for and the grantee/subgrantee receives the full benefit of the FMAG Program.

Recommendation

We recommend that the Regional Administrator, FEMA Region X:

Recommendation #3. Advise WMD-EMD to adhere to best practices by requiring that subgrantees claim demobilization costs only after submittal of all other eligible costs.

Management Comments

FEMA Region X and WMD-EMD officials said during the exit conference that they would concur with the recommendation provided that the condition was rephrased to indicate lack of adherence to best practice rather than a violation of federal regulations.

The auditor agreed with FEMA Region X and WMD-EMD officials and has revised the report accordingly.

Objectives

The objective of the audit was to determine whether the state administered the FMAG Program in an efficient and effective manner. To accomplish the objective, we considered the overall impact of material deficiencies on grant program administration. Specifically, we determined how well the state:

- (1) coordinated and communicated with FEMA and subgrant applicants,
- (2) ensured compliance with federal laws and FEMA guidelines, and
- (3) accounted for and expended FMAG Program funds.

We were 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. Accordingly, we were neither required to nor expressed an opinion on the costs claimed for the grant programs included in the scope of the audit. Had we been required and performed additional procedures or conducted an audit of the financial statements according to generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the state.

Scope

We audited the Middle Fork Fire (FMAG Declaration 2477) that was awarded by FEMA to the state on July 12, 2003. The grant, totaling \$1,456,420, was programmatically closed on February 11, 2005.¹ This FEMA grant award was selected for review because the award was significantly higher than other fire declarations within the same FEMA Region. WMD-EMD administered the FMAG Program.

Methodology

We performed fieldwork at FEMA Region X, WMD-EMD, and the Department of Natural Resources and the Washington State Patrol, which were the two subgrantees under the grant. To obtain an understanding of the grant procedures, we reviewed FEMA regulations, the Stafford Act as amended, pertinent sections of Title 44 of the CFR, and Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

¹ FMAG Programs are considered programmatically closed if all work has been completed and final costs submitted to FEMA have been obligated.

Appendix A
Objectives, Scope, and Methodology

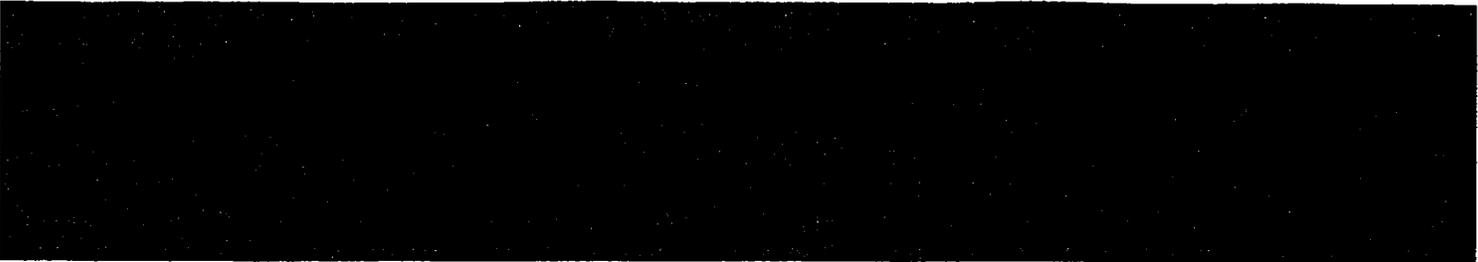
To achieve the objectives of this audit, we:

- 1) Interviewed FEMA, state, and subgrantee personnel to obtain an understanding of policies and procedures followed and to identify potential internal control weaknesses and their causes;
- 2) Reviewed grant files to determine whether sufficient documentation was present to support proper administration of the grant;
- 3) Reviewed the state's internal controls over accounting for grants to ensure that the state properly recorded and reported grant expenditures;
- 4) Reviewed a statistical sample of project worksheets to determine whether grant monies were spent according to laws and regulations. We used appropriate formulas to develop a variable sampling approach coupled with the risk model promulgated by the American Institute of Certified Public Accountants.
- 5) Reviewed prior audit reports to determine whether deficiencies had been noted in the reports with respect to the state's administration of the FMAG Program or internal controls over grant fund accounting.

We conducted a performance audit by executing tests, conducting interviews, making observations and examining documentation in the following areas:

1. Applicant Eligibility
2. Cost Eligibility
3. Procurement
4. Grantee's Accounting System and Internal Controls
5. Project Worksheet Review
6. Grant Reporting

We conducted our audit between December 2007 and June 2008 and performed our work according to the *Government Auditing Standards* prescribed by the Comptroller General of the United States (July 2007 Revision).



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