



# Homeland Security

November 19, 2008

MEMORANDUM FOR: Nancy Ward  
Regional Administrator  
FEMA Region IX

FROM:   
Robert J. Lastrico  
Western Regional Director

SUBJECT: *Trico Electric Cooperative, Inc.*  
Marana, Arizona  
Public Assistance Identification Number 019-UKXGR-00  
FEMA Disaster Number 1477-DR-AZ  
Audit Report Number DS-09-01

The Office of Inspector General audited public assistance funds awarded to Trico Electric Cooperative, Inc., Marana, Arizona (Co-op). The objective of the audit was to determine whether the Co-op expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The Co-op received a public assistance grant award of \$4.8 million from the Arizona Division of Emergency Management (ADEM),<sup>1</sup> a FEMA grantee, for work on Mount Lemmon facilities damaged by the Aspen Fire in 2003. The fire consumed a total of 84,750 acres and destroyed 340 homes and businesses over 25 days.

The audit covered the period June 17, 2003, through August 28, 2008, and included a review of the only project awarded under the grant— project worksheet 16 with a total approved amount of \$4.8 million. As of August 28, 2008, the Co-op had submitted its final claim of \$3.61 million to ADEM. As a result of a Department of Emergency and Military Affairs internal audit, the Co-op's claim was reduced to \$3.58 million. FEMA had not performed a final inspection or closeout of the project pending ADEM's submission of the final claim.

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, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. The evidence obtained during the audit provides a reasonable basis for our findings and conclusions based on our audit objective. We interviewed FEMA, ADEM, and Co-op officials; reviewed judgmentally

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<sup>1</sup> ADEM is a division of the Arizona Department of Emergency and Military Affairs.

selected samples of cost documentation (generally based on dollar value) to support invoiced and force account costs; and performed other procedures considered necessary to accomplish our objective. We also reviewed the Department of Emergency and Military Affairs' July 2008 internal audit report, workpapers, and support for cost adjustments.

We did not assess the adequacy of the Co-op'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 Co-op's methodology of accounting for disaster-related costs.

### **RESULTS OF AUDIT**

The Co-op's adjusted claim of \$3.58 million included \$28,094 in ineligible force account equipment costs because it claimed fuel and repair costs for one large generator as well as an hourly equipment usage rate for that generator. Reimbursement for ownership and operation costs of applicant-owned equipment used can be based on reasonable rates approved under state guidelines.<sup>2</sup> However, reimbursement for equipment with rates in excess of \$75 is determined by FEMA on a case-by-case basis.<sup>3</sup>

FEMA and ADEM agreed on a \$175 hourly rate because the generator used during the fire was not included in FEMA's Schedule of Equipment Rates. However, in addition to requesting reimbursement based on the hourly rate, the Co-op requested an additional reimbursement of \$28,094 for fuel and repairs costs. ADEM and FEMA officials agreed that fuel and repair costs are ownership and operation costs already included in the hourly rate. Therefore, ADEM and the Department of Emergency and Military Affairs internal auditor said the final claim to FEMA would be reduced by the \$28,094 in excessive fuel and repair costs claimed by the Co-op.

### **RECOMMENDATION**

We recommend that the Regional Administrator, FEMA Region IX, disallow \$28,094 in ineligible fuel and repair costs if included in ADEM's submission of the Co-op's final claim.

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

We discussed the results of this audit with ADEM and the Co-op on September 30, 2008, and with FEMA Region IX officials on October 2, 2008. Both FEMA and ADEM agreed with our conclusions and ADEM officials said they would submit the final claim for the Co-op net of fuel and repair costs.

Please advise us by January 20, 2009, of actions taken or planned to implement our recommendation. Should you have questions concerning this report, please contact me at (510) 637-1482. Key contributors to this assignment were Humberto Melara and Willard Stark.

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<sup>2</sup> 44 CFR 206.228(a)(1).

<sup>3</sup> Ibid.