

U.S. Department of Homeland Security
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Homeland Security

June 17, 2009

MEMORANDUM FOR: William Carwile, III
Assistant Administrator, Disaster Operations Directorate
Federal Emergency Management Agency

FROM: 
Robert Lastrico
Director, Western Regional Office

SUBJECT: *Boone County Fire Protection District, Columbia, Missouri*
National Urban Search and Rescue Response System Program
Audit Report Number DS-09-06

The Office of Inspector General audited Federal Emergency Management Agency (FEMA) preparedness grants and deployment reimbursements provided to the Boone County Fire Protection District, Columbia, Missouri (District). The District is the sponsoring organization (sponsor) for Missouri Task Force One (Task Force) under FEMA's National Urban Search and Rescue (US&R) Response System Program. The objective of the audit was to determine whether the District expended and accounted for US&R funds according to federal regulations and FEMA guidelines.

We audited \$4.1 million in FEMA reimbursements to the District for five preparedness grants awarded between fiscal years (FYs) 2002 and 2006, and \$2.2 million for six Task Force deployments to disaster events that occurred between 2005 and 2007 (see Exhibit). Except for the grants awarded for FYs 2002 and 2003, the other grant awards had not been closed. The audit covered the period from September 27, 2002, through December 5, 2007.

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 and District officials, reviewed judgmentally selected samples (generally based on dollar value) of cost documentation to support invoices and personnel charges, and performed other procedures considered necessary to accomplish our objective.

Although we did not assess the adequacy of the District's internal controls applicable to all Task Force activities, we did gain an understanding of the District's method of accounting for Task Force costs.

BACKGROUND

FEMA's US&R program provides a framework for coordinating local emergency services organizations and personnel into integrated disaster response task forces. FEMA provides financial assistance and manages and administers preparedness grants to sponsors for 28 task forces. This financial assistance helps to develop and maintain task force capabilities by providing funding for (1) training, (2) cache (equipment and supplies) purchases, and (3) other needs to ensure preparedness for emergency response deployments. Sponsors may receive the following two types of FEMA US&R funds:

- FEMA awards grants annually to the sponsors to ensure ongoing preparedness through personnel training, required equipment and supply purchases and maintenance, medical services, and other readiness costs as specified in program guidance. The grants authorize the sponsors to draw down funds from an Internet-based payment system (SMARTLINK) to reimburse for eligible costs.
- FEMA reimburses deployment expenses to sponsors for task forces responding to an emergency event. These costs consist primarily of personnel and cache replenishment expenses. The sponsor may request FEMA to advance 75% of the estimated salary cost upon activation. The remaining eligible costs are reimbursed after FEMA reviews the sponsor's final claim upon completion of the deployment.

Sponsors are required to adhere to the terms and conditions of grant awards, report progress on meeting these terms and conditions, and manage and account for FEMA funds in a manner consistent with the mission of the US&R program.

RESULTS OF AUDIT

The District needs to strengthen its controls to improve compliance with federal criteria for preparedness and deployment costs. Specifically, the District needs to comply with the grant requirement to minimize the time elapsing between the drawdown of funds and their expenditure. In addition, FEMA should disallow \$466,920 in ineligible costs and \$285,533 in unsupported costs. We also recommend that the District develop inventory management controls, FEMA provide specific guidance on task force food and beverage purchases, and FEMA require the District to submit additional detail with closeout of claims.

Finding A – Cash Management

During the period November 25, 2005, to the audit cutoff date of December 5, 2007, the District did not comply with US&R drawdown requirements for preparedness grants because cumulative drawdowns exceeded cumulative, documented grant expenses. The District commingled drawdown amounts with its own general funds and used some of the excess grant funds for nongrant activities. Drawdown of federal funds in excess of grant-associated expenses violates federal grant terms and regulations. Details regarding the District's drawdown practices and use of grant funds are provided below.

- Drawdowns of Preparedness Grant Funds. The District regularly drew down grant funds in excess of documented grant expenditures for the FYs 2003 through 2005 grant awards. From

November 25, 2005, to December 5, 2007, the District's daily drawdown balance exceeded daily grant expenditures. The largest cumulative balance of drawdowns in excess of documented and supported grant expenditures was nearly \$731,000 as of August 18, 2006. Under the terms of the FEMA grants, the District is required to use grant funds for program-eligible activities, and to minimize the time elapsing between the receipt of funds and their expenditure. The grant agreement, pursuant to Title 31, Code of Federal Regulations, Section 205 (31 CFR 205), requires that the grantee receive federal reimbursements no more than 3 business days prior to the expenditure on program-eligible costs.

On October 12, 2006, the District's independent auditor issued a financial report for the year ended December 31, 2005. The audit reported excess grant drawdowns of nearly \$521,000 and cited unauthorized drawdowns by the District's financial manager as the cause. FEMA did not review the District's financial and performance reports in sufficient detail to note inaccurate accounting, missing documents, or discrepancies in the amounts drawn down prior to the independent auditor's financial report.

- Use of Preparedness Grant Funds. As the District drew down grant funds in excess of actual grant expenses, it commingled them with other District general funds. When the District's bank balance fell to amounts below the cumulative excess amount, the District was essentially using FEMA funds for nongrant activities. For example, as of September 29, 2006, the District had a bank balance of \$63,351 but had cumulative drawdowns of \$699,635 in excess of documented grant expenditures. Therefore, the District used \$636,284 for purposes not authorized under the US&R grant agreement. Between November 25, 2005, and December 5, 2007, the District's bank balance fell below the cumulative balance of excess drawdowns the majority of time. During this period, grant funds used for nongrant purposes fluctuated as the District received deposits from various sources and expended funds for different purposes. As of December 5, 2007, the bank balance was sufficient to cover the cumulative amount of the excess drawdowns.

The District's independent financial report for the year ended December 31, 2005, indicated that the District used the excess drawdowns of annual grant funds to pay for unreimbursed US&R deployment expenses. However, the excess drawdown amount was often more than the unreimbursed deployment expenses after 2005. For example, on February 12, 2007, when the District had been fully reimbursed for its deployment expenses, cumulative grant funds drawn down in excess of actual grant expenditures exceeded the District's bank balance by \$501,800. This amount represents the District's use of preparedness funds for nongrant purposes.

FEMA classified the District as a high-risk grantee for annual preparedness grants on September 7, 2007. As such, FEMA denied the District the ability to use SMARTLINK to receive reimbursements and required the District to (1) submit monthly expense lists for approval prior to incurring preparedness grant costs, and (2) submit reconciliation reports for FYs 2004 through 2006. As of the close of the audit period on December 5, 2007, the cumulative excess drawdown amount totaled more than \$96,000.

Finding B – Cost Eligibility

The District claimed \$403,658 in preparedness grant costs that were ineligible because: (1) the costs were incurred outside approved grant performance periods (\$118,728), and (2) FEMA retroactively approved performance period extensions but the District's justifications for the extension requests were not sufficiently documented and did not meet FEMA grant criteria for extensions (\$284,930). The District also claimed \$63,262 in personnel backfill costs related to Task Force deployments that were not eligible because the costs did not meet the federal criteria for reimbursement.

As noted in the previous finding, FEMA did not require sufficient documentation or perform financial analysis to ensure the District spent grant funds properly. The District submitted reports to FEMA that did not provide sufficient documentation. Because FEMA did not perform financial analysis on the reports, they were unaware that claimed grant costs and deployment costs were not in compliance with the grant terms and deployment agreements.

Preparedness Grant Costs

The District claimed \$118,728 for costs incurred that were not within approved performance periods for grant years 2002, 2003, 2005, and 2006. Since FEMA and the District agreed to the terms and conditions of these grant awards, costs incurred that were not within approved performance periods are not eligible for reimbursement.

The District also claimed \$284,930 in costs incurred within extended grant performance periods that were retroactively approved by FEMA, but the extension requests were not in compliance with FEMA's grant terms and conditions. According to FEMA grant criteria, time extension requests must contain:

- The status of the ongoing activity,
- An explanation as to why the activity could not be completed as required and/or actions that have been taken to resolve any problems,
- The amount of funding necessary to finish the activity, and
- An estimated completion date for the activity.

Although the District submitted time extension requests for the FY 2004 and FY 2005 grants and FEMA approved the requests after the initial periods had already elapsed, the documentation provided by the District did not meet FEMA requirements. For instance, the District cited general reasons, including deployments and hurricane season preparations for the extension requests, but did not cite specific delayed activities or the estimated completion dates for these activities. Further, the costs incurred during the time extensions were not extraordinary costs, and the District did not demonstrate a need for the time extensions. Finally, since annual preparedness grants are awarded to cover eligible costs incurred or obligated within an approved performance period, the District should not request, and FEMA should not approve an unjustified carryover of locally unobligated amounts to subsequent periods.

Task Force Deployment Reimbursements

The District claimed ineligible personnel backfill costs of \$63,262 while Task Force members were deployed in response to hurricanes Katrina and Ernesto. Backfill costs represent the incremental costs incurred when an entity replaces personnel absent from their regularly scheduled work hours. According to 44 CFR 208.39(g), grantees may be reimbursed for backfill costs that exceed the normal cost the sponsor would have incurred if the member had not been deployed. Ineligible backfill costs claimed by the District are identified below.

- \$40,870 in backfill costs did not exceed the normal costs for the deployed members.
- \$22,392 in backfill costs to cover paid leave members took while on deployment resulted in no additional costs accrued to the employer as a result of the deployment.

District personnel said that they were not completely familiar with all the backfill criteria, and had not scrutinized costs claimed by other organizations that provided some of the personnel for deployment.

Finding C – Supporting Documentation

The District claimed \$285,533 in costs not supported with source documentation showing the date expenses were paid or supporting that the costs were actually incurred. Of the \$285,533 questioned, \$267,952 was applicable to FY 2003 through FY 2006 preparedness grants and \$17,581 was applicable to deployment costs reimbursed by FEMA. According to 44 CFR 13.20(b)(6), accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, and contract award documents. District personnel attributed the lack of records to a turnover in financial management personnel. Details are as follows.

- Claimed Costs for the Preparedness Grants. The District claimed \$183,866 in salary costs that were allocated based on estimates without documentation to support that the costs were incurred to provide services or benefits for the grant preparedness activity. The general principles for determining allowable costs under Office of Management and Budget Circular A-87 require that a procedure be in place to (1) allocate costs by assigning those costs based on the services or benefits provided and (2) support the allocations with source documentation such as time and attendance records. In addition, another \$84,086 in claimed costs did not have supporting documentation, such as invoices or payment information. Without a means to confirm that these costs were incurred and actually paid, the \$267,952 (\$183,866 plus \$84,086) in unsupported grant costs is questionable.
- Deployment Costs. The District was reimbursed \$17,581 for payroll costs related to a "Katrina 1" deployment but could not verify that the costs were incurred or paid. In preparing the claim, District personnel did not reconcile the request for reimbursement with payroll registers to ensure accuracy. As a result, the \$17,581 is questionable.

OTHER ISSUES

Inventory Accountability. The District needs to improve controls for inventory items purchased with FEMA funds or for items provided directly by FEMA. According to 44 CFR 13.32(d), procedures for managing equipment acquired wholly or partially with grant funds must minimally meet the following requirements: (1) property records must be maintained with complete acquisition data, including identification number, cost, location and condition of property, and any disposition data; (2) physical inventory must be taken and the results reconciled with property records every 2 years; (3) control system must ensure adequate safeguards of property, and investigation of any losses; (4) adequate maintenance procedures must be kept to ensure that property is in good condition; and (5) when authorized to sell, proper sales procedures must ensure highest possible return.

From FY 2002 through FY 2006, the District (1) used at least \$1.3 million in FEMA preparedness grant funds to purchase cache items; (2) received additional equipment items directly from FEMA, and (3) purchased additional items as a result of deployment to disaster events. Inventory management deficiencies are identified below.

- The District's cache accounting records were incomplete and no continuous inventory system was maintained. Therefore, the District's acquisition history was unclear, as there was no means for tracking acquisitions to identify the quantity of items that should have been on hand.
- The District did not have a barcode control system which would have aided it in identifying and accounting for items held in its inventory. Difficulty in identifying and accounting for inventory items makes them more susceptible to misplacement, loss, or theft.
- Physical counts were taken piecemeal over a period of months by District staff. The lack of a consolidated physical inventory process could contribute to inaccurate or duplicate counts and to other errors.

District personnel attribute these weaknesses to a lack of knowledge for federal inventory controls and recordkeeping requirements, though they are attempting to correct some of the weaknesses and FEMA has agreed to provide the District with a barcoding system that will improve inventory safeguards.

Noncompliance with federal inventory management requirements subjects the District to possible losses of cache items and in turn could lead to additional claims to FEMA for replacement of those items. However, because of the inventory management weaknesses noted above, we were unable to assess whether poor inventory management practices led to additional claims for reimbursement.

Food and Beverage Purchases. FEMA needs to provide specific guidance of criteria under which a task force is eligible to be reimbursed for food and beverage purchases. According to 44 CFR 208.43, FEMA will reimburse these deployment expenses when meals are not provided, limited to the daily amount of the meals and incidental expense allowance published in the *Federal Register* for the temporary duty location. Cooperative Agreements do not contain specific criteria for food and beverage purchases.

FEMA allowed discretion to the District in selecting from several methods to meet its food and beverage needs without providing specific guidance as to when each method was appropriate. The methods included (1) purchasing groceries to prepare meals, (2) purchasing meals at restaurants, (3) consuming "Meals Ready to Eat" included with the equipment cache, and (4) using food service provided by FEMA at a deployment site.

FEMA does not require the District to provide justification of the costs incurred under any of these methods and District personnel said they were not fully knowledgeable of the rules regarding food and beverage purchases. Because the District could not provide justification for these expenditures, and FEMA did not provide guidance as to which method was applicable, a full analysis of potentially duplicate costs could not be performed.

Closeout Documentation. FEMA does not require the sponsors to submit a summary of expenses incurred for each grant with sufficient detail to verify or analyze cost eligibility at preparedness grant closeout. The summary should include all transactions, the vendor name, purchase date, amount, and description. Currently, closeout documents only include a summary total of costs incurred by major category (e.g., Management, Training, Equipment, Storage/Maintenance), but not the actual expenditures that make up those totals. Collectively, the issues relating to cash management and eligibility of costs raised in this report indicate a need for stricter sponsor accountability when the final claims are submitted.

RECOMMENDATIONS

We recommend that the Assistant Administrator, Disaster Operations Directorate:

Recommendation #1. Require the District to identify and return any unused preparedness grant funds.

Recommendation #2. Consult with the Office of General Counsel and other program authorities to determine appropriate actions to be taken, consistent with 44 CFR 13.43, regarding the misuse of preparedness funds for nonfederal purposes.

Recommendation #3. Require the District to establish accounting methods that clearly identify the source and application of preparedness grant funding and US&R deployment costs and reimbursements. One method to improve accountability is to require the District to establish and maintain a separate bank account for US&R preparedness grant funds and deployment reimbursements received from FEMA.

Recommendation #4. Retain the high-risk grantee status for the District until it demonstrates sufficient accountability over preparedness grant funds and can properly support deployment expenses.

Recommendation #5. Disallow and recoup \$118,728 for ineligible preparedness costs that were incurred outside the approved performance periods.

Recommendation #6. Disallow and recoup \$284,930 for ineligible preparedness costs that were incurred during time extensions but not properly justified.

Recommendation #7. Discontinue the practice of approving time extension requests that do not meet the requirements of the grantor.

Recommendation #8. Disallow and recoup \$63,262 for ineligible personnel backfill costs for deployment.

Recommendation #9. Disallow and recoup \$267,952 for unsupported preparedness costs.

Recommendation #10. Disallow and recoup \$17,581 for unsupported labor costs for deployments.

Recommendation #11. Require the District to develop and implement controls to ensure compliance with federal requirements for inventory management.

Recommendation #12. Provide specific guidance on the various methods available to sponsors to meet food and beverage needs and when use of each method is applicable or appropriate.

Recommendation #13. Require grantees (sponsors) to submit a summary of the expenditures incurred with sufficient detail to verify or analyze cost eligibility as part of the preparedness grant closeout process.

DISCUSSION WITH MANAGEMENT, MANAGEMENT RESPONSES, AND AUDIT FOLLOW-UP

We discussed the results of our audit with FEMA officials on May 1, 2009, and subsequently held a joint discussion with FEMA and District officials on May 13, 2009. During our joint discussion, FEMA and the District requested additional time to review the draft report and submit written comments for inclusion in the final report. FEMA and the District also requested further documentation from us which we provided. We received FEMA's response, which incorporated the District's comments, on June 10, 2009. Exhibit B provides the complete text of FEMA's and the District's responses.

In their response, FEMA officials indicated concurrence on six of the recommendations and non-concurrence on the remaining seven. However, FEMA officials did not provide sufficient response or complete action plans on most of the recommendations for us to determine whether they, or the District, fully comprehended or agreed with our findings and recommendations. For example, although FEMA did not concur with recommendations numbered 8, 9, and 10, they said that additional information is needed to address the issues, and for six of the other recommendations, they plan to conduct a technical assistance visit at the District's site to resolve the issues.

Please advise this office by August 17, 2009, of the planned and completed actions implemented regarding our recommendations, including target completion dates for any planned actions. Should you have questions concerning this report, please call me at (510) 637-1482 or your staff may contact Jack Lankford, Supervisory Auditor, at (510) 637-1462.

cc: FEMA Audit Liaison (Job Code DG7W02)

**Schedule of Preparedness Grants and Deployment Costs Audited
Boone County Fire Protection District, Columbia, Missouri
National Urban Search and Rescue Response System Program**

Award or Activation Date	Funding Description	Preparedness Grant Amount	Deployment Costs	Audited Funding	
				Preparedness	Deployments
Sep. 18, 2002	FY 2002 Grant	\$740,000		\$740,000	
Aug. 27, 2003	FY 2003 Grant	\$1,105,000		\$1,105,000	
Jul. 16, 2004	FY 2004 Grant	\$1,008,035		\$976,035	
Mar. 25, 2005	FY 2005 Grant	\$892,000		\$895,542	
Dec. 29, 2005	FY 2006 Grant	\$592,915		\$379,789	
Jul. 08, 2005	Hurricane Dennis		\$111,789		\$111,789
Aug. 26, 2005	Hurricane Katrina #1		\$448,210		\$448,210
Sep. 10, 2005	Hurricane Katrina #2		\$1,113,119		\$1,113,119
Oct. 19, 2005	Hurricane Wilma		\$11,439		\$11,439
Aug. 27, 2006	Hurricane Ernesto		\$481,955		\$481,955
Aug. 19, 2007	Hurricane Dean		\$157,209		\$76,682
		\$4,337,950	\$2,323,721	\$4,096,366	\$2,243,194

U.S. Department of Homeland Security
Washington, DC 20472



FEMA

JUN 10 2009

MEMORANDUM FOR: Robert Lastrico
Director, Western Regional Office
Office of Emergency Management Oversight
Office of Inspector General

FROM: Robert A. Farmer
Robert A. Farmer
Acting Director
Office of Policy and Program Analysis

SUBJECT: Comments on OIG Draft Report, *Boone County Fire Protection District, Columbia, Missouri National Urban Search and Rescue Response System Program*

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG's) subject draft audit report. As the Federal Emergency Management Agency (FEMA) works toward refining its programs, the OIG's independent analysis of program performance greatly benefits our ability to continuously improve our activities.

Attached for your consideration are our comments, including concurrence/non-concurrence, on each of the 13 OIG recommendations. Our comments are intended to provide critical input that can facilitate successful resolution of the subject audit. In addition, we have also attached the Boone County Fire Protection District, Urban Search and Rescue (US&R) Task Force's (MO-TF1's) comments to the specific OIG findings, for your review and possible inclusion in the final report.

It should be noted that the FEMA US&R Program Office and Grants Office had intended to conduct a technical assistance/monitoring visit of MO-TF1 this year. However, when FEMA was notified of the OIG audit, this visit was canceled, pending completion and final outcome of the OIG audit.

Thank you again for the opportunity to comment on the findings and recommendations prior to the posting of the report. We look forward to working with you on other issues as we both strive to improve FEMA.

Attachments

**FEMA COMMENTS ON DRAFT REPORT
RECOMMENDATIONS**

Rec #	FEMA Position	DHS OIG Recommendation	Comments
1	Concur	Require the District to identify and return any unused preparedness grant funds.	All preparedness cooperative agreement funds for the audited years (FY2003 – FY2007) have been used and closed by FEMA Grant Programs Directorate (GPD).
2	Concur	Consult with the Office of General Counsel and other program authorities to determine appropriate actions to be taken, consistent with 44 CFR 13.43, regarding the misuse of preparedness funds for nonfederal purposes.	FEMA cannot confirm misuse of funds for nonfederal purposes until a follow up technical assistance visit is conducted and documents are reviewed. However, we use many monitoring tools to ensure the Task Force is properly using preparedness and response funding. These tools include performance and financial reporting, operational readiness evaluations, technical assistance visits, mandatory grant management training, as well as Urban Search and Rescue (US&R) specific grant management reference material provided to each Task Force by the US&R Grants Work Group. A technical assistance visit will be conducted this year to review and obtain reasonable assurance MO-TF1 is properly using cooperative agreement funds, in accordance with the appropriate statement of work and budget plan/narrative. Once we have reviewed MO-TF1's documentation, we will take appropriate action consistent with 44 CFR 13.43, if necessary.

Exhibit B

Rec #	DOD Position	DHS OIG Recommendation	Comments
3	Concur	Require the District to establish accounting methods that clearly identify the source and application of preparedness grant funding and US&R deployment costs and reimbursements. One method to improve accountability is to require the District to establish and maintain a separate bank account for US&R preparedness grant funds and deployment reimbursements received from FEMA.	The District states that they have implemented a new financial policy and system that better tracks funds to aid in the accountability and documentation of cooperative agreement funds. MO-TF1 is scheduled for an Operational Readiness Evaluation (ORE) and a follow-on grant technical assistance (compliance) visit. FEMA will review MO-TF1's method for tracking preparedness and reimbursement costs to ensure there are no commingling of funds. This is a standard item FEMA US&R reviews to ensure compliance during a technical assistance visit.
4	Concur	Retain the high-risk grantee status for the District until it demonstrates sufficient accountability over preparedness grant funds and can properly support deployment expenses.	Boone County will remain on High Risk status and will continue to be required to submit SF270's to draw down funds until a technical assistance and/or grant site visit is conducted and there is an assurance that they have set up accounting systems to properly account for preparedness and response funding, in accordance with response requirements and/or preparedness statements of work.
5	Non-concur <i>(until review of MO-TF1 supporting documentation)</i>	Disallow and recoup \$118,728 for ineligible preparedness costs that were incurred outside the approved performance periods.	Based on information provided by the OIG and MO-TF1, this amount was due to costs being allocated to the incorrect cooperative agreement. MO-TF1 claims to have resolved this issue with the implementation of a new accounting software package, financial policy, and a change in management and financial staff. The updated policies and software establish checks and balances to ensure the funds are being expended within the proper cooperative agreement and performance period. FEMA will review MO-TF1's internal controls, including proper allocations of costs to the appropriate cooperative agreement during the upcoming technical assistance visit and determine the necessary action.
6	Non-concur <i>(until review of MO-TF1 supporting documentation)</i>	Disallow and recoup \$284,930 for ineligible preparedness costs that were incurred during time extensions but not properly justified.	This response addresses ineligible preparedness costs. Comments regarding the time extensions will be addressed in Item 7. In order to determine agreement with this recommendation, FEMA will review the source documents to verify the expenditures. The costs incurred by MO-TF1 after extensions were granted would be acceptable, unless they are costs that would not have normally been allowed, per the cost principles, program guidance, statement of work, or their budget narrative. MO-TF1 claims their Sponsoring Agency has implemented better controls, such as a new financial management policy, a new accounting system, and new management to support the tracking and oversight of cooperative agreement costs.

Exhibit B

Rec #	DO Position	DHS OIG Recommendation	Comments
7	Non-concur	Discontinue the practice of approving time extension requests that do not meet the requirements of the grantor.	The extension requests for FY 2003, 2004, and 2005 were submitted by Boone County on November 27, 2006. These were subsequently approved by the US&R Program and Grants offices as retroactive extensions. These requests were approved only after the following information was obtained from MO-TF1 through multiple emails: status of ongoing activities, remaining balance/activities to be completed, why activities could not be completed within the original performance period, why there was a delay in submitting the extension and the corrective action taken to resolve these issues in the future. Extensions submitted by MO-TF1 to FEMA for review, were approved based on the information provided. Because of the nature of the US&R Program and its mission, there are times when Task Forces set a budget plan and, due to circumstances beyond their control (e.g., deployments, dynamic program requirements, Sponsoring Agency approval/processing times, change in personnel or vacancy of positions, etc.), Task Forces are put into a position where an extension is necessary. Moreover, FEMA US&R has discussed this matter with Office of Chief Counsel (OCC). OCC has stated that as a matter of policy, retroactive extensions should be discouraged and used only in the most extreme of circumstances. However, a needed extension because of disaster deployment could meet such circumstances. FEMA US&R cooperative agreement extensions are not granted based on the need to expend remaining funds. Retroactive extensions are authorized by the Draft FEMA Grants Handbook, Part II, Chapter 5 – Post Award Administration, Part 2, Section i (see attached excerpt of the Draft Grants Handbook). The criteria outlined in the handbook were followed when approving MO-TF1's retroactive extension request. In determining the extension period, consideration is often given to the length of time FEMA needs to review the extension request and that time is factored into the extension time frame approved. The lengthy approval process needed by FEMA for these extensions was as a result of the heavy workload and staff shortages at that time, while supporting other disaster and non-disaster grants. This is not the case for all extensions – most are approved within a short time frame. Extensions submitted by MO-TF1 to FEMA for review were subsequently approved for the appropriate reasons and should remain.
8	Non-concur	Disallow and recoup \$63,262 for ineligible personnel backfill costs for deployment.	More information is required from DHS OIG in order for FEMA and MO-TF1 to address this issue.
9	Non-concur <i>(until source documentation is provided and reviewed by FEMA)</i>	Disallow and recoup \$267,952 for unsupported preparedness costs.	MO-TF1 claims they can produce the proper documentation for a portion of these costs. An estimated \$51,050 is associated with classroom renovation costs that had not been spent when the OIG Auditors set a cut-off date. MO-TF1 claims these costs have now been incurred and proper documentation is available. MO-TF1 states they now have a salary allocation process in place for implementation, where they will conduct an annual review of the payroll allocation. Review of this documentation and their updated salary allocation process will be conducted during the technical assistance visit. At that time, FEMA will provide a determination as to whether these costs should be disallowed.

Exhibit B

Rec #	DO Position	DHS OIG Recommendation	Comments
10	Non-concur	Disallow and recoup \$17,581 for unsupported labor costs for deployments.	MO-TF1 has requested additional information in order to investigate this recommendation.
11	Concur	Require the District to develop and implement controls to ensure compliance with federal requirements for inventory management.	The statements of work from previous and current cooperative agreements authorize use of grant funds to procure an inventory tracking database so they can adequately track all that is required in 44 CFR 13.32(d). The Fire District currently uses a Microsoft Access database to track and manage its inventory and claims to cover all FEMA management inventory requirements. This will be verified during the upcoming ORE and technical assistance visits.
12	Concur	Provide specific guidance on the various methods available to sponsors to meet food and beverage needs and when use of each method is applicable or appropriate.	Information on the procurement of food for activated task forces is provided in 44 CFR 208.36(4) and is widely followed. However, FEMA will update the current reimbursement policy to provide more specific guidance. This information will also be addressed in the US&R Grant Work Group's Grants Administration Manual (developed by US&R grantees).
13	Non-concur	Require grantees (sponsors) to submit a summary of the expenditures incurred with sufficient detail to verify and analyze cost eligibility as part of the preparedness grant closeout process.	Each closeout package has a summary, by category, of expenditures made within that cooperative agreement. Task Forces should provide sufficient information to address their accomplishments achieved under the cooperative agreement that will provide a reasonable assurance to FEMA that the funds were expended appropriately. Task Forces provide this information in various ways, some providing more detail than others. The cost to the grantee to provide the level of information suggested in this recommendation for each cooperative agreement (e.g., salaries, by pay period, every expenditure, etc.) as well as cost to FEMA to review this information would far outweigh the benefits obtained from requiring a closeout report to that level of detail (also reference: Paperwork Reduction Act requirements). Through FEMA's review of the documents submitted, performance and financial reports, technical assistance visits (conducted by the US&R Program Office), grant site monitoring visits (conducted by FEMA Regional grant staff), Operational Readiness Evaluations (OREs), and single audit reports, a reasonable assurance can be obtained that a Task Force is clearly tracking appropriate costs to each cooperative agreement. If at any time FEMA feels the close out package provided by a Task Force does not contain sufficient documentation, additional information can be obtained from the Task Force. Historically, we have requested this type of information.

Excerpt from Draft FEMA Grants Handbook, August 2006

Part II, Chapter 5, Part 2, Section i:

Retroactive approval

- (1) Although recipients are required to obtain approval before incurring costs or undertaking activities that require FEMA prior approval, an OAO/DGMS can entertain a retroactive request and grant "prior approval" retroactively. Such requests must be reviewed on their merits, including whether the requested action is permissible under the governing statute, regulations, and policies, including the cost principles.
 - (2) A request for retroactive approval should not be disapproved solely because of timing. The grantee may be asked to explain its failure to request the approval in advance and to indicate what steps it has taken or plans to take to prevent a recurrence. If a grantee has a documented pattern of submitting requests after-the-fact, an OPDIV may disapprove a request on that basis or consider appropriate enforcement actions (see paragraph 5. below).
 - (3) If the request is approved, the letter sent to the grantee should clearly specify that this is an exception and that the grantee will be expected to obtain required prior approval in advance when required for future requests. If a retroactive request is denied, the AO's/DGMS's letter should indicate the underlying basis for the disapproval.
- j. *Program and budget changes that do not require prior FEMA approval.* When the grantee makes a change in the program budget that does not require prior FEMA approval, although a grantee may choose to submit a copy of the revised budget with the next performance report, it is not required to do so.

COMMENTS FROM BOONE COUNTY (MO-TF1)

RESULTS OF AUDIT

The District needs to strengthen its controls to improve compliance with federal criteria for preparedness and deployment costs. Specifically, the District needs to comply with the grant requirement to minimize the time elapsing between the drawdown of funds and their expenditure. In addition, FEMA should disallow \$466,920 in ineligible costs and \$285,533 in unsupported costs. We also recommend that the District develop inventory management controls, FEMA provide specific guidance +on task force food and beverage purchases, and FEMA require the District to submit additional detail with closeout of claims.

The Fire District is providing detailed responses below. Supporting data will be provided to FEMA after requested clarifying materials have been received by the District.

Finding A – Cash Management

During the period November 25, 2005, to the audit cutoff date of December 5, 2007, the District did not comply with US&R drawdown requirements for preparedness grants because cumulative drawdowns exceeded cumulative, documented grant expenses. The District commingled drawdown amounts with its own general funds and used some of the excess grant funds for nongrant activities. Drawdown of federal funds in excess of grant-associated expenses violates federal grant terms and regulations. Details regarding the District's drawdown practices and use of grant funds are provided below.

The Fire District acknowledges that funds were drawn from improper sources, but does not concur with this finding in that the Fire District accounting system continuously segregated these funds by specific account in the general ledger. We contend that Fire District funds were always more than adequate to meet the cash flow needs of the district during these periods. The Fire District invests funds through the Boone County Treasurers Office in a County Agency Pool. At any given time there have always been funds on deposit that would more than cover the excessive drawdown. See below for more specific responses.

- Drawdowns of Preparedness Grant Funds. The District regularly drew down grant funds in excess of documented grant expenditures for the FYs 2003 through 2005 grant awards. From November 25, 2005, to December 5, 2007, the District's daily drawdown balance exceeded daily grant expenditures. The largest cumulative balance of drawdowns in excess of documented and supported grant expenditures was nearly \$731,000 as of August 18, 2006. Under the terms of the FEMA grants, the District is required to use grant funds for program-eligible activities, and to minimize the time elapsing between the receipt of funds and their expenditure. The grant agreement, pursuant to **Title 31, Code of Federal Regulations, Section 205 (31 CFR 205)**, requires that the grantee receive federal

reimbursements no more than 3 business days prior to the expenditure on program-eligible costs.

The Fire District concurs with this element of the finding. The Fire District did notify the FEMA US&R Program Office that Preparedness funds were drawn to cover hurricane deployment costs. The management and financial staff responsible for this error are no longer employed by the Fire District and appropriate measures have been established to ensure proper fund allocation and drawdown have been established and implemented.

- On October 12, 2006, the District's independent auditor issued a financial report for the year ended December 31, 2005. The audit reported excess grant drawdowns of nearly \$521,000 and cited unauthorized drawdowns by the District's financial manager as the cause. FEMA did not review the District's financial and performance reports in sufficient detail to note inaccurate accounting, missing documents, or discrepancies in the amounts drawn down prior to the independents auditor's financial report.

We concur with this element of the finding. Once the internal audit was received by the Fire District, the Program Office was notified on November 14, 2006 of the excessive draw downs during a telephone discussion that included Wanda Casey, Catherine Deel, Sharon Curry and Steve Paulsell. The management and financial staff responsible for this error are no longer employed by the Fire District and appropriate measures have been established to ensure proper fund allocation and drawdown have been established and implemented.

- Use of Preparedness Grant Funds. As the District drew down grant funds in excess of actual grant expenses, it commingled them with other District general funds. When the District's bank balance fell to amounts below the cumulative excess amount, the District was essentially using FEMA funds for nongrant activities. For example, as of September 29, 2006, the District had a bank balance of \$63,351 but had cumulative drawdowns of \$699,635 in excess of documented grant expenditures. Therefore, the District used \$636,284 for purposes not authorized under the US&R grant agreement. Between November 25, 2005, and December 5, 2007, the District's bank balance fell below the cumulative balance of excess drawdowns the majority of time. During this period, grant funds used for nongrant purposes fluctuated as the District received deposits from various sources and expended funds for different purposes. As of December 5, 2007, the bank balance was sufficient to cover the cumulative amount of the excess drawdowns.

The Fire District does not concur with this element of the finding. The Bank balance that is referred to above reflects the Fire District's checking account at Commerce Bank. This is not inclusive of the Boone County Pool Accounts which were more than sufficient at all times to cover the overage referred to in this finding. We were asked during a November 14, 2006 telephone conference call with FEMA to request extensions for the each of the grant years 2003, 2004 and 2005. Those extensions were emailed in November 2006, but never approved. Upon discovery of this the extensions were resubmitted on November 16, 2007 and approved by FEMA a few weeks later. In a separate telephone conversation involving Mike Tamilow, Dean Scott, and Wanda Casey, Sharon Curry and Steve Paulsell, the Fire District was directed to put the funds into a non-interest bearing checking account. There is no evidence that depositing these funds in a non-interest bearing account was completed by the former Grants Manager or former Financial Manager.

The District's independent financial report for the year ended December 31, 2005, indicated that the District used the excess drawdowns of annual grant funds to pay for unreimbursed US&R deployment expenses. However, the excess drawdown amount was often more than the unreimbursed deployment expenses after 2005. For example, on February 12, 2007, when the District had been fully reimbursed for its deployment expenses, cumulative grant funds drawn down in excess of actual grant expenditures exceeded the District's bank balance by \$501,800. This amount represents the District's use of preparedness funds for nongrant purposes.

The Fire District does not concur with this element of the finding. This amount represents only the funds held in the Commerce Bank Checking account only. (Please refer to the District statement in Finding A). According to the Boone County Treasurer's Office, Maintenance Funds on deposit as of January 31, 2007 totaled 1,844,030.23 and Maintenance Funds on deposit as of February 28, 2007 totaled 2,357,698.01. Both of these balances far exceed \$501,800.00.

FEMA classified the District as a high-risk grantee for annual preparedness grants on September 7, 2007. As such, FEMA denied the District the ability to use SMARTLINK to receive reimbursements and required the District to (1) submit monthly expense lists for approval prior to incurring preparedness grant costs, and (2) submit reconciliation reports for FYs 2004 through 2006. As of the close of the audit period on December 5, 2007, the cumulative excess drawdown amount totaled more than \$96,000.

Finding B – Cost Eligibility

The District claimed \$403,658 in preparedness grant costs that were ineligible because: (1) the costs were incurred outside approved grant performance periods (\$118,728), and (2) FEMA retroactively approved performance period extensions but the District's justification for the extension requests was not sufficiently documented and did not meet FEMA grant criteria for extensions (\$284,930).

ITEM (1)

The Fire District believes a portion of the \$118,728 is due to errors in the proper allocation of funds to the appropriate cooperative agreement. This was caused, in part, by multiple open preparedness grants and a lack of oversight by former management and financial administrative staff. This problem has been resolved with the implementation of a new accounting software package, the implementation of a detailed financial policy, appropriate Board of Directors oversight and a change in management and financial administrative staff. The new accounting system uses detailed fund accounting. This allows for a segregation of accounts. The Fire District also draws funds once a month using the form 270 attaching all documentation of the actual purchases to the 270 form to better track the actual expenditures to the revenue. The newly established financial policy requires a series of checks and balances that had previously been circumvented. There are now at least three people who review all expenditures for accuracy and validation.

ITEM (2)

The Fire District does not concur with this element of the finding. We believe that the extension requests were sufficiently documented and did meet grant criteria. The Fire District provided a new budget, details of the request for extension, the anticipated completion date and the associated costs that would be incurred to complete the outlined projects. All of the aforementioned documentation was prepared and submitted to the FEMA US&R Program Office for approval prior to the extensions being granted and received by the district.

The District also claimed \$63,262 in personnel backfill costs related to Task Force deployments that were not eligible because the costs did not meet the federal criteria for reimbursement.

We address this issue later in the document.

As noted in the previous finding, FEMA did not require sufficient documentation or perform financial analysis to ensure the District spent grant funds properly. The District submitted reports to FEMA that did not provide sufficient documentation. Because FEMA did not perform financial analysis on the reports, they were unaware that claimed grant costs and deployment costs were not in compliance with the grant terms and deployment agreements.

The District claimed \$118,728 for costs incurred that were not within approved performance periods for grant years 2002, 2003, 2005, and 2006. Since FEMA and the District agreed to the terms and conditions of these grant awards, costs incurred that were not within approved performance periods are not eligible for reimbursement.

The Fire District believes that a portion of the costs associated with this finding is due to costs being allocated to the wrong preparedness grant year. We believe this was due to the fact that the Fire District had numerous open preparedness grants, the accounting system was inadequate, management and financial administrative personnel did not understand or adhere to the grant process and procedures, and the need for separation of duties.

The District also claimed \$284,930 in costs incurred within extended grant performance periods that were retroactively approved by FEMA, but the extensions requests were not in compliance with FEMA's grant terms and conditions. According to FEMA grant criteria, time extension requests must contain:

- The status of the ongoing activity,
- An explanation as to why the activity could not be completed as required and/or actions that have been taken to resolve any problems,
- The amount of funding necessary to finish the activity, and
- An estimated completion date for the activity.

Although the District submitted time extension requests for the FY 2004 and FY 2005 grants and FEMA approved the requests after the initial periods had already elapsed, the documentation provided by the District did not meet FEMA requirements. For instance, the District cited general reasons, including deployments and hurricane season preparations for the extension requests, but did not cite specific delayed activities or the estimated completion dates for these activities. Further, the costs incurred during the time extensions were not extraordinary costs, and the District did not demonstrate a need for the time extension. Finally, since annual preparedness grants are awarded to cover granted related costs incurred or obligated within an approved performance period, the District should not request, and FEMA should not approve an unjustified carryover of locally unobligated amounts to subsequent periods.

The extensions were applied for on November 27, 2006 for the cooperative agreement years 2003, 2004, and 2005. After it was discovered these extensions had never been approved or denied, the

Fire District applied for these extensions again on November 16, 2007. The Fire District then received approval of those extensions which we believe provided valid authorization.

Task Force Deployment Reimbursements

The District claimed ineligible personnel backfill costs of \$63,262 while Task Force members were deployed in response to hurricanes Katrina and Ernesto. Backfill costs represent the incremental costs incurred when an entity replaces personnel absent from their regularly scheduled work hours. According to 44 CFR 208.39(g), grantees may be reimbursed for backfill costs that exceed the normal cost the sponsor would have incurred if the member had not been deployed. Ineligible backfill costs claimed by the District are identified below.

- \$40,870 in backfill costs did not exceed the sponsor's normal costs for the deployed members.

The Fire District was told by the OIG Auditors that the spreadsheet containing pre-established formulas used to prepare the submittals had been manually overwritten. Assuming that is correct, this would have led to an error in the amount of backfill costs claimed. We have no way to confirm or deny this issue.

- \$22,392 in backfill costs to cover paid leave members took while on deployment resulted in no additional costs accrued to the employer as a result of the deployment.

We have requested additional information as to the specifics of the \$22,392 and the criteria that was the basis for the denial. This is backfill costs associated with Task Force volunteers who are employees of other agencies i.e.: Eureka Fire Protection District.

A portion of this discussion focuses on the use of Earned Time Off by the MO-TF1 volunteers with their respective employers. One of the OIG auditors stated in the May 13, 2009 conference call that "You bring up a good point. Maybe we should consider this to be like other contract employees."

As it has taken up to 150 days before the Fire District receives reimbursement for FEMA deployment expenditures; waiting that long would be an undue hardship on deploying Task Force members. We believe a deploying Task Force member should be allowed to take Earned Time Off, if they so desire, for whatever reason including to minimize this financial hardship. To alleviate these issues, the Fire District currently pays deploying Task Force members' salaries out of Fire District general revenues. However, this is not a satisfactory long term solution.

District personnel said that they were not completely familiar with all the backfill criteria, and had not scrutinized costs claimed by other organizations that provided some of the personnel for deployment.

Finding C – Supporting Documentation

The District claimed \$285,533 in costs not supported with source documentation showing the date expenses were paid or supporting that the costs were actually incurred. Of the \$285,533 questioned, \$267,952 was applicable to FY 2003 through FY 2006 preparedness grants and \$17,581 was applicable to deployment costs reimbursed by FEMA. According to 44 CFR 13.20(b)(6), accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, and contract award documents. District personnel attributed the lack of records to a turnover in financial management personnel. Details are as follows.

- Claimed Costs for the Preparedness Grants. The District claimed \$183,866 in salary costs that were allocated based on estimates without documentation to support that the costs were incurred to provide services or benefits for the grant preparedness activity. The general principles for determining allowable costs under Office of Management and Budget Circular A-87 require that a procedure be in place to (1) allocate costs by assigning those costs based on the services or benefits provided and (2) support the allocations with source documentation such as time and attendance records. In addition, another \$84,086 in claimed costs did not have supporting documentation, such as invoices or payment information. Without a means to confirm that these costs were incurred and actually paid, the \$267,952 (\$183,866 plus \$84,086) in unsupported grant costs is questionable.

The Fire District believes that a portion of these costs have proper documentation that can be produced. An estimated \$51,050 is associated with classroom renovations costs that had not been spent when the Auditors set a cut-off date. Those costs have now been incurred and proper documentation is available. The remainder is Commerce Bank Visa payments which we will continue to compile and submit the proper supporting documentation.

The salary costs mentioned above by the OIG Auditors found no documented allocation process. The Fire District during the 2003 – 2006 preparedness grant years did not have a formal established allocation process to determine the management transfer. The Fire District has now changed their allocation process as follows:

During the 2009 preparedness grant process, staff determined that the salary allocation process was not being appropriately documented. To verify the allocation that staff paid by preparedness grant funds is appropriate the District will annually review timesheets for one month in detail to determine the years payroll

allocation, as long as the OIG Auditors and the Program Office approve this means of allocation. This allocation process will become effective immediately upon approval.

- Deployment Costs. The District was reimbursed \$17,581 for payroll costs related to a "Katrina 1" deployment but could not verify that the costs were incurred or paid. In preparing the claim, District personnel did not reconcile the request for reimbursement with payroll registers to ensure accuracy. As a result, the \$17,581 is questionable.

The Fire District cannot concur with this element of the finding until further detail on these questioned costs has been provided.

OTHER ISSUES

Inventory Accountability: The District needs to improve controls for inventory items purchased with FEMA funds or for items provided directly by FEMA. According to 44 CFR 13.32(d), procedures for managing equipment acquired wholly or partially with grant funds must minimally meet the following requirements: (1) property records must be maintained with complete acquisition data, including identification number, cost, location and condition of property, and any disposition data; (2) physical inventory must be taken and the results reconciled with property records every 2 years; (3) control system must ensure adequate safeguards of property, and investigation of any losses; (4) adequate maintenance procedures must be kept to ensure that property is in good condition; and (5) when authorized to sell, proper sales procedures must ensure highest possible return.

From FY 2002 through FY 2006, the District (1) used at least \$1.3 million in FEMA preparedness grant funds to purchase cache items; (2) received additional equipment items directly from FEMA, and (3) purchased additional items as a result of deployment to disaster events. Inventory management deficiencies are identified below.

- The District's cache accounting records were incomplete and no continuous inventory system was maintained. Therefore, the District's acquisition history was unclear, as there was no means for tracking acquisitions to identify the quantity of items that should have been on hand.
- The District did not have a barcode control system which would have aided it in identifying and accounting for items held in its inventory. Difficulty in identifying and accounting for inventory items makes them more susceptible to misplacement, loss, or theft.
- Physical counts were taken piecemeal over a period of months by District staff. The lack of a consolidated physical inventory process could contribute to inaccurate or duplicate counts and to other errors.

District personnel attribute these weaknesses to a lack of knowledge for federal inventory controls and recordkeeping requirements, though they are attempting to correct some of the weaknesses and FEMA has agreed to provide the District with a barcoding system that will improve inventory safeguards.

Noncompliance with federal inventory management requirements subjects the District to possible losses of cache items and in turn could lead to additional claims to FEMA for replacement of those items. However, because of the inventory management weaknesses noted above, we were unable to assess whether poor inventory management practices led to additional claims for reimbursement.

Food and Beverage Purchases. FEMA needs to provide specific guidance of criteria under which a task force is eligible to be reimbursed for food and beverages consumed during deployments. According to 44 CFR 208.43, FEMA will reimburse deployment expenses when meals are not provided, limited to the daily amount of the meals and incidental expense allowance published in the *Federal Register* for the temporary duty location.

FEMA allowed the District's discretion in selecting from several methods to meet its deployment food and beverage needs without providing specific guidance as to when each method was appropriate. The methods included (1) purchasing groceries to prepare meals, (2) purchasing meals at restaurants, (3) consuming "Meals Ready to Eat" included with the equipment cache, and (4) using food service provided by FEMA at a deployment site.

FEMA does not require the District to provide justification of the costs incurred under any of these methods and District personnel said they were not fully knowledgeable of the rules regarding food and beverage purchases. Because the District could not provide justification for these expenditures, and FEMA did not provide guidance as to which method was applicable, a full analysis of potentially duplicate costs could not be performed.

Closeout Documentation. FEMA does not currently require the sponsors to submit a summary of expenses incurred for each grant with sufficient detail to verify or analyze cost eligibility at preparedness grant closeout. The summary should include all transactions, the vendor name, purchase date, amount, and description. Currently, closeout documents only include a summary total of costs incurred by major category (e.g., Management, Training, Equipment, Storage/Maintenance), but not the actual expenditures that make up those totals. Collectively, the issues relating to cash management and eligibility of costs raised in this report indicate a need for stricter sponsor accountability when the final claims are submitted.

RECOMMENDATIONS

We recommend that the Assistant Administrator, Disaster Operations Directorate:

1. Require the District to identify and return any unused preparedness grant funds.

All preparedness grant funds for the audited years have been used.

2. Consult with the Office of General Counsel and other program authorities to determine appropriate actions to be taken, consistent with 44 CFR 13.43, regarding the misuse of preparedness funds for nonfederal purposes.
3. Require the District to establish accounting methods that clearly identify the source and application of preparedness grant funding and US&R deployment costs and reimbursements. One method to improve accountability is to require the District to establish and maintain a separate bank account for US&R preparedness grant funds and deployment reimbursements received from FEMA.

The District has implemented a new financial policy and system that better tracks funds to aid in the accountability and documentation of these cooperative agreements.

4. Retain the high-risk grantee status for the District until it demonstrates sufficient accountability over preparedness grant funds and can properly support deployment expenses.

The Fire District believes that with the implementation of a new accounting system, a new financial policy, the change in management and financial administrative staff, as well as, the completion of the Management Concepts Grants Training by the current Grants Manager and Program Manager, we have sufficiently demonstrated that we can properly support the program directives.

5. Disallow and recoup \$118,728 for ineligible preparedness costs that were incurred outside the approved performance periods.

The Fire District believes that a portion of the costs associated with this finding is due to costs being allocated to the wrong preparedness grant year. We believe this was due to the fact that the Fire District had numerous open preparedness grants, the accounting system was inadequate, management and financial administrative personnel did not understand or adhere to the grant process and procedures, and the need for separation of duties.

6. Disallow and recoup \$284,930 for ineligible preparedness costs that were incurred during time extensions but not properly justified.

The extensions were applied for on November 27, 2006 for the cooperative agreement years 2003, 2004, and 2005. After it was discovered these extensions had never been approved or denied, the Fire District applied for these extensions again on November 16, 2007. The Fire District then received approval of those extensions which we believe provided valid authorization.

7. Discontinue the practice of approving time extension requests that do not meet the requirements of the grantor.

The Fire District has implemented better controls with the implementation of a new financial management policy, a new accounting system and new management to prevent the need for any future extensions.

8. Disallow and recoup \$63,262 for ineligible personnel backfill costs for deployment.

The Fire District was told by the OIG Auditors that the spreadsheet containing pre-established formulas used to prepare the submittals had been manually overwritten. Assuming that is correct this would have led to an error in the amount of backfill costs claimed. We have no way to confirm or deny this issue.

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A portion of this discussion focuses on the use of Earned Time Off by the volunteers with their respective employers. Bob the Auditor stated "You bring up a good point maybe we should consider this to be like other contract employees."

FEMA deployment expenditures can take up to 150 days for reimbursement, thus implementing a financial burden on members who deploy. To alleviate these issues salaries have been paid out of the Fire District general revenues. . However, this is not a satisfactory long term solution.

9. Disallow and recoup \$267,952 for unsupported preparedness costs.

The Fire District believes that a portion of these costs have proper documentation that can be produced. An estimated \$51,050 is associated with classroom renovations costs that had not been spent when the OIG Auditors set a cut-off date. Those costs have now been incurred and proper documentation is available. The remainder is Commerce Bank Visa payments which we will continue to compile and submit the proper supporting documentation.

Regarding the salary costs mentioned above, the OIG Auditors stated they found no documented allocation process. During the 2009 preparedness grant process staff determined that the salary allocation process was not being documented. To verify the allocation that staff paid by preparedness grant funds will annually review timesheets for one month to determine the years payroll allocation, as long as the OIG Auditors and the Program Office approves this means of allocation. This allocation process will become effective immediately upon approval.

10. Disallow and recoup \$17,581 for unsupported labor costs for deployments.

We have requested additional information to in order to investigate this claim.

11. Require the District to develop and implement controls to ensure compliance with federal requirements for inventory management.

The Fire District currently uses a Microsoft Access database to track and manage its inventory. This meets FEMA inventory management requirements.

12. Provide specific guidance on the various methods available to sponsors to meet food and beverage needs and when use of each method is applicable or appropriate.

FEMA to respond

13. Require grantees (sponsors) to submit a summary of the expenditures incurred with sufficient detail to verify or analyze cost eligibility as part of the preparedness grant closeout process.

FEMA to respond
