



Homeland Security

January 29, 2010

MEMORANDUM FOR: Nancy Ward
Regional Administrator
FEMA Region IX

FROM: 
Robert J. Lastrico
Western Regional Director

SUBJECT: *Nevada Division of Forestry*
Public Assistance Identification Number 000-U0C6D-00
FEMA Disaster Number 1540-DR-NV
Audit Number DS-10-02

The Office of Inspector General audited public assistance funds awarded to the Nevada Division of Forestry (NDF), Carson City, Nevada. The objective of the audit was to determine whether NDF expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

On July 14, 2004, FEMA made federal funds available to the State of Nevada, through a Fire Management Assistance Grant¹, to help defray the firefighting costs for the Waterfall fire. Because of the magnitude of the fire, a major disaster declaration was declared by the President on August 26, 2004, covering eligible state and local government costs for emergency services and damage to public property that occurred over the period of July 14, through July 27, 2004.² As a result of the disaster declaration, NDF received a public assistance subgrant award from the Nevada Department of Public Safety, Division of Emergency Management (DEM), a FEMA grantee, for fire suppression, vegetative rehabilitation, and erosion control. The award provided 75% federal funding. We reviewed five large projects³ with a total award of \$6.98 million, one small project with a total award of \$14,876, and claimed costs of \$6.83 million⁴ (see Exhibit). The audit covered the period of July 14, 2004, to April 3, 2006.

We conducted this performance audit under the authority of the *Inspector General Act of 1978* and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable

¹ When FEMA determines that a fire or fires threaten such destruction as would constitute a major disaster, assistance may be authorized for the suppression of any fire in publically or privately owned forest or grassland.

² The presidentially declared disaster changed the Fire Management Assistance Grant to a public assistance grant.

³ Federal regulations in effect at the time of the disaster set the large project threshold at \$54,100.

⁴ From FEMA closeout records.

basis for our findings and conclusions based on our audit objective. The evidence obtained during the audit fulfilled those requirements. We conducted interviews with FEMA, DEM, and NDF officials and staff. We reviewed all project worksheets (PWs) and the documentation supporting claimed project costs, including force account labor, equipment and materials, mutual aid agreements and charges, Conservation Camp charges for fire suppression and rehabilitation, and other data we considered necessary to accomplish our objective. We did not assess the adequacy of NDF's internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of NDF's method of accounting for disaster-related costs. NDF's method of accounting for disaster-related costs for this disaster required that we reconstruct its records in order to objectively evaluate claimed costs. However, NDF significantly improved its accounting and documentation procedures subsequent to this disaster.

RESULTS OF AUDIT

FEMA funded two PWs, classified as Category B, Emergency Protective Measures – Erosion Control, that were not eligible for funding according to federal regulations. Funding for these projects totaled \$1,186,575 (federal share - \$889,931). In addition, three other PWs included \$433,305 (federal share - \$324,979) in costs we questioned because the costs were not adequately supported or were ineligible for reimbursement.

NDF supporting documentation for \$1,933,378 billed by the U.S. Forest Service (USFS) and \$1,035,742 billed by the Bureau of Land Management (BLM) was insufficient. As such, we could not (1) verify that the costs billed by these federal agencies included only disaster-related costs, or (2) opine on the propriety of FEMA's reimbursement of these costs to NDF.⁵ NDF was aware of this documentation issue and is re-writing the cooperative agreement with the “federal cooperators” providing firefighting support. The new agreement will require that other federal agencies provide sufficient supporting documentation to NDF so that it can adequately substantiate future claims for federal reimbursement from FEMA.

Finding A - Category B Projects

FEMA erroneously funded two Category B large projects for Emergency Protective Measures – Erosion Control at a total cost of \$1,186,575 (federal share - \$889,931). NDF requested total funding of \$128,405 for PW 005, later amended by FEMA to \$128,375 due to a calculation error by NDF, for the purchase of seed to be used in the re-vegetation efforts funded in PW 006. PW 006 provided \$1,058,200 for aerial mulching of 1,628 acres of the burned area. These costs were determined by a preset agreement to be the responsibility of the NDF.

Title 44, *Code of Federal Regulations*, Section 206.390 (44 CFR 206.390) authorizes FEMA to provide assistance to any state for the suppression of any fire on publicly or privately owned forest or grassland when such fire threatens destruction as would constitute a major disaster. However, 44 CFR 206.394(c)(1) identifies ineligible program specific costs including “Any costs for presuppression, salvaging timber, restoring facilities, seeding and planting operations.” While these two CFR citations are taken from *Subpart L – Fire Suppression Assistance*, it is counter-intuitive that Category B seeding and planting operations would be ineligible under Subpart L but eligible

⁵ We previously identified the lack of sufficient USFS supporting documentation in four Fire Management Assistance Grant audits issued in 2008.

under *Subpart H – Public Assistance Eligibility*. Furthermore, under the Public Assistance (PA) Program, 44 CFR 206.225(a)(3) says that in order to be eligible, emergency protective measures must (1) eliminate or lessen the threats to lives, public health, or safety, or (2) eliminate or lessen immediate threats of significant additional damage to *improved public or private property* through measures which are cost effective (emphasis added). There was no evidence in project documentation that the re-vegetation work met the PA Program criteria as emergency protective measures or was authorized under the *Fire Suppression Assistance* section of the CFR. Therefore, all \$1,186,575 awarded for these two projects is questionable.

Finding B - Project Worksheet Supporting Documentation

For three PWs, NDF claimed \$433,305 (federal share - \$324,979) in costs that were either not adequately supported or were ineligible for reimbursement.

PW 008. This PW funded the majority of NDF's costs to suppress the Waterfall fire. However, the documentation provided by NDF did not support all of the costs claimed and included costs not eligible for reimbursement. As discussed below, we questioned \$315,740 (federal share - \$236,805) of the final claimed amount of \$5,411,379.⁶

- NDF's claim included \$16,001 in costs that had no supporting source documentation, were ineligible, or were overstated.
- The claim also included \$299,739 in costs that were not eligible for reimbursement as identified below:
 - \$164,876 in FEMA reimbursements to NDF for the City of Reno, costs that were reimbursed twice by FEMA.
 - \$98,000 for the rehabilitation of a burned fire truck that was eligible for insurance reimbursement.
 - \$19,040 in crew boss costs claimed by and reimbursed to NDF twice.
 - \$13,410 in FEMA reimbursements to NDF for identical charges paid to Washoe County by FEMA for the same services under the County's Fire Management Assistance Grant
 - \$4,413 for tobacco products provided to Conservation Camp inmates assigned to the fire.

PWs 029 and 036. The documentation provided by NDF for these two PWs did not support all of the costs claimed and included costs not eligible for reimbursement. Therefore, \$117,565 (federal share - \$88,174) of the claimed cost is questionable as follows.

- NDF's claim included \$38,853 of costs not adequately supported for both PWs. NDF received reimbursement of \$38,853 for allocated equipment costs but provided no basis for this allocation.

⁶ PW 008, Version 4, deobligated \$158,696 based on NDF's final claim of \$5,411,379.

- The claim also included \$78,712 in costs that were not eligible for reimbursement as identified below:
 - \$67,974 in claimed inmate labor costs. NDF claimed inmate labor costs of \$97,129⁷ based on an hourly rate of \$5.39, but only reimbursed the Department of Corrections \$29,155 based on an hourly rate of \$1.00, a difference of \$67,974.
 - \$6,000 for straw removal done 7 months after the expiration of the emergency work period. This exceeded the 6-month time limit prescribed in 44 CFR 206.204(c)(1), and there was no record that a time extension had been requested or granted.
 - \$4,738 in equipment usage costs. NDF based its claim for the use a stake bed truck on FEMA's standard rate of \$17.75 per hour (\$12,780) instead of the locally developed rate of \$11.17 per hour (\$8,042), a difference of \$4,738.

According to 44 CFR 13.20(b)(2), subgrantees are required to maintain records that adequately identify the source and application of funds provided for financially-assisted activities. In addition, accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. [44 CFR 13.20(b)(6)]. Because NDF did not adequately support the costs it claimed or claimed costs not eligible for reimbursement, \$433,305 is questionable. The attached Exhibit identifies the questioned costs applicable to each PW.

Finding C - Federal Cooperators

NDF did not adequately support its claim for reimbursement from FEMA because USFS and BLM, as federal cooperators in NDF's firefighting and re-vegetation efforts, provided only summary information with their billings to NDF for the services they rendered. Although USFS provided a Bill for Collection and BLM provided a summary of costs, there was no explanation of how these costs were attributed to the fire suppression or re-vegetation assistance provided by these two federal agencies. For example, a cursory review of the USFS billing identified a duplicate billing of \$164,876 by the City of Reno to USFS and NDF. NDF officials expressed concerns regarding other federal agency billings for firefighting assistance and have been working for the last 2 years to remedy this situation. Nonetheless, for this disaster, NDF's supporting documentation for \$1,933,378 billed by USFS and \$1,035,742 billed by BLM for assistance provided under PW 008 - Force Account/Assisting Agencies and Vendors, did not provide sufficient detail for us to determine the propriety of these billings and subsequently, the propriety of FEMA's reimbursement of NDF's payments to USFS and BLM.

FEMA regulations at 44 CFR 13.20(b)(2) require subgrantees to maintain records that adequately identify the source and application of funds provided for financially-assisted activities. In addition, accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents, etc. [44 CFR 13.20(b)(6)]. NDF can not meet these financial management standards if other assisting federal agencies do not provide a detailed accounting of the costs incurred to provide assistance.

⁷ NDF claimed \$97,129 based on an allocation from the total cost of \$157,145 (\$5.39/hr times 29,155 hours).

NDF is in the process of re-writing the cooperative agreement to require supporting documentation to substantiate future claims. During recent efforts covering the 2008 fire season, NDF requested additional documentation to support BLM's initial billing. The subsequent verification and audit process identified \$2,614,846 in unsupported costs. NDF personnel stated that after 2 years of discussions, BLM reduced its initial billing by nearly \$900,000.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IX:

Recommendation #1: Disallow \$1,186,575 (federal share \$889,931) of re-vegetation costs not in compliance with federal regulations and FEMA guidelines.

Recommendation #2: Disallow \$433,305 (federal share \$324,979) of unsupported and ineligible costs.

Recommendation #3: For future fire suppression disasters, inform other federal agencies providing direct assistance to grantees and subgrantees of: (1) the financial management standards required by 44 CFR 13.20, and (2) their need to provide adequate supporting documentation for the costs incurred and billed so that grantees and subgrantees can adequately support their requests for reimbursement from FEMA.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of this audit with NDF and DEM officials on November 19, 2009. State and NDF personnel stated that for the issue discussed in Finding A, they followed the directions provided by the FEMA personnel who wrote up the two PWs in question. State of Nevada officials generally concurred with the rest of the issues but requested and were provided additional information on the questionable cost amounts. We notified FEMA of the audit results on December 2, 2009, and they indicated that a formal exit conference was not necessary.

Please advise this office by March 30, 2010, of actions planned or taken to implement our recommendations. Please note that your responses should include target completion dates for actions planned and actual completion dates for actions taken. Should you have questions concerning this report, please call me at (510) 637-1482, or your staff may contact John Richards, Supervisory Auditor, at (510) 637-1464. Key contributors to this assignment are John Richards and Jeff Flynn.

cc: Audit Liaison, FEMA Region IX
Audit Liaison, FEMA (Job Code: G-09-071-EMO-FEMA)

Schedule of Audited Projects
Nevada Division of Forestry
Carson City, Nevada
Public Assistance Identification Number 000-U0C6D-00
FEMA Disaster Number 1540-DR-NV

Project Number	Amount Awarded	Amount Claimed by Applicant	Questioned Costs	Finding Reference
Large Projects				
PW 005	\$ 128,375	\$ 128,375	\$ 128,375	A
PW 006	1,058,200	1,058,200	1,058,200	A
PW 008	5,570,075	5,411,379	315,740	B
PW 029	68,562	68,562	53,413	B
PW 036	151,773	151,773	64,152	B
Small Project				
PW 037	14,877	14,877	0	
Totals	\$6,991,862	\$6,833,166	\$ 1,619,880	

Finding Reference:

- A. Category B Projects
- B. Project Worksheet Supporting Documentation