

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



# Homeland Security

March 21, 2011

MEMORANDUM FOR: Nancy Ward, Regional Administrator  
FEMA Region IX

FROM:   
Humberto U. Melara, Director  
Western Regional Office

SUBJECT: *Lake County, California*  
Public Assistance Identification Number 033-99033-00  
FEMA Disaster Number 1628-DR-CA  
Audit Report Number DS-11-08

We audited public assistance (PA) funds awarded to Lake County, California (County). Our audit objective was to determine whether the County accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

The County received a PA award of \$5.8 million from the California Emergency Management Agency (Cal EMA),<sup>1</sup> a FEMA grantee, for debris removal, emergency protective measures, and permanent repairs to facilities damaged by severe storms beginning on December 17, 2005. The award provided 75% FEMA funding for 22 large projects and 29 small projects.<sup>2</sup> The audit covered the period of December 17, 2005, through January 13, 2011. We audited the 19 large projects the County had completed as of our audit cut-off date in January 2011, totaling \$3.9 million, or 68% of the total award (see Exhibit).

We conducted this performance audit under the authority of the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. The evidence obtained during the audit fulfilled those requirements.

We discussed issues related to this audit with FEMA, Cal EMA, and County officials; reviewed judgmentally selected cost documentation (generally based on dollar value); and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the County's internal controls applicable to subgrant activities because it was not necessary to

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<sup>1</sup> At the time of the disaster, the grantee's name was the California Office of Emergency Services, which became a part of Cal EMA on January 1, 2009.

<sup>2</sup> At the time of the disaster, the large project threshold was \$57,500.

accomplish our audit objective. We did, however, gain an understanding of the County's method of accounting for disaster-related costs.

## RESULTS OF AUDIT

The County generally expended and accounted for FEMA funds according to federal regulations and FEMA guidelines. We identified: (1) \$1,169,058 of unused federal funds; (2) \$79,938 of ineligible costs already covered by FEMA's statutory administrative allowance; and (3) \$100,753 in force account equipment charges that were, in part, ineligible.

### **Finding A: Funds Not Used**

The amount FEMA estimated and approved for 16 large projects exceeded the amount the County charged to the projects by \$1,169,058. Therefore, FEMA should deobligate \$1,169,058 of unused federal funds and put them to better use.

### **Finding B: FEMA's Administrative Allowance**

The County charged ineligible overhead expenses to 13 projects, totaling \$79,938. Overhead expenses are indirect costs, which are not *separately* allowable under FEMA PA subgrants. According to 44 CFR 206.228(a)(2)(ii) and (b)(2), a subgrantee's indirect costs are not separately eligible for reimbursement because FEMA's statutory administrative allowance covers indirect costs.<sup>3</sup> Therefore, we question \$79,938 as ineligible. County officials agreed with this finding and said that they would not submit these costs in its claim for federal reimbursement.

### **Finding C: Force Account Equipment Charges**

The County charged \$100,753 in force account equipment to various projects that, in part, was ineligible. When accounting for equipment costs, the County used its own, locally established, rates that were consistently higher than FEMA's rates.

According to 44 CFR 206.228(a)(1)(ii), where local guidelines are used to establish equipment rates, reimbursement will be based on either those rates or FEMA's *Schedule of Equipment Rates*, whichever is lower.

Therefore, a portion of \$100,753 in force account equipment charges was ineligible. County officials agreed with our finding and stated that they would thoroughly analyze their equipment costs and adjust them to the lowest rates before submitting a claim for federal reimbursement.

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<sup>3</sup> These regulations were in effect at the time of the disaster.

## RECOMMENDATIONS

We recommend that the FEMA Region IX Administrator, in coordination with Cal EMA:

**Recommendation #1:** Deobligate \$1,169,058 (\$876,794 federal share) and put those funds to better use (Finding A).

**Recommendation #2:** Disallow \$79,938 (\$59,954 federal share) of ineligible indirect costs (Finding B).

**Recommendation #3:** Ensure that the County claims the lowest rates for force account equipment charges (Finding C).

## DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with County, Cal EMA and FEMA officials during our audit, and included their comments in this report, as appropriate. We also provided written summaries of our findings and recommendations in advance to Cal EMA and the County on January 13, 2011, and FEMA on February 17, 2011. County officials agreed with each of our findings. FEMA and Cal EMA officials withheld further comment until after we issue our final report.

Please advise this office by June 20, 2011 of the actions planned or taken to implement the recommendations, including target completion dates for any planned actions. To promote transparency, this final report and your response to this report, including your corrective actions planned, will be posted to our website, with exception of sensitive information identified by your office.

Significant contributors to this report were Devin Polster, Montul Long, Gloria Conner, and Gregory Suko. Should you have questions, please contact me at (510) 637-1463, or your staff may contact Devin Polster, Audit Manager, at (510) 637-1473.

cc: Audit Liaison, FEMA Region IX  
Audit Liaison, FEMA (Job Code: G-11-001-EMO-FEMA)  
Audit Liaison, DHS

**EXHIBIT**

Schedule of Audited Projects  
Lake County, California  
Public Assistance Identification Number 033-99033-00  
FEMA Disaster Number 1628-DR-CA

Project Number	Project Award Amount	Costs Incurred To Date	Funds Put To Better Use (Finding A)	Amounts Questioned (Finding B)
719	\$ 160,083	\$ 53,847	\$ 106,236	\$ 324
939	119,857	73,238	46,620	178
1196	69,618	40,359	29,259	19
2230	59,706	35,232	24,474	3,748
2234	109,292	25,469	83,823	28
2238	101,724	47,727	53,996	0
2343	85,712	44,482	41,230	46
2435	187,536	99,834	87,701	0
2438	134,883	97,188	37,695	8,025
2441	135,289	20,087	115,203	34
2767	213,804	98,871	114,932	0
2900	86,951	52,243	34,707	0
3188	440,901	149,804	291,096	11,260
3202	70,388	53,999	16,389	0
3364	283,334	283,334	0	54,731
3508	618,429	573,385	45,044	824
3526	417,078	439,163	0	337
3533	118,226	77,572	40,653	0
3551	551,673	625,210	0	384
<b>Total</b>	<b>\$3,964,484</b>	<b>\$2,891,044</b>	<b>\$1,169,058</b>	<b>\$79,938</b>