

Department of Homeland Security **Office of Inspector General**

FEMA Public Assistance Grant Funds Awarded to the
Alaska Department of Transportation & Public
Facilities, Northern Region, Fairbanks, Alaska

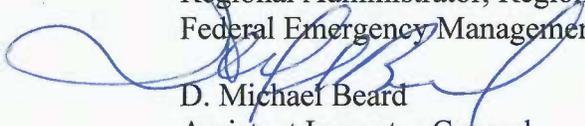




Homeland Security

MAY 22 2012

MEMORANDUM FOR: Kenneth D. Murphy
Regional Administrator, Region X
Federal Emergency Management Agency

FROM: 
D. Michael Beard
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Public Assistance Grant Funds Awarded to the
Alaska Department of Transportation & Public Facilities,
Northern Region, Fairbanks, Alaska
FEMA Disaster Number 1440-DR-AK
Audit Report Number DS-12-10*

We audited public assistance (PA) grant funds awarded to the Alaska Department of Transportation & Public Facilities, Northern Region, Fairbanks, Alaska (Department), Public Assistance Identification Number 000-UPQJN-00. Our audit objective was to determine whether the Department accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

The Alaska Division of Homeland Security and Emergency Management (Grantee) awarded the Department \$22,115,865 for damages resulting from an earthquake that occurred on November 3, 2002. The award provided 75 percent FEMA funding for four large projects and seven small projects.¹ Our audit covered the period from November 3, 2002, to March 12, 2012. We audited four large projects and three small projects with a total award of \$22,115,865 (Exhibit).

We conducted this performance audit between July 2011 and March 2012 pursuant to 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 upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$53,000.

We discussed issues related to this audit with FEMA, Grantee, and Department officials; reviewed judgmentally selected project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the Department’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 Department’s method of accounting for disaster-related costs and its procurement policies and procedures.

RESULTS OF AUDIT

The Department generally accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines, and complied with applicable procurement requirements, including competitive sealed bids, extended time to submit bids, broad advertisement, public opening of bids, and price analysis. However, our audit disclosed the following exceptions in which the Department did not properly expend or account for grant funds:

Table 1: Questioned Costs		
Finding	Subject	Amount Questioned
A	Adequate Documentation	\$ 232,085
B	Scope of Work	29,981
C	Completion of Small Project	24,568
D	Pre-Disaster Repairs	16,300
E	Maintenance Costs	1,620
Total		\$304,554

Finding A: Adequate Documentation

The Department improperly claimed costs of \$232,085 for airport runway emergency repairs on Project 10. The costs were based on a percentage allocation for two of the contractor’s progressive billings and pertained to work performed after November 2002, the month the project was completed. Under the same contract as Project 10, but based on different work orders, the contractor performed additional repairs during December 2002 and January 2003 for a roadway project that was not funded by FEMA. The Department’s inspection reports show that the scope of work for Project 10 was performed during October and November 2002, and the work not funded by FEMA was performed in December 2002 and January 2003. Further, the Department could not provide any source documents, such as material usage or inventory records, to prove that the costs incurred during December and January pertained to FEMA-approved portions of Project 10. According to 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, Section C.1.j, a cost must be adequately documented to be allowable under Federal awards.² Therefore, we question the \$232,085 in allocated costs.

In response to our questions on these costs, the Department responded that the charges in question were based on a 33 percent allocation of the contractor’s costs incurred for rock materials while performing the roadway repairs. The Department asserted that the allocation was proper and that it

² Office of Management and Budget Circular A-87, in effect at the time of the disaster, was relocated to 2 CFR 225 on August 31, 2005.

reflected costs incurred during a 2-month period (December 2002 and January 2003) to replenish the Department's stockpiled rock materials used on Project 10. However, as stated above, the Department did not provide sufficient documentation, as required under 2 CFR 225, to support its assertion that the allocation was appropriate. The Department confirmed that the costs were incurred after completion of the scope of work under the FEMA project. The Grantee generally agreed with the Department's response, and FEMA did not provide a response for this finding.

Finding B: Scope of Work

The Department improperly claimed \$29,981 for repairs on Project 26 that were not within the FEMA-approved scope of work. The contracted work performed included repairs for an airport primary runway, taxiway B, and taxiway C. However, FEMA's approved scope of work for the project included only repairs for the airport primary runway and taxiway B. It did not include, nor did it make any reference to repairs for, taxiway C. The Department's engineering staff explained that the repairs on the primary runway necessitated repairs on taxiway C. Following are the repairs that the Department performed for taxiway C:

- Work performed outside of taxiway C safety area – \$5,575
- Work performed for all areas off the paved portion of taxiway C – \$22,642
- Work performed on taxiway C [lighting, stripping, etc.] – \$1,764

According to the *Public Assistance Guide* (FEMA 322, p.73), costs that are outside the FEMA-approved scope of work are not eligible. Therefore, we question the \$29,981 incurred for repairs on taxiway C.

The Department's response asserted that the taxiway C repairs were required to be performed in conjunction with the runway repairs. FEMA did not provide a response for this finding.

Finding C: Completion of Small Project

The City claimed ineligible costs of \$24,568 for Project 38, a Category C (permanent) small project that was not completed. The approved scope of work consisted of road repairs and culvert replacement. Although the Department provided support that it spent \$3,401 for road repairs, it did not provide sufficient documentation that the road repairs were completed. In addition, the Department acknowledged that the culvert was not replaced. According to 44 CFR 206.205(a), failure to complete authorized work under a small project may require that the Federal payment be refunded. Therefore, we question the \$24,568 claimed for Project 38.

The Department acknowledged the costs were not supported, but said that the costs were eligible based on FEMA's small project procedures. The Grantee concurred with the Department. FEMA said that \$7,500 (\$24,568 less \$17,068) may be ineligible based on the Department's acknowledgment that it did not replace the culvert, but did not address the documentation issue for the remainder of costs in its response.

Finding D: Pre-Disaster Repairs

The Department incorrectly claimed \$16,300 on Project 10 for the repair of airport lighting fixtures that were not damaged as a result of the disaster. Our review of work orders established that

damages to three flush lights in the runway lighting system occurred before the disaster and the lights were inoperable at the time of the disaster. According to 44 CFR 206.223(a), to be eligible for financial assistance, an item of work must be required as the result of the major disaster event. Therefore, we question the \$16,300 of ineligible charges.

The Department and the Grantee concurred that these charges are ineligible. FEMA did not provide a response for this finding.

Finding E: Maintenance Costs

The Department improperly claimed costs of \$1,620 on Project 18 for a maintenance contract to remove snow from a temporary runway during the construction period. According to FEMA Policy 9523.3, *Provision of Temporary Relocation Facilities*, costs specifically excluded from disaster grant funding for temporary facilities include utilities (e.g., power, water, heat), maintenance, or operating costs. Therefore, we question the \$1,620 because snow removal is a standard airport operating cost in Alaska and thus, ineligible for PA funding.

The Department did not concur with the Office of Inspector General (OIG), contending that these maintenance costs represented special needs. The Grantee concurred with OIG, and FEMA did not provide a response for this finding.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region X, in coordination with the Grantee:

Recommendation #1: Disallow \$232,085 (\$174,064 Federal share) for ineligible costs allocations that were not properly documented (finding A).

Recommendation #2: Disallow \$29,981 (\$22,486 Federal share) for ineligible costs not within FEMA's approved scope of work (finding B).

Recommendation #3: Disallow \$24,568 (\$18,426 Federal share) for ineligible costs due to incomplete small project (finding C).

Recommendation #4: Disallow \$16,300 (\$12,225 Federal share) for ineligible pre-disaster repairs (finding D).

Recommendation #5: Disallow \$1,620 (\$1,215 Federal share) in ineligible maintenance services (finding E).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the audit results with Department officials during our audit, and included their comments in this report, as appropriate. We provided written summaries of our findings and recommendations in advance to FEMA, Grantee, and Department officials on November 22, 2011, and discussed them at exit conferences held solely with FEMA on November 29, 2011, and jointly with FEMA, the Grantee, and the Department on November 30, 2011. We also provided these

officials with a minimum period of 30 days in which to make a written response. Their concurrence or nonconcurrence, and comments if provided, are shown at the conclusion of each finding within the report.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Major contributors to this report are Humberto Melara, Western Regional Office Director, Jack Lankford, Audit Manager; and Curtis Johnson, Auditor.

Please call me with any questions, or your staff may contact Humberto Melara at (510) 637-1463.

cc: Administrator, FEMA
Audit Liaison, FEMA Region X
Audit Liaison, FEMA (Job Code G-11-051)
Audit Liaison, DHS

EXHIBIT

**Schedule of Projects Audited
November 3, 2002, to March 12, 2012
Department of Transportation Northern Region, Alaska
FEMA Disaster Number 1440-DR-AK**

Project Number	Project Award Amount	Project Charges	Costs Questioned					Total
			Adequate Documentation (Finding A)	Scope of Work (Finding B)	Completion of Small Project (Finding C)	Pre-Disaster Repairs (Finding D)	Maintenance Costs (Finding E)	
10	\$ 802,900	\$ 802,900	\$232,085			\$16,300		\$248,385
18	18,820,269	18,820,269					\$1,620	1,620
24	36,057	36,057						
26	2,354,260	2,354,260		\$29,981				29,981
38	24,568	3,401			\$24,568			24,568
40	27,811	17,804						
41	50,000	36,819						
Total	\$22,115,865	\$22,071,510	\$ 232,085	\$29,981	\$24,568	\$16,300	\$1,620	\$304,554

ADDITIONAL INFORMATION AND COPIES

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