



## DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General  
Oakland Field Office – Audits Division  
1111 Broadway, Suite 1200  
Oakland, California 94607-4052

May 29, 2003

### MEMORANDUM

TO: Jeff Griffin, Regional Director, FEMA Region IX

*Robert J. Lastrico*

FROM: Robert J. Lastrico, Field Office Director

SUBJECT: Kaiser Foundation Hospital  
Los Angeles, California  
Public Assistance Identification Number 037-90328  
FEMA Disaster Number 1008-DR-CA  
Audit Report Number DO-09-03

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At the request of the California Office of Emergency Services (OES), the Office of Inspector General (OIG) performed an interim audit of public assistance funds awarded to the Kaiser Foundation Hospital, Los Angeles, California (Hospital). The objective of the audit was to determine whether the Hospital expended and accounted for Federal Emergency Management Agency (FEMA) funds for completed projects according to federal regulations and FEMA guidelines.

The Hospital received an award of \$15.1 million from OES, a FEMA grantee, for completed projects related to debris removal, emergency protective measures, and permanent repairs to Hospital facilities damaged by the Northridge earthquake on January 17, 1994. The award provided 100 percent FEMA funding for emergency work until January 25, 1994, and 90 percent FEMA funding thereafter for large and small projects.<sup>1</sup> The award consisted of \$14.9 million for 43 large projects and \$173,753 for 60 small projects.<sup>2</sup> The audit covered

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<sup>1</sup> Federal regulations in effect at time of the disaster defined a large project as one costing \$42,400 or more and a small project as one costing less than \$42,400.

<sup>2</sup> In addition to these funds, the Hospital received FEMA awards totaling \$253 million under the Grant Acceleration Program and the Seismic Hazard Mitigation Program for Hospitals. The Hospital also received \$41 million in insurance recoveries.

the period January 17, 1994, to March 2, 2002. The OIG reviewed 40 large projects with awards totaling \$14.1 million and the funding for all small projects to identify applicable insurance recoveries (see Exhibit A and Exhibit B).

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included a review of FEMA's, OES', and the Hospital's records, a judgment sample of project expenditures, and other auditing procedures considered necessary under the circumstances. The audit also included an evaluation of internal control for administering and managing FEMA disaster funds, including internal control deficiencies classified as "reportable conditions" in the Hospital's Single Audit Reports.<sup>3</sup>

## **RESULTS OF AUDIT**

The Hospital's claim included questionable costs of \$184,741 (FEMA's share - \$166,267). The questioned costs consisted of \$92,700 of duplicate benefits, \$71,394 of unsupported charges, and \$20,647 of ineligible project costs. In addition, as discussed in the Other Matters section of this report, the Hospital's internal control for administering and managing FEMA disaster funds included deficiencies, some of which have been reported in the Single Audit Reports required by Office of Management and Budget (OMB) Circular A-133.

### **Finding A - Duplicate Benefits**

The Hospital's claim for one large project and various small projects included \$92,700 in costs that were reimbursed by the Hospital's earthquake insurance policy.

- For large project 76252, the Hospital claimed \$58,100 reimbursed by insurance for the salary costs of six parking attendants. Under a loss of revenue provision, the Hospital's insurance carrier reimbursed the Hospital for the total amount of loss revenue related to the collapse of a parking structure including the cost of six parking attendants. The Hospital also included the parking attendants costs in its claim resulting in a duplication of benefits. Irrespective of the duplicate benefits, the claimed costs were not within the scope of the project and were not eligible for FEMA funding.
- The Hospital claimed \$173,753 approved by FEMA for 60 small projects. However, OES records showed that total small project costs were adjusted from the FEMA funded amount of \$173,753 to \$139,153 to reflect a \$34,600 insurance recovery. FEMA records were not adjusted to reflect this insurance recovery. Thus, the \$34,600 received from insurance and funded by FEMA was a duplicate benefit to the Hospital (see Exhibit B).

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<sup>3</sup> Single Audit Reports for calendar years 1997 through 2001 noted reportable conditions regarding internal control over financial reporting and operations.

Section 312(a) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act states that no entity is eligible for disaster assistance with respect to any part of a loss for which it has received financial assistance from insurance. Also, Title 44, Code of Federal Regulations, Section 206.191 (44 CFR 206.191) establishes policies to prevent duplication of benefits. Consequently, the OIG questioned \$92,700 of disaster funding received by the Hospital for losses also covered by insurance.

### **Finding B - Unsupported Charges**

The Hospital claimed \$71,394 of project charges for two large projects that were not supported with documentation proving the expenditures were incurred, paid, and/or disaster related.

- For project 76252, the Hospital claimed \$63,088 in charges not supported with invoices, canceled checks, or similar documentation. In one instance, project records did not support expenditures of \$52,120 for costs related to parking lot attendants' salaries (\$29,602), shuttle services (\$20,007), and lease payments (\$2,511). In another instance, the Hospital claimed project costs of \$10,888 for parking lot attendants' salaries and shuttle services incurred for 2 months at two leased parking lots. However, in this latter instance, the Hospital lacked documentation that leased parking lot costs had actually been incurred and a reimbursement request was not submitted to FEMA. Therefore, the associated claimed costs for salaries and shuttle services were questionable.<sup>4</sup>
- For project 63526, the Hospital's claim included \$8,386 in costs that were originally questioned by FEMA but funded with the provision - "The Hospital (is) aware that they must provide supporting documentation during the final audit that the goods and services in question were used at Building 251." Although the questioned dollar amounts were not significant, the supplies claimed were normal hospital supplies (e.g., plastic gloves) and were not supported with documentation showing the expenditures were disaster related. The Hospital officials were not able to provide the OIG with documents that justified the claimed costs.

According to 44 CFR 13.20(b), the Hospital is required to maintain accounting records that identify how FEMA funds are used including source documentation such as canceled checks, invoices, and paid bills. In addition, 44 CFR 206.223(a)(1) requires that to be eligible for financial assistance, an item of work must be required as the result of the major disaster event. Since the Hospital did not provide documentation showing the charges were supported with canceled checks, invoices, paid bills, or similar documentation, or were disaster related, the \$71,394 was questioned as unsupported charges.

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<sup>4</sup> Unlike the work and costs questioned in finding A, the scope of work associated with these parking lot attendants, the shuttles, and temporary parking lot leases would be considered eligible for reimbursement if supporting documentation for the costs incurred had been provided.

### **Finding C - Ineligible Project Costs**

The Hospital's claim for project 76252 included \$20,647 in costs outside the scope of the project. The scope of the project approved and funded by FEMA was to provide shuttle services to five temporary parking lots within 1½ miles of a collapsed parking structure.

- The Hospital claimed \$16,491 for shuttle services to locations approximately 28 miles outside the 1½-mile project radius. While the Hospital stated that the vans were used in the designated area, contractor invoices and gas receipts supporting the locations serviced showed the vans operated outside the approved locations. For example, shuttle service was provided in one instance from the Sylmar Metrolink, 26.8 miles from the project area.
- FEMA reimbursed \$4,156 for shuttle services that were beyond the scope of the project. Those costs related to shuttle services that pre-dated the approved project and lease agreements for the parking lots.

According to 44 CFR 206.223(a)(1) and (2), to be eligible for financial assistance, an item of work must be required as a result of the disaster event and located within a designated disaster area. Since the Hospital's claimed costs for shuttle services were not within the scope of the approved project, the \$20,647 was questioned as ineligible project costs.

### **OTHER MATTERS**

During this audit, the OIG noted internal control deficiencies that were reportable conditions under generally accepted government auditing standards. Those reportable conditions are discussed in the following finding.

### **Finding D – Internal Control Deficiencies**

The Hospital's internal control for administering and managing FEMA disaster funds included deficiencies, some of which had been identified in previous OMB Circular A-133 Single Audit Reports. Specifically, the OIG found that:

- Internal control for documenting force account labor claims needed improvement.
- The Hospital did not take corrective actions on reportable conditions in internal control identified in Single Audit Reports for calendar years 1997 through 2001.

These deficiencies could have a direct effect on the future administration and management of \$253 million in FEMA awards related to the Grant Acceleration Program (GAP) and the Seismic Hazard Mitigation Program for Hospitals (SHMPH).

Force Account Labor Claims. The Hospital's internal control for documenting force account labor claims needed improvement. The Hospital reported its force account labor claims to FEMA and OES using spreadsheets that summarized costs by employee. To obtain labor data related to federal grant awards, the Hospital extracted labor information from its central automated payroll system and processed the information in a stand-alone system that generated the spreadsheets. However, the information in the spreadsheets was incomplete and inaccurate. For example, the OIG identified over 1,200 errors in the spreadsheets for 17 of the 36 projects with force account labor. The spreadsheets for these 17 projects were used by the Hospital to support \$895,788 in labor services provided by a local union hall. As a result of the errors, the OIG did not rely on the information provided in the spreadsheets but validated the claimed costs using actual labor and cost data provided by the union hall.

Corrective Actions on Single Audit Reports. The Hospital did not take corrective actions to improve internal control deficiencies identified in Single Audit Reports issued for calendar years 1997 through 2001. The OIG review found that the Hospital had not initiated corrective action on two recurring deficiencies identified in the Single Audit Reports as reportable conditions. These deficiencies, by OMB Circular A-133 definition, can be considered to be material weaknesses. These deficiencies included inadequate cash account management and reconciliation; and a lack of accounting for equipment by location supported by periodic physical inventories of that equipment. For example, the 1999 Single Audit Report disclosed that the Hospital's cash account management and reconciliation procedures were deficient. That report specifically stated that various incidents of fraud had occurred, distinctive cash accounts and business activities relating to two separate entities<sup>5</sup> were commingled into single general ledger accounts, and bank reconciliations were inadequate and contained unexplained and unreconciled balances of at least \$15.7 million. In addition, the 1999 report noted that the lack of adequate internal control for equipment increased the risk of misappropriation of assets and misstatements in financial reports. At the time of this audit, the Hospital had not corrected these two material internal control weaknesses.

According to 44 CFR 13.20(b), the Hospital was required to maintain accounting records that adequately and accurately identified and reported the source and application of financially-assisted activities. In addition, 44 CFR 13.32 provided that applicants acquiring equipment under a grant must implement an equipment management program – this requirement applied whether the equipment was acquired in whole or in part with grant funds. Further, OMB Circular A-133, Section \_\_.300(b) required the Hospital to maintain internal control over federal programs so as to provide reasonable assurance that federal

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<sup>5</sup> The Hospital and Kaiser Foundation Health Plan.

awards were managed in compliance with laws and regulations. Section \_\_.300(f) of that Circular required the Hospital to follow up and take corrective action on audit findings.

Because of the continuing nature of material internal control weaknesses, the OIG recommends that FEMA and OES take measures to ensure that the Hospital complies with OMB Circular A-133, Section \_\_.300(b) thereby better protecting the \$253 million federal interest in future GAP and SHMPH expenditures.

### **RECOMMENDATIONS**

1. The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES, disallow \$184,741 of questioned costs.
2. The OIG also recommends that the Regional Director, FEMA Region IX, alert OES as the grantee, of the Hospital's continuing material internal control weaknesses and inform the Hospital that it must maintain a system of internal control that provide reasonable assurance that federal grant awards are managed in accordance with laws and regulations.

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

The OIG discussed the audit results with the Hospital and OES officials on April 10, 2003. The Hospital officials concurred with the findings as presented in the audit report. OES officials deferred comment pending receipt of the final report. The OIG informed FEMA Region IX officials of the audit results on April 10, 2003.

Pursuant to FEMA Instruction 1270.1, please advise this office by July 29, 2003, of the action taken to implement our recommendations. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Humberto Melara, Ravinder Anand, and Curtis Johnson.

Schedule of Audited Large Projects  
Kaiser Foundation Hospital  
FEMA Disaster Number 1008-DR-CA

Project Number	Initial Award	Insurance Reimbursement	Final Award/ Amount Claimed	Amount Questioned	Finding Reference
45363	\$19,005,004	\$13,898,295	\$ 5,106,709		D
14460	6,363,527	4,314,008	2,049,519		D
14459	5,168,115	3,779,425	1,388,690		
14462	3,205,045	2,343,839	861,206		D
76252	2,668,896	1,951,755	717,141	\$141,755	A, B, C
05891	2,649,515	1,935,625	713,890	8,386	B D
98375	1,876,693	1,242,199	634,494		D
01045	1,530,521	1,119,265	411,256		D
44869	1,357,954	988,824	369,130		D
99902	993,190	715,158	278,032		D
75648	207,499	4,428	203,071		
98376	423,102	257,593	165,509		
62206	474,101	346,708	127,393		
00960	411,894	301,217	110,677		D
10271	338,046	247,212	90,834		D
68811	301,210	220,274	80,936		
14509	285,635	208,884	76,751		
13480	275,290	201,319	73,971		
99788	273,561	200,054	73,507		
22409	245,001	179,168	65,833		
13473	234,382	171,403	62,979		D
99905	144,238	103,225	41,003		D
62208	146,013	106,779	39,234		D
99904	136,257	99,644	36,613		
76293	116,749	80,588	36,161		
09661	106,534	72,325	34,209		
51497	118,670	86,783	31,887		
76290	109,967	80,418	29,549		
51414	101,049	73,339	27,710		D
82599	95,996	70,202	25,794		
22501	94,986	69,463	25,523		D
00914	75,615	55,297	20,318		D
22840	71,137	52,022	19,115		
Pg 1 / 2	\$49,605,392	\$35,576,738	\$14,028,644	\$150,141	

Schedule of Audited Large Projects  
Kaiser Foundation Hospital  
FEMA Disaster Number 1008-DR-CA

Project Number	Initial Award	Insurance Reimbursement	Final Award/ Amount Claimed	Amount Questioned	Finding Reference
00928	\$ 67,789	\$ 49,574	\$ 18,215		
01048	64,393	47,090	17,303		
76270	57,267	41,879	15,388		
14416	56,212	41,108	15,104		
76253	49,229	35,862	13,367		
10272	47,188	34,509	12,679		
99792	44,510	32,550	11,960		D
Pg 2 / 2	\$ 386,588	\$ 282,572	\$ 104,016	\$ 0	
Pg 1 / 2	<u>49,605,392</u>	<u>35,576,738</u>	<u>14,028,644</u>	<u>150,141</u>	
Total	<u>\$49,991,980</u>	<u>\$35,859,310</u>	<u>\$14,132,660</u>	<u>\$150,141</u>	

Finding Legend

- A. Duplicate Benefits (see Exhibit B for the duplicate benefits questioned on small projects)
- B. Unsupported Charges
- C. Ineligible Project Costs
- D. Internal Control Deficiencies

Schedule of Insurance Adjustments to Small Projects  
Kaiser Foundation Hospital  
FEMA Disaster Number 1008-DR-CA

Project Number	Initial Award	Initial Insurance Payment	Adjusted FEMA Award Amount	Final Insurance Payment	Eligible Small Project Award Amount
22690	\$ 13,613	\$ 5,773	\$ 7,840	(\$ 4,182)	\$ 3,658
82422	18,419	0	18,419	(13,470)	4,949
82435	36,779	0	36,779	(26,896)	9,883
99903	16,053	0	16,053	(15,092)	961
99911	24,128	19,078	5,055	(5,055)	0
01044	10,000	8,625	1,375	384	1,759
01047	20,614	16,285	4,329	1,210	5,539
13475	7,138	5,639	1,499	419	1,918
14417	1,492	1,179	313	88	401
14452	1,085	857	228	64	292
22411	12,348	10,442	1,906	532	2,438
22500	4,757	3,758	999	279	1,278
22618	5,321	4,204	1,117	293	1,410
22619	9,799	7,741	2,058	575	2,633
22812	1,043	824	219	61	280
02405	11,971	9,457	2,514	710	3,224
33632	18,767	14,826	3,941	1,102	5,043
03848	19,752	15,604	4,148	1,173	5,321
03850	27,214	21,499	5,715	582	6,297
03851	16,324	12,896	3,428	969	4,397
45252	3,333	2,633	700	196	896
45255	3,333	2,633	700	196	896
45256	24,753	23,347	1,406	392	1,798
45341	13,500	10,665	2,835	793	3,628
45343	5,000	3,950	1,050	294	1,344
46718	2,548	2,013	535	149	684
47573	10,076	7,960	2,116	591	2,707
51416	1,880	1,485	395	110	505
51494	2,687	2,123	564	158	722
51495	2,865	2,263	602	168	770
51496	4,929	3,894	1,035	293	1,328
51498	4,457	3,521	936	1,006	1,942
51558	<u>13,481</u>	<u>10,650</u>	<u>2,831</u>	<u>791</u>	<u>3,622</u>
Pg 1 / 2	\$369,459	\$235,824	\$133,635	(\$51,117)	\$82,523

Schedule of Insurance Adjustments to Small Projects  
Kaiser Foundation Hospital  
FEMA Disaster Number 1008-DR-CA

Project Number	Initial Award	Initial Insurance Payment	Adjusted FEMA Award Amount	Final Insurance Payment	Eligible Small Project Award Amount
51586	\$ 1,185	\$ 936	\$ 249	\$ 69	\$ 318
51587	2,289	1,808	481	134	615
51588	1,465	1,157	308	86	394
51589	3,557	2,810	747	209	956
05895	11,821	9,339	2,482	694	3,176
07151	5,748	4,541	1,207	341	1,548
76256	1,210	956	254	71	325
76285	3,576	2,825	751	212	963
76286	1,071	846	225	849	1,074
76287	33,695	26,619	7,076	1,999	9,075
76288	5,390	4,258	1,132	320	1,452
76289	1,190	940	250	70	320
76291	31,210	24,656	6,554	1,852	8,406
82515	4,425	3,496	929	3,496	4,425
82527	2,670	2,109	561	156	717
82594	3,050	2,409	641	179	820
82596	1,978	1,563	415	117	532
91383	5,643	4,458	1,185	335	1,520
91387	1,510	1,193	317	89	406
09606	3,431	2,710	721	201	922
09607	1,767	1,396	371	104	475
09616	2,049	1,619	430	121	551
00962	1,068	844	224	63	287
09662	5,133	4,055	1,078	301	1,379
99778	15,250	12,047	3,203	895	4,098
99901	1,815	1,434	381	107	488
99906	<u>12,653</u>	<u>4,717</u>	<u>7,946</u>	<u>3,447</u>	<u>11,388</u>
Pg 2 / 2	\$165,849	\$125,741	\$ 40,118	\$ 16,517	\$ 56,630
Pg 1 / 2	<u>369,459</u>	<u>235,824</u>	<u>1 33,635</u>	<u>( 51,117)</u>	<u>82,523</u>
Total	<u>\$535,308</u>	<u>\$361,565</u>	<u>\$173,753</u>	<u>(\$34,600) *</u>	<u>\$139,153</u>

\* This amount was questioned in Finding A as a duplicate benefit.