



Homeland
Security

December 15, 2004

MEMORANDUM FOR: Karen E. Armes
Acting Regional Director
FEMA Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico
Field Office Director
Office of Audits

SUBJECT: *Audit of Daly City, California*
Public Assistance Identification Number 081-17918
FEMA Disaster Number 1203-DR-CA
Audit Report Number DS-05-05

The Office of Inspector General (OIG) audited public assistance grant funds awarded to Daly City, California (City). The objective of the audit was to determine whether the City expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The City received a public assistance grant award of \$10.5 million from the California Office of Emergency Services (OES), a FEMA grantee, for recovery efforts resulting from severe winter storms and flooding beginning on February 2, 1998. The award provided 75 percent federal funding for 10 large projects and 5 small projects.¹ The audit covered the period February 2, 1998, to December 20, 2002, and included a review of five large projects with a total award of \$9.7 million (see Exhibit).

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to *Government Auditing Standards* issued by the Comptroller General of the United States. The audit included a review of FEMA, OES, and City records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$47,100.

RESULTS OF AUDIT

The City generally expended and accounted for public assistance funds according to federal regulations and FEMA guidelines. However, the OIG questions \$71,570 in overstated force account labor cost claimed by the City. (The FEMA share of the claimed amount is \$53,678.)

Project records supporting the City's claim showed that for three large projects, the City overstated engineering force account labor costs by \$71,570. The City claimed the force account labor at the top step available for each job category irrespective of the actual labor cost accrued for each employee. The City also overstated force account labor by including a 15 percent overhead charge in its computation of fringe benefits cost. The following table identifies the three projects and the amounts overstated.

<u>Project</u>	<u>Amount Overstated</u>
05429	\$45,483
27058	19,344
95958	<u>6,743</u>
Total	<u>\$71,570</u>

According to 44 CFR 13.20(b)(6), accounting records must be supported by source documents, such as payrolls. In addition, 44 CFR § 206.228(a)(2)(ii) indicates that overhead charges are covered by FEMA's Statutory Administrative Allowance. Therefore, the OIG questions \$71,570 in overstated engineering force account labor costs.

RECOMMENDATION

The OIG recommends that the Acting Regional Director, FEMA Region IX, in coordination with OES, disallow \$71,570 of overstated engineering force account labor costs claimed by the City.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW UP

The OIG discussed the audit results with City and OES officials on November 30, 2004. City officials generally agreed with the finding. The OIG also discussed the audit results with FEMA Region IX officials on December 1, 2004.

Please advise this office by February 14, 2005, of the actions taken to implement our recommendation. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Trudi Powell, Michael Long and Willard Stark.

Schedule of Audited Projects
 Daly City, California
 Public Assistance Identification Number 081-17918
 FEMA Disaster Number 1203-DR-CA

Project Number	Amount Awarded	Amount Questioned
05429	\$ 7,041,843	\$45,483
27060	338,835	0
21496	821,277	0
27058	1,004,483	19,344
95958	<u>522,031</u>	<u>6,743</u>
Total	<u>\$9,728,469</u>	<u>\$71,570</u>