



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Oakland Field Office – Audits Division
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Oakland, California 94607-4052

June 20, 2003

MEMORANDUM

TO: Jeff Griffin, Regional Director, FEMA Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico, Field Office Director

SUBJECT: State of California Department of Forestry and Fire Protection
Sacramento, California
Public Assistance Identification Number 000-92003
FEMA Disaster Number 3140-EM-CA
Audit Report Number DO-14-03

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

CDF received an emergency management award of \$65.1 million from the California Office of Emergency Services (OES), a FEMA grantee, for emergency protective measures performed to save lives and protect public health and safety. The emergency management award resulted from severe fires that occurred from August 24, 1999, to November 29, 1999. The award provided 75 percent funding for 14 large projects and 1 small project.¹ The audit covered the period August 24, 1999, through October 10, 2001, and included a review of 12 large projects with a total FEMA award of \$64.4 million (see Exhibit).

¹ Federal regulations in effect at the time of the disaster defined a large project as one costing \$47,800 or more and a small project as one costing less than \$47,800.

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 CDF's records. The OIG also held discussions with appropriate FEMA, State, and CDF officials, and performed other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

CDF's claim contained \$862,470 in questionable costs (FEMA share - \$646,853). Those questionable costs consisted of \$419,739 in accounting errors, \$371,743 in excessive force account equipment charges, \$58,863 in unsupported costs, and \$12,125 in unallowable vehicle maintenance costs.

Finding A - Accounting Errors

CDF's claim for five projects included \$419,739 in accounting errors. Those errors consisted of accounting adjustments not reflected in the final claim, costs not incurred, vendor overpayments, and force account labor errors. The following table identifies the five projects and questioned costs.

Project Number	Accounting Adjustments	Costs Not Incurred	Vendor Overpayments	Force Account Labor Errors	Amount Questioned
138	\$ 67,269	\$ 0	\$5,192	\$ 0	\$ 72,461
139	49,497	0	0	0	49,497
146	1,234	0	0	0	1,234
170	95,047	0	0	228	95,275
171	<u>119,858</u>	<u>81,414</u>	<u>0</u>	<u>0</u>	<u>201,272</u>
Totals	<u>\$332,905</u>	<u>\$81,414</u>	<u>\$5,192</u>	<u>\$228</u>	<u>\$419,739</u>

Details for each category of questioned costs are provided below.

- Accounting Adjustments. CDF performed reviews of project expenditure records prior to the OIG's visit and identified \$333,124 in duplicate accounting entries, \$346 in expenses not related to the disaster, and (\$565) in unrecorded expenses. CDF properly reflected these accounting adjustments in its records, but did not adjust the claim submitted to FEMA. Therefore, CDF's claim was overstated by a net amount of \$332,905.
- Costs Not Incurred. CDF erroneously claimed estimated project costs of \$65,105,269 instead of \$65,023,855 in actual costs resulting in a FEMA overpayment of \$81,414 for costs not incurred.²

² Includes math error difference of \$34.

- Vendor Overpayments. Documents supporting costs claimed by CDF included overpayments to vendors totaling \$5,192. One vendor was overpaid \$3,912 and another vendor was overpaid \$1,280. The overpayments resulted because the itemized costs on invoices did not mathematically reconcile to the total amount billed by the vendor and paid by CDF.
- Force Account Labor Errors. CDF calculated the force account labor cost for 31 overtime hours using the wrong labor rate. CDF computed the overtime cost for one employee using the non-emergency average labor rate of \$27.84 per hour, instead of the emergency average labor rate recommended in labor agreements of \$20.50 per hour. This resulted in excess costs of \$228 being claimed by CDF.

According to Title 44, Code of Federal Regulations, Section 13.20 (44 CFR 13.20), CDF is required to maintain accounting records that identify how FEMA funds are used. In addition, Office of Management and Budget Circular A-87 provides cost principles applicable to grants to state and local governments and states that costs are allowable under federal awards if they are determined in accordance with generally accepted accounting principles and are adequately documented. Because CDF’s claim included accounting errors, it did not adequately identify and document how FEMA funds were used. Consequently, the OIG questioned \$419,739 in accounting error costs claimed by CDF. CDF agreed with the finding with the exception of \$81,414 in costs not incurred. CDF asserted that the cost claimed represented actual costs incurred but did not provide the OIG documentation to support its claim.

Finding B - Excessive Force Account Equipment Charges

CDF’s claim for 11 projects included \$371,743 of equipment charges in excess of CDF or FEMA established rates. The following table identifies the 11 projects and questioned costs.

<u>Project Number</u>	<u>Amount Questioned</u>
137	\$ 223
138	68,446
139	90,406
140	38,740
146	88,818
170	4,516
171	4,408
172	25,653
173	2,334
176	27,849
177	<u>20,350</u>
Total	<u>\$371,743</u>

CDF's claim was based on a 1998-2001, Cooperative Agreement for Local Government Fire Suppression, also known as the Five Party Agreement (Agreement) rather than on California State rates or rates approved by FEMA. The Agreement, which also applied to local jurisdictions, was between OES, CDF, the U.S. Department of Agriculture's Forest Service, and the Department of the Interior's Bureau Land Management and National Park Service. This Agreement facilitated the interagency exchange of equipment and manpower among jurisdictions.

According to 44 CFR 206.228(a)(i), when an applicant uses reasonable equipment rates established or approved under State guidelines, reimbursement for equipment that has an hourly rate of \$75 or less shall be based on such rates. This regulation also provides that rates in excess of \$75 per hour require FEMA approval, and that the FEMA Schedule of Equipment Rates will be the basis for reimbursement in all cases where an applicant does not have rates established or approved under State guidelines.

To determine whether a rate submitted for reimbursement was reasonable, the OIG accepted the equipment rates provided in the Agreement - up to an hourly rate of \$75 or less; and applied the FEMA Schedule of Equipment Rates for rates not included in the Agreement. The OIG determined that:

- \$280,729 in equipment cost was based on rates that exceeded the rates specified in the Agreement. The OIG questioned the difference between the force account equipment costs claimed and the force account equipment costs that should have been claimed if the rates in the Agreement were used.
- \$76,360 in equipment cost was based on rates not in the Agreement and the rates used exceeded \$75 per hour. For example, the costs claimed by CDF for a dozer-medium were based on a rate of \$98.75 per hour while the equivalent FEMA equipment rate was \$70 per hour. The questioned costs represented the difference between the claimed rate and the FEMA equivalent rate. The FEMA equivalent rate was used because the higher rate was not approved by FEMA as required.
- \$14,651 in equipment cost was based on rates not in the Agreement and rates used exceeded the rates in the FEMA Schedule of Equipment Rates. For example CDF claimed chainsaws at \$3.26 per hour; however, the FEMA schedule allows \$2.40 per hours for equivalent equipment. The questioned costs represented the difference between the claimed rate and the FEMA equivalent rate.

Since CDF's claim was based on equipment rates which exceeded those specified in the Agreement, the FEMA \$75 hourly rate, and the FEMA Schedule of Equipment Rates; the OIG questioned \$371,743.

CDF disagreed with the finding and indicated that the rates in the Agreement were not used to compute the cost claimed and the rates claimed were reasonable and did not exceed established FEMA equipment rates. CDF asserted that if FEMA rates were applied to all equipment types, total equipment costs and the amount claimed would have increased. OIG did not confirm CDF's assertion. However, costs questioned by OIG were based on the difference of what was claimed by CDF and what FEMA allows.

Finding C - Unsupported Costs

CDF's claim for two projects included \$58,863 in costs that were not supported with invoices or contractual agreements proving the costs were disaster related or within the scope of the projects. CDF's claim for project 146 included \$4,943 in charges from a food service contractor and \$923 for procurement of a portable pump. Also, for project 173, the claim included \$52,997 in rental equipment charges from the Redding Fire Department. CDF project records did not include a contractual agreement or similar documentation supporting the eligibility of the charges, and CDF officials stated the documents were not available.

According to 44 CFR 13.20(b)(6), accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub-grant award documents. Since CDF could not provide source documentation to support that claimed costs were disaster related or within the scope of the projects, the OIG questioned \$58,893. CDF agreed with the finding and the questioned cost amount.

Finding D - Unallowable Vehicle Maintenance Costs

CDF's claim for three projects included \$12,125 for vehicle maintenance costs already included in the FEMA equipment rates. For project 171, CDF claimed \$9,141 for the purchase of air, fuel and oil filters, lamps and tires. CDF submitted similar charges of \$2,639 for project 139 and \$345 for project 138.

According to 44 CFR 206.228(a), reimbursement for ownership and operation costs of applicant-owned equipment used to perform eligible work shall be provided in the equipment usage rates. In addition, FEMA's Public Assistance Guide provides that equipment usage rates include operation, insurance, depreciation, and maintenance. Consequently, \$12,125 in vehicle maintenance costs was questioned.

CDF agreed that \$9,604 of the \$12,125 the OIG questioned. CDF asserted that the remaining \$2,521 should be allowed because those costs were incurred for the repair of local government vehicles (non-CDF vehicles). However, CDF did not demonstrate that these repair costs were not covered by the local government's rate charged to CDF.

RECOMMENDATION

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES, disallow \$862,470 in questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed audit results with OES and CDF officials on March 24, 2003. On April 17, 2003, CDF officials responded to the findings via e-mail. Those responses are incorporated in the "Results of Audit" section of this report. The OIG also discussed the audit results with Region IX officials on April 21, 2003.

Please advise this office by July 21, 2003, of the actions taken to implement our recommendation. Should you have any questions concerning the report, please contact me at (510) 627-7011. Key contributors to this assignment were Humberto Melara, Ken Valrance, and Antonio Fajardo.

Schedule of Audited Projects
 State of California Department of Forestry and Fire Protection
 FEMA Disaster Number 3140-EM-CA

Project Number	Amount Awarded	Amount Claimed	Amount Questioned	Finding Reference
137	\$ 884,104	\$ 884,104	\$ 223	B
138	12,908,564	12,908,564	141,252	A,B,D
139	14,828,630	14,828,630	142,542	A,B,D
140	2,856,952	2,856,952	38,740	B
141	724,378	724,378	0	
146	14,920,836	14,920,836	95,918	A,B,C
170	5,316,383	5,316,383	99,791	A,B
171	2,717,820	2,636,440	214,821	A,B,D
172	813,813	813,813	25,653	B
173	4,628,379	4,628,379	55,331	B,C
176	2,275,631	2,275,631	27,849	B
177	1,524,844	1,524,844	20,350	B
Total	\$64,400,334	\$64,318,954	\$862,470	

Finding Legend

- A. Accounting Errors
- B. Excessive Force Account Equipment Charges
- C. Unsupported Costs
- D. Unallowable Vehicle Maintenance Costs