



Homeland
Security

March 2, 2005

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 Public Assistance Grant Funds Advanced to the
City of Los Angeles, Department of General Services
Los Angeles, California
Public Assistance Identification Number 037-91085
FEMA Disaster Number 1008-DR-CA
Audit Report Number DS-10-05*

The Office of Inspector General (OIG) audited \$8.9 million in public assistance grant funds advanced to the City of Los Angeles Department of General Services, Los Angeles, California (Department) in the aftermath of the Northridge earthquake. The objective of this audit was to determine whether the Department followed federal regulations pertaining to the interest earned on the advanced funds. The OIG previously audited public assistance grant funds awarded to the Department to determine whether Federal Emergency Management Agency (FEMA) funds were expended and accounted for according to federal regulations and FEMA guidelines (Report No. DO-21-03, September 11, 2003). During that audit, the OIG was not made aware that the Department earned interest on the funds advanced by FEMA.

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 Department records and documentation related to FEMA advances and project expenditures, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

The OIG determined that the Department earned \$512,381 of interest on \$8.9 million in funds advanced by FEMA. The interest was not remitted to FEMA as required by federal regulations. Details of why this occurred are discussed below.

In response to the devastation caused by the Northridge Earthquake in January 1994, FEMA advanced OES public assistance funds totaling \$201 million. Of the \$201 million, OES advanced \$75 million to the City of Los Angeles (City) and the City re-distributed the funds to various City departments that had applied for disaster assistance separately. Of the \$75 million, the Department received \$8.9 million in advanced funds to cover disaster repair costs.

In reviewing Department documents supporting the advance, the OIG found that the funds were deposited in the City's pool investment account used to administer cash investments, including federal advances. Further, the documents showed that while the Department returned the advanced funds to FEMA on November 6, 1998, it retained the \$512,381 in interest earned on those funds. Department officials agreed that interest was earned and explained that it was not forwarded to FEMA as required because FEMA had not billed the Department.

The Comptroller General of the United States has consistently held that, except as otherwise provided by law, interest earned on funds advanced by the United States under an assistance agreement, pending their application to grant purposes, belongs to the United States and that all such interest is required to be accounted for as funds of the United States.¹ In addition, 44 CFR § 13.21(h)(2)(i) indicates that grantees and subgrantees are required to remit to FEMA the interest earned on advances at least quarterly. Since this did not occur, FEMA Region IX should take immediate action to recover the \$512,381 in interest earned on the public assistance funds advanced to the Department.

RECOMMENDATION

The OIG recommends that the Acting Regional Director, FEMA Region IX, in coordination with OES, recover \$512,381 of interest earned but never remitted by the Department

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of this audit with Department officials on February 14, 2005. Those officials agreed with the finding. The OIG also notified FEMA and OES officials of the audit results on February 16, 2005.

Please advise this office by May 2, 2005, of the actions taken to implement the recommendation in this report. Should you have any questions concerning this report, please contact me at (510)

¹ GAO Principles of Federal Appropriations Law, Vol. II, Chapter 10, Section E3., Interest on Grant Advances (1992).

627-7011. Key contributors to this assignment were Humberto Melara, Ravi Anand, and Tony Fajardo.