

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

**State of Oregon's Administration of
the Fire Management Assistance Grant Program
for the Bland Mountain #2 Fire**



DS-08-05

September 2008

*Office of Inspector General
Office of Emergency Management Oversight*

U.S. Department of Homeland Security
300 Frank H Ogawa Plaza, Ste. 275
Oakland, CA 94612



**Homeland
Security**

September 22, 2008

Preface

The U.S. Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (*Public Law 107-296*) by amendment to the Inspector General Act of 1978. This is one of a series of audits, inspections, and special reports published as part of our oversight responsibilities to promote economy, effectiveness, and efficiency within the department.

The attached report presents the results of the audit of the State of Oregon's Administration of the Fire Management Assistance Grant Program for the Bland Mountain #2 Fire. We contracted with the independent public accounting firm of Williams, Adley & Company, LLP to perform the audit. The contract required that Williams, Adley & Company, LLP perform its audit according to generally accepted government auditing standards and guidance from the Robert T. Stafford Disaster Relief and Emergency Assistance Act, Title 44 of the Code of Federal Regulations, and the Office of Management and Budget. Williams, Adley & Company, LLP reported two areas in which the State of Oregon's administration of the Fire Management Assistance Grant Program could be improved. The report contains two recommendations addressed to the Regional Administrator, Federal Emergency Management Agency, Region X.

Williams, Adley & Company, LLP is responsible for the attached auditor's report dated August 29, 2008, and the conclusions expressed in the report. The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.


Robert J. Lastrico
Western Regional Director



August 29, 2008

Western Regional Director
Office of Emergency Management Oversight
Office of Inspector General
U.S. Department of Homeland Security
300 Frank H. Ogawa Plaza, Ste. 275
Oakland, CA 94612

Williams, Adley & Company, LLP performed an audit of the State of Oregon's management of the Federal Emergency Management Agency's funds awarded under the Fire Management Assistance Grant Program. The audit was performed in accordance with our Task Order TPD-ARC-BPA-07-0014 dated September 27, 2007.

This report presents the results of the audit and includes recommendations to help improve management of the audited Fire Management Assistance Grant Program.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, July 2007 revision. Although the audit report comments on costs claimed by the State of Oregon, we **did not perform** a financial audit, the purpose of which would be to render an opinion on the State of Oregon's financial statements or the funds claimed in the Financial Status Reports submitted to the Federal Emergency Management Agency.

We appreciate the opportunity to have conducted this audit. Should you have any questions, or if we can be of further assistance, please call me on (202) 371-1397.

Sincerely,

Williams, Adley & Company, LLP

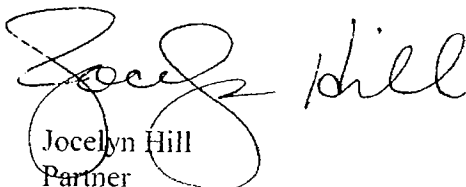

Jocelyn Hill
Partner

Table of Contents/Abbreviations

Executive Summary	1
Background	2
Results of Audit	3
Pre-positioning Costs	3
Preparation and Submission of Project Worksheets	4
Appendices	
Appendix A: Objectives, Scope, and Methodology.....	6

Abbreviations

CFR	Code of Federal Regulations
DHS	U.S. Department of Homeland Security
FEMA	Federal Emergency Management Agency
FMAG	Fire Management Assistance Grant
GAR	Governor's Authorized Representative
ODF	Oregon Department of Forestry
OIG	Office of Inspector General
PW	Project Worksheet

Executive Summary

Williams, Adley & Company, LLP audited the State of Oregon's (the state) administration of the Fire Management Assistance Grant (FMAG) Program for the Bland Mountain #2 Fire (FMAG Declaration 2549). The objective of the audit was to determine whether the state administered the FMAG Program in an efficient and effective manner. To accomplish the objective, we considered the overall impact of material deficiencies on grant program administration. Specifically, we determined how well the state (1) coordinated and communicated with the Federal Emergency Management Agency (FEMA) and subgrant applicants, (2) ensured compliance with federal laws and FEMA guidelines, and (3) accounted for and expended FMAG Program funds. See Appendix A for additional details on the objectives, scope, and methodology of this audit.

On August 20, 2004, FEMA Region X awarded \$6,063,449 under FMAG Declaration 2549 to the Oregon Department of Forestry (ODF). FEMA programmatically closed this declaration on December 11, 2006. Although the audit scope included a review of costs reimbursed under the grant, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on the state's financial statements or the funds claimed in the financial status reports submitted to FEMA.

ODF administered the FMAG Program effectively and efficiently but did not always comply with federal laws and FEMA guidelines. Specifically, the state: (1) requested and FEMA Region X paid unallowable in-state pre-positioning costs, and (2) upon instructions from FEMA Regional personnel, split a \$1.6 million project into three project worksheets (PWs) and FEMA Region X obligated funding without obtaining FEMA Headquarters approval or reporting obligations in excess of \$1 million to Congress.

We recommend that the Regional Administrator, FEMA Region X: (1) disallow \$605,302 in in-state pre-positioning costs claimed by ODF, and (2) require that ODF identify all related project work on a single PW, and review PWs to ensure they are not split and that proper notifications and approvals are received before obligating the funds.

We held exit conferences with the Oregon Department of Forestry and FEMA Region X on June 17, 2008 and July 1, 2008, respectively. ODF concurred with our findings and recommendations while FEMA Region X concurred with one finding and recommendation but did not concur with the other. A synopsis of the verbal comments we received is included in the Results of Audit section of this report.

Background

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, (Stafford Act), signed into law November 23, 1988, authorizes the President to provide federal funds to state and local governments under the FMAG Program for mitigation, management, and control of any fire burning on public or private forestland or grassland. The FMAG Program replaced the Fire Suppression Assistance Program on October 30, 2001. Title 44, Code of Federal Regulations (44 CFR), Part 204 provides the procedures for the declaration and grants management processes for the FMAG Program and details applicant eligibility and the eligibility of costs to be considered under the program.

Declaration Process

A declaration request must be submitted while a fire is burning uncontrolled and threatens such destruction as would constitute a major disaster. The Governor or the Governor's Authorized Representative (GAR) is authorized to submit requests to the FEMA Regional Administrator or Regional Fire Duty Liaison for fire management declarations. Due to the magnitude and impact of a fire, the Governor or GAR can expedite the declaration process by verbally requesting the declaration but must follow-up promptly after the date of an initial telephone request with all official forms and written information.

Upon declaration approval by FEMA, the Governor or GAR will enter into a standing FEMA/State Agreement (the Agreement) for the declared fire and for future declared fires in that calendar year. The state must have a current and signed Agreement before receiving federal funding under the FMAG Program. The Agreement states the understandings, commitments, and conditions under which FEMA will provide federal assistance, including the 75% federal and 25% non-federal cost share provision and articles of agreement necessary for the administration of the grants. The Agreement must identify the state legislative authority for firefighting, as well as the state's compliance with the laws, regulations, and other provisions applicable to the FMAG Program.

Grant Application and Reimbursement Process

Following a declaration, the state is required to submit a grant application package to the FEMA Regional Administrator within 9 months of the declaration. The Regional Administrator may grant an extension of up to 3 months upon receipt of a written request from the state that includes the justification for an extension. The grantee must document the total eligible costs for a declared fire on PWs, which are submitted with the grant application. The Regional Administrator has 45 days from the receipt of the state's initial grant application, or an amendment to the state's grant

application, to approve or deny the application package or amendment, or to notify the state of a delay.

By submitting PWs, the grantee certifies that all reported costs were incurred for work that was performed in compliance with laws, federal regulations and FMAG Program policy and guidance, as well as the terms and conditions outlined in the FMAG Program FEMA/State Agreement. Upon approval of the grant application, FEMA obligates funds after determining that: (1) the state's eligible costs meet or exceed the individual or cumulative fire cost thresholds; and (2) the state has up-to-date State Administrative and Hazard Mitigation Plans approved by the Regional Administrator.

Subgrantee requests for FMAG Program funding are submitted on a Request for Fire Management Assistance Subgrant (FEMA Form 90-133) to the grantee according to state procedures and within timelines set by the grantee. This request must be submitted no later than 30 days after the close of the incident period. The grantee will review and forward the request to the Regional Administrator for final review and determination.

Results of Audit

ODF administered the FMAG Program for the Bland Mountain #2 Fire in an efficient and effective manner. ODF properly coordinated and communicated with FEMA and subgrant applicants, and properly accounted for and maintained adequate documentation for the \$6,063,449 in FMAG Program expenditures. However, ODF did not always comply with federal laws and FEMA guidelines based on the following exceptions.

Pre-positioning Costs

ODF claimed \$605,302 for in-state pre-positioning costs not eligible under federal regulations. According to 44 CFR 204.42(e), eligible pre-positioning costs are the actual costs of pre-positioning federal, out-of-state (including compact), and international resources for a limited period when those resources are used in response to a declared fire. Once FEMA approves the state's request for a fire management assistance declaration, the regulations require the state to immediately notify the Regional Administrator of its intention to seek funding for pre-positioning resources and the Regional Administrator must approve all pre-positioning costs.

In late June 2004, FEMA Region X notified ODF that in-state pre-positioning costs were not an eligible item of cost. In response to this notification, the GAR said in an e-mail dated July 1, 2004, "It is my intention to include ALL applicable prepositioned severity resources in our project worksheet and if they reject our in-state severity resources then I intend to file a formal appeal

to the Regional Director as permitted under CFR 204.54.” On July 6, 2004, the GAR discussed in-state pre-positioning costs with FEMA and reported that FEMA had agreed to change its “Not Eligible” position for these costs to “Will Consider”. Subsequently, ODF included the in-state pre-positioning costs on a PW dated August 23, 2005 and FEMA Region X reimbursed these costs. Based on reimbursement from Region X, it was not necessary for the GAR to file a formal appeal. FEMA Region X grant files did not contain information to indicate why these ineligible costs were reimbursed and ODF was unable to provide documentation to support that they had received FEMA approval.

Recommendations

We recommend that the Regional Administrator, FEMA Region X:

Recommendation #1. Disallow \$605,302 in ineligible in-state pre-positioning costs.

Management Comments and Auditor’s Analysis

We received verbal concurrence on the recommendation from ODF officials. FEMA Region X officials did not verbally concur with the recommendation based on a differing interpretation of 44 CFR 204.42(e) and their adherence to 9550.3 *FEMA Interim Policy on Fire Suppression Assistance*.

The auditor contends that based on 44 CFR 204.42(e), in-state pre-positioning costs are not eligible. Further, while the *Interim Policy on Fire Suppression Assistance* does allow for reimbursement of in-state staging resources provided the state has met all program requirements, the interim policy was dated March 19, 2001 and terminated upon implementation of the Fire Management Assistance Program. Specifically, paragraph number 6 of the interim policy states “In light of the forecasts for the 2001 Fire Season predicting another severe and potentially record setting fire season, we have decided to revise and reissue this policy in an effort to provide States with the fullest level of fire suppression assistance allowable under the law and FEMA regulations until implementation of the Fire Management Assistance Program. This will be a very short-lived policy, and will terminate upon implementation of the Fire Management Assistance Program. This revision to the Interim Policy will not influence the rule making for the Fire Management Assistance Program.” As a result, the in-state pre-positioned cost should be disallowed.

Preparation and Submission of Project Worksheets

The state split a \$1.6 million project into three PWs resulting in FEMA Region X obligating funds without obtaining FEMA Headquarters approval or

reporting obligations in excess of \$1 million to Congress. Initially, the state submitted a PW that included the total \$1.6 million in project costs but a FEMA Region X official suggested that the state split the costs into separate PWs so that the payment process could be expedited. Subsequently, on September 15, 2005, ODF submitted to FEMA Region X PWs 9, 10 and 11 in the amounts of \$631,184, \$431,395 and \$571,091, respectively for the same project.

The DHS Appropriations Act of 2005 requires the Secretary of Homeland Security to notify the Committees on Appropriations of the Senate and the House of Representatives not less than three full business days before any grant allocation, discretionary grant award, or letter of intent totaling \$1 million or more is announced. FEMA implemented this provision of law by having its regions notify FEMA Headquarters of projects meeting this funding threshold. FEMA Headquarters then notifies DHS, Office of Management and Budget, and Congress. To ensure that accurate information is submitted to Congress, FEMA Headquarters must review these PWs prior to submission. Once PWs are reviewed and approved by FEMA Headquarters, FEMA Regions can obligate the funds.

Because each PW did not individually equal or exceed \$1 million, the PWs were not submitted to FEMA Headquarters for approval and subsequent reporting to Congress. In turn, FEMA Region X obligated funds for the PWs without proper approval.

Recommendations

We recommend that the Regional Administrator, FEMA Region X:

Recommendation #2. Require that ODF identify all related project work on a single PW rather than splitting the project into multiple PWs, and before obligating the funds, review PWs to ensure they are not split and that proper notifications and approvals are received for awards greater than or equal to \$1 million.

Management Comments and Auditor's Analysis

We received verbal concurrence on the recommendation from ODF officials. FEMA Region X officials verbally concurred with the recommendation as it relates to PWs 9, 10, and 11 but said it is important to note that FEMA guidelines allow for project costs to be split in certain circumstances where it is in the best interest of the applicant, as approved by the Region.

Objectives

The objective of the audit was to determine whether the state administered the FMAG Program in an efficient and effective manner. To accomplish the objective, we considered the overall impact of material deficiencies on grant program administration. Specifically, we determined how well the state: (1) coordinated and communicated with FEMA and subgrant applicants, (2) ensured compliance with federal laws and FEMA guidelines, and (3) accounted for and expended FMAG Program funds.

We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we were neither required to nor expressed an opinion on the costs claimed for the grant programs included in the scope of the audit. Had we been required and performed additional procedures or conducted an audit of the financial statements according to generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the state.

Scope

We audited the Bland Mountain #2 Fire (FMAG Declaration 2549) that was awarded by FEMA to the state on August 20, 2004. The grant, totaling \$6,063,449, was programmatically closed on December 11, 2006.¹ This FEMA grant award was selected for review because the award was significantly higher than other fire declarations within the same FEMA Region. ODF administered the FMAG Program.

Methodology

We performed fieldwork at FEMA Region X, ODF, and the Douglas County Sheriff Department, which was the only subgrantee under the grant. To obtain an understanding of the grant procedures, we reviewed FEMA regulations, the Stafford Act as amended, pertinent sections of Title 44 of the CFR, and Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

¹ FMAG Programs are considered programmatically closed if all work has been completed and final costs submitted to FEMA have been obligated.

To achieve the objective of this audit, we:

- 1) Interviewed FEMA, state, and subgrantee personnel to obtain an understanding of policies and procedures followed and to identify potential internal control weaknesses and their causes;
- 2) Reviewed grant files to determine whether sufficient documentation was present to support proper administration of the grant;
- 3) Reviewed the state's internal controls over accounting for grants to ensure that the state properly recorded and reported grant expenditures;
- 4) Reviewed a statistical sample of project worksheets to determine whether grant monies were spent according to laws and regulations. We used appropriate formulas to develop a variable sampling approach coupled with the risk model promulgated by the American Institute of Certified Public Accountants.
- 5) Reviewed prior audit reports to determine whether deficiencies had been noted in the reports with respect to the state's administration of the FMAG Program or internal controls over grant fund accounting.

We conducted a performance audit by executing tests, conducting interviews, making observations and examining documentation in the following areas:

1. Applicant Eligibility
2. Cost Eligibility
3. Procurement
4. Grantee's Accounting System and Internal Controls
5. Project Worksheet Review
6. Grant Reporting

We conducted our audit between November 2007 and July 2008 and performed our work according to the *Government Auditing Standards* prescribed by the Comptroller General of the United States (July 2007 Revision).



Additional Information and Copies

To obtain additional copies of this report, call the Office of Inspector General (OIG) at (202) 254-4199, fax your request to (202) 254-4305, or visit the OIG web site at www.dhs.gov/oig.

OIG Hotline

To report alleged fraud, waste, abuse or mismanagement, or any other kind of criminal or noncriminal misconduct relative to department programs or operations:

- Call our Hotline at 1-800-323-8603;
- Fax the complaint directly to us at (202) 254-4292;
- Email us at DHSOIGHOTLINE@dhs.gov; or
- Write to us at:
DHS Office of Inspector General/MAIL STOP 2600, Attention:
Office of Investigations - Hotline, 245 Murray Drive, SW, Building 410,
Washington, DC 20528.

The OIG seeks to protect the identity of each writer and caller.

