

Department of Homeland Security Office of Inspector General

FEMA Public Assistance Grant
Funds Awarded to Napa County, California

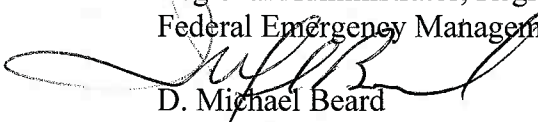




Homeland Security

MAR 8 2012

MEMORANDUM FOR: Nancy Ward
Regional Administrator, Region IX
Federal Emergency Management Agency

FROM: 
D. Michael Beard
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Public Assistance Grant Funds Awarded to
Napa County, California*
FEMA Disaster Number 1628-DR-CA
Audit Report Number DS-12-04

We audited Public Assistance (PA) grant funds awarded to Napa County, California (County), Public Assistance Identification Number 055-99055-00. Our audit objective was to determine whether the County accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

The County received a PA award of \$7 million from the California Emergency Management Agency (Cal EMA)¹ a FEMA grantee, for debris removal, emergency protective measures, and permanent repairs to facilities damaged as a result of flooding that occurred from December 17, 2005, through January 3, 2006. The award provided 75% FEMA funding for 15 large and 102 small projects.² The audit covered the period from December 17, 2005, to February 9, 2012. We audited six large projects totaling \$4.3 million, or 61% of the total award. We also performed a limited review of one additional large project to identify unused funds that should be put to better use (see Exhibit, Schedule of Projects Audited). As of February 9, 2012, the County had not submitted a final claim for this subgrant award.

We conducted this performance audit pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based

¹ At the time of the disaster, the grantee's name was the Governor's Office of Emergency Services, which became part of Cal EMA on January 1, 2009.

² Federal regulations in effect at the time of the disaster set the large project threshold at \$57,500.

upon our audit objective. We conducted this audit according to the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We discussed issues related to this audit with FEMA, Cal EMA, and County officials; reviewed judgmentally selected samples of project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the County’s internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the County’s method of accounting for disaster-related costs and its procurement policies and procedures.

RESULTS OF AUDIT

Of the \$4.3 million we reviewed, County officials generally expended and accounted for public assistance funds according to federal grant regulations and FEMA guidelines. However, we identified \$881,471 of unused federal funds, \$178,681 in excessive and unreasonable project management charges, and \$21,356 in ineligible indirect costs.

Summary of Costs Recommended for Deobligation and Disallowance		
Finding	Subject	Net Costs
A	Funds Not Used	\$881,471
B	Project Management Costs	178,681
C	Indirect Costs	21,356
TOTAL		\$1,081,508

Finding A: Funds Not Used

County officials stated that they would not pursue further reimbursement for Projects 2891 and 3211, totaling \$881,471, because Project 2891 was completed for \$748,280 under the approved amount and Project 3211, for \$133,191, was abandoned. Therefore, FEMA should deobligate \$881,471 of unused federal funds for Projects 2891 and 3211 and put those funds to better use. County officials agreed with this finding.

Finding B: Excessive and Unreasonable Project Management

County officials charged \$178,681 in excessive and unreasonable project management costs for Project 3538. FEMA officials estimated, and approved as reasonable, project management costs at 3% of total construction cost. However, the County charged more than 16% of construction costs for these services.

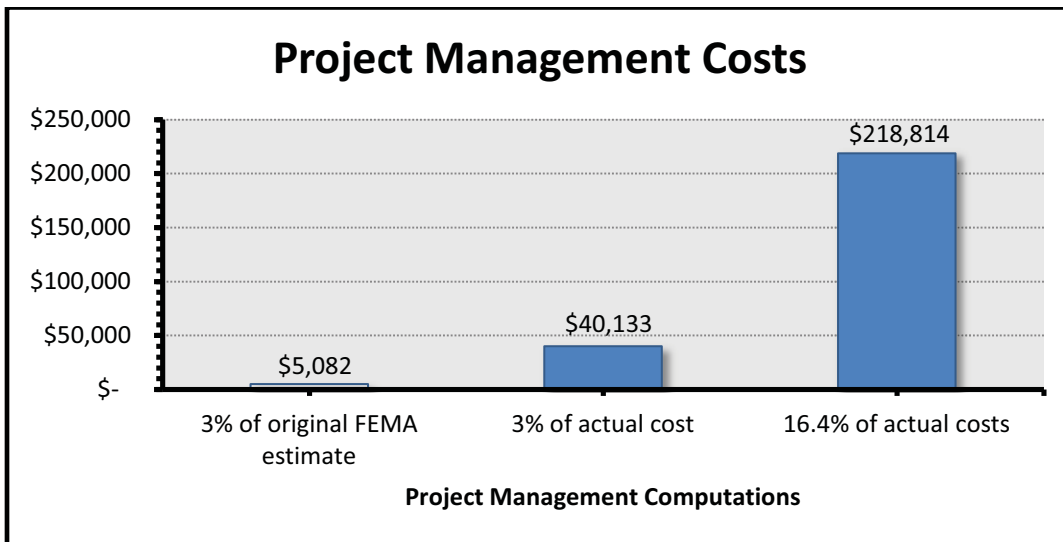
Federal rules and FEMA guidelines stipulate that to be reasonable, a cost:

- In its nature and amount does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the

cost. (Office of Management and Budget Circular A-87, Revised, Appendix A, section C.2)

- Is both fair and equitable for the type of work being performed. (FEMA 322, October 1999, p. 34)

We determined that the County did not comply with these criteria because project management costs charged to Project 3538 exceeded the FEMA approved amounts. Because of changes in the scope of work not included in FEMA’s original project estimate, construction costs increased from an estimate of \$169,400 to the actual final amount of \$1,337,768.³ The additional construction costs increased project management costs from an estimate of \$5,082 to \$40,133 (3% of \$1,337,768). However, the County charged \$218,814 in project management costs.



County records did not include documented evidence establishing the need for additional project management costs in excess of FEMA approved amounts. Therefore, we question \$178,681 (\$218,814 less \$40,133) as excessive and unreasonable. County officials disagreed with this finding, stating that the project management charges were prudent, reasonable, and necessary based on the nature of the work and FEMA’s requirements. They stated that, at project close-out, the County would provide FEMA with the necessary justification in support of the costs.

Finding C: Indirect Costs

The County charged indirect costs to Projects 2758, 2890, 2891, 3223, and 3538. Such costs are covered by FEMA’s statutory administrative allowance.

³ The cost increase is due to overruns of \$588,717 that were within FEMA’s approved scope of work, and \$579,651 in emergency work.

According to 44 CFR 206.228(a)(2)(ii) and (b)(2), a subgrantee's indirect costs are not separately eligible for reimbursement because FEMA's statutory administrative allowance covers indirect costs.

County officials applied an indirect rate between 12% and 17% to labor costs for expenses relating to the County's Departmental General Services and supplies. The table below identifies the project number, the force account labor costs charged to the projects, and the ineligible indirect costs.

Project No.	Force Account Labor	Ineligible Indirect Cost
2758	\$ 13,368	\$ 1,756
2890	9,179	1,137
2891	19,303	2,374
3223	26,198	4,542
3538	74,094	11,547
Total	\$142,142	\$21,356

Because overhead costs are indirect in nature, they cannot be charged separately as direct project costs. Therefore, we question \$21,356 as ineligible charges to Projects 2758, 2890, 2891, 3223, and 3538. County officials stated they will not claim costs recognized as ineligible when they submit final project claims for close-out.⁴

RECOMMENDATIONS

We recommend that the FEMA Region IX Administrator, in coordination with Cal EMA:

Recommendation #1: Deobligate \$881,471 (federal share \$661,103) and put those federal funds to better use: \$748,280 for Project 2891 and \$133,191 for Project 3211 (finding A).

Recommendation #2: Disallow \$178,681 (federal share \$134,011) in excessive and unreasonable costs for construction management for Project 3538 (finding B).

Recommendation #3: Disallow \$21,356 (federal share \$16,017) in ineligible indirect costs charged to Projects 2758, 2890, 2891, 3223, and 3538 (finding C).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed these results with County officials during our audit and have included their comments in this report, as appropriate. We also provided written summaries of our findings and recommendations in advance to FEMA on February 6, 2012, and Cal EMA and the County on January 30, 2012. We discussed these findings and recommendations at exit conferences held with Cal EMA and County officials on February 9, 2012. County officials agreed with finding A

⁴ Cal EMA has prepared a Final Inspection Report (FIR) for Project 3538. The FIR indicates that claimed project costs are net of the \$11,547 in ineligible indirect costs identified in this finding.

and partially agreed with finding C; they disagreed with finding B. FEMA and Cal EMA officials withheld further comment until after we issue our final report.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendations. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination. Significant contributors to this report were Humberto Melara, Louis Ochoa, Paul Sibal, Renee Gradin, and Elizabeth Finn.

Should you have questions concerning this report, please contact me at (202) 254-4100 or Humberto Melara at (510) 637-1463.

cc: Audit Liaison, FEMA Region IX
Administrator, FEMA
Audit Liaison, FEMA (Job Code G-11-039)
Audit Liaison, DHS

EXHIBIT

**Schedule of Projects Audited
December 17, 2005, to February 9, 2012
Napa County, California
FEMA Disaster Number 1628-DR-CA**

Project Number	Project Award Amount	Project Cost Audited	Costs Recommended for Deobligation and Disallowance			Total Findings (A-C)
			Funds Not Used (Finding A)	Excessive Project Management (Finding B)	Ineligible Indirect (Finding C)	
2758	\$722,423	\$707,500			\$1,756	\$1,756
2890 ⁵	956,373	123,961			1,137	1,137
2891	1,425,995	677,715	\$748,280		2,374	750,654
3211	133,191	0	133,191			133,191
3223	341,403	748,780			4,542	4,542
3229	224,509	195,921				
3538	344,548	1,807,856 ⁶		\$178,681	11,547	190,228
Total	\$4,148,442	\$4,261,733	\$881,471	\$178,681	\$21,356	\$1,081,508

⁵ Project 2890 is still in progress; the amount of costs represent the costs to date provided by the County.

⁶ Project 3538 – Project costs audited represent total charges the County accumulated at the time of audit fieldwork.

ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this report, please call the Office of Inspector General (OIG) at (202)254-4100, fax your request to (202)254-4305, or e-mail your request to our OIG Office of Public Affairs at DHS-OIG.OfficePublicAffairs@dhs.gov. For additional information, visit our OIG website at www.oig.dhs.gov or follow us on Twitter @dhsOIG.

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