



# Homeland Security

June 19, 2009

MEMORANDUM FOR: Dennis Hunsinger  
Acting Regional Administrator  
FEMA Region X

FROM: *Robert J. Lastrico*  
Robert J. Lastrico  
Western Regional Director

SUBJECT: *Snohomish County Public Utilities District No.1*  
Everett, Washington  
Public Assistance Identification Number 061-01C00-00  
FEMA Disaster Number 1682-DR-WA  
Audit Report Number DS-09-07

The Office of Inspector General audited public assistance grant funds awarded to the Snohomish County Public Utilities District No.1, Everett, Washington (PUD). The objective of the audit was to determine whether PUD expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

PUD received a public assistance subgrant award of \$5.6 million from the Washington Military Department, Emergency Management Division (EMD), a FEMA grantee, to repair utility system damages caused by a severe winter storm, landslides, and mudslides occurring in December 2006. The award provided 75% federal funding for three large projects.<sup>1</sup> The audit covered the period December 14, 2006, through February 20, 2009, and included a review of the three large projects (see Exhibit). EMD has closed two projects, and at the end of our field work, was reviewing supporting documentation for the third project prior to submitting final PUD costs to FEMA for closure.

We conducted this performance audit under the authority of 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 on our audit objective. The evidence obtained during the audit provides a reasonable basis for our findings and conclusions based on our audit objective. We interviewed FEMA, EMD, and PUD officials; reviewed judgmentally selected samples of the documentation supporting claimed project costs, including force account labor, equipment and materials charges, contract charges where applicable, and other data we considered necessary to accomplish our objective. We did not assess the adequacy of PUD's internal controls

<sup>1</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$59,700.

applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of PUD's method of accounting for disaster-related costs.

## **RESULTS OF AUDIT**

PUD generally expended and accounted for public assistance funds according to federal regulations and FEMA guidelines. However, we questioned \$286,533 in costs relating to the lack of supporting documentation, unreasonable and ineligible costs included in PUD's claim, accounting errors that resulted in duplicate costs, and public utility taxes paid to other PUDs that provided mutual aid.

### **Finding A – Supporting Documentation**

PUD did not maintain sufficient and appropriate evidence to support \$162,866 in claimed costs. According to Title 44, *Code of Federal Regulations*, Section 13.20(b)(2) [44 CFR 13.20(b)(2)], subgrantees are required to maintain records that adequately identify the source and application of funds provided for financially-assisted activities. In addition, accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. [44 CFR 13.20(b)(6)].

- For project 45, we question \$141,989 in costs associated with mutual aid labor. Mutual aid participants billed PUD for labor costs incurred consistent with PUD's Mutual Aid Plan (generally, hours times a wage rate which includes benefits). However, the fringe benefits portion in the mutual aid participants' billings appeared to be doubled within the wage rate. PUD had no documentation to indicate that fringe benefits rates were appropriately billed by mutual aid participants. As such, we question the total of labor costs associated with this project pending verification that the rates claimed are consistent with the rates billed by the mutual aid participants.
- For project 45, we question, \$5,452 for the cost of mutual aid meals, \$1,315 in labor costs, and \$612 and \$331 in vehicle and fuel costs. For project 65, we question \$13,167 in force account equipment usage charges. For both projects, PUD provided us no documentation, such as activity reports, vehicle mileage logs, or labor records to support these costs.

### **Finding B – Cost Reasonableness**

PUD claimed \$91,582 in excessive equipment costs against project 65 because it used FEMA's standard equipment rates rather than using its lower rates for selected equipment items. PUD officials told us, and we verified that during the disaster kick-off meeting, EMD instructed PUD to use FEMA rates.

According to 44 CFR 206.228(a)(1)(ii), where local guidelines are used to establish equipment rates, reimbursement will be based on those rates or rates in a Schedule of Equipment Rates published by FEMA, whichever is lower. Although EMD informed PUD to use FEMA's standard equipment rates, the regulations require the use of locally developed rates when they are lower than FEMA's standard equipment rates. Because PUD did not use its lower rates for selected equipment items, we questioned the \$91,582 in excessive equipment charges identified as claimable equipment costs by PUD.

### **Finding C – Cost Eligibility**

PUD's claim for project 48 included \$7,525 in contract costs for labor not specifically identified in the contract. Thus, these costs were not required as a result of the disaster and not eligible for reimbursement [see 44 CFR 206.223(a)(1)]. Specifically, a PUD contractor billed \$5,956 for the cost of an equipment mechanic; however, the cost of maintaining the equipment was included in the equipment rates specified in the contract. In addition, the contractor billed \$1,569 for a person to mobilize equipment and tools in San Diego, CA. Since these costs were not specified in the contract and PUD could not provide documentation to support the costs as disaster-related, we question the \$7,525 in costs claimed.

### **Finding D - Cost Accounting**

PUD's claim for project 65 included duplicate cost totaling \$14,289. According to 44 CFR 13.20(b)(2), subgrantees are required to maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

- PUD twice claimed \$10,760 in force account labor benefits due to an error in its accounting system. PUD's accounting system accumulated labor costs for the disaster event but erroneously doubled benefits costs when personnel changed job descriptions during the event. EMD discovered this error during its review of close-out costs and PUD worked closely with EMD to uncover the full impact of the problem. Nonetheless, Region X should ensure that these costs are not included in EMD's submission of PUD's final claim.
- Force account equipment costs of \$3,529 were claimed twice because two work crews with overlapping work schedules in the same area both claimed 100% usage of the same equipment items.

### **Finding E – Public Utility Taxes**

PUD's claim for project 45 included \$10,271 in public utility taxes paid to other PUDs that provided mutual aid. While state legislation requires the payment of these taxes, the State Department of Revenue told PUD that the same legislation allows but does not require them to deduct the taxes paid from the gross income reported by PUD to the State of Washington. FEMA should disallow the public utility taxes paid by PUD because the expense is deductible from the subgrantee's gross income reported to the state and reportable as gross income for the mutual aid participants.

## **RECOMMENDATIONS**

We recommend that the Acting Regional Administrator, FEMA Region X, in coordination with EMD:

**Recommendation #1.** Disallow \$162,866 in unsupported costs.

**Recommendation #2.** Disallow \$91,582 in excessive equipment costs.

**Recommendation #3.** Disallow \$7,525 in contract costs for labor not specifically identified in the PUD's contract.

**Recommendation #4.** Disallow \$14,289 in duplicate costs.

**Recommendation #5.** Disallow \$10,271 in public utility taxed paid to other PUDs that provided mutual aid.

#### **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP**

We discussed the results of this audit with PUD officials on February 18, 2009. Those officials agreed with Findings A, C, D, and E, or indicated they were searching for additional supporting documentation. PUD officials took exception with the \$91,582 in excessive equipment costs we questioned in Finding B stating that PUD equipment rates were not comparable with FEMA rates and they were instructed by EMD to use the FEMA rates. However, during the audit we confirmed that PUD's equipment rates included components comparable to FEMA's rates. We notified EMD officials of the audit results on February 19, 2009, and FEMA officials on June 18, 2009.

Please advise this office by August 18, 2009, of the actions planned or taken to implement our recommendations. Please note that your responses should include target completion dates for actions planned and actual completion dates for actions taken. Should you have any questions concerning this report, please contact me at (510) 637-1482. Key contributors to this assignment were John Richards and Ken Valrance.

Schedule of Projects Audited  
 Snohomish County Public Utilities District No.1  
 Everett, Washington  
 Public Assistance Identification Number 061-01C00-00  
 FEMA Disaster Number 1682-DR-WA

<b>Project Number</b>	<b>Amount Awarded</b>	<b>Amount Claimed</b>	<b>Questioned Costs</b>	<b>Finding Reference</b>
45	\$ 272,107	\$ 272,107	\$159,970	A & E
48	2,240,815	2,240,815	7,525	C
65	3,119,272	3,119,272	119,038	A, B & D
	\$5,632,194	\$5,632,194	\$286,533	

Note: The three PWs were written after all work was completed. Therefore, the final costs submitted by PUD to EMD are the same as the amount awarded by FEMA.