




Homeland
Security

March 8, 2006

MEMORANDUM FOR: Patricia English
Senior Procurement Executive
Federal Emergency Management Agency

FROM: Matt Jadacki 
Special Inspector General
Gulf Coast Hurricane Recovery

SUBJECT: *Indirect Costs under Grant Agreement Number EMW-2006-GR-0056
with United Methodist Committee on Relief/Emergency Services
International*
Report Number GC-HQ-06-19

The purpose of this memorandum is to inform you of an issue that we identified during our initial review of the Federal Emergency Management Agency's (FEMA) grant to the National Case Management Consortium¹ (NCMC) to provide case management services for displaced persons affected by Hurricane Katrina. The Consortium, consisting of various service organizations, will provide case management services to approximately 100,000 cases for 24 months, and is funded in part by a FEMA grant of \$66 million dollars from foreign donations. Namely, our review of the grant documents² raised questions as to whether the approved budget might result in duplicate payments for rent, executive salaries, and a variety of administrative functions.

The grant proposal includes direct charges for headquarters' facility costs, 15 percent of the Deputy General Secretary's salary, 15 percent of the Assistant General Secretary's salary, and \$168,000 in finance staff charges. It also includes \$580,925 for the United Methodist Committee on Relief's (UMCOR's) 10.72 percent indirect cost rate. Because indirect charges often include facility costs, a certain percentage of the time and salary of the organization's executives, and many costs of the finance department, we are concerned that some of the budgeted direct charges include charges that are included in the \$580,925 for indirect costs. A senior FEMA official told us that, after reviewing the UMCOR proposal, he had similar concern about possible duplicate payments.

UMCOR's General Treasurer was receptive to our concerns and said that he and the UMCOR executive staff had similar concerns, as well. As a solution, he suggested that UMCOR only charge for the actual hours of effort that their executives, financial support staff, and other UMCOR New York headquarters staff apply to the case management project, thereby foregoing all charges under the indirect cost rate.

¹ The National Case Management Consortium incorporates the United Methodist Committee on Relief (UMCOR)/Emergency Services International and the Voluntary Organizations Active in Disasters (NVOAD).

² These documents included the grant-referenced proposal from the National Case Management Consortium.

We believe this to be a reasonable approach because the 10.72 percent UMCOR indirect cost rate is used for traditional grants where UMCOR is directly administering a program.³ For this grant, UMCOR will manage a group of nine sub-grantees through an intermediary management office.⁴ It could, therefore, be argued that the UMCOR indirect cost rate does not apply and that only actual overhead expenses should be charged. Paying the UMCOR indirect cost rate might result in duplicate payments.

We believe the proposal by the UMCOR Treasurer—which has subsequently been cleared by UMCOR management—is fair and equitable. The New York City UMCOR offices should charge the grant for only those expenses and staff time that are directly related to the case management program.

Consequently, we recommend that FEMA:

1. Amend the grant EMW-2006-GR-0056 to eliminate the \$580,925 in indirect charges;
2. In cooperation with UMCOR officials, increase the budget for actual direct charges that were previously included in the indirect costs rate. Any remaining funds should be made available for program operations.

The nature and brevity of this assessment precluded the use of our normal audit protocols. As a result, this review may not have been conducted in accordance with generally accepted government auditing standards. Had we followed such standards, other matters might have come to our attention.

This review was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) as part of its examination of relief efforts provided by the Federal government in the aftermath of Hurricanes Katrina and Rita. As such, a copy of the report will be made available to the PCIE Homeland Security Working Group, which is coordinating Inspectors General review of this important subject.

Please advise us within two weeks of the date of this memo of the actions taken or planned to implement these recommendations, including target completion dates for any planned actions. Should you have any questions, please call me, or your staff may contact Dennis White, Deputy Special Inspector General, Gulf Coast Hurricane Recovery, at 202-254-4100. We look forward to working with you and your staff.

³ UMCOR's traditional programs tend to be overseas programs of the type that is often funded, in whole or in part, by the United States Agency for International Development (USAID).

⁴ Under the Grant, UMCOR has established and funded the Katrina Aid Today office, located in Washington, DC.

cc: Under Secretary for Management
Acting Director, FEMA
Chief Financial Officer, DHS
Chief Procurement Officer, DHS
Grants Management Branch Chief, FEMA
Audit Liaison, DHS
Chief Financial Officer, FEMA