



Homeland Security

September 13, 2010

MEMORANDUM FOR: Major P. (Phil) May, Regional Administrator
 FEMA Region IV

FROM: C. David Kimble, Director
 Eastern Regional Office

SUBJECT: *Florida Department of Military Affairs*
 Public Assistance Identification Number: 000-00427-00
 FEMA Disaster Nos. 1539, 1545, and 1561-FL
 Report Number DA-10-18

We audited public assistance funds awarded to the Florida Department of Military Affairs (Department). The audit objective was to determine whether the Department accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The Department received awards totaling \$26 million from the Florida Department of Community Affairs (DCA), a FEMA grantee, for damages related to Hurricanes Charley, Frances, and Jeanne that occurred in 2004. The award provided 100% FEMA funding for the first 72 hours and 90% funding thereafter for emergency protective measures and repair and restoration of public facilities. The awards included 14 large projects and 35 small projects.¹ The specifics for each disaster are presented in the table below.

| Disaster | Disaster No. | Date Of Disaster | Amount Awarded (Millions) | Large Projects Awarded | Small Projects Awarded | Federal Funds Received (Millions) |
|-------------------|--------------|--------------------|---------------------------|------------------------|------------------------|-----------------------------------|
| Hurricane Charley | 1539 | August 13, 2004 | \$10.0 | 6 | 11 | \$ 9.2 |
| Hurricane Frances | 1545 | September 4, 2004 | 10.9 | 5 | 19 | 10.5 |
| Hurricane Jeanne | 1561 | September 13, 2004 | 5.1 | 3 | 5 | 4.7 |
| Total | | | \$26.0 | 14 | 35 | \$ 24.4 |

We reviewed costs totaling \$23.4 million awarded and claimed under 6 large projects, as shown in the Exhibit. The audit covered the period August 13, 2004 to January 21, 2010, during which the Department received FEMA funds totaling \$24.4 million under all projects. At the time of our audit, the Department had not submitted final claims on project expenditures to the DCA.

¹ Federal regulations in effect at the time of Hurricanes Charley, Frances, and Jeanne set the large project threshold at \$54,100

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 and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We judgmentally selected project cost documentation (generally based on dollar value); interviewed Department, DCA, and FEMA personnel; reviewed the Department's disaster grant accounting system and procurement policies and procedures; reviewed applicable federal regulations and FEMA guidelines; and performed other procedures considered necessary under the circumstances. We did not assess the adequacy of the Department's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the Department's grant accounting system and its policies and procedures for administering activities provided for under the FEMA awards.

RESULTS OF AUDIT

The Department did not account for FEMA funds consistent with federal regulations. The Department's claim also included questionable costs totaling \$1,292,737 (FEMA share - \$1,163,463) resulting from excessive charges for administrative and mutual aid costs.

- A. Grant Accounting. Federal regulation 44 CFR 13.20(a) requires a State and its subgrantees to provide accounting records that permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of restrictions and prohibitions of applicable statutes. The Department's grant-related financial transactions were captured within different divisions set up within its accounting system with no means to trace to source documents. As a result, project expenditures could not be readily validated.
- B. Administrative Costs. Under the Stafford Act, the Department is entitled to an administrative allowance based on a statutory formula to cover the costs associated with requesting, obtaining, and administering FEMA awards. FEMA regulation (44 CFR 206.228) limits funding for administrative costs to the allowance. The Department claimed \$1,182,893 (equipment, fuel, and operator charges) for helicopters used to perform aerial surveys to facilitate damage assessments by Federal and State officials and national and local media. We question these charges because damage assessments are conducted for the purpose of documenting the need for and requesting financial assistance and, as such are covered by the statutory administrative allowance.

Department officials disagreed with our findings and conclusion. They said the activities were for operational purposes related to the disaster and, therefore, the charges should be allowable for FEMA reimbursement. However, the supporting documentation indicated that the charges were for damage assessment activities. The excessive charges by project are shown in the following table.

| Project Number | Hurricane | Amount Questioned |
|----------------|-----------|-------------------|
| 232 | Charley | \$ 792,807 |
| 39 | Frances | 66,029 |
| 47 | Jeanne | 324,057 |
| Total | | \$ 1,182,893 |

C. Mutual Aid Costs. Under Project 39 for emergency protective measures, the Department claimed \$109,844 for mutual aid costs associated with aircraft usage. Under a mutual aid agreement, the Department requested two helicopters from the State of Texas. According to Department officials, the helicopters were requested after Hurricane Frances to ensure that there were enough helicopters available for potential emergency response missions. When the helicopters arrived in Florida, Department officials decided they were not needed and sent them back to Texas. However, the mobilization costs of \$109,844 were charged to the project.

Department officials said the helicopters were staged for an emergency response and should be eligible for reimbursement. According to Office of Management and Budget Circular A-87, Attachment A, Section C.3, a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received. We question the \$109,844 claimed under the project because the helicopters were not used to perform any disaster-related missions.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV, in coordination with DCA:

Recommendation #1. Inform the Department that they must comply with federal regulations when accounting for FEMA funds (Finding A).

Recommendation #2. Disallow the \$1,182,893 of excessive administrative costs (Finding B).

Recommendation #3. Disallow the \$109,844 of mobilization costs (Finding C).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were discussed with FEMA, DCA, and Department officials on June 2, 2010. Department officials had no comment regarding Finding A, and did not concur with Findings B and C. Their comments, where appropriate, have been incorporated into the body of this report.

Please advise me by November 11, 2010, of the actions planned or taken to implement our recommendations, including target completion dates for any planned actions. Should you have any questions concerning this report, please contact Felipe Pubillones, Audit Manager, at (404) 832-6705 or me at (404) 832-6702. Key contributors to this assignment were Felipe Pubillones, Ronald Cummings, and Calbert Flowers.

cc: Mary Lynne Miller, Deputy Regional Administrator
Jesse Munoz, Director Recovery
Valerie Rhoads, Branch Chief of PA
Denise Harris, Regional Audit Coordination
Robert Ives, FL Recovery Office Director
Audit Liaison, FEMA

Florida Department of Military Affairs
FEMA Disaster Nos. 1539, 1545, and 1561
Schedule of Amount Awarded, Claimed, and Questioned
August 13, 2004 to January 21, 2010

| Project Number | Amount Awarded | Amount Claimed | Amount Questioned |
|--|----------------|----------------|-------------------|
| <i>Hurricane Charley – Disaster No. 1539</i> | | | |
| 232 | \$ 7,380,106 | \$ 7,380,106 | \$ 792,807 |
| 241 | 1,479,269 | 1,479,269 | |
| Total | \$ 8,859,375 | \$ 8,859,375 | \$ 792,807 |
| <i>Hurricane Frances – Disaster No. 1545</i> | | | |
| 38 | \$ 1,610,699 | \$ 1,610,699 | |
| 39 | 8,410,345 | 8,410,345 | \$ 175,873 |
| Total | \$10,021,044 | \$10,021,044 | \$ 175,873 |
| <i>Hurricane Jeanne – Disaster No. 1561</i> | | | |
| 46 | \$ 1,150,035 | \$ 1,150,035 | |
| 47 | 3,365,439 | 3,365,439 | \$ 324,057 |
| Total | \$ 4,515,474 | \$ 4,515,474 | \$ 324,057 |
| <i>Grand Total</i> | | | |
| Grand Total | \$23,395,893 | \$23,395,893 | \$1,292,737 |