

Department of Homeland Security Office of Inspector General

Costs Claimed by Kinder Morgan Liquid Terminals
LLC Under Port Security Grants Awarded by the
Federal Emergency Management Agency



American Recovery and Reinvestment Act of 2009

OIG-13-73

April 2013




OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

APR 9 2013

MEMORANDUM FOR: David J. Kaufman
Acting Assistant Administrator
Grant Programs Directorate
Federal Emergency Management Agency

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *Costs Claimed by Kinder Morgan Liquid Terminals LLC
Under Port Security Grants Awarded by the
Federal Emergency Management Agency*

Attached for your information is our final letter report, *Costs Claimed by Kinder Morgan Liquid Terminals LLC Under Port Security Grants Awarded by the Federal Emergency Management Agency*. We incorporated the formal comments from the Associate Administrator for Policy, Program Analysis and International Affairs in the report.

The report's only recommendation is Kinder Morgan should institute controls over quarterly reporting to make sure that expenditures are accurately reported. The Associate Administrator concurred with the recommendation. As prescribed by the Department of Homeland Security Directive 077-01, Follow-Up and Resolution for Office of Inspector General Report Recommendations, 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 recommendation. Until your response is received and evaluated, the recommendation will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Major contributors to this report are Roger LaRouche, Director of Recovery Act Audits; Robert Leonard, Audit Manager; William Gillies, Audit Manager; and Marisa Cocco, Report Referencer.

Please call me with any questions, or your staff may contact John E. McCoy II, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



Background

The *American Recovery and Reinvestment Act of 2009*, as amended (Recovery Act) appropriated \$610 million to the Federal Emergency Management Agency (FEMA) for emergency food and shelter, public transit and port security assistance, and construction of non-federal fire stations. FEMA awarded \$150 million of that amount in port security grants to 214 ports, port authorities, ferry systems, and other eligible entities.

The purposes of the FEMA port security grants are to support increased port-wide risk management; enhance domain awareness; and increase capabilities to prevent, detect, respond to, and recover from attacks involving improvised explosive devices, weapons of mass destruction, and other nonconventional weapons.

On September 27, 2009, FEMA awarded 14 grants totaling \$2,518,986 to Kinder Morgan Liquid Terminals LLC (Kinder Morgan) for the installation of transportation worker identification credential readers.¹ Reimbursement for eligible project costs is based on the grant agreements; Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*; and FEMA guidance.²

As of August 23, 2012, Kinder Morgan had claimed project costs totaling \$1,071,891. The claimed costs covered the period from September 1, 2009, through June 30, 2012. Table 1 provides a financial summary of the 14 grants to Kinder Morgan.

¹ Kinder Morgan is the third-largest energy company in North America. It owns an interest in or operates approximately 75,000 miles of pipelines and 180 terminals. Its pipelines transport natural gas, refined petroleum products, crude oil, and carbon dioxide. It also stores or handles other products and materials such as gasoline, jet fuel, ethanol, coal, petroleum coke, and steel. It receives fees for its services from major oil companies, energy producers and shippers, and local distribution companies.

² FEMA guidance for the port security grant program is contained in the *U.S. Department of Homeland Security's American Recovery and Reinvestment Act of 2009, Port Security Grant Program, Guidance and Application Kit, May 2009*.



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Table 1. Financial Summary of Port Security Grants to Kinder Morgan

Grant Number	Location	Grant Amount	Costs Claimed
2009-PU-R1-0236	Benicia, CA	\$56,846	\$43,807
2009-PU-R1-0240	Los Angeles Harbor, CA	130,698	0
2009-PU-R1-0243	Port Sutton, FL	170,142	153,208
2009-PU-R1-0244	Ship Channel, Pasadena, TX	351,633	332,000
2009-PU-R1-0246	Port Arthur, TX	63,871	59,500
2009-PU-R1-0247	International Marine Terminal, LA	90,686	51,997
2009-PU-R1-0248	Pasadena, TX	363,879	114,911
2009-PU-R1-0249	Longview, OR	56,846	52,706
2009-PU-R1-0250	Linnton, OR	191,300	123,122
2009-PU-R1-0348	Chicago, IL	185,323	0
2009-PU-R1-0380	Argo, IL	334,329	0
2009-PU-R1-0381	Chesapeake, VA	185,323	0
2009-PU-R1-0382	Elizabeth River Terminal, VA	143,962	140,640
2009-PU-R1-0383	North Charleston, SC	194,148	0
Total		\$2,518,986	\$1,071,891

Source: Office of Inspector General.

The objective of this audit was to determine whether costs claimed by Kinder Morgan were allowable, allocable, and reasonable according to the funding agreements and applicable Federal requirements. In addition, we examined the support for expenditures and jobs data contained in the quarterly recipient reports submitted to FederalReporting.gov and in the financial status reports submitted to FEMA.

Results of Review

We determined that project costs of \$1,071,891 were allowable, allocable, and reasonable. We also determined that Kinder Morgan had complied with the Recovery Act requirements for submitting quarterly reports to the Federal Government. However, we noted instances in which the expenditure data in the quarterly reports submitted to FederalReporting.gov and in the financial status reports submitted to FEMA were incorrect.

Reporting

Section 1512 of the Recovery Act requires grant recipients to file reports each calendar quarter to the Federal Government website at FederalReporting.gov. Each report is to include the total amount of Recovery Act funds received, the amount of funds expended or obligated to projects or activities, an evaluation of the project's completion status,



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and an estimate of the number of jobs created or retained by the project or activity. In addition, the *Department of Homeland Security's American Recovery and Reinvestment Act of 2009, Port Security Grant Program, Guidance and Application Kit (Part VI.C.)* requires grant recipients to submit quarterly financial status reports to FEMA.

We reviewed 28 reports and determined that 1 quarterly report submitted to FederalReporting.gov and 2 financial status reports submitted to FEMA did not agree with the amounts in the Kinder Morgan accounting records. The three instances are discussed below:

- The December 31, 2011, final quarterly report to FederalReporting.gov for grant number 2009-PU-R1-0382 showed project expenditures of \$99,173, whereas the Kinder Morgan accounting records showed expenditures of \$140,640, a difference of \$41,467.
- The June 30, 2012, financial status reports submitted to FEMA for grant numbers 2009-PU-R1-0247 and 2009-PU-R1-0248 did not show any project expenditures. However, the Kinder Morgan accounting records showed expenditures of \$51,997 and \$114,911, respectively.

Kinder Morgan's Vice President and Chief Security Officer told us that project expenditures for grant number 2009-PU-R1-0382 were incurred after the final quarterly report was prepared. He said that a corrected final report could not be submitted to FederalReporting.gov because officially the grant had been closed out. Kinder Morgan officials did submit corrected Federal financial reports to FEMA for the other two grants (2009-PU-R1-0247 and 2009-PU-R1-0248).

Recommendation

We recommend that FEMA's grant officer ensure that Kinder Morgan institutes sufficient controls over quarterly reporting to make sure that expenditures are accurately reported.

Management Comments and OIG Analysis

FEMA Comments to Recommendation

FEMA concurs with the recommendation. To ensure that expenditures are accurately reported, FEMA will request that its regional staff add Kinder Morgan to the planned current year financial monitoring schedule. Thirteen other Kinder Morgan Recovery Act port security grants are currently scheduled for financial monitoring (through desk



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reviews) by FEMA Region VI Grant Management Specialists. Through financial monitoring, FEMA will be able to provide recommendations, corrective action, and support to Kinder Morgan regarding internal controls, quarterly reporting, and reporting expenditures.

OIG Analysis

FEMA's proposed corrective action is responsive to the recommendation. However, the recommendation will remain open and unresolved until we receive the updated current year financial monitoring schedule. The recommendation will be closed once FEMA provides evidence that Kinder Morgan institutes sufficient controls over quarterly reporting to make sure that expenditures are accurately reported.



Appendix A

Objective, Scope, and Methodology

The 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 audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the Department.

The objective of this audit was to determine whether costs claimed by Kinder Morgan were allowable, allocable, and reasonable according to the funding agreements and applicable Federal requirements. In addition, we examined the support for expenditures and jobs data contained in the quarterly recipient reports submitted to FederalReporting.gov and in the financial status reports submitted to FEMA. Our audit covered claimed costs of \$1,071,891 for the period September 1, 2009, to June 30, 2012. This represents the total amount claimed as of August 23, 2012.

Our tests and procedures included the following:

- Reviewing the Recovery Act, FEMA, and OMB guidelines, the FEMA grants, and Kinder Morgan’s grant applications and investment justifications;
- Interviewing FEMA officials to obtain an understanding of the port security grant program;
- Interviewing Kinder Morgan officials to obtain an understanding of the grants, grant accounting, and claims for reimbursement;
- Examining Kinder Morgan accounting records and supporting documents for the amounts charged to the grants;
- Reviewing the eligibility of the amounts claimed for reimbursement and discussing our findings with Kinder Morgan officials; and
- Visiting the grant project sites.

We tested Kinder Morgan’s records to determine compliance with OMB Circular A-87 and with other terms and conditions of the grants. We considered Kinder Morgan’s internal controls over the administration of grant funds in determining our audit procedures. We also relied on Kinder Morgan’s 2011 U.S. Securities and Exchange



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Commission Form 10-K Annual Report conducted by PricewaterhouseCoopers LLP (PWC). According to the report, in our opinion, the Partnership [Kinder Morgan] maintained, in all material respects, effective internal controls over financial reporting.

To accomplish our objectives, we relied on the work of PWC as part of the 2011 SEC Form 10-K Annual Report. We did not review PWC's workpapers, nor did we perform tests on this work.

We did not address the Recovery Act requirements for (1) paying prevailing wages as determined by the Secretary of Labor and (2) using only iron, steel, and manufactured goods produced in the United States. FEMA officials had determined that these provisions did not apply to the Kinder Morgan grants because the grants did not constitute construction projects.

We conducted this performance audit between August and September 2012, 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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based upon our audit objectives.



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Appendix B
Management Comments to the Draft Report

U.S. Department of Homeland Security
Washington, DC 20472



FEMA

MEMORANDUM FOR: Anne L. Richards
Assistant Inspector General for Audits
Office of Inspector General

FROM: David J. Kaufman 
Associate Administrator for
Policy, Program Analysis and International Affairs

SUBJECT: FEMA Response to OIG Draft Letter Report "*Costs Claimed by Kinder Morgan Liquid Terminals LLC Under Port Security Grants Awarded by the Federal Emergency Management Agency – For Official Use Only - OIG Project No. 12-162-AUD-FEMA*".

Thank you for the opportunity to comment on OIG Draft Report, "*Costs Claimed by Kinder Morgan Liquid Terminals LLC Under Port Security Grants Awarded by the Federal Emergency Management Agency – For Official Use Only - OIG Project No. 12-162-AUD-FEMA*". The findings in the report will be used to strengthen the effectiveness and efficiency of how we execute and measure our programs. We recognize the need to continue to improve the process, including addressing the recommendations raised in this report. The following is our response to the recommendation for implementation:

OIG Recommendation 1: We recommend that FEMA's grant officer ensure that Kinder Morgan institutes sufficient controls over quarterly reporting to make sure that expenditures are accurately reported.

FEMA Response: Concur. FEMA requires all grantees to abide by the regulations stated 44 CFR Sec 13.20b(1), "the financial management systems of other grantees and sub-grantees must meet the following standards: (1) Financial Reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant." FEMA's responsibility is to monitor grantees, make financial and programmatic recommendations, and pursue resolution of corrective actions as they relate to the requirements set forth by 44 CFR part 13.

FEMA will request that the Regional staff add Kinder Morgan Liquids Terminals LLC to the current year planned financial monitoring schedule. Currently, 13 other Kinder Morgan ARRA port security grants are scheduled for financial monitoring (via desk review) by FEMA Region VI Grant Management Specialists. Through financial monitoring, FEMA will be able to provide recommendations, corrective action, and support to Kinder Morgan as they relate to internal controls, quarterly reporting, and reporting expenditures.

We believe this meets the intent of the recommendation and we request closure.

www.fema.gov



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Again, we thank you for the work that you and your team did to inform us of measures we can take to enhance the program's overall effectiveness. We look forward to OIG's final report for "*Costs Claimed by Kinder Morgan Liquid Terminals LLC Under Port Security Grants Awarded by the Federal Emergency Management Agency – For Official Use Only - OIG Project No. 12-162-AUD-FEMA*". Please direct any questions regarding this response to Gary McKeon, FEMA's Chief Audit Liaison, at 202-646-1308.



Appendix C

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