



## DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General – Office of Audits  
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February 5, 2004

### MEMORANDUM

TO: Jeff Griffin  
Regional Director  
FEMA Region IX

*Robert J. Lastrico*

FROM: Robert J. Lastrico  
Field Office Director

SUBJECT: Audit of California Department of Water Resources  
Sacramento, California  
Public Assistance Identification Number 000-92004  
FEMA Disaster Number 1155-DR-CA  
Audit Report Number DS-09-04

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The Office of Inspector General (OIG) audited public assistance grant funds awarded to the California Department of Water Resources, Sacramento, California (Department). The objective of the audit was to determine whether the Department expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The Department received an award of \$4.1 million from the California Office of Emergency Services (OES), a FEMA grantee, for debris removal, emergency protective measures, and repairs of water control facilities. The award resulted from severe storms, flooding, and mud and land slides that occurred from December 28, 1996, to April 1, 1997. The award provided 75 percent FEMA funding for 22 small projects and 16 large projects.<sup>1</sup> The audit covered the period December 28, 1996, to July 17, 2002, and included the review of 15 large projects with a total award of \$3.8 million (see Exhibit).

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<sup>1</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$46,000.

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The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to *Government Auditing Standards* issued by the Comptroller General of the United States. The audit included the review of FEMA, OES, and Department records, and other auditing procedures determined necessary under the circumstances.

## **RESULTS OF AUDIT**

The Department generally expended and accounted for public assistance funds according to federal regulations and FEMA guidelines for 5 of the 15 large projects reviewed. However, the Department’s claim for 10 projects contained \$762,265 in questionable costs (FEMA’s share - \$571,699). The questioned costs consisted of \$307,631 in unsupported force account labor costs, \$189,625 in unsupported project costs, \$144,912 in excessive force account fringe benefits, and \$120,097 in duplicate force account labor costs.

### **Finding A – Unsupported Force Account Labor Costs**

The Department’s claim included \$307,631 in force account labor costs not supported by adequate documentation. The table below identifies the project numbers and the amounts questioned.

| <u>Project No.</u> | <u>Amount Questioned</u> |
|--------------------|--------------------------|
| 98676              | \$164,286                |
| 75010              | 60,959                   |
| 75022              | 52,876                   |
| 75009              | 21,822                   |
| 75011              | 3,628                    |
| 98686              | 2,688                    |
| 75020              | <u>1,372</u>             |
| Total              | <u>\$307,631</u>         |

Details regarding the lack of adequate documentation are provided below:

- The Department claimed \$164,286 under project 98676 and \$52,876 under project 75022 for force account labor and benefits costs incurred by two Divisions of the Department. Neither the Department nor the two Divisions retained the time sheets, attendance records, or accompanying payroll reports to support any of the overtime labor hours claimed.
- The Department claimed \$54,642 under project 75010 and \$7,366 under project 75009 for overtime labor costs for its supervisory personnel (Category 4C employees). According to Department officials, Category 4C employees are supervisors that are not recognized as an eligible class under State bargaining regulations to receive overtime

pay. While the OIG auditor was not provided and did not review the State bargaining regulations, Department officials stated that the overtime hours for Category 4C employees were mistakenly claimed due to an oversight when preparing and certifying the claim for reimbursement.

- The Department's claim for projects, 75009, 75010, 75011, 98686, and 75020 included \$14,456, \$6,317, \$3,628, \$2,688, and \$1,372, respectively, for force account labor hours that were not supported by adequate documentation to establish if hours claimed were regular or overtime hours. Department officials attributed the unsupported hours to the employees' unfamiliarity with the disaster codes used by the Department to support disaster-related expenditures. As a result, the Department may have inadvertently claimed disaster-related regular hours instead of overtime hours.

According to Title 44, Code of Federal Regulations, Section 13.20(b) [44 CFR 13.20(b)], the Department is required to maintain accounting records that identify how FEMA funds are used. Since force account labor costs were not adequately supported and did not identify how FEMA funds were used, the OIG questioned \$307,631.

#### **Finding B – Unsupported Project Costs**

The Department claimed \$189,625 for two projects that were not supported with invoices or similar documentation.

- For project 98685, the Department claimed \$152,095 consisting of \$140,192 in material costs, \$3,717 in equipment costs, and \$8,186 in contract labor costs. The Department was unable to provide any payment records to support the costs claimed.
- For project 75013, the Department claimed \$37,530 in material costs but had no documentation to support that these costs were incurred and were disaster-related.

According to 44 CFR 13.20(b), the Department is required to maintain accounting records that identify how FEMA funds are used. Since the costs identified above were not supported, the OIG could not confirm that these cost were incurred and disaster-related. Therefore, \$189,625 was questioned.

#### **Finding C– Excessive Force Account Fringe Benefits**

The Department's claim for six projects included \$144,912 in excessive fringe benefits. In most cases, the Department applied a fringe benefits rate of 26.2 percent on its force account overtime labor costs but payroll records could only support a rate of 7.65 percent. The table below identifies project numbers, the fringe benefits rate applied by the Department, the

actual fringe benefits rate for overtime labor, the excessive rate applied to overtime labor costs, and the resultant questioned costs.

| <u>Project Number</u> | <u>Applied Rate</u> | <u>Actual Rate</u> | <u>Excessive Rate</u> | <u>Amount Questioned</u> |
|-----------------------|---------------------|--------------------|-----------------------|--------------------------|
| 75010                 | 26.2 %              | 7.65%              | 18.55%                | \$ 51,770                |
| 75009                 | 26.2 %              | 7.65%              | 18.55%                | 33,924                   |
| 98688                 | 26.1 %              | 7.65%              | 18.54%                | 20,316                   |
| 98686                 | 26.2 %              | 7.65%              | 18.55%                | 17,319                   |
| 75011                 | 26.2 %              | 7.65%              | 18.55%                | 13,239                   |
| 75020                 | 26.2 %              | 7.65%              | 18.55%                | 8,344                    |
| Total                 |                     |                    |                       | <u>\$144,912</u>         |

According to 44 CFR 13.20(b), grant recipients are required to maintain accounting records that identify how FEMA funds are used. Also, Office of Management and Budget Circular A-87, Attachment B, paragraph 11d(1), states that the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit. Because the fringe benefits rate applied to overtime labor was not supported by source documentation and was not reasonable, the OIG questioned \$144,912.

**Finding D– Duplicate Force Account Labor Costs**

The Department claimed force account labor costs of \$120,097 twice under project 98686. The Department claimed \$120,097 for 3,712 overtime hours worked in January 1997 and inadvertently claimed these same costs in February 1997 resulting in the duplicate FEMA reimbursement to the Department. Thus, the OIG questioned \$120,097 of duplicate labor costs.

**RECOMMENDATION**

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES, disallow questioned costs of \$762,265.

**DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP**

The OIG discussed the results of this audit with Department and OES officials on November 12, 2003. These officials concurred in principle with the findings and recommendation. On December 2, 2003, the OIG followed up with the Department to obtain any further support for the issues discussed in this report. The OIG also notified FEMA Region IX officials of the audit results on January 13, 2004.

Please advise this office by April 5, 2004, of actions taken to implement our recommendation. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Greg Suko and Ravi Anand.

Schedule of Audited Projects  
 California Department of Water Resources  
 Sacramento, California  
 Public Assistance Identification Number 000-92004  
 FEMA Disaster Number 1155-DR-CA

| <u>Project<br/>Number</u> | <u>Amount<br/>Awarded</u> | <u>Amount<br/>Questioned</u> | <u>Finding<br/>Reference</u> |
|---------------------------|---------------------------|------------------------------|------------------------------|
| 74694                     | \$ 94,218                 | \$ 0                         |                              |
| 75009                     | 259,345                   | 55,746                       | A, C                         |
| 75010                     | 426,266                   | 112,729                      | A, C                         |
| 75011                     | 282,840                   | 16,867                       | A, C                         |
| 75013                     | 322,932                   | 37,530                       | B                            |
| 75020                     | 63,075                    | 9,716                        | A, C                         |
| 98676                     | 535,421                   | 164,286                      | A, C                         |
| 98677                     | 233,109                   | 0                            |                              |
| 98685                     | 152,095                   | 152,095                      | B                            |
| 98686                     | 244,443                   | 140,104                      | A, C, D                      |
| 98688                     | 174,644                   | 20,316                       | C                            |
| 98735                     | 128,328                   | 0                            |                              |
| 98738                     | 258,862                   | 0                            |                              |
| 98679                     | 351,720                   | 0                            |                              |
| 75022                     | 302,366                   | 52,876                       | A                            |
| Totals                    | <u>\$3,829,664</u>        | <u>\$762,265</u>             |                              |

Finding Reference Legend:

- A – Unsupported Force Account Labor Costs
- B – Unsupported Project Costs
- C – Excessive Force Account Fringe Benefits
- D – Duplicate Labor Costs