




Homeland Security

February 17, 2010

MEMORANDUM FOR: Dennis Hunsinger, PhD
Acting Regional Administrator
FEMA Region X

FROM: 
Robert J. Lastrico
Western Regional Director

SUBJECT: *Chugach Electric Association, Inc.*
Anchorage, Alaska
Public Assistance Identification Number 000-U1410-00
FEMA Disaster Number 1663-DR-AK
Audit Report Number DS-10-04

The Office of Inspector General audited public assistance grant funds awarded to Chugach Electric Association, Inc. (CEA), Anchorage, Alaska. The objective of the audit was to determine whether CEA expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

CEA received a public assistance subgrant award of \$5.67 million from the State of Alaska, Department of Military and Veterans Affairs, Division of Homeland Security and Emergency Management (DHS&EM), a FEMA grantee, to repair utility system damages caused by a severe storm, flooding, landslides, and mudslides occurring during the period August 15, 2006, through August 25, 2006. The award provided 75% federal funding for two large projects¹ and one small project. The audit covered the period August 15, 2006, through July 31, 2009,² and included a review of the two large projects (see Exhibit). DHS&EM has closed both large projects and claimed \$5.60 million of the \$5.63 million awarded.

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. The evidence obtained during the audit fulfilled those requirements. We interviewed FEMA, DHS&EM, and CEA officials; and 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

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$57,500.

² Date of completion of on-site fieldwork.

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

RESULTS OF AUDIT

CEA generally expended and accounted for public assistance funds according to federal regulations and FEMA guidelines. However, CEA's claim included \$129,412 (federal share \$97,059) in costs that were (a) not eligible for reimbursement, (b) not adequately supported with source documentation, or (c) included in the claim twice. In addition, math errors in CEA's labor cost computations may result in the submission of a request for reimbursement of \$4,019 not previously claimed.

Finding A – Cost Eligibility

For the two project worksheets (PWs) discussed below, CEA claimed \$110,568 in costs that were not eligible for reimbursement.

PW 88. CEA claimed a pro-rated share (\$42,797) of their monthly helicopter operating expenses. Because some of CEA's electrical transmission and distribution systems are not easily accessible, helicopters are used for access to these areas, and are considered a normal operating expenditure. CEA incurred and paid monthly helicopter retainer fees (\$46,000) prior to, during, and subsequent to the completion of the project work. According to Title 44, *Code of Federal Regulations*, Section 206.223(a)(1) [44 CFR 206.223(a)(1)], a cost must be required as the result of the disaster event to be eligible for financial assistance. Because the retainer fee was not incurred as a result of the disaster but rather was a normal operating expenditure that would be incurred irrespective of the disaster, we question the eligibility of the \$42,797 claimed by CEA.

CEA also claimed and we question \$3,148 in helicopter stand-by costs as part of its rental equipment expenditures. According to FEMA's *Public Assistance Guide*, FEMA 322, page 37 (October 1999), stand-by time for equipment is not an eligible cost for public assistance reimbursement.

PW 59. CEA claimed and we question \$26,440 in excessive fringe benefits costs. Normal fringe benefits rates for overtime were 17.75% and 21.57%, depending on the labor contract under which employees worked. CEA developed a special overtime benefits rate of 36.5% for this disaster. CEA officials told us that the rate was developed to obtain reimbursement for vacation and holiday pay, and health insurance expenses that are not considered in the established rates. According to subsection C.1.e of Attachment A to Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, one factor affecting allowable costs is the consistent application of procedures between federal awards and other activities. In addition, FEMA's *Public Assistance Guide*, FEMA 322, page 34 (October 1999), confirms that normal procedures must not be altered because of the potential for reimbursement from federal funds.

CEA also claimed straight-time labor on Category B emergency response work that was not eligible for reimbursement under federal regulations. According to 44 CFR 206.228(a)(4) and FEMA Recovery Policy 9525.7, the cost of straight-time salaries and benefits of permanently employed personnel are not eligible emergency expenditures. CEA differentiated straight-time from overtime based on whether or not the employee received premium pay. However, sections 5.2.1 and 5.2.2 of

the International Brotherhood of Electrical Workers union contract state that the first 8 hours of a work day is straight time, up to 40 hours per week. Any time in excess of these hours entitles the employees to overtime pay. We determined the straight-time labor hours based on the above union contract and applied the straight-time hour rates for those personnel to arrive at \$38,183 in straight-time labor costs that were not eligible for reimbursement.

Finding B – Supporting Documentation

CEA claimed equipment costs on PW 59 using FEMA's standard equipment rates, but lacked sufficient documentation to support its claim. CEA based its claim on statements about equipment that were written in a calendar maintained by CEA's contract manager. According to 44 CFR 13.20(b)(2) and (6), 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, and contract and subgrant award documents. At a minimum, adequate documentation should include the daily hours and times that equipment was used. Due CEA's lack of documentation, the entire \$11,444 of claimed equipment costs is questionable.

Finding C – Duplicate Costs

For PW 59, CEA improperly claimed \$7,400 in labor expenditures for an equipment mechanic. According to FEMA's *Public Assistance Guide*, FEMA 322, page 35 (October 1999), time spent maintaining and repairing applicant-owned equipment is not eligible for FEMA reimbursement because this cost is included in equipment rates used by the applicant. Although we are recommending disallowance of the equipment costs claimed by CEA (see Finding B), the \$7,400 represents a duplication of costs since equipment maintenance is a component of the equipment rates used by CEA to claim equipment costs.

Finding D - Cost Accounting

CEA understated its claimed labor costs. For PW 59, we recomputed labor costs claimed based on the labor hours worked, the rates of pay, and supporting timesheets and logs. We identified \$4,019 in math errors that are claimable force account labor costs.

RECOMMENDATIONS

We recommend that the Acting Regional Administrator, FEMA Region X, in coordination with DHS&EM:

Recommendation #1. Disallow \$129,412 in questionable costs included in CEA's claim.

Recommendation #2. Allow \$4,019 in force account labor costs under claimed as a result of math errors if CEA amends its claim.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We provided our audit results to CEA officials on November 13, 2009. Those officials did not agree with Findings A through C but did not provide us any additional evidence or documentation to

support their position. CEA officials agreed with Finding D. We notified DHS&EM and FEMA officials of the audit results on January 12, 2010.

Please advise this office by April 19, 2010, of 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 questions concerning this report, please call me at (510) 637-1482, or your staff may contact John Richards, Supervisory Auditor, at (510) 637-1464. Key contributors to this assignment were John Richards and Ken Valrance.

cc: Audit Liaison, FEMA Region IX
Audit Liaison, FEMA (Job Code: G-09-067-EMO-FEMA)

Schedule of Projects Audited
Chugach Electric Association, Inc.
Anchorage, Alaska
Public Assistance Identification Number 000-U1410-00
FEMA Disaster Number 1663-DR-AK

Project Number	Amount Awarded	Amount Claimed	Questioned Costs	Finding Reference
59	\$ 401,479	\$ 380,971	\$ 83,467	A, B,C
88	5,224,021	5,224,021	45,945	A
Totals	\$5,625,500	\$5,604,992	\$129,412	

Finding Reference:

- A Cost Eligibility
- B Supporting Documentation
- C Duplicate Costs