

**Napa State Hospital,
California, Should Improve
the Management of Its
\$6.7 Million FEMA Grant**





DHS OIG HIGHLIGHTS

Napa State Hospital, California, Should Improve the Management of Its \$6.7 Million FEMA Grant

November 16, 2017

Why We Did This Audit

FEMA awarded the Hospital \$6.7 million for damages resulting from an earthquake and aftershocks during August 24 to September 7, 2014. We conducted this audit early in the grant process to identify areas in which the Hospital may need additional technical assistance or monitoring to ensure compliance with Federal requirements.

What We Recommend

FEMA should direct California to provide technical assistance and monitoring to the Hospital to prevent the Hospital from mispending its \$6.7 million FEMA grant.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

Napa State Hospital, California (Hospital), should improve its policies, procedures, and business practices to manage its \$6.7 million Federal Emergency Management Agency (FEMA) grant adequately. Specifically, the Hospital should revise its policies, procedures, and practices to comply fully with Federal grant requirements for —

- documenting and accounting for project costs;
- charging eligible labor costs; and
- insurance.

Additionally, we identified major differences in the calculation of cost estimates between FEMA and the Hospital for the repair of damaged buildings.

FEMA should have California, which is its grantee, provide additional technical assistance and monitoring to assist the Hospital with properly spending its \$6.7 million in grant funds.

FEMA Response

FEMA provided us its written response on September 19, 2017, and agreed with all five of our findings and recommendations (see appendix C).



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Department of Homeland Security

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

November 16, 2017

MEMORANDUM FOR: Robert J. Fenton, Jr.
Regional Administrator, Region IX
Federal Emergency Management Agency

FROM: John E. McCoy II *JEM II*
Acting Assistant Inspector General for Audits

SUBJECT: *Napa State Hospital, California, Should Improve the Management of Its \$6.7 Million FEMA Grant*

For your action is our final report, *Napa State Hospital, California, Should Improve the Management of its \$6.7 Million FEMA Grant*. We incorporated the formal comments provided by your office.

The report contains five recommendations addressing the Hospital's policies, procedures, and business practices to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. Your office concurred with all five recommendations.

Based on information provided in your response to the draft report, we consider recommendations 2 and 3 open and unresolved pending your office's review of the Hospital's submitted information and FEMA's initial determination. As prescribed by the Department of Homeland Security Directive 077-01, *Follow-Up and Resolutions for the 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 both recommendations. Also, please include contact information for responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until we receive and evaluate your response, the recommendations will remain open and unresolved. We consider recommendations 1, 4, and 5 open and resolved. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendations. Evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts should accompany the memorandum. Please send your response or closure request to OIGAuditsFollowup@oig.dhs.gov.



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Consistent with our responsibility under the *Inspector General Act*, we will provide 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.

Please call me with any questions at (202) 254-4100, or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General, or Humberto Melara, Director, at (510) 637-1463.

We audited the capability of the Napa State Hospital, California (Hospital), to manage Federal Emergency Management Agency (FEMA) Public Assistance Program grant funds. We conducted this audit early in the Public Assistance Program process to identify areas in which the Hospital may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines. In addition, by undergoing an audit early in the grant cycle, grant recipients have the opportunity to correct noncompliance before they spend the majority of their grant funding. It also allows them the opportunity to supplement deficient documentation or locate missing records before too much time elapses.

FEMA and the California Governor's Office of Emergency Services (California), a FEMA grantee, approved two projects totaling \$6.7 million for damages resulting from an earthquake and aftershocks that occurred from August 24 through September 7, 2014. The award provides 75 percent Federal funding for emergency protective measures and permanent work. We assessed the policies, procedures, and business practices the Hospital used to account for and expend FEMA grant funds; and reviewed more than \$1 million in disaster-related labor, materials, equipment, and contract costs (see table 1 in appendix B).¹

Background

The Hospital opened in November 1875, and is one of five hospitals comprising California's Department of State Hospitals system. The Hospital employs about 2,340 employees, including clinical and administrative staff. Employees care for the Hospital's 1,200 patients 24 hours a day, 7 days a week. The majority of the Hospital's patients are felony defendants found incompetent to stand trial or those judged by the court to be not guilty because of insanity. The Hospital's campus comprises 170 structures, which include patient treatment units,

¹ This includes \$315,306 for Project 239, the total amount FEMA approved for the project.
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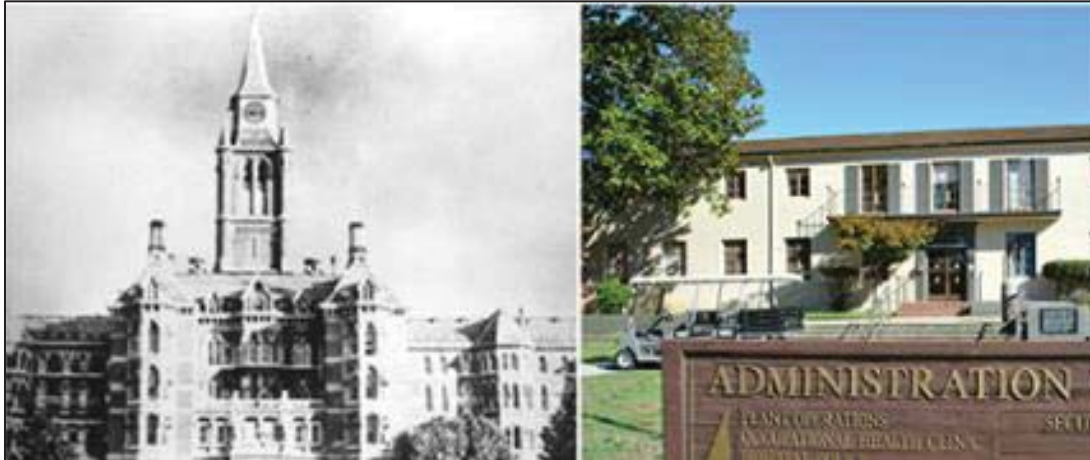


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employee dormitories, administration services, medical services, plant operations, a kitchen, and a warehouse. The majority of the Hospital's structures — still in operation today — were built in the late 1800s to early 1900s.

Figure 1. Napa State Hospital: 1800s (left) and Present Day (right)



Source: California Department of State Hospitals

On August 24, 2014, a magnitude 6.0 earthquake struck the San Francisco Bay Area, and along with its aftershocks, caused widespread damage throughout Napa County. The President signed a major disaster declaration on September 11, 2014, to provide California and local government assistance with recovery efforts for the incident period from August 24 to September 7, 2014.

The Hospital sustained damages to 39 of its facilities, including 3 historic buildings. FEMA approved about \$6.7 million for two large projects, including one for relocating Hospital staff (Project 239) and another to repair the Hospital's damaged facilities (Project 181). The Hospital managed and completed the emergency work associated with Project 239. Per California Public Contract Code, the California Department of General Services (Department) manages the repairs to the Hospital's damaged buildings.² At the time of our audit, FEMA had reviewed, approved, and closed the Hospital's claim of \$315,306 for its emergency work; and the Department had awarded its first contract (for architectural and engineering (A&E) work), valued at \$713,760, for the Hospital's permanent repair work (see table 1 in appendix B).³

² The Department of General Services is the business manager for the State of California and provides a variety of services to State agencies, including procurement and acquisition solutions, real estate management and design, legal services, building standards, and oversight of structural safety.

³ Hospital officials explained the delay in permanent work was a result of a number of damaged buildings being historical, which requires lengthy review and approval processes.



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It is California's responsibility to ensure the Napa State Hospital complies with applicable Federal regulations and FEMA guidelines. It is FEMA's responsibility to hold California accountable for proper grant administration.

Results of Audit

The Hospital must improve its policies, procedures, and business practices to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. Specifically, it did not —

- properly document and adequately account for project costs;
- comply with its overtime policy; and
- comply with Federal requirements for insurance.

Additionally, there were major differences in the damage estimates FEMA and the Hospital calculated. FEMA, California, and the Hospital must immediately collaborate to identify the causes of these differences to ensure that the Hospital's funding is not jeopardized.

These issues occurred primarily because the Hospital and the Department were not familiar with certain Federal regulations and FEMA guidelines.

Furthermore, California — as FEMA's grantee — is responsible for ensuring that the Hospital is aware of and complies with these requirements, as well as for monitoring the Hospital's grant activities. The Hospital needs additional assistance from California to provide FEMA reasonable assurance that it will properly manage its \$6.7 million grant.

Documenting and Accounting for Costs

The Hospital's policies, procedures, and practices were not sufficient to ensure that it adequately documented and accounted for all costs according to Federal requirements. As a result, the Hospital could not support \$300,320 it claimed, and FEMA approved, for Project 239.⁴

Federal regulations stipulate that costs incurred under Federal awards must be adequately documented in order to be allowable (2 Code of Federal Regulation (CFR) 225, Appendix A, Section C.1.j). In addition, inventory withdrawals of materials and supplies shall be consistently priced (2 CFR 225, Appendix B, Section 26.b).

⁴ FEMA closed Project 239 on November 30, 2016, in the final amount of \$315,306.



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Material Costs

The Hospital did not maintain an adequate inventory system. As a result, Hospital officials could not provide proper documentation to support the quantities or descriptions of materials used for FEMA projects. Specifically, the Hospital could not support \$281,321 in material costs claimed. In addition, the Hospital did not have policies or procedures to ensure consistent pricing of inventory withdrawals. For instance, the Hospital claimed, based on invoices from prior purchases, that it used \$240,757 of office furniture and computer equipment from its warehouse to relocate staff because of the disaster. However, the Hospital only recorded \$186,934 in its accounting system, based on replacement purchases. The Hospital's claim and its accounting records were inconsistent in quantity, price, and item descriptions, and the Hospital could not produce inventory records to support either amount. Therefore, we determined the Hospital could not support the material costs claimed.

Contract Costs

The Hospital could not support \$7,350 in contract costs it claimed for fencing work. This occurred because the Hospital did not reconcile its claim to its accounting records. Hospital officials told us that they initially planned to contract the work and obtained a proposal for \$7,350, but the Hospital's own staff ultimately performed the work. Furthermore, California did not review the Hospital's claim adequately to identify the unsupported contract costs. As a result, the Hospital submitted to FEMA the contractor's proposed amount as if it were actual costs.

Equipment Costs

The Hospital did not maintain equipment logs to support \$7,206 in claimed equipment usage costs. To support the hours charged for firefighters and their equipment usage, the Hospital relied on summaries based on daily journals its Fire Chief prepared. Because these journals did not capture sufficient details, such as the duration of equipment usage, Hospital officials added the missing information more than 5 months after they created the journals. Hospital officials were not able to support the information they added. Also, other pertinent summary information was frequently inaccurate. For instance, Hospital officials provided summaries for equipment and labor based on the same journal, yet the equipment summary reported more equipment hours than operator hours reported in the labor summary. Furthermore, some of the summaries included information different from that recorded in the journals (e.g., vehicle identification numbers).



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Direct Administrative Costs

The Hospital cannot support its direct administrative costs. Hospital officials prepared a summary of direct administrative hours incurred for FEMA projects totaling \$4,443, but could not support the information presented in this summary. This occurred because Hospital officials did not identify the projects on which its staff worked on their timesheets.

Direct Administrative Costs are those costs that grantees and subgrantees can track, charge, and account for directly to a specific project, such as staff time to complete field inspection and preparation of project documentation (FEMA Disaster Assistance Policy 9529.9, March 12, 2008; p. 6).

Because Hospital officials did not identify the specific projects on which they worked when accounting for their time, the costs are unsupported.

Hospital officials agreed with these findings. They said they were not experienced with accounting for disaster-related costs and they are taking corrective actions to ensure compliance with Federal requirements for this grant and future disasters in which Federal funds are involved. California officials did not comment on this finding. FEMA officials agreed with this finding and our recommendation. They said they will reassess their initial determination after reevaluating the documentation the Hospital submitted.

Overtime Authorization

The Hospital did not follow its own policy in approving \$14,986 in claimed and FEMA-approved overtime costs for Project 239. Federal regulations require states and state agencies to follow their own procedures to expend and account for grant funds (44 CFR 13.20(a)). The Hospital Administrative Directive #369 stipulates, “Employees shall obtain pre-approval from a designated supervisor *prior* to working overtime” [emphasis added].

Hospital officials claimed overtime costs that a supervisor did not pre-approve. This occurred because the Hospital did not have adequate controls over its overtime authorization and approval process. The Hospital’s policy required two supervisors’ signatures for each employee’s overtime request: one for pre-overtime authorization and another for approval after working the overtime. We noted multiple instances in which the supervisor approved the pre-overtime authorization *after* the second supervisor had already approved the post-overtime authorization. As a result, the Hospital charged ineligible overtime labor costs to its FEMA project.



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We are questioning \$10,055 of the overtime costs that a Hospital supervisor did not pre-approve. We are not questioning the remaining \$4,931 (\$14,986 minus \$10,055) the Hospital incurred for activities related to saving life and property immediately after the disaster. Because of the time-sensitive nature of these activities, we determined it is impracticable for the employees to obtain pre-approval.

Hospital officials agreed with this finding. They said they would begin implementing corrective actions to ensure they follow their pre-approval process for overtime. California officials said that the Hospital should have considered that obtaining pre-approval of overtime during emergencies is impracticable and that they will advise the Hospital to amend its overtime policies and procedures for emergency work. FEMA officials agreed with this finding and our recommendation. They said they will reassess their initial determination after reevaluating the documentation the Hospital submitted.

Insurance

Hospital officials did not comply with Federal requirements for insurance because they did not —

- obtain and maintain insurance in the amount of eligible disaster assistance to protect against future loss and as a condition of receiving Federal assistance (44 CFR 206.253(b)(1)); and
- demonstrate a commitment to purchase insurance if the facility cannot be insured prior to grant approval (FEMA Policy 206-086-1).

FEMA awarded the Hospital more than \$6.3 million under Project 181 to repair its disaster-damaged buildings. However, the Hospital did not have a commercial insurance policy for the damaged buildings, nor did Hospital officials provide FEMA documentation demonstrating a commitment to purchase insurance for these buildings before FEMA's approval of the project.

As a result, the more than \$6.3 million FEMA awarded for Project 181 is ineligible unless Hospital officials demonstrate compliance with these Federal regulatory and policy requirements.

Hospital officials agreed with this finding. They said they would obtain and maintain insurance under the State of California's Master Insurance Agreement. California officials said that they would advise the Hospital to obtain a waiver for insurance requirements.



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After we completed our field work, California officials said that the State of California (State) had opted to self-insure the Hospital's facilities, but they did not provide the self-insurance plan.⁵ We determined that the State's self-insurance plan is a "pay-as-you-go" plan, and that the State does not have dedicated self-funding or a formalized plan to pay losses as they occur. FEMA considers a self-insurance plan without dedicated funding as "no insurance."⁶ Therefore, the Hospital should either obtain commercial insurance coverage for its facilities or modify its self-insurance plan accordingly (e.g., establish fixed contributions, a formal plan to pay losses) and submit the plan to FEMA for approval.

FEMA officials agreed with this finding and our recommendation. They said they will only approve assistance under the condition that the Hospital obtains and maintains insurance on the facilities receiving assistance. Therefore, FEMA will direct California officials to either provide proof of insurance or a letter of commitment that they will obtain and maintain insurance. FEMA noted that failure to meet this requirement may jeopardize funding.

Cost Estimates

We identified major differences in the project cost estimates FEMA and the Hospital calculated for the repair of the Hospital's damaged buildings (Project 181). For instance, FEMA estimated \$76,402 for the repair of an electrical shop, although the Hospital estimated \$2.4 million (see figure 2). These differences increase the risk that the Hospital's projects may have deviated from FEMA's approved scope of work; include items that are not eligible for Federal assistance (including improvements or work related to pre-existing damages); or include unreasonable costs.

According to Federal regulations and FEMA guidelines, a subgrantee's costs under a Federal grant must —

- be required because of the major disaster event. Therefore, the subgrantee must substantiate that it's claimed costs directly relate to the disaster (44 CFR 206.223(a)).
- be necessary, reasonable, and consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other

⁵ FEMA defines a self-insurance plan as a formal means to manage risk through dedicated self-insurance funding, characterized by fixed contributions and a formalized plan to pay losses as they occur (FEMA Recovery Policy 206-086-1, June 2015; p. 2).

⁶ FEMA considers self-insurance without dedicated funding as "no insurance" (FEMA Insurance Fact Sheet 1446-36, February 2003).



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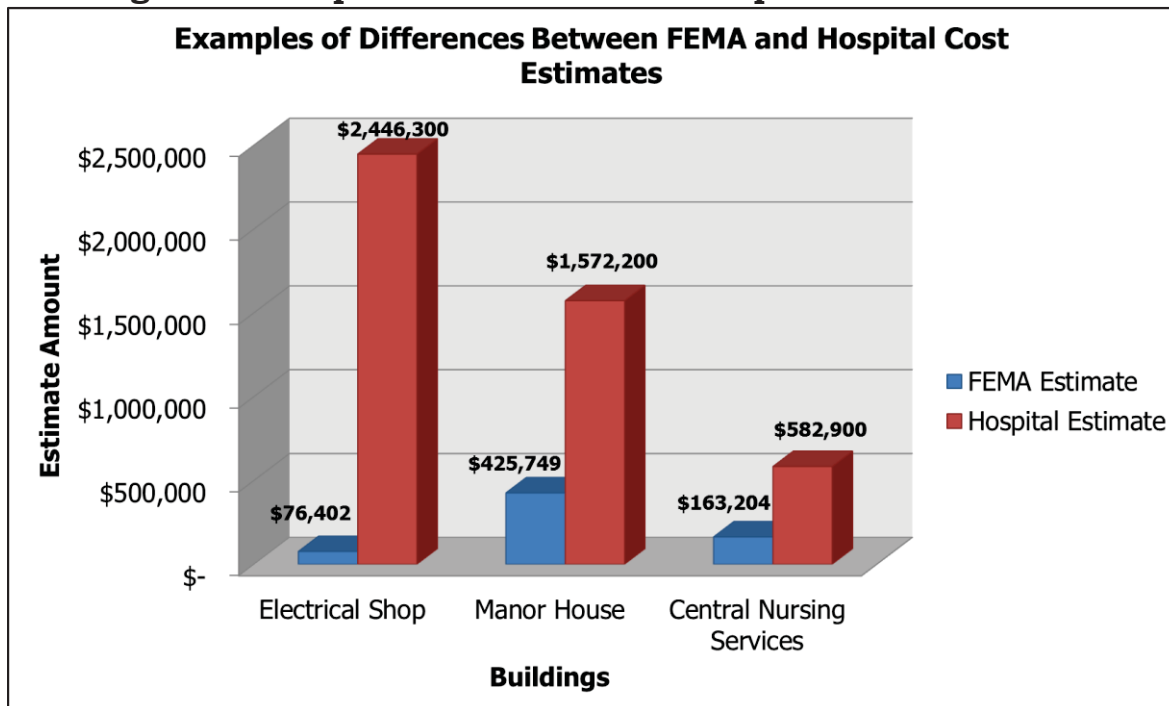
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activities of the subgrantee (2 CFR 225, Appendix A, sections C.1.a and e).

- not significantly deviate from the subgrantee’s established practices, which may unjustifiably increase the Federal award’s cost (2 CFR 225, Appendix A, section C, 2.e).
- comply with the Federal funding principle of reasonableness. The subgrantee cannot alter its normal procedures because of the potential for reimbursement from Federal funds (*FEMA Public Assistance Guide*, FEMA 322, June 2007, p. 41).

The differences between FEMA’s project cost estimates and those of the Hospital are considerable. For three of the Hospital’s historic buildings, FEMA’s estimates are a fraction of those of the Hospital’s.

Figure 2. Comparison of FEMA and Hospital Cost Estimates



Source: FEMA and Department of General Services data

Hospital officials said that FEMA’s estimates are artificially low and did not incorporate all costs associated with damages, hazardous materials abatements, historic construction methods, and State requirements. They also said their architect and engineering contractor will cross-reference each item within the Hospital’s and FEMA’s scopes of work and will thoroughly document the results. They acknowledged that not every item of work will be reimbursable (such as code/standard and upgrade-related costs) and will



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therefore clearly document those items that they do not plan to claim. They said that they would only claim eligible earthquake-related repair costs.

FEMA and the Hospital must work together to identify eligible scopes of work that are directly related to the disaster. Costs claimed must also be necessary and reasonable. Costs that do not meet these criteria are ineligible.

California officials said that they will carefully review all the costs included in the Hospital's scope of work in comparison to FEMA's scope and will advise the Hospital of any ineligible items that cannot be included in the Hospital's claim to FEMA.

FEMA officials agreed with this finding and our recommendation. They said that for complex projects, it is difficult to develop a comprehensive and accurate scope of work at the outset of a project, and preliminary estimates may be inaccurate. They also said that FEMA policy allows for reasonable cost overruns and changes in scope of work, but requires that the Hospital request a change in the scope of work, through California, for FEMA's approval. FEMA said that it will review the entire project for program compliance and eligibility, and work closely with California during the entire project lifetime to ensure program compliance and eligibility.

Grant Management

California officials should take additional steps to ensure the Hospital understands and complies with Federal requirements related to insurance, documentation, and accounting for costs. They should provide Hospital officials additional guidance and thoroughly review documentation the Hospital submits to ensure statements within these documents are accurate, valid; and that the costs claimed are eligible.

Federal regulations require California to perform grant management and oversight to ensure that subgrantees are aware of requirements that Federal statutes and regulations impose on them (44 CFR 13.37(a)(2)). In addition, California is responsible for managing the day-to-day operations of subgrant activity and monitoring subgrant activity to ensure compliance with applicable Federal requirements (44 CFR 13.40(a)).⁷ It is California's responsibility to ensure Napa State Hospital complies with applicable Federal regulations and FEMA guidelines. It is FEMA's responsibility to hold California accountable for proper grant administration.

⁷ Further, California's Administrative Plan for Federal Disaster Assistance stipulates that California is responsible for monitoring the Hospital and ensuring compliance with grant requirements.



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Monitoring Subgrant Activity

California should strengthen its process for reviewing the Hospital's documentation. California officials could have detected some of the issues pertaining to documentation and accounting for costs, had they reviewed the Hospital's claim fully. Such a process could have also helped California provide the Hospital with appropriate and timely assistance in meeting the insurance requirements at 44 CFR 206.253.

Providing Guidance

Hospital officials said they received and managed a small FEMA grant in the past but had to return the funds because they could not support their costs. They said, based on their previous grant experience, they needed additional assistance to manage the current FEMA grant, which they did not yet receive. They also said that California officials had provided some guidance and that FEMA had assigned someone part-time to assist them. Yet, they did not feel they had received adequate guidance on documenting damages, mitigation opportunities, and Public Assistance Program requirements. They said that most of what they learned about managing the grant was from self-study, which was time-consuming and challenging. They believed that the officials assigned to assist them did not have experience specific to earthquake damages, which was a necessity. As a result of this audit, they are making changes to the ways by which they will manage this FEMA grant and those they may receive in the future, as well as increasing coordination with California and FEMA.

California officials agreed with this finding. They offered bi-weekly or monthly meetings to the Hospital's officials to assist them in managing the grant. Hospital officials accepted California's offer of assistance.

FEMA officials agreed with this finding and our recommendation. They said that it is California's responsibility to assist Hospital officials with understanding and adhering to Federal regulations and policies associated with the grant and that failure to follow Federal regulations may jeopardize funding. FEMA also agreed to alert California to the Hospital's need for increased technical assistance regarding its responsibilities associated with FEMA's grant.



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Recommendations

Recommendation 1: We recommend that the Regional Administrator, FEMA Region IX, direct California to increase monitoring and provide additional technical advice and assistance to the Hospital to ensure the Hospital complies with all applicable Federal grant requirements to avoid improperly spending \$6,384,656 (Federal share \$4,788,492) of FEMA funds.

Recommendation 2: We recommend that the Regional Administrator, FEMA Region IX, disallow \$300,320 (\$225,240 Federal share) in unsupported material, contract, equipment, and direct administrative (labor) costs claimed for Project 239, unless the Hospital can provide FEMA with documentation to support the costs.

Recommendation 3: We recommend that the Regional Administrator, FEMA Region IX, disallow \$10,055 (\$7,541 Federal share) in improperly authorized, non-emergency overtime costs claimed for Project 239.

Recommendation 4: We recommend that the Regional Administrator, FEMA Region IX, deobligate \$6,384,656 (Federal share \$4,788,492) awarded under Project 181, unless the Hospital demonstrates its compliance with applicable insurance requirements.

Recommendation 5: We recommend that the Regional Administrator, FEMA Region IX, collaborate timely with Hospital, Department of General Services, and California Department of State Hospitals officials to identify and reconcile the differences between FEMA and the Hospital's project cost estimates.

Discussion with Management and Audit Follow-up

We discussed the results of our audit with FEMA, California, and Hospital officials during our audit and included their comments in this report, as appropriate. We provided a draft report in advance to these officials and discussed it at exit conferences with California officials on April 12, 2017; FEMA officials on April 13, 2017; and Hospital, Department, and California officials on May 18, 2017.

FEMA provided us its written response on September 19, 2017, and agreed with all five of our findings and recommendations (see appendix C). Based on information provided in FEMA's response to the draft report, we consider recommendations 2 and 3 open and unresolved pending FEMA's review of the Hospital's submitted information and FEMA's initial determination. We consider recommendations 1, 4, and 5 open and resolved. Once FEMA has fully



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implemented the recommendations and submitted to us a formal closeout letter — accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts — we will close the recommendations.

The Office of Audits major contributors to this report are Humberto Melara, Director; Devin Polster, Audit Manager; Connie Tan, Auditor-In-Charge; Celestina Palacios, Auditor; Victor Du, Independent Reference Reviewer; and Kevin Dolloson, Communications Analyst.



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Appendix A

Objective, Scope, and Methodology

We audited the capability of Napa State Hospital (Hospital), Public Assistance Identification Number 000-URJFK-00, to manage its FEMA Public Assistance Program grant funds. Our audit objective was to determine whether the Hospital's policies, procedures, and business practices are adequate to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines for Disaster Number 4193-DR-CA. California, a FEMA grantee, approved \$6.7 million for damages resulting from an earthquake and its aftershocks from August 24 through September 7, 2014. At the time of our audit, FEMA had reviewed, approved, and closed the emergency work project (Project 239) totaling \$315,306; and the Hospital just began its permanent work. We assessed the policies, procedures, and practices the Hospital used to account for and expend FEMA grant funds, and reviewed \$1,029,066 in labor, material, equipment and contract costs (see table 1, appendix B).

To accomplish our objective, we interviewed FEMA, California, Hospital, and Department officials; gained an understanding of the Hospital's method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected and reviewed (generally based on dollar amounts) project costs and procurement transactions for the projects in our audit scope; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective. We did not perform a detailed assessment of the Hospital's internal controls over its grant activities because it was not necessary to accomplish our audit objective. However, we did assess the adequacy of the policies, procedures, and business practices the Hospital uses and plans to use to account for and expend Federal grant funds and to procure for and monitor disaster work.

We conducted this performance audit between November 7, 2016, and June 21, 2017, 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.



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Appendix B
Potential Monetary Benefits

Table 1. Projects Audited, Questioned Costs, and Cost Avoidance

Project	Category of Work ⁸	Amount Awarded	Contract Awarded / Cost Claimed	Amount Questioned / Cost Avoidance	Report Findings
181 ⁹	E	\$ 6,384,656	\$ 713,760	\$ 6,384,656	C & D
239 ¹⁰	B	315,306	315,306	310,375	A & B
Total		\$6,699,962	\$1,029,066	\$6,695,031	

Source: FEMA and Hospital Data and Office of Inspector General (OIG) analyses

Table 2. Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Total	Federal Share
Questioned Costs – Ineligible	\$ 10,055	\$ 7,541
Questioned Costs – Unsupported	300,320	225,240
Funds Put to Better Use (Cost Avoidance)*	6,384,656	4,788,492
Total	\$6,695,031	\$5,021,273

Source: OIG analyses of findings in this report

*These amounts are reduced by questioned costs to avoid duplication.

⁸ FEMA classifies disaster-related work by category: B for emergency protective measures and E for buildings and equipment.

⁹ The Hospital had not yet submitted a claim for this project.

¹⁰ FEMA reviewed, approved, and closed this project for the Hospital’s claimed costs of \$315,306.



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Appendix C
FEMA Region IX Audit Response

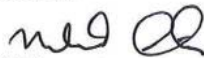
U.S. Department of Homeland Security
Region IX
1111 Broadway, Suite 1200
Oakland, CA 94607-4052



FEMA

September 19, 2017

MEMORANDUM FOR: Humberto U. Melara
Director, Western Regional Office
Office of Inspector General

FROM: Robert J. Fenton 
Regional Administrator
FEMA Region IX

SUBJECT: Response to Audit Report Number OIG-17-XXX-D (Job Code
G-16-062-EMO-FEMA): *Napa State Hospital, California, Should
Improve the Management of its \$6.7 Million FEMA Grant*

Thank you for the opportunity to comment on the draft report. 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. Our responses to the recommendations are as follows:

Recommendation #1: Direct California to increase monitoring and provide additional technical advice and assistance to the Hospital to ensure the Hospital complies with all applicable Federal grant requirements to avoid improperly spending \$6,384,656 (Federal share \$4,788,492) of FEMA funds (findings A through E).

FEMA's Response to Recommendation #1: Concur. FEMA agrees that Subrecipients must understand and follow all Federal regulations associated with a FEMA grant. Furthermore, FEMA agrees that it is the California Governor's Office of Emergency Services' (Cal OES) responsibility to assist the Subrecipient to ensure that they understand and adhere to federal regulations and policy associated with the grant. Failure to follow federal regulations may jeopardize funding. FEMA will alert Cal OES of the Subrecipient's need for increased technical assistance regarding its responsibilities associated with FEMA's grant.

FEMA considers this recommendation resolved and open.

Estimated Completion Date: 12/31/2017

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Appendix C (continued)

Mr. Humberto U. Melara
Draft Audit Report Number OIG-17-XX-D
FEMA-4193-DR-CA, FEMA Log: 390444
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Recommendation #2: Disallow \$300,320 (\$225,240 Federal share) in unsupported material, contract, equipment, and direct administrative (labor) costs claimed for Project 239, unless the Hospital can provide FEMA with documentation to support the costs (finding A).

FEMA's Response to Recommendation #2: Concur. Following a review of the Interim Final Inspection report submitted by Cal OES, FEMA closed project worksheet (PW) 239 on November 30, 2016 for a final amount of \$315,306.30. However, based upon your draft audit report, OIG -17-XXX-D, FEMA will re-evaluate the submitted documentation and our initial determination.

FEMA considers this recommendation unresolved and open.

Estimated Completion Date: 12/31/2017

Recommendation #3: Disallow \$10,055 (\$7,541 Federal share) in improperly authorized, non-emergency overtime costs claimed for Project 239 (finding B).

FEMA's Response to Recommendation #3: Concur. See FEMA's response to Recommendation #2.

FEMA considers this recommendation unresolved and open.

Estimated Completion Date: 12/31/2017

Recommendation #4: Deobligate \$6,384,656 (Federal share \$4,788,492) awarded under Project 181, unless the Hospital demonstrates its compliance with applicable insurance requirements (finding C).

FEMA's Response to Recommendation #4: Concur. In accordance with 44 CFR §§ 206.250 through 206.253, FEMA will only approve assistance under the condition that the Subrecipient obtains and maintains insurance on the facilities receiving assistance. FEMA will direct Cal OES to either provide proof of insurance or a letter of commitment to do so. Failure to meet the requirement of this regulation may jeopardize funding.

FEMA considers this recommendation resolved and open.

Estimated Completion Date: 12/31/2017

Recommendation #5: Collaborate timely with Hospital, Department of General Services, and California Department of State Hospitals officials to identify and reconcile the differences between FEMA's and the Hospital's project cost estimates (finding D).



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Appendix C (continued)

*Mr. Humberto U. Melara
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FEMA's Response to Recommendation #5: Concur. At the time of PW preparation, generally, an architectural and engineering (A&E) design is not available. In complex projects, it is difficult to develop a comprehensive and accurate scope of work at the outset. FEMA utilizes respected national estimating tools such as R.S. Means Costworks and its own Cost Estimating Format (CEF) to assist in developing an estimated cost. In the beginning, a collaboration of FEMA project specialists, Cal OES project specialists, and the applicant's engineer work together to agree on a scope of work to return the facility to predisaster design, function, and capacity. Preliminary estimates may be inaccurate. FEMA policy allows for reasonable cost overruns and changes in scope of work. In accordance with 44 CFR 206.204(e) a Subrecipient must officially request a change in scope of work through the Recipient for FEMA's approval. Following project completion, the Recipient must certify that the completed work is in line with the approved scope of work. At closeout, in accordance with 44 CFR § 206.205, FEMA reviews the entire project for program compliance and eligibility. FEMA works closely with Cal OES during the entire project lifetime to ensure that all federal regulations, including environmental, historical, and program issues are incorporated into the completed project. FEMA will continue to work closely with Cal OES to ensure that progress on the project is in compliance with FEMA policy.

FEMA considers this recommendation resolved and open.

Estimated Completion Date: 12/31/2017

FEMA looks forward to working with you on future homeland security emergency management engagements to improve FEMA programs and initiatives. If you have any questions or require additional information, please contact William Roche, Recovery Division Director, at (510) 627-7250.



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Appendix D
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Appendix D (continued)

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