

Department of Homeland Security **Office of Inspector General**

Unneeded Funding and Management Challenges
Associated with the FEMA Grant Awarded to Los
Angeles County, California: Third Interim Report






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Department of Homeland Security

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JUN 11 2013

MEMORANDUM FOR: Nancy Ward
Regional Administrator, Region IX
Federal Emergency Management Agency

FROM: John V. Kelly 
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Unneeded Funding and Management Challenges
Associated with the FEMA Grant Awarded to Los Angeles
County, California: Third Interim Report
FEMA Disaster Number 1577-DR-CA
Audit Report Number DS-13-10*

We are currently auditing Federal Emergency Management Agency (FEMA) Public Assistance (PA) Program grant funds awarded to Los Angeles County, California (County), PA Identification Number 037-99037-00. Our audit objective is to determine whether the County accounted for and expended FEMA PA grant funds according to Federal regulations and FEMA guidelines.

The California Emergency Management Agency (Cal EMA), a FEMA grantee, awarded the County \$54.9 million for costs resulting from storms, flooding, debris flows, and mudslides during the period of December 27, 2004, through January 11, 2005.¹ The award provided 75 percent FEMA funding for 143 large projects and 35 small projects.² Our audit covered the period from December 27, 2004, to January 29, 2013. We are in the process of auditing a total of 108 large projects, with total awarded funding of \$44.8 million. We are comprehensively auditing 12 of those projects—with total awarded funding of \$17.0 million—and auditing 96 projects—with total awarded funding of \$27.8 million—exclusively for funds that can be deobligated and put to better use.³

The purpose of this memorandum is to advise you that although we have not yet completed our final report on the County for this disaster, we nevertheless identified unneeded funding that can immediately be deobligated and put to better use, as well as

¹ At the time of this disaster, the grantee's name was the Governor's Office of Emergency Services, which became part of Cal EMA on January 1, 2009.

² Federal regulations in effect at the time of the disaster set the large project threshold at \$55,500.

³ This interim report presents findings related to 23 of the 96 projects audited for funds that could be deobligated and put to better use (including 2 of the 12 projects we comprehensively audited).



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several important management and administrative issues that should be timely addressed.

We conducted this segment of this performance audit between August 2012 and January 2013, 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 applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster. At the conclusion of our audit, we plan to issue our final audit report (notwithstanding the issuance of any additional interim reports), including any other findings and recommendations.

We interviewed FEMA, State, and County officials; judgmentally selected project costs (generally based on dollar value); evaluated applicable Federal regulations and FEMA guidelines, as well as previously issued audit reports and audit documentation relating to the County's grant award; and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the County's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. However, we gained an understanding of the County's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA grant.

RESULTS OF AUDIT

We identified \$2,441,506 in funding that should be put to better use, as well as various grant administration and management practices that should be improved.

Finding A: Unneeded Funding

The County has (an additional) \$2,441,506 in unneeded funds, from 21 projects for which final costs have been accounted, that should be put to better use.

In March 2012, we issued an interim audit report recommending that FEMA deobligate and put to better use \$16,069,737 in excess funds on 79 public assistance projects that the County completed between 2005 and 2006.⁴ FEMA concurred with that

⁴ DS-12-06 (March 2012) (http://www.oig.dhs.gov/assets/GrantReports/OIG_DS-12-06_Mar12.pdf).



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recommendation, and in May 2012 deobligated and recovered that amount.⁵ During the course of this audit, we identified an additional \$2,441,506 in unneeded PA funds on 21 other projects, the majority of which were completed in 2006.

Table 1. Unneeded Funding by Project				
Project Number	Project Award Amount	Project Costs Incurred	Project Completion Date	Unneeded Funding
1495	\$104,473	\$7,238	August 4, 2006	\$97,235
1499	66,711	0	August 4, 2006	66,711
2664	611,587	38,5401	December 31, 2009	226,186
2708	126,694	126,694	December 31, 2009	0
2731	256,485	113,778	August 4, 2006	142,707
2751	681,771	420,561	December 31, 2009	261,210
2874	130,130	96,809	August 4, 2006	33,321
2951	92,721	66,858	August 4, 2006	25,863
2956	743,156	517,176	December 31, 2008	225,980
2965	127,695	124,695	August 4, 2006	3,000
2968	958,725	607,012	January 29, 2010	351,713
2970	110,587	35,519	August 4, 2006	75,068
2982	112,803	48,844	August 4, 2006	63,959
3008	105,416	65,955	August 4, 2006	39,461
3038	387,271	921,131	December 31, 2010	0
3042	215,866	131,278	August 4, 2006	84,588
3064	167,886	111,476	August 3, 2007	56,410
3070	568,974	485,058	November 30, 2009	83,916
3083	133,670	133,641	August 4, 2006	29
3088	282,901	130,724	August 4, 2006	152,177
3089	94,675	78,259	July 30, 2008	16,416
3108	754,404	467,526	March 25, 2010	286,878
3176	223,347	74,669	August 4, 2006	148,678
Totals:	\$7,057,948	\$5,150,302		\$2,441,506⁶

These funds must be deobligated and put to better use because—

- According to 44 Code of Federal Regulation (CFR) 206.205(b)(1), the grantee (State) shall make an accounting to the FEMA Regional Administrator of eligible

⁵ The FEMA Region IX Administrator notified us on May 31, 2012, that FEMA concurred with our report recommendation and consequently approved and processed the deobligation of the excess funding.

⁶ Unneeded funding reflects only those projects where the final costs were below the FEMA-awarded amount (and therefore does not include \$533,860 in cost overruns associated with Project 3038).



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- costs for each large project and shall certify that reported costs were incurred in the performance of eligible work, that the approved work was completed, that the project was in compliance with provisions of the FEMA-State Agreement, and that payments for that project have been made in accordance with Federal regulations.
- Federal appropriations laws and the Statement of Federal Financial Accounting Standards (SFFAS) require Federal agencies to record obligations in the accounting records on a factual and consistent basis throughout the government.⁷ The overrecording and the underrecording of obligations are equally improper, as both practices make it impossible to determine the precise status of Federal appropriations. When the precise amount is not known at the time that the obligation is incurred, agencies appropriately record an obligation based on the best estimate at the time. Agencies, however, must periodically adjust that obligation as more precise data on the liability become available. That is, the agency must increase or decrease obligated funds when probable and measurable information becomes known.⁸ Agencies must document both the initial recordings and the adjustments to recorded obligations.
 - FEMA officials have noted that deobligating unneeded funding from completed projects in a timely manner can improve FEMA's overall management of a disaster and make funding available for other disaster projects.⁹

Therefore, we identified \$2,441,506 in unneeded funding associated with 21 projects that can (and should) be put to better use (table 1).

County officials concurred with our finding and stated that FEMA has started to deobligate the funding. Cal EMA officials also concurred. FEMA officials withheld comment.

Finding B: Untimely Cost Accounting and Claims

Of the \$5,150,302 in project costs identified in finding A, County officials claimed costs totaling \$2,445,059 for 8 large projects as long as 7 years after the completion date. Such delays can affect the availability of funding for other FEMA-funded disaster projects, as well as FEMA's overall management of a disaster. The lack of timely

⁷ U.S. Government Accountability Office, *Principles of Federal Appropriations Law*, 3rd Edition, Volume II, February 2006, Chapter 7, Section B: *Criteria for Recording Obligations* (31 U.S.C. Section 1501).

⁸ *Principles of Federal Appropriations Law*, 3rd Edition, Volume II, Chapter 7, Section B: *Criteria for Recording Obligations* (31 U.S.C. Section 1501), February 2006; and Office of Management and Budget *Statement of Federal Financial Accounting Standards*, Number 5, paragraphs 19 and 29, September 1995.

⁹ For example, see DS-09-05 (http://www.oig.dhs.gov/assets/GrantReports/OIG_DS-09-05_May09.pdf).



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accounting for costs likewise restricts us from auditing these (eventually claimed) costs—which we were unable to do—thus limiting the Federal Government’s ability to determine whether the County accounted for and expended these FEMA PA grant funds according to Federal regulations and FEMA guidelines.

County officials just recently accounted for \$2,445,059 in incurred costs for the following eight large projects:

Project Number	Project Award Amount	Completion Date	Claimed Costs – 7+ Years After Disaster	Unneeded Funding
1495	\$104,473	August 4, 2006	\$7,238	\$97,235
1499	66,711	August 4, 2006	0	66,711
2664	611,587	December 31, 2009	385,401	226,186
2708	126,694	December 31, 2009	126,694	0
2751	681,771	December 31, 2009	420,561	261,210
2951	92,721	August 4, 2006	66,858	25,863
2956	743,156	December 31, 2008	517,176	225,980
3038	387,271	May 15, 2011	921,131	0
Totals:	\$2,814,384		\$2,445,059	\$903,185¹⁰

Our review determined that six of these projects had a total of \$903,185—or 32 percent of the total award of \$2,814,384—that was unneeded and could be put to better use.¹¹

Costs funded under the FEMA PA Program must be accounted for in a timely manner after project completion because—

- According to 44 CFR 206.205(b)(1), the grantee (State) shall make an accounting to the FEMA Regional Administrator of eligible costs for each large project and shall certify that reported costs were incurred in the performance of eligible work, that the approved work was completed, that the project was in compliance with provisions of the FEMA-State Agreement, and that payments for that project have been made in accordance with Federal regulations.
- Federal appropriations laws and the SFFAS require Federal agencies to record obligations in the accounting records on a factual and consistent basis

¹⁰ Unneeded funding reflects only those projects where the final costs were below the FEMA-awarded amount (and therefore does not include \$533,860 in cost overruns associated with Project 3038).

¹¹ These costs are included in the total project costs we identified for deobligation (see finding A, above).



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throughout the government.¹² The overrecording and the underrecording of obligations are equally improper, as both practices make it impossible to determine the precise status of Federal appropriations. When the precise amount is not known at the time that the obligation is incurred, agencies appropriately record an obligation based on the best estimate at the time. Agencies, however, must periodically adjust that obligation as more precise data on the liability become available. That is, the agency must increase or decrease obligated funds when probable and measurable information becomes known.¹³ Agencies must document both the initial recordings and the adjustments to recorded obligations.

- FEMA officials have noted that deobligating unneeded funding from completed projects in a timely manner can improve FEMA's overall management of a disaster and make funding available for other disaster projects.¹⁴

Therefore, Cal EMA and County officials must ensure timeliness in accounting for and claiming project-related costs for FEMA funding.

We discussed this issue with County and Cal EMA officials, who generally concurred with our finding. FEMA officials withheld comment.

Finding C: Grant Management

FEMA, Cal EMA, and County officials did not consistently fulfill their responsibilities to manage the FEMA PA grant, as required. The findings described within this series of audit reports on the County derive from, or are exacerbated by, insufficient grant management.

FEMA officials did not properly account for grant funds, nor did they properly monitor Cal EMA officials' grant management responsibilities to assure compliance with Federal regulations, FEMA's policies, and the PA Administrative Plan. Cal EMA and County officials did not consistently manage the operations of subgrant activity and monitor that activity to ensure compliance with applicable Federal requirements.

Further, FEMA and Cal EMA officials (jointly) did not produce a final, approved State Administrative Plan for the year of the disaster, as required by Federal regulations at

¹² U.S. Government Accountability Office, *Principles of Federal Appropriations Law*, 3rd Edition, Volume II, February 2006, Chapter 7, Section B: *Criteria for Recording Obligations* (31 U.S.C. Section 1501).

¹³ *Principles of Federal Appropriations Law*, 3rd Edition, Volume II, Chapter 7, Section B: *Criteria for Recording Obligations* (31 U.S.C. Section 1501), February 2006; and Office of Management and Budget *Statement of Federal Financial Accounting Standards*, Number 5, paragraphs 19 and 29, September 1995.

¹⁴ For example, see DS-09-05 (http://www.oig.dhs.gov/assets/GrantReports/OIG_DS-09-05_May09.pdf).



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44 CFR 13.11 and 44 CFR 206.207(b)(1), as well as FEMA's PA Policy Digest (FEMA 321; page 118). An approved plan must be on file with FEMA *before* grants will be approved for any major disaster. This plan is critical because it identifies staffing functions in the PA program and documents procedures for administering the PA program. Without an approved plan, FEMA had no assurance of the FEMA-State coordination that is essential during emergency periods and whether Cal EMA could effectively administer and manage the PA grant program.¹⁵

FEMA policy dictates that the PA Program is based on a partnership between FEMA, grantee, and subgrantee officials. Although FEMA is responsible for managing the program, approving grants, and providing technical assistance to the grantee and subgrantee, grantee and subgrantee officials have specifically mandated responsibilities. Federal regulations and FEMA policy establish mandatory requirements and uniform administrative rules for grants and procedures for PA project administration.

Grantee officials, who are responsible for educating potential applicants and providing technical support, working with FEMA to manage the program, and implementing and monitoring the grants awarded under the program, must—

- Be accountable for proper grant administration (FEMA-State Agreement).
- Ensure that subgrantees are aware of requirements imposed on them by Federal regulations. (44 CFR 13.37(a)(2)).
- Manage the day-to-day operations of subgrant activity and monitor subgrant activity to assure compliance with applicable Federal requirements. (44 CFR 13.40(a)).

Further, grantee officials must partner with subgrantee officials, who themselves are responsible for funds provided by FEMA, identifying damage, providing information necessary for FEMA to approve grants, and managing the projects funded under the PA program, to ensure that—

- Expenditures can be traced to a level that ensures that funds have not been used in violation of the restrictions and prohibitions of applicable statutes. (44 CFR 13.20(a)(2)).

¹⁵ This is not an isolated occurrence: we reported the same finding during our audit of a different subgrantee, for the following year, and for a different (subsequent) disaster (DR-1628-CA). Refer to DS-11-07 (Finding G); http://www.oig.dhs.gov/assets/GrantReports/OIG_DS-11-07_Feb11.pdf.



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- Financial management systems and financial reports are accurate, current, and complete, and in accordance with financial reporting requirements of the grant or subgrant. (44 CFR 13.20(b)(1)).
- Accounting records are maintained that adequately identify the source and application of funds provided for financially assisted activities, and include information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (44 CFR 13.20(b)(2)).
- Proper controls are maintained, and source documentation and accounting records support subgrant activity. (44 CFR 13.20(b)(2-6)).

As of October 29, 2012, FEMA had obligated \$4.9 million in management fees—grantee administrative costs and State management costs—to Cal EMA for managing \$254 million in approved grant funds for the State of California for Disaster 1577. Although we are not commenting on the overall reasonableness of these management fees, we reiterate that FEMA is paying Cal EMA to manage these PA grants in tandem with County officials and should therefore—in addition to improving its own grant management procedures—require Cal EMA, as the grantee, to develop and implement policies and procedures to better manage its responsibilities under these grants. Until that occurs, the millions in PA funding awarded to the County, through the State, is at risk of being improperly used.

County officials withheld comment on this matter. Cal EMA officials partially concurred, and stated that (1) they do not have sufficient staff to provide continuous oversight of FEMA grants and subgrantees, and (2) FEMA officials did not respond to their updated State Administrative Plan, which was revised to FEMA's specifications. FEMA officials withheld comment.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IX—

Recommendation #1: Deobligate \$2,441,506 (Federal share \$1,831,130) in unneeded funding associated with 21 projects and put those Federal funds to better use (finding A).

Recommendation #2: Require Cal EMA, as the grantee, to ensure that subgrantee costs are timely accounted for, and claimed, upon project completion (finding B).



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Recommendation #3: Review costs, for eligibility and support, which could not be audited during our fieldwork because the subgrantee had not yet accounted for those costs (finding B).

Recommendation #4: Work with Cal EMA to finalize the State Administrative Plan for the year of the disaster (finding C).

Recommendation #5: Ensure that the State Administrative Plan, once finalized, is disseminated—and easily accessible—to each relevant stakeholder (finding C).

Recommendation #6: Require Cal EMA, as the grantee, to develop and implement policies, procedures, and training to better manage its responsibilities under PA grants, to ensure that (1) grant and subgrant financial and project status reports are accurately reported, (2) expenditures can be traced to a level that ensures that funds have not been used in violation of applicable statutes, and (3) Cal EMA and its subgrantees adhere to the specific provisions of applicable Federal regulations and FEMA policy when administering the grants (finding C).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed these results with County officials during this audit and included their comments in this report, as appropriate. We also provided a written summary of our findings and recommendations in advance to Cal EMA and County officials on December 3, 2012, and FEMA officials on January 29, 2013. We discussed the findings and recommendations at an exit conference with Cal EMA and County officials on January 23, 2013. FEMA officials declined an exit conference and withheld comments on this report at this time.

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 recommendations. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

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



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Major contributors to this report are Humberto Melara, Western Regional Office Director; Devin Polster, Supervisory Analyst; Ravi Anand, Senior Auditor; and Montul Long, Auditor.

Please call me with any questions, or your staff may contact Humberto Melara at (510) 637-1463.



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EXHIBIT

Schedule of Audited Projects
Los Angeles County, California
December 2004 to January 2013
Public Assistance Identification Number 037-99037-00
FEMA Disaster Number 1577-DR-CA

Project Number	FEMA Category of Work	Project Award Amount	Project Costs Claimed	Project Completion Date	Unneeded Funding
Projects Audited Comprehensively					
2968	C	\$958,725	\$607,012	January 29, 2010	\$351,713
3108	C	754,404	467,526	March 25, 2010	286,878
Subtotals		\$1,713,129	\$1,074,538		\$638,591
Projects Audited for Funds Put to Better Use and Timeliness of Cost Accounting					
1495	C	\$104,473	\$7,238	August 4, 2006	\$97,235
1499	C	66,711	0	August 4, 2006	66,711
2664	C	611,587	385,401	December 31, 2009	226,186
2708	C	126,694	126,694	December 31, 2009	0
2731	E	256,485	113,778	August 4, 2006	142,707
2751	C	681,771	420,561	December 31, 2009	261,210
2874	C	130,130	96,809	August 4, 2006	33,321
2951	C	92,721	66,858	August 4, 2006	25,863
2956	C	743,156	517,176	December 31, 2008	225,980
2965	C	127,695	124,695	August 4, 2006	3,000
2970	C	110,587	35,519	August 4, 2006	75,068
2982	C	112,803	48,844	August 4, 2006	63,959
3008	C	105,416	65,955	August 4, 2006	39,461
3038	C	387,271	921,131	December 31, 2010	0
3042	C	215,866	131,278	August 4, 2006	84,588
3064	F	167,886	111,476	August 3, 2007	56,410
3070	C	568,974	485,058	November 30, 2009	83,916
3083	C	133,670	133,641	August 4, 2006	29
3088	C	282,901	130,724	August 4, 2006	152,177
3089	F	94,675	78,259	July 30, 2008	16,416
3176	C	223,347	74,669	August 4, 2006	148,678
Subtotals		\$5,344,819	\$4,075,764		\$1,802,915
Totals		\$7,057,948	\$5,150,302		\$2,441,506

Note: Unneeded funding reflects only those projects where the final costs were below the FEMA-awarded amount (and therefore does not include \$533,860 in cost overruns associated with Project 3038).



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