




# Homeland Security

February 24, 2010

MEMORANDUM FOR: Nancy Ward  
Regional Administrator  
FEMA Region IX

FROM:   
Robert J. Lastrico  
Western Regional Director

SUBJECT: *Rubidoux Community Services District*  
Rubidoux, California  
Public Assistance ID. No. 065-14C04-00  
FEMA Disaster No. 1577-DR-CA  
Audit Report Number DS-10-05

The Office of Inspector General audited public assistance funds awarded to the Rubidoux Community Services District (District), Rubidoux, California. The objective of the audit was to determine whether the District expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The District received a public assistance subgrant award of \$10.4 million from the California Office of Emergency Services (OES)<sup>1</sup> a FEMA grantee, for emergency protective measures, and permanent repairs to public utility facilities damaged by severe storms on December 27, 2004, through January 11, 2005. The subgrant award provided 75% federal funding for three large projects<sup>2</sup> with a total award amount of \$10.4 million. The audit covered the period December 27, 2004, through November 10, 2009, and included reviews of the three large projects (see Exhibit). As of November 10, 2009, the District had completed and reconciled expenditures totaling \$1.1 million for two completed large projects. The third project with an award amount of \$9.3 million is in the latter stages of completion. The District's general manager anticipates that based on the scope of work and costs incurred to date, actual costs to complete this project could reach \$11.8 million. The District will submit its claim for reimbursement, including the \$2.5 million overrun, to Cal EMA and FEMA for payment consideration.

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

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<sup>1</sup> Under a State of California reorganization, the grantee services formerly performed by OES became the responsibility of the California Emergency Management Agency (Cal EMA) as of January 1, 2009.

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

reasonable basis for our findings and conclusions based on our audit objective. The evidence obtained during the audit fulfilled those requirements.

We interviewed and corresponded with District officials on audit issues; reviewed judgmentally selected samples of cost documentation to support invoices and personnel charges; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the District’s internal controls applicable to subgrant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the District’s method of accounting for disaster-related costs.

## RESULTS OF AUDIT

Of the \$1.1 million the District plans to claim for two of the three large projects we reviewed, \$19,143 does not comply with the criteria required for federal reimbursement (the federal share is \$14,357). The findings and amounts questioned are shown below.

Finding	Subject	Amount Questioned
A	Force Account Labor Cost Eligibility	\$17,160
B	Project Costs	1,183
C	Project Cost Accounting	800
Total		\$19,143

### **Finding A – Force Account Labor Cost Eligibility**

District records for project worksheets (PWs) 303 and 1838 included \$17,160 in force account costs not eligible for reimbursement under FEMA’s Public Assistance Program. The ineligible charges consisted of \$11,439 in costs that were not incurred and \$5,721 in costs outside the scope of the disaster grant.

- For PW 303, the District charged \$11,439 for overtime hours worked by the District's senior staff. While District records accurately reflected the hours worked, they also indicated that these employees were not compensated for those hours. The District general manager acknowledged that the senior staff members were not paid for the emergency work they performed because District policy does not allow for such compensation.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, Section C.1.e states that allowable costs must be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities. Since the District's policies do not allow for senior staff to be compensated for overtime, overtime labor and benefits costs are not eligible for FEMA reimbursement.

- PW 1838 provided funding to operate and maintain a temporary sewage removal bypass system. Records supporting \$5,721 in force account labor costs charged against this PW showed that the District performed work on water lines that was outside the scope of work approved by FEMA. In addition, some of the labor costs were not supported by the employees’ approved and signed time sheets.

According to Title 44, *Code of Federal Regulations*, Section 206.223(a) [44 CFR 206.223(a)], to be eligible for financial assistance, an item of work must be required as the result of the major disaster event. Additionally, 44 CFR 13.20(b)(6) requires that accounting records be supported by source documentation such as time and attendance records.

### **Finding B – Project Costs**

The District purchased items and plans to claim \$1,183 in costs not necessary and reasonable to achieve a project's scope of work. The purchased items did not have a direct use in the disaster recovery efforts.

Under PW 303, the District used \$1,005 in disaster funding to furnish a modular trailer and to purchase other items for field staff use. Purchases included appliances [microwave oven, compact refrigerator], office equipment [desk, tables, and chair], clothing [coveralls], and tools [wrenches and socket sets]. The District also used \$178 under PW 1838 to purchase a first aid cabinet.

FEMA Policy 9525.12, *Disposition of Equipment, Supplies, and Salvaged Materials* (dated August 29, 2000 and revised on July 14, 2008), provides that grantees and subgrantees may be eligible to purchase supplies and equipment that are necessary to respond to the effects of a disaster and to be reimbursed through a PW. The items must be needed for, and used directly on, the disaster from which funding was provided. Since the items purchased by the District did not have a direct use in the disaster recovery efforts, the \$1,183 (\$1,005 plus \$178) is not eligible for FEMA reimbursement.

### **Finding C – Project Cost Accounting**

The District did not credit PW 303 with the return of an \$800 rental deposit for a modular trailer used during disaster recovery efforts. Instead of reducing the trailer cost charged to PW 303, the District erroneously treated the refund as a miscellaneous revenue item. According to OMB Circular A-87, Attachment A, Section C.4.a., grants must be reduced by credits that offset or reduce expenses allocable to federal awards. District officials agreed and said they will address the error through the project close out process.

## **RECOMMENDATIONS**

We recommend that the Regional Administrator, FEMA Region IX, in coordination with Cal EMA:

**Recommendation #1.** Disallow \$17,160 in ineligible force account costs the District charged against PWs 303 and 1838 if included with the District's claim for reimbursement (Finding A).

**Recommendation #2.** If claimed by the District, disallow \$1,183 in purchases the District charged to PWs 303 and 1838 for equipment and other items that did not have a direct use in disaster recovery efforts (Finding B).

**Recommendation #3.** If included in the District's claim, disallow \$800 in costs applied to PW 303 that resulted from an accounting error (Finding C).

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

We discussed the results of this audit with District officials on January 14, 2010. The District concurred with the findings. We provided audit results to FEMA and Cal EMA on January 11, 2010, and they elected to withhold comment at this time.

Please advise this office by April 26, 2010, of the 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 any questions concerning this report, please contact me at (510) 637-1482. Key contributors to this assignment were Humberto Melara and Curtis Johnson.

cc: Audit Liaison, FEMA Region IX  
Audit Liaison, FEMA (Job Code: DG9W16/G-09-074-EMO-FEMA)

Schedule of Audited Projects  
 Rubidoux Community Services District, California  
 Public Assistance Identification Number 065-14C04-00  
 FEMA Disaster Number 1577-DR-CA

<b>Project Worksheet</b>	<b>Category of Work *</b>	<b>Award Amount</b>	<b>Questioned Costs</b>	<b>Finding Reference</b>
303	B	\$ 355,999	\$13,244	A, B, C
1473	F	9,334,775	0	
1838	B	746,634	5,899	A, B
<b>Totals</b>		<b>\$10,437,408</b>	<b>\$19,143</b>	

- \* Category of Work Descriptions:  
 B Emergency Protective Measures  
 F Utilities

- Finding Reference:  
 A Force Account Labor Cost Eligibility  
 B Project Costs  
 C Project Cost Accounting