

**U.S. Department of Homeland Security
Office of Inspector General
Office of Emergency Management Oversight**

**Audit Tips for Managing
Disaster-Related Costs**

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Mission

DHS-OIG

- **An Independent and Objective Inspection, Audit, and Investigative Body**
- **Offers recommendations for improving the economy, efficiency, and effectiveness of DHS operations and activities**
- **Deters, identifies, and addresses fraud, waste, and abuse in DHS programs and operations**

Audit Authority

Inspector General (IG) Act of 1978, as amended

OIG Activities – Hurricane Irene

What has the OIG done thus far?

- Observed Joint Field Office operations
- Participated in daily briefings to get a pulse on what was going on
- Coordinated with other Federal and State auditors involved in the disaster response
- Participated in applicant briefings
- Provided assistance/information to subgrantees
- Conducted “quick” reviews of subgrantee accounting and contracting procedures.

Accountability of Grant Funds

Why is this so important?

OIG Audit Results

FEMA Grant and Subgrant Audits

2007 thru 2011

Fiscal Year	Awarded Amount	Questioned Amount	Funds Put to Better Use
2011	1,600,759,411	336,001,176	31,053,392
2010	2,238,355,420	124,498,043	250,134,159
2009	1,668,737,652	125,749,145	17,890,723
2008	422,430,983	26,711,139	309,980
2007	1,018,774,038	41,356,283	237,575
Total	\$6,949,057,504	\$654,315,786	\$299,625,829

Record Keeping

Importance of good record keeping
cannot be over emphasized!!

Project Accounting

- Grantees and Sub grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.
- Accounting for large projects must be on a project-by-project basis.

Documenting Costs Under Project Worksheets

PROJECT WORKSHEET (PW)

The PW determines the damages, scopes of work, and costs authorized by FEMA.

General Cost Eligibility



Reasonable and necessary cost to accomplish eligible work



Complies with federal, state, and local laws and regulations



Insurance proceeds, salvage value, and purchase discounts must be deducted

Contract Costs

Contracts

- Reasonable Cost
- Competitively Bid, with exceptions for exigent circumstances
- Must Comply With Standards
 - Federal, State, and Local laws
- DO NOT USE:
 - Debarred Contractors
 - Cost Plus Percentage of Cost Contracts
 - Contingency Contracts
 - Time & Materials after 70 hours

Supporting Documents for Contracts

- Procurement history
- Copy of contract & any modifications
- Contractor invoices
- Contract monitoring documents
- Contractor timesheets for hours billed

Contract Monitoring

Activities of contractors must be monitored

- Time and material contracts
- Debris removal

Contract monitoring expense is reimbursable

- Force account labor
- Contract

Force Account Costs

(Employees, equipment, and materials of applicant)

Supporting Documents

- **Force Account Labor**
 - Timesheets
 - Payroll Registers
 - Activity Reports
- **Force Account Equipment**
 - Equipment Usage Records
 - Equipment Activity Reports
- **Force Account Material**
 - Invoices
 - Inventory records

Record Retention

- Follow the guidelines provided by the State (grantee)
- Records must be maintained at least three (3) years after closeout of the grant award NOT of the individual project.

Single Audit Act

OMB Circular A-133 states non-federal entities that expend \$500,000 or more in a year of federal awards shall have a single or program-specific audit conducted for that year.

Undergoing an OIG Audit

How do we select who to audit?

- Current or potential dollar magnitude
- Requests from congressional, FEMA, or State officials
- Reports of allegations of impropriety

Audit Objective

Are costs claimed under the award eligible and allowable under federal regulations and FEMA guidelines?

Audit Criteria

- Robert T. Stafford Disaster Relief and Emergency Assistance Act
- CFR 44 Part 13 – Admin of Grants for State/Local Govt.
- FEMA Publications/Guidelines
- OMB Circulars under Cost Principles

Questions the Audit Seeks to Answer

- Are costs disaster-related?
- Was work authorized under the project scope of work?
- Legal responsibility of the applicant?
- Adequately supported by source documentation such as cancelled checks, contracts, payrolls, etc.?
- Reasonable and necessary?

Questions the Audit Seeks to Answer (cont'd)

- Reduced by applicable credits, such as insurance proceeds, salvage values, refunds, and credits?
- Any indication of fraud by applicant, contractor, etc?
- If work performed under a contract, was an acceptable method used? Was it awarded according to federal procurement regulations?

Common Audit Findings of FEMA Subgrantees

- Claims not supported by source documentation
- Ineligible work is performed and claimed
- Rates for equipment, labor, and benefits are incorrect
- Duplicate benefits are included in claims
- Poor contracting practices are used resulting in excessive costs
- Improper monitoring of contractors

Top Contractual Audit Findings/Issues

10. Duplication of Billings
9. Reconciliation of Billings not Performed
8. Questionable Costs
7. Ineligible Expenses
6. Ineligible Contract Method Used
5. Failure to follow Procurement Procedures
4. Cost/Price Analysis Not Performed
3. Did not clearly define required services or performance standards of contractor
2. Did not include the basis for the contract award
1. Use of Time and Material Contracts for extended period of time without proper justification

Examples

OIG Audit Findings

Finding

- **Project Accounting:**

The subgrantee had five distinct FEMA-funded large projects but accounted for project expenditures under one cost center. As a result, the Subgrantee's claim could not be verified.

Questioned Costs

- **Unsupported Costs:**

The subgrantee claimed \$150K for contract labor but had invoices and cancelled checks to support only \$100K. OIG questioned unsupported costs of \$50K.

The subgrantee claimed \$300K for force account labor but had timesheets and payroll registers to support only \$275K. OIG questioned unsupported costs of \$25K.

Questioned Costs

- **Contracting Procedures:**

The subgrantee entered into 3 contracts for renovating buildings to be used as temporary emergency shelters, using a cost plus a percentage of cost contract. However, the subgrantee did not document the basis for the type of contract, contractor selection, establish a ceiling price, or perform a price analyses. Cost plus a percentage of cost contract is prohibited because of no incentive to control costs. The subgrantee paid \$800K in profit and overhead. OIG found the \$800K to be unreasonable and questioned the costs.

Questioned Costs

- **Duplication of Benefits:**

The subgrantee received \$100K of FEMA funds to repair its fire station. This amount and \$300K of anticipated insurance proceeds accounted for the \$400K needed for the repairs. However, actual insurance proceeds totaled \$350K. We questioned \$50K of excess FEMA funding.

Questioned Costs

- **Duplication of Benefits:**

The subgrantee claimed and received \$200K of FEMA funds to repair a Head Start facility. However, the subgrantee also received funds from the U.S. Department of Health and Human Services to carry out the same activities. Therefore, the \$200K of FEMA funds was questioned because it duplicated the funds received from the other federal program.

Questioned Costs

- **Excess Equipment Charges:**
 - The subgrantee claimed \$78,348 for the use of bucket trucks. The claim was calculated using the FEMA rate of \$24 per hour (3,264.5 x \$24). However, the subgrantee's equipment rate for the trucks was \$16 per hour or \$8 less than the FEMA rate. Therefore, OIG questioned \$26,116 (3,264.5 x \$8).

Questioned Costs

- **Unrelated Project Charges:**

- The county claimed \$500K to repair Road XYZ. However, the claim included \$250K for heavy equipment and material charges for Road ABC. We questioned the \$250K for Road ABC because it's repair was not authorized under the approved scope of work.

Questioned Costs

- **Unapplied Credits:**

- FEMA awarded funds for repairs to the subgrantee's electrical distribution system. The subgrantee sold scrap material related to the FEMA project. However, the subgrantee did not credit the FEMA project with the sale proceeds of \$15K. Thus, the OIG questioned \$15K of the final claim.

Disaster Fraud Hotline

To report fraud, waste, or abuse, or allegations of mismanagement involving disaster relief operations, you can:

- Call the Disaster Fraud Hotline at 1-866-720-5721
- Fax the Disaster Fraud Hotline at 1-225-334-4707
- Email: disaster@leo.gov
- Or write: National Center for Disaster Fraud
Baton Rouge, LA 70821-4909

Calls can be made anonymously

Questions???