

Audit Tips For Managing Disaster-Related Project Costs





DHS OIG HIGHLIGHTS

AUDIT TIPS FOR MANAGING DISASTER-RELATED PROJECT COSTS

July 1, 2016

Why We Did This

We prepared this report to assist recipients and subrecipients (grantees and subgrantees) of Federal Emergency Management Agency (FEMA) disaster assistance grants. We have updated this guide to include information on FEMA's *Public Assistance Program and Policy Guide* (PAPPG) that supersedes many of the Public Assistance publications and individual policy documents. The PAPPG is effective for all emergencies and major disasters declared on or after January 01, 2016.

For Further Information:

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

Who Needs This?

More than 148,000 recipients and subrecipients of FEMA disaster assistance grants are currently working on about 670,000 open projects worth over \$66 billion. Under the Public Assistance Program, FEMA provides grants to state, tribal, and local governments and private nonprofit organizations so that communities can quickly respond to and recover from major disasters. FEMA's Hazard Mitigation Grant Program provides funding to the same entities to implement long-term measures to prevent damages from future disasters.

Using this report will assist Disaster Assistance applicants:

- **document and account for disaster-related costs;**
- **minimize the loss of FEMA disaster assistance funds;**
- **maximize financial recovery; and**
- **prevent fraud, waste, and abuse of disaster funds.**



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July 1, 2016

MEMORANDUM FOR: All Recipients and Subrecipients of
Disaster Grant Awards from the
Federal Emergency Management Agency

Thomas M. Salmon

FROM: Thomas M. Salmon
Acting Assistant Inspector General

SUBJECT: *Audit Tips for Managing
Disaster-Related Project Costs*
Report Number OIG-16-109-D

The Department of Homeland Security (DHS), Office of Inspector General (OIG), Office of Emergency Management Oversight (EMO) prepared this report to provide recipients and subrecipients (grantees and subgrantees) of Federal Emergency Management Agency (FEMA) Public Assistance and Hazard Mitigation grant funds examples of previous audit findings. The purpose of this report was not to audit FEMA or its grant recipients and subrecipients. Therefore, we did not prepare it in accordance with generally accepted government auditing standards.

Rather, this report provides an overview of OIG responsibilities; applicable disaster assistance Federal statutes, regulations, and guidelines; the audit process and frequent audit findings; and key points to remember when administering FEMA grants. Using this report should assist disaster assistance applicants:

- document and account for disaster-related costs;
- minimize the loss of FEMA disaster assistance program funds;
- maximize financial recovery; and
- prevent fraud, waste, and abuse of disaster funds.

Background

Each year, OIG audit reports reveal significant issues representing millions of dollars of Federal funds allocated for disaster assistance and recovery efforts. These reports also contain recommendations to protect the integrity of and improve FEMA's disaster assistance operations.

The majority of our audits focus on FEMA's Public Assistance and Hazard Mitigation grant programs, funded from the Disaster Relief Fund. Under the Public Assistance Program, FEMA provides grants to state, tribal, and local governments and certain types of private nonprofit organizations so that communities can quickly respond to and recover from major disasters. FEMA's



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Hazard Mitigation Grant Program provides funding to the same entities to implement long-term measures to prevent damages from future disasters.

Overview of the Office of Inspector General

The *Homeland Security Act of 2002* established OIG in DHS by amendment to the *Inspector General Act of 1978* (Public Law 95-452). OIG serves as an independent office to promote economy, efficiency, and effectiveness; to prevent waste, fraud, and abuse; and to keep Congress and the Secretary of DHS fully informed of problems in DHS programs and operations. The principal functions of OIG are to:

- perform or oversee audit and investigative functions relating to programs and operations of DHS;
- inspect department activities to identify actual or potential fraud, waste, abuse, or mismanagement, and to develop recommendations for corrective action; and
- investigate allegations of illegal, unethical, or other activities that may lead to civil or criminal liability on the part of DHS or its employees, contractors, or program participants.

Applicable Federal Statutes, Regulations, and Guidelines

Federal grant recipients and subrecipients are responsible for understanding and complying with a large amount of criteria applicable to FEMA disaster grants, which include those for public assistance and hazard mitigation. Some help in responding to and recovering from a disaster, and others help in receiving and managing Federal funds. One of the most important criteria is Title 44 Code of Federal Regulations (CFR), which contains policies and procedures for implementing the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended (*Stafford Act*). These basic policies and procedures govern disaster relief operations. Title 44 CFR is available at the following website:

<http://www.gpo.gov/fdsys/browse/collectionCfr.action?collectionCode=CFR>.

Another very important criterion is Title 2 CFR Part 200: *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Super Circular" or "Omni Circular"). These regulations supersede 44 CFR part 13, and Office of Management and Budget (OMB) Circulars A-102, A-110, A-87, A-21, A-122 and A-133 **for all FEMA awards made on or after December 26, 2014**.

Title 2 CFR part 200 is available at the following website:

http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.



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For all FEMA awards made before December 26, 2014, the following OMB circulars apply (http://www.whitehouse.gov/omb/circulars_default/):

- OMB Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*. [FEMA codified these requirements, also referred to as the “Common Rule,” at 44 CFR part 13.]
- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*. Relocated to 2 CFR part 215.
- OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. Relocated to 2 CFR part 225.
- OMB Circular A-21, *Cost Principles for Educational Institutions*. Relocated to 2 CFR part 220.
- OMB Circular A-122, *Cost Principles for Non-Profit Organizations* (excludes hospitals). Relocated to 2 CFR part 230. [According to 2 CFR 215.27, the allowability of costs that hospitals incur “is determined in accordance with the provisions of Appendix E of 45 CFR part 74, *Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts with Hospitals*.]
- OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

In January 2016, FEMA’s Public Assistance (PA) Division published the *Public Assistance Program and Policy Guide* (PAPPG) which is effective for all emergencies and major disasters declared on or after January 01, 2016. The PAPPG is a comprehensive, and consolidated program and policy documents for PA program. This guide supersedes many of the previous PA publications and individual policy documents (e.g., 9500 series policy statements). The PAPPG will assist recipients and subrecipients in better understanding the PA and Hazard Mitigation grant programs. The PAPPG is available at the following website: <https://www.fema.gov/public-assistance-policy-and-guidance>.

For all FEMA awards made before January 01, 2016, the following FEMA publications and policy guidance still apply:

- FEMA 321, *Public Assistance Policy Digest* (January 2008),
- FEMA 322, *Public Assistance Guide* (June 2007),
- FEMA 323, *Public Assistance Applicant Handbook* (March 2010),
- FEMA 325, *Public Assistance Debris Management Guide* (July 2007),
- FEMA 327, *Debris Monitoring Guide* (October 2010), and
- FEMA Disaster Assistance Policy (9500 series policy statements).

However, the PAPPG did not supersede the following publications:



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- FEMA 329, *Debris Estimating Field Guide* (September 2010),
- Hazard Mitigation Assistance (HMA) Unified Guidance, and
- Public Assistance Policy on *Stafford Act* section 705 (FP-205-081-2, March 31, 2016).¹

The aforementioned publications are available at the following websites:

<http://www.fema.gov/publications-archive> and <http://www.fema.gov/public-assistance-archived-policies>.

The *Sandy Recovery Improvement Act of 2013* (P.L. 113-2) amended Title IV of the *Stafford Act*. Specifically, the law adds section 428, which authorizes alternative procedures for the PA Program under sections 403(a)(3)(A), 406, 407, and 502(a)(5) of the *Stafford Act*. It also authorizes FEMA to implement the alternative procedures through a pilot program. The program will remain in place until FEMA promulgates and adopts revised regulations that reflect the program changes the law authorizes. Information is available at the following website:

<https://www.fema.gov/alternative-procedures>.

The alternative procedures pertain to debris removal (emergency work) and repair, restoration, and replacement of disaster-damaged public and private nonprofit facilities (permanent work). Participation in the alternative procedures is voluntary.

The goals of the alternative procedures are to:

- reduce the costs to the Federal Government of providing public assistance,
- increase flexibility in the administration of such assistance,
- expedite the provision of assistance to an applicant, and
- provide financial incentives and disincentives for timely and cost-effective completion of a project.

The Audit Process and Frequent Audit Findings

OIG considers several factors to determine which activities to audit. These factors include:

- the risk of fraud, waste, and abuse of Federal funds;
- statutory and regulatory requirements;
- current or potential dollar magnitude;

¹ This policy establishes guidelines under Section 705 (*Disaster Grant Closeout Procedures*) to determine whether Section 705 applies to prohibit FEMA from recovering payments made under the Public Assistance program.



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- requests from congressional, FEMA, or state officials; and
- reports/allegations of impropriety or problems in implementing FEMA programs.

Traditionally, OIG conducted most of its disaster grant audits after communities completed the majority or all of the work to determine whether they had accounted for and expended FEMA funds according to Federal requirements. However, in 2012, OIG implemented a more proactive approach to auditing to place greater emphasis on prevention and early detection. This approach considers the entire life cycle of grant awards. Currently, at least half of OIG's audits of disaster grants consist of (1) "capacity" audits that start usually within a year of the disaster; or (2) "early warning" audits that start before communities have begun work on most permanent projects. These audits identify areas where grant recipients may need additional technical assistance or monitoring to ensure compliance with Federal requirements. 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.

Frequent Audit Findings (examples)

A. Improper Contracting Practices

Criteria: According to Federal regulations (2 CFR 200.317 to .326), all non-Federal entities (other than states) must comply with the following procurement standards:²

- Conduct all procurement transactions in a manner providing full and open competition consistent with the standards of this section (2 CFR 200.319(a)). Noncompetitive procurement may be used under certain circumstances, one of which is when the public exigency or emergency will not permit a delay resulting from competitive solicitation (2 CFR 200.320(f)(2)).
- Take all necessary affirmative steps to assure the use of minority businesses, women's business enterprises, and labor surplus area firms when possible (2 CFR 200.321)).
- Maintain oversight to ensure contractors perform according to the terms, conditions, and specifications of their contracts or purchase orders (2 CFR 200.318(b)).
- Maintain written standards of conduct covering conflicts of interest and governing the performance of its employees who engage in the selection, award, and administration of contracts (2 CFR 200.318(c)(1)).

² States must follow the same policies and procedures they use for procurements using non-Federal funds (2 CFR 200.317).



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- Maintain records sufficient to detail the history of the procurement. These records will include, but are not limited to, the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price (2 CFR 200.318(i)).
- Use time-and-material-type (T&M) contracts only after determining that no other contract is suitable and if the contract includes a ceiling price that the contractor exceeds at its own risk. Time-and-material-type contract means a contract whose cost to a non-Federal entity is the sum of (1) the actual cost of materials; and (2) direct labor hours charged at fixed hourly rates that reflect wages, general and administrative expenses, and profit (2 CFR 200.318(j)(1)).
- Perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications (2 CFR 200.323(a)).
- Negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed (2 CFR 200.323(b)).
- Do not use cost-plus-a-percentage-of-cost and percentage-of-construction-cost methods of contracting (2 CFR 200.323(d)).
- Include required provisions in all contracts awarded (2 CFR 200.326).

Finding 1. The subrecipient received a Public Assistance award that included \$6.1 million for disaster-related debris removal and permanent electrical repair work. The subrecipient solicited bids for the work only from contractors that it had used before the disaster. As a result, full and open competition did not occur and FEMA had no assurance that contract costs were reasonable or that minority firms, women's business enterprises, and labor surplus area firms had an opportunity to bid on the work. As part of the audit, subrecipient officials stated that they procured the contracts under exigent circumstances. OIG determined that the subrecipient had restored electrical power to almost all of its customers. After such time exigent circumstances no longer existed to warrant the use of noncompetitive contracts. OIG also determined that because the solicitation of bids came from a limited number of contractors, full and open competition did not occur. Therefore, OIG questioned \$6.1 million because the subrecipient did not meet Federal procurement standards.

Exigent or Emergency. Subrecipients may use procurement through a noncompetitive proposal method when the public *exigency* will not permit delays that could result from competitive solicitation (2 CFR 200.320(f)(2)).

Exigent is not necessarily the same as emergency, even though often used interchangeably. The general definition of exigent is a situation requiring immediate aid or action.³ An emergency represents an unforeseen combination of

³ "Exigent" - (1) requiring immediate aid or action (Merriam-Webster.com, Accessed April 7, 2016, <http://www.merriam-webster.com/dictionary/exigent>)



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circumstances.⁴ A key distinction is that exigent circumstances represent those actions required to protect lives and property at the immediate outset of an emergency event.

Examples Illustrating the Meaning of Exigency and Emergency

Emergency. A tornado impacts the City of X and causes widespread and catastrophic damage, including loss of life, loss of power, damage to public and private structures, and millions of cubic yards of debris across the City, leaving almost the entire jurisdiction inaccessible. The City needs to begin debris clearance activities immediately to restore access to the community and support search and rescue operations and power restoration.

Exigency. A tornado impacts the City of X in June and causes widespread and catastrophic damage, including damage to a City school. The City wants to repair the school and have it ready for the beginning of the following school year in September. The City estimates, based on past experience, that the sealed bidding process will take at least 90 days, and the City's engineer estimates that the repair work would take another 60 days. This would bring the project completion to well after the beginning of the school year. Rather than going through sealed bidding, the City—in compliance with State and local law—wants to solicit bids from five contractors that have previously constructed schools in the State and award the contract to the lowest bidder among those five. This would be an example of an “exigency” for the purposes of 2 CFR 200.320 (f)(2), such that sealed bidding would be infeasible under the circumstances and the use of some other procurement method was necessary based on the particular situation.

Source: *Field Manual, Public Assistance Grantee and Subgrantee Procurements Requirements*, FEMA Office of Chief Counsel, Procurement Disaster Team, p.76 (December 2014)

Finding 2. The subrecipient used a T&M contract, which was not appropriate for the construction work performed, and did not include a not-to-exceed amount or cost ceiling. In addition, the contract included prohibited markups based on a percentage of costs. By definition, T&M contracts provide for acquiring supplies or services on the basis of (1) direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit and (2) materials at cost, including, if appropriate, material handling costs. The T&M rates in the contract already included profit and overhead, yet the contractor

⁴ “Emergency” - (1) an unforeseen combination of circumstances (Merriam-Webster.com, Accessed April 7, 2016, <http://www.merriam-webster.com/dictionary/emergency>)
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charged markups of 15 to 33 percent on top of its T&M rates. Additionally, the subrecipient did not perform any cost or price analysis for the contract. As a result, the contractor had no incentive to contain project costs. In fact, markups as a percentage of costs provide contractors a disincentive to save costs because higher costs lead to higher profits. Therefore, the OIG questioned \$1.2 million in T&M contract costs because the subrecipient did not follow Federal procurement standards.

Finding 3. The subrecipient did not openly compete a contract totaling \$4.1 million for the replacement/repair of pump stations and electrical components. Instead, the subrecipient used a contractor with which it had a business relationship before the disaster. In addition, the subrecipient accepted the contractor's proposed prices without performing an independent analysis of the prices to ensure reasonableness. Finally, the subrecipient did not take the required steps to assure the use of small businesses, minority owned firms, women's business enterprises, and labor-surplus area firms when possible. Therefore, FEMA has no assurance that these types of firms had adequate opportunities to bid on federally funded work as Congress intended. Therefore, OIG questioned \$4.1 million because the procurement did not comply with Federal requirements.

B. Unsupported Costs

Criteria: Federal cost principles (2 CFR 200.403(g)) require recipients and subrecipients to adequately document costs that they claim under Federal programs. OMB Circular A-122, Attachment A, A (2)(c), requires recipients and subrecipients to be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.

Finding 1. The subrecipient could not provide adequate documentation to support \$194,000 in labor costs it claimed for seven large projects. The subrecipient's support for its labor costs consisted of a single line item in its costs summary labeled as "Salary." The subrecipient's supporting documentation did not identify the names of the employees who performed the disaster-related work, when they completed the work, or the number of hours they worked. As a result, the subrecipient could not support the accuracy of the costs it claimed for labor. Therefore, OIG questioned \$194,000 as unsupported.

Finding 2. The subrecipient's claim included \$300,000 for labor costs. However, the subrecipient provided time sheets and payroll registers to support only \$275,000. OIG questioned the unsupported difference of \$25,000.

Finding 3. The subrecipient claimed \$1.7 million for materials it withdrew from its existing inventory to repair an electrical distribution system. The subrecipient charged FEMA projects for material costs using the replacement cost method.



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However, under non-disaster situations, the subrecipient used the average price method to price materials it withdrew from its inventory. According to Federal cost principles (OMB Circular A-122), costs claimed under Federal awards are allowable if they are consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization. Had the subrecipient used the average price method, its usual inventory pricing method, the cost of materials would have been \$1.0 million less than the amount claimed. Therefore, OIG did not question the \$700,000 of material costs associated with actual repairs, but questioned as unsupported the \$1.0 million in materials the subrecipient claimed to have taken from its existing inventory.

C. Poor Project Accounting

Criteria: Federal regulations (2 CFR 200.302 and 44 CFR 206.205) require recipients and subrecipients to maintain a system that accounts for FEMA funds on a project-by-project basis. The system must disclose the financial results for all FEMA-funded activities accurately, currently, and completely. It must identify funds received and disbursed and reference source documentation (i.e., canceled checks, invoices, payroll, time and attendance records, contracts, etc.).

Finding 1. The subrecipient did not account for expenditures for its \$15 million grant on a project-by-project basis, as Federal regulations require. The subrecipient could not separate disaster-related costs by project, but rather set up a single account within its automated accounting system designated as the “flood disaster” account. That single account commingled eligible disaster-related expenditures with non-eligible expenditures. Further, the subrecipient did not maintain any other systems such as spreadsheets or project files that separately accumulated all project costs on a project-by-project basis. Therefore, we questioned the entire \$15 million grant because the costs were not auditable by project.

Finding 2. The subrecipient’s journal of project expenditures did not contain references to payroll or daily activity reports that supported claimed payroll expenditures of \$950,000 charged to the FEMA project. Although the subrecipient had timesheets to support the labor, OIG could not trace expenditures for labor to supporting documents nor verify the claimed costs and, therefore, questioned the entire \$950,000 claim for labor.



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Finding 3. The subrecipient could not account for FEMA funds on a project-by-project basis because it did not allocate disaster expenses to FEMA projects, or allocated expenses to a nonexistent project, or to the wrong project. These deficiencies occurred because the subrecipient maintained two methods for tracking disaster costs that did not reconcile.

D. Duplication of Benefits

Criterion: Section 312 of the *Stafford Act* prohibits duplication of benefits. In other words, a subrecipient cannot receive disaster funding for activities covered by insurance benefits, other Federal programs, or any other source.

Finding 1. The subrecipient claimed and received \$200,000 to repair a fence, replace dirt, and construct a retaining wall at a baseball park facility. However, the subrecipient had insurance coverage that it had not disclosed to FEMA and received \$220,000 from its insurance carrier for the same damages. Therefore, OIG questioned the \$200,000 of FEMA funding received for damages that insurance covered.

Finding 2. The subrecipient's claim included \$238,000 of duplicate benefits. The subrecipient claimed \$140,000 of costs that insurance also covered and \$98,000 to replace asphalt and perform road repairs that the U.S. Department of Housing and Urban Development (Community Block Development Program) paid for the same road repairs. The subrecipient disagreed with this finding, saying it used the insurance and U.S. Department of Housing and Urban Development proceeds for road repairs that FEMA did not fund. However, the subrecipient did not provide OIG with documentation to support these assertions. Therefore, OIG questioned \$238,000 of ineligible duplicate benefits the subrecipient claimed.

E. Excessive Equipment Charges (applicability may vary with hazard mitigation projects)

Criterion: Federal regulations (44 CFR 206.228) require that subrecipients use the FEMA schedule of equipment rates or their local rates, whichever are lower when they use their own equipment. Subrecipients that do not have local established rates must use the FEMA equipment rates when claiming costs under a FEMA project.

Finding 1. The subrecipient claimed \$78,348 for the use of bucket trucks based on the FEMA rate of \$24 per hour (3,264.5 hours x \$24 per hour). However, the subrecipient's local equipment rate for bucket trucks was \$16 per hour, or \$8 less than the FEMA rate. Therefore, OIG questioned \$26,116 (3,264.5 hours x \$8) of excess charges.



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Finding 2. The subrecipient overstated its claim for equipment by \$964,756. It claimed \$1,569,593 for equipment use based on the FEMA Schedule of Equipment Rates. However, the subrecipient should have based its claim on actual equipment costs recorded in its accounting system, which would have resulted in total equipment costs of \$604,837 or \$964,756 less than the amount claimed. The subrecipient's recorded equipment costs contained all the cost elements included in the FEMA equipment rates for operation of the equipment such as fuel, insurance, maintenance, depreciation, etc. OIG noted that the subrecipient used the recorded equipment costs to support equipment use in requests for construction work financing from the U.S. Department of Agriculture, Rural Utilities Service. However, when calculating its claim for equipment use under the FEMA projects, the subrecipient used the FEMA equipment rates, which resulted in the subrecipient receiving \$964,756 more than its actual costs of operating the equipment. Therefore, OIG questioned the \$964,756 of excessive equipment charges.

F. Excessive Labor and Fringe Benefit Charges

Criteria: According to Federal cost principles (2 CFR 200.403(c)), allowable costs must be consistent with policies and procedures that apply uniformly to both Federal awards and other activities of the non-Federal entity. Additionally, according to 44 CFR 206.228(a)(2), straight- or regular-time salaries and benefits of permanent employees engaged in emergency work (emergency protective measures and debris removal) are not eligible for FEMA Public Assistance funding.

Finding 1. The subrecipient claimed \$50,000 for overtime fringe benefits based on a fringe benefit rate of 23.55 percent. However, the rate included the cost of worker's compensation, which is not applicable to overtime. The subrecipient should have based its claim on a rate of 10 percent, which would have resulted in charges of \$21,231. Therefore, OIG questioned \$28,769 that the subrecipient received, but to which it was not entitled.

Finding 2. The subrecipient claim included \$19,000 in excess force account labor costs not based on the City's written compensation policy in effect before the disaster. The \$19,000 of excessive costs occurred because the subrecipient paid double time for all hours worked, including regular hours, when an employee worked 16 consecutive hours during a work period. However, according to the subrecipient's compensation policy and labor union contract, employees who work between 8 and 16 consecutive hours during a work period receive pay at time-and-a-half rates, and all hours greater than 16 would be paid at double-time rates. Therefore, OIG questioned the \$19,000 of excessive force account labor costs that were not consistent with the subrecipient's established compensation policy.



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Finding 3. The subrecipient claimed \$250,000 for regular time (\$150,000) and overtime (\$100,000) labor costs of permanent employees on a debris-removal project. Because regular-time salaries and benefits of a subrecipient's permanent employees engaged in debris removal work are not eligible for FEMA assistance, OIG questioned the \$150,000 claimed for regular-time labor. [FEMA's Pilot Program for Alternative Procedures for Debris Removal did not apply in this instance.]

G. Unrelated Project Charges

Criteria: According to Federal cost principles (2 CFR 200.403(a)), charges to Federal grants must be necessary and reasonable for the performance of the Federal award. In addition, to be eligible for FEMA funds, an item of work must be required because of the major disaster event (44 CFR 206.223). Therefore, the subrecipient must substantiate that its claimed costs directly relate to the disaster. The subrecipient must also establish a clear relationship between claimed costs and the scope of work recorded on a project worksheet.

Finding 1. The subrecipient claimed \$267,000 for materials (\$254,000 for transformers and \$13,000 for utility poles) that it used for non-disaster-related repairs. However, OIG determined that the subrecipient did not use either the \$254,000 of costs for the transformers or the 13,000 for utility poles for disaster purposes. The non-disaster claim of \$254,000 for transformers occurred because the subrecipient based its claim on invoices for all transformers purchased after the disaster. The non-disaster claim of \$13,000 for utility poles occurred because the subrecipient did not adjust its inventory for, and inadvertently included costs for, poles it used on a non-disaster work order in its claim. The subrecipient later adjusted the inventory, but did not credit the FEMA project. Therefore, OIG questioned the \$267,000 of non-disaster-related costs charged to the project.

Finding 2. The subrecipient claimed and received \$500,000 under a FEMA project to repair Road XYZ. However, the subrecipient's claim included \$250,000 for heavy equipment and material charges for Road ABC. OIG questioned the \$250,000 for Road ABC because the road was not included under the project's approved scope of work.

H. Unapplied Credits

Criterion: According to Federal cost principles (2 CFR 200.406), credits accruing to or received by a non-Federal entity that relate to allowable costs must be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

Finding 1. FEMA awarded funds to repair a subrecipient's electrical distribution system. The subrecipient received \$15,000 from the sale of scrap material related



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to the FEMA project, but did not credit the FEMA project with the sale proceeds. Therefore, OIG questioned \$15,000 as unapplied credits.

Finding 2. The subrecipient overstated its claim under several projects because it did not reduce project costs for \$42,000 of credits received on fuel and material costs and proceeds from sales of scrap. Therefore, OIG questioned \$42,000 as unapplied credits.

I. Direct Administrative Costs

Criteria: 44 CFR 207 and FEMA's PAPPG, identify "section 324 management costs," and other grant management and administrative costs that are eligible under the Public Assistance Program. The Policy also clarifies the process through which recipients and subrecipients can request reimbursement for these costs. 44 CFR 207 provides the following definitions:

- *Direct Administrative Costs* are costs the recipient and subrecipient incurs that can be identified separately and assigned to a specific project (44 CFR 207.6(c)).
- *Indirect Costs* are costs a recipient incurs for a common or joint purpose benefiting more than one cost objective that are not readily assignable to the cost objectives specifically benefited (44 CFR 207.2).
- *Management Costs* are any indirect costs, administrative expenses, and any other expenses that a recipient or subrecipient reasonably incurs in administering and managing the Public Assistance grant that are not directly chargeable to a specific project (44 CFR 207.2).
- *Pass-through funds* are the percentage or amount of management costs that the grantee (recipient) determines it will make available to subrecipients (44 CFR 206.207(b)(1)(iii)(K)).

According to Chapter II, section V. N.1 and N.2 of the PAPPG, direct administrative costs include costs that can be tracked, charged, and accounted for directly to a specific eligible project, such as staff time to complete field inspection and preparation of a project worksheet. Recipients and subrecipients cannot charge costs to a project if they previously allocated similar costs for the same purposes in like circumstances to indirect costs. Direct costs may be appropriate only if they meet all of the following conditions:

- Administrative or clerical services are integral to a project or activity;
- Individuals involved are specifically identified with the project or activity;
- Such costs are explicitly included in the budget for the project or have FEMA's prior written approval; and
- The costs are not recovered as indirect costs.



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Finding. The subrecipient claimed \$2,272,675 as direct administrative costs, but could not track the costs separately to specific projects. The subrecipient allocated its administrative costs over all the projects. OIG questioned the \$2,272,675 because the subrecipient could not trace the costs directly to specific projects; therefore, the costs were indirect costs. Although allocating administrative costs over all the projects may have been acceptable for project formulation (initial estimation of project cost) and/or to expedite the funding process, it is not acceptable for claiming direct administrative costs.

J. Obtain and Maintain Insurance

Criteria: Section 311 of the *Stafford Act* requires applicants of disaster assistance to obtain and maintain such types and extent of insurance as may be reasonably available, adequate, and necessary, to protect against future loss to any property to be replaced, restored, repaired, or constructed with such assistance. Federal regulations at 44 CFR 206.252(d) also require grant recipients to obtain and maintain insurance in the amount of eligible disaster assistance as a condition of receiving Federal funds. Grant recipients may also seek an exemption from insurance requirements from their State insurance commissioner.

Finding. The subrecipient did not obtain \$52 million of required flood insurance coverage for its replaced disaster-damaged facilities, which is a condition for receiving Federal disaster assistance. As a result, the subrecipient does not have adequate flood insurance coverage to meet Federal regulation insurance requirements to protect it and taxpayers in future disasters. The subrecipient should have obtained and maintained \$52 million in flood insurance or received an exemption from insurance requirements from its State insurance commissioner. Therefore, we recommended that FEMA disallow as ineligible \$52 million for its new buildings unless the subrecipient obtains the required insurance coverage or obtains an exemption.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Key Points to Remember when Administering FEMA Grants

1. Designate a person to coordinate the accumulation of records.
2. Establish a separate and distinct account for recording revenue and expenditures, and a separate identifier for each distinct FEMA project.
3. Ensure that the final claim for each project is supported by amounts recorded in the accounting system.
4. Ensure that each expenditure is recorded in the accounting books and is referenced to supporting source documentation (checks, invoices, etc.) that can be readily retrieved.
5. Research insurance coverage and seek reimbursement for the maximum amount. Credit the appropriate FEMA project with that amount.
6. Check with your Federal Grant Program Coordinator about the availability of funding under other Federal programs (Federal Highway, Housing and Urban Development, etc.) and ensure that the final project claim does not include costs that another Federal agency funded or should have funded.
7. Ensure that materials taken from existing inventories for use under FEMA projects are documented by inventory withdrawal and usage records.
8. Ensure that expenditures claimed under the FEMA project are reasonable and necessary, are authorized under the scope of work, and directly benefit the project.



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Disaster Fraud Hotline

DHS OIG not only conducts audits, but also aggressively investigates allegations of fraud, waste, and abuse. Below are a few of the more common allegations reported through our Hotline.

- ❑ Disaster assistance applicants use false names and/or fictitious addresses.
- ❑ Disaster assistance applicants claim losses that they did not incur or were not entitled to claim.
- ❑ Individuals fraudulently claim to be FEMA employees.
- ❑ Disaster fund recipients are victimized by contractors who inflate repair fees and/or fail to properly complete repairs.
- ❑ Disaster fund recipients damage their own properties to receive disaster assistance.
- ❑ Recipients do not use FEMA funds for the purpose intended.

If you have knowledge of 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 and
confidentially***

ADDITIONAL INFORMATION AND COPIES

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov. Follow us on Twitter at: @dhsoig.



OIG HOTLINE

To report fraud, waste, or abuse, visit our website at www.oig.dhs.gov and click on the red "Hotline" tab. If you cannot access our website, call our hotline at (800) 323-8603, fax our hotline at (202) 254-4297, or write to us at:

Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305