

Longmont and Colorado Officials Should Continue to Improve Management of \$55.1 Million FEMA Grant





DHS OIG HIGHLIGHTS

Longmont and Colorado Officials Should Continue to Improve Management of \$55.1 Million FEMA Grant

January 21, 2016

Why We Did This Audit

The City received a \$55.1 million Public Assistance award for damages from a September 2013 flood. We conducted this audit early in the grant process to identify areas where the City may need additional technical assistance or monitoring to ensure compliance with Federal requirements.

What We Recommend

FEMA should direct Colorado to provide additional technical assistance and monitoring to ensure the City (1) complies with all Federal regulations and (2) avoids mispending the \$40 million of FEMA funds that remain obligated for the City's grant award.

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

The City of Longmont, Colorado (City), needs additional assistance from the Colorado Division of Homeland Security and Emergency Management (Colorado) and the Federal Emergency Management Agency (FEMA) to provide reasonable assurance that it properly manages its \$55.1 million FEMA grant. We identified weaknesses in the City's policies, procedures, and business practices for procurement, insurance, and accounting that place the City in jeopardy of losing its Federal funding.

Specifically, the City did not (1) have procurement policies and procedures requiring it to use disadvantaged firms, when possible, for federally funded contract work; (2) obtain and maintain insurance in the required amounts to mitigate losses from future disasters; or (3) properly account for labor, equipment, and contract costs.

These findings occurred primarily because the City did not familiarize itself with certain Federal regulations and FEMA guidelines. In addition, Colorado, as FEMA's grantee, is responsible for ensuring that its subgrantee (the City) is aware of and complies with these requirements, as well as for providing technical assistance and monitoring grant activities.

We also identified opportunities where FEMA could reduce its Federal award to the City, and avoid the duplication of benefits, by allocating insurance proceeds to FEMA-eligible work.

FEMA Response

FEMA officials generally concurred with our findings. FEMA's written response is due within 90 days.



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Department of Homeland Security

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

January 21, 2016

MEMORANDUM FOR: Robert A. Farmer
Acting Regional Administrator, Region VIII
Federal Emergency Management Agency

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

SUBJECT: *Longmont and Colorado Officials Should Continue to
Improve Management of \$55.1 Million FEMA Grant*
Audit Report Number OIG-16-21-D

We audited Federal Emergency Management Agency (FEMA) Public Assistance Program grant funds awarded to the City of Longmont, Colorado (City). We conducted this audit early in the Public Assistance process to identify areas where the City 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.

The Colorado Division of Homeland Security and Emergency Management (Colorado), a FEMA grantee, awarded the City \$55.1 million, as of March 31, 2015, for damages resulting from severe storms, flooding, landslides, and mudslides beginning on September 11, 2013. The award provided 75 percent Federal funding for debris removal, emergency protective measures, and permanent work for most projects.¹ To assess the policies and procedures the City uses for this disaster, we audited seven projects totaling \$41.7 million (see table 1, appendix A).

Background

A storm system, with record-breaking precipitation and without advance warning, caused severe damage in 18 Colorado counties, most significantly from September 11, to 12, 2013. The disaster damaged or destroyed a significant number of residential structures, required 18,147 residents to

¹ For Project 418, the Federal share was 84 percent.



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evacuate their homes, and caused 218 injuries, and 10 deaths. The President declared an expedited Emergency Declaration (EM-3365) on September 12, 2013 (allowing emergency services to supplement State and local efforts), and signed a Major Disaster Declaration (DR-4145) on September 14, 2013, authorizing FEMA to support State and local response and begin recovery efforts.

The City of Longmont, located 35 miles north of Denver, has a population of more than 90,000. In effect, the disaster cut the City in half when the St. Vrain River and Left Hand Creek, which both flow through the City, exceeded 500-year flood levels.

Figure 1: Flood Damage to Bridge and Road (Longmont, Colorado)



Source: FEMA

Results of Audit

The City generally has established policies, procedures, and business practices to adequately account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. However, the City needs additional assistance from Colorado and FEMA to provide reasonable assurance that it properly manages its \$55.1 million FEMA grant. Specifically, the City did not (1) have procurement policies and procedures related to using disadvantaged firms, when possible, for federally funded contract work (finding A); (2) obtain and maintain insurance in the required amounts to mitigate losses from future disasters (finding B); or (3) properly account for labor, equipment, and contract costs (finding C). These findings occurred primarily because the City did not familiarize itself with certain Federal regulations and FEMA guidelines. In



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addition, Colorado, as FEMA's grantee, is responsible for ensuring that its subgrantee (the City) is aware of and complies with these requirements, as well as for providing technical assistance and monitoring grant activities (finding D). We also identified opportunities where FEMA could reduce its Federal award to the City, and avoid duplicating benefits, by allocating remaining insurance proceeds to FEMA-eligible work (finding B).

Finding A: Procurement

The City's procurement policies and procedures related to using disadvantaged firms to perform federally funded work did not align fully with Federal procurement standards at 44 Code of Federal Regulations (CFR) 13.36. The City typically awarded its contracts through full and open competition, as 44 CFR 13.36(c) requires; and its Municipal Code included a general statement requiring the City to procure contracts for federally funded work according to applicable Federal rules. However, the City did not have policies and procedures requiring it to take the specific affirmative steps that 44 CFR 13.36(e) requires to assure the use of certain disadvantaged firms when possible. In fact, City officials told us that they were not aware of these Federal rules. As a result, FEMA had no assurance that the City would provide disadvantaged firms sufficient opportunities to bid on federally funded work as Congress intended. We discussed these issues with City officials during our audit field work; and, as a direct result, the City has since updated its policies. The City now requires its officials to take all required affirmative steps to assure the use of small and minority firms, women's business enterprises, and labor surplus area firms when possible. The City, however, still needs to ensure that it properly implements and documents procedures related to these affirmative steps.

According to 44 CFR 13.36(e), subgrantees must take the following six affirmative steps, when possible:

1. Place qualified small and minority businesses, women's business enterprises, and labor surplus area firms on solicitation lists.
2. Assure solicitation of these types of firms when they are potential sources.
3. Divide total requirements, when economically feasible, into smaller tasks or quantities to permit their participation.
4. Establish delivery schedules, where the requirement permits, which encourages their participation.
5. Use the services and assistance of the Small Business Administration, and Minority Business Development Agency of the Department of Commerce.



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6. Require the prime contractor to take these affirmative steps when using subcontracts.

FEMA obligated \$54,036,897 for the City's estimated contract costs, and the City has so far awarded \$13,789,051 (\$12,569,211 of which the City awarded after the City-established exigency (emergency) period ended on October 10, 2013).² We are not questioning the contract costs the City has awarded to date (and before revising its Municipal Code) for FEMA-funded projects because the City was using an electronic procurement solicitation system that provided notice to minority firms and women-owned businesses—some of which had responded to the notice. However, this system only partially satisfied the first of the six affirmative steps. The City's revised policies and procedures now require City officials to take all of the required six steps. Therefore, compliance with its new policies and procedures should prevent the City from improperly spending the \$40,247,846 (\$54,036,897 less \$13,789,051) that FEMA has awarded for contract costs the City has yet to spend.

City officials agreed with this finding. Colorado officials agreed with this finding and said that they have increasingly provided guidance to the City on procurement and other grant issues (see finding D). FEMA officials agreed with this finding and told us that they provided grant guidance to the City in various forms, including rules on taking affirmative steps. They said that they commend the City for taking corrective action following our audit field work.

Finding B: Insurance Issues

The City (1) has \$1,195,876 in insurance proceeds that FEMA has not yet allocated to its projects, which duplicates the Federal assistance it received; and (2) did not obtain and maintain insurance to mitigate losses from future disasters for two vehicles it purchased with FEMA funds.

Unallocated Insurance Proceeds

The City properly pursued \$5,000,000 in covered losses from its insurer—the maximum amount eligible under its policy. It complied with Federal rules by documenting this information, along with its damages, and presented it to FEMA. Of the \$5,000,000 in actual insurance proceeds, the City and FEMA agreed that \$4,213,017 related to FEMA-eligible damages and the remainder related to non-eligible damages. As of March 31, 2015, FEMA had allocated \$3,017,141 of the insurance proceeds to eligible damages and reduced its obligations accordingly.

² As of October 15, 2014.



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Federal rules stipulate that FEMA cannot provide assistance for disaster-related losses that duplicate benefits available to an applicant from another source, including insurance, and that FEMA must reduce the amount of funding for eligible work by the amount of any actual (or anticipated) insurance proceeds available for that work (44 CFR 206.250). Further, 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. That is, the agency must increase or decrease obligated funds when probable and measurable information becomes known.³

We reviewed the City's insurance policy and identified opportunities where FEMA might allocate additional insurance proceeds to FEMA eligible work; for example, outdoor fixtures located within 1,000 feet of its insured buildings and non-construction costs that FEMA added to the City's project funding through its Cost Estimating Format calculations.⁴

City officials agreed with this finding and told us that they are waiting for FEMA to allocate the remaining \$1,195,876 so that they can properly account for these funds in the City's financial statements. Colorado officials had no comment. FEMA officials told us that they agree with this finding and will take corrective action once they receive our final report.

Obtaining Insurance

The City did not obtain insurance for two vehicles it purchased with FEMA funds under Project 797, as Federal rules require. These vehicles replaced the City's flood-damaged vehicles.⁵ As a condition of receiving Federal assistance, FEMA requires the City to purchase insurance coverage within a reasonable period after acquiring these vehicles. "[I]f the requirement to purchase all insurance is not met, FEMA will not provide assistance for damage sustained

³ (1) U.S. General Accountability Office's (GAO) *Principles of Federal Appropriations Law*, 3rd edition, volume II, February 2006, chapter 7, section B: *Criteria for Recording Obligations* (31 U.S.C. § 1501); (2) Government Accountability Office - *Policy and Procedures Manual* § 3.5.D; (3) GAO *Obligational Practices of the Corporation for National and Community*, B-300480, April 9, 2003; and (4) SFFAS Number 5, paragraphs 19, 24, 25, and 29.

⁴ The Cost Estimating Format is the method FEMA uses to estimate costs for large projects. This method allows FEMA to determine the total eligible funding for each project, including the base construction costs (Part A) and other potential costs, such as contractor's overhead, permits, and architecture/engineering (Parts B through H). Although FEMA reduced the City's grant funding for Part A costs, it had not yet reduced the funding it awarded for costs associated with Parts B through H.

⁵ The City purchased these replacement vehicles in May and June 2014.



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in the current or a future disaster of the same type” (44 CFR 206.252(d) and FEMA’s *Public Assistance Guide* (FEMA 322), June 2007, p. 123). However, the City was not aware of this requirement; thus, it did not insure the vehicles. After we brought this issue to City officials’ attention, they said that they would work with their insurance provider to obtain coverage for the vehicles. As of March 14, 2015—FEMA’s deadline by which the City was required to complete the project—it had not insured these vehicles and therefore had not complied with Federal insurance requirements. As a result, the City risks losing up to \$46,478 that FEMA provided it to replace these vehicles.

We discussed with City officials the Federal requirements for obtaining and maintaining insurance. The City agreed with our observation and took corrective action and obtained insurance coverage on its vehicles. Colorado and FEMA officials agreed with this finding. Because the City has taken corrective action, we consider this finding and the related recommendation 3 as resolved and closed.

Finding C: Documentation and Project Cost Accounting

The City did not always (1) properly support its labor, equipment, and contract costs or (2) separate FEMA versus non-FEMA costs in its accounting system. Therefore, FEMA does not have assurance that all costs the City claimed are accurate and eligible.

Documentation

The City documented its costs with timesheets, work orders, correspondence, invoices, and procurement records. However, the City’s policies, procedures, and practices were not always sufficient to ensure—

- completeness, accuracy, and consistency in its timekeeping process;
- proper recording of equipment operating time; or
- sufficiency of documentation to support contract costs.

As a result, the City could not always support labor, equipment, and contract costs, as Federal regulations require. Federal regulations require subgrantees to maintain accounting records that adequately identify the source and application of Federal funds and to maintain source documentation to support those accounting records (44 CFR 13.20(b)(2) and (6)). The City did not comply with these regulations because it did not always provide details sufficient to support the eligibility of its costs.



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We selected one project—Project 418, a debris-removal project estimated at \$868,745—to assess the procedures the City used to document disaster costs. We identified a variety of processes that the City can improve and costs that the City must adequately support:

- Labor Costs. The City's timesheets did not identify specific activities that employees performed to ensure the work related to the disaster. Therefore, we could not determine the eligibility of the City's labor costs. The City relied on work orders its employees completed daily to provide at least some detail related to its employees' activities. However, not all City departments required their employees to maintain work orders. Additionally, even when the departments required its employees to complete work orders, the work orders did not always agree with the employees' timesheets or the hours the City charged to FEMA projects. Further, the City could not locate some of the work orders that we requested.
- Equipment Costs. The City did not maintain documentation of its equipment usage and therefore could not properly support its equipment costs. The City relied on the equipment operators' timesheets and used their hours worked to determine equipment usage. However, the timesheets did not identify the equipment the employee used or the specific activities the employee performed. Additionally, the City used FEMA's equipment rates, which required the City to provide documentation that the equipment was in operation for the hours that the City charged. Without documentation on the actual operating hours for the equipment, the City could not properly support its costs calculated using FEMA's rates. For example, the City charged FEMA \$1,900 for 95 hours of pickup truck usage without adequate documentation to support those costs.
- Contract Costs. The City did not always maintain sufficient documentation to support its contract costs. This occurred because the City did not review the contractor's invoices for proper support. For example, the City recorded costs for 46 loads of debris hauling, but could only support 31 loads (or 67 percent); the City could not provide disposal records or driver work tickets for 15 loads, totaling \$9,280.

City officials agreed with this finding and told us that our audit prompted improvements to their processes for documenting labor and equipment costs. They said they would provide us documentation supporting those improvements; we will review this documentation when we receive it and determine its adequacy during audit follow-up. They also told us that they



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would not request reimbursement for costs they cannot support. Colorado officials told us that they have various processes in place to ensure that requests for reimbursement include only eligible costs with proper support. They said that their process reviews costs for eligibility and closely evaluates individual records to identify gaps in the overall documentation subgrantees submit. FEMA officials agreed with this finding and, during our exit meeting, encouraged the City to carefully consider our advice related to properly documenting its costs.

Project Cost Accounting

The City accounted for disaster-related costs on a project-by-project basis, as Federal regulations require (FEMA 322, June 2007, p. 137, Record Keeping). The City assigned project numbers to FEMA projects soon after the disaster occurred to ensure that they could track these costs separately. However, the City could benefit from a more effective project cost accounting process to ensure it charges only eligible costs to FEMA projects.

For example, we identified \$10,494 in ineligible contract costs the City charged to Project 418, including \$7,586 that did not relate to the disaster;⁶ and \$2,908 to remove debris from private properties.⁷ This occurred because the City did not always separate FEMA versus non-FEMA costs in its accounting system (such as using separate purchase order numbers or job codes); the City sometimes comingled both types of costs and charged it to FEMA projects. This is problematic because the City's contractors performed both FEMA and non-FEMA-related work during the same period and their invoices did not always contain sufficient details to allow the City to readily identify non-FEMA work.

City officials concurred with this finding and told us they have since made improvements to the way they identify FEMA-eligible costs. They said they would provide us documentation supporting those improvements; we will review the documentation when we receive it and determine its adequacy during audit follow-up. They also told us that they would not request reimbursement for costs that do not relate to FEMA work. Colorado officials did not comment. FEMA officials agreed with this finding and advised the City to carefully consider our guidance on properly accounting for project costs.

⁶ Eligible work must be the direct result of the declared disaster, correspond directly to the cause of damage, and derive from the project's FEMA-approved scope (FEMA *Public Assistance Guide* (FEMA 322), June 2007, pp. 101 and 139–140; and 44 CFR 206.223(a)(1)).

⁷ The cost of debris removal from private property is generally not eligible unless it endangers lives or property (*Debris Removal from Private Property*, FEMA Policy 9523.13).



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Finding D: Grant Management

City officials did not always have an adequate understanding of Federal rules for recording and documenting disaster costs, project cost accounting, procurement standards, and insurance requirements for a Federal grant. City officials told us that Colorado officials did not consistently provide them with adequate guidance.

Federal rules require Colorado to perform grant management and oversight by ensuring that subgrantees are aware of requirements that Federal statutes and regulations impose on them (44 CFR 13.37(a)(2)); and managing the day-to-day operations of subgrant activity and monitoring subgrant activity to assure compliance with applicable Federal requirements (44 CFR 13.40(a)).⁸

City officials agreed with this finding. FEMA officials told us that Colorado has significantly improved its operations since the disaster occurred, and reiterated that all stakeholders—the subgrantee (City), the grantee (Colorado), and FEMA—must share responsibility for compliance with Federal regulations and FEMA guidelines.

Colorado officials told us that, in addition to the guidance they previously provided the City, they have made significant improvements since the time of our field work. Those improvements include:

1. updating their presentation materials for subgrantee reference on Federal procurement rules;
2. hiring a private-sector contractor to assist subgrantees with the Public Assistance Program process;
3. coordinating FEMA's Procurement Disaster Assistance Teams training of subgrantees;
4. conducting conference calls monthly and onsite monitoring with subgrantees to discuss their challenges and offer solutions; and
5. implementing a large project closeout documentation and certification process, insurance and closeout review, and analytical reviews for requests for reimbursements.

⁸ Further, Colorado's Administrative Plan for Federal Disaster Assistance stipulates that it is responsible for providing technical advice and assistance, providing support for damage assessment operations, supporting project identification activities, and submitting the necessary paperwork for grant awards.



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Recommendations

We recommend that the Regional Administrator, FEMA Region VIII:

Recommendation 1: Direct Colorado to monitor the City's procurement procedures, including those related to the affirmative steps that 44 CFR 13.36(e) requires, to ensure it complies with all Federal procurement requirements so the City avoids improperly spending the \$40,247,846 (Federal share \$30,185,885) that FEMA has awarded for contract costs that it has yet to spend (finding A).

Recommendation 2: Within 6 months of this report's final issuance, complete the analysis of costs that insurance covers and allocate the remaining \$1,195,876 (Federal share \$896,907) of insurance proceeds to reduce the amount of obligated funding for the City's projects (finding B).

Recommendation 3: Disallow as ineligible \$46,478 (Federal share \$34,859) for Project 797 unless the City provides documentation demonstrating that it obtained (and is maintaining) insurance coverage within a reasonable amount of time (finding B). Because the City has taken corrective action, we consider this recommendation as resolved and closed.

Recommendation 4: Direct Colorado to ensure that the City properly documents and accounts for costs properly, and disallow any costs that do not relate to the disaster or that the City cannot adequately support (finding C).

Recommendation 5: Direct Colorado to increase monitoring of the City's subgrant activities and provide technical advice and assistance to ensure the City complies with all applicable Federal grant requirements (finding D).

Discussion with Management and Audit Follow-Up

We discussed the results of this audit with FEMA, Colorado, and City officials during our audit. We provided a draft report in advance to FEMA, Colorado, and City officials, and discussed it at the exit conference with FEMA on July 9, 2015, and FEMA, City, and Colorado officials on October 14, 2015. We included these officials' comments, as applicable, in the body of this report.

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 the contact information of responsible



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parties and any other supporting documentation necessary to inform us about the status of the recommendations. Until we receive your response, we will consider the recommendations open and unresolved.

The Office of Emergency Management Oversight major contributors to this report are Humberto Melara, Director; Devin Polster, Audit Manager; Connie Tan, Senior Auditor; and Willard Stark, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Humberto Melara, Director, Western Regional Office, at (510) 637-1463.



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Appendix A

Objective, Scope, and Methodology

We audited FEMA Public Assistance Program grant funds awarded to the City, Public Assistance Identification Number 013-45970-00. Our audit objective was to determine whether the City's policies, procedures, and business practices are adequate to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number 4145-DR-CO. As of March 31, 2015, the award provided funding for 28 large and 6 small projects.⁹

Our audit covered the period September 11, 2013, through March 31, 2015.¹⁰ As of October 24, 2014, the City had received a total insurance reimbursement of \$5.0 million for storm-related damages but had not requested reimbursement from FEMA for disaster costs. We audited six large projects and one small project to assess the City's policies and procedures for this disaster:

Table 1: FEMA-Approved Projects Reviewed

FEMA Project Number	FEMA Category of Work ⁺	Gross Award Amount	FEMA Insurance Deductions	Net Award Amount
16	B	\$1,345,494		\$1,345,494
418*	A	868,745		868,745
797^	E	358,484	\$306,400	52,084
1079♦	D	5,428,766		5,428,766
1089♦ ¹¹	G	1,187,091	975,574	211,517
1153♦	G	29,457,803	132,672	29,325,131
1194	C	3,017,633		3,017,633
Total		\$41,664,016	\$1,414,646	\$40,249,370

Source: Office of Inspector General (OIG) analyses of FEMA and City documentation

+ FEMA identifies type of work by category: A for debris removal, B for emergency protective measures, and C–G for permanent work.

* Project 418, which was eligible for the Accelerated Debris Removal program, had an 84 percent Federal cost share; all others were eligible for a 75 percent Federal share.

^ Small project.

♦ FEMA awarded these projects under its *Public Assistance Alternative Procedures* and based project obligations on fixed estimates to which the City and FEMA agreed.

⁹ Federal regulations at the time of the disaster set the large project threshold at \$67,500.

¹⁰ We reviewed additional information from FEMA and the City after this date, and as late as October 21, 2015, to clarify and resolve insurance issues in finding B.

¹¹ At the City's request, FEMA consolidated Project 1089 into Project 1153 in October 2014. We separated them in table 1 to illustrate the original net award amounts and insurance deductions.



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Appendix A (continued)

We interviewed FEMA, Colorado, and City officials; assessed the adequacy of the policies, procedures, and business practices the City uses or plans to use to account for and expend Federal grant funds and to procure and monitor contracts for disaster work; 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. As part of our standard audit procedures, we also notified the Recovery Accountability and Transparency Board in February 2015 of contracts the City awarded for the projects we reviewed to determine whether the contractors were debarred or whether there were any indications of other issues related to those contractors that would indicate fraud, waste, or abuse. We did not perform a detailed assessment of the City's internal controls over its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit from October 2014 to October 2015, 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. In conducting this audit, we applied 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 2: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Total	Federal Share
Questioned Costs – Ineligible	\$ 46,478	\$ 34,859
Questioned Costs – Unsupported	0	0
Funds Put to Better Use (Cost Avoidance)	40,247,846	30,185,885
Totals	\$40,294,324	\$30,220,743

Source: OIG analysis of findings in this report



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Appendix C

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Appendix C (continued)

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