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Office of Inspector General
Western Region

Audit Report

Forest Service's Controls
Over Documenting and Reporting
Its Hurricane Relief Expenditures to FEMA

Report No. 08601-51-SF
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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



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REPLY TO
ATTN OF: 08601-51-SF

TO: Abigail Kimbell
Chief
Forest Service

ATTN: Art Seggerson
Audit Liaison

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Forest Service's Controls Over Hurricane Expenditures

This report presents the results of our review of the Forest Service's (FS) controls over documenting and reporting its hurricane relief expenditures to FEMA. The FS' written response to the draft report is included as Exhibit D with excerpts from the Office of Inspector General's position incorporated into the relevant sections of the report.

Based on the written response, we have accepted FS' management decision for all the report recommendations. Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the assistance your staff provided to our auditors during our review.

Attachment

Executive Summary

Forest Service Controls Over Hurricane Expenditures

Results in Brief

The Office of Inspector General (OIG) evaluated the adequacy of Forest Service's (FS) controls over documenting and reporting its expenditures to the Federal Emergency Management Agency (FEMA) in response to the 2005 Gulf hurricanes. We also analyzed issues that affected FS' ability to carry out its own emergency missions while supporting FEMA's disaster relief. Overall, we concluded that FS had adequate controls to account for costs, but that reimbursements were hindered by FEMA's documentation requirements. Since FS pays disaster response expenses from wildfire suppression funds, FEMA's reimbursement rules can adversely affect FS' firefighting funding.

In the event of a national disaster, FS can be directed by FEMA to help respond to the emergency. FS recoups its expenses from Federal disaster relief funds but, afterwards, the reimbursements are subject to FEMA's approval. For questioned costs, FEMA can reverse reimbursements and request further support.

Our audit identified the following critical issues affecting FS' ability to fulfill its primary mission while at the same time meeting its obligations under the National Response Plan (NRP):

FS Not Reimbursed Due to FEMA's Documentation Requirements

FS' ability to assist FEMA during national disasters was hindered by FEMA's requirements for recouping expenses. This occurred because FS and FEMA did not establish criteria beforehand for justifying expenses that FS incurred in support of FEMA's emergency response to the 2005 Gulf hurricanes. Instead, FS was directed to meet documentation requirements from FEMA that were not cost effective given FS' internal controls. As a result, approximately 63 percent of FS' \$186 million in expenditures for the Gulf hurricanes were disallowed by FEMA. This reduced critical firefighting funds and left FS financially responsible for nearly \$117 million in expenses incurred supporting FEMA's disaster relief.

The OIG for FEMA's governing agency, the Department of Homeland Security (DHS), verified the adequacy of FS' controls when they audited FS' hurricane relief expenses. DHS-OIG randomly sampled 213 individual transactions and judgmentally sampled 31 high dollar transactions, totaling roughly \$15 million. They verified that all but three transactions totaling \$490.63 were adequately supported.¹ Based on this error rate of

¹ We disagreed with DHS-OIG's determination for one of the transactions and concluded that all but two of the transactions, totaling \$122.99, were adequately supported.

0.003 percent, FS should coordinate with FEMA to establish the appropriate amount of FS' reimbursements to be paid.

FS Not Reimbursed Due to Untimely and Unclear Property Guidance from FEMA

FS' reimbursements were also denied (reversed) due to unclear requirements for handling property. FS did not meet FEMA's "after the fact" documentation requirements for property FS acquired during its hurricane relief missions. This occurred because FEMA did not communicate its property requirements beforehand and, in the absence of guidance to the contrary, FS used standard emergency procedures as required by the NRP to account for the property. As a result, FEMA disallowed a significant portion of FS' reimbursements, totaling an estimated \$14 million.

FS' ability to account for and receive reimbursements from FEMA was hindered by a lack of communication between FS and FEMA. To prevent future reimbursement reversals, FS and FEMA need to agree as to what property is to be considered accountable or sensitive, and how FEMA wants property inventoried, tracked, and transferred to FEMA before any reimbursements are requested.

FS Did Not Follow Guidance To Resolve Reimbursement Disputes

FS did not follow procedures in resolving questioned reimbursements from FEMA's disaster relief fund; instead, FS reclaimed the questioned reimbursements. This occurred because FS did not think a formal dispute resolution process would solve the issues between itself and FEMA. As a result, FS is involved with FEMA in an ongoing series of charges and reversals, which leaves FS without a stable budget.

To prevent ongoing reimbursement disputes in the future, FS needs to develop policies and procedures directing its staff to follow Treasury's new dispute resolution process for charges and reversals made through the Intra-Governmental Payment and Collection (IPAC) system. Emergency response billing and reimbursement requirements agreed to by FS and FEMA should be included in a memorandum of understanding between the two agencies. This memorandum will guide how FS submits bills to FEMA and should eliminate many of the reimbursement problems that currently exist. If, however, disputes recur, FS should elevate the issue to the Chief Financial Officer (CFO) Council and use the memorandum of understanding as the basis for resolving disagreement.

FEMA Assigned Mission Assignments That Were Incompatible with FS' Role

During the 2005 Gulf hurricanes, FS accepted FEMA mission assignments that were not commensurate with its responsibilities, expertise, and training. This occurred because FS and FEMA had not agreed to mission parameters that made the best use of FS' resources while allowing it to be prepared for other critical duties. After the hurricanes, FS developed and communicated a doctrine to accomplish this in future support missions, but FEMA has not officially responded. Without a clear agreement, there is no assurance that future FEMA mission assignments will result in the cost effective use of FS' limited resources. In addition, the absence of an agreement could negatively impact FS' ability to respond to its own firefighting emergencies.

The doctrine FS developed to address these issues clarifies FS' responsibilities in relation to disaster relief and mission assignments. Until FEMA officially responds to the doctrine, FS faces the likelihood that its resources will continue to be misused in future FEMA assignments. FS should therefore seek FEMA's concurrence with the doctrine and establish procedures to implement it with respect to mission assignments.

In order to ensure the stability of FS' wildfire suppression budget and resources, FS may need to elevate the above issues, as appropriate, to the Undersecretary of DHS for immediate resolution, if the agencies themselves cannot resolve them. Once FS and FEMA agree on the appropriate course of action to take on each issue, they should document the resulting policies and procedures in a memorandum of understanding. Such an agreement should outline what's expected from each agency and prevent any future disputes between the agencies.

Recommendations In Brief

Overall, to address these issues, we recommend that FS:

- Elevate the reimbursement issues discussed above involving documentation requirements to the Undersecretary of DHS for immediate resolution, and document the resulting reimbursement requirements in a formal memorandum of understanding.
- Coordinate with FEMA's CFO to use the error rate established by the DHS-OIG audit of FS' hurricane relief expenditures to resolve the questioned \$117 million and to establish the appropriate amount of FS' expenses to reverse. If FEMA does not agree to use DHS-OIG's audit results, elevate this issue to an impartial party, such as the CFO Council or the Undersecretary of DHS.

- In coordination with FEMA, establish policies and procedures concerning what property to account for, and how to transfer the property to FEMA. Also, coordinate with FEMA to develop property reimbursement reversal procedures that are based on inventories and transfers instead of FS bills.
- Develop policies and procedures regarding IPAC dispute resolution in accordance with the Treasury's rules and use the billing and reimbursement requirements in the memorandum of understanding to resolve disputes.
- Coordinate with FEMA to establish the FS emergency response support doctrine as guidance for mission assignments and document agreement in a memorandum of understanding.

**Agency
Response**

In its written response to the draft report, dated June 19, 2008, FS concurred with all of our findings and recommendations. The complete written response is shown in exhibit D of the audit report.

OIG Position

Based on FS' written response, OIG accepts FS' management decision for all the audit recommendations.

Abbreviations Used in This Report

BLM	Bureau of Land Management
CFO	Chief Financial Officer
DHS	Department of Homeland Security
DOD	Department of Defense
ESF	Emergency Support Function
FEMA	Federal Emergency Management Agency
FS	Forest Service
GAO	Government Accountability Office
IMT	Incident Management Team
IPAC	Intra-Governmental Payment and Collection
MOU	Memorandum of Understanding
NRF	National Response Framework
NRP	National Response Plan
OIG	Office of Inspector General
USDA	United States Department of Agriculture

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Background and Objectives

Background

In 2005, several hurricanes struck the Gulf Coast, causing billions of dollars in damage and affecting millions of people. In accordance with Federal law and executive order, FEMA provided disaster relief partly by coordinating the efforts of other Federal agencies including FS.² FEMA directs agencies through mission assignments, which describe the work, estimate costs, and give completion dates. Overall, FS carried out 102 assignments for FEMA that involved 13,000 people (with related expenses for equipment, supplies, etc.) at a total cost of nearly \$200 million.

FS and FEMA's disaster relief roles are described in the National Response Plan (NRP). Although FS' main responsibility is firefighting, FEMA may also assign missions such as supplying equipment and helping other agencies. In general, FS' onsite incident commanders are charged with determining what resources and actions are needed to meet FEMA's missions. Unless FEMA specifies otherwise, FS must use established emergency response procedures to account for property and costs.³

FEMA's mission assignments also provide a mechanism to reimburse Federal agencies for expenses incurred during disaster relief (e.g., equipment, wages, etc.).⁴ While fulfilling missions, agencies first pay with their own money and then reimburse themselves through the Intra-Governmental Payment and Collection (IPAC) system, with supporting bills submitted to FEMA.⁵ The reimbursements, though, are subject to FEMA's approval. If FEMA decides the expenses are inadequately supported, it can reverse the reimbursements through IPAC and request further justification.

For its hurricane work, FS submitted 150 bills to FEMA and drew \$186 million in reimbursements to cover costs paid initially from wildfire suppression funds. FEMA reversed almost 63 percent of FS' reimbursement—nearly \$117 million. In general, FEMA claimed that FS' bills lacked adequate documentation to support expenses incurred and property acquired. Subsequently, FS collected the money again and FEMA is considering reversing the reimbursements a second time.

In 2006, we conducted a limited review of FS' Gulf hurricane relief expenditures as part of our continued participation in a Government-wide effort coordinated by the Department of Homeland Security's (DHS) OIG to monitor

² When the President declares a major disaster, as with the Gulf hurricanes, Federal assistance can be provided under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. §§ 5121-5206). The act authorizes Federal agencies to take actions such as disaster response to supplement State and local efforts. Through executive orders, the President has made FEMA responsible for administering this assistance.

³ Standard operating interagency firefighting policies and procedures have been established by the National Wildland Coordinating Group and are outlined in the National Interagency Mobilization Guide and the National Interagency Incident Business Management Handbook.

⁴ 44 CFR § 206.8.

⁵ IPAC is a collection system operated by the Department of the Treasury. IPAC's primary purpose is to transfer funds between agencies. Except for the Army Corp of Engineers, all Federal agencies that help FEMA during national emergencies use IPAC to reimburse their mission expenses.

and assess agency relief efforts. During this review we identified concerns regarding the lack of guidance from FEMA about documenting expenditures and tracking items purchased with FEMA funds. All of these issues emphasized the need for FEMA to better coordinate with agencies like FS that assist in disaster responses. Given the results from our preliminary review, the ongoing reimbursement dispute between FS and FEMA, and the potentially adverse affect on FS' firefighting funds, we undertook this audit.

Objectives

Our primary objective was to evaluate the adequacy of FS' controls over documenting and reporting its hurricane relief expenditures to FEMA. We also identified other factors or barriers affecting FS' ability to fulfill its primary mission while at the same time meeting its obligations under the NRP.

Findings and Recommendations

Section 1. Reimbursement

FEMA did not rely on FS' ability to account for expenses incurred while helping respond to the Gulf hurricane disaster. Instead, FEMA denied reimbursements for 63 percent of the \$186 million FS spent, leaving FS responsible for \$117 million--potentially to the detriment of its firefighting program. Although FS followed standard procedures, FEMA required exhaustive support for each cost and item acquired--from pencils to generators. A subsequent audit, however, by the OIG for DHS (FEMA's governing agency) demonstrated that FS had maintained tight control over its expenditures--an error rate of only 0.003 percent for \$15 million in sampled transactions. Currently, FS and FEMA are involved in a recurring cycle of reimbursement and denial instead of using the dispute resolution process established to resolve such disagreements. Further, FS accepted mission assignments from FEMA that were poorly defined and ill-suited to FS' expertise, which wasted resources and endangered personnel. Together, the reimbursement issues and inappropriate missions may hinder FS' ability in the future to help FEMA respond to disasters while carrying out its own critical missions. To resolve these issues, FS and FEMA should establish agreed-upon procedures for reimbursement, property, and missions--consulting the Undersecretary for DHS as necessary.

Finding 1

FS Was Not Reimbursed for Expenses Due to FEMA's Documentation Requirements

FS' ability to assist FEMA during national disasters was hindered by FEMA's requirements for recouping expenses. This occurred because FS and FEMA did not establish criteria beforehand for justifying expenses that FS incurred in support of FEMA's emergency response to the 2005 Gulf hurricanes. Instead, FS was directed to meet documentation demands from FEMA that were not cost effective and were unnecessary given FS' own internal controls. As a result, approximately 63 percent of FS' expenses were disallowed by FEMA, which reduced critical firefighting funds and left FS financially responsible for nearly \$117 million in expenses incurred supporting FEMA's disaster relief.

In the event of a national disaster, FS can be directed by FEMA to help with relief efforts. In these cases, FS recoups its expenses by reimbursing itself from disaster relief funds made available for that purpose. FEMA approves the reimbursements after the fact but may reverse them and request further support (e.g., receipts) if it determines that they were unjustified.

Although FEMA oversees supporting agencies' reimbursements, it should rely on the agencies' internal controls to ensure expenses are accurate and allowed. The National Response Plan (NRP) for Federal disaster response implements this approach by directing FEMA to rely on agencies' accounting systems and internal controls over expenses. FEMA, however, did not rely on FS' controls but required FS to provide extensive support for its hurricane reimbursements. FEMA believed it needed to thoroughly review every transaction despite the adequacy of FS' internal controls due to the criticism FEMA received from the Government Accountability Office (GAO) over its accounting controls in the federal disaster assistance programs it administered. However, we do not believe FEMA's request for additional information should apply to other Federal agencies, particularly those that have demonstrated the effectiveness of their internal controls in accounting for relief expenses.

At FEMA's request, FS provided the necessary staff, equipment, and supplies to the relief effort and charged the disaster relief fund approximately \$186 million, sending 150 supporting bills to FEMA between June 2005 and June 2006.⁶ The bills listed over 83,000 individual transactions that FS incurred while assisting FEMA (e.g. fire fighting crews and incident management personnel, food and shower services, fuel, office supplies, etc.). While the bills do not include receipts for individual transactions, they do demonstrate that the purchases were subject to FS' internal accounting controls as they include transaction amounts, budget object code descriptions, vendor names, contract and agreement numbers, and approximate transaction dates.⁷

To support these expenses, FS relied on the same billing system that it uses to obtain reimbursements from other Federal agencies, and that had been accepted by FEMA in the past for FS' disaster relief expenses. Despite this, FS received notice from FEMA that 63 percent of the expense charges were inadequately supported in light of FEMA's current policy to obtain detailed support for every transaction, and that FEMA required more proof before approving the reimbursements. In some cases, FEMA gave FS less than 2 weeks to respond.

FS believed it was unreasonable and not cost effective to restructure its accounting and billing procedures simply to meet FEMA's exhaustive documentation requirements. For example, rather than the expense descriptions FS used, such as "supplies and materials" or "contractual services", FEMA insisted that FS list each item purchased, identify each piece of equipment rented, and describe how all of them were used during the emergency.

To do so, FS would have had to modify seven automated accounting systems, including three that are USDA-wide. In addition, FS would have to contact each of the thousands of staff involved to determine how precisely they had used the

⁶ We reviewed all billings FS submitted FEMA between June 2005 and June 2006. These billings included hurricanes occurring before Katrina, Rita, and Wilma that were also subjected to reimbursement reversals.

⁷ Budget object classification codes are used by the Federal Government to record its financial transactions according to the nature of services provided or received. The Office of Management and Budget establishes the budget object codes and titles for use by all Federal agencies.

disaster supplies and equipment. Given the short timeframes imposed by FEMA for these time consuming and costly tasks, FS was unable to respond to FEMA’s request.

When FS did not provide the information by FEMA’s deadline, FEMA reversed the charges (disapproved FS’ reimbursements), which left FS responsible for nearly \$117 million of \$186 million of relief expenses.⁸ At the end of fiscal year 2006, FS charged the relief fund again for the expenses, though FEMA may reverse the charges again if the matter is not resolved. We discuss these issues in detail below.

FEMA Did Not Reimburse Other Assisting Federal Agencies

Difficulties with FEMA’s reimbursement requirements are not confined to FS. Several other agencies have experienced similar issues, which resulted in significant reimbursement disapprovals and considerable resources spent to meet FEMA’s requirements. In general, these problems developed from FEMA’s assumption that its review provides the only assurance that reimbursed expenses are appropriate—despite the NRP’s direction to rely on agencies’ internal controls. Since FEMA reviewers generally have no knowledge of the assisting agencies’ emergency response work, they presume expenses are inappropriate and unallowable unless the assisting Federal agencies can prove otherwise.

As a matter of course, FEMA insists on agencies providing almost all supporting documents so that it can double-check their work. For example, as of May 2006, FEMA had disallowed the following disaster relief reimbursements to six assisting Federal agencies (not including FS), totaling over \$1 billion.

Table 1: Agency Reimbursements Denied by FEMA

Federal Agency *	Disallowed %	Disallowed \$
HHS	100 percent	\$ 24 million
FPS	97 percent	\$ 32 million
EPA	83 percent	\$ 45 million
COE	67 percent	\$ 800 million
DOT	35 percent	\$ 102 million
DOD	18 percent	\$ 57 million
Total:		\$ 1.06 billion

*HHS (Health and Human Services), FPS (Federal Protective Service), EPA (Environmental Protection Agency), COE (U.S. Army Corps of Engineers), DOT (Department of Transportation), DOD (Department of Defense)

⁸ The \$117 million pertains to 54 mission assignments for which FS billed FEMA over \$136 million (see exhibit C).

Some agencies have responded to the reversals by providing almost every document associated with each transaction. Although these agencies also disagreed with the FEMA requirement for additional information, in order to be reimbursed, they felt compelled to provide the additional information that FEMA wanted. This has required them to devote sizeable resources to create unique billing systems specifically for FEMA. For example:

- DOD's first set of disaster relief expenses were completely denied by FEMA. DOD then invested about 5 months creating a completely new billing process to meet FEMA's requirements. Subsequently, DOD gave FEMA about 90 percent of the supporting documents for every expense.
- To avoid having its reimbursements disallowed, the Bureau of Land Management (BLM) provided FEMA with 100 percent documentation for every Gulf hurricane expense. The process of requesting, collecting, and billing FEMA for the 2005 and 2006 expenses, which totaled about \$9 million, required two full-time staff and took BLM over 1½ years to complete.

DOD, BLM, and other agencies consider FEMA's requirements to be wasteful and excessive because they unnecessarily duplicate internal controls already in place within the agencies. Further, providing extensive documentation to FEMA does not ensure that legitimate expenses will be timely paid. Instead, doing so can slow rather than speed processing.

For example, when BLM provided receipts to support emergency expenditures that were less than \$100, FEMA's voucher examiners denied the bill because they arbitrarily assumed that a blood pressure monitor and marking pens listed on the receipts were not legitimate expenses. In fact, these expenses were appropriate: the blood pressure monitor was used to support a medical unit and the marking pens were office supplies needed by an incident management team. Such arbitrary FEMA denials require assisting Federal agencies like BLM and FS to provide extensive justifications that further slow the reimbursement process. In the case above, BLM spent several weeks obtaining additional information to support the appropriateness of the questioned expenditures.

FEMA's refusal to rely on agencies' internal controls has resulted in unnecessary cost and delay. More than 2 years after the Gulf hurricane response ended, FEMA continues to review expenditures and threatens to reverse Federal agencies' reimbursements.

Reimbursement Oversight Should Rely on Federal Management Controls

FEMA's oversight of the disaster relief fund and its reimbursement of emergency expenses should be based on the operation and effectiveness of

assisting agencies' management controls. GAO has stated that reviews of individual transactions are unnecessary, and that certifying officials can meet their oversight responsibilities by obtaining documented assurances that the automated systems and key controls relied upon are effective.

If FEMA wishes to assure itself that these management controls are working effectively, the 2007 Department of Homeland Security Appropriations Act authorizes it to designate up to 1 percent of an assisting Federal agency's mission assignment amount for oversight activities. These activities include monitoring and controlling expenditures through Inspector General audits.⁹

Recently, DHS-OIG did such an audit to verify that FS' expenses were appropriate and supported the reimbursement billings received by FEMA. DHS-OIG randomly sampled 213 individual transactions and judgmentally sampled 31 high dollar transactions, totaling roughly \$15 million, for detailed review. DHS-OIG verified that all but three transactions for \$490.63 were adequately supported¹⁰—an error rate of only 0.003 percent. This error rate suggests that only \$5,591 of FS' \$186 million relief expenses lacked adequate support, rather than the \$117 million disallowed by FEMA. Based on this result, FS should coordinate with FEMA and use the error rate to establish the appropriate amount of FS' expenses to reverse.

In light of the demonstrated effectiveness of FS' internal controls, we met with FEMA's Chief Financial Officer (CFO) to determine if FEMA was amenable to modifying its emergency response reimbursement requirements. The CFO acknowledged that FEMA's current reimbursement process is inefficient and needs to be modified but noted that such a shift would require changing FEMA's culture, which would take some time. In the meantime, the CFO said that FS and other Federal agencies would remain subject to FEMA's present requirements.

FEMA also would not indicate if it intended to reverse FS' second reimbursement charge to the disaster relief fund for its hurricane relief expenditures. This uncertainty impairs FS' ability to plan the funding available for critical programs such as firefighting. It also exposes the agency to the risk of anti-deficiency violations because its emergency expenses could exceed available funding if FEMA chooses to reprocess its denial of FS' hurricane reimbursements. Further, FS cannot be sure that expenses incurred assisting FEMA during future disasters will not come at the cost of considerable time (meeting FEMA's documentation demands), money (bearing costs that should be reimbursed), and staff hours (implementing a billing system specialized for FEMA).

⁹ H.R.5441 §693.

¹⁰ We disagreed with DHS-OIG's determination for one of the transactions and concluded that all but two of the transactions, totaling \$122.99, were adequately supported.

Given the potential negative effect on critical FS operations and programs and FEMA's indication that it will not respond timely, FS should elevate the issues involving documentation requirements discussed above to the Undersecretary of DHS for immediate resolution. Based on the outcome, FS and FEMA should agree to a memorandum of understanding that establishes the criteria for supporting documents required for expenses incurred during disaster relief support. FS should also coordinate with FEMA's CFO to use the error rate established by DHS-OIG's audit to resolve the questioned \$117 million and to establish the appropriate amount of FS' expenses to reverse. If FEMA does not agree to use DHS-OIG's audit results, elevate this issue to an impartial party, such as the CFO Council¹¹ or the Undersecretary of DHS, for resolution.

Recommendation 1

Elevate the reimbursement issues involving documentation requirements discussed above to the Undersecretary of DHS for immediate resolution.

Agency Response

FS will elevate the reimbursement issues involving documentation requirements to the Department of Agriculture by preparing a formal document as a proposal to elevate the concerns to the Undersecretary of DHS for resolution. FS' estimated completion date for this action is December 29, 2008.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer a copy of the document it provides the Department of Agriculture proposing that the concerns be elevated to the Undersecretary of DHS for resolution.

Recommendation 2

Document the reimbursement requirements resulting from the Undersecretary's resolution in a formal memorandum of understanding between FS and FEMA.

Agency Response

FS will coordinate with FEMA and create one formal Memorandum of Understanding (MOU) between FS and FEMA where the documentation for billing and reimbursement requirements will be covered. FS' estimated completion date for this action is May 19, 2009.

¹¹ See Finding 3 for further detail on the CFO Council Committee and its responsibility for resolving agency disputes.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer a copy of the formal MOU between FS and FEMA covering the billing and reimbursement requirements.

Recommendation 3

Coordinate with FEMA's CFO to use the error rate established by DHS-OIG's audit to resolve the questioned \$117 million and to establish the appropriate amount of FS' expenses to reverse. If FEMA does not agree to use DHS-OIG's audit results, elevate this issue to an impartial party, such as the CFO Council or the Undersecretary of DHS, for resolution.

Agency Response

The FS' CFO will continue his efforts in meeting with FEMA's CFO to establish the appropriate 'reverse' chargeback amount upon receipt of DHS-OIG's audit results. The agency's goal is to use the error rate determined by DHS OIG to resolve the \$117 million in question. Should conflicts arise in the agreement of the reversed chargeback, FS agrees to elevate the issue to the Department of Agriculture, who will elevate the issue to the Undersecretary of Agriculture, and subsequently elevating it to the Undersecretary of DHS or CFO Council, if appropriate. FS' estimated completion date for this action is December 30, 2008, contingent on the timely release of the DHS-OIG audit report.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer documentation showing that the agreed upon action has been taken.

Finding 2

Untimely and Unclear Property Guidance from FEMA Resulted in Questionable Reimbursement Reversals

Property FS acquired during its hurricane relief missions could not meet FEMA's "after the fact" documentation requirements. This occurred because FEMA did not communicate its property requirements beforehand and, in the absence of guidance to the contrary, FS used standard emergency procedures as required by the NRP to account for the property. As a result, FEMA disallowed a significant portion of FS' reimbursements, totaling an estimated \$14 million.¹²

¹² The estimate is based on reversed purchase card expenses since these were primarily due to unresolved questions about property.

NRP requires FS to account for personal property according to national interagency emergency response policies and procedures. Compliance with these national policies and procedures is mandatory unless the coordinating Federal agency, such as FEMA, provides alternative guidance. In the past, FS and other Federal agencies have asked FEMA to communicate its requirements but they have received inconsistent (or no) responses. Prior to its hurricane relief work, FS again asked FEMA for property guidelines and was told that the agency could not provide specific requirements.

FS, therefore, followed the national standard operating procedures for accounting for and transferring property. After the relief missions, though, FS was faced with requirements from FEMA that had not been communicated beforehand and with which FS was unable to comply. FEMA then used FS' inability to follow the new, alternate rules as the basis for reversing FS reimbursements. We discuss these issues in detail below.

FEMA's Alternate Property Accountability Requirements

FS followed the rules for property laid out in the National Interagency Mobilization Guide and the Interagency Incident Business Management Handbook, which NRP requires the agency to go by unless FEMA directs otherwise. In accordance with the guide and the handbook, FS personnel stated that they kept detailed records for non-expendable personal property (e.g., tents) valued at \$5,000 or more and sensitive property (e.g., cell phones). For other items, FS used general descriptions such as "supplies and materials" or "non-accountable property" in its financial records. After the relief missions ended, FS charged its reimbursements to the disaster relief fund and sent FEMA supporting bills with those descriptions. FEMA informed FS that general categories such as "supplies" were not sufficient to support reimbursements. FEMA now required detailed descriptions for each piece of property purchased, regardless of cost, where before it had allowed (by default) the general descriptions for non-sensitive property below \$5,000. FEMA, for example, demanded that FS account for the purchase, use, and disposal of individual, low-value items like paper, pens, hats, gloves, etc.

To do so, FS would have had to reconstruct each transaction comprising the general categories and to contact thousands of disaster staff to find out how they had used items such as pens and what became of them after the mission ended. Confronted with FEMA's new property rules and the impossibility of working backwards to document every detail about each item, FS could not comply with FEMA's new requirements.

Further, the lack of clearly defined property accountability procedures between FS and FEMA resulted in inaccurate and significantly overstated reimbursement reversals. For example, FEMA disallowed FS purchase card expenses because it believed undeclared property was included in those

charges that had not been transferred to FEMA. These reversals were overstated since many of the transactions FEMA disallowed had nothing to do with personal property, but were instead payments for rental services or travel accommodations. For the charges that did involve personal property, the majority were associated with low-value expendable items like office supplies and gasoline that were consumed during the hurricane response. In this category alone, we estimate FEMA may have overstated its reimbursement reversals by \$14 million.

FEMA's Alternate Property Transfer Requirements

Many of FS' reimbursements were also reversed because FS could not meet newly communicated requirements to prove that property had been transferred to FEMA.

After disaster relief missions, FEMA can require agencies to give it property purchased to fulfill their missions. According to NRP and FEMA policy, FEMA should tell assisting agencies how to transfer the property. However, as with property accountability, FS and FEMA did not establish beforehand how to do so. In the absence of such guidance, as directed by NRP, FS used existing national emergency procedures to inventory and transfer excess property. FS' only direction from FEMA came from a mission assignment training manual that identified FEMA's project officers as responsible for the transfer process.

According to FS, these officers were not on site during or after the disaster. Instead, FS staff who were attempting to transfer property notified FEMA officials of FS' departure day and time. Often, no one from FEMA showed up to take charge of the property. In these cases, FS' staff left a copy of a transfer form with the property and assumed that FEMA officials would eventually come for it. In other cases, FS' staff did not document property transfers because FEMA officials said formal procedures were unnecessary and told the staff to "pile the property in a corner" or "not to worry about it." In still other cases, FEMA officials refused to accept property, stating that FEMA had no use for it or no place to store it.

Consequently, when FEMA later directed FS to prove that all property was in FEMA's possession and should therefore be reimbursed, FS could not provide evidence acceptable to FEMA that the transfers had occurred. As a result, FS' reimbursements for the property were reversed by FEMA.

Reimbursement Reversals Should Be Based on Field Records Rather than Bills

The property accountability and transfer problems between FS and FEMA were due, in part, to the fact that FEMA used FS' bills (instead of inventories and transfer documents) to identify and reconcile property purchases. For

example, FEMA voucher examiners reviewed FS' bills and directed the agency to determine, for thousands of purchase card transactions, if any property had been purchased, and to prove that the property was currently in FEMA's possession. In a separate process, nearly 2 years after the hurricanes ended, FEMA's logistics staff used FS' bills to identify individual property purchases (e.g., six hats, two flashlights, etc.) and directed FS to provide each item's current location. These FEMA requests were not coordinated with the property inventories and transfers that were prepared at the time the transactions occurred.

Since FS could not identify from its bills where individual pieces of property were located or prove that the property was transferred, FEMA subsequently reversed these reimbursements. FEMA requested the same property information from other assisting agencies such as DOD and BLM. Like FS, these agencies were also unable to answer FEMA's property questions using billing documents and therefore had to expend considerable time and effort tracking down and explaining each purchase or risk having their reimbursements reversed.

We spoke with FEMA staff on why FEMA uses FS bills for property accountability. The officials said FEMA uses FS' bills to identify property because the bills are directly linked to FS' reimbursements. However, we believe a direct link between FS bills and its property accountability is not necessary. Instead, property accountability and reversals should be based on inventory and transfer documents created by FS and approved by FEMA during an emergency response.

FS should work with FEMA to develop procedures that link property reimbursement reversals to inventory and transfer documents rather than bills. These property transfer documents, reviewed and approved by FS and FEMA staff, should be routed to FEMA's financial and logistics personnel as evidence that all property has been accounted for and can therefore be reimbursed. If FS cannot account for property during the official transfer process, the cost of this property should be recorded on the transfer form as non-reimbursable. FS can then reduce the amount of one of its bills at a later date to reflect reduction of the non-reimbursable amount, and attach the transfer document as supporting evidence.

Overall, FS' ability to account for and transfer property to FEMA's satisfaction and to be reimbursed was hindered by a lack of communication between the agencies. To prevent future reimbursement reversals, FS should establish clear direction beforehand about the property FEMA considers to be accountable or sensitive, and how FEMA wants FS to inventory, track, and transfer this property at the end of missions.

Since reimbursement is critical to FS' ability to help FEMA respond to disasters while it continues to meet its other responsibilities, FS should elevate these

property issues to the Undersecretary of DHS for resolution if the agencies cannot resolve them timely. Once FS and FEMA agree, FS should document the resulting policies and procedures in a memorandum of understanding.

Recommendation 4

Establish policies and procedures with FEMA about what property to account for, and how to inventory, track, and transfer it at the end of disaster relief missions.

Agency Response

FS agrees to meet and coordinate with FEMA to create one formal Memorandum of Understanding (MOU) between FS and FEMA where the policies and procedures for inventorying, tracking, and transferring property will be covered. FS' estimated completion date for this action is May 19, 2009.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer a copy of the formal MOU between FS and FEMA where the policies and procedures for inventorying, tracking, and transferring property are covered.

Recommendation 5

Coordinate with FEMA to develop property chargeback procedures that are based on inventories and transfers instead of FS' bills.

Agency Response

FS agrees that property chargeback procedures should be based on inventories and transfers rather than FS' bills. In addition, FS will meet and coordinate with FEMA to create one formal Memorandum of Understanding (MOU) between FS and FEMA where property chargeback procedures based on inventories and transfers will be covered. FS' estimated completion date for this action is May 19, 2009.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer a copy of the formal MOU between FS and FEMA where the property chargeback procedures based on inventories and transfers are covered.

Recommendation 6

Elevate these property issues to the Undersecretary of DHS for resolution if FS and FEMA do not timely come to a resolution.

Agency Response

If conflicts arise while FS and FEMA coordinate property and other chargeback procedures, FS will elevate the issue to the Department of Agriculture, who will elevate the issue to the Undersecretary of Agriculture, subsequently elevating it to the Undersecretary of DHS or CFO Council, if appropriate. FS' estimated completion date for this action is May 19, 2009.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer documentation showing that the agreed upon action has been taken.

Recommendation 7

Document agreed-upon property policies and procedures in a memorandum of understanding between FS and FEMA.

Agency Response

FS will coordinate with FEMA in an effort to develop one formal Memorandum of Understanding (MOU) between FS and FEMA where the agreed-upon property policies and procedures will be covered. FS' estimated completion date for this action is May 19, 2009.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer a copy of the formal MOU between FS and FEMA where the agreed-upon property policies and procedures are covered.

Finding 3

FS Did Not Follow Procedures to Resolve IPAC Disputes with FEMA

FS did not follow procedures in resolving questioned reimbursements from FEMA's disaster relief fund; instead, FS reclaimed the questioned reimbursements. This occurred because FS did not think a formal dispute resolution process would solve the issues between itself and FEMA. As a result,

FS is involved with FEMA in a series of charges and reversals, which leaves FS without a stable budget since its expense reimbursements may be reversed again by FEMA.

When FS assists FEMA during a national disaster, FS pays from its wildfire suppression funds for expenses. FS then uses the Intra-Governmental Payment and Collection (IPAC) system to collect reimbursements from FEMA's disaster relief fund. Subsequently, FS submits the reimbursement bill and supporting documents to FEMA for review and approval. FEMA may later reverse the charges if it determines that FS' reimbursements are in error, but FEMA must abide by the rules governing the IPAC system.

IPAC rules only allow reimbursement reversals for charges that are 90 days old or less. Additionally, FEMA must contact FS to discuss the reversal beforehand. If FS decides FEMA is in error, it must discuss the issue with FEMA. If the two agencies come to a resolution, FS can prepare a second charge for the agreed amount. If they do not, the matter must be referred to a dispute resolution task force.

FS spent about \$186 million helping FEMA respond to 2005 Gulf hurricanes and used IPAC to reimburse itself. FEMA subsequently found FS' support for many of the expenses to be inadequate and reversed \$117 million of the reimbursements. FS then overturned FEMA's reversal by using IPAC to re-collect the reimbursements from the disaster relief fund. FEMA has indicated that the agency may also reverse FS' second charge.

FS determined that FEMA's reversals were inappropriate for several reasons. First, FEMA did not question specific transactions or provide the basis for each proposed reversal. Second, FEMA reversed about 62,000 reimbursements based on FS not providing sufficient billing documentation, yet FEMA approved similarly supported expenses in other bills and had not communicated any new requirements to FS. Third, FEMA's reversals exceeded the questioned reimbursements by at least \$4 million.¹³ Finally, more than 70 percent (about \$114 million) of the reversals came 6 months after FS' billings, far outside the 90-day period specified for IPAC adjustments.

Under IPAC procedures, FS should have formally challenged FEMA's reversals and elevated the issue to a dispute resolution task force. Instead, FS and FEMA became involved in a series of charges and reversals. We discussed the issue with FS staff who have used IPAC before to bill for reimbursements from other Federal agencies. They indicated that, prior to FEMA, FS had never had its reimbursements reversed. They contacted FEMA and explained that FS had strong internal controls and should not be required to provide exhaustive support for every expense. When FEMA refused to modify its requirements, FS believed

¹³ The \$4 million estimate was based on our analysis of FEMA's documentation requests for four FS bills. We were unable to examine FEMA's documentation requests for the remaining 50 bills associated with reversals. Consequently, the overstatement of FEMA's reversals could be substantially greater.

formal dispute resolution procedures would be useless and elected to resubmit the charges through IPAC.

In October 2006, the Treasury Department established a new billing dispute resolution process for Federal agencies using IPAC. The new rules require (1) that billing disputes be documented in writing with clear reasons for the dispute, (2) a memorandum of agreement be signed by the CFOs for each department and agency, which acknowledges their active participation, and (3) that the IPAC trading partners have 60 days from the date that a charge is disputed to agree on contractual terms. If an agreement cannot be reached within 60 days, both trading partners' CFOs must request a binding decision from a CFO Council established for this purpose.

To prevent ongoing IPAC reimbursement disputes in the future, FS should develop policies and procedures directing its staff to follow Treasury's new dispute resolution process. Further, emergency response billing and reimbursement requirements agreed to by FS and FEMA should be included in a memorandum of understanding between the two agencies. This memorandum will guide how FS submits bills to FEMA and should eliminate many of the reimbursement problems that currently exist. If, however, IPAC disputes recur, FS should elevate the issue to the CFO Council and use the memorandum of understanding as the basis for resolving disagreement.

Recommendation 8

Develop policies and procedures regarding IPAC dispute resolution in accordance with the Treasury Financial Manual.

Agency Response

FS will coordinate with FEMA to create one formal Memorandum of Understanding (MOU) between FS and FEMA where policies and procedures for the IPAC dispute resolution process will be covered in accordance with the Treasury Financial Manual. FS' estimated completion date for this action is May 19, 2009.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer a copy of the formal MOU between FS and FEMA where policies and procedures for the IPAC dispute resolution process are covered.

Recommendation 9

Use the billing and reimbursement requirements in the memorandum of understanding as the basis for resolving IPAC disputes.

Agency Response

FS will introduce Recommendation 2 to FEMA as a basis for resolving IPAC disputes and ensure it is in accordance with the Treasury Financial Manual as directed in Recommendation 8. FS' estimated completion date for this action is May 19, 2009.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer documentation showing that the agreed upon action has been taken.

Section 2. Mission Assignments

Finding 4 FS Needs To Establish Well Defined, Compatible Mission Assignment Responsibilities with FEMA

During the 2005 Gulf hurricanes, FS accepted FEMA mission assignments that were not commensurate with its responsibilities, expertise, and training. This occurred because FS and FEMA had not agreed to mission parameters that made the best use of FS' resources while allowing it to be prepared for other critical duties. After the hurricanes, FS developed and communicated a doctrine to accomplish this in future support missions, but FEMA has not officially responded. Without a clear agreement, there is no assurance that future FEMA mission assignments will result in the cost effective use of FS' limited resources which can negatively impact FS' ability to respond to its own firefighting emergencies.

Under the NRP, FEMA coordinates Federal agencies' responses to national disasters. Primarily, FEMA directs other agencies through mission assignments, which are derived from emergency support functions outlined in NRP. FS' primary function is firefighting but it may be asked to provide resources (e.g., personnel and supplies) to assist other agencies.

FS devoted considerable assets to support FEMA's disaster relief for the Gulf hurricanes. At FEMA's direction, FS undertook 102 missions in 7 States, which involved 13,000 personnel. FS' response involved over half of the elite firefighting teams that the agency reserves for large, dangerous forest fires. FS' efforts were commendable but many of these resources were misused carrying out incompatible, ill-defined, and long-term missions from FEMA.

Incompatible Missions

Even though NRP makes firefighting FS' primary function, FEMA often assigned general tasks that did not match FS' expertise. For example, FEMA directed FS to dispatch 250 firefighters to Mississippi for fire prevention work. However, when they arrived, FEMA tasked them to hand out pamphlets about FEMA's insurance program. In other cases, FEMA missions directed FS to provide specific resources (e.g. Type 1 and Type 2 teams)¹⁴ rather than specifying the tasks to be done and allowing FS to determine the resources necessary to do them. This resulted in elite firefighter teams being

¹⁴ There are five types of Incident Management Teams. Type 1 and 2 teams have the most expertise, manage the largest number of personnel and resources, and are therefore assigned the most complex missions.

used to perform general labor duties such as debris removal and sifting through rubble, or managing trailer parks.

Ill-Defined Missions

Mission assignments and task orders were often ambiguous and directed FS to provide personnel and other resources for “support as directed by FEMA.” This left FS to guess about the staff and equipment that was needed. When FS’ personnel arrived on site, FEMA officials often were not there to specify the mission, which resulted in a waste of time and resources—precisely when they were needed most for emergency response. The vague assignments also resulted in FS’ personnel arriving for work that they lacked the skills and equipment to do safely. For example, during hurricane Katrina, FS’ responders arrived to provide “support” and found themselves helping to remove victims’ bodies, which requires specialized training to ensure proper protection against disease and to handle the emotional impact.

Long-Term Missions

FS’ emergency personnel were employed in long-term recovery efforts at FEMA’s direction. Missions that originally assigned a short-term response of 30 days or less were often extended several times by FEMA in order to use FS’ emergency response personnel for recovery activities like community planning and monitoring economic recovery. These assignments eventually spanned more than 7 months and were well outside the scope given by NRP¹⁵ and other regulations,¹⁶ which set limits of 60 days or less (except in extraordinary circumstances) and distinguish between immediate disaster response and long-term disaster recovery. These ongoing recovery efforts committed FS’ resources for work that could have been contracted out or taken over by FEMA.

According to FEMA’s national response staff, the unsuitable missions discussed above generally resulted from a lack of communication between the two agencies. They noted that, although FEMA considers itself in charge of the missions and responsible for determining the mission requirements and resources needed, FS should inform FEMA about any concerns. According to FS, the problem is exacerbated by NRP’s lack of guidance for handling such situations.

To date, FS has been able to undertake FEMA’s assignments and fulfill its own responsibilities, but FS has limited emergency resources that are in demand throughout the Nation for firefighting. FEMA, however, has increasingly directed FS to assist with a variety of non-fire incidents ranging from floods to the destruction of the World Trade Center towers on September 11, 2001, to the

¹⁵ In January 2008, the National Response Framework replaced NRP (the National Response Plan). The framework states that “Federal firefighting support is primarily a response function [and] efforts should be made to ensure that firefighting resources are managed and utilized appropriately.”

¹⁶ 44 CFR part 206.208.d, “Federal Disaster Assistance for Disasters Declared on or after November 23, 1988.”

Columbia shuttle recovery. Since 2001, FEMA's use of FS' resources has quadrupled, and in 2005, FS' firefighting incident management teams worked more on FEMA assignments than on fires. Given FEMA's increased reliance on FS, it is fortunate that these missions have not yet consumed resources that were needed at the same time for firefighting, which could have disastrous consequences for FS' ability to protect property and lives from wildfire.

To prevent this from happening, FS has developed an emergency support response doctrine entitled "Foundational Doctrine for All-Hazard Response." The doctrine addresses the issues discussed above by clarifying FS' responsibilities in relation to disaster relief and mission assignments. Specifically,

- The doctrine works to ensure that mission assignments will be appropriate to FS' expertise and training. It specifies that FS' involvement should be limited to emergency response activities such as protecting human life, property, and at-risk lands and resources. Further, the doctrine makes FS responsible for determining which of its resources are best-suited to carry out a particular mission.
- It also calls for well-defined missions, requiring assignments to clearly state what needs to be accomplished, chain of command, delegated authority, and FS' responsibilities.
- The doctrine also promotes timely, effective use of FS' resources. It limits emergency support to those periods of imminent threat. As disasters move from emergency response to long-term recovery, FS will end its involvement and demobilize resources to make them available for other critical responsibilities. Further, the doctrine establishes FS' land management and wildfire suppression duties as first priority, assisting other fire management agencies as second, and responding to non-fire incidents third.

In the summer of 2006, FS provided the doctrine to FEMA, which has yet to officially respond. Consequently, FS faces the likelihood that its resources will continue to be misused in future mission assignments. FS should therefore seek FEMA's concurrence with the doctrine and establish formal procedures to implement it with respect to mission assignments. Given that FS' resources are critical in responding to national disasters and fire emergencies, FS should elevate this issue to the Undersecretary of DHS if it is not resolved timely.

Recommendation 10

Obtain FEMA's formal acknowledgment and agreement with the FS' emergency response support doctrine (Foundational Doctrine for All-Hazard Response) as guidance for mission assignments.

Agency Response

FS successfully incorporated the key principles of the emergency response support doctrine into the Emergency Support Function #4 (ESF4) Annex to the National Response Framework (NRF) during its 2007 revision. This document was reviewed and approved by the Federal Emergency Management Agency (FEMA), and became effective on March 22, 2008. Additionally, based on the Doctrine, FS revised the ESF4 pre-scripted mission assignments (PSMAs) that were approved by FEMA on June 16, 2008, and published them in its biannual PSMA catalog. FS is incorporating the Doctrine into the FS policy and internal directives systems. Once incorporated, FS agrees to coordinate with FEMA to create one formal Memorandum of Understanding (MOU) between FS and FEMA where FEMA's formal acknowledgement and agreement with FS' emergency response support doctrine will be covered. FS' estimated completion date for this action is May 19, 2009.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer a copy of the formal MOU between FS and FEMA containing FEMA's formal acknowledgement and agreement with FS' emergency response support doctrine.

Recommendation 11

If agreement is not reached timely, elevate the mission assignment issues above to the Undersecretary of DHS for resolution.

Agency Response

FS fully expects FEMA to accept and support its emergency response support doctrine (Foundational Doctrine for All-Hazard Response) when presented as agency policy. Key principles of the Doctrine have already been accepted into the ESF4 Annex of the NRF and the PSMA catalog, both of which were approved and distributed by FEMA. FS has also revised the ESF4 standard operating procedures and training of ESF4-qualified personnel, based upon the Doctrine and the expectation of timely FEMA agreement. However, if there is not timely formal agreement by FEMA, the issue will be elevated to the Department of Agriculture, who will subsequently communicate the issues to the Undersecretary of DHS for resolution with the anticipation of final resolution. FS' estimated completion date for this action is May 19, 2009.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer documentation showing that the agreed upon action has been taken.

Recommendation 12

Document the results of recommendations 10 and 11 in a memorandum of agreement between FS and FEMA.

Agency Response

Once FS obtains FEMA's agreement with its emergency response support doctrine (Foundational Doctrine for All-Hazard Response), FS will incorporate the language in the MOU with FEMA acknowledging the Doctrine as FS agency policy and documenting these principles as the guidance for FS assistance. FS' estimated completion date for this action is May 19, 2009.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer a copy of the formal MOU between FS and FEMA acknowledging FS' Foundational Doctrine for All-Hazard Response as FS agency policy and guidance for FS assistance.

Scope and Methodology

The primary purpose of our review was to assess the adequacy of FS' controls over documenting and reporting its Gulf hurricane relief expenditures to FEMA. Our audit primarily covered FS' expenditures relating to hurricanes Katrina, Rita, and Wilma occurring 3 years ago in the Southeast United States. Information from other disasters that FS assisted FEMA on from prior years was also reviewed if determined pertinent to the audit. We also evaluated other factors or barriers affecting FS' ability to fulfill its primary mission while at the same time meeting its obligations under the NRP.

To accomplish our objectives, we performed audit work at the FS, FEMA and DHS-OIG national offices in Washington, D.C., the FS' Albuquerque Service Center in Albuquerque, New Mexico, and FEMA's Disaster Finance Center in Berryville, Virginia (see exhibit A). We also performed audit work at the office of the DHS-OIG contractor hired to review a sample of FS' hurricane relief expenditures. Fieldwork was performed between February 2007 and March 2008.

To determine whether FS' relief expenditures for the Gulf hurricanes were adequately supported and eligible for reimbursement from FEMA, the DHS-OIG contractor selected and reviewed a sample of FS hurricane relief expenditures from two mission assignments¹⁷ with expenditures totaling more than \$134 million, or 69 percent of FS' Gulf hurricane expenses.¹⁸ The DHS-OIG contractor selected for review from the two MAs a total of 244 transactions valued at approximately \$14.6 million of which 213 transactions were randomly selected and 31 high-dollar transactions were judgmentally selected. We also reviewed selected transactions to determine if they were adequately supported and eligible for FEMA reimbursement.

In developing the findings in this report, we also performed the following steps and procedures:

At FS' Washington Office

- Reviewed applicable laws, regulations, policies and procedures pertaining to the documenting and reporting of FS' hurricane relief expenditures.
- Interviewed key FS Washington Office staff to obtain an understanding of FEMA's mission assignment process and its affect on FS' firefighting resources.

¹⁷ 1603DR-LA-USFS-15 and 1604-MS-GSA-16.

¹⁸ This percentage is based on the \$195 million FS billed FEMA as of December, 2006.

- Obtained and reviewed statistics on the number and type of mission assignments FEMA issued FS pertaining to the Gulf hurricanes and the amounts FS billed FEMA for its relief efforts on the hurricanes.
- Contacted other Federal agencies that conducted hurricane relief work for FEMA to determine the status of their hurricane billings to FEMA.

At FS' Albuquerque Service Center

- Interviewed FS accounting and finance staff to determine FS' billing and reimbursement processes.
- Assisted and monitored the activities of the DHS-OIG contract auditors during their review of selected FS hurricane expenditures and acted as a liaison between the contract auditors and FS officials and staff.
- Reviewed the supporting documentation for transactions the DHS-OIG contractor selected for review.

At FEMA's National Office

- Interviewed key FEMA staff to obtain their understanding of FEMA's mission assignment process and billing and reimbursement requirements.
- Interviewed FEMA's Chief Financial Officer to discuss FEMA's documentation requirements in order for agencies to receive reimbursement for their hurricane relief expenditures.

At FEMA's Disaster Finance Center

- Interviewed key FEMA staff to determine FEMA's process for reviewing FS' claims for reimbursement.

At DHS-OIG's National Office

- Interviewed key DHS-OIG staff to discuss any prior or ongoing DHS-OIG audits of FEMA's mission assignments.

We conducted this performance audit in accordance with 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Exhibit A – Summary of Monetary Results

Recommendation Number	Description	Amount	Category
3	Amount FS was reimbursed for its hurricane relief expenditures subject to reversal due to FEMA’s excessive documentation requirements (see exhibit C).	\$116,827,492	FTBPTBU ¹⁹ – Management or Operating Improvements/Savings

¹⁹ FTBPTBU = Funds To Be Put To Better Use

Exhibit B – Audit Sites Visited

AUDIT SITE	LOCATION
<p><u>FS</u> Washington Office</p>	Washington, D.C.
Albuquerque Service Center	Albuquerque, New Mexico
<p><u>FEMA</u> National Headquarters</p>	Washington, D.C.
Disaster Finance Center	Berryville, Virginia
<p><u>DHS OIG</u> Headquarters</p>	Washington, D.C.
Regis and Associates	Washington, D.C.

Exhibit C – Amount FS Reimbursed for Its Hurricane Relief Expenditures That FEMA Reversed

No.	Mission Assignment Number	Billing Document Number	Amount FS Reimbursed	Amount FEMA Reversed
1	1593DR-AL-USFS-03	05441760075	\$281,422	\$70,686
2	1595DR-FL-USFS-02	05441760030	\$932,723	\$432,781
3	1595DR-FL-USFS-02	05441760673	\$3,478	\$81
4	7220SU-FL-USFS-14	05441760081	\$23,721	\$23,721
5	7220SU-AL-USFS-05	05441760026	\$89,121	\$74,913
6	7220SU-FL-USFS-12	05441760020	\$261,139	\$249,717
7	7220SU-LA-USFS-06	05441760146	\$1,212	\$1,212
8	7220SU-MS-USFS-04	05441760025	\$14,933	\$14,933
9	1545DR-FL-USFS-05	05441750600	\$965,878	\$237,879
10	1545DR-FL-USFS-05	05441750604	\$532,513	\$377,374
11	1545DR-FL-USFS-05	05441750605	\$199,012	\$129,983
12	1545DR-FL-USFS-05	05441750606	\$168,721	\$18,213
13	1545DR-FL-USFS-05	05441750610	\$1,115,334	\$455,313
14	1545DR-FL-USFS-05	05441750612	\$399,565	\$162,829
15	1545DR-FL-USFS-05	05441750613	\$319,135	\$238,922
16	1545DR-FL-USFS-05	05441750618	\$678,898	\$253,797
17	1549DR-AL-USFS-02	05441750450	\$3,677,272	\$1,092,739
18	1561DR-FL-USDA-04	05441750617	\$126,724	\$34,214
19	3241EM-AZ-USFS-01	05441760149	\$336,565	\$261,822
20	1602-FL-USFS-02	05441760163	\$717,962	\$141,393
21	1603DR-LA-USFS-01	05441760176	\$319,150	\$90,336
22	1603DR-LA-USFS-02	05441760174	\$1,569,221	\$1,404,363
23	1603DR-LA-USFS-03	05441760171	\$2,912,542	\$2,676,914
24	1603DR-LA-USFS-04	05441760180	\$68,299	\$65,310
25	1603DR-LA-USFS-06	05441760178	\$20,403	\$14,629
26	1603DR-LA-USFS-08	05441760193	\$86,585	\$62,820
27	1603DR-LA-USFS-10	05441760186	\$512,784	\$512,784

No.	Mission Assignment Number	Billing Document Number	Amount FS Reimbursed	Amount FEMA Reversed
28	1603DR-LA-USFS-15	05441760195	\$3,215,568	\$2,560,326
29	1603-LA-USFS-15	05441760196	\$47,143,871	\$43,177,507
30	1603-LA-USFS-16	05441760194	\$1,060,792	\$602,296
31	1604DR-MA-USFS-04	05441760192	\$164,624	\$55,125
32	1604DR-MS-GSA-06	05441760173	\$36,225	\$9,208
33	1604DR-MS-GSA-08	05441760175	\$131,475	\$53,247
34	1604DR-MS-GSA-10	05441760177	\$85,041	\$77,400
35	1604DR-MS-GSA-16	05441760190	\$34,201,864	\$34,201,864
36	1604DR-MS-USFS-01	05441760168	\$1,514,990	\$1,253,789
37	1605-AL-GSA-04	05441760191	\$913,948	\$357,541
38	1605DR-AL-GSA-02	05441760172	\$62,453	\$38,235
39	3216EM-TX-USFS-02	05441760187	\$13,646,843	\$11,099,190
40	7220SU-FL-USFS-15	05441760150	\$56,441	\$3,153
41	1606DR-TX-USFS-01	05441760117	\$27,075	\$4,966
42	1606DR-TX-USFS-02	05441760118	\$12,099,151	\$9,522,919
43	1607DR-LA-USFS-01	05441760677	\$161,637	\$160,777
44	1607DR-LA-USFS-01	05441760680	\$1,038,338	\$832,676
45	1609DR-FL-USFS-02	05441760138	\$30,864	\$18,959
46	3259-FL-USFS-01	05441760112	\$33,004	\$19,019
47	7220SU-TX-USFS-06	05441760113	\$8,020	\$2,008
48	7220SU-TX-USFS-06	05441760674	\$1,953	\$1,953
49	7220SU-TX-USFS-09	05441760115	\$129,525	\$100,867
50	1609DR-FL-USFS-02	05441760131	\$3,691,037	\$3,116,397
51	1609DR-FL-USFS-02	05441760670	\$50,462	\$48,916
52	7220SU-FL-USFS-26	05441760128	\$125,721	\$91,381
53	7220SU-FL-USFS-26	05441760130	\$98,038	\$97,886
54	7220SU-FL-USFS-26	05441760669	\$220,514	\$220,209
TOTAL			\$136,283,786	\$116,827,492

Exhibit D – FS Response to Draft Report



Forest
Service

Washington
Office

1400 Independence Avenue, SW
Washington, DC 20250

File Code: 1430

Date: JUL 25 2008

Route To:

Subject: Response to Office of the Inspector General Official Draft Report Audit Number 08601-51-SF, "Forest Service Controls Over Documenting and Reporting Its Hurricane Relief Expenditures to FEMA"

To: Robert W. Young, Assistant Inspector General for Audit, Office of Inspector General, USDA

The Forest Service has completed the review of OIG Audit Report No. 08601-51-SF, "Forest Service Controls Over Documenting and Reporting Its Hurricane Relief Expenditures to FEMA", issued June 19, 2008. Forest Service concurs with the audit findings and recommendations and agrees to implement the recommendations through the following model:

- 1) Forest Service CFO agrees to elevate the reimbursement issues involving documentation requirements discussed in the 08601-51-SF audit to the Department of Agriculture, who will determine the concerns to be consequently communicated to the Undersecretary of DHS.
- 2) Forest Service CFO will continue his efforts in meeting with FEMA's CFO to establish the appropriate 'reverse' chargeback amount upon receipt of DHS-OIG's audit results. FS concurs with the goal of using the error rate determined by DHS OIG to resolve the \$117 million in question.
- 3) Forest Service will create a formal Memorandum of Understanding (MOU) between FS and FEMA (Rec 2/7). The MOU should cover
 - Documentation for billing and reimbursement requirements (Rec 1/2/9);
 - Policies and procedures for inventorying, tracking, and transferring property (Rec 4);
 - Property and other billing chargeback procedures (Rec 5);
 - Policies and procedures for IPAC dispute resolution process (Rec 8).
 - Agreement with the FS emergency response support doctrine (Foundational Doctrine for All-hazard Response) as FS agency policy and guidance for FS assistance (Rec 10/11/12).
 - Entitlement to administrative fee guidelines for all FS staff efforts regarding billing, reimbursement, and dispute processes.
- 4) Furthermore, should any conflict arise from an issue following the dispute resolution process, FS agrees to elevate the issue to the Department of Agriculture, who will elevate the issue to the Undersecretary of Agriculture, subsequently elevating it to the Undersecretary of DHS or CFO Council, if appropriate.

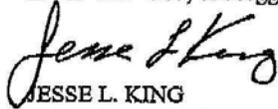


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If you have any questions, please contact Sandy T. Coleman at 703-605-4699, or Art Seggerson at 703-605-4983, or aseggerson@fs.fed.us.



JESSE L. KING
Chief Financial Officer

Enclosure:

cc: Donna M Carmical, Jaelith H Rivera, Richard Kvale, Dale Dague, Gordon Sachs, Lewis F Southard, Marc Rounsaville, Rick Prausa, Tom Harbour, Jennifer McGuire, Dianna Capshaw, Jeffrey G Park, Mary A Szymoniak, Art Seggerson

USDA Forest Service (FS)

**Office of Inspector General (OIG) Official Draft Audit Report No. 08601-51-SF
Forest Service Controls Over Documenting and Reporting
Its Hurricane Relief Expenditures to FEMA
Issued June 19, 2008**

FS Response to Official Draft

OIG Recommendation 1: Elevate the reimbursement issues involving documentation requirements discussed above to the Undersecretary of DHS for immediate resolution.

FS Response: FS concurs with this recommendation. The agency will elevate the reimbursement issues involving documentation requirements to the Department of Agriculture by preparing a formal document as a proposal to elevate the concerns to the Undersecretary of DHS for resolution.

Estimated Completion Date: December 29, 2008

OIG Recommendation 2: Document the reimbursement requirements resulting from the Undersecretary's resolution in a formal memorandum of understanding between FS and FEMA.

FS Response: FS concurs with this recommendation. The agency will coordinate with FEMA and create one formal Memorandum of Understanding (MOU) between FS and FEMA where the documentation for billing and reimbursement requirements will be covered.

Estimated Completion Date: May 19, 2009

OIG Recommendation 3: Coordinate with FEMA's CFO to use the error rate established by DHS-OIG's audit to resolve the questioned \$117 million and to establish the appropriate amount of FS' expenses to reverse. If FEMA does not agree to use DHS-OIG's audit results, elevate this issue to an impartial party, such as the CFO Council or the Undersecretary of DHS, for resolution.

FS Response: FS concurs with this recommendation. The FS' CFO will continue his efforts in meeting with FEMA's CFO to establish the appropriate 'reverse' chargeback amount upon receipt of DHS-OIG's audit results. The agency's goal is to use the error rate determined by DHS OIG to resolve the \$117 million in question. Should conflicts arise in the agreement of the reversed chargeback, FS agrees to elevate the issue to the Department of Agriculture, who will elevate the issue to the Undersecretary of Agriculture, and subsequently elevating it to the

Undersecretary of DHS or CFO Council, if appropriate.

Estimated Completion Date: December 30, 2008 (Contingent on timely release of DHS-OIG audit report.)

OIG Recommendation 4: Establish policies and procedures with FEMA about what property to account for, and how to inventory, track, and transfer it at the end of disaster relief missions.

FS Response: FS concurs with this recommendation. The agency agrees to meet and coordinate with FEMA to create one formal Memorandum of Understanding (MOU) between FS and FEMA where the policies and procedures for inventorying, tracking, and transferring property will be covered.

Estimated Completion Date: May 19, 2009

OIG Recommendation 5: Coordinate with FEMA to develop property chargeback procedures that are based on inventories and transfers instead of FS' bills.

FS Response: FS concurs with this recommendation. The agency agrees that property chargeback procedures should be based on inventories and transfers rather than FS' bills. In addition, FS will meet and coordinate with FEMA to create one formal Memorandum of Understanding (MOU) between FS and FEMA where property chargeback procedures based on inventories and transfers will be covered.

Estimated Completion Date: May 19, 2009

OIG Recommendation 6: Elevate these property issues to the Undersecretary of DHS for resolution if FS and FEMA do not timely come to a resolution.

FS Response: FS concurs with this recommendation. If conflicts arise while FS and FEMA coordinate property and other chargeback procedures, FS will elevate the issue to the Department of Agriculture, who will elevate the issue to the Undersecretary of Agriculture, subsequently elevating it to the Undersecretary of DHS or CFO Council, if appropriate.

Estimated Completion Date: May 19, 2009

OIG Recommendation 7: Document agreed-upon property policies and procedures in a memorandum of understanding between FS and FEMA.

FS Response: FS concurs with this recommendation. FS will coordinate with FEMA in an effort to develop one formal Memorandum of Understanding (MOU) between FS and FEMA where the agreed-upon property policies and procedures will be covered.

Estimated Completion Date: May 19, 2009

OIG Recommendation 8: Develop policies and procedures regarding IPAC dispute resolution in accordance with the Treasury Financial Manual.

FS Response: FS concurs with this recommendation. FS will coordinate with FEMA to create one formal Memorandum of Understanding (MOU) between FS and FEMA where policies and procedures for IPAC dispute resolution process will be covered in accordance with the Treasury Financial Manual.

Estimated Completion Date: May 19, 2009

OIG Recommendation 9: Use the billing and reimbursement requirements in the memorandum of understanding as the basis for resolving IPAC disputes.

FS Response: FS concurs with this recommendation. FS will introduce Recommendation 2 to FEMA as a basis for resolving IPAC disputes and ensure it's in accordance with the Treasury Financial Manual as directed in Recommendation 8.

Estimated Completion Date: May 19, 2009

OIG Recommendation 10: Obtain FEMA's formal acknowledgment and agreement with the FS' emergency response support doctrine (Foundational Doctrine for All-Hazard Response) as guidance for mission assignments.

FS Response: FS concurs with this recommendation. The agency successfully incorporated the key principles of the emergency response support doctrine (Foundational Doctrine for All-Hazard Response) into the Emergency Support Function #4 (ESF4) Annex to the National Response Framework (NRF) during its 2007 revision. This document was reviewed and approved by the Federal Emergency Management Agency (FEMA), and became effective on March 22, 2008. Additionally, based on the Doctrine, FS revised the ESF4 pre-scripted mission assignments (PSMAs) that are published in FEMA's PSMA catalog. The PSMAs were approved by FEMA and the biannual PSMA catalog was distributed on June 16, 2008.

FS is incorporating the Doctrine into the FS policy and internal directives systems. Once incorporated, FS agrees to coordinate with FEMA to create one formal Memorandum of

Understanding (MOU) between FS and FEMA where FEMA's formal acknowledgement and agreement with FS' emergency response support doctrine will be covered.

Estimated Completion Date: May 19, 2009

OIG Recommendation 11: If agreement is not reached timely, elevate the mission assignment issues above to the Undersecretary of DHS for resolution.

FS Response: FS concurs with this recommendation. The agency fully expects FEMA to accept and support FS' emergency response support doctrine (Foundational Doctrine for All-Hazard Response) when presented as agency policy. Key principles of the Doctrine have already been accepted into the ESF4 Annex of the NRF and the PSMA catalog, both of which were approved and distributed by FEMA. FS has revised the ESF4 standard operating procedures and training of ESF4-qualified personnel, based upon the Doctrine and the expectation of timely FEMA agreement.

Upon presentation of the Doctrine to FEMA as FS policy, there is not timely formal agreement by FEMA, the issue will be elevated to the Department of Agriculture, who will subsequently communicate the issues to the Undersecretary of DHS for resolution with the anticipation of final resolution.

Estimated Completion Date: May 19, 2009

OIG Recommendation 12: Document the results of recommendations 10 and 11 in a memorandum of agreement between FS and FEMA.

FS Response: FS concurs with this recommendation. Once agency obtains FEMA's agreement with the FS emergency response support doctrine (Foundational Doctrine for All-hazard Response), FS will incorporate the language in the MOU with FEMA acknowledging the Doctrine as FS agency policy and documenting these principles as the guidance for FS assistance.

Estimated Completion Date: May 19, 2009

Informational copies of this report have been distributed to:

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Director	(1)
Office of Management and Budget	(1)
Government Accountability Office	(2)