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Office of Inspector General

U.S. Coast Guard's Management of 2005 Gulf Coast Hurricanes Mission Assignment Funding

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Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report addresses the strengths and weaknesses of the United States Coast Guard's (Coast Guard's) management of mission assignment funding from the Federal Emergency Management Agency (FEMA). It is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and a review of applicable documents.

We contracted with the independent public accounting firm of Regis & Associates, PC, to perform the review. The contract required that Regis & Associates, PC perform its review according to guidance from the Office of Management and Budget and the Government Accountability Office. Regis & Associates, PC, identified six areas where the Coast Guard's management of mission assignment funds could be improved. Specifically, the Coast Guard needs to: (1) enhance its documentation requirements for its interagency agreements; (2) implement funds control processes; (3) enhance its vendor payment authorization process; (4) develop and implement disaster field command location policies and procedures that enhance property accountability; (5) provide FEMA complete documentation to support reimbursable expenditures; and (6) improve its mission assignment reimbursement billing processes. Regis & Associates, PC, is responsible for the attached independent accountants' report, and the conclusions expressed therein.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

Richard L. Skinner

Richard L. Skinner
Inspector General

REGIS
ASSOCIATES, PC
MANAGEMENT CONSULTANTS &
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Independent Accountants' Report on Applying Agreed-Upon Procedures

Office of Inspector General
U.S. Department of Homeland Security
Washington, D.C.

We have performed certain agreed-upon procedures (the Procedures), as summarized in the Objectives, Scope, and Methodology section of this report, related to mission assignment funding to the U.S. Coast Guard (Coast Guard). These funds were allocated to the Coast Guard by the Federal Emergency Management Agency (FEMA) for the 2005 Gulf Coast Hurricanes. This engagement consisted of reviewing selected management activities for the 57 mission assignments to the Coast Guard for hurricanes Katrina (August 2005), Rita (September 2005), and Wilma (October 2005) issued through March 31, 2006.

The Procedures, which were agreed to by the Department of Homeland Security Office of Inspector General, Office of Emergency Management Oversight, were performed to examine the expenditures made in executing the mission assignments, and to evaluate the management of the mission assignment process from origination to closeout.

This agreed-upon procedures engagement was performed according to standards established by the American Institute of Certified Public Accountants, and guidance from the Office of Management and Budget and the Government Accountability Office. The sufficiency of the Procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the Procedures, either for the purpose for which this report has been requested, or for any other purpose. Our test procedures revealed internal control weaknesses in six areas. These findings and the associated recommendations are presented in the Results of Review section of this report.

We were not engaged to and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Department of Homeland Security Office of Inspector General, Office of Emergency Management Oversight, and should not be used by those who have not agreed to the Procedures and taken responsibility for the sufficiency of the Procedures for their purposes.

Regis & Associates, PC

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Appendices

Abbreviations

DHS	U.S. Department of Homeland Security
FEMA	Federal Emergency Management Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget

Executive Summary

Regis & Associates, PC, under contract with the U.S. Department of Homeland Security Office of Inspector General, reviewed the U.S. Coast Guard's management processes and internal controls for implementing Federal Emergency Management Agency (FEMA)-issued mission assignments related to the 2005 Gulf Coast Hurricanes disaster relief efforts. FEMA is authorized to task other federal agencies, including components within Homeland Security, with needed expertise to carry out specific disaster relief activities. Our objective was to determine whether the Coast Guard had properly designed and implemented management processes and internal controls over the funds it received for the specific mission assignments.

The Coast Guard, for the most part, had contractual instruments in place to quickly engage needed search and rescue assistance from its private sector and government partners. However, the unprecedented scope of the effort may have been a factor in using some of its blanket order agreements for work outside the scope or nature of work envisioned by the underlying contracts.

The Coast Guard had weak funds control practices. Because the funds control feature of the Coast Guard's financial management system was not activated, local operations monitored how much it had been allocated and had spent using spreadsheet applications, and reported use of funds to Coast Guard headquarters on an after-the-fact basis. While this achieved the desired effect of local authority over the use of funds, such practices also increased the risk of obligating more funds than were available, paying for items prior to establishing associated obligations, and paying for unauthorized items with mission assignment funds. These financial management practices are inconsistent with applicable anticipated budgetary and accounting controls.

The Coast Guard did not have adequate documentation to satisfy FEMA's requirements for reimbursements on a major portion of its incurred costs. This was established through our review of nine transactions, amounting to approximately $20.2 million, incurred by the Department of Defense's Naval Sea Systems Command for underwater debris removal services.

Cumulatively, we questioned approximately $20.6 million of the $100.3 million that the Coast Guard had incurred as of March 31, 2006. This included $20.4 million for unsupported expenditures and $0.2 million for the cost of property reimbursed by, but not yet returned to, FEMA.

We are proposing 12 recommendations to the Coast Guard for improving its financial administration of mission assignment funding. The most important aspects of these recommendations deal with implementing the automated budgetary control features of its financial management system and ensuring that any contracts with supporting agencies include provisions for obtaining the cooperation needed to obtain relevant data for meeting its own mission assignment reporting obligations.

Background

The *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (*Stafford Act*), signed into law on November 23, 1988, is the statutory authority for most federal disaster response activities, especially as they pertain to the Federal Emergency Management Agency (FEMA) and FEMA programs. To make federal assistance under the *Stafford Act* available, states must initiate a request for an emergency or major disaster declaration that is reviewed by FEMA for approval of the President. The *Stafford Act* permits FEMA to anticipate declarations, and prestage federal personnel and resources when a disaster that threatens human health and safety is imminent, but not yet declared. FEMA cannot provide federal assistance until an emergency or major disaster declaration is made.

The *Homeland Security Act of 2002* (*Homeland Security Act*) created the United States Department of Homeland Security (DHS) and realigned FEMA, previously an independent agency, as part of DHS within the Emergency Preparedness and Response Directorate. In addition, the *Homeland Security Act* and other Presidential directives established a new, unified, all-hazards framework and plan for future responses to terrorism, natural disasters, special events, and emergencies. This plan, referred to as the *National Response Plan*, which was revised and renamed the National Response Framework in January 2008, establishes a comprehensive, all-hazards approach to enhance the ability of the United States to manage domestic incidents. The National Response Plan incorporates best practices and procedures from incident management disciplines such as emergency management, law enforcement, firefighting, public works, public health, responder and recovery worker health and safety, and emergency medical assistance, and integrates them into a unified structure. It forms the basis of how the federal government coordinates with state, local, and tribal governments and the private sector during incidents, and establishes lead agencies for many different aspects of possible disaster response.

The United States Coast Guard's authority under federal law to conduct maritime operations, such as search and rescue and port security, is continuously in effect, rather than dependent on a Presidential *Stafford Act* declaration or the implementation of the National Response Plan. This statutory authority uniquely positioned the Coast Guard to respond to Hurricane Katrina before the President made emergency or major disaster declarations under the *Stafford Act*. Concurrent with the Coast Guard's historical missions and authorities, the National Response Plan identifies the Coast Guard as a primary agency in the oil and hazardous materials response, and the support agency in six other Emergency Support Functions, including urban search and rescue, and aspects of clearing waterways.

The Coast Guard is responsible for performing a variety of Homeland Security and non-Homeland Security missions:

- Ensuring security in territorial and international waters, and within U.S. ports;
- Conducting search and rescue;
- Interdicting illegal drug shipments and illegal aliens;
- Enforcing fisheries laws;

- Ensuring the safety and facilitation of commerce; and
- Responding to reports of marine pollution.

According to Coast Guard officials, it trains for and performs these missions every day, in units located all over the United States.

To conduct these missions, the Coast Guard employs a wide range of personnel. In 2005, the Coast Guard consisted of approximately 39,000 active duty, 7,000 civilian, and 8,100 reserve members, for a total of approximately 54,100 personnel. The Coast Guard also has access to approximately 31,000 volunteer auxiliary members. During the peak response time period for Hurricane Katrina, which was August 26 to September 16, 2005, the Coast Guard had approximately 5,600 personnel in the Gulf Coast region. About 53 % of these were active duty and civilian personnel who came from other parts of the United States to assist in the response.

On August 29, 2005, Hurricane Katrina devastated the Gulf Coast states of Florida, Alabama, Mississippi, and Louisiana with Category Three winds and torrential rains. By September 9, 2005, Congress passed legislation that provided over $63 billion to DHS for disaster relief. In the aftermath of the Gulf Coast Hurricanes, FEMA issued mission assignments to the Coast Guard to conduct search and rescue activities and to provide law enforcement and air support during hurricane relief efforts. As of March 31, 2006, FEMA had assigned the Coast Guard 57 mission assignments with authority to incur costs up to $442.8 million. Under the provisions of the *Stafford Act*, the Coast Guard is authorized to seek reimbursement from FEMA for eligible costs incurred during the performance of assigned missions. As of March 31, 2006, the Coast Guard had requested $35.1 million from FEMA as reimbursement for costs incurred under mission assignments, and incurred an additional $65.2 million of unbilled reimbursable costs. Of the remaining $342.5 million, $62.6 million had been obligated as of March 31, 2006, and the remainder was designated for additional debris removal services.

Results of Review

This section presents the results of our assessment of the Coast Guard internal control environment used to administer mission assigned tasks and funding, and our tests to evaluate mission assignment procurements, expenditures, and supporting documentation for reimbursement billings.

Our results are presented sequentially, as the Coast Guard would have progressed in its planning and administration of the 57 mission assignments, starting with organizing the effort and ending with steps for obtaining reimbursement for costs incurred on FEMA's behalf. In addition to interviewing Cognizant Coast Guard management staff, we conducted extensive testing of transactions to assess:

- Initial preparedness to implement the mission assignments;
- Financial management system support available and used;
- Conformity of outlays with the mission assignments;
- Controls over receipt, acceptance, and payments for goods and services procured;
- Asset accountability; and
- Validity and support for reimbursement claims to FEMA.

The basis for our test work was a detailed list of all mission assignment obligation, expenditure, and reimbursement billing transaction activity through our March 31, 2006, engagement cut-off date. For each aspect of our testing, we selected transactions that would allow us to cover a large percentage of the dollars involved. Because our work was based on a combination of high-dollar and judgmental sampling, the results are not statistically representative. However, due to high-dollar coverage obtained and the types of internal control issues discussed throughout this report, we believe that our test results reflect the management challenges the Coast Guard faced. Appendix A includes additional details on our objectives, scope, and methodology.

A. Supporting Documentation Requirements for Disaster Response Interagency Agreements

The Coast Guard's requirements for supporting documentation, which were implemented through its use of Pollution Removal Funding Authorization interagency agreements, did not enable it to obtain the type of supporting documentation required by FEMA, nor the information necessary to validate mission assignment expenditures. Although these agreements required performing agencies to maintain supporting documentation that provides a clear audit trail, should a review of documentation become necessary, the agreements' terms emphasized providing evidence of performance. This type of interagency agreement was used by the Coast Guard to order $37.2 million of 2005 Gulf Coast Hurricane response pollution remediation and debris removal services from other federal agencies. Of this total, $20.7 million had been expended as of March 31, 2006.

As part of our review of 136 expenditure transactions totaling $37.6 million, the Coast Guard was unable to provide sufficient supporting documentation for nine expenditures, totaling $20,164,597, that were incurred through the use of this type of interagency agreement and reported to FEMA for reimbursement as Other Contractual Services.

These expenditures were incurred through an agreement with the Naval Sea Systems Command for debris removal services. While the supporting documentation supplied by Naval Sea Systems Command was compliant with Pollution Removal Funding Authorization interagency agreement requirements by providing a description of services performed, it did not provide the type of information necessary to determine whether the expenditures incurred were allowable under the mission assignment.

Through its experiences as an oil and other hazardous materials spill clean-up responder, the Coast Guard has developed specific interagency agreement reimbursement procedures that include requirements for supporting documentation on bills. These procedures are implemented through its execution of a Pollution Removal Funding Authorization interagency agreement. This agreement is a funding tool available to Federal On-scene Coordinators to quickly obtain needed services and assistance from other government agencies (federal, state, or local), as well as recognized Indian Tribes, in oil spill and hazardous materials response actions. Under the terms of this type of agreement, a Federal On-scene Coordinator may agree to reimburse another government agency for costs incurred in providing any agreed-upon removal services and assistance, consistent with the National Contingency Plan.[1] Some of the costs that are reimbursable under a Pollution Removal Funding Authorization include, but are not necessarily limited to, the following:

- Personnel salary costs, including overtime;
- Travel and per diem expenses;
- Appropriate charges for the use of other government agency-owned equipment or facilities; and
- Actual expenses for contractor- or vendor-supplied goods and services obtained by the other government agency, through its own purchasing process, to provide agreed-upon assistance and support to the Federal On-Scene Coordinators.

In accepting the Pollution Removal Funding Authorization, the performing government agency agrees to track its costs and provide documentation to support reimbursement and federal cost recovery actions. The requirements for reimbursement documentation under these agreements, however, require only that the agency organize its documentation in a manner that provides a clear audit trail for reimbursement, without providing specifics as to the type and extent of documentation required.

[1] The National Oil and Hazardous Substances Pollution Contingency Plan, more commonly called the National Contingency Plan, is the federal government's blueprint for responding to both oil spills and hazardous substance releases. It is the result of the country's efforts to develop a national response capability and promote overall coordination among the hierarchy of responders and contingency plans.

As the steward of the Disaster Relief Fund, FEMA has the authority to specify the supporting documentation requirements for all federal agencies providing support and requesting reimbursement from the Fund.[2] Under the standard "Intragovernmental Business Rules,"[3] the ordering and performing agencies agree to the form and content of the performing agency's documented evidence of performance to be provided in support of Intra-Governmental Payment and Collection System[4] transactions. Generally, the agreed-upon form and content includes the information necessary to identify the transaction, its associated interagency agreement, and the charges by budget subobject class. Due to the debilitating impact of disaster response activities on normal agency internal controls, FEMA augmented its supporting documentation requirements to address the increased risk of internal control weaknesses that often occur during the life-saving and life-sustaining rescue and support operations involved with disaster responses. In addition to information necessary to identify a transaction and the associated mission assignment, FEMA requires the following:

- Description of the goods received or services provided;
- Breakdown of hours incurred in support of personnel services;
- For indirect costs, the percentage applied and a description of the costs included in the cost pool;
- For contract services, the contract number, vendor name, total contract cost, and a description of its purpose;
- For property acquisitions:
  - A description of item, vendor name, and unit cost for all nonexpendable or sensitive items greater than or equal to $1,000, and
  - The return of all items described above or an agreement to waive this requirement;
- For property leased, a description of the item, vendor name, and unit cost;
- Identification of motor vehicle costs;
- Identification of costs subtasked to another agency; and
- All "Other Costs" defined.

RECOMMENDATION

We recommend that the Coast Guard:

- **Recommendation #1:** Ensure that all future interagency agreements used to meet mission assignment objectives require the performing agency to compile and provide supporting documentation, consistent with FEMA's requirements.

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[2] *National Response Plan*, Financial Management Support Annex, page FIN-5.

[3] OMB Memorandum M-03-01, "Business Rules for Intragovernmental Transactions;" *Treasury Financial Manual*, Volume I, Bulletin No. 2007-03, "Intragovernmental Business Rules;" and *Treasury Financial Manual*, Volume 1, Part 6, Chapter 4000, "Intra-Governmental Payment and Collection System."

[4] The Intra-Governmental Payment and Collection System's primary purpose is to provide a standardized interagency fund transfer mechanism for Federal Program Agencies. It facilitates the intragovernmental transfer of funds, with descriptive data from one agency to another.

B. Funds Controls Within the Financial Management System

We learned that the Coast Guard operated its financial management system during the fiscal years 2005 and 2006 without fully using its funds control functionality. The full utilization of the system's functionality could flag and prevent the recording of commitments (a reservation of funds for future obligation) in excess of budgetary authority provided by mission assignments. This system configuration resulted in an increased risk of incurring mission assignment expenditures in excess of funding limits, and the processing of improper payments.

According to Coast Guard financial managers, this system configuration allowed field command locations[5] significant flexibility to meet mission objectives while, secondarily, tasking the financial management staff with the responsibility for ensuring compliance with applicable federal financial laws and regulations.

During the performance of disaster response activities, the Coast Guard initially uses its appropriated funds and resources prior to requesting and receiving reimbursement of allowable expenditures from FEMA. By agreement, the Coast Guard may bill FEMA only for the incremental costs[6] of personnel, services, and material directly related to the authorized response effort.

As a policy, Coast Guard field units are authorized to incur expenses, based on a verbal request for assistance from the authorized Emergency Support Function or FEMA representative, provided that the request is followed up by the required mission assignment from FEMA. The unit's Commanding Officers/Officers-in-Charge are authorized to exceed normal operating budgets for their assigned programs in order to comply with a particular mission assignment, with the requirement to follow up with an emergency request for supplemental funding from its associated Administrative Target Unit (e.g., districts, Maintenance and Logistic Commands, headquarter units), as soon as practicable. The Administrative Target Unit has the responsibility of providing financial management services to field units during disaster responses; however, the mission assignment information such as funding limits and performance periods are generally provided by the Commanding Officers/Officers-in-Charge after the response activities have been initiated.

To minimize the agency's risk of being anti-deficient and of processing improper payments while operating its financial management system without fully utilizing funds control, the Coast Guard uses a combination of the following procedures:

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[5] Other federal agencies carrying out mission assignment tasks usually establish a field or site office from which to oversee or administer operations. This office is entirely independent of the Joint Field Office established by FEMA for overall operations and command of the disaster. Most agencies use the standard operating procedures and policies already in place for their permanent field or regional locations to provide the control structure for temporary site locations as well.

[6] Incremental costs as they relate to mission assignments are those expenditures that are incurred solely as a result of the related FEMA taskings.

- Field unit's coding and tracking of ordered goods and services, and incurred expenditures on a personal computer spreadsheet application;
- Administrative Target Unit's establishing mission assignment program codes within the Coast Guard's financial management system to accumulate incremental costs; and
- The manual monitoring of ordered goods and services and incurred expenditures at both the field unit and Administrative Target Unit levels.

The *Anti-Deficiency Act* prohibits agencies from obligating or disbursing more than their appropriations and apportionments, has strict requirements for reporting violations, and includes penalties for violations. According to the Joint Financial Management Improvement Program's Core Financial System Requirements, an agency's core financial management system must ensure that an agency does not obligate or disburse funds in excess of those appropriated or authorized. It must also ensure that specific system edits and user notifications related to funds control are in place.

During our review of 49 Coast Guard procurement actions totaling $146.7 million, we identified an instance of an incurred obligation being recorded incrementally in its financial management system. In that instance, a $748,000 obligation increase, executed on September 26, 2005, was recorded as a $617,000 obligation as of October 10, 2005. The remaining $131,000 was recorded on November 14, 2005.

Of the 136 expenditure transactions selected for validation, we determined that 22 transactions, totaling $143,856, were assigned inaccurate budget object classification codes. Examples included the following:

- A transaction for the purchase of boat motors, classified as Continental U.S. Travel; and
- A transaction for the purchase of a 28-foot camper, classified as Building Acquisition/Construction.

RECOMMENDATIONS

We recommend that the Coast Guard:

- **Recommendation #2:** Ensure that all incurred obligations are recorded in the financial management system, as required by the Office of Management and Budget (OMB).

- **Recommendation #3:** Fully implement the use of its financial management system's funds control capabilities to minimize the risk of incurring mission assignment expenditures in excess of funding limits and the processing of improper payments.

- **Recommendation #4:** Provide training to field command location and financial management personnel in the appropriate use of budget object codes and the processing of transactions in its financial management system with funds control functionality enabled.

C. Vendor Payment Authorization Process

We obtained documentation to enable us to determine the effectiveness of the established controls in the Coast Guard's vendor payment authorization process for mission assignments. These procedures, as required by OMB Circular A-123, "Management's Responsibility for Internal Control," are to ensure that payments to vendors are authorized by the appropriate personnel and that the ordered goods or services are actually needed and requested by the appropriate personnel. We noted the following:

1. Of the 136 expenditure transactions selected for validation, 6 did not contain any evidence of an authorized official's review and approval of the vendors' invoices. These six transactions, totaling $126,714, were recorded in the Coast Guard's financial management system as follows:

    - Supplies and Materials, $107,174;
    - Travel and Transportation, $15,389;
    - Equipment, $3,954; and
    - Contractual Services, $197.

2. For 1 of the 136 expenditure transactions selected for validation, the amount expended per the Coast Guard's financial management system did not agree with the amount displayed on the corresponding vendor invoice. For this exception, the invoice supported the purchase of approximately 25 boats and motors amounting to $93,835. However, the Coast Guard's financial management system and reimbursements billing request identified an expended amount of $107,174, which resulted in a variance of $13,339.

The conditions described above resulted in the identification of $13,339 of questioned costs in unsupported expenditures.

RECOMMENDATION

We recommend that the Coast Guard:

- **Recommendation #5:** Develop and implement a system of internal controls to ensure that all vendor invoices receive the appropriate reviews prior to payment.

D. Disaster Field Command Location Policies and Procedures

The lack of property management procedures and the absence of interagency agreement billing details resulted in weak controls over mission assignment-funded property in the disaster field command locations. We identified three other factors that significantly inhibited the Coast Guard's ability to account for acquired mission assignment property.

- Absence of documentation regarding receipt of property items at field command locations;
- Lack of accountable property tracking systems at field command locations; and
- Coast Guard's informal capitalization and accountable property policy that is inconsistent with DHS' policy.

1. Property Management Controls

FEMA's "Personal Property Management Program" manual[7] documents the procedures and internal controls needed to successfully ensure accountability for property during disaster responses. As documented, disaster field command location receiving processes should include:

- The receiving location receiving advance notice of ordered goods and their anticipated arrival date;
- The status and quantity of received goods being verified at the time of receipt by individuals with receiving responsibilities;
- Evidence of the received property's status and quantity forwarded to the office responsible for vendor payment; and
- Ensuring received property is recorded in an asset tracking system that enables the field command location to continually track the property location; whether the property is currently assigned to anyone; and the property's serviceability.

The implementation of these processes provides an organization with the internal controls that help ensure that:

- The type and quantity of procured goods received by the field command location is accurately recorded;
- Vendor payment is valid;
- They maintain accountability over property; and
- Property meeting DHS' capitalization criteria is completely and accurately presented in the organization's financial management system.

Our tests showed that the property management system contained evidence of receipt for only 106 of the 136 selected expenditure transactions. The acquisition costs of the 30 transactions for which evidence of receipt was not available totaled $194,069, and is classified as follows:

- Sixteen exceptions: Equipment, $106,795;
- One exception: Telecommunication Services, $30,000;
- Ten exceptions: Travel and Transportation, $29,920;
- Two exceptions: Supplies and Materials, $17,695; and
- One exception: Contractual Services, $9,659.

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[7] FEMA Manual 6150.1, "Personal Property Management Program"

In the absence of receiving evidence, we could not confirm:

- The type and quantity of procured goods received by the field command location,
- Whether the vendor payments for these items were valid, or
- Whether the resulting records in the Coast Guard's property management system are accurately presented.

We also determined that 19 of the 136 expenditures selected for testing, acquired at a cost of $212,814, met DHS' criteria as being accountable property, but had not been recorded in the Coast Guard's asset tracking system. These property items included four transactions for the purchase of satellite telephones and boats totaling $130,493 that were miscoded as either Other Contractual Services or Rent, Supplies, and Miscellaneous. All of these 19 items were assets that should have been recorded as either capitalized assets or accountable property within the Coast Guard's property management system until they were no longer useful and processed for disposal.

Property acquired by the Coast Guard to conduct mission assignments is subject to the requirements of FEMA Manual 6150.1, "Personal Property Management Program" and DHS Management Directive 1120, "Capitalization and Inventory of Personal Property." Collectively, this guidance requires accounting for accountable property with an original acquisition cost of $15,000 or more, that by its nature is not expendable or consumable,[8] and the capitalization of property with acquisition costs equal to or exceeding $50,000. In response to our request for the Coast Guard's capitalized and accountable property policies and procedures manual, we were told that the current document was in draft form during the 2005 Gulf Coast Hurricane disaster response, through November 2006, the end of our engagement fieldwork.

These guidelines require that all accountable and capitalized property acquired with mission assignment funding be tracked from their acquisition and use during an agency's disaster field response through either its transfer to FEMA or its disposition. The Coast Guard was unable to provide evidence of its disaster field command location tracking of accountable property in response to our request. It is important to maintain information on the current status of property items for several reasons: to know the quantity available, where it is located, whether it has been issued, and, if so, who has responsibility for its use and possible loss.

We also identified acquired and reimbursed accountable property items that were not returned to FEMA at the conclusion of mission assignments as required by its "Mission Assignment Billing and

[8] Accountable property also includes sensitive and serialized property items. DHS defines sensitive property as accountable property (regardless of original acquisition cost), that is highly susceptible to misuse, loss, or theft, such as pagers, cellular telephones, electronic test equipment, personal computers, thumb drives, or any other storage device that may contain proprietary government information and will be individually accounted for and controlled through the agency's property management system. Serialized equipment includes equipment with a manufacturer's serial number, such as mechanical tools and miscellaneous data processing hardware that is not classified as sensitive property.

Reimbursement Checklist."[9] Within this checklist, FEMA establishes the requirement for an agency to meet one of the following conditions to justify the reimbursement of accountable property expenditures:

- Return the acquired property;
- Provide an account of the property's disposition during its disaster response; or
- Obtain FEMA's authorization to retain the property.

For the $212,814 of expenditures selected that met DHS' accountable property classification criteria and was included in the Coast Guard's reimbursement requests, the Coast Guard could not provide the current location of the accountable property still on hand, nor records of their disposition, in response to our request.

The conditions described above resulted in the identification of $212,814 of questioned costs for reimbursed accountable property that had not been returned to FEMA.

RECOMMENDATIONS

We recommend that the Coast Guard:

- **Recommendation #6:** Conduct periodic reconciliations between procurements, receiving documentation, the disaster field command location property tracking system, and a physical inventory at all field sites to ensure that procured goods were properly received by the field command location, vendor payments are supported, and all acquired property is accurately presented in the property management system.

- **Recommendation #7:** Forward acquired and reimbursed accountable property to FEMA, or process a billing adjustment for the identified accountable property amount of $212,814.

2. Interagency Agreement Billings

The Coast Guard's expenditure records suggest that, compared to its overall outlays in support of the 57 mission assignments, it had purchased only limited amounts of property to support deployed personnel. We determined that it had not developed, or put in place, effective procedures to sustain accountability for these items. The Coast Guard's practices for contracting for the disaster response assistance, through its interagency agreement process, may mask the extent of property purchases.

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[9] Requirements established by FEMA for supporting documentation and reimbursement transactions on their website (http://www.fema.gov/government/billinst.shtm) as referred to in the Financial Management Support Annex of the National Response Plan (page FIN-5).

For the most part, the Coast Guard contracted for debris removal and mitigation of environmental issues, which composed the bulk of its mission assignment work. As described previously, we selected transactions that covered approximately $37.6 million of the mission assignment expenditures. For those that the Coast Guard had arranged for and provided supporting documentation, our review of the supporting documentation did not identify substantial equipment purchases. These expenditures were for contractual services at agreed-upon rates. We found numerous instances where vendors could not meet contract requirements with their own equipment, and as a result, these vendors either subcontracted with others for assistance or leased items, as needed.

The Coast Guard contracted with Naval Sea Systems Command to perform additional debris removal services through the use of its Pollution Removal Funding Authorization. As discussed previously, the type of interagency agreement used by the Coast Guard requires only that the performing agency provide performance data as support for reimbursement. In the absence of detailed billing data, we were not able to determine whether Naval Sea Systems Command met its contractual requirements through the use of subcontractors or leased or acquired property. While Naval Sea Systems Command had an established relationship with the Coast Guard for debris removal services, Coast Guard procurement officials informed us that the scope of this effort was beyond Naval Sea Systems Command's internal capacity, and that additional contracting had occurred. In the absence of documentation supporting billed amounts paid by the Coast Guard, there is no certainty that the Coast Guard did not pay for certain property augmentation or subcontractor purchased property. To the extent that this occurred, additional detail would have to be obtained on the Naval Sea Systems Command billings to identify costs associated with property purchased and billed to the Coast Guard but retained by Naval Sea Systems Command. Upon our request, the Coast Guard was unable to provide the documentation required to assess the amount of accountable property to be refunded or turned over to FEMA.

RECOMMENDATION

We recommend that the Coast Guard:

- **Recommendation #8:** Ensure that all future interagency agreements used to meet mission assignment objectives require the performing agency to compile and provide supporting detail on property purchased and billed to the Coast Guard.

E. Documentation for Supporting Expenditures

The Coast Guard did not have sufficient supporting documentation for approximately $20.4 million of the $100.4 million it had expended on the 57 mission assignments as of March 31, 2006. This is a significant weakness in accountability for federal funding and was a substantial portion of the $20.6 million that we considered to be questionable costs incurred by the Coast Guard in carrying out the mission assignments. We identified the $20.4 million of unsupported costs by testing 136 expenditure transactions totaling $37.6 million, about 38% of total Coast Guard outlays. Our Objectives, Scope, and Methodology described in Appendix A provide the details on our sample selection.

We asked the Coast Guard to provide us the underlying purchase orders, invoices, and acceptance and receipt documentation. We then analyzed the supporting documentation that the Coast Guard provided for each expenditure transaction to determine whether it was sufficient to confirm that each was a valid outlay. Based on this audit work, we concluded that 30 of the 136 transactions totaling about $20.4 million were not fully supported. In addition to OMB standards for maintaining documentation in support of incurred expenditures, documentation evidencing all mission assignment expenditures is required by FEMA for reimbursement.

Of these unsupported amounts, $20.2 million was the direct result of interagency agreements previously discussed in this report. We present the remaining results of our work below, classified according to the related budget object class. For each budget object class, we identify the number of transactions for which the Coast Guard did not provide sufficient documentation and the amounts involved, which we consider to be questionable costs.

1. ***Rent, Supplies, and Miscellaneous*** – supporting documentation was not provided for 12 of the 40 rent, supplies, and miscellaneous expenditure selections. Questioned costs totaled $190,910.

    - Supplies and materials, $72,024
    - Contractual services $61,435
    - Travel and transportation of persons, $32,456
    - Transportation of things, $16,852
    - Personnel compensation, $8,143

2. ***Travel and Transportation*** – supporting documentation was not provided for 9 of the 33 travel and transportation expenditure selections. Questioned costs totaled $22,024. One of the nine transactions in the amount of $763 was processed in the Coast Guard's financial management system as Supplies and Materials, while the remaining eight transactions were processed as travel and transportation expenditures.

RECOMMENDATION

We recommend that the Coast Guard:

- **Recommendation #9:** Ensure adherence to its requirements to retain detailed documentation supporting transactions.

F. The Mission Assignment Reimbursement Billing Process

Inefficiencies in the Coast Guard's manual mission assignment reimbursement billing process can be lessened through improvements in its financial system and management control environment. The Coast Guard's practices for recording transactions, its financial management system controls, and lack of interagency supporting documentation made it administratively difficult to compile the necessary supporting documentation for reimbursement. This condition substantially increases the risk that expenditures may not be correctly classified for purposes of reimbursement from FEMA.

The Coast Guard is cognizant of the fact that its budgetary control and accounting processes compromise the data quality that would otherwise be available for documenting billings to FEMA. We were informed that prior disaster billings have always been manageable, but that the increased volume of billings associated with the 2005 disaster response overwhelmed the capacity of in-house staff that performed these duties in addition to their normal daily functions.

The Coast Guard's operation of its financial management system, without the full utilization of its funds control function, increases the risk of obligations being incurred without confirmation of the availability of funds. This condition also has resulted in the processing of disbursements without preceding obligations, and incurring disaster relief expenditures that do not qualify for reimbursement. For example, in January 2006, a reimbursement bill was created that resulted in a $1.9 million Intra-Governmental Payment and Collection System collection by the Coast Guard of which $1.3 million was subsequently determined to be unallowable and refunded to FEMA as of the engagement's cutoff date of March 31, 2006.

In order to address the risk of overbilling or seeking the reimbursement of unallowable costs resulting from disabling its financial management system's funds control functionality, the Coast Guard hired a contractor to perform disaster relief reimbursable expenditure validation and bill compilation services. Bills compiled were forwarded to Coast Guard headquarters for a second detailed review, which included recalculating all amounts and ensuring that all supporting documents and schedules were attached. Upon completion of the second review, the reimbursement billings are processed through the Intra-Governmental Payment and Collection System. However, the implementation of these additional controls has resulted in a backlog of reimbursement requests.

The procedures created to minimize the risk of seeking reimbursement of disallowed expenditures included:

- The manual review of supporting documentation for all expenditures designated as reimbursable with disaster relief funding (7,612 transactions through March 31, 2006) during the preparation of the Intra-Governmental Payment and Collection System supporting documentation package; and

- A secondary review of the reimbursement billing package and supporting documentation package prior to processing an Intra-Governmental Payment and Collection System transaction.

The manually intensive process of reviewing all expenditures during the preparation of a reimbursement-billing package resulted in the Coast Guard procuring a contractor with the full-time responsibility of performing disaster relief reimbursable expenditure validations. The secondary review performed on each Authorization to Bill (billing) package prior to its Intra-Governmental Payment and Collection System processing has resulted in a backlog of 72 billing packages, totaling $48.7 million. This represents 59% of the total number of disaster billings, and 47% of the total billed amount, that had not been processed through the Intra-Governmental Payment and Collection System as of March 31, 2006.

We reviewed 28 billing packages covering more than $80 million and determined that, with minor exceptions, they substantially met FEMA's documentation requirements. However, the inability of the Coast Guard to bill for reimbursement of incurred mission assignment expenditures in a timely manner affects its funding availability and negatively impacts its ability to respond to disaster activities and perform appropriated functions efficiently.

Such delays in obtaining reimbursements under mission assignments can inhibit effective management of appropriated funds at year-end. When a disaster response is required and the extent of mission assignment funding is not known, the Coast Guard is required to initially fund disaster response activities with its annual appropriation until reimbursed by FEMA. The inability of the Coast Guard to bill for reimbursement of incurred mission assignment expenditures in a timely manner affects its funding availability, and can potentially detract from its ability to efficiently respond to disaster activities and perform functions supported by appropriated funds.

RECOMMENDATIONS

We recommend that the Coast Guard:

- **Recommendation #10:** Create a reimbursement billing package preparation checklist consistent with FEMA's reimbursement billing supporting documentation requirements.

- **Recommendation #11:** Ensure that the billing package preparation checklist is completed during the Coast Guard's reimbursable expenditure validation process and obtain certification of its completeness.

- **Recommendation #12:** Modify the procedures performed during the secondary review of the reimbursement billing process to reduce backlog.

Management Response and OIG Analysis

We sought but did not receive formal comments from the U.S. Coast Guard to include in this report, although the U.S. Coast Guard did informally concur with all our recommendations. During the audit and after our fieldwork, the U.S. Coast Guard worked to improve its operation involving mission assignments. For example, the U.S. Coast Guard is revising its Financial Resources Management Manual to address many of the problems we identified. We offered 12 recommendations aimed at improving the U.S. Coast Guard's management of mission assignment funding from the Federal Emergency Management Agency. We consider all the recommendations resolved because steps have been taken to implement them, but they will remain open until they have been fully implemented. The U.S. Coast Guard anticipates revisions to the Financial Resources Management Manual will be completed by the 3rd quarter of fiscal year 2010. We will close each recommendation as the U.S. Coast Guard provides evidence they have been fully implemented.

Appendix A
Objectives, Scope, and Methodology

DHS Office of Inspector General (OIG) contracted with Regis and Associates, PC to assess the U.S. Coast Guard's (Coast Guard's) mission assignment management and financial management controls and offer recommendations for any needed improvements. This effort is part of the overall objective of the DHS OIG to ensure accountability in the management and expenditure of funds for relief and recovery efforts relative to disasters.

The scope of this review includes the 57 mission assignments issued to the Coast Guard by FEMA for disaster response assistance in the Gulf Coast region resulting from hurricanes Katrina, Rita, and Wilma (2005 Gulf Coast Hurricanes); the management processes and financial management controls applicable to these mission assignments; and the related contracts, expenditures, and reimbursement billings for the period August 29, 2005 through March 31, 2006. Our review objectives were to assess whether the management processes and financial management controls were properly designed and implemented, and to determine whether the contracts used, expenditures incurred, and reimbursements requested were authorized, valid, and appropriately supported.

These agreed-upon procedures were performed in accordance with standards established by the American Institute of Certified Public Accountants and guidance from the Office of Management and Budget and Government Accountability Office.

We reviewed selected previous DHS OIG and Government Accountability Office reports concerning the Coast Guard's 2005 Gulf Coast Hurricanes mission assignment management to familiarize ourselves with prior recommendations, regulations, and guidance applicable to the Coast Guard's processes and controls. The results of these reviews were incorporated into our risk assessment for this engagement and our reported results.

The management processes and financial management controls assessment included information gathering through interviews with appropriate personnel, as well as evaluating the management controls and process design. These evaluations were done through review of current policies and procedures and those that existed during the 2005 Gulf Coast Hurricanes.

The determination as to whether the contracts used, expenditures incurred, and reimbursements requested were authorized, valid, and appropriately supported included our review of supporting documentation made available by the Coast Guard in each of these areas. We obtained a list from the Coast Guard of all procurement, expenditure, and reimbursement billing transactions from its financial management system for the period August 29, 2005, through March 31, 2006. These transactions were stratified among procurement, expenditure, and reimbursement billing categories for the performance of test procedures specific to each transaction category.

For our tests of procurements, we used a high-dollar criterion to select 49 procurements, representing $146.7 million, or 90% of the $163 million gross obligation total.

For our tests of expenditures, we stratified expenditure transactions by budget object code into five categories with similar processes and controls:

- Other contractual services;
- Overhead;
- Travel and transportation of persons;
- Supplies and materials and rent, communications, and utilities; and
- Equipment.

We used a high-dollar criterion within each category to select a total of 136 expenditures. The following table provides an overview of expenditures incurred through March 31, 2006, and selections for each of the above categories.

Table 1 Coast Guard 2005 Gulf Coast Hurricane Incurred Expenditures through March 31, 2006 and Selections

Expense Category	Incurred Expenditures (000s)	# of Selections	Selection Total (000s)	% Coverage
Other Contractual Services	$ 82,316	37	$ 27,831	34%
Overhead	9,241	2	9,050	98%
Travel and Transportation of Persons	5,068	33	99	2%
Supplies and Materials and Rent, Communications, and Utilities	3,542	40	550	16%
Equipment	107	24	107	100%
TOTALS	**$ 100,274**	**136**	**$ 37,637**	**38%**

When summarized transactions were selected using the high-dollar value criterion, we made additional judgmental selections and performed detailed tests on individual personnel and travel expenditures within the summary transaction total.

For our tests of reimbursement billings, we used a high-dollar criterion to select 28 billings representing $80.4 million of the total $102.5 million of reimbursements requested through March 31, 2006.

Our fieldwork was conducted from April 25, 2006, through November 3, 2006, and included visits to Coast Guard headquarters in Washington, DC, and its offices in Virginia.

Appendix B
Recommendations

Recommendation #1: Ensure that all future interagency agreements used to meet mission assignment objectives require the performing agency to compile and provide supporting documentation, consistent with FEMA's requirements.

Recommendation #2: Ensure that all incurred obligations are recorded in the financial management system, as required by the Office of Management and Budget (OMB).

Recommendation #3: Fully implement the use of its financial management system's funds control capabilities to minimize the risk of incurring mission assignment expenditures in excess of funding limits and the processing of improper payments.

Recommendation #4: Provide training to field command location and financial management personnel in the appropriate use of budget object codes and the processing of transactions in its financial management system with funds control functionality enabled.

Recommendation #5: Develop and implement a system of internal controls to ensure that all vendor invoices receive the appropriate reviews prior to payment.

Recommendation #6: Conduct periodic reconciliations between procurements, receiving documentation, the disaster field command location property tracking system, and a physical inventory at all field sites to ensure that procured goods were properly received by the field command location, vendor payments are supported, and all acquired property is accurately presented in the property management system.

Recommendation #7: Forward acquired and reimbursed accountable property to FEMA, or process a billing adjustment for the identified accountable property amount of $212,814.

Recommendation #8: Ensure that all future interagency agreements used to meet mission assignment objectives require the performing agency to compile and provide supporting detail on property purchased and billed to the Coast Guard.

Recommendation #9: Ensure adherence to its requirements to retain detailed documentation supporting transactions.

Recommendation #10: Create a reimbursement billing package preparation checklist consistent with FEMA's reimbursement billing supporting documentation requirements.

Recommendation #11: Ensure that the billing package preparation checklist is completed during the Coast Guard's reimbursable expenditure validation process and obtain certification of its completeness.

Recommendation #12: Modify the procedures performed during the secondary review of the reimbursement billing process to reduce backlog.

Appendix C
Schedule of Questioned Costs

During our review, we observed the conditions listed below, which are discussed in detail in the Results of Review section of this report. The following questioned costs were identified:

Condition[10]	Description	Amount
A	Unsupported interagency agreement expenditures	S 20,164,597
C	Undocumented vendor payment authorization	13,339
E	Unsupported rent, supplies & miscellaneous	190,910
E	Unsupported travel & transportation	22,024
D	Accountable property not returned to FEMA	212,814
TOTAL QUESTIONED COSTS		**$ 20,603,684**

[10] The "condition" refers to the lettered section of the report in which the questioned costs are described.

Appendix D
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