



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Atlanta Field Office - Audit Division
3003 Chamblee Tucker Rd
Atlanta, GA 30341

May 27, 2003

MEMORANDUM

TO: Kenneth O. Burris, Jr.
Regional Director, FEMA Region IV

FROM: Gary J. Barard
Field Office Director

SUBJECT: Beaufort County Board of Education
Washington, North Carolina
FEMA Disaster No. 1134-DR-NC
Audit Report No. DA-11-03

The Office of Inspector General (OIG) audited public assistance funds awarded to the Beaufort County Board of Education, Washington, North Carolina. The objective of the audit was to determine whether the Board accounted for and expended FEMA funds in accordance with federal regulations and FEMA guidelines.

The Board received an award of \$9,462,041 from the North Carolina Emergency Management Agency, a FEMA grantee, to remove debris, provide emergency protective measures, and repair and replace school facilities damaged as a result of Hurricane Fran in September 1996. The award provided 90 percent FEMA funding for 11 large projects and 5 small projects.¹ Audit work was limited to the \$9,427,831 claimed under the 11 large projects (see Exhibit).

The audit covered the period September 1996 to September 2002. During this period, the Board received \$8,179,540 of FEMA funds under the 11 large projects.

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included tests of the Board's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

¹According to FEMA regulations, a large project costs \$44,800 or more and a small project costs less than \$44,800.

RESULTS OF AUDIT

The Board's claim included questioned costs of \$291,738 (FEMA share \$262,564) resulting from excessive and unsupported charges, losses covered by insurance, unapplied credits, and duplicate charges.

A. Excess Charges. The Board's claim under two projects included \$127,558 of excess charges, as follows:

- The Board claimed \$179,800 under Project 01120 for the replacement of 200 desktop computers at \$899 each. However, only 111 desktop computers were damaged during the disaster. Accordingly, the OIG questions charges of \$80,011 (89 x \$899).
- The Board claimed \$113,400 under Project 78466 for a sewer connection fee paid to the Town of Belhaven for two relocated schools (Northside Elementary and Northside High School). The fee was paid before construction work on the schools was completed and was calculated based on a formula using an estimated user population (students and school workers) of 1,400 persons. However, contrary to the written agreement with the Town, the fee was not recalculated upon project completion to reflect the actual user population of 813. Based on 813 users, the OIG determined that the Board's claim should have been \$65,853, or \$47,547 less than the amount claimed. Accordingly, the OIG questions the excess charges of \$47,547.

B. Unsupported Costs. The Board did not have support for \$80,738 of project charges. Under Project 40316, the Board claimed \$142,158 to replace damaged contents and make repairs to P.S. Jones School. However, the Board had invoices and cancelled checks to support charges of only \$88,752, or \$53,406 less than the amount claimed. Accordingly, the \$53,406 is questioned.

Also, under Project 45014, the Board claimed \$27,332 of contract charges to teardown and return leased modular classroom units. However, the Board did not have documentation (freight receipts, field reports, employee timesheets, etc.) to support these charges. The OIG questions the unsupported charges of \$27,332.

C. Losses Covered by Insurance. The Stafford Act prohibits the use of public assistance funds for damages covered by insurance. As such, grant recipients are responsible for pursuing full insurance recoveries and crediting FEMA projects with all applicable proceeds. However, the Board's claim included \$41,211 of charges covered by insurance, as follows:

- The Board received insurance proceeds of \$93,947 under Project 40316 to cover losses to P.S. Jones School. The Board, however, only credited the project with \$83,947 of proceeds. The OIG questions the uncredited difference of \$10,000.
- The Board received \$513,610 of insurance proceeds under Project 45010, but credited the FEMA project with \$512,224, or \$1,386 less than the amount received. Further, the Board's insurance carrier withheld payment of \$29,825 for depreciation until all repairs and replacements were completed under the project. However, upon completion of project work, the Board failed to pursue recovery of the \$29,825. Accordingly, the OIG questions the \$31,211 of losses covered by insurance.

D. Unapplied Credits. U.S. Office of Management and Budget Circular A-87 states that costs claimed under a Federal award must be net of applicable credits. Such credits, whether accruing to or received by the governmental unit, shall be credited to the federal award either as a cost reduction or cash refund, as appropriate. The Board, however, failed to apply credits totaling \$40,430 to the FEMA projects, as follows:

- The Board claimed \$38,330 under Projects 01120 (\$37,357) and 40316 (\$973) for sales taxes paid on school equipment and materials acquired between August 1998 and July 2001. However, effective August 1998, State law (GS 105-164.14) exempted local education agencies from paying sales and use taxes on items purchased for school purposes. Accordingly, the Board should seek a refund for taxes paid and credit the projects with the \$38,330 refund.
- The Board disassembled temporary classroom units and wood decking funded under Project 45014 and sold the decking as scrap for \$2,100. However, the project was not credited with the proceeds from the sale. Accordingly, the OIG questions the \$2,100.

E. Duplicate Charges. The Board claimed \$1,801 of the same costs for legal fees under Project 45013 and Hazard Mitigation Project HMGP 1134-0030. These fees were applicable to the hazard mitigation project. Accordingly, the OIG questions the duplicate claim of \$1,801 under Project 45013.

RECOMMENDATION

The OIG recommends that the Regional Director, in coordination with the grantee, disallow the \$291,738 of questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

The results of the audit were discussed with FEMA officials on March 18, 2003, and with grantee and Board officials on March 20, 2003. Board officials concurred with the findings.

Pursuant to FEMA instruction 1270.1, please advise the Atlanta Field Office – Audit Division by July 22, 2003, of the actions taken to implement the OIG recommendation. Should you have any questions concerning this report, please contact me or David Kimble at (770) 220-5242.

Beaufort County Board of Education
FEMA Disaster No. 1134-DR-NC
Schedule of Claimed and Questioned Costs
Large Projects

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Claimed</u>	<u>Amount Questioned</u>
71978	\$ 327,000	\$ 327,000	
74852	100,288	100,288	
01120	792,890	792,890	\$117,368
40316	142,158	142,158	64,379
45010	4,680,260	4,680,260	31,211
45011	580,116	580,116	
45013	200,873	200,873	1,801
45014	1,292,284	1,292,284	29,432
45015	103,650	103,650	
78466	848,400	848,400	47,547
77649	<u>359,912</u>	<u>359,912</u>	
Total	<u>\$9,427,831</u>	<u>\$9,427,831</u>	<u>\$291,738</u>