



DEPARTMENT OF HOMELAND SECURITY

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

July 16, 2003

MEMORANDUM

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

FROM: *for* Gary J. Barard
Field Office Director

P. David Kinble

SUBJECT: North Carolina Department of Environment and Natural Resources
FEMA Disaster No. 1292-DR-NC
Audit Report No. DA-19-03

The Office of Inspector General (OIG) audited public assistance funds awarded to the North Carolina Department of Environment and Natural Resources. The objective of the audit was to determine whether the Department accounted for and expended FEMA funds in accordance with federal regulations and FEMA guidelines.

The Department received an award of \$6.8 million from the North Carolina Emergency Management Agency, a FEMA grantee, to provide emergency mosquito control measures as a result of Hurricane Floyd in September 1999. The award provided 90 percent FEMA funding for 2 large projects, as follows:

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Claimed</u>
178	\$6,058,772	\$6,058,772
3349	748,188	748,188
Total	<u>\$6,806,960</u>	<u>\$6,806,960</u>

The audit covered the period September 1999 to May 2002. During this period, the Department received \$5,105,220 of FEMA funds under the two 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 Department's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

The Department's claim under Project 178 included questioned costs of \$67,559 (FEMA Share \$60,803) resulting from unapplied credits and unsupported labor charges.

- A. 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 Department, however, failed to apply credits totaling \$64,359 under the FEMA project. The Board claimed \$64,359 for sales taxes paid on equipment and materials purchased to complete work under the project. However, State law (GS 105-164.14) exempted governmental entities from paying sales and use taxes on purchases of tangible property. Accordingly, the Department should seek a refund for taxes paid and credit the project with the \$64,359.
- B. Unsupported Labor Charges. The Department claimed \$16,963 of overtime salaries but had payroll records to support only \$13,763. Therefore, the OIG questions the unsupported difference of \$3,200.

RECOMMENDATION

The OIG recommends that the Regional Director, in coordination with the grantee, disallow the \$67,559 of questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were discussed with FEMA officials on May 29, 2003, and with grantee and Department officials on June 4, 2003. Department officials concurred with Finding B but stated that they wanted to further research the costs questioned under Finding A.

Please advise the Atlanta Field Office – Audit Division by August 18, 2003, of the actions taken to implement the OIG recommendation. Should you have any questions concerning this report, please contact David Kimble or me at (770) 220-5242.