

U.S. Department of Homeland Security  
 Eastern Region  
 Office of Emergency Management Oversight  
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# Homeland Security

February 10, 2010

MEMORANDUM FOR: Major P. (Phil) May, Regional Administrator  
 FEMA Region IV

FROM: C. David Kimble, Director   
 Eastern Regional Office

SUBJECT: *South Carolina Public Service Authority*  
 Public Assistance Identification Number: 000-UOIMD-00  
 FEMA Disaster No. 1547-DR-SC  
 Report No. DA-10-07

We audited public assistance funds awarded to the South Carolina Public Service Authority, located in Moncks Corner, South Carolina. The audit objective was to determine whether the Authority accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The Authority received a public assistance award of \$8.1 million from the South Carolina Emergency Management Division, a FEMA grantee, for debris removal, emergency protective measures, and repair and restoration of public facilities damaged as a result of Tropical Storm Gaston in September 2004. The award provided 75% FEMA funding for five large projects and four small projects.<sup>1</sup> The audit covered the period September 15, 2004 to May 26, 2009. During this period, the Authority claimed \$8.1 million and received \$6.1 million of FEMA funds.

We limited our audit to the \$7.6 million awarded and claimed under 3 large projects for repair and restoration of public facilities as identified in the table below.

Project Number	Authorized Activity	Amount Awarded	Amount Claimed
96	Recreational Facilities	\$ 777,492	\$ 777,492
109	Dams & Water Control Facilities	3,049,838	3,049,838
139	Electrical Distribution Systems	3,802,949	3,802,949
Total		\$7,630,279	\$7,630,279

<sup>1</sup> Federal regulations in effect at the time of Tropical Storm Gaston set the large project threshold at \$54,100.

We conducted this performance audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We judgmentally selected project cost documentation (generally based on dollar value); interviewed Authority, grantee, and FEMA personnel; reviewed the Authority's disaster grant accounting system and procurement policies and procedures; reviewed applicable federal regulations and FEMA guidelines; and performed other procedures considered necessary under the circumstances. We did not assess the adequacy of the Authority's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the Authority's grant accounting system and its policies and procedures for administering activities provided for under the FEMA award.

## **AUDIT RESULTS**

The Authority accounted for FEMA funds on a project-by-project basis consistent with federal regulations for large projects. However, we identified \$213,824 of questioned costs (FEMA share \$160,368) resulting from excessive charges for equipment usage and fringe benefits.

- A. Equipment Costs. Federal regulation 44 CFR 206.228 requires that equipment costs be reimbursed based on an applicant's own established equipment rates or the FEMA Schedule of Equipment Rates, whichever is lower. The Authority claimed \$206,439 for equipment usage under Project 109 based on the FEMA Schedule of Equipment Rates. However, the Authority had equipment rates that it had established for use in its normal daily operation, which were lower in many cases than the FEMA rates. Using the correct rates, we determined that the Authority's claim was overstated by \$153,087. Therefore, we question the \$153,087.

At the exit conference, Authority officials said that the FEMA inspector instructed them to use the FEMA equipment rates rather than their own rates. Nonetheless, Authority officials concurred with the finding.

- B. Fringe Benefit Costs. The Authority claimed \$285,991 of regular-time fringe benefit costs based on an estimated overall fringe benefit rate of 51.89%. However, our review of documentation showed that the Authority's actual fringe rate was 40.87%, or 11.02% less. As a result, the Authority's claim was overstated by \$60,737. The excessive charge occurred because the Authority applied an estimated health fringe benefit of 25% to regular-time salaries rather than the actual rate of 13.98%. We question the \$60,737 as shown in the following table.

Project Number	Regular-Time Labor Costs	Fringe Benefits Claimed	Actual Fringe Benefits	Amount Questioned
139	\$435,796	\$226,134	\$178,110	\$48,025
109	115,353	59,857	47,145	12,712
Total	\$551,149	\$285,991	\$225,255	\$60,737

At the exit conference, Authority officials said that a FEMA inspector instructed them to use the estimated rate of 25% for health benefits because a consensus could not be reached in determining the proper rate for health, dental, and life insurance fringe benefits. Nonetheless, Authority officials concurred with the finding and said that for future disasters the rate would be calculated using prior year actual costs.

### **RECOMMENDATIONS**

We recommend that the Regional Administrator, FEMA Region IV, in coordination with the grantee:

**Recommendation #1.** Disallow the \$153,087 of excessive equipment costs.

**Recommendation #2.** Disallow the \$60,737 of excessive fringe benefit charges.

### **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP**

The audit results were discussed with FEMA officials on December 3, 2009, and with Authority and grantee officials on December 15, 2009. Authority officials concurred with our findings and their comments are incorporated in the body of this report.

Please advise me by April 12, 2010, of the actions planned or taken to implement our recommendations, including target completion dates for any planned actions. Should you have any questions concerning this report, please contact Felipe Pubillones, Audit Manager, at (404) 832-6705 or me at (404) 832-6702. Key contributors to this assignment were Felipe Pubillones, Ronald Cummings, and Calbert Flowers.

cc: Regional Administrator, FEMA Region IV  
 Audit Liaison, FEMA Region IV  
 Audit Liaison, FEMA