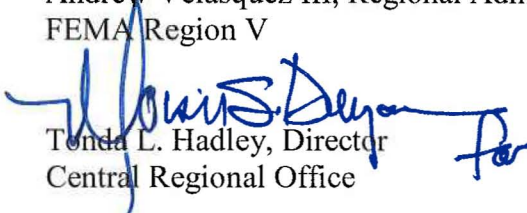




Homeland Security

April 26, 2011

MEMORANDUM FOR: Andrew Velasquez III, Regional Administrator
FEMA Region V

FROM: 
Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *South Central Power Company, Ohio*
FEMA Disaster Number 1580-DR-OH
Public Assistance Identification Number 045-U6X57-00
Audit Report Number DD-11-14

We audited public assistance grant funds awarded to South Central Power Company, Ohio (SCP). Our audit objective was to determine whether SCP accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

SCP received an award of \$11.8 million from the Ohio Emergency Management Agency (Ohio EMA), a FEMA grantee, for damages caused by severe winter storms, flooding, and mudslides on December 22, 2004, through February 1, 2005. The award provided 75% funding for 16 large projects and 1 small project.¹ We audited five large projects, totaling \$7,328,878, or 62% of the total award (see Exhibit). The audit covered the period December 22, 2004, through April 18, 2008.

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 interviewed FEMA, Ohio EMA, and SCP officials; reviewed judgmentally selected transactions (generally based on dollar value) of SCP's claimed costs; and performed other procedures

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$55,500.

considered necessary to accomplish our objective. We did not assess the adequacy of SCP's internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however gain an understanding of SCP's method of accounting for disaster-related costs and its procurement policies and procedures.

RESULTS OF AUDIT

SCP generally accounted for and expended FEMA grant funds according to federal regulations and FEMA guidelines. However, SCP claimed \$117,951 in mutual aid costs incurred in completing permanent recovery work, which is not eligible according to FEMA policy.

Finding A: Mutual Aid Costs

SCP's claim included \$117,951 (\$88,463 federal share) for mutual aid costs to complete work that FEMA classified as permanent work (Category F). FEMA Public Assistance Policy 9523.6 (September 22, 2004), *Mutual Aid Agreements for Public Assistance*, section 7.E.1.b.(i) states, "Examples of mutual aid work that are not eligible, include permanent recovery work." This policy also states in section 7.G.6 that "Reimbursement for work beyond emergency assistance, such as permanent repairs, is not eligible for mutual aid assistance."

On January 31, 2011, the grantee requested a waiver of FEMA's mutual aid policy for Disaster 1580, which FEMA approved on April 15, 2011. FEMA has granted numerous waivers for mutual aid claims in the past year and plans to review Policy 9523.6 this year to address the limitation on mutual aid assistance for permanent work.

RECOMMENDATION

We recommend that the Regional Administrator, FEMA Region V:

Recommendation #1: Work with FEMA Headquarters to clarify the intent of FEMA's Public Assistance Policy 9523.6, and develop and implement procedures to ensure eligible mutual aid activities are funded in future disasters.

DISCUSSION WITH MANAGEMENT

We discussed the results of our audit with FEMA, Ohio EMA, and SCP officials during our audit and included their comments in this report, as appropriate. We also provided written summaries of our findings and recommendations in advance to these officials and discussed them at the exit conferences held with Ohio EMA on April 1, 2011, with SCP on April 4, 2011, and with FEMA on April 6, 2011. These officials all agreed with the audit finding and recommendation.

Please advise this office by July 25, 2011, of the actions planned or taken to implement the recommendations, including target completion dates for any planned actions. To promote

transparency, this final report and your response to this report, including your corrective actions planned, will be posted to our website, with exception of sensitive information identified by your office. Significant contributors to this report were Moises Dugan, William Lough, and Jacob Farias. Should you have questions concerning this report, please contact me, or your staff may contact Moises Dugan, Audit Manager, at (214) 436-5200.

cc: Audit Liaison, FEMA (Job Code G-11-004)
Audit Liaison, FEMA Region V
Audit Liaison, DHS

**Schedule of Audited Projects
South Central Power Company, Ohio
FEMA Disaster Number 1580-DR-OH**

Project Number	Claimed Amount
900	\$3,341,470
998	113,496
2993	1,251,076
3014	1,047,518
3085	<u>1,575,318</u>
Totals	<u>\$7,328,878</u>