




# Homeland Security

April 15, 2011

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

FROM: C. David Kimble, Director   
Eastern Regional Office

SUBJECT: *North Carolina Department of Transportation — Disaster Activities  
Related to Tropical Storm Frances*  
Public Assistance Identification Number: 000-UZZTS-00  
FEMA Disaster No. 1546-DR-NC  
Report Number DA-11-14

We audited public assistance funds awarded to the North Carolina Department of Transportation (Department) located in Raleigh, North Carolina. The audit objective was to determine whether the Department accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The Department received a public assistance grant award totaling \$12.2 million from the North Carolina Division of Emergency Management (NCDEM), a FEMA grantee, for damages related to Tropical Storm Frances that occurred in September 2004. The award provided 75% FEMA funding for debris removal activities, emergency protective measures, road repairs, and replacement of bridges. The award consisted of 81 large projects and 337 small projects<sup>1</sup>.

We reviewed \$5.4 million of costs under 12 large projects (see Exhibit). The audit covered the period of September 18, 2004, to July 12, 2010, during which the Department received \$4.0 million of FEMA funds under the projects reviewed. At the time of the audit, the Department had submitted final claims on project expenditures to the NCDEM.

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.

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

We reviewed the Department’s disaster grant accounting system and contracting policies and procedures; reviewed judgmentally selected project cost documentation (generally based on dollar value); interviewed Department, NCDDEM, and FEMA personnel; reviewed applicable federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the Department’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 Department’s method of grant accounting and its policies and procedures for administering the activities provided for under the FEMA award.

## RESULTS OF AUDIT

Except for questioned costs of \$63,095 (FEMA Share \$47,321) that resulted from ineligible overtime fringe benefits, the Department properly accounted for and used FEMA funds. According to FEMA’s *Public Assistance Policy Digest* (FEMA 321, October 2001, p. 55), eligible labor costs include wages paid plus a percentage of the actual wages for employee benefits. Such benefits can include vacation, retirement, unemployment, social security, etc.<sup>2</sup> However, fringe benefits applicable to regular time and overtime are different. Overtime fringe benefit costs are usually significantly less because certain benefits such as vacation, holiday, and insurance are not dependent on overtime hours worked. The Department claimed \$378,732 for force account overtime labor and fringe benefits under several projects, which included \$63,095 of costs applicable to regular wages (vacation, holiday, insurance, etc.). We question the \$63,095 as shown in the table below.

Project	Project Costs	Labor/Fringe Claimed Amount	Questioned Amount
720	\$ 100,793	\$ 29,807	\$ 4,856
755	269,730	21,499	3,212
799	721,473	11,727	4,223
803	165,326	30,679	4,672
825	334,669	50,300	8,882
843	114,104	70,324	14,516
845	682,537	16,831	2,429
846	273,247	18,618	2,641
867	156,883	77,467	10,395
874	1,323,041	51,480	7,269
Total	\$4,141,803	\$378,732	\$63,095

In addition, based on these results, we believe that the Department probably claimed excessive overtime fringe benefits for many other projects that were not included in the scope of our review. Therefore, we recommend that FEMA review all other projects where overtime fringe benefits were claimed to determine the eligibility of such costs.

<sup>2</sup> FEMA updated the *Public Assistance Policy Digest* in January 2008.

## RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

**Recommendation #1:** Disallow \$63,095 (federal share \$47,321) of ineligible overtime fringe benefits charges.

**Recommendation #2:** Review and determine the eligibility of overtime fringe benefit charges claimed for projects not included in the scope of our review.

## DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW UP

We discussed the audit results with Department, FEMA, and NCDEM officials during our audit. We also provided written summaries of our findings and recommendations in advance to Department officials and discussed them at an exit conference on January 20, 2011. Written summaries were also provided to NCDEM and FEMA officials on January 20, 2011. Department officials concurred with our findings.

Please advise me by July 15, 2011, of actions taken or planned to implement the recommendations contained in this report, including target completion dates for any planned actions. Should you have any questions concerning this report, please contact me at (404) 832-6702, or Felipe Pubillones, Audit Manager, at (404) 832-6705. Key contributors to this assignment were Felipe Pubillones, Mary Stoneham, John Schmidt, Larry Jones, and Calbert Flowers.

cc: Mary Lynne Miller, Deputy Regional Administrator  
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**EXHIBIT**

FEMA Disaster No. 1546-DR-NC  
North Carolina Department of Transportation  
Schedule of Amount Awarded, Claimed, and Questioned  
September 7, 2004, to July 12, 2010

Project Number	Amount Awarded	Amount Claimed	Amount Questioned
720	\$ 100,793	\$ 100,793	\$ 4,855
755	269,730	269,730	3,212
796	870,861	870,861	0
799	721,473	721,473	4,223
803	165,326	165,326	4,672
824	328,886	328,886	0
825	334,669	334,669	8,882
843	114,104	114,104	14,516
845	682,537	682,537	2,429
846	273,247	273,247	2,641
867	156,883	156,883	10,396
874	1,358,506	1,358,506	7,269
Total	\$5,377,015	\$5,377,015	\$63,095