




# DEPARTMENT OF HOMELAND SECURITY

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

October 27, 2003

## MEMORANDUM

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

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

**SUBJECT:** Piedmont Electric Membership Corporation  
FEMA Disaster No. 1134-DR-NC  
Audit Report No. DA-01-04

The Office of Inspector General (OIG) audited public assistance funds awarded to the Piedmont Electric Membership Corporation of Hillsborough, North Carolina. The objective of the audit was to determine whether the Corporation accounted for and expended FEMA funds according to federal regulations and FEMA guidelines.

The Corporation received an award of \$1.7 million from the North Carolina Division of Emergency Management, a FEMA grantee, to remove debris and repair the electrical distribution system damaged as a result of Hurricane Fran in September 1996. The award provided 90 percent FEMA funding for two large projects and two small projects<sup>1</sup>. Audit work was limited to the \$1,690,539 awarded and claimed under the two large projects, as follows:

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Claimed</u>
817	\$ 142,095	\$ 142,095
863	1,548,444	1,548,444
Total	<u>\$1,690,539</u>	<u>\$1,690,539</u>

The audit covered the period September 1996 to September 2002. During this period, the Corporation received \$1,521,485 of FEMA funds under the two large projects.

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

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 Corporation's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

### RESULTS OF AUDIT

Except for questioned charges of \$9,317 (FEMA share \$8,385) resulting from unapplied credits and unsupported costs, the Corporation properly accounted for and expended FEMA funds.

- A. Unapplied Credits. The U.S. Office of Management and Budget Circular A-87 states that costs claimed under a federal award must be reduced by applicable credits (i.e. discounts, salvaged equipment value, refunds, etc.). However, the OIG found that a credit of \$2,677 for salvaged materials under Project 863 was charged as an expense rather than reflected as a credit used to reduce cost claimed.

Specifically, while repairing the electrical distribution system, the Corporation recovered materials that included cross bars, insulators, switches, fuses, and conductors. These salvaged materials, valued at \$2,677, were placed in the Corporation's material inventory account for future use. However, the Corporation mistakenly charged the project \$2,677 rather than crediting the project for the salvaged materials. This inappropriate charge and unapplied credit resulted in a \$5,354 overstatement of the Corporation's claim. Accordingly, the OIG questions the \$5,354 claimed.

- B. Unsupported Cost. The Corporation claimed \$3,963 for vehicle usage under Project 863, but did not maintain adequate documentation supporting the cost claimed. The Corporation's claim for vehicles usage in October 1996 was supported by only an Excel spreadsheet showing a description of vehicles, hours of use, and the amount claimed. However, the Corporation was unable to find vehicle utilization records that were reportedly the source of the data in the spreadsheet. Accordingly, the OIG questions the \$3,963 claimed.

### RECOMMENDATION

The OIG recommends that the Regional Director, in coordination with the grantee, disallow the \$9,317 of questioned costs.

### DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of our audit with Corporation, grantee, and FEMA officials on October 9, 2003. Corporation officials concurred with the findings.

Please advise the Atlanta Field Office-Audit Division by November 27, 2003 of the actions taken to implement the recommendation. Should you have any questions concerning this report, please contact George Peoples or me at (770) 220-5242.