



Homeland Security

April 15, 2011

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

FROM: C. David Kimble, Director
Eastern Regional Office

A handwritten signature in blue ink that reads "C. David Kimble".

SUBJECT: *North Carolina Department of Transportation — Disaster Activities
Related to Hurricane Ivan*
Public Assistance Identification Number 000-UZZTS-00
FEMA Disaster No. 1553-DR-NC
Report Number DA-11-15

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 \$27.1 million from the North Carolina Division of Emergency Management (NCDEM), a FEMA grantee, for damages related to Hurricane Ivan 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 86 large projects and 634 small projects.¹

We reviewed costs totaling \$11.4 million under the disaster. Our initial audit scope included 10 large projects totaling \$6.3 million. During our review of these projects, we determined the Department's claim contained excessive overtime fringe benefits charges. As a result, we selected 18 additional large projects totaling \$5.2 million and performed a limited review to include overtime fringe benefits claimed. The 28 large projects reviewed in total are shown in the Exhibit.

The audit covered the period of September 16, 2004, to July, 12, 2010, during which the Department received \$ 9.1 million of FEMA funds under the projects reviewed. At the time of our audit, the Department had submitted final claims on project expenditures to 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

¹ Federal regulations in effect at the time of Hurricane Ivan set the large project threshold at \$54,100.

evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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 awards.

RESULTS OF AUDIT

The Department accounted for FEMA funds on a project-by-project basis according to federal regulations for large projects. However, we question \$909,766 (federal share \$682,325) of claimed costs that resulted from duplication of benefits and excessive fringe benefits.

Finding A: Duplication of Benefits

Section 312 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, prohibits the use of public assistance funds for damages already covered by any other program, insurance, or any other source.² Under Project 967, the Department claimed \$706,782 to replace Bridge #3 in Avery County. According to Department officials, the Federal Highway Administration (FHWA) selected the bridge for replacement in July 1999 with Transportation Improvement Program (TIP) funds. In March 2002, the FHWA approved \$170,000 for planning and engineering; and, in August 2003, the Department scheduled the bridge for replacement in federal fiscal year 2006. As of December 2, 2004, the Department had spent \$57,804 of FHWA funds toward the planning phase. Department officials removed the bridge from the TIPS schedule in December 2004 after the bridge was selected for replacement with FEMA funds. We question the \$706,782 claimed under the FEMA project because the bridge was scheduled to be replaced with funds from another source before the disaster.

Finding B: Excess Fringe Benefits

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.³ 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 \$1,346,890 of force account overtime labor and fringe benefits under 22 large projects of which \$202,984 of costs were for fringe benefits related to regular wages (vacation, holidays, insurance, etc.). We question the \$202,984 as shown in the following table.

² 42 U.S.C. 5155.

³ FEMA updated the *Public Assistance Policy Digest* in January 2008.

Project	Project Costs	Labor/Fringe Claimed Amount	Questioned Amount
652	\$ 836,740	\$ 101,415	\$ 22,331
756	666,037	53,336	9,679
758	509,561	63,891	11,161
783	142,351	48,789	8,021
978	717,140	32,987	6,557
998	194,427	30,778	5,790
1013	1,205,052	180,385	5,189
1089	131,586	57,495	12,263
1100	113,296	37,325	5,648
1125	245,137	54,736	5,683
1151	222,993	70,298	9,839
1158	126,035	52,562	9,154
1201	565,372	16,134	1,668
1234	450,813	125,498	18,315
1237	176,205	36,114	6,730
1246	532,496	118,070	24,178
1263	961,465	69,991	12,137
1280	118,305	34,725	7,536
1293	177,025	42,860	9,728
1299	65,677	33,112	3,500
1325	138,264	39,611	6,284
1335	194,081	38,778	1,593
Total	\$8,490,058	\$1,346,890	\$202,984

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.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation #1: Disallow \$706,782 (federal share \$530,087) of ineligible project costs because funding was available from another source (Finding A).

Recommendation #2: Disallow \$202,984 (federal share \$152,238) of ineligible overtime fringe benefits charges (Finding B).

Recommendation #3: 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. We also provided NCDEM and FEMA officials written documentation 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. 1553-DR-NC
North Carolina Department of Transportation
Schedule of Amount Awarded, Claimed, and Questioned

Project Number.	Amount Awarded	Amount Claimed	Amount Questioned
Initial Scope Projects:			
647*	\$ 564,783	\$ 564,783	\$ 0
967	706,782	706,782	706,782
978	717,140	717,140	6,557
1013	1,205,052	1,205,052	5,189
1047*	353,678	353,678	0
1202*	646,635	646,635	0
1234	450,813	450,813	18,315
1248*	261,512	261,512	0
1249*	396,397	396,397	0
1263	961,465	961,465	\$ 12, 137
Subtotal	\$6,264,257	\$6,264,257	\$748,980
Expanded Scope Projects:			
652	836,740	836,740	22,331
756	666,037	666,037	9,679
758	509,561	509,561	11,161
783	142,351	142,351	8,021
998	194,427	194,427	5,790
1089	131,536	131,536	12,263
1100	113,296	113,296	5,648
1125	245,137	245,137	5,683
1151	222,993	222,993	9,839
1158	126,035	126,035	9,154
1201	565,372	565,372	1,668
1237	176,205	176,205	6,730
1246	532,496	532,496	24,189
1280	118,305	118,305	7,536
1293	177,025	177,025	9,728
1299	65,677	65,677	3,500
1325	138,264	138,264	6,284
1335	194,081	194,081	1,593
Subtotal	\$ 5,155,538	\$ 5,155,538	\$160,786
Total	\$11,420,938	\$11,420,938	\$909,766

* These projects were not included in our review of overtime fringe benefit costs.