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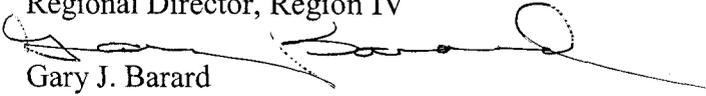


**Homeland
Security**

December 22, 2004

MEMORANDUM

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

FROM: 
Gary J. Barard
Field Office Director

SUBJECT: New Hanover County, North Carolina
FEMA Disaster 1134-DR-NC
Audit Report No. DA-08-05

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

The County received an award of \$12,812,539 from the North Carolina Division of Emergency Management, a FEMA grantee, to remove debris, provide emergency protective measures, and repair facilities damaged as a result of Hurricane Fran in September 1996. The award provided 90 percent FEMA funding for 3 large projects and 25 small projects¹. The OIG limited the audit to the \$12,510,833 awarded and claimed under the 3 large projects (See Exhibit).

The audit covered the period September 1996 to August 2002. During this period, the County received \$11,259,750 of FEMA funds under the 3 large projects.

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

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

RESULTS OF AUDIT

The County's claim of \$1.5 million under Project 78826 included charges of \$596,581 (FEMA share \$536,923), which should have been, but was not offset by earned income. Accordingly, the OIG questions these charges.

To accommodate disaster related debris, FEMA approved Project 78826 to reopen and close Cell No. 1 at the County's landfill. To reopen the cell, the County had to remove a clay cap that existed on the cell and create a ventilation and drainage system for the cell. The cell then had to be recapped upon the completion of debris removal operations.

The OIG determined that during the County's Fiscal Years (FY) 1997 and 1998, contractors, private firms, and other local municipalities placed debris and normal household garbage in the cell, and paid the County a "tipping" fee of \$29.72 (FY 1997) and \$31.55 (FY 1998) per ton. A portion of the fees collected from all parties was for closing the cell.

Federal regulation (44 CFR 13.25) encourages grant recipients to earn income under FEMA funded projects to defray program cost. The regulation defines program income as gross revenues received by a grant recipient that were directly generated by a grant-funded activity.

Because FEMA funded the closing of Cell No.1, the fees collected for such closure should be used to defray cost under Project 78826. The OIG used the County's Solid Waste Operations financial report, by fiscal year, to calculate the portion of revenue per ton directly related to closing the landfill. Using those rates, the OIG determined that \$596,581 of the \$4.9 million of revenues collected during the project period was for closing the cell. Accordingly, this amount, as computed below, should have been used to reduce charges to the project.

<u>Period</u>	<u>Tons Deposited</u>	<u>Fee Per Ton</u>	<u>Portion for Closing the Cell</u>	<u>Fees Collected</u>	<u>Portion for Closing the Cell</u>
2/97-6/97	69,568	\$29.72	\$1.35	\$2,067,561	\$ 93,917
7/97-1/98	90,570	31.55	5.55	<u>2,857,484</u>	<u>502,664</u>
Totals				<u>\$4,925,045</u>	<u>\$596,581</u>

County officials stated that the OIG should be precluded from questioning any project cost since FEMA had already closed out the project with no cost questioned. The OIG does not agree. Federal regulation (44 CFR 13.51) states that closeout of a grant does not affect the Federal agency's right to disallow costs and recover funds on the basis of a later audit or other review.

RECOMMENDATION

The OIG recommends that the Regional Director, in coordination with the grantee, disallow the \$596,581 of questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of the audit with FEMA, grantee, and County officials on October 15, 2004. Comments of County officials are included in the body of this report.

Please advise the Atlanta Field Office-Audit Division by March 22, 2005, 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.

New Hanover County, North Carolina
FEMA Disaster Number 1134-NC
Schedule of Claimed and Questioned Costs

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Claimed</u>	<u>Amount Questioned</u>
03829	\$10,347,028	\$ 10,347,028	
78826	1,513,146	1,513,146	\$596,581
95024	<u>650,659</u>	<u>650,659</u>	<u> </u>
Totals	<u>\$12,510,833</u>	<u>\$12,510,833</u>	<u>\$ 596,581</u>