



Homeland Security

February 4, 2008

MEMORANDUM FOR: Sidney Melton, Director
FEMA's Mississippi Transitional Recovery Office)

FROM: C. David Kimble, Director *C. David Kimble*
Eastern Regional Office

SUBJECT: *Review of Southern Pine Electric Power Association*
Public Assistance Identification Number: 00-UGHQ2-00
FEMA Disaster Number 1604-DR-MS
Report Number DA-08-04

We performed an interim review of Hurricane Katrina disaster activities for Southern Pine Electric Power Association (Association), Taylorsville, Mississippi. The objective of the review was to determine whether the Association was properly accounting for disaster-related costs, and whether costs claimed for material and equipment use were eligible for funding under FEMA's disaster assistance programs.

As of October 31, 2006, the cut-off date of our review, the Association received an award of \$19.4 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for emergency protective measures and debris removal. The award provided funding for 18 large projects¹ consisting of 7 debris removal projects and 11 emergency protective measures projects. We limited our review to \$2.2 million of costs claimed for material and equipment under the 11 emergency services projects (see Exhibit).

We performed this review under the authority of the Inspector General Act of 1978, as amended, and according to Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency. Our work included a review of the Association's disaster grant accounting system; judgmental samples of project expenditures; interviews of Association, MEMA, and FEMA personnel; and other procedures considered necessary under the circumstances.

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

RESULTS OF REVIEW

The Association's grant accounting system did not accurately reflect costs claimed for debris removal activities. Also, the Association's claim for material and equipment use was overstated by \$1,055,606.

- A. Grant Accounting. Federal regulations (44 CFR § 13.20 (b)(2)) require that a subgrantee's fiscal control and accounting systems adequately identify the application of grant funds. At the time of our review, the Association had recorded only \$205,372 of debris removal expenditures in its accounting system although it had claimed \$1.0 million of costs to FEMA. This occurred because the Association did not post all expenditures from its work order system, which was used to process debris removal and other non-disaster related expenditures, to its general accounting system. As a result, total costs claimed for debris removal activities could not be traced to the Association's accounting system.

Association officials said that some expenditures were not identified with project numbers and required manual examination to determine correct project numbers before posting from the work order system. They said that corrective action was taken, subsequent to our review, to accurately identify and post all expenditures claimed for debris removal.

- B. Material and Equipment. The Association's claim of \$2.2 million for material and equipment use was overstated by \$1,055,606, as follows:

- The Association claimed \$1.7 million for materials withdrawn from its inventory and used under several projects. The Association charged the FEMA projects with the material costs using the replacement cost method. However, under non-disaster situations, the Association used the average cost method to price materials withdrawn from its inventory. According to federal cost principles (OMB Circular A-122, Attachment A, A(2)(c)), costs claimed under federal awards are allowable if they are consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization. Had the Association used the average cost method, its usual inventory pricing method, the total cost for the materials would have been \$998,945, or \$718,714 less than the amount claimed.
- The Association claimed \$525,612 for equipment use based on FEMA's Schedule of Equipment Rates rather than its own rates, which were lower. According to federal regulation (44 CFR § 206.228), FEMA reimbursement for force account equipment use will be based on an applicant's own equipment rates or the FEMA equipment rates, whichever is lower. Using the Association's equipment rates, total eligible equipment costs were \$188,720, or \$336,892 less than the amount claimed.

Subsequent to completion of our fieldwork, MEMA and FEMA performed a final inspection of the Association's claim and disallowed the excessive material and equipment costs. As a result, we consider this finding resolved and closed, and no further action is required by FEMA. A distribution of the questioned costs by project is identified in the Exhibit.

RECOMMENDATION

We recommend that the Director, Mississippi Transitional Recovery Office, in conjunction with the grantee, notify the Association that future reimbursements for FEMA-funded activities must be adequately supported within its accounting system.

DISCUSSION WITH MANAGEMENT AND REVIEW FOLLOW-UP

We discussed the results of our review with Association, MEMA, and FEMA officials on February 14, 2007. Association officials concurred with our findings.

Please advise this office by April 5, 2008, of the actions taken to implement the recommendation. Should you have any questions concerning this report, please contact me at (404) 832-6702. Key contributors to this assignment were Billy Howard, Harold Simpson, Marvin Burr and Felipe Pubillones.

Southern Pine Electric Power Association
FEMA Disaster No. 1604-DR-MS
Schedule of Funds Awarded, Costs Claimed, Reviewed, and Questioned
August 29, 2005 through October 31, 2006

Project Number	Total Amount Awarded	Material and Equipment Costs Claimed	Material and Equipment Costs Reviewed	Amount Questioned
166	\$ 657,460	\$ 56,124	\$ 56,124	\$ 11,272
168	617,300	145,661	145,661	57,828
171	1,078,259	124,425	124,425	63,417
173	3,486,879	286,244	286,244	126,713
174	2,632,481	438,175	438,175	108,211
175	1,178,908	307,082	307,082	141,514
176	694,008	78,487	78,487	59,622
177	1,807,580	164,608	164,608	106,632
178	813,009	58,272	58,272	44,876
179	2,638,082	326,995	326,995	206,577
180	1,241,286	257,198	257,198	133,262
		0	4,318 ²	(4,318)
Totals	\$16,845,252	\$2,243,271	\$2,247,589	\$1,055,606

² During our review, Association officials provided us with documentation for \$4,318 of equipment costs incurred but unclaimed. We determined that these costs were eligible and allowable and, therefore, reduced questioned costs by this amount.