



Foxx & Company
Certified Public Accountants

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Office of Inspector General
Department of Homeland Security
1120 Vermont Avenue, NW
Washington, D.C. 20005

Foxx & Company conducted an audit of the State of South Carolina Emergency Management Division's management and administration of disaster assistance programs authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations. The audit was performed in accordance with our GSA Contract No. GS23F9832H of September 30, 1999.

This report presents the results of our audit and includes recommendations to help improve the State of South Carolina's administration of Federal Emergency Management Agency disaster assistance grant programs. During our audit we also identified management-related issues involving regional office systems and procedures. These issues will be reported under separate letter.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, 1999 revision. Although the audit report comments on costs claimed by the state, we did not perform a financial audit, the purpose of which would be to render an opinion on the financial statements. The scope of the audit consisted of program and financial activities for five Presidential disaster declarations and the supplemental HMG award for Hurricane Floyd that occurred during the period of September 1989 through September 2002. The scope of the audit included open Public Assistance, Hazard Mitigation, and Individual and Family Grant Programs for each disaster, as applicable.

We appreciate the opportunity to have conducted this audit. If you have any questions, or if we can be of any further assistance, please call me at (513) 639-8843 or Bill Moore at (513) 703-6229.

Sincerely,

Foxx & Company

Martin W. O'Neill
Partner

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I. EXECUTIVE SUMMARY

Foxx & Company has completed an audit of the South Carolina Emergency Management Division (grantee) administration of FEMA's disaster assistance grant programs. The objective of this audit was to determine the effectiveness of the grantee's management and administration of disaster assistance programs authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations. This report focuses on the grantee's systems and processes for ensuring that grant funds were managed, controlled, and expended in accordance with the Robert T. Stafford Disaster Relief and Emergency Act (Stafford Act) and the requirements set forth in Title 44 of the Code of Federal Regulations (44 CFR). Although the scope of this audit included a review of costs claimed for the declared disasters, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on grantee's financial statements. The funds awarded and costs claimed for the disasters included in the audit scope are presented in Attachment A of this report.

Our audit included five major disasters declared by the President of the United States between September 22, 1989 and September 30, 2002 and the supplemental declaration for Hurricane Floyd (Supplemental Declaration No. 4299). Three of the major disasters involved all three types of grant programs: Public Assistance (PA), Individual and Family (IFG), and Hazard Mitigation (HMG). The supplemental declaration for Hurricane Floyd only included funding for HMG projects. Disaster Nos. 1243 and 1313 did not include grants under the IFG program. The Federal share of obligations for the five disasters and the supplemental declaration was over \$358 million. Federal funds claimed through September 30, 2002 were over \$352 million.

In accordance with our agreement with the Office of Inspector General (OIG), our audit focused on the grantee's current program and financial management procedures and practices. During the audit, we strived to identify the causes of each reportable condition. We also made recommendations that, if implemented properly, would improve grantee management, eliminate or reduce weaknesses in internal controls, and correct noncompliance situations. The findings summarized below are discussed in detail in the body of the report.

Program Management

- **HMG Quarterly Progress Reporting**

Improvements were needed in the state's preparation and submission of HMG quarterly progress reports. Quarterly progress reports prepared by the grantee for HMG projects did not adequately describe the status and work progress of FEMA-approved HMG projects. The reports do not include essential information, such as estimated starting dates, percentage of completion, reasons for delays, or other events that may impact the Federal funding and/or estimated completion dates. As a result, FEMA Region IV was

not provided essential information on the grantee's HMG programs to exercise its management responsibility.

- **PA Quarterly Progress Reporting**

South Carolina did not submit quarterly progress reports to the FEMA regional office on large PA projects for Disaster Nos. 1299 and 1313, as required. In addition, the grantee did not enforce the requirement included in the approved PA administrative plan that subgrantees submit quarterly progress reports to the grantee for review. Accordingly, FEMA Region IV could not readily assess the progress of large PA projects.

- **Shared Mission Assignment Costs**

South Carolina owed FEMA the state share of two mission assignments. FEMA and the grantee agreed to share the cost of two mission assignments for Disaster No 1299. The cost of these mission assignments was \$1,055,455 and state's share was \$263,861. The grantee stated that it had not paid its share because FEMA had not billed the state as required under Federal regulations

- **Administrative and Program Plans**

Improvements were needed in the preparation and submission of required Hazard Mitigation program plans and administrative plans for the Individual and Family, Public Assistance, and Hazard Mitigation Grant programs. The grantee did not always submit the required plans. In addition, the plans submitted contained incorrect references to Federal requirements. As result, the grantee was not complying with Federal requirements to have up-to-date, complete administrative and program plans.

- **Subgrantee Single Audit Act Compliance**

Improvements were needed in the grantee's procedures for ensuring that HMG and PA subgrantees comply with the requirement of the Single Audit Act. Although some Public Assistance subgrantees provided single audit reports, the grantee did not review the reports to determine if "material" findings had been reported that might affect the award of future Federal disaster assistance funds. Also, grantee officials were not aware that some HMG program subgrantees had submitted audit reports for review. Accordingly, the grantee did not have reasonable assurance that HMG and PA subgrantees had properly accounted for or safeguarded Federal funds in accordance with Federal requirements.

Financial Management

- **Allocation of Management Grant Costs**

South Carolina's procedures for allocating Federally funded management costs need to be improved. Our audit disclosed that management costs were not always charged to the correct disaster. The grantee charged all management costs to Disaster No. 1299 even though effort was expended on other HMG disaster programs. For example, costs related to employee regular salaries, fringe benefits, and equipment costs should have been allocated and charged to open HMG program disasters, as appropriate, in accordance with OMB Circular A-87 rather than just Disaster No. 1299. As a result, the cost reported for Disaster No. 1299 was overstated and the costs of other open disasters were understated.

- **Use of Administrative Allowances**

The grantee used administrative allowances to pay expenses that were not extraordinary as defined by Federal regulations. For the PA and HMG programs for Disaster No. 1299, the grantee used over \$30,000 of the administrative allowance to pay for computer software, user licenses, and other computer-related purchases. By regulation, these types of expenses are not to be considered extraordinary and are not to be paid with administrative allowance funds. As a result, the grantee was not in compliance with the Federal requirements.

II. Background

When Federal assistance is needed, a Governor can request the President of the United States to declare a major disaster and thereby make relief grants available through the Federal Emergency Management Agency (FEMA). FEMA, in turn, can make grants to state agencies, local governments, private citizens, nonprofit organizations, and Indian tribes or authorized tribal organizations through a designated agency within the affected state.

Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended

The Stafford Act governs disasters declared by the President of the United States. Title 44 of the Code of Federal Regulations (CFR) provides further guidance and requirements for administering disaster-relief grants awarded by FEMA.

The three major programs addressed in this audit were:

- Individual and Family Grants
- Public Assistance Grants
- Hazard Mitigation Grants

Individual and Family Grants (IFG) are awarded to individuals and families who, as a result of a disaster, are unable to meet disaster-related expenses and needs. To obtain assistance under this type of grant, the Governor of the state must express an intention to implement the IFG program. The Governor's request must include an estimate of the size and cost of the program. The IFG program is funded by FEMA (75 percent) and the state (25 percent).

Public Assistance (PA) Grants are awarded to state agencies, local governments, qualifying private nonprofit organizations, Indian tribes, or authorized tribal organizations for the repair/replacement of facilities, removal of debris, and establishment of emergency protective measures necessary as a result of a disaster. To receive a PA grant, a designated representative of an organization affected by the disaster must sign a Notice of Interest. After the notice is sent to the grantee and to FEMA, FEMA schedules an inspection of the damaged facilities. An inspection team prepares Project Worksheets (PWs)¹ identifying the eligible scope of work and estimated cost for the projects. FEMA reviews and approves the PWs and obligates the funds. At least 75 percent of the eligible cost of projects is paid by FEMA and the remainder of the cost is paid by non-Federal sources.

In accordance with 44 CFR 206.203, PA projects are classified as either “small” or “large.” The classification is based on a project threshold amount that is adjusted annually to reflect changes in the Consumer Price Index for all Urban Consumers, as published by the U.S. Department of Labor. For example, the threshold for Disaster No. 1313 was \$48,900. Projects costing less than \$48,900 were classified as “small” and projects costing \$48,900 or more were classified as “large” projects.

¹ Prior to the use of PWs, Damage Survey Reports (DSRs) were used.

To speed up payments to subgrantees for small projects, the Federal share of the cost is to be disbursed as promptly as possible after approval by FEMA. Subgrantees of large projects submit periodic requests to the state for funds to meet expenses incurred or expected to be incurred in the near future. When a project is completed, the state determines and reports the final cost to FEMA. FEMA then adjusts the amount of the large project to reflect the actual cost.

Hazard Mitigation Grants (HMG) are awarded to states to help reduce the potential for future disaster damages. The state must submit a Letter of Intent to participate in the program and subgrantees must submit an HMG proposal to the grantee. The grantee is responsible for setting priorities for the selection of specific projects, but each project must be approved by FEMA. FEMA awards subgrants to state agencies, local governments, qualifying private nonprofit agencies, Indian tribes, or authorized tribal organizations. The costs of the projects are shared with FEMA with the Federal share not exceeding 75 percent of the costs. However, the amount of Federal assistance under the HMG program is limited pursuant to Section 404 of the Stafford Act.

Under the **PA** and **HMG** programs, FEMA may grant three types of administrative funds for overseeing the program:

1. An **administrative cost allowance** to the grantee to cover extraordinary costs directly associated with administering the program. The allowance amount is determined by a statutorily mandated sliding-scale percentage (ranging from one-half of one percent to three percent) applied to the total Federal disaster assistance awarded under the program. The allowance is intended for extraordinary costs incurred by state employees for preparing damage survey or final inspection reports, processing project applications, conducting final audits and related field inspections; including overtime, per diem, and travel expenses. The administrative cost allowance does not include regular time for employees.
2. **State management costs** to cover expenses directly associated with the program that are not covered by the administrative cost allowance.
3. **Indirect costs** based on an approved indirect cost allocation plan.

For the **IFG** program, up to five percent of the Federal share of total program costs may be granted for administration costs.

South Carolina Emergency Management Division

The South Carolina Emergency Management Division (grantee) is the disaster and emergency management agency for the State of South Carolina. As the central point of contact within the state for all emergency management activities, the Division works with state-level, Federal, city, county, or private organizations to make South Carolina citizens safe from disasters and reduce the physical harm and financial losses suffered from those events. The grantee is responsible for

ensuring the establishment and development of policies and programs for emergency management at the state and local levels. This responsibility includes the development of a statewide capability to mitigate against, prepare for, respond to, and recover from the full-range of emergencies, both natural and technological.

The South Carolina Emergency Management Division is part of the Military Department of South Carolina, which is headed by the state's Adjutant General. The grantee had approximate 50 employees. The State Emergency Operations Center was located at the Pine Ridge National Guard Armory in West Columbia, South Carolina.

The grantee's Recovery and Mitigation Division is responsible for the state's mitigation, public assistance, and individual and family grant programs. The grantee managed the PA and HMG programs, but relied upon the State of South Carolina Department of Social Services (DSS) to manage the IFG program. Financial responsibility for the PA, IFG, and HMG programs resided with the grantee.

III. Objectives, Scope, and Methodology

The **objectives** of this audit were to determine if the State of South Carolina (the grantee):

- Administered FEMA disaster assistance programs in accordance with the Stafford Act and applicable Federal regulations;
- Complied with the FEMA-approved disaster assistance administrative plans;
- Properly accounted for and expended FEMA disaster assistance funds; and
- Operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities.

The **scope** of the audit included five major disasters and the supplemental declaration for Hurricane Floyd. These disasters were declared between September 1989 and September 2002, and are listed below.

Declaration			Disaster Programs		
Number	Date	Disaster	IFG	PA	HMG
843	09/22/89	Hurricane Hugo	Closed	Closed	Closed
881	10/22/90	Severe Storms and Flooding	Closed	Closed	Closed
1243	09/04/98	Hurricane Bonnie	N/A	Open	Open
1299	09/21/99	Hurricane Floyd	Open	Open	Open
1313	01/31/00	Severe Ice Storms	N/A	Open	Open
4299	11/29/99	Supplemental HMG for Hurricane Floyd	N/A	N/A	Open

The cut-off date for program and financial management activities for the audit was September 30, 2002. However, we also reviewed more current activities related to conditions found during our audit to determine whether appropriate corrective actions had been taken.

Our audit fieldwork was initiated at the FEMA Region IV Office in Atlanta, which had Federal jurisdiction over FEMA disaster programs in the State of South Carolina. Our **methodology** included interviews with FEMA headquarters, regional office, and state officials to obtain an understanding of internal control systems and to identify current issues or concerns relative to the grantee’s management of disaster programs. Our audit considered FEMA and state policies and procedures as well as the applicable Federal requirements. Documentation received from the grantee, as well as from FEMA headquarters, the regional office, and the Disaster Finance Center in Berryville, Virginia, was reviewed. The audit also included discussions with grantee officials concerning the state’s policies, procedures, and processes for managing the programs.

We reviewed prior audit reports issued within the timeframe of the disasters included in our scope, including OMB Circular A-133 audit reports and the project-by-project subgrantee audit reports prepared by the Office of Inspector General (OIG). Our audit scope did not include interviews with or visits to subgrantees or project sites. We also did not evaluate the technical aspects of the repairs to disaster-caused damage.

The audit was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-1999 Revision). We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we do not express an opinion on the costs claimed for the disasters under the scope of the audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the accounts and items specified. The report does not extend to any financial statements of the South Carolina Emergency Management Division or the State of South Carolina and should not be used for that purpose.

IV. Findings and Recommendations

The findings and recommendations focus on South Carolina's systems and procedures for ensuring that grant funds are managed, controlled, and expended in accordance with the Stafford Act and applicable Federal regulations. The **findings** from the audit concerned the grantee's program and financial management activities for the PA, IFG, and HMG programs. These findings are summarized below.

We believe that proper implementation of our recommendations will improve the overall management of FEMA programs and correct the noncompliance situations noted during the audit.

A. Program Management

1. HMG Quarterly Progress Reporting

Improvements were needed in the grantee's preparation and submission of HMG quarterly progress reports. Quarterly progress reports prepared by the grantee for HMG projects did not accurately describe the status of FEMA-approved HMG projects. The reports did not include information on estimated starting dates, percentage of completion, reasons for delays, or other events that could impact the Federal funding and/or estimated completion dates. As a result, FEMA Region IV was not provided up-to-date or useful information on FEMA-approved projects.

Federal regulations [44 CFR 206.438(c)] require states to submit quarterly progress reports to the regional office on FEMA-approved projects. These reports are to include the status and completion date for each project. Any problems affecting completion dates, scope of work or project costs that may result in noncompliance with the approved grant conditions are to be described in the report. The quarterly progress reports are to be used to monitor the progress of projects and, among other things, to identify factors, which may adversely affect the progress and/or the estimated costs of the project(s).

To evaluate the grantee's system for the preparation and submission of the required quarterly reports, we reviewed the grantee's reports for the quarter ending September 30, 2002 for the three most recent disasters (Disaster Nos. 1243, 1299, and 1313). On the quarterly progress report for Disaster No. 1243, there were four "open" projects. A "work completion date" was not reported for three of the four projects. In addition, for three projects, the state reported that there was a "cost under run" but the quarterly report did not include any additional information to describe the amount of the under run or the reason(s) for the under run.

For Disaster No. 1299 there were 17 open projects reported in the quarterly progress report for the period ending September 30, 2002. Our review showed that the reported project status was incomplete and inconsistent for several of the open projects. For example:

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- The percentage of completion was not shown for any of the 17 projects.
 - Project No. 14 – The original completion date of October 12, 2002 was slipped to October 31, 2003. Nevertheless, the project was reported as “On Schedule.”
 - Project No. 16 – The original project completion date of September 19, 2002 was changed to September 19, 2003 and the remarks section stated that the work should be completed by January 31, 2003. Nevertheless, the quarterly report said that the project was “On Schedule.”
 - Project Nos. 0020, 0034, and 0038 – The report did not include a starting date for the projects.
 - Project No. 22 – The scope of work was reported as being “greater than anticipated during the preliminary planning.” However, the project was reported as being “On Schedule” and costs were reported as “Unchanged.”
 - Project No. 33 – Project completion was reported as delayed 30 days because of “inclement weather.” However, under “work status” the project was described as “On Schedule.”

For Disaster No. 1313, we noted similar omissions of pertinent work status information and similar inconsistencies in the information presented for the 15 open projects under this HMG program.

While FEMA regional officials said some progress had been made in the grantee’s quarterly reporting process, these officials acknowledged that additional improvements were needed to ensure that reliable and consistent information is provided to the region each quarter. Grantee HMG program officials also acknowledged that improvements were needed in the state’s quarterly reporting system. The officials could not explain why the reports were submitted with unreliable and inconsistent information other than to say that the system had been in place for sometime and that sufficient staff time had not been available to make necessary changes. In addition, they said that very often subgrantees do not provide accurate or timely work progress information.

Conclusions and Recommendations

We believe quarterly progress reports are one of the most important sources of information relative to the FEMA regional office’s ability to exercise its management responsibilities for HMG programs. Unreliable and inconsistent information in the grantee’s quarterly reports hinders FEMA’s ability to effectively conduct its monitoring responsibilities.

Accordingly, we recommend that the FEMA Regional Director, Region IV:

1. Review the present reporting format and content of the grantee's HMG progress reports to ensure that the reports include the type of information that is needed for the regional office to effectively monitor the status of the open HMG projects,
2. Communicate the results of this review to the grantee to ensure that the state's reports contain current, complete, and accurate information concerning the status of the projects, and
3. Require the grantee to develop and implement procedures for improving its process for the preparation and submission of quarterly progress.

Management Response and Auditor's Analysis

The Regional Director, Region IV, and the grantee concurred with the condition cited. Grantee officials said that all projects are reviewed and discussed, as necessary, with the Region IV staff on a quarterly basis and that the quarterly reports are now accurate and complete. An example of the state's quarterly report for the period ending June 30, 2003, was provided to show that appropriate status information was reported. The Regional Director also stated that the grantee is now required to use specified "data points" to improve its process for preparing quarterly progress reports, and acknowledged that the grantee's recently submitted quarterly reports include the required information on a per project basis. Accordingly, we consider the finding resolved and closed.

2. PA Quarterly Progress Reporting

The grantee did not submit quarterly progress reports to the FEMA regional office for large PA projects for Disaster Nos. 1299 and 1313. In addition, the grantee did not enforce the reporting requirement for its subgrantees to submit quarterly progress reports. As a result, the regional office and grantee did not have documented, current information on the status of large PA projects.

Quarterly Progress Reports to FEMA

Federal regulations, 44 CFR 206.204 requires progress reports to be submitted by the grantee to FEMA each quarter for all large PA projects on which final payment has not been made. The quarterly reports are to (1) describe the status of each project and (2) outline any problems or circumstances expected to result in noncompliance with the approved grant conditions.

Grantee officials acknowledged that progress reports on large PA projects had not been submitted to the regional office as required. These officials stated that guidance had been requested from the regional office on the required format for these reports. However, according to state officials no guidance was provided.

Quarterly Progress Reports from Subgrantees

The FEMA Public Assistance Guide provides that the state should impose reporting requirements on applicants for the preparation of quarterly progress reports. Accordingly, the South Carolina Public Assistance Grant Agreement was signed by the subgrantee and grantee stating that the subgrantee shall provide quarterly progress reports to the grantee. The first report was due three months after the date of the agreement. Thereafter, quarterly reports were to be prepared by the subgrantee until the work was completed and approved through the required final inspection.

The grantee did not enforce its requirement for subgrantees to submit quarterly progress reports. PA officials said that the requirement was not enforced because the quarterly report dates were based on the date the South Carolina Public Assistance Grant Agreement was signed by the subgrantee. This made it difficult to track due dates for subgrantee quarterly reports. As a result, procedures supporting the subgrantee reporting requirements were not implemented.

Conclusions and Recommendations

The quarterly reports on the status of the PA projects are one of the most important sources of information relative to the FEMA regional office's ability to exercise its management responsibilities for the PA program. Also, the lack of PA quarterly reports from the grantee hindered FEMA's ability to effectively conduct its management responsibilities. Additionally, without adequate reports from the subgrantees, the grantee's ability to effectively monitor PA projects and subgrantees could be diminished.

Accordingly, we recommend that the FEMA Regional Director, Region IV:

1. Provide guidance to the grantee on the format and content of the required quarterly progress reports,
2. Ensure that the grantee, in the future, submits quarterly progress reports to the regional office, as required; and,
3. Direct the grantee to establish procedures to ensure that subgrantees submit quarterly progress reports that coincide with the quarterly reporting periods established by FEMA for the grantee.

Management Response and Auditor's Analysis

The Regional Director, FEMA Region IV, and the grantee concurred with the conditions cited. The Regional Director advised that guidance was provided to the grantee on the format of the quarterly progress report and said that, starting with Fiscal Year 2003, the grantee had provided quarterly reports in the format requested. Further, the Regional Director stated that the format of the quarterly report is currently being reviewed to more adequately reflect the status of large projects. Therefore, we consider Recommendation No. 1 and 2 resolved and closed.

However, the Regional Director did not respond to Recommendation No. 3. Accordingly, this finding cannot be closed until a response to Recommendation No.3 is received.

3. Shared Mission Assignment Costs

South Carolina had not reimbursed FEMA for its share of mission assignment costs under Disaster No. 1299. FEMA and the state agreed to share the cost of two mission assignments for Disaster No 1299. The cost of these mission assignments was \$1,055,455 with the state's share being \$263,861. The grantee stated that it had not paid its share because FEMA had not billed the state as required under Federal regulations.

Under the mission assignments, the U.S. Army Corps of Engineers and the U.S. Environmental Protection Agency provided emergency assistance requested by the state. These Federal agencies completed the requested work at a cost of \$1,055,455, and the 25 percent state share of the cost totaled \$263,861. However, FEMA had not billed the state for its matching share.

Audits conducted by the Office of the Inspector General have repeatedly found that management controls for mission assignments were not adequate and FEMA's interests were not being protected. In a report issued in early calendar year 2001, the Inspector General concluded that a more active approach needed to be taken by the Chief Financial Officer to collect the outstanding state share of completed mission assignments. The Inspector General recommended that a review of the status of all mission assignments was needed to determine the amount of funds due to FEMA and that collection action be initiated as appropriate.

Conclusion and Recommendations

Our review further supported the findings reported by the Inspector General. Clearly, a more aggressive approach is needed by the FEMA Chief Financial Officer to identify and collect the amounts owed to FEMA for shared mission assignments.

Management Response and Auditor's Analysis

Although not required, the Regional Director, FEMA Region IV, and the grantee commented on this finding concurring that state matching funds were due FEMA, but stating that FEMA had not presented a bill to the state requesting payment. The OIG previously reported this deficiency in FEMA's billing practices to the FEMA Chief Financial Officer for corrective actions.

Therefore, a recommendation was not included in this report addressed to the Regional Director. However, the instances of noncompliance with the matching share requirement, mandated by the Stafford Act, were relevant to the OIG's audit objectives and included in this report.

4. Administrative and Program Plans

Improvements were needed in the preparation and submission of required Hazard Mitigation program plans and administrative plans for the Individual and Family, Public Assistance, and Hazard Mitigation Grant programs. The grantee did not always submit the required plans. In addition, the plans submitted contained incorrect references to Federal requirements. As result, the grantee was not complying with Federal requirements to have up-to-date and complete administrative and program plans.

Individual and Family Grant Program

According to 44 CFR 206.131 states are required to submit IFG administrative plans to the FEMA regional office for approval each January. In addition, disaster specific administrative plans were to be submitted to the FEMA regional office shortly after the declaration of a disaster.

The grantee submitted the required plans to the FEMA regional director for review and approval. However, the plans incorrectly referred to the requirements of the Single Audit Act of 1984 rather than the requirements as amended in 1996.

Public Assistance Grant Program

Federal regulations (44 CFR 206.207) require an approved PA administrative plan to be on file with FEMA before grants will be approved in a future major disaster. The state agencies are to submit revised PA administrative plans to the FEMA regional director each year. In each disaster in which public assistance is included, the regional director is to request the grantee to prepare any amendments required to meet current policy guidelines.

The grantee did not submit annual PA administrative plans as required. South Carolina's PA planning process was in response to declared disasters rather than on an annual basis as required by Federal regulations. In this regard, our review of the PA administrative plans for Disaster Nos. 1243, 1299 and 1313 found that these disaster specific plans contained obsolete information regarding the requirements of the Single Audit Act. As was found in the IFG plans, the PA administrative plans referenced the outdated Single Audit Act of 1984 rather than the requirements as amended in 1996.

Hazard Mitigation Grant Program

Under Federal regulations (44 CFR 206.437), states are required to prepare a Section 404 administrative plan after the declaration of a disaster and submit any updates, amendments, or plan revisions required to meet current policy guidance or changes in the administration of the

HMG program. Federal regulations (44 CFR206.405) require states to prepare a Section 409 Hazard Mitigation program plan within 180 days after the declaration of the disaster and to submit this plan to FEMA regional director for approval.

South Carolina had not submitted a Section 409 plan for Disaster No. 1243. While the grantee submitted the required Section 404 plan, we noted that the submitted plan incorrectly stated the requirements of the Single Audit Act of 1984 rather than the requirements as amended in 1996.

Conclusions and Recommendations

We discussed the problems found regarding the state's compliance with the Federal requirements for administrative and program planning with state officials. These officials agreed to make appropriate changes in future plans. However, we believe that the failure to submit required plans and the submission of plans with incorrect references to the Single Audit Act indicates the need for improvement in the state's planning process.

Accordingly, we recommend that the FEMA Regional Director, Region IV:

1. Develop procedures to ensure that state administrative and program plans are received, as required, and comply with Federal requirements,
2. Require the grantee to develop and implement appropriate procedures to ensure that future administrative and program plans contain current, accurate, and complete information and are submitted accordance with Federal requirements.

Management Response and Auditor's Analysis

The Regional Director, FEMA Region IV, and the grantee concurred with the conditions cited, but did not respond to the recommendations. For the IFG program, the grantee pointed out that the program no longer exists. We acknowledge that the Individuals and Households Program has replaced the IFG program and that IFG administrative plans are no longer required.

For the PA program, the grantee said that PA administrative plans would be submitted in January of each year. In addition, the grantee said that, upon the occurrence of a disaster, the plan would be revised to reflect the specific disaster. For the HMG program, the grantee said that the Disaster Mitigation Act of 2000 eliminated the requirement for the Section 409 plan. The grantee also said that the obsolete references in the PA and HMG administrative plans to the outdated Single Audit Act of 1984 had been replaced with reference to the amended Act of 1996.

We recognize that the HMG planning process is changing as a result of the enactment of the Disaster Mitigation Act of 2000. The Regional Director's concurrence with the finding is sufficient to resolve the condition cited. However, the finding cannot be closed until the Regional Director address the recommendations for procedures to be established within the Regional Office and at the grantee to ensure compliance with planning requirement in the future.

5. Subgrantee Single Audit Act Compliance

Improvements were needed in the grantee's procedures for ensuring that HMG and PA subgrantees comply with the requirement of the Single Audit Act. Although some Public Assistance subgrantees provided single audit reports, the grantee did not review the reports to determine if "material" findings had been reported that might affect the award of future Federal disaster assistance funds. Also, grantee officials were not aware that some HMG program subgrantees had submitted audit reports for review. Accordingly, the grantee did not have reasonable assurance that HMG and PA subgrantees had properly accounted for or safeguarded Federal funds in accordance with Federal requirements.

OMB Circular A-133 requires non-federal entities that expend \$300,000 or more of Federal funds in a year to have an audit conducted under the requirements of the Single Audit Act. The objectives of a single audit include providing an understanding of internal controls, assessing risks, and testing internal controls over the expenditure of Federal funds. The grantee's responsibility related to subgrantees and the Single Audit Act requirements include:

- Advising subgrantees of the requirements of the Single Audit Act,
- Ensuring that subgrantees expending \$300,000 or more in Federal funds during the subgrantee's fiscal year meet the audit requirements for that fiscal year, and
- Receiving copies of single audit reports from subgrantees and reviewing the reports to determine if corrective actions are needed and taken by the subgrantees.

The grantee in its pre-application briefings for potential subgrantees for the Public Assistance and Hazard Mitigation programs provided information relative to the Single Audit Act requirements. In addition, in the state/subgrantee agreements for PA and HMG projects, the grantee stated that the subgrantee must provide for an annual audit, conducted in accordance with OMB A-133.

In response to the information disseminated by the grantee, we found that a number of Public Assistance subgrantees had provided single audit reports to the grantee. Although some PA subgrantees are also HMG subgrantees, HMG officials were not aware that single audit reports were available for review.

The grantee did not have a tracking system to ensure that PA and HMG subgrantees that exceeded the expenditure threshold of the Single Audit Act had been audited as required. In addition, we found that grantee officials had not reviewed the audit reports that were received to determine if findings were reported that would have an adverse impact on future awards of FEMA funds.

Conclusions and Recommendations

Reviews of single audit reports are intended to alert the state of pertinent programmatic and financial-related issues concerning the subgrantees management of Federal funds. This information is intended to assist the state in identifying instances of noncompliance with Federal requirements and weaknesses in internal controls, which if not corrected, could adversely impact the use of FEMA funds.

Accordingly, we recommend that the Regional Director, Region IV, require the grantee to develop and implement effective procedures to ensure that subgrantees comply with the provisions of the Single Audit Act. The procedures should include a system for tracking reports received, a mechanism to ensure that reports received are reviewed, and appropriate follow-up with subgrantees to ensure that appropriate corrective actions are taken.

Management Response and Auditor's Analysis

The Regional Director, FEMA Region IV and the grantee concurred with the condition cited. The grantee stated that letters had been sent to all subgrantees and that annual follow-up reviews on the status of subgrantee audits would be accomplished. The grantee also said that the audit reports received would be reviewed to identify issues affecting the PA and HM programs to ensure that subgrantees have taken the necessary corrective actions. The Regional Director concurred with the corrective action proposed by the grantee. However, the proposed actions do not include procedures to identify subgrantees that are required to have a single audit performed and have not complied with the requirement. Accordingly, this finding is resolved, but cannot be closed until such procedures have been implemented.

B. Financial Management**1. Allocation of State Management Costs**

South Carolina's procedures for allocating management costs under the Hazard Mitigation Grant Program need to be improved. Our audit disclosed that management costs were not always charged to the correct disaster. As a result, the costs of the HMG programs under particular disaster declarations were misstated.

OMB Circular A-87 states that costs, to be allowable under Federal awards, must be (1) allocable to Federal awards, (2) necessary and reasonable for proper and efficient performance, and (3) adequately documented. A cost is allocable to a cost objective if goods and services involved are chargeable or assignable to such cost objectives in accordance with the relative benefits received. OMB Circular A-87 further provides that (1) any cost allocable to a particular Federal award may not be charged to other Federal awards, and (2) salaries and wages allocated to more than one cost objective must be supported by time and effort reports or some other form of documentation supporting costs charged to each cost objective.

The grantee was awarded an HMG state management grant for \$344,087 for estimated labor, equipment, and other costs related to the management of the HMG program under Disaster No. 1299. The management grant was awarded on November 15, 1999 and amended to continued until at least September 30, 2003. During this period, the grantee management team was working on two HMG programs (Disaster Nos. 1299 and 1313). Disaster No. 1299 was declared on September 21, 1999 and Disaster No. 1313 was declared on January 31, 2000. However, we found that the grantee HMG costs for employee salaries, fringe benefits, equipment and office facilitation² costs were charged to Disaster No. 1299. None of the costs were allocated to Disaster No. 1313 because the grantee did not request a state management grant for that HMG program.

Conclusions and Recommendations

State management costs for the HMG program were not allocated in accordance with the cost principles established in OMB Circular A-87. Accordingly, we recommend that the FEMA Regional Director, Region IV, require the grantee to establish procedures for allocating state management costs to the benefiting disaster programs in accordance with Federal regulations.

Management Response and Auditor's Analysis

The Regional Director, FEMA Region IV, stated that the grantee submitted a corrected management cost plan that allocates cost to the various disasters and concurred with the actions taken. Also, the grantee stated that management costs for all future disasters would be allocated as required. Accordingly, the finding is resolved and closed.

2. Use of Administrative Allowances

The grantee used administrative allowances to pay expenses that were not extraordinary as defined by Federal policy. For the PA and HMG programs for Disaster No. 1299, the grantee used over \$30,000 of the administrative allowance to pay for computer software, user licenses, and other computer-related purchases. These types of expenses are not considered extraordinary and are not to be paid with administrative allowance funds. As a result, the grantee was not in compliance with Federal requirements.

Federal regulations [44 CFR 206.228 and 44 CFR 206.439] provide administrative allowances to state grantees for extraordinary expenses associated with the administration of PA and HMG programs. FEMA policy established that overtime pay, per diem and travels expenses incurred by state employees for the preparation of applications, quarterly reports, final audits, and related field inspections are to be considered extraordinary. Regular salaries for state employees and other expenses associated with the management of the programs are not to be paid from the administrative allowance.

² Facilitation costs included utilities, maintenance, rent, and mailing expenses.

Our test of PA program expenditures under Disaster No. 1299 for the quarter ending June 30, 2002 disclosed that the grantee's administrative allowance was used to purchase computer software and user licenses totaling \$15,180. In addition, the grantee used the administrative allowance for the Disaster No. 1299 HMG program to purchase computer-related purchases totaling \$14,875. According to FEMA policy, these purchases did not qualify as extraordinary expenses. As a result of the costs being charged to the administrative allowances, the grantee was reimbursed for 100 percent of these costs compared to only 75 percent had the costs been approved under a management grant

The use of administrative allowances was discussed with grantee officials. These officials said that the grantee's use of administrative allowances for any administrative cost, not just extraordinary costs, was based on an interpretation of guidance received from FEMA. Documentation to support this interpretation was not available.

Conclusions and Recommendations

The grantee used administrative allowance funds for expenses that did not qualify as extraordinary expenses according to Federal regulations. While our test of selected transactions showed that ineligible expenses were paid with administrative allowance funds for the PA and HMG programs of Disaster No. 1299, a comprehensive review of expenses is needed to determine the total ineligible costs.

Accordingly, we recommend that the Regional Director, Region IV, require the grantee to:

1. Review the charges to the administrative allowance accounts for PA and HMG programs to ensure that only extraordinary costs are charged to the account, and
2. Establish accounting procedures to ensure that the FEMA approved administrative allowances are used only for extraordinary expenses as required by Federal policy.

Management Response and Auditor's Analysis

The Regional Director, FEMA Region IV, and the grantee concurred with the condition cited. The Regional Director said that FEMA has not clearly defined the use of the administrative allowance associated with the disaster assistance programs. Also, the grantee said that administrative allowances were used to administer programs when management costs did not cover program expenses and generally this was done at the grantee's discretion. Further, the grantee said that these funds were always monitored and that the funds used for debatable items under Disaster No. 1313's PA program, had been corrected. The Regional Director concurred with the corrective actions taken by the grantee, and we consider the finding resolved and closed.

ATTACHMENTS

Attachment A-1

Sources and Applications of Funds
As of September 30, 2002

All Disasters No.'s 843 thru 1313 plus the Floyd Supplemental Award

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$274,789,737	\$58,835,531	\$24,727,512	\$358,352,780
Local Match/State Share	\$90,680,613	\$19,415,725	\$8,506,385	\$118,602,723
Total Award Amounts	\$365,470,350	\$78,251,256	\$33,233,897	\$476,955,503
Sources of Funds				
Federal Share (SMARTLINK)	\$274,396,388	\$58,835,531	\$18,904,820	\$352,136,739
Local Match/State Share	\$20,030,979	\$19,186,594	\$12,916,512	\$52,134,085
	\$294,427,367	\$78,022,125	\$31,821,332	\$404,270,824
Total Undrawn Authorizations	\$393,349	\$0	\$5,822,692	\$6,216,041
Application of Funds (Expenditures)				
Federal Share	\$274,396,388	\$58,927,948	\$18,950,741	\$352,275,077
Local Match/State Share	\$20,030,979	\$19,200,387	\$12,922,156	\$52,153,522
Total Application of Funds	\$294,427,367	\$78,128,335	\$31,872,897	\$404,428,599
Balance of Federal Funds On Hand	\$0	(\$92,417)	(\$45,921)	(\$138,338)

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 843
Declared September 22, 1989**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$237,582,426	\$53,442,325	\$11,090,956	\$302,115,707
Local Match/State Share	\$78,402,201	\$17,635,967	\$3,660,015	\$99,698,183
Total Award Amounts	\$315,984,627	\$71,078,292	\$14,750,971	\$401,813,890
Sources of Funds				
Federal Share (SMARTLINK)	\$237,582,426	\$53,442,325	\$11,090,956	\$302,115,707
Local Match/State Share	\$8,250,000	\$17,396,596	\$10,010,704	\$35,657,300
Total Sources of Funds	\$245,832,426	\$70,838,921	\$21,101,660	\$337,773,007
Total Undrawn Authorizations	\$0	\$0	\$0	\$0
Application of Funds (Expenditures)				
Federal Share	\$237,582,426	\$53,442,325	\$11,090,956	\$302,115,707
Local Match/State Share	\$8,250,000	\$17,396,596	\$10,010,704	\$35,657,300
Total Application of Funds	\$245,832,426	\$70,838,921	\$21,101,660	\$337,773,007
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2002	Closed	Closed	Closed	

Note: Even though all three programs were closed at September 30, 2002, the FEMA-State Agreement was still open.

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 881
Declared October 22, 1990**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$4,233,066	\$733,540	\$442,057	\$5,408,663
Local Match/State Share	\$1,396,912	\$242,068	\$492,185	\$2,131,165
Total Award Amounts	\$5,629,978	\$975,608	\$934,242	\$7,539,828
Sources of Funds				
Federal Share (SMARTLINK)	\$4,233,066	\$733,540	\$442,057	\$5,408,663
Local Match/State Share	\$1,268,572	\$252,308	\$492,185	\$2,013,065
Total Sources of Funds	\$5,501,638	\$985,848	\$934,242	\$7,421,728
Total Undrawn Authorizations	\$0	\$0	\$0	\$0
Application of Funds (Expenditures)				
Federal Share	\$4,233,066	\$733,540	\$442,057	\$5,408,663
Local Match/State Share	\$1,268,572	\$252,308	\$492,185	\$2,013,065
Total Application of Funds	\$5,501,638	\$985,848	\$934,242	\$7,421,728
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2002	Closed	Closed	Closed	

Note: Even though all three programs were closed at September 30, 2002, the FEMA-State Agreement was still open.

Attachment A-4

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1243
Declared September 4, 1998

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$3,363,389		\$644,476	\$4,007,865
Local Match/State Share	\$1,109,918		\$212,677	\$1,322,595
Total Award Amounts	\$4,473,307	\$0	\$857,153	\$5,330,460
Sources of Funds				
Federal Share (SMARTLINK)	\$3,363,389		\$416,172	\$3,779,561
Local Match/State Share	\$1,074,158	\$0	\$134,357	\$1,208,515
Total Sources of Funds	\$4,437,547	\$0	\$550,529	\$4,988,076
Total Undrawn Authorizations	\$0	\$0	\$228,304	\$228,304
Application of Funds (Expenditures)				
Federal Share	\$3,363,389		\$416,172	\$3,779,561
Local Match/State Share	\$1,074,158		\$134,357	\$1,208,515
Total Application of Funds	\$4,437,547	\$0	\$550,529	\$4,988,076
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2002	Open	N/A	Open	

Attachment A-5

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1299
Declared September 21, 1999**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$20,612,163	\$4,659,666	\$6,653,878	\$31,925,707
Local Match/State Share	\$6,802,014	\$1,537,690	\$2,195,780	\$10,535,484
Total Award Amounts	\$27,414,177	\$6,197,356	\$8,849,658	\$42,461,191
Sources of Funds				
Federal Share (SMARTLINK)	\$20,292,100	\$4,659,666	\$2,556,780	\$27,508,546
Local Match/State Share	\$6,544,630	\$1,537,690	\$843,737	\$8,926,057
Total Sources of Funds	\$26,836,730	\$6,197,356	\$3,400,517	\$36,434,603
Total Undrawn Authorizations	\$320,063	\$0	\$4,097,098	\$4,417,161
Application of Funds (Expenditures)				
Federal Share	\$20,292,100	\$4,752,083	\$2,602,698	\$27,646,881
Local Match/State Share	\$6,544,630	\$1,551,483	\$849,381	\$8,945,494
Total Application of Funds	\$26,836,730	\$6,303,566	\$3,452,079	\$36,592,375
Balance of Federal Funds On Hand	\$0	(\$92,417)	(\$45,918)	(\$138,335)
Program Status September 30, 2002	Open	Open	Open	

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1313
Declared January 31, 2000**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$8,998,693		\$1,370,418	\$10,369,111
Local Match/State Share	\$2,969,569		\$452,238	\$3,421,807
Total Award Amounts	\$11,968,262	\$0	\$1,822,656	\$13,790,918
Sources of Funds				
Federal Share (SMARTLINK)	\$8,925,407		\$426,730	\$9,352,137
Local Match/State Share	\$2,893,619		\$138,280	\$3,031,899
Total Sources of Funds	\$11,819,026	\$0	\$565,010	\$12,384,036
Total Undrawn Authorizations	\$73,286	\$0	\$943,688	\$1,016,974
Application of Funds (Expenditures)				
Federal Share	\$8,925,407		\$426,730	\$9,352,137
Local Match/State Share	\$2,893,619		\$138,280	\$3,031,899
Total Application of Funds	\$11,819,026	\$0	\$565,010	\$12,384,036
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2002	Open	N/A	Open	

**Sources and Applications of Funds
As of September 30, 2002
Floyd Supplemental Award - Disaster No. 4299
Funds Available November 29, 1999**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share			\$4,525,727	\$4,525,727
Local Match/State Share			\$1,493,490	\$1,493,490
Total Award Amounts	\$0	\$0	\$6,019,217	\$6,019,217
Sources of Funds				
Federal Share (SMARTLINK)			\$3,972,125	\$3,972,125
Local Match/State Share			\$1,297,249	\$1,297,249
Total Sources of Funds	\$0	\$0	\$5,269,374	\$5,269,374
Total Undrawn Authorizations	\$0	\$0	\$553,602	\$553,602
Application of Funds (Expenditures)				
Federal Share			\$3,972,128	\$3,972,128
Local Match/State Share			\$1,297,249	\$1,297,249
Total Application of Funds	\$0	\$0	\$5,269,377	\$5,269,377
Balance of Federal Funds On Hand	\$0	\$0	(\$3)	(\$3)
Program Status September 30, 2002	N/A	N/A	Open	

List of Acronyms

CFR	Code of Federal Regulations
DSS	South Carolina, Department of Social Services
FEMA	Federal Emergency Management Agency
GSA	General Services Administration
HMG	Hazard Mitigation Grant
IFG	Individual and Family Grant
OMB	Office of Management and Budget
OIG	Office of Inspector General
PA	Public Assistance
PW	Project Worksheet

MANAGEMENT COMMENTS

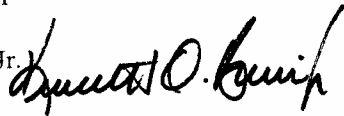
U.S. Department of Homeland Security
Region IV
3003 Chamblee Tucker Road
Atlanta, GA 30341



FEMA

February 4, 2004

MEMORANDUM FOR: Gary J. Barard
Field Office Director

FROM: Kenneth O. Burris, Jr. 
Regional Director

SUBJECT: South Carolina Audit of
Administration of Disaster Assistance Funds

The Federal Emergency Management Agency (FEMA) and the State of South Carolina have received the recommendations brought forward in the above referenced audit report. In accordance with FEMA Instruction 1270.1, this serves as notice of action taken in response to the Office of Inspector General's recommendations outlined in the audit of South Carolina's Administration of Disaster Assistance Funds. Please refer to the attached audit responses from the Infrastructure Branch and the Hazard Identification and Risk Assessment Branch.

This office considers all findings resolved and closed. If you have any further questions, please do not hesitate contacting Mr. Charles M. Butler, Emergency Analyst, at (770) 220-5460.


Attachment

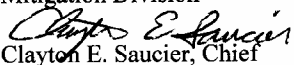


FEMA

February 2, 2004

MEMORANDUM TO: Greg Burei, Director
Administrative Resource Planning

THROUGH: A. Todd Davison, Director
Mitigation Division 

FROM: Clayton E. Saucier, Chief
Hazard Identification and
Risk Assessment Branch 

Reference: South Carolina Audit of Administration of Disaster
Assistance Funds

The Federal Emergency Management Agency (FEMA) and the State of South Carolina, have received the recommendations brought forward in the above referenced Audit Report. The Attached December 12, 2003, response from South Carolina provides information on the actions taken in response to your recommendations.

A. Program Management

A.1. Hazard Mitigation Grant Program (HMGP) Quarterly Progress Reporting: Region IV developed a list of data points for quarterly reports to improve the current information that was being reported from our states. Currently these data points are provided on a per project basis and represent a complete progress report, which in essence is a comprehensive assessment of any given disaster. The State of South Carolina is currently providing this type data on a quarterly basis. An example of their quarterly report is attached. (Attachment 1)

A.4. Administrative and Hazard Mitigation Plans: We concur that this finding has been resolved. In response to the 409 Plan update findings, it was discussed and documentation has been provided explaining the new planning requirements due to the Disaster Mitigation Act of 2000. The 409 Plan updates are no longer required, the Hazard Mitigation Plan incorporation the new planning regulations must be submitted by November 11, 2004. (Attachment 2)

A.5. Subgrantee Single Audit Act Compliance: We concur with the corrective action proposed by the State. Audits received will be forwarded to the office of the Chief, Recovery and Mitigation, where they will be reviewed for findings that could possibly affect federal PA and HMGP awards.

B. Financial Management

B. 1. Allocation of State Management Cost: We concur with the corrective action proposed by the State. Region IV has received the corrected management cost plan from the State that allocates cost throughout all disasters. The Office of Management and Budget have recently approved the corrected management cost plan. Please see attachment #3 for reference.

B. 2. Use of Administrative Allowances: We concur with the actions taken by the State to more closely monitor the expenditure of grantee allowances for “extraordinary” costs in compliance with Federal guidelines. Correction was made for DR-13 13. The State also provided information on the procedures that were established to ensure that all Subgrantees were informed of the requirement to document and account for use of administrative funds.

This office has reviewed the auditor’s findings and Corrective Action Plan and concurs. Since the State’s actions have been implemented and are ongoing procedures, we consider all findings to be resolved and closed.

If you have any questions, please do not hesitate to contact this office, at (770) 220-5400.

Attachments

Note: The attachments provided with the comments have been incorporated into the audit workpapers.

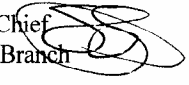


FEMA

R4-RR

January 27, 2004

MEMORANDUM FOR: Greg Burel, Director
Administration Resource Planning Division

FROM: Steve Glenn, Chief
Infrastructure Branch 

SUBJECT: South Carolina Audit of
Administration of Disaster Assistance Funds

The Federal Emergency Management Agency (FEMA) and the State of South Carolina, have received the recommendations brought forward in the above-referenced Audit Report. The attached December 12, 2003, response from South Carolina provides information on the actions taken in response to your recommendations.

The State has concurred in all but one finding (Shared Mission Assignment Costs). This finding remains open until FEMA takes the appropriate action of billing the State for the amount due. Our evaluation of the corrective actions taken by the State in reference to findings pertaining to PA Program is included below:

A. Program Management

A.2. PA Quarterly Progress Reporting: All quarterly reports for FY 2003 and the first quarter report for FY 2004 have been provided by the State in the format requested by the Region IV PA Branch. This format is currently being reviewed by the FEMA PA Branch to more adequately reflect the current status. (See attachment.)

A.3. Shared Mission Assignment Costs: We concur with the State non-concurrence. Until FEMA issues an invoice for the State share of mission assignment costs, this issue remains open. The State has requested this action from FEMA Regional staff working with Headquarters Finance and Administration. FEMA has not yet responded with the requested invoice. The State has verbally indicated it is prepared to pay this invoice upon receipt.

A.4. Administrative and Program Plans: We concur with the corrective action proposed by the State to submit a non-disaster specific PA Administrative plan in January of each year, with disaster-specific plans for declared disasters. The State has corrected the Single Audit Act reference in its current plan.

A.5. Subgrantee Single Audit Act Compliance: We concur with the corrective action proposed by the State. The State has initiated a tracking mechanism for following up with their request for the single audits from Subgrantees.

B. Financial Management

B.2. Use of Administrative Allowances: The use of grantee administrative allowances associated with Federal disaster assistance grants have not been clearly defined by FEMA. We concur with the actions taken by the State to more closely monitor the expenditure of grantee administrative allowances for “extraordinary” costs in compliance with Federal guidelines. Correction was made for DR-13 13. The State also provided information on the procedures that were established to ensure that all Subgrantees were informed of the requirement to document and account for use of administrative funds.

This office has reviewed the auditor’s findings and Corrective Action Plan and concurs. Since the State’s actions have been implemented and are ongoing procedures, we consider all but one finding to be resolved and closed.

If you have any questions, please do not hesitate to contact this office, at (770) 220-5300.

Attachments

Note: The attachments provided with the comments have been incorporated into the audit workpapers.

The State of South Carolina
Military Department



OFFICE OF THE ADJUTANT GENERAL

STANHOPE S. SPEARS
MAJOR GENERAL
THE ADJUTANT GENERAL

December 12, 2003

Mr. Kenneth O. Burris, Jr.
Regional Director
FEMA Region IV
3003 Chamblee-Tucker Road
Atlanta, GA 30341



* 2 0 0 3 0 0 2 8 6 1 *
SOUTH CAROLINA EMERGENCY
MANAGEMENT AGENCY

Dear Mr. Burns:

Reference your letter, dated December 3, 2003, forwarding the draft report of the Audit of Disaster Assistance Grant Program Management for the State of South Carolina.

Please find attached our actions to implement the recommendations included in the Audit Report.

Should you have questions, please contact Steve Overcash, Chief, Recovery and Mitigation, at (803) 737-8564.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Osborne".

Ronald C. Osborne
Director

Attachment

**Comments
on
Audit of Disaster Assistance Grant Program Management
by
Foxx and Company
for
The State of South Carolina
(South Carolina Emergency Management Division)**

A. Program Management

1. HMG Quarterly Progress Reporting

- a. Concur
- b. The audit indicated that quarterly reports were inaccurate or incomplete. A new management software, Mitigation Management System (MMS), was being implemented and the errors were the result of learning how to use the system. The quarterly reports are now accurate and complete. Additionally, all projects are reviewed, and discussed as necessary, with the Region IV staff on a quarterly basis.

2. PA Quarterly Progress Reporting

- a. Concur
- b. Prior to this audit, Region IV had not required quarterly reports nor provided a format. However, quarterly reports are now being provided to Region IV in the format recently provided. The information provided includes the disaster status, large projects open, time extensions approved, small project reviews, projections for the next quarter, and discussion of concerns, and other matters of significance. Sub-grantees are required to report quarterly on open large projects and the information reported includes percentage of work completed, timeliness, milestones achieved each quarter, projected completion schedule, and cost status.

3. Shared Mission Assignment Costs

- a. Non-concur
- b. Lack of payment of shared mission assignments should not be included in the audit. Payment cannot be made without a bill from FEMA and no such bill has been presented.

4. Administrative and Program Plans

- a. Concur
- b. *Individual and Family Grant Program:* The IFG program no longer exists; therefore, the finding is considered resolved.
- c. *Public Assistance Grant Program:* While annual PA administrative plans were not submitted to FEMA RIV, disaster-specific plans were submitted for disaster 1243 (1998), 1299 (1999), and 1313 (2000). Hereafter, non-specific PA administrative plans will be

submitted in January of each year. Additionally, upon the occurrence of a disaster, the plan will be revised to reflect the specific disaster and submitted to the Federal Coordinating Officer. The obsolete reference to the outdated Single Audit Act of 1984 has been replaced with reference to the requirements as amended in 1996, therefore, the finding is considered resolved.

d. *Hazard Mitigation Grant Program* : Section 409 plans were submitted and approved for disasters 1 299 and 1 3 1 3 .The Disaster Mitigation Act of 2000 eliminated this requirement for the Section 409 plan. The obsolete reference to the outdated Single Audit Act of 1 984 has been replaced in the Section 404 plan with reference to the requirements as amended in1996. This finding is considered resolved.

5. Subgrantee Single Audit Act Compliance

a. Concur

b. Subgrantees have always been advised of the Single Audit Act requirement in the State/Applicant Agreements for both PA and HMGP; however, follow up on submission and review has not always been timely. Letters have since been sent to all subgrantees for fiscal years 2001 and 2002, and follow up reviews requesting the status of their audits will be accomplished annually. Audits received will be forwarded to the office of the Chief, Recovery and Mitigation, where they will be reviewed for findings that could possibly affect federal PA and HMGP awards. If findings are identified that relate to federal disaster assistance funds, the SCEMD will take action in accordance with OMB Circular A. 133.

B. Financial Management

1. Allocation of State Management Costs

a. Concur

b. The state management costs for disasters 1299 and 1 3 1 3 were charged only to Disaster 1299. This was done with the full knowledge and approval of FEMA RIV and to reduce management costs. We have submitted a management cost budget to FEMA RIV for disaster 1313 to be effective November 1, 2003. Management costs will be separated for all future disasters.

2. Use of Administrative Allowances

a. Concur, with comment.

b. The use of administrative allowances associated with federal disaster assistance grants has not been clearly defined by FEMA. Allowances were used to administer the programs when management costs did not cover expenses. The CFR allows for “extraordinary” costs in administering the program. The use of these funds has generally been at the grantee’s/subgrantee’s discretion. These funds have always been monitored and for Disaster 1313, PA administrative funds that were used for debatable items have been corrected. Subgrantees were informed during Applicants Briefings for both PA and HMGP for Disaster 1451 (January 2003) that all administrative funds must be properly accounted for, their use must be clearly documented, and are subject to audit. The use of these funds will be reviewed during the final inspections for PA large projects and all HMGP projects.

For PA small projects, the federal share is provided to the subgrantee as soon as practical after approval of the federal funding. Prior to small project closeout, the grantee must certify that all work has been completed in accordance with the federal approval and the state share (if applicable) of the non-federal share has been paid. This certification is not required to specify the amount spent by the subgrantee on the small project. Additionally, the federal payment shall not be reduced if all of the approved funds are not spent to complete a project. Since the administrative funds are based upon a sliding scale percentage of the project cost, there is no mechanism to reduce these funds for projects where the full approved amount was not spent. All of this discussion on PA small projects is clearly spelled out in 44CFR206.205(a).