Omaha Public Power District in Nebraska Generally Accounted for and Expended FEMA Grant Funds Properly

January 4, 2017
OIG-17-17-D
January 04, 2017

Why We Did This Audit

The Omaha Public Power District (OPPD) in Nebraska received a $4.6 million Federal Emergency Management Agency (FEMA) grant award for damages it sustained from June 2014 storms. Our audit objective was to determine whether OPPD accounted for and expended FEMA funds according to Federal requirements.

What We Found

Generally, OPPD accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines. For example, OPPD accounted for disaster costs on a project-by-project basis and adequately supported costs it claimed. However, OPPD overstated the fringe benefit rate it applied to its labor costs on three large projects. As a result, OPPD requested $67,570 in reimbursements for fringe benefit costs it did not incur.

OPPD officials said they applied a 73 percent fringe benefit rate because they used this rate to allocate fringe benefit costs for other purposes. OPPD officials also said FEMA Region VII officials have approved this method of allocating fringe benefit costs in previous disasters. However, a grant recipient cannot claim costs it did not incur, and past incorrect practices do not justify current incorrect practices.

What We Recommend

FEMA should disallow as ineligible $67,570 of overstated fringe benefit costs and instruct Nebraska to ensure OPPD properly calculates and applies its fringe benefit rate in future disasters.

FEMA Response

FEMA officials agreed with our finding and recommendations and provided written comments on October 19, 2016, which we have included as appendix D.

For Further Information:
Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-IG.OfficePublicAffairs@oig.dhs.gov
MEMORANDUM FOR: Beth Freeman  
Regional Administrator, Region VII  
Federal Emergency Management Agency  

FROM: Thomas M. Salmon  
Assistant Inspector General  
Office of Emergency Management Oversight  

SUBJECT: Omaha Public Power District in Nebraska Generally Accounted for and Expended FEMA Grant Funds Properly  
Audit Report Number OIG-17-17-D  

We audited Federal Emergency Management Agency Public Assistance grant funds awarded to Omaha Public Power District (OPPD) in Omaha, Nebraska. The Nebraska Emergency Management Agency (Nebraska), a Federal Emergency Management Agency (FEMA) grantee, awarded OPPD $4.6 million for damages sustained from severe storms, tornadoes, straight-line winds, and flooding that occurred June 1-4, 2014. The award provided 75 percent Federal funding for nine projects. We audited five projects totaling $4.3 million, or 93 percent of the total award (see appendix B, table 1). At the time of our audit, OPPD had completed the majority of its work and submitted final expenditures to Nebraska for seven projects. Insurance did not cover any disaster-related damage.

Background

OPPD is a public corporation and political subdivision of the State of Nebraska governed by an elected board of directors. OPPD provides electrical service to almost 800,000 people, which is more than any other electric utility in the state. OPPD's service area includes 130 electrical substations covering 13 counties and 5,000 square miles. In early June 2014, severe storms inundated eastern Nebraska causing large hail, prolonged periods of rainfall, and flash flooding. The storms caused substantial building and roof damage to several of OPPD's structures.
Results of Audit

Generally, OPPD accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines. For example, OPPD accounted for disaster costs on a project-by-project basis and adequately supported costs claimed. However, OPPD overstated its labor (force account labor) fringe benefit rate for three large projects. OPPD officials said they applied a 73 percent fringe benefit rate because that is the standard benefit rate they use for non-disaster purposes. OPPD officials also said Region VII officials approved OPPD’s fringe benefit rate and calculations in previous disaster claims. As a result, OPPD received $67,570 in reimbursements for costs it did not incur.

Finding A: Excess Fringe Benefit Costs

OPPD overstated its fringe benefit rate for overtime labor costs in three large projects (Projects 7, 44, and 45), resulting in approximately $67,570 of excess reimbursements. FEMA’s Public Assistance Guide (FEMA 322, June 2007, p. 45) states that fringe benefit rates should be different for regular and overtime hours because certain items in a benefits package, such as health insurance, are not dependent on hours worked. Therefore, the overtime fringe benefit rate should be significantly lower than the regular time fringe rate. OPPD applied a 73 percent fringe rate to both regular and overtime costs.

FEMA guidance on separating regular time and overtime is clear (see FEMA worksheet in appendix A). OPPD should have established a separate benefit rate for the overtime pay because many fringe benefit costs do not apply to overtime and premium pay hours. For example, OPPD’s employee healthcare costs do not increase when an employee works overtime hours or receives premium pay.

OPPD officials explained that they calculate the single benefit rate at the beginning of each year and add that rate to total payroll costs for all employee benefit calculations. While OPPD reviews this rate quarterly for budgetary adjustments, it always applies a single rate to total payroll costs. Because OPPD could not provide separate benefit rates, we used the most conservative benefit rate of 1.45 percent \(^{1}\) to calculate fringe benefit costs for the overtime hours OPPD claimed. Using the conservative rate, we determined that OPPD

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\(^{1}\) In 2014, the employer Social Security matching employment tax rate was 6.2 percent up to $117,000 and the Medicare matching rate was 1.45 percent with no earnings limit. However, OPPD does not withhold or match Social Security taxes because of the way its employee retirement plan is structured.
overstated fringe benefit costs by up to $67,570. Because OPPD did not establish separate rates as required, FEMA has no assurance that these costs are valid and eligible. Therefore, we question $67,570 as ineligible.

Because of this audit, OPPD officials said they have a better understanding of the Federal requirements regarding fringe benefits. OPPD officials also explained they used the 73 percent benefit rate because FEMA Region VII officials approved their use of the benefit rate methodology in prior disasters. Region VII officials said they were not aware of OPPD’s fringe benefit application issue for this disaster because they generally do not review a sub-recipient’s methodology. At the exit conference, FEMA officials agreed the regular time and overtime fringe benefit rates should be different and plan to work with OPPD officials to determine the appropriate benefit rates. Nebraska officials said they were not aware of OPPD’s fringe benefit methodology.

We recognize that FEMA allowed OPPD to use this rate in the past; however, incorrect past practices do not make current practices correct. These costs are ineligible because OPPD did not incur the costs, and that alone makes the costs ineligible under Federal cost principles and FEMA’s Public Assistance program. However, if OPPD is able to demonstrate to FEMA that any of its other benefits costs increase incrementally with overtime costs, FEMA should reduce the questioned costs in this report appropriately.

**Recommendations**

We recommend that the Regional Administrator, FEMA Region VII:

**Recommendation 1:** Disallow as ineligible $67,570 ($50,678 Federal share) in ineligible (excessive) fringe benefit costs OPPD claimed (finding A) unless OPPD provides evidence that it incurred fringe benefit costs at a higher rate than 1.45 percent on overtime pay.

**Recommendation 2:** Instruct Nebraska to ensure OPPD calculates and applies its fringe benefit rate according to Federal cost principles and FEMA guidelines for all future disasters (finding A).

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2 According to 2 Code of Federal Regulations (CFR) Part 225 Appendix B, (8)(d)(5), fringe benefits are allocated to Federal awards in a manner consistent with the pattern of benefits attributable to the individuals or groups of employees whose wages are chargeable to the awards.
**Recommendation 3:** Ensure that FEMA Public Assistance personnel provide adequate guidance and training to Nebraska regarding allowable fringe benefit rates (finding A).

**Discussion with Management and Audit Follow-up**

We discussed the results of our audit with FEMA, Nebraska, and OPPD officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to these officials and discussed it at exit conferences with FEMA officials on September 1, 2016, with Nebraska officials on September 23, 2016, and with OPPD officials on September 28, 2016. Nebraska officials agreed with the finding and recommendations. Nebraska officials said they will continue to work with disaster applicants to ensure they correctly apply fringe benefit rates. OPPD officials agreed with the finding but disagreed with the recommendation to disallow funds. At the exit conference, OPPD officials said they were working to determine the appropriate fringe benefit rate.

FEMA officials agreed with the finding and recommendations and provided a written response on October 19, 2016, which we included as appendix D. FEMA’s response and planned actions were sufficient to resolve, but not close, the three recommendations with target completion dates of 90 days after report issuance. Therefore, we consider all three recommendations resolved but open. We will close those recommendations once we receive documentation to verify that FEMA has completed its planned actions. Please email a signed PDF copy of all responses and closeout request to Chiquita.Washington@oig.dhs.gov.

The Office of Emergency Management Oversight major contributors to this report are Christopher Dodd, Director; Chiquita Washington, Audit Manager; Sharon Snedeker, Senior Auditor; Lena Stephenson-George, Auditor; and Heather Hubbard, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Chiquita Washington, Audit Manager, Central Regional Office - South, at (214) 436-5200.
Appendix A
Applicant’s Benefits Calculation Worksheet

<table>
<thead>
<tr>
<th>FRINGE BENEFITS (by %)</th>
<th>REGULAR TIME</th>
<th>OVERTIME</th>
</tr>
</thead>
<tbody>
<tr>
<td>HOLIDAYS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VACATION LEAVE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SICK LEAVE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOCIAL SECURITY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MEDICARE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UNEMPLOYMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WORKER’S COMP.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RETIREMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HEALTH BENEFITS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIFE INS. BENEFITS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OTHER</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL in % annual salary</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

COMMENTS

I CERTIFY THAT THE INFORMATION ABOVE WAS TRANSCRIBED FROM PAYROLL RECORDS OR OTHER DOCUMENTS WHICH ARE AVAILABLE

<table>
<thead>
<tr>
<th>Name</th>
<th>TITLE</th>
<th>DATE</th>
</tr>
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</table>

FEMA Form 369-126, FEB 09
Appendix B
Objective, Scope, and Methodology

We audited FEMA Public Assistance grant funds awarded to OPPD (Public Assistance Identification Number 000-UWJ6-00). Our audit objective was to determine whether OPPD accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA disaster number 4185-DR-NE. Nebraska awarded OPPD $4.6 million for disaster damages resulting from severe storms, tornadoes, straight-line winds, and flooding that occurred June 1-4, 2014. We audited five projects totaling $4.3 million or 93 percent of the total award (see table 1). The audit covered the period June 1, 2014, through February 29, 2016, the cutoff date of our audit. The award provided 75 percent Federal funding for four large and five small projects.3

<table>
<thead>
<tr>
<th>Project Number</th>
<th>Category of Work*</th>
<th>Total Project Amount</th>
<th>Total Claimed Costs</th>
<th>Audit Scope</th>
<th>Questioned Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>32</td>
<td>E</td>
<td>$20,512</td>
<td>$20,512</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>18</td>
<td>E</td>
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<td>20,988</td>
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<td>0</td>
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<tr>
<td>09</td>
<td>F</td>
<td>49,736</td>
<td>49,453</td>
<td>0</td>
<td>0</td>
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<tr>
<td>08</td>
<td>F</td>
<td>54,023</td>
<td>54,023</td>
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<td>0</td>
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<tr>
<td>43</td>
<td>B</td>
<td>107,918</td>
<td>106,498</td>
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<td>17</td>
<td>E</td>
<td>219,649</td>
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<tr>
<td>07</td>
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<td>525,648</td>
<td>525,648</td>
<td>59,757</td>
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<tr>
<td>44</td>
<td>E</td>
<td>865,976</td>
<td>363,045</td>
<td>865,976</td>
<td>7,730</td>
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<tr>
<td>45</td>
<td>E</td>
<td>2,747,606</td>
<td>1,843,037</td>
<td>2,747,606</td>
<td>83</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$4,611,859</td>
<td>$3,232,797</td>
<td>$4,301,171</td>
<td>$67,570</td>
</tr>
</tbody>
</table>

Source: FEMA project worksheets, OPPD records, and Office of Inspector General (OIG) analysis

*FEMA identifies type of work by category: A for debris removal, B for emergency protective measures, and C-G for permanent work.

3 Federal regulations in effect at the time of the disaster set the large project threshold at $120,000 [Amendment to the Public Assistance Program’s Simplified Procedures Project Thresholds, 79 Fed. Reg. 10,685 (February 26, 2014)].
Appendix B (continued)

We interviewed FEMA, Nebraska, and OPPD officials; gained an understanding of OPPD’s method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected and reviewed (generally based on dollar amounts) project costs and procurement transactions for the projects in our audit scope; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our objective. As part of our standard audit procedures, we also notified our Office of Information Technology Audits of contracts in the audit scope the subgrantee awarded under the grant that we reviewed to determine whether there were any indications of issues related to those contractors that would indicate fraud, waste, or abuse. As of the date of this report, the Office of Information Technology Audits’ analysis of contracts was ongoing. When it is complete, we will review the results and determine whether additional action is necessary. We did not assess the adequacy of OPPD’s internal controls applicable to grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between February and September 2016, pursuant to 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, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.
Appendix C
Potential Monetary Benefits

Table 2: Summary of Potential Monetary Benefits

<table>
<thead>
<tr>
<th>Type of Potential Monetary Benefit</th>
<th>Total</th>
<th>Federal Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questioned Costs – Ineligible</td>
<td>$67,570</td>
<td>$50,678</td>
</tr>
<tr>
<td>Questioned Costs – Unsupported</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Funds Put to Better Use</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$67,570</strong></td>
<td><strong>$50,678</strong></td>
</tr>
</tbody>
</table>

Source: OIG analysis of the finding in this report
MEMORANDUM TO: Christopher Dodd  
Director, Central Regional Office - South  
Office of Inspector General

FROM: Beth Freeman  
Regional Administrator, Region VII  
Federal Emergency Management Agency

SUBJECT: Omaha Public Power District in Nebraska Accounted for and Expended FEMA Grant Funds Properly  
Audit Report Number OIG-17-XX-D

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security’s Federal Emergency Management Agency (FEMA) Region VII appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report. Region VII is pleased to note the positive assessment regarding the sub-recipient’s overall accounting policies, procedures, and business practices including the recipient’s ability to account for FEMA grant funding on a project-by-project basis.

The draft report contained three recommendations which FEMA Region VII concurs with. Please see the attached for our detailed response to the recommendations.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you in the future.

Attachment
Appendix D (continued)
FEMA Region VII Audit Response

Attachment A
FEMA Region VII Management Response to Recommendations Contained in OIG-17-XXX-D

Recommendation #1: Disallow as ineligible $67,570 ($50,678 Federal share) in ineligible (excessive) fringe benefit costs OPPD claimed (finding A) unless OPPD provides evidence that it incurred fringe benefit costs at a higher rate than 1.45 percent on overtime pay.

FEMA Region VII Response: Concur. FEMA Region VII’s Public Assistance program will work with NEMA and OPPD officials to obtain the information necessary for FEMA to make final determinations regarding the eligibility and allowability of the questioned fringe benefit costs. Estimated Completion Date (ECD): Within 90 days after the issuance of the final audit report.

Recommendation 2: Instruct Nebraska to ensure OPPD calculates and applies its fringe benefit rate according to Federal cost principles and FEMA guidelines for all future disasters (finding A).

FEMA Region VII Response: Concur. FEMA Region VII’s Public Assistance program will issue a letter instructing NEMA to direct OPPD to calculate the fringe benefit rates correctly in future disasters and to conduct periodic monitoring of OPPD to ensure that the appropriate fringe benefit rates are being applied to current and future disasters. ECD: Within 90 days after the issuance of the final audit report.

Recommendation 3: Ensure that FEMA Public Assistance personnel provide adequate guidance and training to Nebraska regarding allowable fringe benefit rates (finding A).

FEMA Region VII Response: Concur. FEMA Region VII’s Public Assistance program will issue additional guidance regarding allowable fringe benefit rates through the regional Public Assistance Appeals Newsletter. In addition, FEMA Region VII’s Public Assistance program will reach out to NEMA to discuss their concerns and to identify specific fringe benefit rate issues where additional FEMA guidance and training is needed. ECD: Within 90 days after the issuance of the final audit report.
Appendix E
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