

**Williamsburg Regional
Hospital, South Carolina,
Generally Accounted for
and Expended FEMA Grant
Funds Awarded for
Emergency Work Properly**





DHS OIG HIGHLIGHTS

Williamsburg Regional Hospital, South Carolina, Generally Accounted for and Expended FEMA Grant Funds Awarded for Emergency Work Properly

June 6, 2017

Why We Did This Audit

Williamsburg Regional Hospital (Hospital), South Carolina, received a \$5.3 million FEMA grant award for emergency work from the South Carolina Emergency Management Division (South Carolina), a Federal Emergency Management Agency (FEMA) grantee, for damages resulting from severe storms and flooding in October 2015. Our audit objective was to determine whether the Hospital accounted for and expended FEMA grant funds according to Federal requirements.

What We Recommend

FEMA should direct South Carolina to actively monitor the Hospital's annual audit requirement and take appropriate action for any noncompliance.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov.

What We Found

For the two projects in our audit scope, the Hospital accounted for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. We determined the project costs were eligible and properly supported. However, as of February 2017, the Hospital had not arranged for a Single Audit of its Federal award, which it must complete and submit to the Federal Audit Clearinghouse by June 30, 2017.

At the exit conference held on March 15, 2017, Hospital officials told us that they recently hired an audit firm to complete and submit the audit by its due date of June 30, 2017. Hospital officials later provided us with a copy of the signed audit engagement letter, but it did not contain a completion date for the audit. Therefore, South Carolina should actively monitor the Hospital's progress on the audit and take appropriate action if the Hospital does not meet its audit responsibility.

FEMA Response

FEMA Region IV officials concurred with our finding and recommendation. Appendix B includes FEMA's written response in its entirety.



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Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

July 6, 2017

MEMORANDUM FOR: Gracia Szczech
Regional Administrator, Region IV
Federal Emergency Management Agency

FROM: John E. McCoy II
Acting Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Williamsburg Regional Hospital, South Carolina,
Generally Accounted for and Expended FEMA Grant
Funds Awarded for Emergency Work Properly*
Audit Report Number OIG-17-95-D

We audited Public Assistance grant funds awarded to Williamsburg Regional Hospital (Hospital) in Kingstree, South Carolina. We conducted this audit early in the Public Assistance process to identify areas where the Hospital may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines. In addition, by undergoing an audit early in the grant cycle, grant recipients have the opportunity to correct noncompliance earlier in the grant management process.

As of August 2016, the South Carolina Emergency Management Division (South Carolina), a Federal Emergency Management Agency (FEMA) grantee, had awarded the Hospital \$5.3 million for damages resulting from severe storms and flooding in October 2015. The award provided 75 percent FEMA funding for emergency work under two large projects.¹

We audited the \$5.3 million that South Carolina awarded the Hospital under the two emergency work projects (Projects 109 and 828). Project 109 provided funding for emergency protective measures taken by Hospital staff to protect medical equipment and to reduce damages to Hospital facilities. Project 828 provided funding for the acquisition and installation of temporary facilities so that the Hospital could continue medical services while the damaged facility is

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$121,800 [Notice of Adjustment of Disaster Grant Amounts, 80 Fed. Reg. 61,836 (Oct. 1 2015)].



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either repaired or replaced. We also conducted a limited review of the Hospital's \$31.7 million request under Project 718 for replacement of the damaged hospital, which was under FEMA review at the start of our audit fieldwork.

The Hospital received insurance proceeds totaling \$22.7 million to cover damages to its insured facilities. However, at the time of our audit, FEMA had not allocated all insurance proceeds to reduce project costs. At the time of our fieldwork, the Hospital had filed reimbursement claims totaling \$5.3 million to South Carolina under the two emergency work projects in our audit scope.

Background

Williamsburg Regional Hospital, built in 1965, is located in Kingstree, South Carolina. It is a not-for-profit critical access hospital providing general medical and surgical health care services to the citizens of Kingstree and surrounding counties. The facility is 57,495 square feet and has 25 beds, 20 daybeds, an emergency room and trauma center, a cafeteria, a dining facility, and approximately 40 other rooms including administrative offices. The hospital's roofing system failed during the severe storms and flooding that began on October 1, 2015, causing water damage throughout the facility over the course of several days. The hospital is currently operating out of temporary facilities until it can perform permanent restorative repairs to the facility.

Results of Audit

For the two projects in our audit scope, the Hospital accounted for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. We determined the project costs were eligible and properly supported. However, as of February 2017, the Hospital had not arranged for a Single Audit of its Federal award, which it must complete and submit to the Federal Audit Clearinghouse by June 30, 2017.²

Finding A: Audit Requirements

As of February 2017, the Hospital had not arranged for a Single Audit of its Federal award, which is due no later than June 30, 2017. Although aware of

² The *Single Audit Act of 1984*, as amended, and OMB Circular A-133 provide audit requirements for ensuring that recipients properly expend grant funds. On December 26, 2013, OMB Circular A-133 was superseded by the issuance of 2 CFR part 200, subpart F.



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the audit requirement, Hospital officials said that the Hospital has not received a financial statement audit since 2012 because of financial constraints.

Code of Federal Regulations (CFR) 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, help ensure that grant recipients spend Federal funds properly. Specifically, 2 CFR 200.501 requires non-Federal entities that expend \$750,000 or more in a year in Federal awards to obtain a single or program-specific audit for that year. The non-Federal entity must submit the results of such audit to the Federal Audit Clearinghouse within 9 months after its fiscal year end (2 CFR 200.512). In this particular case, the Hospital met the \$750,000 threshold for its 2016 fiscal year ending September 30, 2016. Therefore, the Hospital should complete and submit an audit of its Federal award for 2016 by June 30, 2017. However, as of February 2017, the Hospital had not arranged for the required audit because of financial constraints.

According to 2 CFR 200.338, the Federal awarding agency or pass-through entity (South Carolina) may impose additional conditions if a non-Federal entity fails to comply with Federal statutes, regulations, or the terms and conditions of a Federal award. These additional Federal award conditions, identified at 2 CFR 200.207(b), may include —

1. requiring payments as reimbursements rather than advance payments;
2. withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
3. requiring additional, more detailed financial reports;
4. requiring additional project monitoring;
5. requiring the non-Federal entity to obtain technical or management assistance; or
6. establishing additional prior approvals.

At the exit conference held on March 15, 2017, Hospital officials told us that they recently hired an audit firm to complete and submit the audit by its due date of June 30, 2017. Hospital officials later provided us with a copy of the signed audit engagement letter, but it did not contain a completion date for the audit. Therefore, South Carolina should actively monitor the Hospital's progress on the audit and take appropriate action if the Hospital does not meet its audit responsibility.



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Other Matters

In February 2016, the Hospital submitted a request to FEMA under Project 718 to fund replacement of the damaged medical facility under FEMA’s “50 percent Rule.” The replacement request, which totaled \$31.7 million, was under review by South Carolina and FEMA at the start of our fieldwork in August 2016. FEMA uses the 50 Percent Rule to determine whether to fund the repair or replacement of damaged facilities in accordance with 44 CFR 206.226(f)(1).³ During our audit fieldwork, FEMA completed its evaluation of Project 718 and determined the Hospital had included ineligible damages when calculating the total repair estimate used in its 50 Percent Rule calculation. These ineligible damages caused the repair estimate of the medical facility’s disaster-related damages to exceed 50 percent of the cost of replacing the facility. Therefore, following its 50 Percent Rule policy, FEMA approved the medical facility as eligible for repair only and not replacement. Subsequently, FEMA reduced Project 718 from \$31,713,816 to \$1,393,512 to cover eligible repairs to the medical facility. FEMA further reduced eligible project costs to \$248,691 after deducting \$1,144,821 for damages that insurance proceeds covered.

At the exit conference, Hospital officials said they plan to appeal FEMA’s decision on replacement of the medical facility because they believe FEMA did not properly consider all eligible damages. We did not evaluate the eligibility of the Hospital’s replacement request under Project 718 because it was under FEMA’s review at the time we began our audit. Therefore, we do not express an opinion on the validity of FEMA’s determination on the facility’s eligibility for replacement.

Recommendation

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation 1: Direct South Carolina to actively monitor the Hospital’s compliance with the annual audit requirements. If the Hospital does not meet its audit requirement by the June 30, 2017 due date, FEMA should direct South Carolina to impose appropriate additional award conditions to ensure the integrity of the FEMA award (finding A).

³ A facility is considered repairable when disaster damages do not exceed 50 percent of the cost of replacing a facility to its pre-disaster condition, and it is feasible to repair the facility so that it can perform the function for which it was being used as well as it did immediately prior to the disaster (44 CFR 206.226(f)(1)).



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Discussion with Management and Audit Follow-up

We discussed the results of our audit with Hospital, South Carolina, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference on March 15, 2017. We included their comments, as appropriate, in the body of this report. FEMA Region IV provided a written response on April 12, 2017, agreeing with our one report recommendation (see appendix B). The response indicated that FEMA expects to implement its proposed corrective action to address the recommendation by June 30, 2017. Therefore, we consider the report recommendation to be resolved but open. We will evaluate for closure upon documentation that FEMA has implemented its proposed corrective action. Please email closeout documentation and request to emo.auditliaison@oig.dhs.gov.

The Office of Emergency Management Oversight contributors to this report are David Kimble, Director; Adrienne Bryant, Audit Manager; Angelica Esquerdo, Auditor-in-Charge; Carolyn Berry, Auditor; and Vilmarie Serrano, Independent Referencer.

Please call me with any questions at (202) 254-4100 or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General at (202) 254-4100 or David Kimble, Director, Eastern Regional Office - South, at (404) 832-6702.



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Appendix A
Objective, Scope, and Methodology

We audited Public Assistance funds awarded to the Hospital, FIPS Code 089-UJ3ZE-00. Our audit objective was to determine whether the Hospital accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster 4241-DR-SC. As of August 2016, the Hospital received a Public Assistance grant award of \$5.3 million from South Carolina, a FEMA grantee, for damages resulting from severe storms and flooding in October 2015. The award provided 75 percent FEMA funding for emergency work (temporary facilities) under two large projects.

We audited the two large projects with awards totaling \$5.3 million (see table 1). We also conducted a limited review of the Hospital’s request under Project 718 for replacement of the damaged hospital, which was under FEMA review at the start of our audit fieldwork. The audit covered the period from October 1, 2015, to August 18, 2016. At the time of our audit, the Hospital had not completed work on all projects in our audit scope and was in the process of submitting reimbursement claims to South Carolina.

Table 1: Projects Audited

Project Number	Category of Work⁴	Amount Awarded
109	B	\$ 216,840
828	B	5,106,906
Totals		\$ 5,323,746

Source: FEMA records

To accomplish our objective, we interviewed Hospital, FEMA, and South Carolina personnel; gained an understanding of the Hospital’s method of accounting for disaster-related costs and its procurement policies and procedures; judgmentally selected (generally based on dollar amounts) and reviewed 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 audit

⁴ FEMA classifies disaster-related work by type: debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C through G).



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objective. We did not perform a detailed assessment of the Hospital's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between August 2016 and March 2017 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 the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. Unless stated otherwise in this report, to conduct this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.



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Appendix B


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



FEMA

APR 12 2017

MEMORANDUM FOR: C. David Kimble
Director
Eastern Regional Office
Office of Disaster Assistance Oversight

FROM: Gracia B. Szczech 
Regional Administrator
FEMA Region IV

SUBJECT: Management Response to Draft Report
*Williamsburg Regional Hospital, South Carolina, Generally
Accounted for and Expended FEMA Grant Funds Awarded
for Emergency Work Properly Audit Report Number OIG-17-
XX-D FEMA*
Disaster: 4241-DR-SC
Draft 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 (DHS) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

The Department is pleased to note OIG's positive recognition that the Williamsburg Regional Hospital accounted for FEMA funds on a project-by-project basis as Federal regulations and FEMA guidelines require. However, the OIG did note, that the Hospital may not meet its annual audit requirement for Federal awards. As of February 2017, the Hospital had not arranged for an audit of its Federal award, which it must complete and submit to the Federal Audit Clearinghouse by June 30, 2017.

The draft report contained one recommendation with which FEMA concurs. Specifically:

Recommendation 1: Direct South Carolina to actively monitor the Hospital's compliance with the annual audit requirements. If the Hospital does not meet its audit requirement by the June 30, 2017 (due date) FEMA should direct South Carolina to impose appropriate additional award conditions to ensure the integrity of the FEMA award (finding A).



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Response: Concur. FEMA will direct South Carolina to actively monitor the Hospital's compliance with the annual audit requirements. Estimated Completion Date (ECD): 06/30/2017.

Again, thank you for the opportunity to review and comment on this draft report. We look forward to working with you in the future.



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Appendix C
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