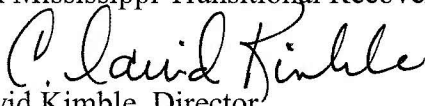




Homeland Security

June 26, 2008

MEMORANDUM FOR: Sidney L. Melton, Director
FEMA Mississippi Transitional Recovery Office

FROM: 
C. David Kimble, Director
Eastern Regional Office

SUBJECT: *Review of Coast Electrical Power Association*
Public Assistance Identification Number: 000-UMYTH-00
FEMA Disaster Number 1604-DR-MS
Report Number DA-08-06

We performed a review of emergency services and debris removal costs associated with Hurricane Katrina activities for Coast Electrical Power Association, Bay St. Louis, Mississippi (Association). The review objective was to determine whether the association properly accounted for disaster-related costs and whether such costs were eligible for funding under the Federal Emergency Management Agency's (FEMA) disaster assistance programs.

As of October 10, 2006, the cut-off date of our review, the Association had received an award of \$67.1 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for emergency protective measures and debris removal activities. The award provided FEMA funding for six large projects¹. We reviewed costs totaling \$56.2 million under the 6 large projects (see Exhibit).

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

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

RESULTS OF REVIEW

The Association accounted for FEMA funds on a project-by-project basis according to federal regulation for large projects. However, we question costs of \$1,250,705 resulting from ineligible charges, unapplied credits, and unsupported and excessive costs. Further, the Association did not comply with federal procurement standards when awarding a contract for a tent city to house and feed workers engaged in disaster activities.

- A. Labor Charges. The Association's claim included \$593,141 of ineligible labor charges. The Association claimed \$1,747,642 of overtime labor costs of employees engaged in emergency work. However, we determined that \$533,609 of the costs were ineligible because they were based on a compensation policy that was inconsistent with federal regulation and federal cost principles.

The Association's compensation policy provided for all employees, including exempt personnel, to be paid an overtime rate of one and one-half times their regular pay for all hours worked (regular and overtime) during disaster recovery activities. However, federal regulations (44 CFR § 206.228) prohibit reimbursement of salaries and benefits related to straight-time worked by an applicant's permanently employed personnel engaged in emergency work. Additionally, the Association's compensation policy does not allow for exempt employees to earn overtime pay during non-disaster situations. Under federal cost principles for non-profit organizations (OMB Circular A-122), costs claimed under a federal grant are allowable if they are consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization. Accordingly, we question \$533,609 claimed for straight-time worked by employees but paid at an overtime rate, and for overtime paid to exempt employees who, under non-disaster situations, do not earn overtime pay.

Also, the Association claimed labor costs of \$59,532 for mechanics who performed maintenance on equipment used during disaster activities. However, the labor costs are ineligible because the Association based its claim for equipment on the FEMA Schedule of Equipment rates, which incorporated costs associated with maintenance activities, i.e. labor, parts, and other maintenance items. Accordingly, we question the additional claim of \$59,532 for the mechanics' labor costs.

The following table identifies the projects and questioned costs.

Project Number	Ineligible Overtime	Ineligible Mechanics Costs	Amount Questioned
124	\$234,179	\$54,845	\$289,024
127	162,519	4,687	167,206
131	136,911	0	136,911
Total	\$533,609	\$59,532	\$593,141

Association officials said the overtime labor costs should be allowed because their overtime policy provided an economic incentive for employees to set aside their personal losses and return to work as quickly as possible after a disaster, thus restoring the power more quickly. However, federal regulation does not allow for the payment of regular-time salaries and benefits for

emergency work, and the Association's policy does not provide consistent treatment between federally financed activities and other activities.

- B. Equipment Charges. The Association's claim of \$358,704 for equipment use included \$97,973 of stand-by time, which according to FEMA's Public Assistance Guide (FEMA 322, October 1999, p. 37) is not eligible. The Association used pick-up trucks intermittently throughout the day to monitor the activities of work crews engaged in disaster work. However, its claim for such vehicles was based on total labor hours of the truck operators rather than the actual time the equipment was in use. We interviewed the truck operators and determined that the trucks were in use approximately one-third of the labor hours claimed. We question the \$97,973 related to the two-thirds of time that the trucks were idle — \$31,011 under Project 127, \$29,584 under Project 124, and \$37,378 under Project 131.
- C. Unapplied Credits. Federal cost principles for non-profit organizations (OMB Circular A-122) require that costs claimed under a federal award be net of applicable credits. Examples of credits are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds, and adjustments of overpayments or erroneous charges. The Association's claim for several projects did not reflect \$420,459 of credits it received. These credits consisted of \$41,632 of proceeds received from the sale of scrap electrical wire and a refund of \$378,827 received from a contractor as a result of billing errors. The following table identifies the projects and costs questioned.

Project Number	Unapplied Credits		Amount Questioned
	Sale of Scrap Material	Contractor Billing Errors	
124	\$20,405	\$ 0	\$ 20,405
127	11,998	0	11,998
131	9,229	378,827	388,056
Total	\$41,632	\$378,827	\$420,459

- D. Project Costs. Federal cost principles (OMB Circular A-122, Attachment B, 8(m) (2)) require that reports reflecting the distribution of activity of each employee be maintained for all staff members whose compensation is charged, in whole or in part, directly to federal awards. The Association claimed \$124,990 of overtime labor costs for administrative staff (i.e. secretaries, office clerks, accountants, etc.) who, according to Association officials, assisted with laundry and food preparation activities for workers engaged in power restoration work. However, the employees' time sheets neither contained a description of disaster activities performed nor did they provide a distribution of the employees' time spent between disaster and non-disaster activities. OMB Circular A-122, Attachment A, (4)(a) states that a cost is allocable to a grant in accordance with the relative benefits received. Because we were unable to determine the extent to which the employees' activities benefited the FEMA projects, we question the \$124,990 claimed — \$69,745 under Project 124, \$36,306 under Project 127, and \$18,939 under Project 131.

- E. Administrative Costs. The Association claimed \$14,142 of labor costs for employees who performed damage assessment activities. Under federal regulations (44 CFR § 206.228 (a) (2)(ii)), the subgrantee received an administrative allowance to cover costs associated with requesting, obtaining, and administering the federal award. According to FEMA's *Public Assistance Guide* (FEMA 322, July 2001, p. 42), the costs of assessing damage, collecting cost data, and developing costs estimates are covered by the administrative allowance. Accordingly, we question the labor costs of \$14,142 claimed for employees who performed damage assessments — \$1,629 under Project 124, \$3,694 under Project 127, and \$8,819 under Project 131.
- F. Contracting Practices. Federal procurement regulations (44 CFR § 13.36(c)) require grant recipients to conduct all procurement transactions in a manner providing full and open competition except under certain circumstances. One such circumstance is when the public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation. In situations where price competition is lacking, the regulations require a cost or price analysis to determine the reasonableness of the proposed contract price, and profit is to be negotiated as a separate element of the price.

The Association did not comply with federal procurement regulations when awarding a non-competitive contract for a base camp to house and feed disaster workers. The contract, entered into four days prior to the storm, was awarded without analyzing the contractor's proposed costs for reasonableness and without negotiating profit as a separate element of costs. Under the terms of the one-page contract, the contractor was to provide tents, floors, lights, air conditioners, showers, portable toilets, food, and drinks at a cost of less than \$175 per worker per day. The contract contained no other terms other than a statement that the contractor would try to keep the costs as low as possible.

Further, the Association did not maintain records to determine whether the contractor billed according to the contract terms. The contractor billed a total of \$6.1 million for items such as food, catering services, ice, sleeping cots, blankets, equipment rentals, and shower unit installations. However, we could not determine whether the \$6.1 million paid for the contractor's services was within the contract price of less than \$175 per worker per day because the Association did not maintain a log or other documentation to show the number of workers served each day. Federal regulations (44 CFR § 13.36(b)(2)) require subgrantees to maintain a contract administration system that ensures that contractors perform according to the terms, conditions, and specifications of their contracts.

At the exit conference, the Association provided us with a summary analysis that showed total contract costs for the base camp were less than \$100 per worker per day. According to Association officials, the analysis was based on total daily count figures listed on the contractor's invoices. However, due to time constraints, we did not perform additional fieldwork to verify the accuracy and reliability of such calculation. Accordingly, we recommend that FEMA review the analysis and related source documentation to determine the reasonableness of the contract charges.

RECOMMENDATIONS

We recommend that the Director, Mississippi Transitional Recovery Office, in conjunction with the grantee:

Recommendation #1. Disallow the \$1,250,705 of questioned costs.

Recommendation #2. Validate the \$6.1 million of contract costs claimed for the base camp and disallow any costs that are determined to be unreasonable.

Recommendation #3. Inform the Association that future contracts under the award must be awarded according to federal procurement standards and FEMA guidelines.

MANAGEMENT DISCUSSION AND FOLLOW-UP

We discussed the results of our review with FEMA, MEMA, and Association officials on April 27, 2007. Comments made by Association officials are included in the body of this report where appropriate. Please advise me by August 26, 2008 of actions taken to implement the recommendations contained in this report. Should you have any questions concerning this report, please contact me at (404) 832-6702. Key contributors to this assignment were Marvin Burr and Felipe Pubillones.

cc: DHS Audit Liaison
FEMA Audit Liaison
Deputy Director, GCRO
Chief Financial Director, Gulf Coast Recovery Office
Regional Director, FEMA Region IV
Public Assistance Office, FEMA Mississippi Transitional
Recovery Office
Chief of Staff, FEMA Mississippi TRO
Mississippi State Coordinating Officer
Mississippi Legislative Auditor
Director of Finance, Gulf Coast Recovery Office

Coast Electric Power Association
FEMA Disaster No. 1604-DR-MS
Schedule of Amount Awarded, Expended, and Questioned

Project Number	Amount Awarded	Amount Expended	Amount Questioned
113	\$ 7,574,733	\$ 7,574,733	\$ 0
119	7,182,515	6,532,515	0
122	4,659,467	4,659,467	0
124	12,590,872	12,590,872	411,814
127	14,051,682	14,051,682	248,788
131	21,000,000	10,784,433	590,103
Total	\$67,059,269	\$56,193,702	\$1,250,705