



Homeland
Security

February 13, 2008

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

FROM: C. David Kimble, Director
Eastern Regional Office

SUBJECT: *Audit of Hurricane Katrina Activities for
Jackson County, Mississippi*
Public Assistance Identification Number: 059-99059-00
FEMA Disaster Number 1604-DR-MS
Report Number DA-08-05

We performed an audit of disaster costs associated with Hurricane Katrina activities for Jackson County, Mississippi. The objective of the audit was to determine whether the county was properly accounting for disaster-related costs and whether such costs were eligible for funding under the Federal Emergency Management Agency (FEMA) disaster assistance programs.

As of January 3, 2007, the cut-off date of our review, the county received an award of \$52.7 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for emergency protective measures, debris removal, and other disaster-related activities. The award provided for 46 large projects and 158 small projects¹. We reviewed costs totaling \$34.3 million under 6 large projects. The audit covered the period August 29, 2005, to January 3, 2007, during which the county received \$29.5 million of FEMA funds under the 6 large projects (see Exhibit).

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to *Government Auditing Standards* issued by the Comptroller General of the United States. We reviewed the county's disaster grant accounting system and contracting policies and procedures; selected judgmental samples of project expenditures; interviewed county, grantee, and FEMA personnel; and performed other procedures considered necessary under the circumstances. We did not assess the adequacy of the county's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the county's grant accounting system and its policies and procedures for administering activities provided for under the FEMA award.

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

RESULTS OF AUDIT

The county accounted for FEMA funds on a project-by-project basis according to federal regulations for large projects. However, we identified \$1,549,536 of questioned costs resulting from inadequate documentation of hazardous stumps, ineffective debris removal monitoring, and debris removal activities that are the responsibility of the Federal Highway Administration.

- A. Inadequate Documentation of Hazardous Stumps. FEMA reimbursed the county \$3,283,200 under Projects 3376 (\$3,254,520) and 9949 (\$28,680) for hazardous stumps removed by its debris removal contractor during the period January through August 2006. However, the documentation that supported the stump removal activity was not adequate to establish that the stumps posed a public health and safety threat. As a result, we could not readily determine the eligibility of the \$3.3 million claimed by the county for stump removal. According to 44 CFR 206.224 (a)(1), debris removal is in the public interest when it is necessary to eliminate immediate threats to life, public health, and safety.

The county contracted with a debris removal monitoring company to oversee the work performed by the county's debris removal contractor, whose activities included removing stumps that posed a threat to the public. According to 44 CFR 13.36(b)(2), grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms and conditions of the contract. The contract terms required the monitoring company to document the hazardous nature of the stumps using photographs and global positioning system (GPS) data. This documentation was to serve as evidence for future reviews or audits of the costs claimed for such activity. However, neither the photographs nor the location data maintained by the company were adequate to show that the stumps posed a threat to the public. For example, in many instances, the photographs were only images of the ground after the stumps had been removed rather than the stumps themselves. In other cases, there were no photographs at all. In addition, the locations of the stumps were identified using street addresses rather than GPS data. As a result, physical inspections of where the stumps were located could not be readily conducted. According to federal cost principles (OMB Circular A-87, Attachment A, C.1.j), costs must be adequately documented to be allowable under federal awards.

We discussed the lack of adequate documentation with FEMA during the course of the audit. Subsequent to completion of our fieldwork, FEMA and MEMA representatives performed a validation of the county's claim for hazardous stump removal. This validation resulted in a disallowance of \$737,581 of the \$3,283,200 claimed for stump removal. We reviewed their methodology and analysis and concur with the action taken. Therefore, this finding contains no recommendation and no further action is required by FEMA.

- B. Ineffective Debris Removal Monitoring. Federal cost principles (OMB Circular A-87, Attachment A, C.1.a.) state that to be allowable, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards. Furthermore, federal regulation (44 CFR § 13.36(b)(2)) requires that grantees and subgrantees maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

As discussed above under Finding A, the county's debris monitoring contractor did not comply with the contract terms and conditions when documenting the eligibility of billings by the debris

removal contractor for hazardous stump removal. As a result, \$737,581 of the county's claim was disallowed by FEMA for lack of adequate documentation. We question the reasonableness of the \$7,027,017 claimed by the county for the monitoring contractor's services because the contractor did not perform according to the terms of the contract. We estimated that \$450,085 of \$7,027,017 billed by the monitoring company was applicable to monitoring the removal of hazardous stumps.

Subsequent to completion of our fieldwork, FEMA and MEMA performed a validation of the county's claim for debris removal monitoring costs and disallowed \$274,825 for ineffective stump removal monitoring. We reviewed FEMA's analysis and concur with the action taken. Therefore, this finding contains no recommendation and no further action is required by FEMA.

- C. Federal-Aid Roads. We identified \$537,130 of funding for debris removal activities on federal-aid roads that had not been reimbursed to the county by the Federal Highway Administration (FHWA). According to 44 CFR 206.226 (a), FEMA funds cannot be used for expenditures recoverable from another federal program. FHWA representatives met with county officials in September 2005 and completed detailed damage inspection reports, totaling \$714,825, which covered the initial push of debris from federal-aid roadways and a one-time thorough debris pickup. As of January 3, 2007, the cut-off date of our review, the county had only received \$177,695 of the FHWA funds. Accordingly, we question the remaining balance of \$537,130.

RECOMMENDATIONS

We recommend that the Director, Mississippi Transitional Recovery Office, in coordination with MEMA:

1. Inform the county, for future contracts under the FEMA award, to maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders (44 CFR § 13.36(b)(2)).
2. Disallow the questioned costs of \$537,130 applicable to federal-aid roads.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with FEMA, MEMA, and county officials on September 12, 2007. County officials did not agree with the questioned costs associated with hazardous stump removal activities. They said that the costs should be allowed because the stumps would not have been removed had they not met FEMA's eligibility requirements. However, the documentation maintained by the county's monitoring contractor was not adequate to determine such eligibility.

Please advise me by April 13, 2008 of actions taken to implement the recommendations contained in this report. Should you have any questions concerning this report, please call me at (404) 832-6702 or Larry Arnold at (228) 385-1717. Key contributors to this assignment were Larry Arnold, Barbara Arbuckle, and Jerry Aubin.

cc: DHS Audit Liaison
FEMA Audit Liaison
Deputy Director, GCRO
Chief Financial Director, Gulf Coast Recovery Office
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Chief of Staff, FEMA Mississippi TRO
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Mississippi Legislative Auditor
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Jackson County, Mississippi
FEMA Disaster No. 1604-DR-MS
Schedule of Funds Awarded, Costs Incurred, and Questioned Costs
August 29, 2005 through January 3, 2007

Project Number	Amount Awarded	Project Costs Incurred	Amount Questioned
3376	\$21,848,700	\$20,138,217	\$1,274,711
4232	8,037,212	6,538,943	274,825
5940	2,083,051	1,486,285	
7662	105,024	76,292	
9949	1,415,522	704,222	
10132	771,268	523,498	
Totals	\$34,260,777	\$29,467,457	\$1,549,536