



Homeland Security

December 9, 2010

MEMORANDUM FOR: Major P. (Phil) May, Regional Administrator
FEMA Region IV

FROM: C. David Kimble, Director
Eastern Regional Office

A handwritten signature in black ink that reads "C. David Kimble".

SUBJECT: *Biloxi Public School District, Mississippi*
FIPS Code: 047-00EA8-00
FEMA Disaster No. 1604-DR-MS
Report No. DA-11-04

We audited public assistance funds awarded to the Biloxi Public School District, Mississippi (District). The objective of the audit was to determine whether the District accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

As of May 3, 2010, the District had received a public assistance award of \$12.9 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for damages related to Hurricane Katrina. The award provided 100% FEMA funding for debris removal, emergency protective measures, and permanent repairs to school buildings. The award included 22 large projects and 28 small projects.¹ At the time of our audit, the District had received \$12.5 million of FEMA funds under the projects. We reviewed awards totaling \$11.8 million under 5 large projects identified in the Exhibit.

The audit covered the period from August 29, 2005 to May 3, 2010. During this period, the District received \$11.6 million of FEMA funds under the 5 large projects.

We conducted this performance audit under the authority of the *Inspector General Act of 1978*, as amended, and according to generally accepted government audit standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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

We judgmentally selected project cost documentation (generally based on dollar value); interviewed District, MEMA, and FEMA personnel; reviewed the District's disaster grant accounting system and procurement policies and procedures; reviewed applicable federal regulations and FEMA guidelines; and performed other procedures considered necessary under the circumstances to accomplish our audit objective. We did not assess the adequacy of the District'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 District's grant accounting system and its policies and procedures for administering activities provided for under the FEMA award.

RESULTS OF AUDIT

The District did not always comply with federal procurement requirements and guidelines when procuring services under the award. Also, the District did not have a documented contract to support contractor billings for tree removal work.

- A. Procurement Procedures. The District did not properly follow applicable federal procurement procedures when selecting contractors to perform permanent school repairs and tree removal work valued at \$859,286. The District awarded contracts for the activities without full and open competition and cost/price analysis. We could not determine whether any cost savings would have been realized had the District followed proper procurement procedures. However, under the contracting methods used by the District, FEMA has no assurance that the work performed under the contracts was obtained at a fair and reasonable price.
- *Full and Open Competition*. According to 44 CFR 13.36(c)(1), all procurement transactions will be conducted in a manner providing full and open competition. Noncompetitive procurement may be used under certain circumstances, one of which is when the public exigency or emergency will not permit a delay resulting from competitive solicitation (44 CFR 13.36(d)). Under Projects 7718 and 7818, the District acquired architectural/engineering (A/E) services valued at \$629,586 for permanent school repairs. However, such services were not publicly advertised. Instead, the District signed a letter of intent with an existing contractor (architect firm), which was based on a pre-Katrina contract.
 - *Cost or Price Analysis*. According to 44 CFR 13.36(f)(1), a cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements. During the procurement process, the District received one price quote sheet for tree removal work under Project 3089. The project work was awarded to that contractor. However, the District did not perform a cost or price analysis to determine the reasonableness of the sole contractor's proposed price quote. The contract work totaled \$229,700.
- B. Source Documentation. According to 44 CFR 13.20 (b)(6), accounting records must be supported by such source documents as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. FEMA's *Public Assistance Guide 322* (October 1999, page 81) states that a copy of the contract must be on file when contractors are used to perform work under projects. The District did not have a documented contract for tree removal services under Project 3089. Invoiced amounts totaling \$229,700 were based upon a price sheet provided by a single contractor during the procurement process.

Initially, we could not determine whether these invoiced amounts complied with the contractual agreements because the District did not have load tickets to verify amounts invoiced. Upon further review, however, we determined that there were no load tickets because the contractor did not haul trees to a disposal site. Instead, the contractor hauled the trees to a collection location where they were picked up and disposed of by the U.S. Army Corps of Engineers. A contract would have identified the specific terms of the agreement between the contractor and the District, and ensured that the contractor adequately performed work according to those terms.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV, in coordination with MEMA:

Recommendation #1. Instruct the District to comply with the procurement regulations when acquiring goods and services under the FEMA award (Finding A).

Recommendation #2. Instruct the District to adequately support all accounting records with applicable source documents (Finding B).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with District, FEMA, and MEMA officials during our audit. We provided written summaries of our findings and recommendations in advance to these officials and discussed them at an exit conference held on October 20, 2010. All officials agreed with our findings and recommendations.

Please advise me by February 7, 2011, of the actions planned or taken to implement the recommendations contained in this report, including target completion dates for planned actions. Should you have any questions concerning this report, please call me at (404) 832-6702, or Larry Arnold, Audit Manager, at (228) 822-0346. Key contributors to this assignment were Larry Arnold, Sharonda Toney, and Melissa Powe.

cc: Mary Lynne Miller, Deputy Regional Administrator
Jesse Munoz, Director Recovery
Valerie Rhoads, Branch Chief of PA
Denise Harris, Regional Audit Coordination
Dennis Kizziah, MS Recovery Office Director
Audit Liaison, FEMA

Biloxi Public School District, Mississippi
FEMA Disaster No. 1604-DR-MS
Schedule of Projects Reviewed
August 29, 2005, through May 3, 2010

Project Number	Scope of Work	Amount Awarded	Amount Received
3089	Debris Tree Removal	\$230,060	\$230,060
1803	Gorenflo Elementary School-Temporary Repairs	363,399	363,399
7632	Contents-Gorenflo Elementary School	761,239	505,674
7718	Nichols Elementary School-Permanent Repairs	4,710,240	4,710,240
7819	Gorenflo Elementary School-Permanent Repairs	5,771,579	5,771,579
Totals		\$11,836,517	\$11,580,952