



Homeland Security

June 2, 2010

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

FROM: C. David Kimble, Director
Eastern Regional Office

SUBJECT: *City of Pass Christian, Mississippi*
FIPS Code: 047-55400-00
FEMA Disaster No. 1604-DR-MS
Report No. DA-10-11

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

As of November 2, 2009, the City had received a public assistance award of \$58.1 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, repairs to buildings and equipment, and other disaster related activities. The award included 64 large projects and 69 small projects.¹ At the time of our audit, the City had received \$17 million of FEMA funds. Our audit focused primarily on \$6 million claimed and paid under 4 large projects identified in the table below.

Project Number	Amount Awarded	Amount Claimed/Paid
807	\$ 659,796	\$ 548,147
8402	3,666,440	2,892,676
10742	329,393	329,393
10959	4,117,088	2,234,811
Total	\$8,772,717	\$6,005,027

We also reviewed obligated funding and advanced payments of projects for force account labor overtime and equipment. Those projects are identified under Finding B.

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

The audit covered the period from August 29, 2005, to November 2, 2009. During this period, the City received \$6 million of FEMA funds for the 4 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.

We judgmentally selected project cost documentation (generally based on dollar value); interviewed City, MEMA, and FEMA personnel; reviewed the City'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. We did not assess the adequacy of the City'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 City's grant accounting system and its policies and procedures for administering activities provided for under the FEMA award.

RESULTS OF AUDIT

The City's grant accounting system did not account for expenditures on a project-by-project basis as required by federal regulations. In addition, the City was overpaid \$202,583 of FEMA funds under an emergency measures project. We also concluded that \$546,681 of FEMA funding can be deobligated under two emergency work projects and \$31,029 of interest earned on advances should be remitted to FEMA.

A. Project Accounting. According to 44 CFR 206.205(b), project expenditures must be accounted for on a project-by-project basis. In addition, 44 CFR 13.20 (a)(2) requires grantees and sub-grantees to maintain accounting procedures sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. The City's accounting system does not provide for accounting of FEMA funded large projects on a project-by-project basis. During our review, the City prepared spreadsheets of the projects included in our review which recorded expenditures and receipts. However, discussions with City representatives near the completion of our fieldwork disclosed that due to limited resources the City was not able to complete the project-by-project accounting. Therefore, the City is not in compliance with federal regulations.

City officials concurred with the need to complete their efforts to provide for project accounting.

B. Project Payments/Obligations. According to 44 CFR 206.203(c)(1), federal funding for large projects shall equal the federal share (100% in this case) of the actual eligible costs documented by a grantee. FEMA's *Public Assistance Guide* (FEMA 322, October 1999, pages 82-83) also states that large projects be funded on documented actual eligible costs submitted by the subgrantee to the grantee.

1. *Project Payments.* The City was advanced \$256,000 in Public Assistance funds for Project 2 for overtime costs of police, fire, and public works employees. However, actual overtime costs totaled \$53,417 under the project as documented by MEMA. As a result, the City has been overpaid \$202,583 (\$256,000 less \$53,417) on this project. The City attempted to reimburse MEMA for a portion of the overpayment in September 2007, but the check was returned by MEMA.
2. *Project Obligations.* FEMA funding under Projects 2 and 7382 was obligated for \$500,000 and \$105,890, respectively, for costs of emergency protective measures performed by City police, fire, and public works employees. At the time of our audit, work under the projects was complete, and total eligible costs incurred were \$53,417 under Project 2 and \$5,792 under Project 7382. Therefore, obligated funding should be reduced in the amount of \$446,583 (\$500,000 less \$53,417) for Project 2 and \$100,098 for Project 7382 (\$105,890 less \$5,792).

City officials concurred that the overpayment should be returned to MEMA and plan to return the excess funds once MEMA completes its efforts in the closeout process on Projects 2 and 7382. They also concurred that obligated funding should be reduced on the two projects.

- C. Interest Earned on FEMA Advances. According to 44 CFR 13.21(i), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on FEMA advances. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative purposes. During the period June 2007 to November 2008, the City was advanced \$11.5 million of FEMA funds and expended \$8.8 million. The City earned \$31,229 of interest on the advanced funds during this period, but had not remitted such interest to FEMA as required. Therefore, we question \$31,029 (\$31,229 - \$200) of unremitted interest.

City officials concurred with this finding.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV, in coordination with the FEMA Mississippi Recovery Office and MEMA:

Recommendation # 1. Instruct the City to complete its efforts to account for expenditures on a project by project basis.

Recommendation # 2. Instruct the City to reimburse MEMA \$202,583 for the overpayment on Project 2 for deposit into the State Treasury to be used to fund other projects, thus reducing future drawdowns of FEMA funds.

Recommendation # 3. Deobligate funding on Project 2 in the amount of \$446,583 and on Project 7382 in the amount of \$100,098.

Recommendation # 4. Require the City to remit \$31,029 in interest earned to FEMA.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were discussed with City, FEMA, and MEMA officials on April 7, 2010. City officials generally concurred with the findings. Comments provided by City officials are included in the body of this report.

Please advise me by August 2, 2010, of the actions planned or 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, Audit Manager, at (228) 385-1717. Key contributors to this assignment were Larry Arnold, Gary Rosetti, Emma Peyton, and Lynn Smith.

cc: Mary Lynne Miller – Deputy Regional Administrator
Jesse Munoz—Director Recovery
Valerie Rhoads—Branch Chief of PA
Kelly Burkitt—Regional Audit Coordinator
Dennis Kizziah—MS Recovery Office Director
Audit Liaison, FEMA

City of Pass Christian, Mississippi
FEMA Disaster No. 1604-DR-MS
Schedule of Funds Put to Better Use
August 29, 2005, through November 2, 2009

Project Number	Funds Put to Better Use
2	\$446,583
807	0
7382	100,098
8402	0
10742	0
10959	0
Interest Earned	31,029
Total	\$577,710