


U.S. Department of Homeland Security
Eastern Region
Office of Emergency Management Oversight
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Homeland
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July 17, 2008

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

FROM: C. David Kimble, Director 
Eastern Regional Office

SUBJECT: *Audit of Hurricane Katrina Activities for
City of Waveland, Mississippi*
Public Assistance Identification Number: 045-78200-00
FEMA Disaster Number 1604-DR-MS
Report No. DA-08-08

We performed an audit of disaster costs associated with Hurricane Katrina activities for the City of Waveland, Mississippi. The objectives of the audit were to determine whether the city was properly accounting 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 January 23, 2007, the cut-off date of our review, the city had received an award of \$29.7 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for emergency protective measures, debris removal, and repairs to roads and bridges. The award provided FEMA funding for 25 large projects¹. We reviewed costs totaling \$17.9 million under 9 large projects. The audit covered the period August 29, 2005, to January 23, 2007, during which the city received \$14.2 million of FEMA funds under the 9 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 city's disaster grant accounting system and contracting policies and procedures; selected judgmental samples of project expenditures; interviewed city, MEMA, and FEMA personnel; 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 objectives. 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.

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

RESULTS OF AUDIT

The city accounted for FEMA funds on a project-by-project basis according to federal regulations for large projects. However, we question costs of \$1,020,156 for ineligible overtime labor and debris removal charges that are the responsibility of the Federal Highway Administration. Additionally, the city did not comply with federal regulations when procuring and administering a debris monitoring services contract.

- A. Overtime Labor. According to federal regulations (44 CFR § 206.225) and FEMA guidelines (FEMA 322, October 1999, p. 47), emergency protective measures undertaken by an applicant before, during, and after a disaster are eligible for FEMA reimbursement if they are necessary for eliminating or lessening immediate threats to life, public health, or safety. Under emergency services projects (debris removal and emergency protective measures), FEMA reimburses an applicant for the overtime labor costs of its permanently employed personnel performing eligible work.

Under Project 3, the city claimed \$313,011 for overtime labor costs associated with emergency protective measures performed by its police, fire, and public works employees during the period of August 2005 through December 2005. According to interviews conducted with city personnel, the police and fire departments were advised to stop overtime assignments in early November 2005 because of concerns that the costs would not be eligible for FEMA reimbursement. Our review of overtime labor costs under the project showed that the city continued to pay overtime to many of its police and fire personnel during November and December 2005. Specifically, we noted that many of the personnel continued to work as many as 24 hours per day.

We analyzed activity logs and payroll records that supported overtime labor costs claimed by the police and fire departments during the months of November and December 2005, and interviewed city officials. From this effort, we concluded that \$128,637 of the overtime charges claimed were related to general routine work of the departments and not for activities associated with providing emergency protective measures after the disaster. Accordingly, we question the \$128,637 claimed for ineligible work.

- B. Federal-Aid Roads. During our review of Project 213, we noted that the city had removed debris from several federal-aid roads that are the responsibility of the Federal Highway Administration (FHWA). According to the Stafford Act (Section 312), FEMA funds cannot be used for expenditures recoverable from another federal program. City officials said that they had not contacted the FHWA to seek reimbursement for those costs because they thought FEMA would provide reimbursement for all debris removal activities. Working with FEMA officials at the Mississippi Transitional Recovery Office, we determined \$891,519 of project costs should be reimbursed by the FHWA, which represents debris collected by contractors during a first pass to clear debris from the federal roadways. Accordingly, we question the \$891,519.
- C. Contract Costs – Ditch Cleaning and Reshaping. The city claimed contractor costs of \$3.9 million under a citywide ditch cleaning and reshaping program. However, the reasonableness of such costs could not be readily determined because of numerous inconsistencies between the source documentation and actual work completed.

The citywide ditch cleaning and reshaping program was divided into three phases of work with each phase focusing on a different facet of the approved work. Phase I focused on removing tree limbs and other debris to open street and roadway side drains and ditches. Phase II, which was the cleaning and shaping portion, focused on excavating mud, dirt, sand, and other debris to clear the ditches and to restore ditch banks and flow lines. Phase III focused on removing and replacing damaged culverts. The city hired several contractors to complete work under Phases I and II and, at the time of our review, the contractors had billed the city \$3.9 million for work performed, as follows:

Project Number	Authorized Scope of Work	Contract Cost	Contract Phase
4125	Debris; open street, road side drains, and ditches	\$ 587,443	I
4172	Ditch reshaping – North of railroad tracks	\$2,333,916	II
4222	Ditch reshaping – South of railroad tracks	\$1,005,087	II
Total		\$3,926,446	

The city hired a monitoring company to oversee the work performed by the contractors. Under Phase I (debris removal), the monitoring company was required to verify the amount of debris cleared from the ditches by the contractors prior to reshaping, and to complete debris load tickets that included such information as the capacity of the truck used to transport the debris, the percentage of debris collected, and the address where the load originated. Under Phase II (reshaping phase), the monitoring company was to record on “linear foot” tickets the number of linear feet reshaped for each ditch and the address where the activity occurred.

However, the monitoring company did not effectively perform its duties under the contract. We noted that work under the phases was performed simultaneously, which made it problematic to determine whether the debris contractors had correctly billed the city for work that was performed. It was essential to differentiate the work because debris removed during Phase I was to be billed at \$16.50 per cubic yard while the reshaping work under Phase II was to be billed at \$6.25 per linear foot. Also, we sampled 241 load and linear foot tickets prepared by the monitoring company and identified 116 instances where information contained on the tickets did not agree to the actual work completed. These instances included situations where (1) actual linear footage reshaped was less than the amount shown on the linear foot tickets, (2) addresses listed on tickets did not exist, and (3) ditch areas shown on tickets as being completed did not show signs of completion. As a result of these deficiencies, we were not able to readily determine the accuracy and reasonableness of the \$3.9 million billed by the debris contractors. Therefore, we recommend that FEMA perform a validation to determine eligible costs incurred under the projects and withhold future reimbursements until the validation process is complete.

- D. Contract Costs - Debris Removal Monitoring. Federal procurement regulations (44 CFR § 13.36) allow a subgrantee to use time-and-material contracts when a determination has been made that no other form of contracting is suitable and the contract includes a ceiling price that the contractor exceeds at its own risk. The procurement regulations also require that subgrantees maintain a contract administration system which ensures that contractors perform according to the terms, conditions, and specifications of their contracts or purchase orders.

Notwithstanding these regulations, the city entered into a time-and-materials contract with a debris monitoring services company without establishing cost ceilings and without properly overseeing the company's work to ensure that it performed according to the terms and conditions of the contract. At the time of our review, the city had claimed \$1.9 million for monitoring services of the company (\$723,592 under Project 5695 and \$1,250,003 under Project 10690).

Under the contract terms, the monitoring company was to verify the work completed by the city's debris contractors to ensure the accuracy of their billings. As discussed above under Finding C, we identified many instances where the company approved contractor payments under the city's ditch cleaning and reshaping projects for work that was not supported by documentary or physical evidence. As a result, we could not readily determine the reasonableness of the city's \$3.9 million claim for such projects. In addition, we noted that the company performed poorly under other city debris removal projects (Projects 5091 and 9972), which resulted in 42% of the projects' total costs of \$3.8 million to be disallowed by FEMA.

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. Due to the ineffective performance of the monitoring company, we question the reasonableness of the \$1.9 million claimed by the city for the company's services. Since the company performed monitoring services on all of the city's debris removal projects, we could not readily identify monitoring costs associated with the ditch cleaning and reshaping projects that were included in our audit scope (Projects 4125, 4172, and 4222). However, any costs disallowed during FEMA's validation of the ditch cleaning and reshaping projects that are the result of the monitoring company's shortcomings should also be proportionately disallowed from the monitoring costs claimed by the city.

RECOMMENDATIONS

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

1. Disallow \$128,637 in ineligible overtime costs.
2. Disallow \$891,519 of debris removal costs for federal-aid roads and inform the city to seek reimbursement of those costs from the FHWA.
3. Perform a validation of the costs claimed under Projects 4125, 4172 and 4222 (ditch cleaning and reshaping) and disallow any costs determined to be ineligible.
4. Determine reasonable costs for debris monitoring services using the validation performed in Recommendation 3 above.
5. Withhold future reimbursements of contract costs associated with the ditch cleaning and reshaping program until the validation process under Recommendation 3 has been completed.
6. Require the city to establish a ceiling price for the debris monitoring contract.

MANAGEMENT DISCUSSION AND AUDIT FOLLOW-UP

The audit results were discussed with FEMA, MEMA, and city officials on September 18, 2007. City officials concurred with all findings except Finding A (overtime labor). City officials said it would provide additional evidence to FEMA to support its claim for overtime labor.

Please advise me by September 19, 2008 of the 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, J. Hugh Dixon, and Michael Keenum.

cc: DHS Audit Liaison
FEMA Audit Liaison
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City of Waveland, Mississippi
FEMA Disaster No. 1604-DR-MS
Schedule of Funds Awarded, Reviewed, Received, and Questioned
August 29, 2005 through January 23, 2007

Project Number	Amount Awarded	Amount Reviewed	Amount Received	Amount Questioned
3	\$500,000	\$313,011	\$261,660	\$128,637
213	9,685,194	9,685,194	8,438,686	891,519
2852	1,022,993	1,022,993	864,501	0
3211	958,742	958,742	778,367	0
4125	758,241	587,443	528,680	0
4172	2,333,916	2,333,916	1,845,536	0
4222	1,005,087	1,005,087	814,120	0
5695	723,592	723,592	711,707	0
10690	1,250,003	1,250,003	0	0
Total	\$18,237,768	\$17,879,981	\$14,243,258	\$1,020,156