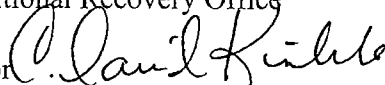




Homeland Security

September 18, 2008

MEMORANDUM FOR: Alec Watson, Acting Director
FEMA Mississippi Transitional Recovery Office

FROM: C. David Kimble, Director 
Eastern Regional Office

SUBJECT: *Hurricane Katrina Activities for Singing River Electric
Power Association*
Public Assistance Identification No. 000-U7MW7-00
FEMA Disaster No. 1604-DR-MS
Report Number DA-08-11

We performed a review of disaster costs associated with Hurricane Katrina activities for the Singing River Electric Power Association located in Lucedale, Mississippi. The objectives of the review were to determine whether the Association 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 November 29, 2006, the Association had received an award of \$21.5 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for debris removal, emergency protective measures, and repairs of buildings, equipment, and utilities damaged during the disaster. The award provided 100% FEMA funding for 19 large¹ projects and 8 small projects.

We limited our review to costs totaling \$17.8 million under the 19 large projects, consisting of \$4.0 million for debris removal, \$12.0 million for emergency protective measures, and \$1.8 million for utilities repair activities (see Exhibit). The review covered the period August 15, 2005, to November 29, 2006.

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. We reviewed the Association's method of disaster grant accounting and contracting policies and procedures. We also selected judgmental samples of project expenditures; interviewed Association, MEMA, and FEMA personnel; and performed 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 did not comply with federal procurement regulations when contracting for \$7.9 million in emergency work for debris removal and electrical power restoration. In addition, the Association's claim included \$223,454 of ineligible regular-time labor costs.

- A. Contracting Procedures. Federal procurement regulations (44 CFR 13.36) allow a grant recipient to use time-and-material contracts only after a determination has been made that no other form of contracting is suitable and with a ceiling price that the contractor exceeds at its own risk. Federal regulations place restrictions on this method of procurement because it does not provide an incentive for contractors to control costs. In addition, federal procurement regulations require a cost or price analysis, as applicable, for every procurement action, including contract modifications.

The Association awarded eight non-competitive, time-and-material contracts for emergency debris removal and restoration of its electrical distribution system. The contractors billed the Association \$7.9 million for work performed during the period August 29, 2005, to September 15, 2005. The contracts, however, were awarded without a price analysis to determine the reasonableness of the contractors' proposed rates and without ceiling prices. In addition, one of the contracts for debris removal did not contain any proposed labor rates prior to starting work. As a result, FEMA has no assurance that the \$7.9 million of costs claimed for work performed under the time-and-material contracts are reasonable.

Association officials said that they considered Hurricane Katrina's destruction to be an exigent event and that they followed the same contracting procedures used under previous disasters. While we agree that exigent circumstances existed to warrant emergency contracting procedures, federal regulations require a cost/price analysis to be performed in connection with every procurement action to determine the reasonableness of the proposed contract costs, and that cost ceilings be established for time-and-material contracts.

- B. Regular-time Labor Costs. The Association's claim included \$223,454 of ineligible regular-time salaries and associated fringe benefits of permanently employed personnel engaged in emergency work. According to federal regulations (44 CFR 206.228(a)(4)), the regular and straight time salaries and benefits of a subgrantee's permanently employed personnel are not eligible in calculating the costs of emergency work. The projects and related costs are shown in the table below.

Project Number	Amount Awarded	Amount Questioned
123	\$ 245,784	\$ 3,224
125	6,283,093	99,704
126	3,236,176	90,952
128	1,840,571	26,424
129	484,482	2,956
130	100,828	194
Totals	\$12,190,934	\$ 223,454

Association officials said that the costs should be allowed because a FEMA contractor told them the costs were eligible for FEMA funding. However, federal regulations do not allow FEMA reimbursement for regular-time salaries and benefits of a subgrantee's permanently employed personnel engaged in emergency work. Therefore, we question the \$223,454.

RECOMMENDATIONS

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

Recommendation #1. Perform a validation of the \$7.9 million in costs claimed under the time-and-material contracts, and disallow any costs determined to be unreasonable.

Recommendation #2. Disallow the \$223,454 of questioned costs.

Recommendation #3. Instruct the Association to comply with federal regulations and FEMA guidelines when awarding contracts under the FEMA award.

MANAGEMENT DISCUSSION AND FOLLOW-UP

We discussed the results of our review with Association, FEMA, and MEMA officials on March 8, 2007. Association officials disagreed with our findings. Their comments are included in the body of the report.

Please advise me by November 16, 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 Felipe Pubillones at (404) 832-6705. Key contributors to this assignment were Felipe Pubillones, Ronald Cummings, and Larry Arnold.

Singing River Electric Power Association
FEMA Disaster No. 1604-DR-MS
Schedule of Amount Awarded, Reviewed, and Questioned

Project Number	Amount Awarded	Amount Reviewed	Amount Questioned
21	\$ 121,381	\$ 152,963	\$ 0
23	540,562	669,735	0
24	567,358	697,928	0
26	3,384,463	2,452,555	0
28	77,426	13,130	0
123	245,784	362,970	3,224
125	6,283,093	5,553,862	99,704
126	3,236,176	2,773,800	90,952
128	1,840,571	2,653,200	26,424
129	484,481	605,011	2,956
130	100,828	120,990	194
7317	186,677	0	0
7863	64,489	0	0
7149	709,115	363,261	0
7156	137,698	53,220	0
7190	2,256,975	936,858	0
7379	935,238	364,725	0
7383	214,782	0	0
7461	81,319	34,708	0
Total	\$21,468,416	\$17,808,916	\$223,454