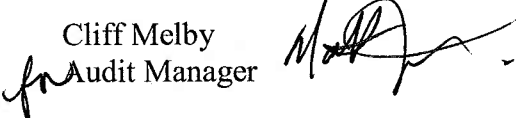




Homeland
Security

February 22, 2006

MEMORANDUM FOR: Nick Russo
Federal Coordinating Officer
Joint Field Office, Jackson, Mississippi

FROM: Cliff Melby 
Audit Manager

SUBJECT: Review Hurricane Katrina Activities
City of Bay St. Louis, Mississippi
FEMA Disaster No 1604-DR-MS
Report No. GC-MS-06-14

The Office of Inspector General performed a review of emergency services and debris removal costs associated with Hurricane Katrina activities for the City of Bay St. Louis, MS. The objective of the review was to determine whether the City was properly accounting for disaster related costs and whether such costs were eligible for funding under FEMA's disaster assistance programs.

The City received an award of \$500,000 on September 12, 2005, from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for emergency protective measures necessitated by Hurricane Katrina. As of October 19, 2005, the cut-off date of our review, the City received \$250,000 of FEMA funds and had recorded expenditures of \$231,653. Further, although the City had not yet received a FEMA award for debris removal, it had received a billing of \$735,000 from a private organization for debris removal efforts in the City.

Our review consisted of an analysis of the City's accounting system, disaster costs, contracting policies and procedures, and interviews with City officials. The nature and brevity of this assignment precluded the use of our normal audit protocols. Therefore, this review was not conducted in accordance with generally accepted government auditing standards. Had we followed such standards, other matters may have come to our attention.

This review was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal government in the aftermath of Hurricanes Katrina and Rita. As such, a copy of the report has been forwarded to the PCIE Homeland Security Working Group, which is coordinating Inspectors General review of this important subject.

RESULTS OF REVIEW

The City did not have an effective system for accounting for disaster related costs. Additionally, \$735,000 of debris removal costs, presented to the City by a private organization, did not appear eligible for FEMA funding.

Federal regulation (44 CFR; Part 206.205) requires recipients to separately account for FEMA funds awarded under each project. The \$500,000 emergency services award to the City consisted of one project. However, the City did not establish a separate cost code or account for the project. Emergency services expenditures were commingled with non-disaster costs in general ledger accounts for various City departments (police, fire, etc.). Although the City compiled invoices and other documentation in support of emergency service expenditures, the absence of a separate expenditure account, with the recording of each expenditure and reference to supporting documentation, renders the accuracy of the City project accounting questionable.

In support of an anticipated debris removal award, the City provided our audit team with a billing of \$735,000. The billing, prepared by a Birmingham, Alabama non-profit organization, consisted of labor and equipment charges, but contained no data on the amount of debris removed. Moreover, City officials said that the organization offered their services free of charge. Under these circumstances, we question the eligibility of the \$735,000 for FEMA funding.

During the course of our review, the City's Director of Public Works requested a legal opinion regarding the City's liability to the non-profit organization. The subsequent opinion, dated November 21, 2005, stated that "...the City is not obligated to pay the claim and cannot legally pay the claim because there was no official action by the City to either request assistance ... or to enter into a contract..."

RECOMMENDATIONS

We recommend that the Federal Coordinating Office, in conjunction with MEMA:

1. Require the City to establish and maintain separate accountability for expenditures under each FEMA project.
2. Advise the City that the \$735,000 debris removal billing is not eligible for funding under FEMA programs.

DISCUSSION WITH MANAGEMENT AND FOLLOW-UP

We discussed the results of our review with City Officials on December 6, 2005 and the FEMA Project Officer on January 5, 2006. These officials agreed with our findings. In addition, the City Comptroller indicated that a separate account had been established for the FEMA grant, and that no payments were anticipated for the debris removal activities of the non-profit organization. Therefore, we consider the recommendations resolved and closed.

Auditors Helen Greeson and Harold Simpson performed this review. Should you have any questions concerning this report, please contact Gary Barard, Gulf Coast Audit Coordinator, telephone number (770) 220-5228.

Cc: Director, FEMA Region IV
Mississippi State Coordinating Officer