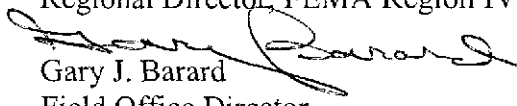




Homeland Security

May 9, 2005

MEMORANDUM FOR: Kenneth O. Burris, Jr.
Regional Director, FEMA Region IV

FROM: 
Gary J. Barard
Field Office Director

SUBJECT: City of Columbus, Mississippi
FEMA Disaster No. 1360-DR-MS
Audit Report No. DA-16-05

The Office of Inspector General (OIG) audited public assistance funds awarded to the City of Columbus, Mississippi. The objective of the audit was to determine whether the City accounted for and expended FEMA funds according to federal regulations and FEMA guidelines.

The City received an award of \$5.6 million from the Mississippi Emergency Management Agency, a FEMA grantee, for debris removal, emergency protective measures, and restoration of facilities damaged as a result of severe storms in February 2001. The award provided 75 percent FEMA funding for 4 large projects and 1 small project¹. Audit work was limited to the \$5,547,079 awarded and claimed under the 4 large projects (See Exhibit).

The audit covered the period February 2001 to June 2004. During this period, the City received \$4,160,309 of FEMA funds under the 4 large projects.

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included tests of the City's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

The City did not follow proper contracting procedures for awarding contracts for project activities. Also, the City's claim included project charges of \$256,770 (FEMA share \$192,578) that we determined to be either unsupported or improper, or not reduced by applicable credits.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$50,600.

- A. Contracting Practices. Federal regulation (44 CFR 13.36) states that subgrantees may use time-and-material type contracts only after a determination that no other contract is suitable and if the contract includes a ceiling price that the contractor exceeds at its own risk. Moreover, FEMA guidance (FEMA Guide 325) states that time-and-material contracts for debris removal should be limited to a maximum of 70 hours of actual emergency debris clearance work. The basis for restricting the use of time-and-materials contracts is that such contracting method does not provide an incentive to the contractor to control costs.

Despite these restrictions, City officials hired two debris removal contractors under Project 381 using time-and-material contracts for work that lasted approximately nine months and contained no ceiling price. The contractors were paid a total of \$2,623,693 under the project. The OIG was unable to determine whether any cost savings would have been realized had the City followed proper contracting procedures. However, under the contracting method used by City, there were no assurances that work performed under the project was completed in a timely and cost-effective manner.

- B. Unsupported/Improper Debris Removal Charges. Project 381 provided for the removal and disposal of trees and uprooted stumps from private property that posed a public health and safety threat. To complete work under the project, the City hired two local debris removal contractors using time and materials contracts and paid the contractors a total of \$2,623,693 (see Finding A above). However, the City's claim included charges of \$254,233 that were either not supported by adequate documentation to determine whether such debris posed a public health and safety threat or were improper. Accordingly, we question these charges, as follows:

- The City claimed \$252,523 for removing debris from the property of 55 homeowners. The City's files, however, did not contain a description of the debris removed or an explanation as to how such debris affected public health and safety. A thorough description of the debris and its impact on public health and safety is essential for determining eligibility for FEMA funding (44 CFR 206.224).

City officials stated that the costs should be allowed because FEMA guidance was used to determine whether the debris met eligibility requirements and that the contractors would not have been directed to remove debris that did not meet those requirements. However, federal regulation (44 CFR 13.20) states that expenditures under federal awards must be adequately documented to establish that funds have been used for eligible purposes.

- The City claimed \$1,710 for work reportedly done on the property of 40 homeowners. However, the City's files contained a statement that no debris was removed from those properties. City officials stated that the charges were in error and should not have been claimed.

- C. Unapplied Credits. The U.S. Office of Management and Budget Circular A-87 states that costs claimed under a federal award must be reduced by applicable credits (discounts, refunds, etc.). However, the City's claim of \$95,971 for overtime labor under Projects 1 and 315 was not reduced by \$2,537 of premium discounts received on workers compensation insurance. Accordingly, we question the unapplied credits of \$2,537 (\$2,177 under Project 1 and \$360 under Project 315).

RECOMMENDATIONS

We recommend that the Regional Director, in coordination with the grantee:

1. Instruct the City, for future declarations, to comply with federal regulations and FEMA guidelines governing contracting practices; and
2. Disallow the \$256,770 of questioned costs. This amount may be reduced if the City can provide the Regional Director with adequate documentation or justification to support the eligibility of the charges.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The results of the audit were discussed with City, grantee, and FEMA officials on April 5, 2005. City officials agreed with Findings A and C but disagreed, in part, with Finding B. Their comments, where appropriate, are incorporated into the body of this report.

Pursuant to FEMA instruction 1270.1, please advise the Atlanta Field Office–Audit Division by August 9, 2005, of the actions taken to implement our recommendations. Should you have any questions concerning this report, please contact David Kimble or me at (770) 220-5242.

City of Columbus, MS
FEMA Disaster No. 1360-DR-MS
Schedule of Claimed and Questioned Costs
Large Projects

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Claimed</u>	<u>Amount Questioned</u>
1	\$2,600,000	\$2,600,000	\$ 2,177
315	70,769	70,769	360
381	2,811,388	2,811,388	254,233
386	<u>64,922</u>	<u>64,922</u>	<u>0</u>
	<u>\$5,547,079</u>	<u>\$5,547,079</u>	<u>\$256,770</u>