



Homeland Security

April 11, 2011

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

FROM: C. David Kimble, Director
Eastern Regional Office

A handwritten signature in black ink that reads "C. David Kimble".

SUBJECT: *Mississippi State Port Authority*
FIPS Code 000-U6SCL-00
FEMA Disaster No. 1604-DR-MS
Report Number DA-11-12

We audited public assistance funds awarded to the Mississippi State Port Authority (MSPA) located in Gulfport, Mississippi. Our audit objective was to determine whether MSPA accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

As of May 25, 2010, MSPA had received a public assistance award of \$72.9 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for damages related to Hurricane Katrina, which occurred in August 2005. The award provided 100% FEMA funding for debris removal, emergency protective measures, and permanent repairs to damaged facilities. The award included 38 large projects and 26 small projects.¹ At the time of our audit, the projects were in various stages of completion and MSPA had not submitted final claims on project expenditures to MEMA.

Our audit focused primarily on \$32.9 million claimed under five large projects (see Exhibit). We also reviewed several other projects for potential excess funding as a result of Cost Estimating Format errors we identified during an initial review of projects. The audit covered the period from August 29, 2005, to May 25, 2010. During this period, MSPA received \$29.5 million of FEMA funds under the five 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 auditing 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.

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

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

BACKGROUND

The Mississippi State Port Authority is an enterprise agency of the State of Mississippi and is responsible for the daily operations of the Port of Gulfport. The Port of Gulfport is a bulk, break-bulk and container seaport that encompasses 204 acres, has nearly 6,000 feet of berthing space, and averages over two million tons of cargo per year.

RESULTS OF AUDIT

MSPA accounted for large project expenditures on a project-by-project basis as required by federal regulations. However, MSPA did not have adequate support for \$2,786,000 of debris removal contract charges. Also, MSPA incorrectly charged demolition costs, resulting in \$763,346 of funds to be de-obligated and put to better use and \$429,475 of unauthorized charges. Further, MSPA was awarded \$572,149 of excess funding for several projects because of errors FEMA made when calculating eligible funding. Finally, we determined that MEMA did not properly account for costs related to MSPA's alternate projects.

Finding A: Supporting Documentation

MSPA's claim under Project 2726 included \$2,786,000 of debris removal costs that were not adequately supported by load tickets. Cost Principles at 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, Section C.1.j, state that a cost must be adequately documented to be allowable under federal awards.

On September 5, 2005, using state emergency procurement procedures, MSPA entered into a time-and-material (T&M) contract to remove and dispose of construction and demolition debris generated by the storm. On October 4, 2005, a contract line item was added for the contractor to begin billing MSPA \$14 per cubic yard to haul away the debris. The contractor completed the debris removal work in April 2006, and MSPA claimed \$5,258,337 of contract costs of which \$2,472,337 was billed on a T&M basis and \$2,786,000 was billed on a cubic yard basis.

MSPA did not properly monitor the activities of the contractor. As a result, the load tickets, which were the basis for the contractors' billings and the debris operation itself, contained numerous deficiencies. For instance, MSPA agreed to pay the contractor 40 cubic yards per truck regardless of the volume of debris hauled per load. The contractor was reported to have 60 cubic yard trucks, but there were no truck certification forms or pictures of trucks to verify truck capacity. In addition, load tickets were prepared by the debris contractor, rather than by an independent monitor.

Our review of 1,348 load tickets for \$758,800 of the contractor billings (27% of the \$2,786,000 billed) revealed the following:

- 100% of the tickets had missing data such as no load or dump time, no truck number, or no load or dump site monitor's signature. This data is required per FEMA's *Debris Management Guide* (FEMA 325, p. 30).
- 46 tickets were duplicated with the same ticket numbers used with different driver names. These tickets represented \$25,760 in billed costs.
- Load tickets were not validated by independent monitors at the pickup and dump sites to confirm the eligibility, type, and quantity of debris per FEMA's *Debris Management Guide* (FEMA 325, p.16).

In addition, cubic yard billings duplicated T&M costs in many instances. For example, on October 4, 2005, the contractor billed 10 hours to the T&M contract for an individual who, on the same day, was listed as a truck driver on load tickets that billed for 160 cubic yards (tickets 3661-5, 3661-8, 3661-15, and 3661-30). Similarly on November 9, 2005, 10 hours were charged to the T&M contract for the same individual listed as a truck driver on the same day (tickets 0415-4, 0415-5, 0415-6, 0415-7, 0415-8, and 0415-9). This same individual was also duplicated on T&M and cubic yard billings on November 1, 3, 4, 5, 7, 23, and 25 of 2005.

Similar problems were noted by MEMA during its review of MSPA's reimbursement claims for the contract work. In an exception report documenting its review, MEMA noted, "Since no monitoring took place, the standard testing procedure of comparing monitor records to load tickets to invoice detail could not be accomplished. Testing was limited to comparison of invoicing prepared by the contractor to the load tickets, which were also prepared by the contractor."

We question the \$2,786,000 of cubic yard charges because they were not adequately supported by load tickets and the charges, in many instances, duplicated T&M costs.

Finding B: Unused Project Funds

FEMA Policy 9523.4 states that demolition and removal of debris is eligible for public-owned structures when the structures were damaged by the disaster and the structures are determined to be unsafe and pose an immediate danger to the public. MSPA identified several storm damaged structures on its property that qualified for demolition due to safety issues. FEMA used RS Means² cost data to estimate demolition costs totaling \$1,371,793 and obligated that amount under Projects 7811 and 8766. However, MSPA incurred only \$608,447 to complete the work and erroneously charged the costs to the wrong project (Project 2726). Therefore, FEMA should ensure that MSPA claims the costs incurred under the correct projects; and FEMA should deobligate the \$763,346 not used and put those federal funds to better use (see table below).

² A product line of Reed Construction Data, RSMeans provides accurate and up-to-date cost information that helps owners, developers, architects, engineers, contractors and others to carefully and precisely project and control the cost of both new building construction and renovation projects.

Project	Building(s)	Estimated Demolition Costs	Actual Demolition Costs	Difference
7811	3-8	\$544,018	\$508,890	\$35,128
8766	52	827,775	99,557	728,218
Total		\$1,371,793	\$608,447	\$763,346

Finding C: Unauthorized Charges

MSPA charged demolition costs totaling \$429,475 to debris Project 2726 for buildings (Nos. 14, 15, and 2) that were not specifically authorized under the project or any other project. Therefore, we question the \$429,475 of unauthorized charges under the project. Since FEMA Policy 9523.4 states demolition and removal of debris is eligible for public-owned structures under circumstances, the costs may be eligible under the award and MSPA should submit them to FEMA for an eligibility determination.

Finding D: Alternate Projects

MSPA received \$572,149 of excess project funding for alternate projects³ as result of calculation errors. MSPA applied for many alternate projects where the Cost Estimating Format (CEF) was used to estimate eligible costs. We reviewed CEFs prepared by FEMA for several projects in our scope and found calculation errors that affected funds obligated for the projects. For example, a CEF prepared for Project 7811 estimated eligible project costs at \$43,920,274. According to the project files, this amount included 3% for project management costs, which was a correct percentage per the *CEF for Large Project Instructional Guide* (Version 2, p. 43). However, our analysis of the calculation showed that 4% was actually used to calculate project management costs. This error resulted in \$400,368 of excess funding. Because Project 7811 was 1 of 22 alternate projects used to fund a new construction project for MSPA, we reviewed CEFs for other projects and identified similar errors. In total, the errors resulted in \$572,149 of ineligible excess project funding as identified in the following table.

Project	Original CEF Estimate	Adjusted CEF Estimate	Difference
7811	\$43,920,275	\$43,519,906	\$400,369
10071	609,111	579,902	29,209
9057	1,149,123	1,135,841	18,541
9876	4,139,085	4,080,788	58,297
8766	7,239,729	7,173,996.00	65,733
Total	\$57,057,323	\$56,485,174	\$572,149

³ Applicants may apply to FEMA to use eligible funds for an alternate project when the applicant determines that the public welfare would not be best served by restoring a damaged facility or its function to the pre-disaster design. In this event, the applicant may use the funds approved for that facility for other eligible purposes. Funding is limited to 90% of the approved federal share of estimated eligible costs or 90% of actual costs to complete the alternate project, whichever is less.

Finding E: Grantee's Accounting for Alternate Projects

According to 44 CFR 206.205(b), MEMA, as the grantee, shall make an accounting to the Regional Administrator of eligible costs for each approved large project. MSPA established accounts to record expenditures for FEMA projects within its general ledger and kept separate spreadsheets for costs claimed under projects. However, when MSPA submitted a reimbursement request to MEMA for costs under alternate projects, MEMA recorded the costs on whichever alternate project had unobligated funding available instead of the specific project for which the costs were being claimed. For example, MSPA claimed costs for an invoice of \$595,396 under Project 7811; however, MEMA split the costs between two projects with \$446,938 recorded to Project 7811 and \$148,458 recorded to Project 8766. Another invoice of \$2,551,075 that MSPA submitted for Project 8812 was also split between two other projects, with \$2,247,469 recorded to Project 7811 and \$303,606 recorded to Project 8812. By accounting for projects in this manner, MEMA caused the claimed costs to equal the project's estimated obligated amount rather than the documented actual eligible costs as required by 44 CFR 206.205(b).

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation #1: Disallow \$2,786,000 (federal share \$2,786,000) of unsupported debris removal costs under Project 2726 (Finding A).

Recommendation #2: Ensure that MSPA claims the actual demolition costs to the appropriate projects (Finding B).

Recommendation #3: De-obligate \$763,346 (federal share \$763,346) of unused funding under Project 7811 (\$35,128) and Project 8766 (\$728,218) and put those funds to better use (Finding B).

Recommendation #4: Disallow \$429,475 (federal share \$429,475) of ineligible demolition costs under Project 2726 not authorized under specific project worksheets (Finding C).

Recommendation #5: De-obligate \$572,149 (federal share \$572,149) of funding as a result of CEF errors and put those funds to better use (Finding D).

Recommendation #6: Instruct MEMA to accurately account for project costs according to federal regulations (Finding E).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with MSPA, FEMA, and MEMA officials during our audit. We also provided written summaries of our findings and recommendations in advance to these officials and discussed them at an exit conference held on January 19, 2011. MSPA officials

disagreed with Finding A and said they would respond after the final report was issued. They concurred with Findings B, C, D and E.

Please advise me by July 11, 2011, of the actions planned or taken to implement the recommendations contained in this report, including target completion dates for planned actions. To promote transparency, this final report and your response to this report, including your corrective actions planned, will be posted to our website, with exception of sensitive information identified by your office. Should you have any questions concerning this report, please call me at (404) 832-6702, or Larry Arnold, Audit Manager, at (228) 822-0346. Key contributors to this assignment were Larry Arnold, J. Hugh Dixon, and Emma Peyton.

cc: Mary Lynne Miller, Deputy Regional Administrator
Jesse Munoz, Director Recovery
Valerie Rhoads, Branch Chief of PA
Denise Harris, Regional Audit Coordination
Dennis Kizziah, MS Recovery Office Director
Bryan Taylor, Emergency Analyst
Audit Liaison, FEMA
GAO-OIG Liaison

EXHIBIT

Mississippi State Port Authority
FEMA Disaster No. 1604-DR-MS
Schedule of Projects Reviewed
August 29, 2005 through May 25, 2010

Projects Included in Full Scope of Audit	Project Scope	Amount Awarded	Amount Claimed	Funds Put to Better Use	Amount Questioned
2726	Debris Removal	\$2,656,064	\$5,258,337	\$0	\$3,215,475
8627	Temporary Electric Hookups	312,940	312,940	0	0
7811	Transit Sheds 3 – 8 Repair	24,010,720	21,981,091	435,497	0
8766	Transit Shed 52 Repair	2,379,378	2,141,441	793,951	0
8812	West Terminal Pier Repair	3,181,005	3,181,005	0	0
Subtotal		\$32,540,107	\$32,874,814	\$1,229,448	\$3,215,475
Projects Reviewed for CEF Calculation Errors Only:					
10071	Alternate Project			29,209	0
9057	Alternate Project			18,541	0
9876	Alternate Project			58,297	0
Subtotal				\$106,047	\$0
Total				\$1,335,495	\$3,215,475