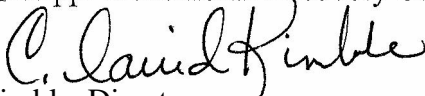




# Homeland Security

November 26, 2007

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

FROM:   
C. David Kimble, Director  
Eastern Regional Office

SUBJECT: *Review of the Hurricane Katrina Activities for  
City of Pascagoula, Mississippi*  
Public Assistance Identification Number: 059-55360-00  
FEMA Disaster Number 1604-DR-MS  
Report Number DA-08-02

We performed a review of emergency services and debris removal costs associated with Hurricane Katrina activities for the City of Pascagoula, Mississippi. The objective of the review was to determine whether the city properly accounted for disaster-related costs and whether such costs were eligible for funding under FEMA's disaster assistance programs.

As of August 30, 2006, the cut-off date of our review, the city had received an award of \$7.7 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for emergency protective measures and debris removal activities. The award provided FEMA funding for 17 large projects.<sup>1</sup> We reviewed costs for 11 large projects totaling \$3.5 million (see Exhibit).

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. Our work included a review of the city's disaster grant accounting system and contracting policies and procedures, a judgmental sample of project expenditures, interviews of city, grantee, and FEMA personnel, and other procedures considered necessary under the circumstances.

---

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

## RESULTS OF REVIEW

The city accounted for FEMA funds on a project-by-project basis according to federal regulations for large projects. However, the costs claimed under the FEMA projects included \$725,237 of ineligible regular-time labor and excessive contract charges.

- A. Ineligible regular-time labor. The city's expenditures for emergency work performed included \$681,486 of ineligible regular-time labor costs paid to a contractor. The costs are ineligible because the contractor's workforce was the functional equivalent of the city's permanently employed personnel. According to federal regulation (44 CFR § 206.228(a)(4)), regular and straight-time salaries and benefits of a subgrantee's permanently employed personnel are not eligible in calculating the costs of emergency work.

In May 2003, over two years prior to the disaster, the city contracted out the daily operations of its public works and utility departments. The contract required the contractor to employ former city department employees at pay rates consistent with their previous rates and provide a fringe benefits package, including a 401-k retirement plan. The contractor also managed a number of city department employees who had in excess of 15 years of service but wished to remain city employees until their 25-year requirement for retirement was met. The agreement stipulated that the contractor was to use city-owned vehicles and equipment to perform its work and was to operate within the guidelines of the city's emergency response plan in the event of a natural disaster.

After the disaster occurred, the contractor performed debris removal and emergency repair work as required under its contract and billed the city \$1,636,973 in labor costs for these services, including \$681,486 for regular-time labor charges. The city charged the FEMA projects with the total costs of contractor-billed services (\$1,636,973). The contract workers were the functional equivalent of the city's permanently employed personnel because, as with regular city employees, the city determined the contract workers pay rates and fringe benefits and provided the workers with city-owned vehicles and equipment. Accordingly, we question the \$681,486 charged to the FEMA projects for the regular-time labor costs billed by the contractor. The following table identifies the projects and costs questioned.

Project Number	Amount Questioned
7633	\$ 29,766
7635	66,128
7646	42,980
8113	78,009
8247	160,573
9060	13,413
9709	290,617
Total	\$681,486

City officials disagreed that the contract workers were the functional equivalent of their permanently employed personnel but offered no basis for their position.

We discussed this finding with FEMA officials at the Biloxi, Mississippi, Transitional Recovery Office. They agreed with our conclusion and, prior to the issuance of this report, deobligated the \$681,486 we questioned. Therefore, we consider this finding resolved and closed.

- B. Excessive Contract Charges. The city's expenditures under Project Worksheet 3313 included \$43,751 of excessive contract charges. The city used a disaster recovery contractor it retained prior to the disaster to provide rental generators for powering the city's public works facilities and police department after the disaster. Contract terms and conditions required the contractor to provide the generators, as needed, based on a fee schedule incorporated into the agreement. Our review of contractor invoices paid and claimed by the city showed that the contractor billed the city at rates higher than the ones established in the contract. Accordingly, we question \$43,751 in excessive contract charges as follows:

Generator Size (kilowatts)	Number Rented	Total Amount Due Per Contract Rates	Actual Amount Billed	Amount Questioned
50 kw	3	\$8,629	\$11,384	\$2,755
250 kw	6	\$25,891	\$60,151	\$34,260
350 kw	3	\$15,840	\$22,576	\$6,736
Total	12	\$50,360	\$94,111	\$43,751

City officials stated that the costs should be allowed because the contractor could not obtain the generators at the price contained in the fee schedule due to the high demand for generators after the disaster. However, according to the contract terms, the contractor should have sought prior approval for the cost increase through a change order within 48-hours of the unforeseen change, which in this particular case was not done.

## **RECOMMENDATION**

We recommend that the Director, Mississippi Transitional Recovery Office, in coordination with the grantee, disallow the \$43,751 of excessive contract charges.

## **DISCUSSION WITH MANAGEMENT AND FOLLOW-UP**

We discussed the results of our review with city, FEMA, and MEMA officials on April 26, 2007. City officials did not agree with our findings. Their comments have been incorporated into the body of this report.

Please advise me by January 25, 2008 of actions taken to implement the recommendation contained in this report. Should you have any questions, please contact me at (404) 832-6702. Key contributors to this assignment were Felipe Pubillones, Chris Gamble, and J. Hugh Dixon.

cc: DHS Audit Liaison  
FEMA Audit Liaison  
Deputy Director, GCRO  
Chief Financial Director, Gulf Coast Recovery Office  
Regional Director, FEMA Region IV  
Public Assistance Office, FEMA Mississippi Transitional Recovery Office  
Chief of Staff, FEMA Mississippi TRO  
Mississippi State Coordinating Officer  
Mississippi Legislative Auditor  
Director of Finance, Gulf Coast Recovery Office

City of Pascagoula  
FEMA Disaster No. 1604-DR-MS  
Schedule of Amount Awarded, Reviewed and Questioned  
As of August 30,2006

Project Number	Amount Awarded	Amount Reviewed	Amount Questioned
1317	\$ 167,301	\$ 167,301	
1533	236,148	236,148	
3313	320,151	320,151	\$ 43,751
6739	1,157,963	1,157,963	
7633	86,395	86,395	29,766
7635	228,357	228,357	66,128
7646	56,263	56,263	42,980
8113	207,018	207,018	78,009
8247	503,724	503,724	160,573
9060	224,040	224,040	13,413
9709	331,177	331,177	290,617
Total	\$3,518,537	\$3,518,537	\$725,237