



Homeland Security

January 5, 2010

MEMORANDUM FOR: Dennis Kizziah, Director
FEMA Mississippi Recovery Office

FROM: C. David Kimble, Director
Eastern Regional Office

SUBJECT: *City of Moss Point, Mississippi*
FIPS Code: 059-49240-00
FEMA Disaster No. 1604-DR-MS
Report No. DA-10-04

We audited public assistance funds awarded to the city of Moss Point, Mississippi (City). The objective of the audit was to determine whether the City accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

As of April 13, 2009, the cut-off date of our review, the City had received a public assistance award of \$6.4 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for damages related to Hurricane Katrina. The award provided 100% FEMA funding for debris removal, emergency protective measures, repairs to buildings and equipment, and other disaster-related activities. The award included 33 large projects and 46 small projects.¹ Our audit focused on \$1.9 million claimed under 5 large projects identified in the table below.

Project Number	Amount Awarded	Amount Claimed
794	\$93,342	\$162,048
1715	316,863	282,154
5243	616,800	616,800
9873	279,945	279,945
10861	512,266	523,099
Total	\$1,819,216	\$1,864,046

The audit covered the period from August 29, 2005, to April 13, 2009. During this period, the City received \$1.5 million of FEMA funds under the 5 large projects.

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

We conducted this performance audit under the authority of the *Inspector General Act of 1978*, as amended, and according to generally accepted government audit standards. Those standards require that we plan and perform the audit to obtain sufficient, 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.

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

RESULTS OF AUDIT

The City's grant accounting system did not account for expenditures on a project-by-project basis or provide a means to readily trace project expenditures to source documents, as required by federal regulations. In addition, the City did not always comply with federal procurement procedures. We also identified \$30,880 of unremitted interest earned on FEMA advances and \$133,016 of questioned costs resulting from unsupported project charges and ineligible force account labor charges.

- A. Project Accounting. According to 44 CFR 206.205(b), project expenditures must be accounted for on a project-by-project basis. In addition, 44 CFR 13.20(a)(2) requires grantees and subgrantees to maintain accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. The City's grant accounting system did not identify expenditures by project and did not reflect invoice numbers or other such identifiable information to trace expenditure transactions to source documents. As a result, project expenditures could not be readily validated.

During our fieldwork, City officials began to establish a detailed system that referenced project expenditures to applicable source documents on a project-by-project basis. However, the system had not been finalized at the time of our exit conference.

- B. Interest Earned on FEMA Advances. According to 44 CFR 13.21(i), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on FEMA advances. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative purposes. The City earned \$30,980 of interest on \$2.3 million of FEMA funds advanced under several projects. The interest was earned on the advanced funds prior to the funds being transferred to a non-interest bearing account in December 2006. The city, however, had not remitted \$30,880 (\$30,980 - \$100) of the interest to FEMA as required.

C. Procurement Procedures. Under Project 5243, the City hired a contractor under a non-competitive time-and-materials contract to perform emergency repairs to 49 wastewater lift stations.² The contract included a not-to-exceed amount of \$700,000. The lack of a functioning wastewater capability created an emergency situation, under which a non-competitive procurement was justified (44 CFR 13.36(d)(4)(i)(B)). However, the City did not perform a cost/price analysis or negotiate profit as a separate element of the price as required by federal regulations (44 CFR 13.36 (d)(4)(ii) and 44 CFR 13.36 (f)(2)). As a result, FEMA has no assurance that contract costs are reasonable.

D. Supporting Documentation. According to 44 CFR 13.20(b)(6), expenditures under a federal award must be supported by adequate source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, contract award documents, etc. Office of Management and Budget Circular A-87 (*Cost Principles for State, Local, and Indian Tribal Governments*), Attachment A, Paragraph C.1, also requires that costs be adequately documented to be allowable under a federal award. The City's claim included \$117,343 of charges that were not supported by adequate documentation, as follows:

- Under Project 5243, a contractor billed the City \$320,615 for material costs in repairing wastewater lift stations. However, the supporting documentation for the contractor's billing did not contain vendor invoices to support \$83,021 of the charges. Also, under Project 5243, the contractor billed the city \$10,500 for a performance/payment bond but did not include documentation to support the charges such as a copy of the bond or cancelled check. We question the \$93,521 of unsupported charges plus a 3.5% contractor's tax³ that was added to the contractor's billings, which totaled \$3,273 for the charges in question. Therefore, the total amount questioned under this finding is \$96,794.

City officials were attempting to obtain and provide the documentation for these charges, but had not done so at the time of our exit conference.

- Under Project 9873, the city's claim included \$20,549 of debris removal charges that were not supported by adequate documentation. Our review of 363 load tickets under the project identified 26 tickets that contained various irregularities, including (1) one monitor signature when both load and dump monitor signatures were required, (2) two loads with the same driver showing overlapping load and dump times, or (3) the load monitor or truck driver signing for the dump monitor. Therefore, we question the \$20,549 (1,144.8 cubic yards at \$17.95/cubic yard) because the documentation was inadequate for validating the eligibility of the costs.

E. Overtime Labor Costs. FEMA Policy 9525.7 (July 20, 2000) states that eligible straight-time and overtime costs will be determined according to the applicant's written policies and labor union contracts in effect prior to the disaster. City policy in effect prior to Hurricane Katrina prohibited payment of overtime to exempt employees. However, the City's claim under Project 794 included \$15,673 of such costs. Therefore, we question the \$15,673.

² Project 5243 was classified as category F (public utilities) instead of category B (emergency protective measures) due to installation of permanent equipment.

³ A state tax levied on all commercial and non-residential construction and is calculated upon the total contract amount.

RECOMMENDATIONS

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

Recommendation #1. Instruct the City to finalize its accounting system that allows for project expenditures to be readily traced to source documents.

Recommendation #2. Instruct the City to remit the \$30,880 in interest earned to FEMA.

Recommendation #3. Instruct the City to comply with federal procurement regulations when acquiring goods and services under the FEMA award.

Recommendation #4. Disallow the questioned costs of \$117,343 of undocumented costs.

Recommendation #5. Disallow the \$15,673 of ineligible overtime labor costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were provided to FEMA officials on November 3, 2009, and discussed with City and MEMA officials on November 12, 2009. City officials concurred with the findings. Comments provided by City officials, where appropriate, are included in the body of this report.

Please advise me by March 8, 2010, of the actions planned or 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 Larry Arnold, Audit Manager, at (228) 385-1717. Key contributors to this assignment were Larry Arnold, John Skrmetti, and Charles McGowan.

cc: Regional Administrator, FEMA Region IV
Audit Liaison, FEMA Region IV
Audit Liaison, FEMA Mississippi Transitional Recovery Office
Audit Liaison, FEMA

City of Moss Point, Mississippi
FEMA Disaster No. 1604-DR-MS
Schedule of Questioned Costs and Funds Put to Better Use
August 29, 2005, through April 13, 2009

Project Number	Amount Questioned	Funds Put to Better Use
794	\$15,673	0
1715	0	0
5243	96,794	0
9873	20,549	0
10861	0	0
Interest Earned		\$30,880
Total	\$133,016	\$30,880