



Homeland Security

July 12, 2010

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

FROM: C. David Kimble, Director
 Eastern Regional Office

SUBJECT: *Hancock County School District, Mississippi*
 FIPS Code: 045-00EB6-00
 FEMA Disaster No. 1604-DR-MS
 Report No. DA-10-14

We audited public assistance funds awarded to the Hancock County School District (District). The objective of the audit was to determine whether the District accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

As of October 28, 2009, the District had received a public assistance award of \$29 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, and repair of buildings, equipment and other facilities damaged as a result of the disaster. The award included 53 large projects and 30 small projects.¹ At the time of our audit, the District had received \$18 million of FEMA funds under the projects. Our audit focused primarily on \$16.8 million claimed under 6 large projects identified in the table below.

Project Number	Amount Awarded	Amount Claimed
8014	\$1,876,277	\$1,876,277
6824	2,423,285	2,395,867
7179	1,091,178	1,056,600
7304	2,741,408	2,678,688
7642	3,612,941	3,493,846
11056	5,034,825	510,577
Total	\$16,779,914	\$12,011,855

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

However, during fieldwork, we expanded our scope to review actual insurance payments on four additional projects and two others concerning possible duplicate funding. Those projects are identified under Finding C of this report.

The audit covered the period from August 29, 2005, to October 28, 2009. During this period, the District received \$11.6 million of FEMA funds under the 6 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 audit 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.

We judgmentally selected project cost documentation (generally based on dollar value); interviewed District, MEMA, and FEMA personnel; reviewed the District'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 District'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 District's grant accounting system and its policies and procedures for administering activities provided for under the FEMA award.

RESULTS OF AUDIT

The District'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 regulation. In addition, the District did not always comply with federal procurement procedures. Also, project charges included \$669,683 of questioned costs resulting from costs covered by insurance and duplicate and ineligible charges. Additionally, we concluded that \$35,119 of project funding that should be de-obligated because the District received funding from another source to cover the authorized work.

- 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 that permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. The District'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.
- B. Procurement Procedures. The District did not comply with applicable federal procurement procedures when procuring \$1.8 million of emergency services and permanent repair work under Project 8014.
 - 1. *Emergency Protective Measures*. The District claimed contract costs of \$964,945 for work performed by the prime contractor hired to provide temporary classrooms for two

elementary schools. However, the District used a cost plus percentage of cost contracting method to procure the primary contractor's services. According to 44 CFR 13.36(f)(4), cost plus a percentage of cost contracting method shall not be used. The contractor hired was the only one of several contractors that responded favorably to perform the contract work. In an effort to validate contract costs, we reviewed supporting documentation for actual costs (\$794,372), and compared mark-ups, excluding taxes of 3.5%, to FEMA's *Cost Estimating Format for Large Project Instructional Guide*. From this analysis, we concluded that the actual costs were supported and that the mark-ups for overhead and profit were reasonable. Therefore, we are not questioning any contract costs associated with the District's non-compliance with federal procurement procedures.

2. *Permanent Repair Work*. The District contracted with an architectural/engineering (A/E) firm for A/E services related to permanent construction work (\$790,985). The contract terms and conditions, based on a similar A/E contract that pre-dated Hurricane Katrina, did not entail a competitive process. While conditions that existed after the disaster may have justified the use of a non-competitive contract for emergency work, such contracting method is not warranted for permanent work. In addition, the District did not perform a cost or price analysis to determine the reasonableness of the contractor's proposed price, as required by 44 CFR 13.36(f)(1). We reviewed FEMA Cost Curve A (FEMA 322, October 1999, page 77), which is used as a guide to estimate engineering and design services for projects of above average complexity, and concluded that the costs were reasonable. Therefore, we are not questioning any architectural/engineering costs associated with the District's non-compliance with federal procurement standards.

C. Duplicate Funding/Charges. According to Section 312 of the Stafford Act, FEMA funds cannot be used for expenditures recoverable from another federal program, insurance, or any other source. Project documentation included \$610,371 of costs covered by insurance, \$35,119 of duplicate funding, and \$12,180 of duplicate charges, as follows:

- Under improved Project 10918, total costs of \$10.6 million claimed by the District to demolish a damaged school and build a new school were reduced by actual insurance proceeds. However, we noted that an error was made during the FEMA project closeout process, which resulted in \$610,371 not being included in final insurance reductions. According to 44 CFR 206.250(c), actual and anticipated insurance recoveries shall be deducted from otherwise eligible costs. Therefore, we question \$610,371 in duplicated benefits.

During our fieldwork, FEMA officials concurred with this finding and deobligated the \$610,371. Therefore, we consider this issue closed and will make no further recommendation.

- The District was awarded \$5,119 and \$30,000, respectively, under Projects 4168 and 5255 to replace damaged books at school libraries. The District also received library grants from private foundations totaling \$185,000, which allowed the purchase of a greater number of books than needed to restock its lost collections. According to FEMA Policy 9525.3 (*Duplication of Benefits-Non-Government Funds*, October 30, 2000), grants and cash donations from non-federal sources designated for the same purpose as federal disaster funds generally are considered a duplication of benefits. In most cases, such funds can be used to

pay any applicable non-federal share of costs of the grant and any excess could be used to reduce the total project cost. At the time of our audit, the District had not claimed any costs for replacement books under the FEMA projects. Since the projects were 100% federally funded, the \$35,119 should be deobligated since the funding is no longer needed for its intended purposes.

- The District claimed \$12,180 under Project 8014 for architectural/engineering design fees associated with temporary classrooms for two elementary schools. However, these same charges were also claimed under improved Project 10918, resulting in a duplication of project costs. We determined the charges were related to Project 10918. Therefore, we question the \$12,180 claimed under Project 8014.

D. Project Charges. According to 44 CFR 13.22(a), grant funds may be used only for allowable costs and reasonable fees. The District's claim included \$47,132 of ineligible project charges, as follows:

- Project 8014 authorized the installation of temporary classrooms for two elementary schools. The District claimed \$39,375 of architectural/engineering charges under the project for permanent roof repairs to various buildings on multiple campuses, which were outside the project's approved scope of work. Therefore, we question the \$39,375.
- Under Projects 8014 and 10918, we noted instances where architectural/engineering fees were charged at a rate of 7%, instead of the 5.75% specified by the contract. Therefore, we question \$7,757 in excess charges (\$5,973 under Project 8014 and \$1,784 under Project 10918).

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV, in coordination with MEMA:

Recommendation #1. Instruct the District to develop an accounting system that accounts for large projects on a project-by-project basis and allows for project expenditures to be readily traced to source documents (Finding A).

Recommendation #2. Instruct the District to comply with federal procurement regulations when acquiring goods and services under the FEMA award (Finding B).

Recommendation #3. De-obligate duplicate funding totaling \$35,119 under Projects 4168 and 5255 for damaged library books (Finding C).

Recommendation #4. Disallow \$12,180 of duplicated costs under Project 8014 for architectural/engineering design fees (Finding C).

Recommendation #5. Disallow ineligible charges totaling \$47,132 under Projects 8014 and 10918 (Finding D).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were discussed with District, FEMA, and MEMA officials on May 6, 2010. District officials agreed with our findings.

Please advise me by September 9, 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) 822-0346. Key contributors to this assignment were Larry Arnold, John Skrmetti, Sharonda Toney, and Melissa Powe.

cc: Mary Lynne Miller, Deputy Regional Administrator
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Hancock County School District
FEMA Disaster No. 1604-DR-MS
Schedule of Questioned Costs and Funds Put to Better Use
August 29, 2005, through October 28, 2009

Project Number	Amount Questioned	Funds Put to Better Use
8014	\$57,528	
10918	612,155	
4168		\$5,119
5255		30,000
Total	\$669,683	\$35,119