

# Department of Homeland Security Office of Inspector General

**FEMA Should Recover \$8.2 Million of the \$14.9  
Million of Public Assistance Grant Funds Awarded  
to the Harrison County School District,  
Mississippi—Hurricane Katrina**





**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

MAR 13 2014

MEMORANDUM FOR: Major P. (Phil) May  
Regional Administrator, Region IV  
Federal Emergency Management Agency

FROM: John V. Kelly  
Assistant Inspector General  
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Recover \$8.2 Million of the \$14.9 Million of Public Assistance Grant Funds Awarded to the Harrison County School District, Mississippi—Hurricane Katrina*  
FEMA Disaster Number 1604-DR-MS  
Audit Report Number OIG-14-49-D

We audited Public Assistance funds awarded to the Harrison County School District, Mississippi (District) (FIPS Code 047-0302A-00). Our audit objective was to determine whether the District accounted for and expended Federal Emergency Management Agency (FEMA) funds according to Federal regulations and FEMA guidelines.

The District received a Public Assistance grant award of \$14.9 million from the Mississippi Emergency Management Agency (State), a FEMA grantee, for damages resulting from Hurricane Katrina, which occurred in August 2005. The award provided 100 percent FEMA funding for emergency protective measures, permanent repairs to buildings and facilities, demolition costs, and equipment replacement. The award consisted of 82 large projects and 155 small projects.<sup>1</sup>

We audited 17 projects with awards totaling \$8.8 million. This included a full scope audit of the costs claimed for seven large projects with awards totaling \$8.7 million. We also performed a limited review of 10 small projects totaling \$97,713 to determine whether the District completed the projects. See Exhibit, Schedule of Projects Audited and Questioned Costs. The audit covered the period of August 29, 2005, to March 22, 2013, during which the District received \$8.8 million in FEMA funds for the 17 projects. At the time of our audit, the District had not completed work on all projects and, therefore, had not submitted a final claim to the State for all project expenditures.

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



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We conducted this performance audit between March 2013 and October 2013 pursuant to 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, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. To conduct this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We judgmentally selected and reviewed project costs (generally based on dollar value); interviewed District, State, and FEMA personnel; reviewed the District's 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 also notified the Recovery Accountability and Transparency Board of all contracts the subgrantee awarded under the projects within our audit scope to determine whether the contractors were debarred or whether there were any indications of other issues related to those contractors that would indicate fraud, waste, or abuse. 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. However, we gained an understanding of the District's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA award.

### RESULTS OF AUDIT

FEMA should recover \$8.2 million of the \$14.9 million of grant funds awarded to the District. The District did not account for expenditures on a project-by-project basis as Federal regulations and FEMA guidelines require. In addition, the District's claim included \$8,171,446 of questionable costs, which included:

- \$8,109,488 for non-exigent contract work that did not meet Federal procurement requirements; and
- \$61,958 of duplicate benefits for costs insurance covered.

In addition, the State should recoup \$53,459 of FEMA funds it paid to the District under several small projects because FEMA deobligated the projects' funding after the District received insurance proceeds to cover the cost of damages. These findings indicate that the State should have done a better job of reviewing the District's contracting methods and projects. Therefore, FEMA should remind the State of its grant management responsibilities for monitoring and reviewing costs that subgrantees claim.



**Finding A: Project Accounting**

The District did not account for large projects on a project-by-project basis. According to 44 Code of Federal Regulations (CFR) 206.205(b), subgrantees must account for large project expenditures on a project-by-project basis. Further, 44 CFR Part 13.20(a)(2) states that fiscal control and accounting procedures of a state and its sub-grantees must be sufficient to “[p]ermit 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 District commingled disaster-related receipt and expenditure transactions with non-disaster transactions in its general account, without separately accounting for project balances, receipts, or expenditures. Further, the District’s accounting system did not provide a means to readily trace project expenditures to supporting documentation. Therefore, we had to rely on direct assistance from District officials to identify project costs and related supporting documentation.

District officials said that their accounting system does not accommodate expenditures with separate identifiers. They also said that the State did not inform them of the Federal accounting requirements. During our fieldwork, the District began to establish a detailed accounting system to track project cost data and reference such data to applicable source documents. The District finalized the system during our fieldwork. Therefore, we consider this finding resolved and closed.

**Finding B: Contracting Procedures**

The District did not comply with Federal procurement requirements when awarding contracts valued at \$8,109,488 for permanent repair work. Generally, we do not question noncompliant contract costs for work that applicants perform during a public exigency. However, the District performed this permanent work after the exigent circumstances ended. Federal procurement regulations at 44 CFR 13.36 required the District, among other things, to—

- Take all necessary affirmative steps to assure the use of minority firms, women’s business enterprises, and labor surplus area firms when possible during the procurement process. (44 CFR 13.36 (e)(1))
- Conduct all procurement transactions in a manner providing full and open competition. Subgrantees may use noncompetitive procurement under certain circumstances, one of which is when the public exigency or emergency will not permit a delay resulting from competitive solicitation. (44 CFR 13.36 (c) and 44 CFR 13.36(d)(4)(i)(B))



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FEMA may grant exceptions to Federal procurement requirements to subgrantees on a case-by-case basis (44 CFR 13.6(c)).

#### The District Did Not Adequately Consider Minority Firms, Women Business Enterprises, and Labor Surplus Firms

The District could not provide evidence that it took affirmative steps to include minority firms, women's enterprises, and labor surplus area firms for nonemergency permanent contract work valued at \$8,109,488 under Improved Project 10915 (D'Iberville Middle School replacement).<sup>2</sup> The District's D'Iberville Middle School sustained major damage during the disaster. Rather than replace the middle school, the District decided to build a new high school as an improved project using FEMA funds up to the amount FEMA awarded to replace the destroyed middle school and using District funds for the remainder of costs. The District placed middle school students in temporary facilities during the construction of the new high school and converted the old high school to middle school facilities after it completed the new high school. The District used a competitive process to select a contractor to construct the new facility. However, it could not provide us with evidence that it provided minority firms, women's enterprises, and labor surplus area firms an opportunity to participate in the federally-funded work. Therefore, we question the \$8,109,488. This amount also includes \$117,823 of costs we question below under full and open competition (Project 10915). Therefore, we question a net amount of \$7,991,665 in this portion of finding B.

District officials disagreed that we should question the contract costs. They said that they worked with FEMA and the State during the procurement process and neither made the District aware of the Federal requirement concerning minority firms, women's enterprises, and labor surplus area firms. However, District officials signed a State-Local agreement that stated they would comply with Federal contracting requirements.

#### Full and Open Competition

The District did not solicit competitive bids when hiring a contractor for architectural and engineering (A/E) contract work totaling \$117,823 under Project 10915. The District hired the contractor in August 2006, approximately 1 year after the disaster, to perform A/E services on the replacement of D'Iberville Middle School. Full and open competition increases the probability of reasonable pricing from the most qualified contractors and helps discourage and prevent favoritism, collusion, fraud, waste, and abuse. The District

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<sup>2</sup> When performing restoration work on a damaged facility, an applicant may decide to use the opportunity to make improvements to the facility. Projects that incorporate such improvements are called improved projects.



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sent bid invitations (based on qualifications) to nine sources, but did not advertise publicly to allow other qualified parties the opportunity to bid. Therefore, we question the \$117,823.

District officials disagreed with our finding saying that state procurement laws do not require public advertisement for A/E services. Our review of state procurement laws did not corroborate the District's assertion. Nonetheless, Federal procurement regulations required the District to openly compete the contract because none of the circumstances allowing an exception to the requirement applied in this particular case.

#### Summary

FEMA has no assurances that the District provided opportunities for minority firms, women business enterprises, and labor surplus firms to participate in the federally-funded work, or that the price paid for the A/E work was fair and reasonable. Therefore, we question the \$8,109,488 of costs the District claimed for contract work that did not meet Federal procurement requirements.

#### **Finding C: Duplicate Benefits**

FEMA awarded the District \$61,958 under small Projects 7878 and 8512 for activities that insurance proceeds covered. According to Section 312(a) of the Stafford Act, grant recipients cannot use FEMA funds for expenditures recoverable from another Federal program, insurance, or any other source. Also, 44 CFR 206.250(c) states that "[a]ctual and anticipated insurance recoveries shall be deducted from otherwise eligible costs." The District notified the State that it did not need the \$61,958 of project funding because insurance proceeds covered project costs. However, at the time of our audit, FEMA had not deobligated the unneeded funds. Therefore, we question as ineligible the \$61,958 (\$36,236 under Project 7878 and \$25,722 under Project 8512).

#### **Finding D: Overpayment**

The State should recoup \$53,459 of FEMA funds it paid to the District under small Projects 7161, 7273, and 8886 because the District completed the projects using insurance proceeds. The State paid the District \$53,459. FEMA later deobligated the \$53,459 when it became aware that the District did not need the funds because insurance proceeds covered the costs of damages under the projects. However, at the beginning of our fieldwork, the State had not recouped the \$53,459 of FEMA funds that it paid the District so that it could use those funds to cover reimbursement requests of other subgrantees or other eligible disaster-related costs. After discussing this issue with the State during our fieldwork, the State instructed the District to return the funds and



the District complied with the State's request. Therefore, we consider this finding and the related recommendation to be resolved and closed.

**Finding E: Grant Management**

The nature and extent of ineligible costs we identified demonstrate that the State should have done a better job of reviewing the District's contracting methods and projects. Federal regulations require grantees to (1) ensure that subgrantees are aware of Federal regulations, (2) manage the day-to-day operations of subgrant activity, and (3) monitor subgrant activity to ensure compliance.<sup>3</sup> Therefore, we recommend that FEMA remind the State of its grant management responsibilities for monitoring and reviewing costs that subgrantees claim.

**RECOMMENDATIONS**

We recommend that the Regional Administrator, FEMA Region IV:

**Recommendation #1:** Instruct the State to remind the District of its responsibility to account for project expenditures according to Federal regulations (finding A).<sup>4</sup>

**Recommendation #2:** Disallow \$8,109,488 of ineligible costs the District claimed for contracts that did not comply with Federal requirements, unless FEMA decides to grant an exception for all or part of the costs as provided for in 44 CFR 13.6(c) and Section 705(c) of the *Robert T Stafford Disaster Relief and Emergency Assistance Act*, as amended (finding B).

**Recommendation #3:** Instruct the State to remind the District of its responsibility to comply with Federal procurement regulations and FEMA guidelines when acquiring goods and services under the FEMA award (finding B).

**Recommendation #4:** Disallow \$61,958 of ineligible costs under small Projects 7878 and 8512 because the District received insurance proceeds to cover those costs (finding C).

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<sup>3</sup> 44 CFR 13.37(a)(2) and 44 CFR 13.40(a).

<sup>4</sup> During our fieldwork, the District began to establish a detailed accounting system that tracks project cost data and references such data to applicable source documents. The District finalized the system during our fieldwork. Therefore, we consider this finding resolved and closed.



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**Recommendation #5:** Instruct the State to recoup \$53,459 of FEMA funds it overpaid on small Projects 7161, 7273, and 8886 and use those funds to cover reimbursement requests of other subgrantees or other eligible disaster-related costs (finding D).<sup>5</sup>

**Recommendation #6:** Reemphasize to the State its responsibility to ensure subgrantees are aware of Federal requirements and to adequately review subgrantees' costs for compliance with Federal regulations and FEMA guidelines (finding E).

### DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with the District, State, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference held on October 7, 2013. District officials disagreed with our findings and recommendations. We incorporated their comments, as appropriate, into the body of this report.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include the contact information for responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until we receive and evaluate your response, we will consider the recommendations as open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Major contributors to this report are David Kimble, Director; Larry Arnold, Audit Manager; Mary James, Auditor-in-charge; and Sean Forney, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact David Kimble, Director, Eastern Regional Office, at (404) 832-6702.

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<sup>5</sup> During our fieldwork, the District returned the \$53,459 overpayment to the State; therefore, we consider this recommendation resolved and closed.





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Exhibit

**Schedule of Projects Audited and Questioned Costs**

Project Number <sup>6</sup>	Category	Project Scope	Project Amount Awarded	Amount Questioned	Finding
5288	E	Demolition/Cleaning/Mold removal	\$ 629,918	\$ 0	
8188	E	D'Iberville Middle School (building #A) relocation	1,425,304	1,425,304	B
8190	E	D'Iberville Middle School (building #B) relocation	1,663,278	1,663,278	B
8201	E	D'Iberville Middle School (building #C) relocation	1,597,289	1,597,289	B
8204	E	D'Iberville Middle School (building #D) relocation	1,442,375	1,442,375	B
8206	E	D'Iberville Middle School (cafeteria) relocation	845,145	845,145	B
8208	E	D'Iberville Middle School (Gymnasium) relocation	1,136,097	1,136,097	B
<b>Subtotal</b>			<b>\$8,739,406</b>	<b>\$8,109,488</b>	
7161	E	Individual services building repair	\$ 0	\$ 0	D
7212	G	Playground	9,021	0	D
7273	E	Harrison Central Ninth (main classroom) contents	0	0	D
8886	A	Debris removal	0	0	D
7878	E	Lyman Elementary School (storage building) contents	36,236	36,236	C
8512	E	D'Iberville Middle School (softball building) contents	25,722	25,722	C
10769	G	Harrison Central High School (signs and fences)	4,500	0	
10897	B	Abatement (D'Iberville and Harrison high schools)	15,210	0	
7319	E	Cafeteria, Harrison Central High School	2,362	0	
7443	G	D'Iberville Middle School (west and east buildings)	4,662	0	
<b>Subtotal</b>			<b>\$ 97,713</b>	<b>\$ 61,958</b>	
<b>Totals</b>			<b>\$8,837,119</b>	<b>\$8,171,446</b>	

<sup>6</sup> Projects 8188, 8190, 8201, 8204, 8206, and 8208 comprise Improved Project 10915, D'Iberville Middle School replacement.



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