

# Department of Homeland Security **Office of Inspector General**

FEMA Should Recover \$894,764 of Public Assistance  
Grant Funds Awarded to the Town of Dauphin Island,  
Alabama – Hurricane Katrina






## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

NOV 20 2012

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

FROM: D. Michael Beard   
Assistant Inspector General  
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Recover \$894,764 of Public Assistance Grant  
Funds Awarded to the Town of Dauphin Island, Alabama –  
Hurricane Katrina*  
FEMA Disaster Number 1605-DR-AL  
Audit Report Number DA-13-06

We audited Public Assistance (PA) funds awarded to the Town of Dauphin Island, Alabama (Town) (FIPS Code 097-19744-00). Our audit objective was to determine whether the Town accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

As of November 7, 2011, the Town received a PA award of \$4.6 million from the Alabama 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 debris removal activities, construction of a 5-year emergency berm, and repair to roads. The award consisted of 5 large projects and 29 small projects.<sup>1</sup>

We audited five large projects with awards totaling \$4.4 million (see Exhibit A, Schedule of Projects Audited). The audit covered the period August 29, 2005, to May 27, 2010, during which the Town submitted claims totaling \$4.4 million. At the time of our audit, the Town had completed work on all projects and had submitted final claims on project expenditures to the State.

We conducted this performance audit from January to March 2012 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. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

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



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We interviewed Town, State, and FEMA officials; reviewed the Town's procurement policies and procedures; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the Town'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 Town'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 \$894,764 of PA funding awarded to the Town. Although the Town generally accounted for FEMA funds on a project-by-project basis, it did not fully comply with Federal procurement requirements when awarding a contract valued at \$894,764 for road repairs.

Federal procurement regulations at 44 CFR 13.36 required the Town, among other things, to—

- Conduct all procurement transactions in a manner providing full and open competition consistent with the regulatory standards (44 CFR 13.36(c)(1)).
- Perform a cost or price analysis in connection with every procurement action, including contract modifications to determine the reasonableness of the contractor's proposed price. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, unless price reasonableness can be established on the basis of a price of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on price set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price (44 CFR 13.36(f)(1)).

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

The Town solicited competitive bids for road repairs necessitated by the disaster. Only one contractor responded to the solicitation, and the Town accepted the contractor's proposal without performing a cost or price analysis to determine the reasonableness of the contractor's proposed price. The contractor billed the Town \$894,764 to complete the road repairs. We question the \$894,764 because the Town did not comply with Federal procurement requirements and, as a result, FEMA has no assurance that the price paid for the contract work was reasonable. Table 1 shows the affected projects and related questioned costs. Although the State instructed the Town to follow Federal procurement regulations, Town officials told us



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that they were unaware of the Federal requirement to perform a cost or price analysis to determine the reasonableness of the contractor’s bid.

**Table 1. Contract Costs for Road Repairs**

Project Number	Amount Claimed	Amount Questioned
821	\$553,673	\$484,680
699/757	410,084	410,084
Total	\$963,757	\$894,764

State and Town Response. State and Town officials disagreed with the finding and our recommendation that the costs be disallowed. They said that the Town used competitive procedures to award the contract and that the costs were reasonable based on an analysis they performed subsequent to the exit conference on costs paid by a neighboring county for similar work under the same disaster. They also said that FEMA approved the costs during final inspection of the projects and did not indicate that the costs were unreasonable.

**RECOMMENDATIONS**

We recommend that the Regional Administrator, FEMA Region IV:

**Recommendation #1:** Disallow the \$894,764 of ineligible costs claimed for the road repair contract that was not procured in accordance with Federal requirements unless FEMA determines that the costs were reasonable. For any costs that are unreasonable, FEMA may decide to grant an exception for all or part of them as provided for in 44 CFR 13.36(c).

**Recommendation #2:** Instruct the State to remind subgrantees that they need to perform a cost or price analysis to determine the reasonableness of contractor’s bids.



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**DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP**

We discussed the results of our audit with Town, 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 July 11, 2012. After the exit conference, State and Town officials provided a written coordinated response to the audit finding and recommendations. Their comments, where appropriate, have been incorporated into 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 responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing 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 were David Kimble, Eastern Region Audit Director; Adrienne Bryant, Audit Manager; Mary Stoneham, Auditor-in-charge; and Amos Dienye, Auditor.

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



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**EXHIBIT A**

**Schedule of Projects Audited  
August 29, 2005, to May 27, 2010  
Town of Dauphin Island, Alabama  
FEMA Disaster Number 1605-DR-AL**

Project Number	Project Scope	Amount Awarded	Amount Claimed	Amount Questioned
17	Construct berm	\$3,328,857	\$3,328,857	-
821	Repair roads	553,673	553,673	484,680
699	Repair roads	278,365	278,365	278,365
757	Repair roads	131,719	131,719	131,719
1709	Remove pilings	101,736	101,736	-
Totals		\$4,394,350	\$4,394,350	\$894,764



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**EXHIBIT B**

**Report Distribution List**  
**Town of Dauphin Island, Alabama**  
**FEMA Disaster Number 1605-DR-AL**

**Department of Homeland Security**

Secretary  
Chief Financial Officer  
Under Secretary for Management  
Audit Liaison, DHS

**Federal Emergency Management Agency**

Administrator  
Chief of Staff  
Chief Financial Officer  
Chief Counsel  
Director, Risk Management and Compliance  
Audit Liaison, FEMA Region IV  
Audit Liaison, FEMA (Job Code G-12-009)

**Grantee**

Public Assistance Coordinator, Alabama Division of Emergency Management

**State**

State Auditor, Alabama

**Subgrantee**

Mayor, Dauphin Island, Alabama

## ADDITIONAL INFORMATION AND COPIES

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