



**Homeland  
Security**

July 11, 2007

MEMORANDUM FOR: Sandy Coachman, Acting Director  
FEMA Texas Transitional Recovery Office

FROM: *Tonda L. Hadley*  
Tonda L. Hadley, Director  
Central Regional Office

SUBJECT: *Jasper-Newton Electric Cooperative, Inc.*  
FEMA Disaster Number DR-1606-TX  
Public Assistance Identification Number 000-UN08R-00  
Audit Report Number DD-07-09

We audited public assistance funds awarded to the Jasper-Newton Electric Cooperative, Inc. (Co-op) located in Kirbyville, Texas. Our audit objective was to determine whether the Co-op expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

As of October 11, 2006, the cut-off date for our audit, the Co-op received an award of \$32.2 million from the Texas Governor's Division of Emergency Management (GDEM), a FEMA grantee, for damages resulting from Hurricane Rita. The award was for 27 FEMA-approved projects funded at 100 percent. We reviewed costs for three projects totaling \$24.4 million, or 76 percent of the award (see Exhibit).

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. We interviewed Co-op, State, and FEMA officials; reviewed the Co-op's accounting system, disaster cost documentation, and contracting policies and procedures; and performed other procedures considered necessary under the circumstances. We did not assess the adequacy of the Co-op'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 Co-op's grant accounting system used to account for disaster-related costs.

## **RESULTS OF AUDIT**

In general, the Co-op expended and accounted for FEMA funds according to federal regulations and FEMA guidelines. The Co-op properly accounted for FEMA funds by project and supported project expenditures with invoices, copies of checks, and other documentation. In addition, with minor exception, Co-op officials followed federal procurement regulations to contract for debris removal, emergency protective measures, and restoring utilities. Co-op officials used a competitively bid contract as a basis for determining whether contractors quoted reasonable rates and rejected contractors with excessive rates. They also performed well in monitoring contract work. For example, employees familiar with the Co-op's operations closely monitored all contract work and instructed the contractors on where to perform repairs. Finally, Co-op officials properly terminated all hourly contracts when power was restored to its customers and used competitively bid unit-price contracts for permanent work. Therefore, we commend the Co-op for a job well done.

We identified two minor items resulting in questioned costs of \$11,825:

- The Co-op's claim included invoices with ineligible overtime of \$10,820. Co-op officials erroneously allowed overtime for one contractor whose employees had not first worked the 40 hours necessary to charge overtime. The contract allowed overtime charges only after employees worked 40 hours per week or 10 hours per day. Because the overtime payments did not meet contract specifications, the \$10,820 is ineligible. Co-op officials agreed that the overtime payments were incorrect and the charges ineligible.
- The Co-op's claim also included an ineligible cost mark-up of \$1,005. One contractor included a 15% markup on the costs of employee meals and vehicle fuel. These mark-ups are ineligible because 44 CFR 13.36(f)(4) does not allow sub-grantees to use cost-plus-percentage-of-cost contracting methods. Co-op officials agreed that federal regulations prohibit these types of costs and the charges are ineligible.

## **OTHER MATTERS**

During our fieldwork, Co-op officials identified \$22,195 of additional costs for a billing received after they submitted their claim to the GDEM. They also received a refund from a contractor for \$16,840 for a billing error. To resolve these items, we advised Co-op officials to contact GDEM officials to revise their claim.

## **RECOMMENDATIONS**

We recommend that the Acting Director, Texas Transitional Recovery Office, in coordination with the GDEM:

1. Disallow \$10,820 for ineligible contractor overtime costs.
2. Disallow \$1,005 for ineligible mark-up on contractor expenses.

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

We discussed the results of our audit with Co-op officials, GDEM officials, and FEMA officials on May 22, 2007. These officials concurred with our findings and recommendations. Please advise this office by August 13, 2007, of the action taken or planned to implement our recommendations, including target completion dates for any planned actions. If you have questions concerning this report, please call Christopher Dodd, Audit Manager at (940) 465-4018.

cc:     Audit Liaison, DHS  
          Audit Liaison, FEMA  
          Chief Financial Director, Gulf Coast Recovery Office  
          Director, FEMA Region VI  
          Audit Liaison, FEMA Region VI  
          Public Assistance Officer, FEMA Texas Transitional Recovery Office  
          Chief of Staff, FEMA Texas Transitional Recovery Office  
          Director, Texas Governor's Division of Emergency Management  
          Texas State Auditor  
          Texas State Coordinating Officer

**EXHIBIT**

Schedule of Audited Projects  
Jasper-Newton Electric Cooperative, Inc.  
FEMA Disaster Number DR-1606-TX

<u>Project Number</u>	<u>Category Of Work</u>	<u>Award Amount<sup>1</sup></u>	<u>Claimed Amount<sup>2</sup></u>	<u>Questioned Costs</u>
859	A	\$ 3,453,653	\$ 3,453,653	\$ 0
2290	B	774,706	774,706	0
1278	F	<u>20,123,381</u>	<u>20,123,381</u>	<u>11,825</u>
Totals		<u>\$ 24,351,740</u>	<u>\$ 24,351,740</u>	<u>\$11,825</u>

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<sup>1</sup>The audit covered the period of September 23, 2005, to October 11, 2006, during which the Co-op claimed \$32.2 million and the GDEM disbursed \$20.4 million in FEMA funds for direct program costs.

<sup>2</sup>Represents the amount claimed as of October 11, 2006, the cut-off date for our audit. These three projects were 100% complete at that time.