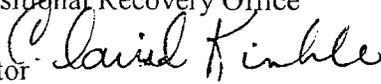




Homeland Security

November 20, 2008

MEMORANDUM FOR: Alec Watson, Acting Director
FEMA Mississippi Transitional Recovery Office

FROM: C. David Kimble, Director 
Eastern Regional Office

SUBJECT: *Hurricane Katrina Activities for Jackson County School District*
Public Assistance Identification Number: 059-01D47-00
FEMA Disaster No. 1604-DR-MS
Report No. DA-09-02

We performed an audit of disaster costs associated with Hurricane Katrina activities for Jackson County School District (District) located in Vancleave, Mississippi. The objectives of the audit were to determine whether the District was properly accounting for disaster-related costs and whether such costs were eligible for funding under the Federal Emergency Management Agency's (FEMA) disaster assistance programs.

As of July 31, 2007, the cut-off date of our review, the District had received an award of \$20.8 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for emergency protective measures, debris removal, and other disaster-related activities. The award provided 100% FEMA funding for 37 large projects¹ and 73 small projects. We limited our review to \$3.6 million of costs incurred under 7 large projects. The audit covered the period August 29, 2005, to July 31, 2007, during which the District received \$3 million of FEMA funds under the 7 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 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 on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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

We selected judgmental samples of project cost documentation (generally based on dollar value); interviewed District, MEMA, and FEMA personnel; reviewed the District's disaster-grant accounting and procurement policies and procedures; and performed other procedures considered necessary under the circumstances to accomplish our objective. 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 objective. We did, however, gain an understanding of the District's method of grant accounting and its policies and procedures for administering the activities provided for under the FEMA award.

RESULTS OF AUDIT

The District did not properly account for project expenditures on a project-by-project basis as required by federal regulations. Also, the District did not comply with federal contracting procedures when procuring \$809,000 in emergency services and repairs.

A. Grant Accounting. The District's grant accounting system did not separately account for large project expenditures on a project-by-project basis as required by federal regulations (44 CFR 206.205(b)). As a result, total costs claimed under each project could not be readily identified and the risk of potential duplication of expenditures among projects was increased.

B. Procurement Procedures. According to federal procurement standards:

- Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. (44 CFR 13.36 (b)(9))
- All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of section 13.36. (44 CFR 13.36 (c)(1))
- Procurement by noncompetitive proposal requires a cost or price analysis, as applicable. (44 CFR 13.36 (d)(4)(ii))
- When price competition is lacking, a cost analysis is required. (44 CFR 13.36 (f)(1))
- Grantees and subgrantees will negotiate profit as a separate element of the price for each contract in which there is no price competition. (44 CFR 13.36 (f)(2))
- Percentage of construction cost methods of contracting shall not be used. (44 CFR 13.36 (f)(4))

The District did not comply with applicable federal procurement regulations when acquiring \$808,915 in emergency services and permanent repair work under 5 contracts. We were not able to determine if cost savings would have resulted had the District complied with federal regulations. Under the contracting procedures used by the District, FEMA has no assurance that the contract work was obtained at a fair and reasonable price. The contracts are identified in the table below.

| Project Number | Contract Scope of Work | Type of Contract | Contract Value |
|----------------|-------------------------------------------------|------------------------|-------------------|
| 2102 | Monitoring Services - Canopy | % of construction cost | \$ 28,254 |
| 5723 | Temporary Library - bid package #1 | fixed | 464,616 |
| 5723 | Temporary Library - bid package #3 | fixed | 67,624 |
| 5723 | Temporary Library Monitoring Services | % of construction cost | 28,469 |
| 8160 | Baseball Field Lighting | fixed | 189,665 |
| 8160 | Baseball Field Lighting – purchase order #76738 | fixed | 22,200 |
| 10773 | Monitoring Services - Canopy | % of construction cost | 8,087 |
| Total | | | \$ 808,915 |

1. *Competitive Procurement Process/Method of Contracting.* For monitoring services under Projects 2102, 5723, and 10773, the District continued a pre-Hurricane Katrina arrangement with an architectural firm instead of undertaking a competitive process, based on qualifications, to acquire such services. District officials said that the urgency to reopen schools in the wake of the storm took precedence over a competitive procurement process. However, work under the projects was not initiated until after the schools had reopened. Therefore, we believe that a competitive procurement process could have been executed. In addition, the compensation for the monitoring services, which totaled \$64,810 was based on a percentage of construction cost, which is not an allowable contracting method under federal procurement regulations. Finally, the letter of intent between the architectural firm and the District for services related to Hurricane Katrina indicates that the firm's services could continue to be used for major future project(s) with no intention of introducing competition into the equation.

2. *Cost Analysis and Profit Negotiation for Noncompetitive Procurements.* Under Project 5723 for the construction of a temporary library, the District received only one bid each for bid packages 1 and 3, and received only one bid under Project 8160 for baseball field lighting, though solicitation for bids for this project could not be documented (see item #3 below). Accordingly, all three of these procurements lacked adequate competition. However, the District awarded the three contracts, which totaled \$721,905, without performing a cost analysis and negotiating profit as a separate element of price, as required when adequate price competition is lacking.

3. *Insufficient Procurement History.* The District's contract files did not contain the contract bid solicitation for Project 8160 for baseball field lighting. Therefore, we could not identify the required factors to be fulfilled by the bidders. Additionally, while the purchase order for the contract was written for a fixed amount, the contractor's invoices contained labor and material charges for \$13,728. However, there was no supporting documentation for the labor charges and all cost information for the material charges had been eradicated from the invoices.

RECOMMENDATIONS

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

Recommendation #1. Require the District to establish and maintain separate accountability for expenditures under each large project as required by federal regulations.

Recommendation #2. Inform the District to comply with federal procurement regulations when awarding contracts for FEMA-funded activities.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were discussed with District, MEMA, and FEMA officials on April 24, 2008. District officials agreed with our findings.

Please advise me by January 21, 2009 of the actions 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 at (228) 385-1717. Key contributors to this assignment were Larry Arnold, John Skrmetti, and Mary James.

cc: DHS Audit Liaison
FEMA Audit Liaison
Deputy Director, GCRO
Chief Financial Director, Gulf Coast Recovery Office
Regional Director, FEMA Region IV
Public Assistance Office, FEMA Mississippi Transitional
Recovery Office
Chief of Staff, FEMA Mississippi TRO
Mississippi State Coordinating Officer
Mississippi Legislative Auditor
Director of Finance, Gulf Coast Recovery Office

Jackson County School District, Mississippi
FEMA Disaster No. 1604-DR-MS
Schedule of Amount Awarded, Costs Incurred, and Amount Questioned
August 29, 2005 through July 31, 2007

| Project Number | Amount Awarded | Costs Incurred | Amount Questioned |
|-----------------------|-----------------------|-----------------------|--------------------------|
| 1798 | \$ 937,441 | \$ 960,969 | 0 |
| 2102 | 468,254 | 468,254 | 0 |
| 5668 | 641,719 | 649,346 | 0 |
| 5723 | 997,969 | 1,019,757 | 0 |
| 7603 | 118,367 | 118,367 | 0 |
| 8160 | 127,500 | 238,997 | 0 |
| 10773 | 173,767 | 173,767 | 0 |
| Totals | \$ 3,465,017 | \$ 3,629,457 | \$ 0 |