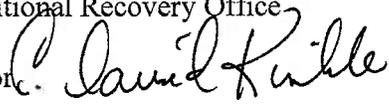




Homeland
Security

December 18, 2008

MEMORANDUM FOR: Benjamin A. (Alec) Watson, Acting Director
FEMA Mississippi Transitional Recovery Office

FROM: C. David Kimble, Director 
Eastern Regional Office

SUBJECT: *Mississippi Gulf Coast Regional Wastewater Authority*
Public Assistance Identification Number: 059-04C2C-00
FEMA Disaster Number 1604-DR-MS
Report No. DA-09-07

We audited public assistance funds awarded to the Mississippi Gulf Coast Regional Wastewater Authority (Authority), Gauthier, Mississippi, for damages sustained as a result of Hurricane Katrina. The objectives of our review were to determine whether the Authority 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 November 30, 2006, the cut-off date of our review, the Authority received an award of \$20.1 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for emergency protective measures and repair/replacement of buildings, equipment, and utilities damaged by the disaster. The award provided 100% FEMA funding for 10 large¹ projects. We limited our scope to \$10.5 million of costs claimed under 9 large projects (see Exhibit).

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the Authority's disaster grant accounting system and contracting policies and procedures; selected judgmental samples of project expenditures (generally based on dollar value); interviewed Authority, MEMA, and FEMA personnel; and performed other procedures considered necessary under the circumstances. We did not assess the adequacy of the Authority's internal controls applicable to its grant activities because it was not necessary to accomplish our audit

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

objective. We did, however, gain an understanding of its grant accounting system and policies and procedures for administering the activities provided for under the FEMA award.

RESULTS OF REVIEW

The Authority's grant accounting system did not provide a means to readily trace project expenditures to supporting documentation, and the Authority did not comply with federal procurement regulations when contracting for \$9.9 million in repairs to its wastewater treatment plants. In addition, we identified \$193,116 of questioned costs resulting from unremitted interest earned on FEMA advances and unremitted proceeds from the disposal of assets purchased with FEMA funds.

- A. Grant Accounting. The Authority claimed costs of \$10.5 million for work performed under various projects (see Exhibit). However, the Authority's grant accounting system did not provide a means to trace project expenditures recorded in its system to supporting documentation as required by federal regulations (44 CFR 13.20(a)(2)). As a result, we could not readily perform sufficient tests to evaluate the accuracy and eligibility of the \$10.5 million of project costs claimed.
- B. Contract Costs. Procurement standards at 44 CFR 13.36:
- Require the performance of procurement transactions in a manner providing full and open competition except under certain circumstances. (13.36(c))
 - Allow procurement by noncompetitive proposals only when the award of a contract is infeasible under small purchase procedures [\$100,000 or less], sealed bids, competitive proposals, or under certain circumstances. One acceptable circumstance is when the public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation. (13.36(d)(4)(i)(B))
 - Require a cost or price analysis in connection with every procurement action, including contract modifications. (13.36(f)(1))
 - Prohibit the use of time-and-material type contracts unless no other contract is suitable and provided that the contract include a ceiling price that the contractor exceeds at its own risk. (13.36(b)(10))

The Authority hired two contractors under several projects to make repairs to wastewater treatment plants damaged during the disaster. One of the contractors, an engineering firm, was hired to identify specific repairs needed for restoration of the plants and to provide monitoring services. The second contractor was hired to complete emergency and permanent repairs identified by the engineering firm. The contracts, however, were awarded on a time-and-material basis without determining whether more suitable contracting arrangements existed. In addition, the Authority did not seek competitive proposals or perform a cost/price analysis to determine the reasonableness of the contractors' proposed costs. While exigent circumstances may have justified the use of non-competitive time-and-material contracts for emergency repairs to make the plants operational, the Authority should have sought competitive bids with more suitable contracting arrangements for the permanent repair work required under the projects.

As of November 30, 2006, the cut-off date of our review, work under the projects was incomplete and the Authority had claimed \$9.9 million of contract costs, as follows:

Project Number	Wastewater Facility	Amount Claimed
1095	Passcougla/Moss Point	\$5,339,531
1534	Mississippi Gulf Coast Regional	1,495,438
853	Escatawpa	1,816,047
852	West Jackson	1,147,233
Total		\$9,890,366

In addition to the Authority's procurement shortcomings, the following issues surfaced during our review of the \$5.3 million of contract costs claimed under Project 1095 that precluded us from determining whether the costs were eligible and reasonable.

- Construction firm invoices included lump sum items with no specific support documentation (dimensions, specifications, or quantities). The project's scope of work contained a list of parts and other items authorized for repair. However, because the invoices did not contain specific information, we could not associate the items listed on the contractor's invoices to items of work authorized under the project.
- No analysis was performed to support the replacement of damaged equipment versus the cost to repair. According to federal regulations (44 CFR 206.226(h)) and FEMA guidelines (*Public Assistance Guide*, FEMA 322, October 1999, p. 57) equipment not repairable will be replaced with used items that are approximately the same age, capacity, and condition. FEMA guidelines require that replacement of an item with a new item may be approved only when a used item is not available within a reasonable time and distance.

Moreover, the Authority's costs may not have been fully reduced by proceeds received from the sales of replaced equipment. Federal cost principles (U.S. Office of Management and Budget, Circular A-87) state that costs claimed under a federal award must be reduced by applicable credits (i.e. purchase discounts and rebates, refunds, erroneous charges, etc.). The contractor coordinated the sale of replaced equipment and remitted the proceeds to the Authority. The Authority provided us with cancelled checks totaling \$21,298 received from the contractor. However, we were unable to verify such amount because the Authority did not have a system in place to record equipment sales.

- The construction firm purchased three travel trailers at a cost of \$44,500 to serve as temporary office space during construction, and billed the full cost of the trailers to the Authority as mobilization expense. Federal regulation (44 CFR 13.32(e)(2)) states that proceeds from the disposal of assets purchased with grant monies, with a fair market value of more than \$5,000, must be remitted to the awarding agency. On February 5, 2007, the construction firm remitted proceeds of \$16,000 from the disposal of the travel trailers to the Authority. However, at the time of our exit conference, the Authority had not remitted the proceeds to FEMA.

We did not review the \$4.6 million of contract costs claimed under the other wastewater repair projects. However, we believe that similar issues would have been identified because the same contractors performed repair work and monitoring activities at those facilities. As a result of these issues and the Authority's procurement shortcomings, FEMA has no assurance that the \$9.8 million of contract costs are reasonable and for authorized and eligible activities.

- C. Interest Earned on FEMA Advances. The Authority received advance funds from FEMA to carry out emergency protective measures and placed the funds in an interest bearing account. At the time of review, the Authority had earned interest of \$177,216 on the advanced funds, but had not submitted the interest to FEMA. Federal regulation (44 CFR 13.21(i)) requires grant recipients to promptly, but at least quarterly, remit interest earned on advances to the federal agency. The regulation also allows grant recipients to keep interest amounts up to \$100 per year for administrative expenses. Accordingly, we question \$177,116 (actual less \$100) of the interest earned but not remitted to FEMA.

RECOMMENDATIONS

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

1. Require the Authority to organize supporting documentation that facilitates the tracing of project transactions within its accounting system as required by federal regulation.
2. Perform a technical review and validation of the \$9.9 million of costs claimed for repairs to the Authority's wastewater treatment plants to determine cost reasonableness and eligibility.
3. Require the Authority to remit the \$16,000 of proceeds received from the construction firm for the sale of the travel trailers.
4. Require the Authority to remit the \$177,116 of interest earned on FEMA advances.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our review with FEMA, MEMA, and Authority officials on February 27, 2007. Authority officials disagreed on our calculation of the amount of interest earned on advances, but did not provide a figure for our review. They also said they believe that they made heroic efforts to restore their operation as soon as possible under the circumstances and made outstanding efforts to obtain an engineer and contractor to repair the facilities at a reasonable cost within the appropriate guidelines and structure given to them by the FEMA representative.

Please advise this office by February 20, 2009, of actions taken or planned to implement our recommendations, including target completion dates for any planned actions. Should you have any questions concerning this report, please call me at (404) 832-6702. Key contributors to this assignment were Felipe Pubillones, Chris Gamble, J. Hugh Dixon, and Michael Keenum.

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

Mississippi Gulf Coast Regional Wastewater Authority
FEMA Disaster No. 1604-DR-MS
Schedule of Amount Awarded, Claimed, and Questioned
As of November 30, 2006

Project Number	Amount Awarded	Amount Claimed	Amount Questioned
2815	\$ 576,759	\$ 313,739	
6796	146,457	131,723	
657	111,237	48,408	
1727	461,293	118,578	
1095	7,910,417	5,339,531	\$ 16,000
1534	4,893,637	1,495,438	
853	2,690,440	1,816,047	
852	2,681,905	1,147,233	
664	136,469	92,116	
Interest Earned on Advances			\$177,116
Total	\$19,508,614	\$10,502,813	\$193,116