

U.S. Department of Homeland Security
 Eastern Region
 Office of Emergency Management Oversight
 10 Tenth Street, Suite 750
 Atlanta, Georgia 30309



Homeland Security

August 4, 2009

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

FROM: C. David Kimble, Director
 Eastern Regional Office

SUBJECT: *Harrison County School District, Mississippi*
 FIPS Code: 047-0302A-00
 FEMA Disaster No. 1604-DR-MS
 Report No. DA-09-20

We audited Hazard Mitigation Grant Program (HMGP) funds awarded to Harrison County School District (School District) following Hurricane Katrina. The objective of the audit was to determine whether the School District accounted for and expended the Federal Emergency Management Agency (FEMA) HMGP funds according to federal regulations and FEMA guidelines.

The HMGP, authorized under Section 404 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, provides grants to States and local governments for long-term hazard mitigation measures following a major disaster declaration. The purpose of the HMGP is to reduce the loss of life and property due to natural disasters and to enable mitigation measures to be implemented during the immediate recovery from a disaster.

As of March 31, 2009, the School District received an HMGP award of \$20.9 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for strengthening two high schools into community hurricane shelters. The award provided 100% FEMA funding¹ for 2 projects as shown in the following table.

Project Number	School	Amount Awarded
18	D'Iberville/East	\$10,791,473
19	West Harrison	10,117,236
Total		\$20,908,709

¹ FEMA allowed the state to use the Global Match concept as part of the 25% non-federal share match. Global Match permits an applicant to meet the non-federal share match by receiving credit for state and/or local government funds that were committed to similar type project(s), thus allowing an applicant to receive up to 100% federal funding.

At the time of the audit, the School District had not submitted final claims on project expenditures to MEMA. The audit covered the period August 29, 2005, to March 31, 2009. During this period, the School District received \$15.8 million of the \$20.9 million FEMA awarded under the two 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.

We judgmentally selected samples of project cost documentation (generally based on dollar value); interviewed School District, MEMA, and FEMA personnel; reviewed the School District's disaster grant accounting system and procurement policies and procedures; reviewed applicable federal regulations and FEMA guidelines; and performed other procedures considered necessary under the circumstances. We did not assess the adequacy of the School District'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 School District's grant accounting system and its policies and procedures for administering activities provided for under the FEMA award.

RESULTS OF AUDIT

The School District accounted for FEMA funds on a project-by-project basis and complied with federal and FEMA guidelines regarding procurement, contract monitoring, and documentation requirements. However, the School District received an overpayment of \$375,726 as a result of an accounting error. In addition, MEMA did not effectively monitor project funding resulting in \$4.1 million of unneeded funding that was not timely de-obligated and made available for other HMGP projects.

- A. Overpayment. The School District received an overpayment of \$375,726 under Project 18. Fixed-price contract costs under the project totaled \$8,419,814, but the School District submitted claims/invoices to MEMA totaling \$8,795,540. This was a direct result of an accounting error made by the School District when processing Invoice No. 12, which included contractor charges for both Projects 18 and 19. The School District inadvertently transcribed total HMGP charges for both projects on a spreadsheet used to process pay requests to MEMA rather than only those related to Project 18.
- B. Project Funding. According to 44 CFR 13.40(a), grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities to assure compliance with federal requirements and achievement of performance goals. In addition, 44 CFR 13.40(d) requires that as soon as known, the grantee must inform FEMA of favorable developments which enable meeting time schedules and objectives sooner or at a less cost than anticipated. However, MEMA did not effectively monitor the FEMA funds obligated under Projects 18 and 19, which resulted in \$4.1 million of unneeded funding that was not timely de-obligated and made available for other HMGP projects. The specifics of the projects are shown below, and the unneeded funding related to each project is discussed in the ensuing paragraphs.

Project Number	Original Amount Awarded & Obligated	Additional Obligations due to Scope of Work Change	Final Award & Obligated Amount	Total Project Costs	FEMA Funding Not Needed
18	\$10,791,473		\$10,791,473	\$8,444,814	\$2,346,659
19	\$9,467,184	\$650,052	\$10,117,236	\$8,349,242	\$1,767,994
Totals	\$20,258,657		\$20,908,709	\$16,794,056	\$4,114,653

1. *Project 18.* In May 2007, \$10,791,473 of FEMA funding was obligated for the estimated contract costs to complete work authorized under the project. After evaluating competitive bids, School District officials awarded contracts totaling \$8,444,814 for the authorized work. The contracts were comprised of two fixed-price contracts (construction and architectural), and a set fee per month project management contract with a not to exceed amount. As a result of the contracting methods, the \$8,444,814 was an accurate estimate of final project costs, which was \$2.3 million less than the amount obligated under the project. Although aware of the expected \$2.3 million underrun, MEMA did not notify FEMA that such funds should be de-obligated. At the time of our audit, the project was 100% complete and the \$2.3 million remained obligated.
2. *Project 19.* In May 2007, \$9,467,184 of FEMA funding was obligated for the estimated contract costs to complete work authorized under the project. After evaluating competitive bids, the School District awarded contracts totaling \$7,910,318 for the authorized work, which was \$1,556,866 less than amount originally estimated (\$9,467,184 less \$7,910,318). Similar to Project 18, the contracts were comprised of two fixed-price contracts (construction and architectural), and a set fee per month project management contract with a not to exceed amount. Subsequent to the contract awards, School District officials requested a change in scope to add an additional eight classrooms for strengthening, which was estimated to increase project costs by \$650,052. MEMA approved the change and requested that FEMA obligate additional funding of \$650,052 to cover such costs, which increased total obligations under the project to \$10,117,236. However, as previously mentioned, the project already had an estimated cost underrun of \$1,556,866, which was sufficient to cover the increased costs of the additional classrooms. At the time of audit, work under the project was 97% complete and final project costs (including scope change) were estimated to be \$8.3 million, or \$1.8 million less than the \$10.1 million obligated. However, the \$1.8 million remained obligated.

RECOMMENDATIONS

We recommend that the Acting Director, Mississippi Recovery Office:

Recommendation #1. Disallow the \$375,726 overpayment received under Project 18.

Recommendation #2. Deobligate \$4,114,653 of unneeded funding under Projects 18 and 19.

Recommendation #3. Inform MEMA to comply with requirements of 44 CFR 13.40, which includes adequately monitoring subgrant project costs and obligations to ensure timely de-obligation of unneeded funding.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the audit results with School District, FEMA, and MEMA officials on May 3, 2009. The School District and MEMA officials concurred with all findings and recommendations.

Please advise me by October 2, 2009 of actions planned or taken to implement the recommendations contained in this report, including target completion dates for any planned actions. Should you have any questions concerning this report, please call me at (404) 832-6702, or Larry Arnold, Audit Manager, at (228) 385-1717. Key contributors to this assignment were Larry Arnold and Pat McGowan.

cc: Regional Administrator, FEMA Region IV
Audit Liaison, FEMA Region IV
Audit Liaison, FEMA Mississippi Transitional Recovery Office
Audit Liaison, FEMA

Harrison County School District, Mississippi
FEMA Disaster No. 1604-DR-MS
Schedule of Amount Awarded, Claimed, and Questioned
August 29, 2005 through March 31, 2009

Project Number	Amount Awarded	Amount Claimed	Funds Put to Better Use	Amount Questioned
18	\$10,791,473	\$8,795,540	\$2,346,659	\$375,726
19	10,117,236	7,018,364	1,767,994	0
Totals	\$20,908,709	\$15,813,904	\$4,114,653	\$375,726