



# Department of Homeland Security Office of Inspector General

## FEMA Public Assistance Funds Awarded to the Mississippi Emergency Management Agency





# Homeland Security

February 18, 2010

MEMORANDUM FOR: Dennis Kizziah, Director  
FEMA Mississippi Recovery Office

FROM: C. David Kimble, Director  
Eastern Regional Office

SUBJECT: *Mississippi Emergency Management Agency*  
FIPS Code: 000-U0220-00  
FEMA Disaster No. 1604-DR-MS  
Report No. DA-10-08

We audited Federal Emergency Management Agency (FEMA) Public Assistance (PA) funds awarded to the Mississippi Emergency Management Agency (MEMA) for managing disaster activities related to Hurricane Katrina. Our objective was to determine whether MEMA accounted for and expended PA funds according to federal regulations and FEMA guidelines. Specifically, we focused on the following activities:

- cash management;
- payment processing to subgrantees;
- financial reporting;
- procurement procedures;
- grant management contract costs; and
- subgrantee monitoring.

As of April 20, 2009, the cut-off date of our review, MEMA had received a PA award of \$219.2 million from FEMA for grant management tasks. The award provided 100% FEMA funding for 97 large projects and 102 small projects.<sup>1</sup> Our audit focused primarily on \$75 million claimed under 3 large projects identified in the table below.

| Project Number | Amount Awarded | Amount Claimed |
|----------------|----------------|----------------|
| 6690           | \$42,381,922   | \$42,381,084   |
| 10846          | 32,653,811     | 30,713,191     |
| 11139          | 14,570,764     | 1,959,165      |
| Totals         | \$89,606,497   | \$75,053,440   |

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

The audit covered the period August 29, 2005, to April 20, 2009. During this period, MEMA received \$75 million of FEMA funds under the 3 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 required that we plan and perform the audit to obtain sufficient and 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 project cost documentation (generally based on dollar value); interviewed personnel from the Mississippi Department of Finance and Administration, Mississippi Treasury Department, Mississippi Contract Review Board, MEMA, and FEMA; reviewed MEMA's disaster grant accounting system and procurement policies and procedures; reviewed cash management, cash disbursement, and financial reporting 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 MEMA'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 MEMA's grant accounting system and its policies and procedures for administering activities provided for under the FEMA award.

## **BACKGROUND**

Hurricane Katrina made landfall on the Mississippi Gulf Coast on August 29, 2005, and caused major destruction not only to the Gulf Coast region but also to many inland Mississippi counties. This devastating disaster caused unprecedented damage to homes, businesses, public utilities and infrastructure throughout most of the State.

FEMA's PA Program provides assistance to states, local governments, and certain nonprofit organizations to repair damages resulting from major disasters or emergencies declared by the President. The PA Program, which is authorized by the Stafford Act, provides assistance for debris removal, implementation of emergency protective measures, and permanent restoration of infrastructure. The Program also encourages protection from future damage by providing assistance for hazard mitigation measures during the recovery process.

The PA Program is based on a partnership between FEMA, the grantee (state), and subgrantees (applicants). FEMA is responsible for managing the program, approving grants, and providing technical assistance to grantees and applicants. The state, as grantee, is responsible for notifying the subgrantee that funds are available, and for disbursing those funds to the subgrantees. The state is also responsible for providing technical advice and assistance to eligible subgrantees, ensuring that all potential subgrantees are aware of the available assistance programs, providing support for damage assessment operations, and submitting the necessary paperwork for grant awards. Subgrantees are responsible for identifying damage, providing data for developing scopes of work and estimates of costs on projects, for managing the projects funded under the PA program, and documenting claimed costs. The PA program is a cost reimbursement program.

For disasters declared before November 13, 2007, FEMA provided three types of financial assistance to states for managing and administering FEMA grants.<sup>2</sup> First, a State Management Grant covers the ordinary or regular costs directly associated with program administration. Second, a statutory administrative allowance covers “extraordinary” direct costs to formulate project worksheets (PWs) for small and large projects; validate small projects; prepare final inspection reports, project applications, final audits; and make related field inspections by state employees.<sup>3</sup> Eligible costs include overtime pay and per diem and travel expenses. Finally, states may also claim the indirect costs of administering disaster programs according to applicable federal regulations.

MEMA contracted with an accounting firm for professional services to assist in administering the PA program. The contract was competitively awarded on January 11, 2006, as a time-and-material type contract. This contractor provides accounting support for PA reimbursement to local municipalities, counties, and eligible private nonprofit corporations. The amount obligated for the accounting firm’s services was \$89.6 million through April 20, 2009, and payments were \$75 million.

As of July 30, 2009, over \$1.79 billion of the \$3 billion in PA funds obligated by FEMA for Hurricane Katrina damages in Mississippi have been disbursed by MEMA to PA applicants.

## RESULTS OF AUDIT

MEMA accounted for FEMA funds on a project-by-project basis according to federal regulations for large projects. However, we identified the following conditions.

- Overpayments totaling \$9.5 million to subgrantees for emergency work projects.
- Excessive costs of \$8.1 million billed by a professional services contractor.
- Unremitted interest of \$987,000 earned on FEMA advances.
- Insufficient procedures for monitoring contractor travel costs.
- Insufficient procedures for ensuring corrective action is taken by subgrantees on A-133 audit findings.

A. Payment Processing to Subgrantees. Under the PA Program, FEMA and the State (MEMA) share responsibility for making PA funds available to subgrantees. FEMA uses a PW for each project to record the scope of eligible work, estimated or actual costs necessary to complete the work, and special considerations associated with the project. The PW serves as the basis for federal funding. Once FEMA approves a PW, it makes the federal share of the approved amount available to the State. These obligated funds are available to the State via electronic transfer, but reside in a federal account until the State approves funding to eligible subgrantees. The State must use methods and procedures for payment that minimize the time between the transfer of funds and disbursement by the State according to federal cash management requirements.

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<sup>2</sup> 44 CFR 206.228(a)(2) and (3) and (b)

<sup>3</sup> The State’s statutory administrative allowance is based on the federal share of total assistance provided to its subgrantees as follows: 3% for the first \$100,000 of net eligible costs, 2% for the next \$900,000, 1% for the next \$4,000,000, and ½% of costs over \$5,000,000 (44 CFR 206.228(a)(2)).

According to FEMA’s *Public Assistance Guide* (FEMA 322, October 1999, pages 82-83), large projects are funded by FEMA on documented actual eligible costs. Large project funding may not be immediately drawn down by the State. Instead, progress payments are made to the applicant as actual costs are documented. According to 44 CFR 206.205 (b)(1), an applicant must submit documentation to the State to account for all incurred costs upon completion of a large project. The State reviews the project costs for eligibility and makes an accounting of eligible costs to FEMA for review. Once the review is complete, FEMA makes a determination whether eligible costs exceed the initial approved amount and will obligate or deobligate project funding as necessary.

We analyzed over 1,000 large projects awarded to MEMA subgrantees for debris removal (Category A) and emergency protective measures (Category B). The projects, which were funded in excess of \$100,000, were reviewed to determine whether the approved PW amount and actual payments made by MEMA to the subgrantees for project costs were at appropriate levels. We provided MEMA with our analysis and requested explanations for those projects where cash payments exceeded the funding obligated under the project by \$100,000. MEMA provided appropriate justification for some of the projects and took action to obtain a \$1.5 million refund from a subgrantee. However, the projects for which MEMA took no action remained in an overpayment condition totaling \$9.5 million. The affected projects are identified in the table below.

| Project Number | Paid Amount  | Obligated Amount | Overpaid Amount |
|----------------|--------------|------------------|-----------------|
| 6              | \$250,000    | \$ -0-           | \$250,000       |
| 8              | 480,880      | 320,941          | 159,939         |
| 124            | 15,750,000   | 12,590,872       | 3,159,128       |
| 127            | 15,750,000   | 14,051,682       | 1,698,318       |
| 131            | 15,750,000   | 13,475,772       | 2,274,228       |
| 213            | 8,898,703    | 8,537,225        | 361,478         |
| 1268           | 16,212,056   | 15,051,071       | 1,160,985       |
| 3234           | 305,478      | 133,189          | 172,289         |
| 3285           | 120,525      | -0-              | 120,525         |
| 7681           | 126,583      | -0-              | 126,583         |
| Total          | \$73,644,225 | \$64,160,752     | \$9,483,473     |

The overpayments occurred because actual eligible project costs were either less than (1) FEMA funds advanced under the project or (2) FEMA-approved funding as determined during final inspection of the project. MEMA should seek reimbursement from the subgrantees for the overpayments and deposit such funds into the State Treasury, thus reducing future drawdowns of FEMA funds required to fund other projects. During our fieldwork, MEMA officials said they were not planning on initiating such action because the subgrantees in question had other projects with obligated funding that exceeded payments, an amount which was greater than the overpayments received. MEMA takes the position that subgrantee projects are funded as a whole and not on a project-by-project basis. However, as discussed previously, FEMA guidelines and federal regulations require large projects to be funded on an individual basis.

MEMA Response: MEMA officials did not concur with our audit conclusion and stated that state law does not allow MEMA the authority to demand repayments from local governments when a project's funding is reduced. It has been MEMA's protocol for more than a decade to request repayments from local governments if they were overpaid. See Appendix B for MEMA's complete written response.

OIG Response: No reference to state law was provided by MEMA and there is no indication that MEMA is in the process of requesting overpayments from subgrantees on the \$9.5 million identified above. We informed MEMA that \$7.1 million of the above amount under projects 124, 127 and 131 has been overpaid to one subgrantee for over 3 years. Although FEMA deobligated funds on the three projects to actual eligible costs, the \$7.1 million remains with the subgrantee, and is not being used to reimburse project costs of other subgrantees. Therefore, our audit position remains unchanged.

B. Grant Management Contract Costs. According to Office of Management and Budget Circular A-87 (*Cost Principles for State, Local, and Indian Tribal Governments*), Attachment A, Paragraph C(2), costs under federal awards must be both necessary and reasonable. The Circular defines a reasonable cost as a cost that does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The Circular (Attachment B, Paragraph 8a.(1)) also requires compensation for personal services to be reasonable for the services rendered. We identified \$8,060,445 of costs billed by a contractor that provided accounting support for PA reimbursement that we believe are excessive for the services rendered.

1. Document Management Personnel. During the period January 2006 through June 2009, the contractor billed MEMA in excess of \$ 7.7 million for personnel who provided document scanning services. The billings were based on an hourly rate established for a Recovery Accounting Oversight Analyst. However, the actual duties of the document management personnel were not equivalent to the duties and responsibilities required of Recovery Accounting Oversight Analysts, as outlined in MEMA's request for proposals (RFP) under which the professional services contract was awarded. According to the RFPs (06-S-02 and 09-S-03), the major duties of a Recovery Accounting Oversight Analyst are, as follows:

- Performs detailed review, reconciliation, and audit preparation for the receipt and/or disbursement of Public Assistance funds within a designated geographic area or political jurisdiction(s);
- Works closely with local government officials to ensure the integrity and completeness of the recovery financial records in accordance with federal and state guidelines and generally accepted accounting principles;
- Assists and performs, where necessary, in the physical preparation of project procurement documentation, project budgets, budget tracking, and budget variance reporting;
- Performs audit and/or re-audit activities, by project in anticipation of Federal Inspector General audits and reviews; and
- Advises local appointed and elected officials on program guidelines and informs management and local officials of unresolved issues.

In addition to the above major duties, the RFPs require that the Oversight Analyst possess a deep knowledge of a wide range of accounting principles and accounting systems. The RFPs also define the complexity of the position and states that the work involves the review and documentation of complex accounting systems and records, and requires a high degree of attention to detail. Moreover, the minutes of an April 2007 meeting between the Mississippi Personal Service Contract Review Board and MEMA, of which the subject was additional contract funding of personnel, included comments about the complexity of the work and identified the positions as accountants and the services provided as professional accounting services.

The document management services consist of scanning and coding documents received from subgrantees. Coding consists of identifying the subgrantee, project worksheet, date, vendor, etc. Coding is performed to ensure that the documents can be electronically retrieved at a later date. Also, a review is performed to ensure the scanned documents were coded correctly. We consider these duties are outside the major duties and responsibilities established for the Recovery Oversight Analyst position. Furthermore, we noted that contract administrative personnel, which are billed at a significantly less rate than a Recovery Analyst, assist in the scanning process. Based on these factors, we concluded that a lesser billing rate should have been used for such services. The contract, however, does not specify a billing rate for document management services. With the exception of an IT support billing rate, the next lowest billing rate specified in the contract is for administrative personnel. Therefore, absent of a negotiated billing rate for document management services, we believe the rate for administrative personnel is an appropriate rate to be used for compensation of document management services.

The number of document scanning personnel of the contractor has fluctuated since the award of the contracts. However, based on a judgmental sample of contractor invoices in 2007, 2008, and 2009, we determined that there was an average of 11 non-supervisory personnel engaged in this function. The hourly labor rate differences between the Recovery Analyst and Administrative personnel positions ranged from \$87 to \$109 during the contract period of January 9, 2006 through June 30, 2009. Using these differences, we calculated that the contractor billed MEMA \$7,751,445 of excessive charges for the 11 personnel who provided document management services. Therefore, we question the \$7,751,445 as identified in the following table.

| Project Number | Amount Questioned |
|----------------|-------------------|
| 6690           | \$4,004,335       |
| 10846          | 2,901,905         |
| 11139          | 845,205           |
| Total          | \$7,751,445       |

MEMA Response: MEMA officials did not concur with our audit conclusion and stated that it is evident in the contractor’s proposal, which is incorporated into the contract between MEMA and the contractor, that the parties specifically agreed and intended that analysts would perform the important function of reviewing and organizing documents loaded into the document management database. See Appendix B for MEMA’s complete written response.

OIG Response: Our review of the contract and supporting documents did not disclose any reference to an oversight analyst performing scanning and coding duties. Therefore, our audit conclusion remains unchanged.

2. *Classification of Contractor Supervisory Personnel.* The contractor also billed for an individual in a non-supervisory position at a supervisory rate. The individual was billed at a rate established for a Recovery Oversight Division Leader position, whose major duty is to lead and manage division work teams that provide accounting and compliance assistance to subgrantees. However, the individual, who is responsible for maintaining an electronic database and preparing reports from the database, works independently and does not have supervisory responsibilities. Therefore, exception is taken to the rate that was billed. In our view, the rate established for a Recovery Accounting Oversight Analyst is the proper rate for the services being performed by the individual. Using the contract labor rates established for such position and the hours billed for the individual's services during the contract period of January 9, 2006, through June 30, 2009, we calculated that MEMA was billed excessive charges of \$309,000. The following table identifies the specific projects and questioned amount.

| Project Number | Amount Questioned |
|----------------|-------------------|
| 6690           | \$147,157         |
| 10846          | 106,643           |
| 11139          | 55,200            |
| Total          | \$309,000         |

MEMA Response: MEMA officials did not concur with our conclusion and stated that the individual in question has particular technology expertise, higher than that of any analyst, and has the ability to understand and navigate the MEMA, FEMA and Horne information systems. They said this individual leads and manages all analysts to guide them to the most effective and efficient use of the information systems. See Appendix B for MEMA's complete written response.

OIG Response: Our audit conclusion remains unchanged as the employee does not lead and manage work division teams that provide accounting and compliance assistance to subgrantees. Also, providing training on information systems does not qualify the employee as an Oversight Division Leader.

- C. Interest Earned on FEMA Advances. According to 44 CFR 13.21(i), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on FEMA advances. Also, the Cash Management Improvement Act (CMIA) dated July 1, 1998, includes major provisions, one of which states in part that the federal government is entitled to interest from states for the time federal funds are in state accounts until the day the funds are paid. The Mississippi State Treasury earned \$987,115 of interest on FEMA monies deposited from the Department of Health and Human Services (HHS) Smartlink Hurricane Katrina fund account during the period September 2005 through April 2009. However, the interest was not remitted to FEMA as required.

FEMA obligates funding on projects for the grantee (MEMA) and subgrantees and this funding is made available to MEMA via the HHS/Smartlink electronic payment system. MEMA initiates a drawdown from Smartlink based on payment requests received from subgrantees and from MEMA itself. The Smartlink funds are transferred directly to the State Treasury generally within one business day. MEMA then notifies the Mississippi Department of Finance and Administration (DFA) of the recipient that is to be paid and the amount of the required payment. Recipients receive the payments either electronically or by the issuance of warrants (checks).

The State Treasury office established Fund 3729 to account for FEMA revenue and expenditures related to Hurricane Katrina. Since the payments for FEMA projects are made later than the Smartlink deposits, the State Treasury office is able to “sweep” funds from the account and deposit those funds along with other State funds into an interest bearing money market account. To determine interest earned on Fund 3729, we obtained interest apportioning records and calculations of interest from the State Treasury office. Those records showed that approximately \$987,000 of interest earned during the period September 2005 through April 2009 was attributable to Fund 3729. The interest, however, remained in the State Treasury for general use rather than remitted to FEMA as required.

During our review, we also identified other FEMA-funded accounts that may be earning interest by the State of Mississippi. These accounts are shown in the following table.

| Fund Number | Description of Fund   |
|-------------|---|
| 37AH        | Partial FEMA Funding- Alternate Housing Program   |
| 372C        | 100% FEMA Funding-Columbus/Lowndes Tornadoes  |
| 372K        | Partial FEMA Funding-Special Funds-House Bill 43 Funds to pay EMAC and Other Expenditures |
| 372U        | 100% FEMA Funding-Hazard Mitigation Grants for Safe Rooms                                 |
| 3728        | 100% FEMA Funding-Emergency Management-PU Federal Grants on other than Katrina            |

MEMA Response: MEMA stated that it held meetings with both the DFA and the State Treasury office about this issue. Both agencies believe the State is in full compliance with the provisions in the Treasury/State Agreement as required by the CMIA and that no interest was earned on the federal monies in violation of 44 CFR 13.21(i). See Appendix B for MEMA’s complete written response.

OIG Response: During our review, we advised both the DFA and State Treasury office of the interest income issue and requested any information that would challenge our audit conclusion. We received documentation from DFA on November 9, 2009, and met with the State Treasurer and representatives from DFA and MEMA on November 19, 2009. However, no evidence was provided to support their compliance with CMIA. Therefore, our audit conclusion remains unchanged.

- D. Contractor Travel Costs. According to 44 CFR 13.36(b)(2), grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. The professional services contract between MEMA and its contractor requires that the contractor comply with applicable federal, state, and local laws and regulations.

During the period January 2006 through November 2008, the contractor billed travel costs totaling \$3.4 million. We reviewed travel charges from the January 2009 invoice, which totaled \$33,000, and identified \$23,000 of charges for individuals who commuted from their residences to their official duty station. However, these charges were in violation of the State's travel policy as described in the following paragraphs.

The Mississippi State Travel Policy Rules and Regulations define official duty station as the following:

“The city, town, or other location where the employee’s regular place of work is located, or the city, town or location where the employee’s primary work is performed on a permanent basis. If the employee regularly works in two or more areas, his official duty station shall be where the regular place of work is located. The regular place of work should be determined by the agency head or authorized designee based on total time ordinarily spent working in each area and the degree of business activity in each area.”

The travel policy also states that “An employee is not in travel status and shall not receive lodging or meal reimbursement while at his Official Duty Station”. The following present examples of commuting travel costs included on the January 2009 invoice that were not in compliance with the State travel policies.

- Individuals commuted from their residence in Jackson, Mississippi, to their official duty station in Biloxi, Mississippi, which is approximately a 175 mile one-way trip. The travel costs for mileage reimbursement for personal automobile use and per diem totaled \$9,377.
- An individual commuted from their residence in Picayune, Mississippi, to their official duty station in Biloxi, Mississippi, which is approximately 65 miles away. The travel costs for mileage reimbursement, lodging, and per diem totaled \$2,432.
- An individual commuted from their residence in Houston, Texas, to their official duty station in Biloxi, Mississippi. The employee generally traveled via commercial airline on Sunday evening and returned to Houston, Texas, on Friday. Costs for air fare, rental car, lodging and per diem totaled \$4,231.
- An individual commuted from their residence in Theodore, Alabama, to their official duty station in Biloxi, Mississippi, which is approximately 58 miles away. Total costs for mileage reimbursement, lodging, and per diem were \$1,814.
- Individuals that resided in Georgia and Florida traveled to their official duty station in Biloxi, Mississippi. None of their commuting costs were billed to MEMA. However, lodging costs of \$3,183 were claimed for reimbursement by MEMA.
- Commuting travel time for employees traveling from Jackson and Picayune, Mississippi, and Houston, Texas, to their official duty station in Biloxi, Mississippi was also billed as part of labor cost on the invoice. The amount of such costs totaled \$13,371.

In addition to the above examples, the contractor billed a higher than authorized per diem rate from October 2008 to February 2009. Once we brought this to the attention of MEMA and the contractor, the contractor took immediate action to adjust their next billing to MEMA in the amount of \$2,800. Also, on the January 2009 invoice, full per diem was being provided to the contractor employees instead of a partial per diem rate although the employees' travel did not require an overnight stay. Finally, air fare and automobile rental have been billed to MEMA and paid by FEMA since inception of the contract without written approval from MEMA as required by the terms of the contract. Due to the voluminous nature of the invoices and the time involved in reviewing the details, MEMA should conduct additional analysis on all other monthly billings by the contractor to determine if further adjustments are needed.

MEMA Response: MEMA officials said that its monitoring process was adequate with regard to travel cost billings because the catastrophic nature of this disaster required certain high level personnel to work in various areas of the state. However, MEMA did agree to review all travel costs billed by the contractor to determine if further adjustments are needed and provide a certification that all travel costs were reviewed for unallowable costs. See Appendix B for MEMA's complete response.

OIG Response: MEMA's proposed action to review and certify travel costs is acceptable. However, the contractor should also certify to the accuracy and allowability of the travel costs.

- E. Single Audit Monitoring. According to 44 CFR 13.26 (b)(3), grantees that make awards to subgrantees, meeting the dollar threshold of the Single Audit Act, must ensure that appropriate corrective action is taken within 6 months after receipt of the audit report in instances of noncompliance with federal laws and regulations. Office of Management and Budget Circular A-133 (*Audits of States, Local Governments, and Non-Profit Organizations*), Section 400(d), also requires that a grantee ensure subgrantees expending \$500,000 or more in federal awards during the fiscal year take corrective actions on audit findings within 6 months.

MEMA has adequate procedures to identify those subgrantees meeting the Single Audit dollar threshold and requesting copies of audit reports, but lacks procedures for ensuring corrective actions are taken by subgrantees on reported audit findings. We reviewed 13 single audit reports received by MEMA and identified 7 reports that contained audit findings requiring corrective action. However, MEMA could not provide documentation to demonstrate that it was requiring the subgrantees to take necessary action to resolve the reported conditions.

MEMA Response: MEMA officials said that procedures for reviewing the Single Audit Reports would be expanded to include providing a response to subgrantees' corrective action plans. See Appendix B for MEMA's complete written response.

OIG Response: MEMA's proposed actions, if implemented, should resolve the reported condition.

## RECOMMENDATIONS

We recommend that the Director, Mississippi Recovery Office:

**Recommendation # 1.** Require MEMA to request overpaid amounts totaling \$9.5 million from subgrantees for deposit into the State Treasury to be used to fund other projects, thus reducing future drawdowns of FEMA funds from HHS Smartlink.

**Recommendation # 2.** Disallow \$7,751,445 for excessive contract costs of document management services and advise MEMA that such services should be adjusted and billed at the administrative hourly labor rate; or require MEMA to negotiate an hourly rate that is commensurate with the duties performed by the contractor document management personnel and adjust billings to date for the agreed-upon rate. The contract should also be modified for any such changes.

**Recommendation # 3.** Disallow \$309,000 and advise MEMA that the labor rate should be adjusted to the Recovery Accounting Oversight Analyst rate; or require MEMA to negotiate, an hourly rate commensurate with the duties of the non-supervisory employee and adjust billings to date for the agreed-upon rate. The contract should also be modified for any such changes.

**Recommendation # 4.** Require MEMA to initiate action with the State Treasury Office to remit interest earned on FEMA advances to FEMA.

**Recommendation # 5.** Require MEMA and the contractor to review billed travel costs to determine if further adjustments are needed and provide a certification that all travel costs were reviewed for unallowable costs. Also, notify MEMA that it should modify its monitoring process to ensure that contractor travel charges are allowable and appropriate.

**Recommendation # 6.** Require MEMA to develop procedures to ensure subgrantees take corrective action on audit findings.

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

We held a meeting with MEMA officials on August 11, 2009, to discuss our preliminary findings. MEMA officials provided a written response to the preliminary findings on October 6, 2009. A formal exit conference was held with MEMA and FEMA officials on October 21, 2009. A summary of the October 6, 2009, comments have been included under each finding, and the complete written response can be found in Appendix B.

Please advise me by April 20, 2010, of the actions planned or taken to implement the recommendations contained in this report. Should you have any questions concerning the 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, Gary Rosetti, and Jim Miller.

cc: Regional Administrator, FEMA Region IV  
Audit Liaison, FEMA Region IV  
Audit Liaison, FEMA

Mississippi Emergency Management Agency  
FEMA Disaster No. 1604-DR-MS  
Schedule of Amount Awarded, Claimed, and Questioned  
August 29, 2005, to April 20, 2009

| Project Number              | Amount Awarded | Amount Claimed | Amount Questioned | Funds Put to Better Use |
|-----------------------------|----------------|----------------|-------------------|-------------------------|
| 6690                        | \$42,381,922   | \$42,381,084   | \$4,151,492       | -0-                     |
| 10846                       | 32,653,811     | 30,713,191     | 3,008,548         | -0-                     |
| 11139                       | 14,570,764     | 1,959,165      | 900,405           | -0-                     |
| Interest Earned on Advances |                |                |                   | \$ 987,000              |
| Overpayments to Subgrantees |                |                |                   | 9,483,473               |
| Totals                      | \$89,606,497   | \$75,053,440   | \$8,060,445       | \$10,470,473            |

## MEMA Response to Findings



**STATE OF MISSISSIPPI**  
**HALEY BARBOUR, GOVERNOR**

**MISSISSIPPI EMERGENCY MANAGEMENT AGENCY**

**THOMAS M. "MIKE" WOMACK**  
 EXECUTIVE DIRECTOR

October 6, 2009

*Via Hand Delivery*

Larry Arnold  
 Dept. of Homeland Security/OIG  
 Office of Emergency Management Oversight

Gary D. Rosetti  
 Dept. of Homeland Security/OIG  
 Office of Emergency Management Oversight

**RE: FEMA-1604-DR-MS – MS EMERGENCY MANAGEMENT AGENCY,  
 #000-U0220-00 – Response to Preliminary OIG Audit Findings**

Dear Sirs,

Attached are two copies to the Mississippi Emergency Management Agency (MEMA)'s Response, dated October 4, 2009, to the Office of Inspector General (OIG)'s preliminary findings and recommendations dated August 31, 2009 regarding MEMA's management of FEMA Public Assistance Program. If you have any questions or would like to discuss the attached, please contact Mr. Larry Bowman, State Public Assistance Officer and Alternate Governor's Authorized Agent at the Mississippi Recovery Office, 220 Poppys Ferry Road, Biloxi, Mississippi 39531, telephone number (228) 594-3197.

Sincerely,

 A handwritten signature in black ink, appearing to read "Tom Womack".
 

Thomas M. "Mike" Womack  
 Governor's Authorized Representative

Enc.

POST OFFICE BOX 5644 • PEARL, MISSISSIPPI 39208-5644 • PHONE 601-933-MEMA  
 EMERGENCY 1-800-222-6362 (24 HOUR)  
 TDD 1-800-445-6362

## MEMA Response to Findings

**MEMA RESPONSE TO PROPOSED FINDINGS AND RECOMMENDATIONS****OCTOBER 4, 2009****Background**

In the aftermath of Hurricane Katrina, the Mississippi Emergency Management Agency (“MEMA”) was designated by Governor Barbour to manage the FEMA Public Assistance Program. To date, almost two billion dollars have been disbursed to subgrantees. By discussion paper dated August 31, 2009, DHS-OIG presented MEMA with preliminary finding on six issues. MEMA does not agree with five of these preliminary findings and is investigating one finding to determine if interest was actually paid to the state. Three of the findings concern contract cost for Horne, LLP (“Horne”). In the aftermath of Hurricane Katrina, MEMA contracted with Horne for assistance in fulfilling its responsibilities in managing the Public Assistance Program. The assistance provided by Horne has been and continues to be essential to the recovery process. For the reasons discussed below, MEMA requests that five of the preliminary findings be reconsidered and deleted from the final audit report.

**Response**1. Interest Earned on FEMA Advances

The discussion paper recommends that the acting director of the Mississippi Recovery Officer request that MEMA initiate action with the state to remit interest earned on FEMA advances to the federal government. MEMA has held meetings with both the MS Department of Finance and Administration and the Office of the State Treasury about this issue. Both agencies believe the State of Mississippi is in full compliance with the provisions in the Treasury/State Agreement as required by the Cash Management Improvement Act dated July 1, 1998 and that no interest was earned on the federal monies in violation of 44 CFR 13.21(i). Final documents with explanations from those agencies will be provided once they are finalized.

2. Contractor Document Management Personnel

Summary of Response: MEMA disagrees with the recommendation that \$7,751,545 be disallowed. All document management costs were billed correctly at an appropriate rate for both the duties assigned and skills required. Additionally, the rate for all contractors was the result of a competitive procurement process that followed all state and federal regulations.

Discussion: The discussion paper contains a preliminary finding that certain contract personnel were billing at a rate higher than “the services provided.” This finding is based on a fundamental misunderstanding of the duties and qualifications of the analysts providing document management related services. When these duties and qualifications are properly understood, there is no question that the rates billed and paid are reasonable for the services provided.

## MEMA Response to Findings

Scanning and coding is only the culmination of part of the work performed by these analysts. Scanning and coding by lesser qualified personnel would not be sufficient to meet the needs of MEMA in administering the Public Assistance program. The fact that the PA database is recognized by GAO as a useful information sharing tool and by MEMA, FEMA, DHS-OIG and other oversight agencies as an effective and reliable electronic audit trail for grant expenditures is conclusive proof that the analysts responsible for reviewing, organizing and loading documents into the database are fully trained and possess a deep understanding of both the Public Assistance program and the funding and compliance process.

The preliminary finding is also based on the incorrect interpretation that only “professional accountants” were intended to bill at the analyst rate. This misinterpretation results from relying only on the initial MEMA Request for Proposals (“RFP”) for information about the analyst position. While the personnel questioned in the discussion paper undoubtedly possess the qualifications and perform the duties set out in the RFP, the integral role of skilled and well-trained document analysts in accomplishing the scope of work MEMA was seeking was not highlighted in the RFP. This role was, however, a point of great emphasis in Horne’s response and in subsequent presentations made as part of the bid selection process.

The RFP was only the starting point of the contracting process. As a direct result of focusing exclusively on the RFP, without regard for the subsequent proposal, oral presentation and contract, the preliminary finding is premised entirely on a concept of the analyst position (“professional accountant”) that is simultaneously much narrower than MEMA contracted for and much too limited to achieve the scope of work covered by the contract.

In addition to failing to consider the actual duties and qualifications of the analysts performing document management tasks and misinterpreting the analyst position as exclusively to be filled by “professional accountants”, the discussion paper also overlooks other key factors that establish the reasonableness of the costs incurred. The contract under which the services were provided was twice competitively procured. In situations involving federal funding for recovery from Katrina, DHS-OIG and FEMA have uniformly acknowledged that competitive procurement is conclusive as to the reasonableness of costs incurred. If there were any realistic possibility of accomplishing the scope of work in this contract with administrative labor in place of analysts, that would have been evident during the procurement process. Either Horne or some other bidder would have bid accordingly. Furthermore, MEMA can document that the rates charged for the analysts in question are comparable to rates paid by other State agencies for similar work and to standard rates charged by the subcontractor for comparable services.

MEMA would also point out that FEMA has reviewed the services and costs in question on multiple occasions and accepted them as reasonable. Three initial project worksheets and to date six versions have been obligated to reimburse MEMA for the costs associated with the Horne contract. Each time FEMA has approved additional funding it has reviewed the previously invoiced costs, including rates, and accepted them as reasonable. During the summer of 2007, FEMA personnel at the Mississippi Transitional Recovery Office, with the assistance of FEMA’s Disaster Finance Branch, undertook a detailed review and thorough reconciliation of all Horne contract costs from inception in January 2006 through June 2007. The result of this review was

## MEMA Response to Findings

acceptance of all costs submitted during the review period and approval of estimated costs for future work. There is no indication in the discussion paper that any consideration was given to FEMA's prior reviews and acceptances of contract costs.

The discussion paper states that, "MEMA contract personnel hired to provide accounting support for public assistance reimbursement due to hurricane Katrina under projects 6690, 10846 and 11139 were billing services at a rate higher than the services provided. The contractor is performing document scanning services and billing at a rate established for a professional accountant, which is the Recovery Accounting Analyst rate. These services consist of scanning and coding documents received from subgrantees." The OIG then concludes that, "Since this document management scanning activity is considered to be outside the major duties of a Recovery Accounting Oversight Analyst, a lesser billing rate should have been used. In this case, the lesser rate would be the Administrative rate."

The statements above reflect two fundamental misunderstandings. The first major misconception is that analysts with document management responsibilities are merely scanning and coding documents provided to them for that purpose. Second, the discussion paper equates the analyst position and rate to a "professional accountant." There is no such limitation stated in the RFP or the Oversight Contract. In fact, as is evident from Horne's proposal, which is incorporated into the Oversight Contract, the parties specifically agreed and intended that analysts would perform the important function of reviewing and organizing documents loaded into the document management database.

The major duties of an analyst are clearly identified in the RFP as follows:

- a. Responsible for detailed review, reconciliation, and audit preparation for the receipt and/or disbursement of Public Assistance funds within a designated geographic area or political jurisdiction(s).
- b. Works closely with local government officials to ensure the integrity and completeness of the recovery financial records in accordance with federal and state guidelines and generally accepted accounting principles.
- c. Assists and performs, where necessary, in the physical preparation of project procurement documentation, project budgets, budget tracking, and budget variance reporting.
- d. Performs audit and/or re-audit activities, by project in anticipation of federal Inspector General audits and reviews.
- e. Advises local appointed and elected officials on program guidelines and informs management and local officials of unresolved issues. Attachment 2.

The duties of the analysts in question go much further than simply scanning and coding documents received from subgrantees. These duties involve a high degree of review, analytical skill and judgment and are squarely within the major duties of a Recovery Accounting Oversight Analyst as described in the RFP and quoted above. All documentation received from applicants is forwarded to these analysts to review and determine how best to organize the information into the database. The physical act of capturing the image by scanning is only the culmination of a

## MEMA Response to Findings

careful review to determine document type, identify keywords, and populate other critical data fields. This review requires a detailed understanding of the PA process, the search capabilities of the database, the potential relevance of information contained within the document, and the circumstances under which a user might be searching for the document.

Consistent review and organization involves a high degree of judgment and training and is a necessary part of “detailed review, reconciliation, and audit preparation for the receipt and/or disbursement of Public Assistance funds.” Accurate review and organization into the database is crucial to the efficiency and transparency necessary for an effective accounting process. As stated in the RFP, this review and organization “involves the review and documentation of complex accounting systems and records, and requires a high degree of attention to detail.” This high degree of training, experience, judgment and attention to detail is critical to achieving an effective and efficient document management system. Mistakes may make documentation harder to retrieve which causes major delays in the funding process and major frustration for applicants. The analysts in question work with the entire MEMA team to ensure that documents are properly organized and entered into the database.

The analysts in question also work very closely with MEMA, FEMA and, either directly or through appropriate communication channels, with applicants, “to ensure the integrity and completeness of the recovery financial records.” If documents coming in are not complete or appear to be unrelated, those conditions are addressed. These duties are specifically contemplated in the RFP.

In a report released by United States Government Accountability Office (GAO) and submitted to the Committee on Homeland Security and Governmental Affairs of the U.S. Senate, the GAO commended Mississippi for adopting “strategies that helped to facilitate the sharing of PA project information.” Attachment 4. The GAO Report states that contract analysts “worked hand-in-hand with applicants to regularly scan and transmit documentation” and that as a result, “FEMA and the State had immediate access to key documents that helped them to make project approval decisions.” The skill and judgment involved with the document review, organization and input into the database system is crucial to accomplishing the “access to key documents” recognized in the GAO Report. By facilitating FEMA and MEMA’s access to documentation, these analysts directly contribute to a system where key decisions can be made with confidence and efficiency. This access to documents also moves recovery efforts forward by allowing additional oversight into the entire process and by avoiding the need to go back to applicants to request the same documentation over and over.

The GAO Report also states that local officials reported that this “information sharing tool, along with contractor staff....helped to relieve the documentation and resulting human capital burdens that applicants faced during project development.” Attachment 4. During the periods immediately following the disaster, applicants were overwhelmed with documentation requirements with zero staff available to respond. The analysts in question went into the field, especially during the crucial, earliest days of recovery, and assisted applicants in gathering and organizing project documentation. This was a service provided when applicants most needed assistance and was an invaluable tool for applicants who were faced with very large amounts of

## MEMA Response to Findings

project documentation and limited resources to handle it. See Attachment 6 for examples of the field work performed by these analysts.

As recovery progressed, applicants continued to find themselves understaffed and underequipped to search for particular items needed to allow their projects to move into the various stages of funding. During these times, analysts with document management responsibilities were dispatched to work directly with applicants, for weeks at a time if needed, to help applicants locate and organize documentation including invoices, checks, load tickets, etc., as requested by MEMA and/or FEMA. In terms of duties stated in the RFP, on these occasions analysts were working “closely with local government officials to ensure the integrity and completeness of the recovery financial records” and working alongside applicants “in the physical preparation of project documentation.”

The analysts in question also devote a large amount of time to providing direct assistance to MEMA Project Officers, other contract analysts, FEMA Closeout personnel, the Office of the State Auditor and others. This assistance includes answering questions about documentation, locating it and creating organized compilations of information in virtually any format needed. This assistance has greatly assisted State and Federal officials in fulfilling their duties.

These analysts have been trained in multiple search techniques and possess such a highly developed understanding of how the process works, from start to finish, that virtually any document can be located and produced within a matter of minutes. This level of training ensures a consistency that allows for quick turnaround of data requests and also ensures that only the intended documents leave the security of the database. Quick accessibility also enhances the productivity and efficiency of the other oversight functions and assists in determining what required documents have been received and what is needed from Applicants in order to fulfill all requirements of eligibility.

These analysts also have duties stated in the RFP that relate to the “performance of audit and/or re-audit activities, by project in anticipation of federal Inspector General audits and reviews.” These responsibilities include not only assisting in preparation for potential audits by maintaining and verifying Applicants’ documentation, but directly assisting DHS-OIG in its audit functions by providing specific documents requested. The Public Assistance database now includes nearly two million documents. But for the database administered by the analysts in question, the documents would be accessible only as hard copies housed in 178 filing cabinets. By simply filling out a request or sending an email, OIG auditors can normally have the specific documents requested within days or even hours. In MEMA’s experience, simply having documents scanned by lesser qualified personnel generally does not even produce usable images of all of the scanned documents. There is zero chance that such an approach would result in a functioning database in which documents can be reliably retrieved using multiple search parameters. These analysts eliminate the need to search through vast amounts of documentation, and thereby contribute to the efficiency and effectiveness with which these audits are conducted as the RFP specifically contemplates that analysts will do. See Attachment 7 for example data requests fulfilled for DHS-OIG, FEMA Closeout, MEMA Project Officers, the State Auditor’s Office, other analysts, etc.

## MEMA Response to Findings

The discussion paper also erroneously asserts that, “contract administrative personnel assist in the scanning process, which further supports the conclusion that the activity is administrative in nature and does not meet the major duties of a Recovery Accounting Oversight Analyst.” This assertion is not accurate. No administrative personnel participate in the process of reviewing, organizing and loading documents into the database. One current administrative person scanned (under close supervision) for three days in 2006. Another administrative assistant routinely scans batches of documents organized and compiled by analysts, but not into the database and not in connection with the document management system. The images scanned by the administrative assistant are not accessible to outside observers and serve only as a means of assigning and tracking internal work flow for the Horne team. This simple scanning function is properly charged at the administrative rate but is in no way comparable to the services performed by analysts.

The rate billed for analysts performing document management functions is commensurate with the services performed and the educational level, skills and training necessary for such services. The seven analysts currently performing document management tasks collectively possess four juris doctorate degrees, a Bachelor of Science in Business Management, a Bachelor of Arts in Paralegal Studies and a Master of Business Administration in Project Management. (Resumes available upon request). In addition, each analyst received extensive training administered by the Division Leaders, including a review of Public Assistance eligibility criteria, basic auditing tips (published by the OIG) and training in the proper use of MississippiPA.org.

The fact that the PA database is recognized by GAO as a helpful information sharing tool and as an effective and reliable electronic audit trail by MEMA, FEMA, DHS-OIG and other oversight agencies is conclusive proof of the skill, training, consistency, and expertise of the analysts whose rates are questioned. Simple scanning and rudimentary coding by lesser qualified administrative labor would not have produced these results or provided the end product MEMA needed and contracted for to assist with fulfilling its responsibilities under the PA program. As clearly demonstrated above, this preliminary finding is not supported by the facts.

The MEMA Contract states expressly within the section, “Statement of Work” that, “All work listed in this statement and in the proposal submitted by Horne is to be performed by Horne unless otherwise noted.” The contract reaffirms intent to require performance of all aspects offered by the Proposal, stating that, “Horne shall provide the services required within RFP number RS-S-02, the services outlined in the Horne proposal, and Horne Assessment, Design, Implementation and Execution Plan. Attachment 1. On page 7 on the Contract, a section titled “Priority” states again that the Contract consists of the Agreement, the RFP, Horne’s proposal, and several other provided documents. This section goes on to state that, “Omission of any term or obligation from this Agreement or Attachments shall not be deemed an omission from this Contract if such term or obligation is provided for elsewhere in this Contract.” Attachment 1.

The integral role of skilled and well trained document analysts was not highlighted in the RFP. However, the value and importance of having analysts perform this function was a key part of the proposal as submitted by Horne and accepted by MEMA. Attachment 3. Additionally, the

## MEMA Response to Findings

Document Management system was a major point of emphasis during oral presentations, specifically including the anticipated qualifications of the document management team and the necessity of having these duties performed by qualified, well-trained analysts.

The Horne proposal states that, “The key to success for this project is the effective integration of the following services and capabilities...Document Management: Design and implement a document management system that tracks the information that will be required by FEMA, State and Federal oversight agencies, as well as external parties.” The proposal goes on to list several integrated elements of the project’s design, concluding by stating that, “We will use teams of specialists with a broad range of skill sets, including accounting, finance, FEMA, engineering, construction, and legal knowledge.” Attachment 3.

The Oversight Contract was awarded at one total not to exceed price based on estimated staffing levels that included 30 analysts. It was expected and understood by all parties that the document management system would necessarily require a significant number of those analysts. The proposed finding is based largely, if not entirely, on the idea that only “professional accountants” can bill as analysts. The RFP is only the beginning point of the contracting process and even it did not limit the analyst position as narrowly as the discussion paper interpretation. MEMA negotiated and contracted for personnel with a “broad range of skill sets” and any interpretation of the analyst position limited to professional accountants is clearly incorrect.

Both DHS-OIG and FEMA recognize that competitive procurement produces reasonable costs. The services in question have twice been competitively procured. The document management system and corresponding rates have thus been validated and the reasonableness thereof should not be questioned.

OMB Circular A-87 states that, “Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.” The risk associated with administering three billion dollars in federal grants is tremendous. As a means of managing this risk, MEMA took the prudent action of procuring resources adequate to store the otherwise overwhelming amount of associated documentation in a database from which it could be reliably retrieved. MEMA also procured resources to have these documents organized into an information management system that has served as a useful document sharing tool and as an effective electronic audit trail for subsequent review. Administrative labor with lesser capabilities would not have sufficed for the intended and necessary purpose.

MEMA has worked extremely hard to carry out its responsibilities with respect to Federal awards and strongly believes it has developed a “form of organization” that does that at reasonable cost. MEMA also strongly believes it acted prudently in competitively procuring the right contract resources to carry out its responsibilities. This procurement process involved an extraordinarily prudent group of senior personnel from MEMA and multiple other agencies, including the Governor’s Chief of Staff, the State Auditor, and the head of the Mississippi Department of Finance and Administration.

## MEMA Response to Findings

Aside from the competitive procurement process, the contract rate also should be viewed as reasonable according to the other factors listed in OMB Circular A-87, most specifically market rates. As stated above, the Horne contract including document management was chosen twice through competitive procurement. This was done according to the State of Mississippi's procurement laws and regulations. Furthermore, the rates included within the contract were and are comparable to rates charged for comparable services under contracts awarded through other State agencies and similarly funded by Federal dollars. Additionally, the rates charged for the analysts in question are comparable to standard rates billed to other clients for comparable services.

Throughout the course of Horne's work with MEMA, Horne's work practices have been reviewed and accepted, not only by local FEMA officials, but also by members of FEMA's Disaster Finance Branch, FEMA's Chief Financial Officer and officials at FEMA Headquarters. MEMA submits that these reviews and the acceptance that followed provide conclusive evidence of the reasonableness of Horne's services and the resulting costs incurred. The discussion paper recommends that a significant amount of money be taken from the State of Mississippi with absolutely no refutation or even consideration of the multiple FEMA approvals of the costs in question.

Horne has provided MEMA with acceptable services at the rates agreed to in the contract. Those rates were validated as reasonable through a competitive procurement process and accepted as reasonable by FEMA on multiple occasions. MEMA therefore requests that this preliminary finding be reconsidered and deleted prior to issuing the final report.

## 2. Classification of Contractor Supervisory Personnel

Summary of Response: MEMA disagrees that \$309,000 be disallowed for the contract employee mentioned in this section because the employee was in fact a supervisor.

Discussion: The discussion paper states in its preliminary findings that one particular contract employee was charging MEMA a supervisory rate for a non-supervisory position and finds that the costs incurred were therefore beyond standards of reasonableness. This conclusion is inaccurate as it fails to take into consideration the fact that the person in question supervises the entire contract team, analysts and supervisors alike, in the training and daily use and coordination of multiple on-line tracking systems including NEMIS, MississippiPA.org, and ETCS.

The supervisor in question has particular technology expertise, higher than that of any analyst, and has the ability to understand and navigate the MEMA, FEMA and Horne information systems. This supervisor "leads and manages" all analysts to guide them to the most effective and efficient use of the ETCS tool in their testing duties. This person also works with all analysts in a supervisory role to identify and communicate corrections needed in MississippiPA regarding project balances, contact information and other various details regarding particular projects.

## MEMA Response to Findings

In addition to the above, this supervisor's specialized knowledge of the various tracking systems and close contact with the contract team make him particularly qualified to provide weekly reports to the Executive and Recovery Directors of MEMA. In creating these reports, this supervisor works with the contract team to make sure he has the most accurate information in the provision of facts such as percentage of applicants closed and paid, summary of obligated amounts by category, final inspection and other project and applicant statistics. Also, this supervisor works closely with the branch coordinators to review information pulled from various tracking sources to help identify overall funding priorities and communicate these to the analysts.

#### 4. Travel Costs

Summary of Response: MEMA disagrees with the preliminary finding in the discussion paper that our monitoring process is inadequate with regard to travel cost billing because, as is explained in greater detail below, the catastrophic nature of this disaster required certain high-level personnel to work in various areas of the state. MEMA will review the travel costs billed to determine if further adjustments are needed and provide a certification that all travel costs were reviewed for unallowable costs.

Discussion: Consistent with the recommendation contained in the discussion paper, to the extent necessary, MEMA will address any questioned travel costs directly with FEMA. MEMA does not agree with the discussion paper's findings and has complied with 44 CFR § 13.36(b)(2) in the management of this contract. Travel costs in question have been reviewed on multiple occasions by MEMA and FEMA and have been accepted as necessary costs in the successful performance of the scope of work as required by the oversight contract. The costs billed were consistent with those incurred by MEMA for the travel of its own employees, and to MEMA's knowledge, consistent with the travel costs incurred by FEMA for the travel of its employees as well. Furthermore, to the extent the State of Mississippi Travel Policy may be applicable to contract personnel, the Policy expressly assigns the responsibility for determining duty station to the agency head or authorized designee.

However, travel costs in question have been reviewed on multiple occasions by MEMA and FEMA and have been accepted as necessary costs in the successful performance of the scope of work as required by the oversight contract.

When the contract went into effect in January 2006, approximately 40,000 FEMA travel trailers were still occupied by victims of Hurricane Katrina. Virtually no hotels or other lodging existed at this time on the Mississippi Gulf Coast. Additionally, the state did not have sufficient professional staff located on the Coast to handle the scope of work; therefore MEMA hired the most competent staff statewide and regionally.

For instance, the discussion paper questions the travel costs for several employees including one who commuted from his or her residence in Houston, Texas to the Official Duty Station in Biloxi. As stated, the employee generally traveled via commercial airline on Sunday evening and returned to Houston on Friday. Katrina was the worst natural disaster in the history of our nation. For this reason, MEMA sought to hire the best professional staff available for the best price. This

## MEMA Response to Findings

employee's expertise in disaster recovery was critical to successful operations in the aftermath of the hurricane. The state's ability to recover would have been hindered had it not employed the services of this individual.

While the housing stock was restored three and a half years later, it was necessary for MEMA to maintain its staff to ensure continuity of operations. In fact, the GAO report lauded the state for its excellent work with the local communities affected by the hurricane. Mississippi was able to develop strong working relationship with local government officials because the agency maintained consistent staff members who were knowledgeable about the projects from beginning to close-out. A consistent shortfall of FEMA's policy has been constant rotation of staff in the years after a major disaster. The result of changing staff leads to less knowledge about projects and different interpretations of the obligated workload and projects.

The state policy for defining the Official Duty Station does not take in consideration the catastrophic nature of Katrina. All 82 counties in Mississippi received federal disaster declarations for Katrina, making this a statewide disaster. The policy has never been used for a disaster of this magnitude, and in this case it was known that both contract and state employees were required to work in various locations of the state in order to help recovery from this hurricane. The official duty station listed is only the actual location of the Joint Field Office, or Recovery Office. The state policy does not take into account the more than 12,000 Project Worksheets and hundreds of jurisdictions that were affected statewide that required assistance in this recovery.

#### 5. Funding Status of Category A and B Projects

Summary of Response: MEMA is in full compliance with respect to the funding status of Categories A and B Projects and all funds required have been returned to the federal government. In the future, if MEMA finds that additional funds are required to be returned to the federal government, the agency will fully comply.

Hurricane Katrina was unlike any other disaster to impact Mississippi or this nation. To halt projects and require up front repayments from local governments would have further devastated communities whose existence was already nearly erased. For this reason, MEMA used a common sense approach to handle financial circumstances for each project.

Discussion: The discussion paper includes a list of 10 large projects which it states are in overpaid status, or the applicants have received more in payment for these particular projects than obligated.

As projects are established and eligible costs determined, funds to cover those eligible costs are made available in a SmartLink account. MEMA draws from this account to distribute the approved funding to applicants. When projects are reduced or de-obligated for whatever reason, FEMA almost immediately removes the corresponding amount from the SmartLink account at which time the funds are automatically returned to the federal government as required by law.

## MEMA Response to Findings

Some of the listed projects were initially written for a broad scope of work that was later re-distributed, while others were reduced because of ineligibility issues. Many of the projects are still under review because of the unique circumstances for each project and will be resolved by the time recovery is completed.

State law does not give MEMA the authority to demand repayments from local governments when projects' funds are reduced; however, it has been MEMA's protocol for more than a decade to request repayments from local governments if they were overpaid.

Katrina's affects were so widespread and damaging that it would not have been effective to stop projects such as debris removal, emergency measures and repair of critical infrastructure in order to receive payments from already burdened communities. Instead, MEMA paid out funds based on previously obligated amounts approved by FEMA. If the funds were later reduced and governments were unable to make repayments, MEMA simply deducted the amount from applicant's other projects so as to not slow the progress of recovery or bring unnecessary financial hardship to the applicants.

At such time as recovery is completed, MEMA will have made proper accounting of eligible costs for each large project for which it receives funding, as required by § 206.205. With regards to its payment practices, MEMA is in full compliance with 44 CFR § 13.21, Payment. The projects questioned in the discussion paper were paid in advance, per § 13.21(c) and/or (e).

#### 6. Single Audit Monitoring.

Summary of Response: MEMA has developed procedures through many years and with a large number of Federal Declared Disasters for ensuring that subgrantees comply with the Single Audit Act, that including reviewing of any corrective actions identified in the audits.

Discussion: MEMA has followed the same oversight procedures for corrective actions of Single Audits for numerous years. If a Single Audit finds that an applicant needs to take corrective actions, the applicant is required to respond with a corrective action plan which MEMA reviews.

MEMA monitors all subgrantees and strongly urges them to complete their Single Audits and corrective actions as required by law. MEMA considers time extensions upon request and on a case by case basis.

The discussion paper indicated several applicants who were required to take corrective actions as recommended by in Single Audit reports. Of these, Wayne County, Magnolia Electric Power Association, Jefferson Davis County, Henderson Point – Pass Christian Isles Water and Sewer District responded to the Office of the State Auditor with a corrective action plan for each finding. MEMA does not have the authority to develop or change an applicant's corrective action plan; however, the agency did receive and review the plans as they were submitted to the state auditor.

## MEMA Response to Findings

To ensure that applicants are responding effectively to audit findings, MEMA evaluates the applicant's next Single Audit report. If an applicant's corrective action plans did not resolve issues found in the previous audit, then MEMA notifies the applicant that they must take appropriate actions and develop new procedures to address the findings. MEMA will expand their procedures in reviewing the Single Audit Reports to include provide a response to the subgrantee to their corrective action plans.



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