



# Homeland Security

August 13, 2010

MEMORANDUM FOR: Major P. (Phil) May, Regional Administrator  
 FEMA Region IV

FROM: C. David Kimble, Director  
 Eastern Regional Office *C. David Kimble*

SUBJECT: *Mississippi Coast Coliseum Commission*  
 FIPS Code: 000-U1A60-00  
 FEMA Disaster No. 1604-DR-MS  
 Report No. DA-10-16

We audited public assistance funds awarded to the Mississippi Coast Coliseum Commission (Coliseum). The objective of the audit was to determine whether the Coliseum accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

As of October 21, 2009, the Coliseum had received a public assistance award of \$20.6 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for damages related to Hurricane Katrina. The award provided 100% FEMA funding for debris removal, emergency protective measures, repairs to buildings and equipment, and other disaster-related activities. The award included 11 large projects and 9 small projects.<sup>1</sup> At the time of our audit, the Coliseum had received \$16.2 million of FEMA funds under the projects. Our audit focused on \$12.3 million awarded under 4 large projects identified in the table below.

Project Number	Amount Awarded	Amount Paid
6300	\$2,282,805	\$ 1,510,353
7446	147,818	124,907
7595	9,172,914	7,556,669
8910	699,804	629,824
Total	\$12,303,341	\$9,821,753

The audit covered the period from August 29, 2005, to October 21, 2009. During this period, the Coliseum received \$9.8 million of FEMA funds under the 4 large projects.

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

We conducted this performance audit under the authority of the *Inspector General Act of 1978*, as amended, and according to generally accepted government audit standards. Those standards require 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 Coliseum, MEMA, and FEMA personnel; reviewed the Coliseum'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 Coliseum'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 Coliseum's grant accounting system and its policies and procedures for administering activities provided for under the FEMA award.

## **RESULTS OF AUDIT**

The Coliseum's grant accounting system did not account for expenditures on a project-by-project basis as required by federal regulations. In addition, the Coliseum and FEMA did not comply with federal requirements and guidelines for improved projects, resulting in \$1,620,026 of ineligible project funding and \$518,658 of ineligible project costs.

- A. Project Accounting. According to 44 CFR 206.205(b), project expenditures must be accounted for on a project-by-project basis. In addition, 44 CFR 13.20 (b)(2) requires sub-grantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. The Coliseum's accounting system did not provide for accounting of FEMA funded large projects on a project-by-project basis. Disaster-related receipts and costs for all projects were submitted and paid from the Coliseum's general account, with no separate accounting establishing project balances, receipts, or expenditures. As a result, total costs claimed under individual projects could not be readily identified; therefore, increasing risk of expenses being duplicated among projects.
  
- B. Improved Projects. An improved project is the decision by an applicant to make improvements to a damaged facility while maintaining the same function of the pre-disaster facility. Federal regulation 44 CFR 206.203 (d)(1) limits federal funding for improved projects to the federal share of the approved estimates of eligible costs, and requires that such projects be approved by the grantee. Additionally, FEMA *Public Assistance Guide* (FEMA 322, October 1999, page 85) requires funding for improved projects to be limited to the federal share of the costs associated with repairing or replacing the damaged facility to its pre-disaster design. The guide also requires improved projects to be approved by the grantee prior to construction.

The Coliseum and FEMA did not comply with federal regulations and FEMA guidelines for improved projects. After approval of four projects to replace equipment and repair facilities damaged during the disaster, the Coliseum later requested that the projects be awarded as improved projects. However, in all cases, the four improved projects were started and certain work completed prior to final approval. In addition, we determined that the eligible funding under the improved projects was overstated by \$2,138,684 as discussed below.

1. *Project 6300.* According to FEMA *Public Assistance Guide* (FEMA 322, October 1999, page 57) when equipment, including vehicles, is not repairable, FEMA will approve the cost of replacement with used items that are approximately the same age, capacity, and condition. Replacement of an item with a new item may be approved only if a used item is not available within a reasonable time and distance. Under Project 6300, the Coliseum was awarded \$4,592,091 for replacement of contents, which consisted of 989 items. After applying actual insurance proceeds, the award was reduced to \$2,282,805. However, approved project funding was determined using estimated quotes and internet prices for new items obtained by a contracted insurance adjuster provided to the Coliseum instead of the costs of similar used items, as required by FEMA guidelines.

We reviewed all line items with estimated replacement total costs of \$5,000 or more, which consisted of 33 items totaling \$2,530,952. Since the Coliseum and FEMA did not consider replacing such items with similar used items during the project funding process, we used the original purchase price of the items to estimate eligible project funding. We consider this methodology to be reasonable since the cost to purchase a used item, in almost all cases, should not be more than the purchase price of the original item. Therefore, on Project 6300, we concluded that \$305,389 of the approved project funding is ineligible. The Coliseum agreed with our recommendation to de-obligate \$305,389 of ineligible funding.

2. *Project 7446.* Project 7446 was awarded for \$147,818 to replace mobile equipment. Similar to Project 6300 as discussed in No. 1 above, project funding was determined using estimated quotes and internet prices of new items obtained by the Coliseum's insurance adjuster rather than used similar items. The total value of replacement items under the project was \$147,818. However, the original purchase price of the items according to Coliseum records was \$115,982. Therefore, \$31,836 (\$147,818 less \$115,982) of approved project funding is ineligible and should be de-obligated.
3. *Project 8910.* Project 8910 was awarded to repair the Coliseum's kitchen. On June 27, 2006, the Coliseum submitted a request to MEMA that the project be approved as an improved project. Shortly thereafter, on August 18, 2006, the Coliseum entered into a contract for \$2,395,000, which included disaster-related repairs and the requested improvements. The work was completed approximately one-year later on August 28, 2007. However, the improved project was not approved by MEMA until April 27, 2009, almost 2 years after work under the project was completed.

The initial damage assessment prepared for the project estimated repair costs at \$382,777. A Cost Estimating Format (CEF) sheet was created to fund the project at an estimated \$699,804 as an improved project. The project was not approved according to federal regulations and actual costs were not properly reconciled as required in the *CEF for Large Project-Standard Operating Procedure* (Version 2, November 1998, page 6).

To reconcile costs, we requested invoices supporting actual costs from the Coliseum. The Coliseum provided costs totaling \$679,406, which included \$160,748 for the original scope of work to repair the facility to its pre-disaster design and \$518,658 for improved project costs. We reviewed documentation for the \$679,406, which was the final amount claimed and paid under the project, and concluded that the \$160,748 claimed for pre-disaster design repairs was eligible. Therefore, we question the \$518,658 claimed for improvements because

federal funding for improved projects is limited to the federal share of the costs of repairing the damaged facility to its pre-disaster design.

4. *Project 7595*. Project 7595 was awarded to repair the Coliseum's convention center. Work began on April 27, 2006. On January 3, 2008, almost 21 months later, the Coliseum submitted a request to MEMA to have the project funded as an improved project. MEMA approved such request on January 9, 2008. Using the CEF, FEMA approved project funding at \$9,172,914 after deducting insurance proceeds.

When the CEF was prepared to estimate eligible project funding, the project was 54% complete. According to FEMA Guidance (*CEF for Large Project-Standard Operating Procedure - Version 2*, November 1998, page 2), the CEF should not be used on large projects for which the permanent restorative work is either greater than 50% complete, or will be 90% complete within 4 months. Instead the project's eligible funding should have been estimated using actual incurred costs and the estimated costs to complete the project. At the time of project approval, \$9,119,651 of costs were known — \$5,250,910 of costs for completed work and \$3,868,741 of costs for construction work under contract. Using the \$9,119,651 as a basis, we added \$478,781 for estimated engineering costs and subtracted insurance proceeds of \$1,708,319. From this calculation, we concluded that eligible project funding should have been \$7,890,113, or \$1,282,801 less than the amount approved. Therefore, \$1,282,801 of ineligible project funding should be de-obligated.

## RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV, in coordination with MEMA:

**Recommendation #1.** Instruct the Coliseum to develop a system that fully accounts for costs on a project-by-project basis (Finding A).

**Recommendation #2.** De-obligate \$1,620,026 of ineligible improved project funding under Projects 6300, 7446, and 7595. (Finding B.1; B.2; and B.4).

**Recommendation #3.** Disallow \$518,658 of ineligible project costs under improved Project 8910 (Finding B.3)

**Recommendation #4.** De-obligate any unneeded funding at closeout of Project 6300 that is above the \$305,389 already recommended for de-obligation by this review (Finding B.1).

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

The audit results were discussed with Coliseum, FEMA, and MEMA officials on May 13, 2010. Coliseum officials decided to withhold official comments until the final report is issued.

Please advise me by October 12, 2010, of the actions planned or taken to implement the recommendations contained in this report, including target completion dates for planned actions. Should you have any questions concerning this report, please call me at (404) 832-6702, or Larry Arnold, Audit Manager, at (228) 822-0346. Key contributors to this assignment were Larry Arnold, Mary James, and J. Hugh Dixon.

cc: Mary Lynne Miller – Deputy Regional Administrator  
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Mississippi Coast Coliseum Commission, Mississippi  
FEMA Disaster No. 1604-DR-MS  
Schedule of Funds Put to Better Use and Questioned Costs  
August 29, 2005, through October 21, 2009

Project Number	Funds Put to Better Use	Questioned Costs
6300	\$305,389	\$0
7446	31,836	0
7595	1,282,801	0
8910	0	518,658
Totals	\$1,620,026	\$518,658