

# Department of Homeland Security **Office of Inspector General**

FEMA Public Assistance Grants Awarded  
to Harrison County Library System  
Gulfport, Mississippi

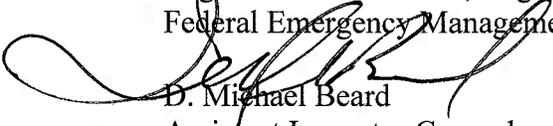




# Homeland Security

MAR 20 2012

MEMORANDUM FOR: Major P. (Phil) May  
Regional Administrator, Region IV  
Federal Emergency Management Agency

FROM:   
D. Michael Beard  
Assistant Inspector General  
Office of Emergency Management Oversight

SUBJECT: FEMA Public Assistance Grant Funds Awarded to  
*Harrison County Library System, Gulfport, Mississippi*  
FEMA Disaster Number 1604-DR-MS  
Audit Report Number DA-12-13

We audited public assistance funds awarded to the Harrison County Library System (Library) in Gulfport, Mississippi (FIPS Code 047-UUNXD-00). Our audit objective was to determine whether the Library accounted for and expended Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

As of May 19, 2011, the Library had received a public assistance award of \$6.0 million from the Mississippi Emergency Management Agency (State), a FEMA grantee, for damages resulting from Hurricane Katrina in August 2005. The award provided 100% FEMA funding for replacement of contents, equipment, furniture, and interior fixtures and restoration of books damaged as a result of the disaster. The award included 16 large projects and 5 small projects.<sup>1</sup>

We audited 13 large projects with awards totaling \$5.3 million. The audit covered the period August 29, 2005, to May 19, 2011, during which the Library received \$1.6 million of FEMA funds under the 13 large projects. At the time of our audit, the Library had not completed work on all projects and, therefore, had not submitted a final claim to the State for project expenditures.

We conducted this performance audit pursuant to 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 upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based

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

upon our audit objective. We conducted this audit applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We judgmentally selected project costs (generally based on dollar value); interviewed Library, State, and FEMA personnel; reviewed the Library's procurement policies and procedures; reviewed applicable federal regulations and FEMA guidelines; and performed other procedures considered necessary under the circumstances to accomplish our audit objective. We did not assess the adequacy of the Library's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. However, we gained an understanding of the Library's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA award.

## RESULTS OF AUDIT

The Library accounted for expenditures on a project-by-project basis, as required by federal regulations and FEMA guidelines. However, the Library did not reduce eligible project costs by cash and other donations received for disaster recovery purposes, which resulted in \$2,420,650 of duplicated benefits. In addition, the Library overstated its funding request by \$2,107,836 for projects awarded by FEMA based on the "improved project" criteria,<sup>2</sup> which should be deobligated and put to better use. Finally, the Library did not take the necessary affirmative steps to ensure that minority firms, women's business enterprises, and labor surplus area firms were used, when possible, for contracted work totaling \$1,356,755.

### **Finding A: Duplication of Benefits**

The Library received public assistance grant funding under multiple projects to replace books, furniture, and equipment damaged by Hurricane Katrina. However, the Library failed to offset the funding by \$2,420,650 worth of cash, books, furniture, and equipment donated for disaster recovery purposes by the public, library communities, community service organizations, and other groups. Section 312(a) of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, states that no entity will receive assistance for any loss for which financial assistance has already been received from any other program, from insurance, or from any other source. Further, FEMA Disaster Assistance Policy 9525.3 states that the use of federal and/or State funds granted for the same purpose clearly constitutes a duplication of benefits. Grant or cash donations provided by a private benefactor also may constitute a duplication of benefits.

After Hurricane Katrina, the Library received large donations to assist with the restoration and rebuilding of libraries within the county that were damaged by the disaster. The donations were received for specific purposes such as restoring the biology section of Pass Christian library, replacing lost children's materials, and rebuilding the libraries. To account for such large cash

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<sup>2</sup> An improved project refers to restoration work that involves improvements to a damaged facility while maintaining the same function of the predisaster facility and at least the equivalent capacity. 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.

donations, the Library Board agreed at its June 2006 meeting to set up separate bank accounts for each library (Pass Christian, Gulfport, and Biloxi) to ensure that the donations would not be used for other expenses. On August 15, 2006, the Library Board approved a resolution stipulating that funds donated by the public, library communities, community service organizations, and other groups would be used primarily for rebuilding library material collections and refurbishing library facilities to resume pre-Katrina levels of service.

On June 21, 2011, after receiving our request to review the donations received, the Library Board held a meeting and revised its cash donation policy to state—

In the event that the funds received from the County, State, and FEMA are sufficient to rebuild the library material collections and refurbishing of library facilities, then any funds received from private donations to the Harrison County Library System as a result of the damage and destruction to the Harrison County Library System facilities, contents and collections may be used in the operating budget to return the libraries to pre-Katrina level of service and staffing.

According to Library financial records during the period October 2006 through September 2010, the Library received donations totaling \$2,420,650, consisting of cash (\$797,260), books (\$1,440,715), and furniture and equipment (\$182,675) for disaster recovery efforts.<sup>3</sup> However, the Library did not use the donations to offset FEMA funding received, in part, for the same purposes as the donations. Therefore, we question \$2,420,650 of FEMA funding as duplicate benefits because the donations were specifically designated for Library material collections and refurbishing Library facilities damaged by Hurricane Katrina.

*Library Response.* Library officials did not agree with the finding, saying that the total value of \$2,420,650 assigned to the donations is inaccurate. The officials said that the value of \$1,440,715 assigned to donated books, many of which were used, was based on replacement costs for new books rather than the actual value of the donated books. They also said that the donated furniture and equipment was for general public use and not related to the Library's disaster recovery efforts. Finally, they said that the cash donations were not specific to Hurricane Katrina and were used to fund general operating expenses of all library sites, which was their practice in years prior to the disaster when cash donations were received.

*OIG Response.* We disagree with Library officials that the values assigned to the donations are inaccurate. We determined the questioned amount of \$2,420,650 based on donated values listed on the Library's audited financial statements. After the exit conference, Library officials provided additional documentation on the donations. We reviewed the documentation and reduced the questioned costs on furniture and equipment donations by \$116,964. This amount is reflected in the \$2,420,650 being questioned in this finding. However, additional documentation provided for donated books did not change our position, but strengthened it, showing that the books were in excellent to new condition when donated. The Library may have used cash donations for general operating expenses as it deemed necessary prior to Hurricane Katrina;

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<sup>3</sup> The values of the donations are based on information contained in the Library's audited financial statements for the period listed.

however, post-Katrina cash donations were specifically designated for disaster recovery efforts, as stipulated in the August 15, 2006, board resolution. Further, the Library Board approved and set up specific disaster recovery bank accounts for the cash donations.

**Finding B: Improved Projects**

FEMA funding awarded to the Library for improved projects was overstated by \$2,107,836. An improved project refers to restoration work involving improvements to a damaged facility while maintaining the same function of the predisaster facility and at least the equivalent capacity. However, while this type of grant provides applicants more flexibility, there are limitations on the allowable costs. According to FEMA’s *Public Assistance Guide* (FEMA 322, October 1999, p. 85), funding for improved projects is limited to the federal share of the costs that would be associated with repairing or replacing the damaged facility to its predisaster design. Also, on page 57, the guide states that 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.

We reviewed the Library’s funding methodology for improved projects. Our review revealed that the Library made its funding request to FEMA using prices to replace damaged contents with new items without determining whether used items with the approximate same age, capacity, or condition were available. Based on the Library’s grant request, FEMA obligated \$4,486,615 of funding for the projects, without validation or performing price comparisons.

To determine eligible funding for the improved projects, we reviewed the Library’s fixed asset detail report. This report was available to the Library from its annual financial audit and shows the original purchase and book value prices for books, furniture, and equipment lost in Hurricane Katrina. The report also identifies values for books as a whole for all library sites and lists furniture and equipment by each library site and location. Since the Library did not consider replacing damaged items with similar used items during the project funding process, we used original purchase prices 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. Using this methodology, we concluded that eligible funding for the improved projects was overstated by \$2,107,836, as shown in table 1. FEMA should deobligate the \$2,107,836 and put it to better use.

**Table 1: Overfunded Improved Projects**

Contents	Amount Awarded	Original Purchase Price	Funds Put to Better Use
Books	\$3,217,728	\$1,807,940	\$1,409,788
Furniture/Equipment	865,126	570,839	294,287
Electronics	403,761	0	403,761
Total	\$4,486,615	\$2,378,779	\$2,107,836

*Library Response.* Library officials did not agree with the finding, saying that they were never instructed by FEMA or the State to provide project costs based on replacement with used items and there was no aftermarket for used books, furniture, and equipment. They also said that 44 CFR 206.226(i), which states that the replacement of library books and publications will be based on an inventory of the quantities of various categories of books or publications damaged or destroyed, applies to replacement costs of damaged books and publications rather than FEMA Publication 322.

*OIG Response.* We disagree with Library officials that 44 CFR 206.226(i) should be used to determine the eligible funding amount of damaged books and publications rather than FEMA Publication 322. 44 CFR 206.226(i) addresses how to determine the quantity of books and publications that may be replaced. It does not address how the value of replacement costs will be determined, which is specifically addressed in FEMA Publication 322.

### **Finding C: Contracting Procedures**

Although the Library used competitive procedures to award contracts under the grant, it did not take the necessary affirmative steps to ensure that minority firms, women's business enterprises, and labor surplus area firms were considered for such contracts. Federal regulation requires subgrantees to take all necessary affirmative steps to ensure that minority firms, women's business enterprises, and labor surplus area firms are used when possible (44 CFR 13.36(e)(1)). The Library awarded contracts totaling \$1,356,755 under Projects 602 (\$395,008) and 9808 (\$961,747). Contract files that supported Project 602 for restoration of books and other contents and Project 9808 for Pass Christian Library Circulating and Non Circulating Collections contained no evidence that the Library considered minority firms, women's business enterprises, or labor surplus area firms as potential sources for the contract work. Library officials also confirmed to us that no steps were taken to include such businesses in solicitations. Therefore, we question the \$1,356,755 awarded for the contract work because the Library did not follow proper federal procurement requirements. This amount includes \$1,222,945 of costs we questioned under findings A and B. Therefore, the net amount questioned for this finding is \$133,810: \$38,958 under Project 602 and \$94,852 under Project 9808.

*Library Response.* Library officials said that they were unaware of the requirement to take affirmative steps to ensure that minority firms, women's business enterprises, and labor surplus area firms are used when using federal funds to procure goods and services. Additionally, they said that they would not have addressed the procurements any differently given the circumstances of the disaster and time constraints they faced at the time the contracts were awarded.

*OIG Response.* Library officials were notified of post-award procurement requirements. Library officials executed a signed agreement with the State prior to the grant award, which included a stipulation that the Library must comply with all applicable provisions of federal and State laws and regulations relating to procurement of goods and services.

## RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

**Recommendation #1:** Disallow \$2,420,650 of ineligible duplicate benefits received under multiple projects as a result of cash and other donations received for disaster recovery efforts (finding A).

**Recommendation #2:** Deobligate and put to better use \$2,107,836 of overstated FEMA funding obligated under multiple improved projects (finding B).

**Recommendation #3:** Disallow \$133,810 of costs awarded for contracts that were not procured in accordance with federal procurement requirements, unless FEMA makes an affirmative decision that the contract awards were fair and waives the procurement requirement (finding C).

## DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the audit results with Library, State, and FEMA officials during our audit. We also provided a written summary of our findings and recommendations in advance to these officials and discussed them at the exit conference held on November 29, 2011. Library officials disagreed with our findings. Their comments, where appropriate, are included in the body of the report.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination. Significant contributors to this report were David Kimble, Larry Arnold, Mary James, and Alicia Lewis.

Should you have questions concerning this report, please contact me at (202) 254-4100 or David Kimble at (404) 832-6702.

cc: Administrator, FEMA  
Audit Liaison, FEMA Region IV  
Audit Liaison, FEMA Mississippi Recovery Office  
Audit Liaison, FEMA (Job Code G-11-042)  
Audit Liaison, DHS

**EXHIBIT**

**Schedule of Projects Audited  
August 29, 2005, to May 19, 2011  
Harrison County Library System  
FEMA Disaster Number 1604-DR-MS**

Project Number	Project Scope	Amount Awarded	Amount Received	Amount Questioned (Finding A) <sup>4</sup>	Funds Put to Better Use (Finding B) <sup>5</sup>	Amount Questioned (Finding C) <sup>6</sup>
602	Restoration of Books and Other Contents	\$395,008	\$403,497	\$178,954	\$177,096	\$38,958
9422	Pass Christian-Furniture/Interior Fixtures	146,301	147,764	66,280	65,292	0
9477	Pass Christian – Computers/Electronics	67,703	68,380	30,672	67,703	0
9513	Gulfport – Microfiche Archived Periodicals	461,505	349,590	209,080	206,909	0
9808	Pass Christian – Circulating/Non-Circulating	961,747	443,222	435,710	431,185	94,852
6644	E. Division St. Community Center – Books	\$96,288	98,214	43,622	43,169	0
6990	Biloxi – Books	1,024,597	126,666	464,183	459,363	0
7866	E. Division St. Community Center – Furnishings	59,103	0	26,776	59,103	0
7936	Gulfport – Books, Furnishings, and Fixtures	1,313,454	0	595,047	(47,781)	0
9514	Biloxi – Computers and Electronic Equipment	185,070	0	83,844	185,070	0
9515	Gulfport – Electronics/Computers	150,988	0	68,404	150,988	0
9642	Biloxi – Furnishings and Fixtures	276,017	0	125,047	217,673	0
9786	Biloxi – Non-Circulating Reference Collections	205,348	0	93,031	92,066	0
Totals		\$5,343,129	\$1,637,333	\$2,420,650	\$2,107,836	\$133,810

<sup>4</sup> Donations consist of cash, books, furniture, and equipment. We allocated the \$2,420,650 of questioned costs related to finding A based on the percentage of each project’s award amount to the total award amount. However, the Library, State, and FEMA should decide to which projects the donations should be applied.

<sup>5</sup> The Library’s book inventory is lumped together as one total for all sites/locations. There are multiple projects (602, 9513, 9808, 6644, 6990, and 9786) to which the \$1,409,788 of overstated improved project funding for replacement of books could be assigned. We allocated the questioned costs based on the percentage of each project’s award amount for books to the total amount awarded for book replacement. However, the Library, State, and FEMA should decide to which projects the questioned costs should be applied.

<sup>6</sup> Questioned amounts for Projects 602 and 9808 under finding C were determined by subtracting the totals of findings A and B from the respective projects’ total award amounts.

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