

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

FEMA Public Assistance Grant  
Funds Awarded to City of  
Hattiesburg, Mississippi



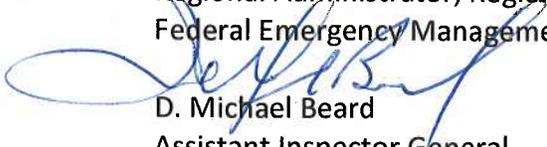


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Department of Homeland Security

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June 22, 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  
City of Hattiesburg, Mississippi*  
FEMA Disaster Number 1604-DR-MS  
Audit Report Number DA-12-21

We audited Public Assistance grant funds awarded to the City of Hattiesburg, Mississippi (City) (FIPS Code 035-31020-00). Our audit objective was to determine whether the City accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

As of August 24, 2011, the City had received a Public Assistance award of \$10.8 million from the Mississippi Emergency Management Agency (State), a FEMA grantee, for damages resulting from Hurricane Katrina, which occurred in August 2005. The award provided 100 percent FEMA funding for emergency protective measures and the replacement of utilities, equipment, and buildings damaged as a result of the disaster. The award included 24 large and 209 small projects.<sup>1</sup>

We audited five large projects with awards totaling \$4.9 million. The audit covered the period August 29, 2005, to August 24, 2011, during which the City submitted claims for \$4.5 million for the five projects included in our audit scope (see Exhibit, Schedule of Projects Audited). At the time of our audit, the City 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 between August 2011 and April 2012 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted

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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.



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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 upon our audit objective. We conducted this audit by 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 City, State, and FEMA personnel; reviewed the City's procurement policies and procedures; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the City'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 City'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 City generally accounted for and expended FEMA grant funds according to Federal regulations and FEMA guidelines. However, the City's claim included \$235,341 of charges that were not adequately supported, which consisted of \$5,496 in force account labor charges, \$199,812 in debris removal charges, and \$30,033 in debris monitoring charges. Finally, we identified \$448,509 in ineligible project funding to replace a fire station and \$436,375 of ineligible road repair costs.

#### **Finding A: Supporting Documentation**

The City claimed unsupported costs of \$235,341 under Projects 3711 and 4667. Cost principles at 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, (C)(1)(j), state that a cost must be adequately documented to be allowable under Federal award. We question the \$235,341 as follows:

- **Force Account Labor.**<sup>2</sup> Under Project 3711, the City's claim included \$5,496 of overtime pay for 11 police sergeants and one court clerk that were not paid to the employees. This occurred because the City misapplied its overtime pay policies when calculating the claim under the project.

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<sup>2</sup> Force account refers to the City's personnel and equipment.



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- **Debris Removal.** Under Project 4667, the City's claim included \$199,812 of contract debris removal charges that were not adequately supported by load tickets. The contractor billed the City \$1,261,654 for tree hazard abatement activities. However, 284 of the 1,300 load tickets (22 percent) that supported the contractor's billings contained deficiencies that prevented us from validating \$199,812 of the charges. These deficiencies included the following:
  - 36 tickets totaling \$30,738 that did not contain debris monitors' signatures;
  - 168 tickets totaling \$111,098 that did not contain the beginning and ending times for work completed;
  - 14 tickets totaling \$15,440 that did not identify the location where the work was performed;
  - 33 tickets totaling \$20,592 that did not contain the truck driver's name; and
  - 33 tickets totaling \$21,944 where truck drivers' names were duplicated for work on the same date and time period in different locations.

FEMA's *Debris Management Guide* (FEMA 325, April 1999, p. 30) states that proper and efficient management is essential with unit price contracts because the focal point is quantity verification for payment. Payment under a unit price contract is normally made on the basis of load tickets. The guide states that load tickets should be treated as accounting forms, and should include the contractor's name, date, truck number, truck capacity, truck driver's name, debris classification, zone/sector, dumpsite locations, loading time, dumping time, and site monitors (loading and dumping).

According to City officials, they were not aware of debris load ticket documentation requirements, and therefore, they relied on the monitoring contractor to review the accuracy of the load tickets.

- **Debris Monitoring.** The City's claim of \$375,112 for contract debris monitoring costs of tree hazard abatement activities under Project 4667 included \$30,033 of unsupported labor charges. The \$30,033 included labor hours billed for: (1) 13 debris monitors on days when no load tickets were claimed, (2) 3 days in early September 2005 even though the contractor was not given notice to proceed until late October 2005, and (3) three administrative personnel whose timesheets did not agree with the hours invoiced. The excess claim occurred



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because the City did not adequately review or receive the proper documentation to support the contractor's billings.

According to 44 CFR 13.37(a)(2), the State, as grantee, is required to ensure that subgrantees are aware of requirements imposed on them by Federal regulations. Further, 44 CFR 13.40(a) requires the grantee to manage the day-to-day operations of subgrant activity and monitor subgrant activity to ensure compliance with applicable Federal requirements. Therefore, the State should have done a better job of ensuring that the City was reimbursed only for eligible costs.

*City Response.* City officials disagreed with the finding. They said that they calculated force account labor costs correctly and that FEMA verified the calculation. City officials also said that they could not respond to the debris removal and monitoring issues under Project 4667 until they received additional documentation requested from their contractor.

*OIG Response.* We disagree that the labor costs were calculated correctly. Also, cost principles at 2 CFR 225 state that a cost must be adequately documented to be allowable under Federal award. Therefore, our finding remains unchanged.

### **Finding B: Ineligible Project Funding**

The City received \$448,509 of ineligible funding on Project 8294 due to errors in the calculation of the wall area used in the FEMA Cost Estimating Format (CEF). The City applied for an improved project<sup>3</sup> to replace a fire station. FEMA approved the request and obligated \$1,502,182 using the CEF, which is its standard procedure for estimating eligible funding under large projects. FEMA *Standard Operating Procedure 9570.8* provides guidance on the CEF process and refers to an Excel-based template used to estimate costs for large projects. Once the eligible scope of work and base costs are determined, add-on factors such as overhead, bonds, insurance, cost escalation, project management, profit, and so on are then added to arrive at the total estimated eligible project costs.

We identified calculation errors in the Excel-based template for the add-on factors of quality control and storage costs, which overstated the total estimated dollars by

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<sup>3</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.



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\$42,998. We brought this calculation error to FEMA’s attention during our fieldwork. FEMA subsequently reviewed the CEF calculation for accuracy and determined that the wall area measurements were also incorrect. This occurred because FEMA did not adequately validate the measurements during its initial calculation of the CEF. Using the

revised figures, FEMA recalculated the CEF, which resulted in a \$448,509 reduction in estimated costs from the original CEF.

City Response. City officials disagreed with the finding, saying that the City’s funding should not be reduced because they relied on the estimate prepared by FEMA.

OIG Response. The City was awarded funds in excess of actual damages cited in the scope of work. Therefore, the \$448,509 of ineligible funding is not allowable under the project.

**Finding C: Ineligible Road Repairs**

The City’s claim under Project 6376 included \$436,375 of road repair costs that were not properly documented as eligible for reimbursement. In February 2006, FEMA awarded \$204,466 of project funding for road repairs. This estimate was based on a detailed damage assessment performed by FEMA after the disaster. In November 2006, FEMA increased the project funding to \$588,007, citing in the project worksheet that “additional work” and the 50 percent rule<sup>4</sup> were the reasons for the funding increase.

The City claimed \$588,007 for road repairs under the project. However, only \$151,632 of the costs were for eligible repairs based on the initial damage assessment. The project file contained no other damage assessments to indicate that the additional \$436,375 (\$588,007 minus \$151,632) of costs were for eligible road work. Further, neither the City nor FEMA was able to provide us with documentation to support the additional damages, or to show that the 50 percent rule was applicable. FEMA should have maintained adequate documentation to justify the increases in project funding.

Federal regulation 44 CFR 206.223(a)(1) states that an item of work must be required as a result of a major disaster event to be eligible for financial assistance. In addition, Federal regulation 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, (C)(1)(j), states that a cost must be adequately documented to be allowable under Federal award. We question the \$436,375 because the project

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<sup>4</sup> The 50 percent rule states that a facility is eligible for replacement when the estimated repair cost exceeds 50 percent of the estimated replacement cost.



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documentation was insufficient for us to determine the eligibility of the road repair costs claimed.

*City Response.* City officials disagreed with the finding. They said that the costs should be allowed because they had presumed that FEMA had the proper documentation for the additional work and the 50 percent rule decision when FEMA approved the project.

*OIG Response.* Federal regulations state that an item of work must be required as a result of a major disaster to be eligible for assistance and that costs must be adequately documented to be allowable under a Federal award. Neither the City nor FEMA was able to provide evidence of additional damages, or show that the 50 percent rule was applicable. Therefore, our finding remains unchanged.

### RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

**Recommendation #1:** Disallow \$235,341 of unsupported costs, which consists of \$5,496 under Project 3711 and \$229,845 under Project 4667 (finding A).

**Recommendation #2:** Instruct the State to improve its procedures for validating project costs claimed by subgrantees to provide reasonable assurance that only eligible costs are reimbursed (finding A).

**Recommendation #3:** Deobligate and put to better use \$448,509 of ineligible improved project funding awarded under Project 8294 (finding B).

**Recommendation #4:** Disallow \$436,375 of ineligible road repair costs claimed under Project 6376 (finding C).

**Recommendation #5:** Reemphasize to Public Assistance personnel the need to maintain adequate documentation to justify project funding increases (finding C).

### DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with City, State, and FEMA officials during our fieldwork. We also provided a draft report in advance to these officials and discussed it at the exit conference held on April 18, 2012. City officials disagreed with all findings.



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Their comments, where appropriate, are included in the body of the report. FEMA and State officials expressed a need to review additional documentation before providing comments on the findings and recommendations.

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.

Major contributors to this report were David Kimble, Eastern Region Audit Director; Larry Arnold, Audit Manager; J. Hugh Dixon, Auditor-in-charge; and James Miller, Auditor.

Please call me with any questions, or your staff may contact David Kimble, Eastern Region Audit Director, at (404) 832-6702.



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EXHIBIT

**Schedule of Projects Audited**  
**August 29, 2005, to August 24, 2011**  
**City of Hattiesburg, MS**  
**FEMA Disaster Number 1604-DR-MS**

Project Number	Project Scope	Amount Awarded	Amount Questioned	Funds Put to Better Use	Findings
12	Communication Equipment	\$ 877,839	\$ 0	\$ 0	
3711	Police Department – Emergency Protective Measures	267,367	5,496	0	A
4667	Tree Hazard Abatement	1,636,766	229,845	0	A
6376	Asphalt Pavement	588,007	436,375	0	C
8294	Fire Station	1,502,182	0	\$448,509	B
Totals		\$4,872,161	\$671,716	\$448,509	



## **Appendix A**

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#### **Subgrantee**

Division Manager, City of Hattiesburg, Mississippi

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