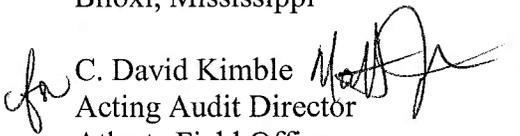




**Homeland
Security**

April 28, 2006

MEMORANDUM FOR: Nick Russo
Federal Coordinating Officer
Mississippi Joint Field Office
Biloxi, Mississippi

FROM:  C. David Kimble
Acting Audit Director
Atlanta Field Office

SUBJECT: *Review of Hurricane Katrina Activities
Dixie Electric Power Association
FEMA Disaster No 1604-DR-MS
Report GC-MS-06-37*

We performed a review of emergency services and debris removal costs associated with Hurricane Katrina for the Dixie Electric Power Association. The objective of the review was to determine whether the association was properly accounting for disaster-related costs and whether such costs were eligible for funding under FEMA's disaster assistance programs.

The association received an award of \$20 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for emergency protective measures and debris removal activities. The award provided funding for 11 large projects. As of January 11, 2006, the cut-off date of our review, the association had received \$18.1 million of FEMA funds and had recorded expenditures of \$12.7 million for emergency services and \$9 million for debris removal activities.

Our review included an analysis of the association's accounting system, disaster costs, and contracting policies and procedures, as well as interviews with association officials. The nature and brevity of this assignment precluded the use of our normal audit protocols. Therefore, it was not conducted according to generally accepted government auditing standards. Had we followed such standards, other matters may have come to our attention.

This review was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal government in the aftermath of Hurricane Katrina and Rita. As such, a copy of the report has been forwarded to the PCIE Homeland Security Working Group, which is coordinating Inspectors General review of this important subject.

RESULTS OF REVIEW

The association accounted for funds on a project-by-project basis consistent with federal regulation for large projects (44 CFR 206.205). Additionally, expenditures were supported by checks, invoices, and other source documents. However, for six large projects (see exhibit), the association's grant expenditures included \$207,068 of ineligible overtime salary (\$118,089) and fringe benefit (\$88,979) costs for association managers and supervisors.

Prior to August 29, 2005, the date of Hurricane Katrina, the association's overtime policy prohibited managers and supervisors from receiving overtime pay. However, on October 20, 2005, several weeks after the hurricane and approval of FEMA funding, the association's board of directors modified its overtime policy to make managers and supervisors eligible for such pay. This modification authorized overtime pay for the period August 28 to September 25, 2005, and resulted in \$207,068 of extra labor costs and related grant charges.

According to the U.S. Office of Management and Budget Circular A-122, Attachment A, Paragraph A.2(c), charges to federal grants must be applied consistent with policies and procedures governing both federally-financed and non-federal activities of an organization. Since the overtime pay modification was made due to the occurrence of the hurricane and the availability of federal funding, the overtime charges to the FEMA grant for managers and supervisors are ineligible.

RECOMMENDATION

We recommend that the Federal Coordinating Officer, in coordination with MEMA, disallow the \$207,068 of ineligible overtime costs.

DISCUSSION WITH MANAGEMENT AND FOLLOW-UP

We discussed the results of our review with the association and FEMA officials on March 8, 2006, and with MEMA officials on March 10, 2006. The association officials agreed with our finding.

Please advise me by May 29, 2006, of the action taken to implement the recommendation. Your response should be sent to:

U.S. Department of Homeland Security
Office of Inspector General
3003 Chamblee-Tucker Road
Atlanta, GA 30341

Auditors Chris Gamble and Adrienne Bryant performed this review. Should you have any questions concerning this report, please contact me at (770) 220-5240.

Attachment

cc: Under Secretary for Management
Acting Under Secretary for Emergency Preparedness and Response
Acting Chief Financial Officer, DHS
Chief Procurement Officer, DHS
Audit Liaison, DHS
Audit Liaisons, FEMA
Chief Financial Officer, FEMA
Senior Procurement Officer, FEMA
Deputy Director, Gulf Coast Recovery
Mississippi State Coordinating Officer
FEMA Regional Director, Region IV

Dixie Electric Power Association
FEMA Disaster 1604-DR-MS
Hurricane Katrina

Schedule of Questioned Costs

<u>Project Number</u>	<u>Amount Questioned</u>
30	\$ 99,777
35	1,277
36	62,361
37	4,158
38	18,708
39	<u>20,787</u>
Total	<u>\$207,068</u>