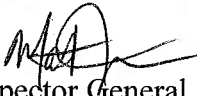




Homeland Security

AUG 26 2011

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

FROM: Matt Jadacki 
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Public Assistance Grant Funds Awarded to
Gulf Coast Community Action Agency, Gulfport, Mississippi*
FIPS Code 000-UGB8S-00
FEMA Disaster Number 1604-DR-MS
Report Number DA-11-23

We audited public assistance grant funds awarded to the Gulf Coast Community Action Agency (Agency) in Gulfport, Mississippi. Our audit objective was to determine whether the Agency accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

As of January 6, 2011, the Agency had received a public assistance award of \$5.6 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for damages as a result of Hurricane Katrina, which occurred in August 2005. The award provided 100% FEMA funding for debris removal and repair/replacement of buildings and equipment damaged as a result of the disaster. The award included 15 large and 6 small projects.¹

Our audit focused on \$5.6 million awarded under the 15 large projects. The audit covered the period from August 29, 2005, to January 6, 2011, during which the Agency claimed \$3.3 million under the 15 large projects (see Exhibit, Schedule of Projects Audited). At the time of our audit, the Agency had completed work on all projects, but had not submitted a final claim to MEMA on 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

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

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

We reviewed judgmentally selected samples of project costs (generally based on dollar value); interviewed Agency, MEMA, and FEMA personnel; reviewed the Agency'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 Agency's internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the Agency's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA award.

BACKGROUND

The Gulf Coast Community Action Agency is a private nonprofit organization, organized in 1965. The Agency is responsible for the administration of social service programs. It provides a wide range of community-based services, including low-income home energy assistance and Head Start programs, throughout the Mississippi Gulf Coast.

RESULTS OF AUDIT

The Agency did not account for project expenditures on a project-by-project basis, as required by federal regulations and FEMA guidelines. Also, the Agency did not always comply with FEMA guidelines and federal regulations when procuring services under the award. Finally, we identified \$2.3 million of unneeded project funding that FEMA should deobligate and put to better use; and we question \$2.7 million of duplicate benefits.

Finding A: Project Accounting

According to 2 CFR 215.21(b)(2), grant recipients shall maintain accounting records that identify adequately the source and application of funds for federally sponsored activities. Further, 44 CFR 206.205(b)(1) requires that large project expenditures be accounted for on a project-by-project basis. The Agency's large project worksheets (PWs) described damages related to specific buildings. However, the Agency did not separately account for expenditures and receipts for each building or PW. Instead, the Agency created one general ledger account to record all disaster-related expenditures and receipts. Using this account, we were able to identify reimbursements received from MEMA for each project, but we could not readily identify individual project expenditures because they were listed by vendor name and not by the buildings or PWs.

Agency officials did not concur with this finding. They believed that the accounting system adequately identified receipts and expenditures by project. However, we disagree. We had to obtain and review additional information to identify the facility or PW to which the

expenditures applied because they were all commingled in the same account without a unique identifier such as a project or cost center number.

Finding B: Procurement Procedures

The Agency did not openly compete \$273,137 of contracted architectural and engineering (A&E) services under Project 11134 for permanent construction work (A.E. Perkins facility) that began approximately 1 year after the disaster. Instead, the Agency used a firm with which it had an existing relationship under a pre-Katrina contract to perform the services. Federal regulation 2 CFR 215.43 requires all procurement transactions to be conducted in a manner to provide, to the maximum extent practical, open and free competition. The Agency's board meeting notes from September 2006 indicated that there were no other architectural firms that were operational or that could handle the size of the rebuilding project. However, the procurement files contained no documentation to indicate how the Agency reached such a decision.

We determined the A&E costs were reasonable based on FEMA guidance on A&E services for construction projects (*Public Assistance Guide*, FEMA 322, October 1999, p. 78). However, federal procurement regulations require open and free competition to the extent practicable not only to achieve a reasonable cost, but also to allow all qualified, responsible parties an equal chance to compete for the work.

Finding C: Funds Not Needed

Grantees are required to make an accounting of eligible costs for each approved large project as soon as practicable after the subgrantee has completed the approved work and requested payment (44 CFR 206.205(b)(1)). During our review, we identified \$2,293,832 of FEMA funding obligated under 13 PWs that was no longer needed because of grant funding received from the U.S. Department of Health and Human Services (see finding D) and insurance proceeds. Therefore, FEMA should deobligate the \$2.3 million of unneeded funds and put them to better use. The specific projects and related unneeded funding are identified in the Exhibit, Schedule of Projects Audited.

Finding D: Duplicate Benefits

Section 312 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, states that FEMA funds cannot be used for expenditures recoverable from another federal program, insurance, or any other source. In July 2006, the Agency received a \$16.6 million grant from the U.S. Department of Health and Human Services (HHS) for the repair of six Head Start facilities damaged as result of Hurricane Katrina. The scope of work for the HHS grant included demolition costs, building repairs, equipment replacement, site construction, and replacement of educational supplies. However, the Agency also received \$2,724,633 of FEMA funding for facility damages covered by the HHS grant. We question the \$2,724,633 of duplicate benefits, as follows:

- The Agency claimed \$25,796 of FEMA funding under Project 9012 for the replacement of contents in the Harry S. Tartt facility. The Agency also requested and received \$526,150 of HHS grant funds, which covered the costs of replacing the contents of the facility. The Agency's accounting records for October 2006 through July 2007 showed that the Agency initially charged facility costs, including contents, to the HHS grant. However, in March 2008, the Agency reallocated the HHS funding to other facilities that had cost overruns and charged \$25,796 of contents cost for the Harry S. Tartt facility to the FEMA project. We question the \$25,796 because FEMA funds should not be used to cover costs specifically recoverable from another federal program.
- The Agency claimed \$24,014 of FEMA funding under Project 9222 for replacement of educational supplies at the Turkey Creek facility. However, the claim included an invoice for \$5,445 for supplies related to Project 9082 (Saucier Facility), for which the HHS grant funded damages. We question the \$5,445 of duplicate benefits because the Agency received HHS funding under Project 9082 to cover the costs of supplies erroneously charged to Project 9222.
- MEMA advanced the Agency \$18,750 of FEMA funds under Project 9455 for demolition costs associated with replacing the Isiah Fredericks facility with new double-wide trailers to the same size and function as the damaged facility. The Agency also received \$65,250 under the HHS grant that covered the demolition costs of the facility. We question the \$18,750.
- MEMA advanced the Agency \$10,750 of FEMA funds under Project 9443 for demolition costs associated with replacing the Father McCloone facility² with new double-wide trailers to the same size and function as the damaged facility. The Agency also received \$73,263 under the HHS grant that covered the demolition costs of the facility. We question the \$10,750.
- MEMA advanced the Agency \$7,250 of FEMA funds under Project 9555 for demolition costs associated with the Blanche Saucier facility. The Agency also received \$7,500 under the HHS grant that covered the demolition costs of the facility. We question the \$7,250.
- The Agency claimed \$3,105,176 under Improved Project 11134 for construction of the A. E. Perkins Head Start Center.³ However, the Agency also received HHS grant funds totaling \$3,846,718 during the period of November 2006 to June 2010 for construction of the facility. Construction costs for the A. E. Perkins facility totaled \$4,295,252, or \$448,534 more than the HHS grant provided. Therefore, we question \$2,656,642 claimed under the project (\$3,105,176 less \$448,534) as duplicate

² The Father McCloone Facility was renamed the Doyle Moffett Facility after the replacement. The Doyle Moffett Facility was referenced in the HHS grant request and the Agency's accounting records.

³ The A.E. Perkins Head Start Center was referenced as D'Iberville in the HHS grant request and the Agency's accounting records.

benefits because HHS provided grant funds specifically for the A.E. Perkins facility that covered all but \$448,534 of the construction costs for the facility.

Agency officials did not agree with our finding. They said the original plan was to build two buildings on the new A. E. Perkins site; however, wetland issues precluded the second building from being included on the site. Therefore, they decided to place the second building on the Isiah Fredricks site. Agency officials said that, after they received the \$2.8 million of FEMA funding, they had additional funds remaining from the HHS grant, and HHS directed them to reallocate the funding to the Isiah Fredricks site. However, the Agency did not reallocate the HHS grant funds to the Isiah Fredricks site. Instead, the Agency actually expensed the \$3.8 million of HHS grant construction funding to the A. E. Perkins Facility. Therefore, we maintain that the FEMA funding was a duplicate benefit because FEMA funds cannot be used for expenditures specifically recoverable from another federal program. The Agency only reported to HHS that it had excess grant funding because it had improperly applied FEMA grant funding to the facility. If the Agency had first applied the \$3.8 million of HHS grant funding as intended, there would not have been any excess grant funding on the facility to report to HHS.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation #1: Instruct the Agency to account for large projects on a project-by-project basis, as required by federal regulation (finding A).

Recommendation #2: Instruct the Agency to comply with federal procurement regulations when acquiring goods and services under a FEMA award (finding B).

Recommendation #3: Deobligate and put to better use \$2,293,832 (\$2,293,832 federal share) of unneeded project funding (finding C).

Recommendation #4: Disallow \$2,724,633 (\$2,724,633 federal share) of costs ineligible for FEMA reimbursement because they were recoverable from another federal agency (finding D).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the audit results with Agency, MEMA, 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 June 16, 2011. Agency officials' comments, where appropriate, are included in the body of this 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. To promote transparency, this report will be posted to our website, with the exception of sensitive information identified by your office. Significant contributors to this report were David Kimble, Larry Arnold, Sharonda Toney, 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 Mississippi Recovery Office
Audit Liaison, FEMA Region IV
Audit Liaison, FEMA (Job Code G-11-014)
Audit Liaison, DHS

**Schedule of Projects Audited
August 29, 2005, through January 6, 2011
Gulf Coast Community Action Agency
FEMA Disaster No. 1604-DR-MS**

| Project Number | Project Scope | Amount Awarded | Amount Claimed | Funds Put to Better Use (Finding C) | Questioned Costs (Finding D) |
|----------------|---|--------------------|--------------------|-------------------------------------|------------------------------|
| 9012 | Harry S. Tartt Facility Contents | \$ 25,796 | \$ 25,796 | \$ 0 | \$ 25,796 |
| 9013 | A. E. Perkins Facility Contents | 198,970 | 0 | 198,970 | 0 |
| 9014 | D'Iberville Facility Contents | 122,585 | 0 | 122,585 | 0 |
| 9015 | Isiah Fredricks Facility Contents | 308,982 | 0 | 308,982 | 0 |
| 9082 | Saucier Facility Contents | 91,051 | 0 | 91,051 | 0 |
| 9188 | Father McCloone Delisle Facility Contents | 269,700 | \$0 | 269,700 | 0 |
| 9222 | Turkey Creek Center Facility Contents | 299,743 | 24,014 | 275,729 | 5,445 |
| 9223 | Father Sweeney Facility Contents | 180,500 | 0 | 180,500 | 0 |
| 9262 | Turkey Creek Facility Contents | 85,563 | 74,532 | 11,031 | 0 |
| 9407 | D'Iberville Facility | 103,745 | 88,995 | 14,750 | 88,995 |
| 9443 | Father McCloone Facility | 171,682 | 10,750 | 160,932 | 10,750 |
| 9455 | Isiah Fredericks Facility | 318,387 | 18,750 | 299,637 | 18,750 |
| 9555 | Blanche Saucier Modulares (Site #1) | 66,005 | 7,250 | 58,755 | 7,250 |
| 9691 | A. E. Perkins Facility | 3,317,391 | 3,016,181 | 301,210 | 2,567,647 |
| *11134 | A. E. Perkins Head Start Center | 0 | 0 | 0 | 0 |
| Total | | \$5,560,100 | \$3,266,268 | \$2,293,832 | \$2,724,633 |

* Project 11134 was an improved project funded through Projects 9407 and 9691. Therefore, funds are shown on those two projects and not on Project 11134.