

**Hazard Mitigation Grant
Funds Awarded to MEMA
for the Mississippi Coastal
Retrofit Program**





DHS OIG HIGHLIGHTS

Hazard Mitigation Grant Funds Awarded to MEMA for the Mississippi Coastal Retrofit Program

October 10, 2017

Why We Did This Audit

MEMA received a \$29.9 million Hazard Mitigation grant from the Federal Emergency Management Agency (FEMA) for the state's Coastal Retrofit Program (Program). The Program's goal is to help 2,000 Mississippi homeowners strengthen their homes against wind damage in future disasters. We received complaints that MEMA was mishandling Federal funds for this Program.

What We Recommend

FEMA should disallow \$29.9 million in ineligible costs to MEMA unless MEMA officials can show they followed Federal regulations and FEMA guidelines. Since this amount was questioned in Management Advisory Report OIG-16-115-D, we will not question the same amount again.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-IG.OfficePublicAffairs@oig.dhs.gov

What We Found

Mississippi did not fulfill its grantee responsibility to ensure the Mississippi Emergency Management Agency (MEMA) followed applicable Federal grant requirements. It is FEMA's responsibility to hold Mississippi accountable for proper grant administration. MEMA did not provide proper oversight of a \$29.9 million Hazard Mitigation grant, or follow Federal regulations and FEMA guidelines when accounting for grant funds. As a result, FEMA has no assurance that MEMA properly accounted for and expended Federal funds. Specifically, MEMA did not—

- complete the Program scope of work, retrofitting only 886 (44 percent) of the estimated 2,000 homes in the proposed scope; potentially depriving more than 1,000 homeowners the opportunity to protect their homes from future disasters;
- disclose, in a timely manner, a drawdown of Federal funds totaling \$13.7 million; and
- disallow excessive markups on prime contractor invoices.

Additionally, we identified several areas of concern related to MEMA's procurement practices. Although not required by Federal regulation but, in some cases, encouraged by state guidance, we believe these concerns are worthy of discussion.

FEMA Response

FEMA agreed with recommendations 1, 2, and 4. FEMA provided new evidence for recommendation 3. We agree with FEMA's position and eliminated the finding and related recommendation. FEMA did not address recommendation 5. Appendix B includes FEMA's written response in its entirety.



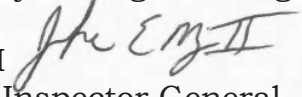
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Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

October 10, 2017

MEMORANDUM FOR: Gracia Szczech
Regional Administrator, Region IV
Federal Emergency Management Agency

FROM: John E. McCoy II 
Acting Assistant Inspector General
Office of Audits

SUBJECT: *Hazard Mitigation Grant Funds Awarded to MEMA
for the Mississippi Coastal Retrofit Program*
Audit Report Number OIG-18-01

We audited Federal Emergency Management Agency (FEMA) Hazard Mitigation Grant Program (Hazard Mitigation) funds awarded to the Mississippi Emergency Management Agency (MEMA), for the state of Mississippi's (Mississippi) Coastal Retrofit Program (Program). On May 3, 2011, MEMA received a \$29.9 million Hazard Mitigation grant from FEMA. The Program's goal is to help an estimated 2,000 homeowners strengthen their homes against wind damages in future disasters. The award provided 90 percent FEMA funding. According to MEMA officials, MEMA spent \$31.5 million in state funds and completed work on 945 of the estimated 2,000 homes. Although MEMA asserts that it completed all project work as of May 31, 2015, MEMA records show that, as of October 26, 2015, the cutoff date of our audit, it had only requested \$957,776 of Program reimbursement costs from FEMA. We conducted this audit after receiving allegations of possible irregularities within the Program.

This report is the second and final report on our audit of Hazard Mitigation grant funds awarded to MEMA. In August 2016, we issued a Management Advisory Report (Audit Report OIG-16-115-D) recommending that FEMA suspend all grant payments for the \$29.9 million Program until Mississippi can properly account for Federal funds. FEMA officials agreed with our findings and recommendations and suspended payments until Mississippi can properly account for Federal funds. The scope of our audit covers August 29, 2005, through October 26, 2015.



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Background

On August 29, 2005, the President declared a major disaster in Mississippi for damages from Hurricane Katrina. Section 404(a) of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, authorizes cost-effective hazard mitigation measures that “substantially reduce the risk of future damage, hardship, loss, or suffering in any area affected by a major disaster.” As a result of Hurricane Katrina, the Federal Emergency Management Agency (FEMA) approved \$29.9 million, with a 90 percent share of \$26.9 million for the state of Mississippi’s Coastal Retrofit Program (Program).

The Program’s goal is to help homeowners strengthen their homes to mitigate against wind damage from future disasters. FEMA approved the Program in May 2011. The first home retrofit started in February 2012, with plans to retrofit 2,000 homes in the lower 6 counties of Mississippi, with initial retrofitting confined to the lower 3 counties of Hancock, Harrison, and Jackson.

Before September 2012, the Mississippi Department of Finance and Administration (DFA) managed the Program as a Mississippi Emergency Management Agency (MEMA) subgrantee. In October 2012, the Program transferred to MEMA. As reported in our Management Advisory Report, while being managed at DFA, management allowed one employee total control over the Program. This employee transferred to MEMA when it took over responsibility for the Program in October 2012. According to MEMA officials, this employee, while working for DFA and MEMA, approved and influenced other employees to process \$31.5 million in payments—more than the amount of the grant—using state funds to retrofit 945 of the estimated 2,000 homes within the project’s scope.

In February 2016, the newly appointed Executive Director of MEMA fired several employees, including the employee who had exercised total control over the Program, secured program records, and notified the Mississippi State Attorney General’s Office about concerns MEMA had with the administration of the Program. According to MEMA officials, personnel involved in the payment process, processed payments without following the agency’s established accounting procedures and, thus, created an absence of internal controls.

Results of Audit

Mississippi did not fulfill its grantee responsibility to ensure MEMA followed applicable Federal grant requirements. It is FEMA’s responsibility to hold Mississippi accountable for proper grant administration. MEMA did not provide proper oversight of a \$29.9 million Hazard Mitigation grant for the Program, or



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follow Federal regulations and FEMA guidelines when accounting for grant funds. Specifically, MEMA did not—

- complete the scope of work, retrofitting only 886 (44 percent) of the estimated 2,000 homes in the proposed scope; potentially depriving more than 1,000 homeowners the opportunity to protect their homes from future disasters;
- disclose, in a timely manner, a drawdown of FEMA funds totaling \$13.7 million; and
- disallow excessive markups on prime contractor invoices.

Additionally, although not required by Federal regulation but in some cases encouraged by state guidance, we identified several areas of concern relative to MEMA's procurement practices that we believe are worthy of discussion.

These issues occurred primarily because MEMA did not exercise proper oversight of the Program and did not comply with Federal regulations and FEMA guidelines. Also, FEMA did not ensure that MEMA complied with Federal regulations. Therefore, FEMA should take action necessary to protect against the improper use of Disaster Relief funds by disallowing \$29.9 million in MEMA funding. Since this amount was questioned in Management Advisory Report OIG-16-115-D, we will not question the same amount again.

Initially we found that MEMA did not follow Federal regulations and FEMA guidelines when performing benefit cost analyses (BCA) to determine eligibility for mitigation of homes under the Program. However, after reviewing new evidence provided by FEMA in its official comments and our previous analysis of the BCA calculation, we agree that it is allowable. Therefore, we no longer consider this a finding.

We acknowledge that the MEMA Executive Director has taken positive steps toward making the Program more transparent, but we believe additional steps are necessary as outlined in this report to ensure Disaster Relief funds are used appropriately.

Finding A: Public Safety/Scope of Work

MEMA did not complete the Program's scope of work, finishing only 886 (44 percent) of the estimated 2,000 homes in the proposed scope; thus, potentially depriving more than 1,000 homeowners the opportunity to protect their homes from future disasters. MEMA contends that it completed work on 945 homes—



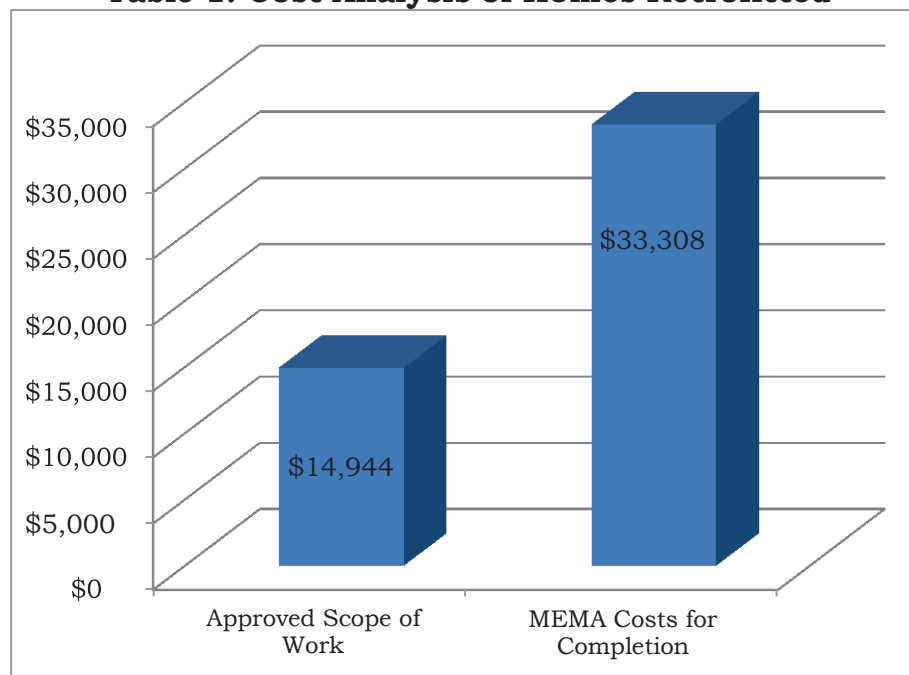
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still less than half of the 2,000 homes estimated in the project's approved scope of work—and paid contractors \$31.5 million for that work. This amount is \$1.6 million more than the entire \$29.9 million grant.

According to the FEMA approved scope of work, retrofitting each home against wind damage would cost an average \$14,944 (\$29.9 million divided by 2,000). However, according to MEMA, retrofitting the 945 homes it reported completing—cost an average of \$33,308 (\$31.5 million divided by 945), a 123 percent increase over the original estimate (see table 1).

Table 1: Cost Analysis of Homes Retrofitted



Source: Office of Inspector General (OIG) analysis of retrofitted costs

MEMA did not provide substantial evidence to justify the increase in costs. FEMA requires grant recipients to obtain prior approval from FEMA before implementing scope changes.¹ Also, according to 44 Code of Federal Regulations (CFR) 13.30(d)(1) (2014)², FEMA must approve any scope changes in advance regardless of the budget implications.

¹ *FEMA Hazard Mitigation Grant Program Desk Reference*, October 1999, at 13-12.

² This audit utilized the criteria in effect at the time of this program's outset. During the audit scope period, August 29, 2005 through October 26, 2015, 44 CFR 13 was superseded by 2 CFR 200 and 3002, on an interim basis on December 19, 2014, and fully adopted November 2, 2015. This revision had no impact on this audit. Finally, unless otherwise noted, all CFR sections can be found in the 2014 edition.

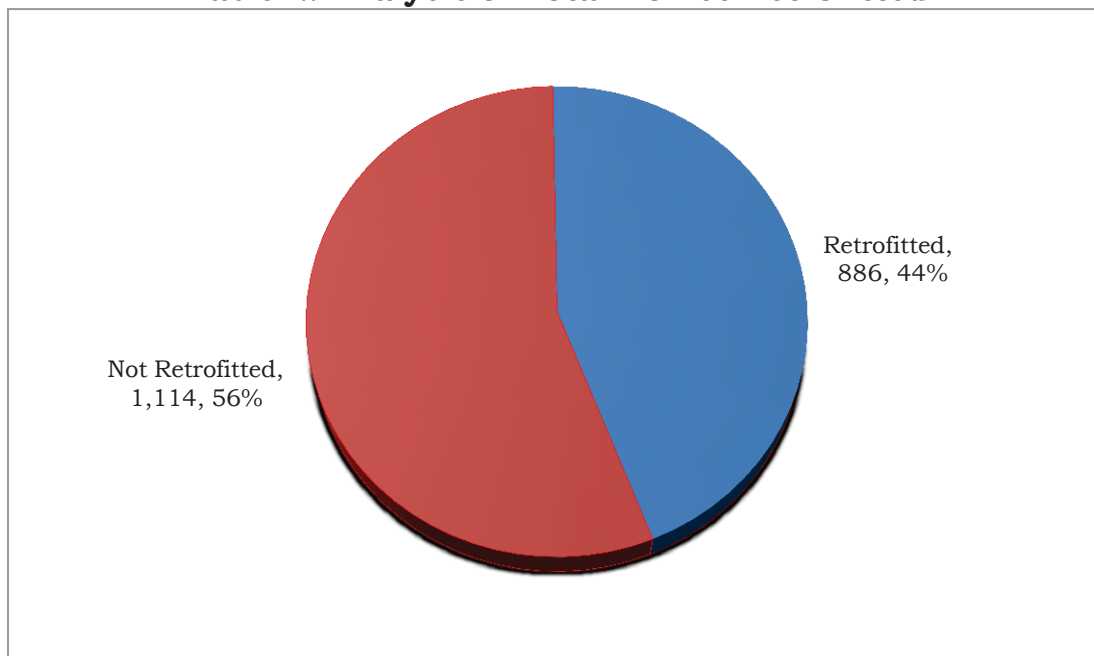


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MEMA officials could not adequately explain why so many homes did not get retrofits. According to our review, prime and subcontractors records only support 886 (44 percent) of the 2,000 homes were completed within the scope of work, not the 945 MEMA contends (see table 2). As a result of mismanaging grant funds, MEMA potentially deprived more than 1,000 homeowners the opportunity to protect their homes from future disasters. Therefore, we recommend that FEMA disallow \$29.9 million until MEMA can properly justify the lack of scope completion. Since this amount was questioned in Management Advisory Report OIG-16-115-D, we will not question the same amount again.

Table 2: Analysis of Total Homes Retrofitted



Source: OIG analysis of the number of homes retrofitted

MEMA officials stated that a June 4, 2012, FEMA letter approved a scope change for the Program, which justifies the lesser number of homes retrofitted. The FEMA letter allowed MEMA to offer multiple packages and upgrades to applicants, which accounted for 945 packages and upgrades, not 945 homes. FEMA's letter only increased the scope funding for additional retrofit options, such as gable sheathing and roof ridge vent protection for \$555,374 in additional funding. FEMA, state, and local guidelines did not require the additional changes under current codes and standards. MEMA changed the project's scope to conform to recent changes allowed by the Mississippi Wind Underwriting Association to reduce applicants' insurance premiums. However, the original 2,000 homes estimate scope of work did not change. The June 4, 2012, FEMA letter states "all terms, conditions, and provisions of the Grant Agreement Articles tendered as part of the original Grant Award and any



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subsequently approved changes remain in effect except as previously amended and amended herein.”

Finding B: Failure to Timely Report Federal Funds Received

MEMA did not report a drawdown of Federal funds totaling \$13.7 million to FEMA until 19 months had passed. Specifically, in March 2015, MEMA withdrew \$13.7 million from a Federal account and did not report the funds on project quarterly financial FEMA reports or orally notify FEMA, or properly update a state disaster accounting system, until October 2016.

According to 44 CFR 13.20(a)(2), grantees and subgrantees must maintain accounting procedures that permit tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Additionally, 44 CFR 13.20(b)(2), requires grantees and subgrantees to maintain records that adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income. Processes were in place to provide oversight. Nonetheless, MEMA did not update FEMA project quarterly reports and a state accounting system, thereby increasing the risk for misuse, abuse, and misstatement of Program costs.

Federal Smartlink Account

Smartlink drawdowns are not tied to specific projects; therefore, FEMA officials had no knowledge of the \$13.7 million drawdown and have acknowledged that fact. Recent updates to the Smartlink system require new disasters drawdowns to link to specific projects. The Program in question predates that system update.

FEMA obligates funding on projects for grantees and subgrantees, and this funding is made available via the Department of Health and Human Services Smartlink electronic payment system. A drawdown from Smartlink is initiated by the grantee based on documentation received from a subgrantee requesting payment. In the case of Mississippi, funds are transferred from Smartlink to the Mississippi State Treasury before payments are made to subgrantees. MEMA then notifies the State Treasury of the subgrantee and the amount to pay. The State Treasury makes payments either electronically or by issuing checks. MEMA officials contend that, since FEMA has access to Smartlink, FEMA officials were aware of the drawdown for the Program. MEMA withdrew two payments totaling \$13.7 million (\$4.7 million and \$9.0 million) from



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Smartlink in March 2015 in support of the Program without following its own internal procedures of validating contractor invoices for eligibility and support. We became aware of the two drawdowns in July 2016 and validated that the Mississippi State Treasury received both drawdowns through Smartlink on March 23, 2015. A key MEMA hazard mitigation official who worked with the Program in March 2015 and is still employed with MEMA was notified of receiving the \$13.7 million on June 12, 2015.

FEMA Quarterly Status Reports

MEMA did not report a drawdown of \$13.7 million in almost seven quarterly status reports to FEMA, as required by Federal guidance.³ Since taking responsibility for the Program in September 2012, MEMA had only reported \$957,776 of Smartlink drawdowns to FEMA as of October 2016, although it had drawdown \$13.7 million in March 2015. MEMA did not orally report the drawdown to FEMA or include it on quarterly status reports to FEMA until 19 months later. MEMA officials said that their required quarterly Federal Financial Report to FEMA, dated April 29, 2015, which identifies summary grant financial data under Hurricane Katrina (FEMA Disaster Number 1604) for the entire state, should suffice for reporting the \$13.7 million. However, that report does not identify financial data at the project level.

MEMA officials said they reported the drawdown to FEMA in October 2016 after they became aware of it in August 2016 during an unofficial internal audit they conducted of the Program. They said that no one had knowledge of the \$13.7 million before August 2016 because of the firing of personnel associated with the Program. Nevertheless, evidence shows that an employee still employed with MEMA in a key Hazard Mitigation position was involved in planning to withdraw \$17.0 million in December 2014. This same employee also received notification of the \$13.7 million drawdown that the Mississippi State Treasury made in Smartlink in March 2015. Yet, 19 months elapsed, almost seven quarterly status reports, before MEMA reported the \$13.7 million to FEMA.

Further, in June 2016, our office began biweekly meetings with MEMA and FEMA to discuss the status of documentation to support the \$31.5 million that MEMA contends it spent to retrofit 945 homes. MEMA officials did not notify FEMA or us of the unreported \$13.7 million in drawdowns during these meetings. We also learned that MEMA planned to drawdown an additional estimated \$20.0 million after validating supporting documentation. The \$20.0 million represents the estimated subcontractor cost (see finding D). Due to the

³ Grant recipients are required to provide quarterly financial reports to FEMA concerning the financial status of each project in accordance with *FEMA Hazard Mitigation Grant Program Desk Reference*, October 1999 at 13-11 (hereinafter "HMGP").



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lack of Federal oversight of the \$13.7 million, MEMA would have drawn \$5.7 million more than the Federal share amount (see table 3).

Table 3: Analysis of Actual/Planned Smartlink Drawdowns

Drawdowns	Total Amount Claimed	Federal Share (90 Percent)
Reported Drawdown	\$ 1,064,196	\$ 957,776
Unreported Drawdown	15,179,109	13,661,198
Planned Drawdown	20,000,000	18,000,000
Total Actual/Planned Drawdowns	\$36,243,305	\$32,618,974
Obligated Amount	\$29,888,707	\$26,899,836
Potential Overdrawn Amount	\$ 6,354,598	\$ 5,719,138

Source: OIG analysis of MEMA's actual and planned drawdowns

According to FEMA officials, when MEMA finally notified them in October 2016 of the drawdown, FEMA established a system to ensure MEMA provided adequate documentation supporting the \$13.7 million before allowing any additional drawdowns.

State Disaster Accounting System

MEMA did not update its state disaster accounting system to reflect a drawdown of \$13.7 million of Federal funds. Mississippi has a state disaster Hazard Mitigation system used to track funds associated with Federal disasters. The system tracks Federal funds paid to subgrantees via drawdowns from the Smartlink system. According to MEMA officials, the state system is updated after confirmation of payments to subgrantees. MEMA received two payments of \$4.7 million and \$9.0 million, totaling \$13.7 million in March 2015 from the Smartlink system. Yet, for 12 months, MEMA officials did not update the state accounting system. MEMA officials could not provide a reason why they did not update the system.

Summary

Because MEMA did not timely report \$13.7 million in total drawdowns received from Smartlink for the Program in its required FEMA quarterly reports and did not update the state accounting system for such drawdowns, MEMA could have received \$5.7 million in excess Federal funds, thus increasing the risk for misuse, abuse, and misstatement of Program costs. Therefore, FEMA has no reasonable assurance that MEMA properly accounted for and expended Program costs in accordance with Federal regulations and FEMA guidelines.



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Finding C: Ineligible Benefit Cost Analysis

After the exit conference, in their official comments, FEMA provided new evidence of Hazard Mitigation Assistance Program guidance dated June 19, 2008, in place prior to the Program start of May 2011 to support the use of BCA aggregation. After reviewing the new evidence and our previous analysis of the BCA aggregation calculation, we agree that BCA aggregation is allowable. Although the June 2008 guidance was not in place prior to the August 2005 disaster, it was in place prior to approval of the Program in May 2011. Finally, our review of documentation of the BCA calculation revealed that it is adequately documented and FEMA used the correct methodology. We no longer consider this a finding.

Finding D: Excessive Prime Contractor Markup Costs

Our review found, and MEMA acknowledges, the Program possibly paid excessive markups to the prime contractor. MEMA officials requested that we not review contractor invoices until it completes a costs review because of potential problems within the Program. Therefore, we did not review \$30.5 million of the contractor's invoices. MEMA's invoice review is ongoing and their officials are reporting there is a prime contractor markup of subcontractors' costs of an estimated 25 percent. Therefore, MEMA is planning to only request reimbursement of the subcontractor's costs, estimated at \$20.0 million. In our opinion, this is a good strategy based on the uncertainty of the prime contractor's markup of subcontractors' costs. Our limited analysis of summary cost documentation provided by subcontractors and the prime contractor shows an estimated 26 percent markup of subcontractors' costs (\$24.9 million, prime contractor; minus \$19.7 million, subcontractors; divided by \$19.7 million subcontractors).

FEMA's *Cost Estimating Format* provides guidance for overhead, insurance and bonds, and profit. Section D.1 of that document states a value of 7.7 percent for home office overhead costs, and Section D.2 a factor of 3.3 percent insurance, payment, and performance bonds. Table D.3, General Contractor's Profit, estimates a profit of 3 percent for a retrofit project in excess of \$10.0 million. Therefore, guidance indicates an estimated total markup of 14 percent as reasonable. According to 44 CFR 13.36(f)(4), the use of cost-plus-a-percentage-of-cost contracts and percentage-of construction cost are prohibited because they provide no incentive for contractors to control costs—the more contractors charge, the greater the profit.

Since MEMA has acknowledged the Program paid possible excessive markups to the prime contractor and taken action by only requesting FEMA



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reimbursement of subcontractor's costs, we are not questioning any prime contractor markups above the recommended FEMA guidance estimate of 14 percent. However, we recommend that FEMA closely monitor any future MEMA claims to ensure subcontractor markup costs are not excessive.

Finding E: Procurement Concerns

We identified several areas of concern relative to MEMA's procurement practices that we believe are worthy of discussion concerning contracts valued at \$29.9 million awarded for work under Project 485. Specifically, MEMA did not take recommended state affirmative steps to use disadvantaged firms, monitor contractors' work to ensure performance, and allowed a contract contingency clause based on the receipt of Federal funds. According to 44 CFR 13.36 (a), "When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds." This criterion alleviated MEMA from the necessity to follow certain Federal requirements since it is a state agency. However, since procurement requirements at 44 CFR 13.36 are good procurement practices, MEMA should strongly consider these practices in the future. Since MEMA is not required to comply with these Federal requirements, we are not questioning any funds. Although MEMA stated that DFA was in control of the program when these procurement decisions were made, MEMA, as grantee, was responsible for management and oversight of the grant.

Disadvantaged Firms

MEMA did not follow its state-encouraged affirmative steps to use minority firms, women's business enterprises, and labor surplus area firms when possible for contract work valued at \$29.9 million. As stated by MEMA officials, the State of Mississippi encourages state agencies to solicit minority and women-owned businesses. Additionally, the state has an agency, the Mississippi Procurement Technical Assistance Program, which operates as a bureau in the Mississippi Development Authority Minority and Small Business Development Division that promotes procurement outreach to minority firms, women's business enterprises, and small businesses. Finally, the purpose of 44 CFR 13.36(e) (1) concerning disadvantaged firms is to comply with Federal laws and is a continuing focus by Congress, and we strongly recommend that MEMA follow its state-encouraged guidance concerning disadvantaged firms.

Contract Administration-Monitoring

MEMA did not properly monitor the work the contractors performed to ensure performance in accordance with the terms, conditions, and specifications of the



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contract. Instead, the prime contractor monitored the work performed by its subcontractors. Therefore, the prime contractor performed and monitored its own work. MEMA paid the prime contractor \$425,250 to monitor its own work. Lack of monitoring to ensure performance in accordance with contract terms and conditions can result in misuse and abuse of funds. MEMA contends it monitored the work performed by the contractors from its office on the Gulf Coast; however, MEMA could not provide any documentation such as site visits or photos supporting adequate monitoring. Good monitoring ensures contractors perform in accordance with the terms, conditions, and specifications of the contract.

Contract Contingency Clause

MEMA's \$29.9 million contract and request for proposal (RFP) included the following statement: "It is expressly understood and agreed that the obligation of the Mississippi Department of Finance (subgrantee at contract initiation) to proceed under this agreement is conditioned upon the appropriation of funds by the Mississippi State Legislature and the receipt of state and/or federal funds." MEMA allowed inclusions of contingent language in both the prime contract and the RFP. While *Public Assistance Guide*, FEMA-322, October 1999, at 40, would render such a contingency ineligible on a public assistance project, there is no corresponding prohibition in HMGP guidance. However, in our opinion, the intent of the Federal guidance is to prevent potential legal actions by contractors against the Federal Government or the grantee and subgrantee if obligated funds are found to be ineligible and not payable to contractors. Therefore, to promote consistency in its programs, FEMA should encourage MEMA, and other state emergency management agencies, to avoid the inclusion of contingency clauses in Hazard Mitigation contracts.

Summary

Although not required by Federal regulations but sometimes encouraged by state guidance, we identified several areas of concern relative to MEMA's procurement practices concerning awarding contracts valued at \$29.9 million. Therefore, FEMA has no assurance that disadvantaged firms had sufficient opportunities to bid on federally funded work. Additionally, the lack of monitoring and the inclusion of a contingency clause increased the risk of unreasonable costs, favoritism, collusion, fraud, waste, and mismanagement of Federal funds. We are not questioning any funds or providing any recommendations; however, we urge FEMA to encourage MEMA to consider these good procurement practices when awarding future Hazard Mitigation contracts.



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Finding F: Grant Management

Mississippi did not fulfill its grantee responsibility to ensure the Program followed applicable Federal regulations. The nature and extent of issues we identified concerning public safety, failure to timely report Federal funds, ineligible benefit cost analysis, excessive prime contractor costs, and good procurement practices demonstrate that Mississippi should have been more thorough in overseeing the Program. Federal regulations required grantees to (1) ensure that subgrantees are aware of Federal regulations, (2) manage the operations of subgrant activity, and (3) monitor subgrant activity to ensure compliance.⁴

The present Executive Director of MEMA was appointed in February 2016. The Director acknowledged that the Program was not managed properly and lacked transparency before he arrived; however, he stated he has taken actions to correct those problems. We acknowledge that the Director has taken positive steps toward making the Program more transparent by removing control of the Program by one individual and having discussions with us and FEMA. Within the report, we acknowledge these actions. However, our audit covers August 29, 2005, through October 26, 2015, and we had already identified the lack of management and transparency before February 2016. Accordingly, we are providing recommendations to address those findings.

In addition, after requesting documentation for \$30.5 million of contractor's invoices as early as October 2015, MEMA officials only allowed us a partial review of those documents in September 2016. MEMA has also only allowed us limited access to its personnel and did not disclose, in a timely manner, a drawdown of Federal funds totaling \$13.7 million to Federal officials.

This is a unique situation since the state representative as the grantee is also the subgrantee and should not monitor itself. Therefore, FEMA should provide additional technical assistance and monitoring of the Program to ensure compliance with all Federal requirements.

Recommendations

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation 1: Disallow \$29.9 million (Federal share \$26.9 million) of ineligible costs until MEMA can properly justify why the scope of work was not

⁴ 44 CFR 13.37(a)(2) and 44 CFR 13.40(a).



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completed in accordance with terms of the grant. Since this amount was questioned in Management Advisory Report OIG-16-115-D, we will not question the same amount again (finding A).

Recommendation 2: Direct Mississippi to comply with Federal accounting regulations and FEMA guidelines so that funds are accounted for accurately, easily traced to support, and reported in a timely manner (finding B).

Recommendation 3: Prior to issuance of this report, we determined that there was not a finding (finding C). The recommendation remains to allow proper tracking with FEMA's response (see appendix B).

Recommendation 4: Closely monitor any future MEMA reimbursements for subcontractor markup claims to ensure compliance with Hazard Mitigation requirements and cost eligibility (finding D).

Recommendation 5: Provide additional technical assistance and monitoring to Mississippi to correct the deficiencies we identified in this report and to ensure compliance with grant requirements (finding F).

Discussion with Management and Audit Follow-up

We discussed the results of our audit with Mississippi and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference on March 31, 2017. Mississippi officials disagreed with our findings, but agreed with four of our five recommendations (recommendations 1, 2, 4, and 5), while it did not concur and deferred to FEMA on recommendation 3. We included the officials' comments, as applicable, in the body of the report.

The Office of Emergency Management Oversight major contributors to this report are Larry Arnold, Director; John Skrmetti, Audit Manager; Mary James, Auditor-in-Charge; Alfonso Dallas, Auditor; J Dixon, Auditor; Rickey Smith, Auditor; Sean Forney, Auditor; and John Schmidt, Independent Reference Reviewer.

Please call me with any questions at (202) 254-4100, or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General, at (202) 254-4100 or Larry Arnold, Director, Gulf Coast Regional Office, at (228) 822-0387.



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Evaluation of Management Comments

On April 27, 2017, we received FEMA's written comments response to this report (see appendix B). FEMA agreed with recommendations 1, 2, and 4, but did not agree with recommendation 3 and provided new evidence supporting its position. FEMA did not address recommendation 5.

Based on FEMA's proposed or actions taken, we agree with FEMA on recommendations 1, 2, 3, and 4. For recommendation 3, FEMA provided new evidence to support its position. After reviewing the new evidence and our previous analysis of the BCA aggregation calculation, we agree that it is allowable. Therefore, we consider recommendations 1, 2, and 4 resolved and open; recommendation 3 resolved and closed; and recommendation 5 unresolved and open.



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Appendix A

Objective, Scope, and Methodology

We audited Hazard Mitigation grant funds awarded to MEMA (FIPS Identification Number 000-U0220-00). Our audit objective was to determine whether Mississippi accounted for and expended Hazard Mitigation grant funds according to Federal regulations and FEMA guidelines. We only reviewed documentation supporting \$957,776 in cost because MEMA officials only allowed us partial access, starting September 2016, to contractor invoices until they performed an internal audit of the documents and limited access to MEMA employees. Due to time constraints, we could not wait until MEMA completed its review. Therefore, this report cannot make any conclusions on the validity of the support of \$30.5 million in expenditures MEMA contends it paid to contractors.

As of October 26, 2015, MEMA received a Hazard Mitigation grant award of \$29.9 million (net) for damages resulting from FEMA Disaster Number 1604-DR-MS that occurred in August 29, 2005. The audit covered the period August 29, 2005, through October 26, 2015, the cutoff date of our audit and provided 90 percent funding for Project 485 under the Hazard Mitigation Program.

To accomplish our objective, we interviewed FEMA, Mississippi, and MEMA officials; gained an understanding of MEMA's method of accounting for disaster-related costs and its procurement policies and procedures; reviewed applicable Federal regulations and FEMA guidelines; performed an analysis of the BCA type and calculation; and performed other procedures considered necessary under the circumstances to accomplish our audit objective. Although we reviewed MEMA's method of accounting for disaster-related costs and its procurement policies and procedures, we did not perform a detailed assessment of all of MEMA's internal controls over its grant activities.

We conducted this performance audit between October 2015 and March 2017, under the authority of 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 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.



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Appendix B
FEMA's Response to Report

U. S. Department of Homeland Security
Region IV
3003 Chamblee Tucker Road
Atlanta, GA 30341



FEMA

APR 27 2017

MEMORANDUM FOR: Larry Arnold
Director
Gulf Coast Regional Office
Office of Disaster Assistance Oversight

FROM: Gracia B. Szczech 
Regional Administrator
FEMA Region IV

SUBJECT: Management's Response to OIG CRM Draft Report: "FEMA Should Recover \$29.9 Million in Hazard Mitigation Funds Awarded to MEMA for the Mississippi Coastal Retrofit Program" (Project No. OIG-17-XXX-D)

Thank you for the opportunity to review and comment on the OIG CRM Draft Report received March 14, 2017. The Federal Emergency Management Agency (FEMA) appreciates the work of the DHS Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

FEMA appreciates the OIG's recognition of FEMA's commitment to improve oversight of our grant programs. During the period in which the audit was being conducted, the OIG informed FEMA of issues of concern. FEMA immediately began working with the OIG to address these issues and demonstrate what corrective measures are being implemented. FEMA remains committed to proper stewardship of Federal funds and compliance with statutory, regulatory, and other FEMA grant administration requirements. More about these activities can be found in our below corrective action plan for addressing the recommendations.

The Report contained four (4) recommendations. FEMA's response to the four recommendations is as follows:

Recommendation 1: "Disallow \$29.9 million (Federal share \$26.9 million) of ineligible costs until MEMA can properly justify why the scope of work was not completed (finding A).

Original Response: Concur. As each batch is submitted for review and drawdowns, the costs associated with that batch will be reviewed. The original scope of work was written to retrofit up to 2,000 homes. Verification of the scope of work for this project will be determined through FEMA Region IV's eligibility process. Analyzing actual costs versus projected cost will help inform why less than the original 2,000 properties projected was not accomplished. Estimated Completion Date (ECD): The current Period of Performance for this subgrant is December 31, 2016 with a liquidation period until March 31, 2017. All actions relating to this subgrant should be completed by that time.



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OIG Analysis: MEMA did not complete the Program's scope of work, completing only 886 (44 percent) of the estimated 2,000 homes in the proposed scope; thus, potentially depriving more than 1,000 homeowners the opportunity to protect their homes from future disasters. MEMA contends that it completed work on 945 homes—still less than half of the 2,000 homes estimated in the project's approved scope of work—and paid contractors \$31.5 million for that work. This amount is \$1.6 million more than the entire \$29.9 million grant.

Corrective Action: Concur. While the initial plan was to retrofit up to 2,000 properties, the type of work required for each structure could not be determined at that point in time. Upon analysis and inspection, more realistic costs were determined and batches were submitted to FEMA and approved for a total of 904 properties. Estimated Completion Date (ECD): The current Period of Performance has been extended for this subgrant through December 31, 2017 with a liquidation period until March 31, 2018. All actions relating to this subgrant should be completed by that time.

FEMA Region IV met with MEMA on September 13, 2016 and formulated a process that has been in place and is on-going to ensure that the scope of work will be completed and compliant with federal accounting regulations and FEMA guidelines. The process is as follows:

State Required Documentation – State will provide all financial documentation for the construction costs including photos and site inspections to enable FEMA RIV the ability to process each batch in its entirety enabling closeout of each batch as it is reconciled. Soft costs will be handled separately from the individual batch construction portion.

FEMA Reconciliation Procedure – FEMA RIV will process each batch for the construction portion for all cost elements comparing actuals to the approved accounting for each property as part of the final project and will complete the property site inventory for each property in the NEMIS system to enable the closeout of each batch. All discrepancies will be communicated to the State as each batch is completed.

Commitments – MEMA will provide all requested/required documentation as identified in the State Required Documentation section of the Reconciliation Process for each property/batch including site inspections and photos. The State will provide the "soft costs" as a separate submission from the batch construction costs.

FEMA Reconciliation Process for Closeout of 1604-0485 Coastal Retrofit MS Batches

A. State Required Documentation

1. Per Batch:
 - a. State to FEMA Closeout Request Cover Letter
 - b. Per Property
 - i. State reconciliation spreadsheet of Original Cost vs. Actual Cost, per cost element, and their difference
 - ii. MEMA's HMGP Summary of Documentation in Support of Amount Claimed For Eligible Disaster Work
 - iii. Contract Work Summary Record - Signed & Dated



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- iv. Reimbursement Request from subcontractor for each property
- v. ARA Final Report and Color Photos
- vi. MEMA Mitigation HMGP Final Inspection Report- Signed & Dated
- 2. Once FEMA has approved, provide proof of drawdown, including amount and date
- B. FEMA Reconciliation Procedure**
 - 1. Per Batch
 - a. Enter Project Number and Batch into MS New Tracker
 - b. Verify that all required documents are included in the Batch Closeout request, and that and costs are eligible.
 - i. If not, send RFI to State, note on Tracker, and do not proceed until all required documentation is received and eligibility issues are resolved.
 - 1. Notify State of discrepancy and obtain clarification/justification
 - 2. Determine if cost is valid or not.
 - 3. If necessary, obtain corrected Closeout Request from State
 - ii. If Complete, proceed to next step
 - c. Enter total cost actuals for each property in NEMIS
 - d. Run Project Closeout Property Error Report in Closeout Screen under Property Tab to identify any errors.
 - i. Correct any missing information for any properties
 - ii. Rerun the report until all errors for those properties have cleared
 - e. Determine if there is a de-obligation, if so:
 - i. Submit de-obligation into NEMIS (MA)
 - ii. Send de-obligation request to Financial Specialist for HMO processing
 - iii. Pull completed de-obligation report
 - f. Create FEMA Drawdown Approval Letter for the Batch
 - i. Attach De-obligation Report
 - 1. No report is needed if the Federal Share is even
 - ii. Obtain Concurrences and Signature
 - iii. Send FEMA Final Claim Letter to State
 - g. Enter Batch Totals into 1604-0485 Coastal Retrofit MS Reconciliation for Closeout at: [1604-0485 Closeout Reconciliation.xlsx](#)
 - h. Obtain Drawdown amount and date for that Batch from State
 - i. Do not approve another draw down until the prior Batch drawdown has been completed.

To date, FEMA Region IV has received, reviewed, financially reconciled, and entered property site information into the NEMIS system the construction cost for 25 of the 39 batches which have been determined to be eligible. FEMA is waiting on other supportive documentation in order to proceed with the reconciliation of the remaining 14 batches. These 25 batches account for 542 out of 904 properties. Thirteen (13) of the 39 batches have been closed with the de-obligation of funds occurring with each batch. As each batch is closed out, it is submitted along with its supportive documentation to the OIG. Please see the screenshots below of batch reconciliations and closeouts to date:



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Batch Closeout Calculations											
Date of Drawdown Approval											
	8/27/2013	3/20/2015	9/20/2016	9/21/2016	12/15/2016	12/15/2016	12/22/2016	1/12/2017	1/24/2017	1/24/2017	
Batch #	Administrative Costs	State Drawdown Identified	1	2	3	4	5	6	7	8	Totals
# Payments Made to Properties (Doesn't Represent Total # of Properties)			1	5	5	7	15	21	17	4	542
Duplicate Payments			0	0	0	0	0	0	0	0	19
Actual # of Properties			1	5	5	7	15	21	17	4	523
			Construction	Construction	Construction	Construction	Construction	Construction	Construction	Construction	
Original Approved Fed Share			15,709	69,489	32,782	105,402	196,631	433,342	329,066	49,086	11,429,346
Approved Fed Share For Drawdown (1)			14,298	54,257	26,417	81,711	149,597	312,934	253,440	37,387	7,666,130
Fed Share DE-OB (2)			(1,411)	(15,232)	(6,365)	(23,691)	(47,034)	(120,408)	(75,626)	(11,699)	(3,763,216)
Recipient Admin			(7)	(77)	(32)	(138)	(235)	(602)	(378)	(59)	(2,395)
Total DE-OB			(1,418)	(15,309)	(6,397)	(23,809)	(47,269)	(121,010)	(76,004)	(11,758)	(3,765,611)
Funds Already Drawdown	840,340	13,661,198	13,661,198	13,646,900	13,592,643	13,566,226	13,484,515	13,334,918	13,021,984	12,768,544	14,501,538
Approved Federal Funds For Drawdown	840,340	-	14,298	54,257	26,417	81,711	149,597	312,934	253,440	37,387	8,506,470
New Balance of Funds Already Drawdown	-	13,661,198	13,646,900	13,592,643	13,566,226	13,484,515	13,334,918	13,021,984	12,768,544	12,731,157	5,995,068
1) State will not perform any drawdowns until \$13,661,198 has been reconciled in full and approval is received from the Region giving permission to proceed.											
2) FEMA will continue to do de-obligations per Batch as each Closeout Batch is reconciled.											
3) Completed De-obligations											
4) Verified											

Batch Closeout Calculations											
Date of Drawdown Approval											
	8/27/2013	3/20/2015	3/1/2017	3/1/2017	3/1/2017	3/2/2017					
Batch #	Administrative Costs	State Drawdown Identified	10	11	12	13	14	15	16	17	Totals
# Payments Made to Properties (Doesn't Represent Total # of Properties)			14	8	5	5	17	24	37	41	542
Duplicate Payments			0	0	0	0	0	2	0	0	19
Actual # of Properties			14	8	5	5	17	22	37	41	523
			Construction	Construction	Construction	Construction	Construction	Construction	Construction	Construction	
Original Approved Fed Share			268,624	182,697	115,647	89,701	439,089	417,141	690,807	944,643	11,429,346
Approved Fed Share For Drawdown (1)			203,452	140,101	87,133	70,071	343,146	317,654	509,746	722,864	7,666,130
Fed Share DE-OB (2)			(65,172)	(42,596)	(28,514)	(19,630)	(95,943)	(99,487)	(181,061)	(221,779)	(3,763,216)
Recipient Admin			(326)	(213)	(143)	(98)					(2,395)
Total DE-OB			(65,498)	(42,809)	(28,657)	(19,728)	(95,943)	(99,487)	(181,061)	(221,779)	(3,765,611)
Funds Already Drawdown	840,340	13,661,198	12,659,010	12,455,558	12,315,457	12,228,324	12,158,253	11,815,107	11,497,453	10,987,707	14,501,538
Approved Federal Funds For Drawdown	840,340	-	203,452	140,101	87,133	70,071	343,146	317,654	509,746	722,864	8,506,470
New Balance of Funds Already Drawdown	-	13,661,198	12,455,558	12,315,457	12,228,324	12,158,253	11,815,107	11,497,453	10,987,707	10,264,843	5,995,068
1) State will not perform any drawdowns until \$13,661,198 has been reconciled in full and approval is received from the Region giving permission to proceed.											
2) FEMA will continue to do de-obligations per Batch as each Closeout Batch is reconciled.											
3) Completed De-obligations											
4) Verified											



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Batch Closeout Calculations												
	Date of Drawdown Approval											
	8/27/2013	3/20/2015										
Batch #	Administrative Costs	Drawdown Identified	18	19	20	21	22	23	24	25	Totals	
# Payments Made to Properties (Doesn't Represent Total # of Properties)			42	15	49	32	47	50	28	49	542	
Duplicate Payments			9	1	2	1			1	3	19	
Actual # of Properties			33	14	47	31	47	50	27	46	523	
			Construction	Construction	Construction	Construction	Construction	Construction	Construction	Construction		
Original Approved Fed Share			885,503	306,197	1,008,817	732,231	1,054,623	1,071,041	797,535	1,099,947	11,429,346	
Approved Fed Share For Drawdown (1)			543,819	225,070	622,982	433,401	616,249	647,753	476,032	704,469	7,666,130	
Fed Share DE-OB (2)			(341,684)	(81,127)	(385,835)	(298,830)	(438,374)	(423,288)	(321,503)	(395,478)	(3,763,216)	
Recipient Admin											(2,395)	
											-	
Total DE-OB			(341,684)	(81,127)	(385,835)	(298,830)	(438,374)	(423,288)	(321,503)	(395,478)	(3,765,611)	-33%
Funds Already Drawdown	840,340	13,661,198	10,264,843	9,721,024	9,495,954	8,872,972	8,439,571	7,823,322	7,175,569	6,699,537	14,501,538	
Approved Federal Funds For Drawdown	840,340	-	543,819	225,070	622,982	433,401	616,249	647,753	476,032	704,469	8,506,470	
New Balance of Funds Already Drawdown	-	13,661,198	9,721,024	9,495,954	8,872,972	8,439,571	7,823,322	7,175,569	6,699,537	5,995,068	5,995,068	
1) State will not perform any drawdowns until \$13,661,198 has been reconciled in full and approval is received from the Region giving permission to proceed.												
2) FEMA will continue to do de-obligations per Batch as each Closeout Batch is reconciled.												
3) Completed De-obligations												
4) Verified												

Recommendation 2: “Direct Mississippi to comply with federal accounting regulations and FEMA guidelines so that funds are accounted for accurately, easily traced to support, and reported in a timely manner (finding B).”

OIG Analysis: MEMA did not report a drawdown of Federal funds totaling \$13.7 million to FEMA until 20 months had passed. Specifically, in March 2015, MEMA withdrew \$13.7 million from a Federal account and did not report the funds on project quarterly financial FEMA reports or verbally notify FEMA, or properly update a state disaster accounting system, until October 2016.

Smartlink drawdowns are not tied to specific projects; therefore, FEMA officials had no knowledge of the \$13.7 million drawdown and have acknowledged that fact. Recent updates to the Smartlink system require new disaster drawdowns to link to specific projects. The Program in question predates that system update.

Original Response: Concur. FEMA Region IV has suspended all payments and drawdowns to project DR-1604-MS-0485 until the Mississippi Emergency Management Agency (MEMA) provides adequate documentation for the funds expended. The FEMA Region IV Mitigation Division formulated a process with MEMA in which MEMA will not drawdown funds for any batch until the documentation for the batch has been reviewed by MEMA’s independent auditor, where they will determine eligibility and then submit the documentation to FEMA Region IV for review and approval.

Note: As a result of the audit being performed by the State-contracted auditing firm, Horne, LLC, MEMA notified FEMA Region IV via letter dated October 18, 2016 that a draw of \$13,661,198 was done on March 20, 2015 as a reimbursement to MEMA. FEMA Region IV is accounting for these funds in the reconciliation process. As a result of this development, no drawdowns will occur by MEMA until the \$13,661,198 million has been accounted for by FEMA Region IV through the reconciliation process and formal approval to proceed with drawdowns is provided. However, de-obligations will continue to be processed in the NEMIS system as each batch is reconciled.



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Corrective Action: Concur. FEMA Region IV has suspended all payments and drawdowns to project DR-1604-MS-0485 until the Mississippi Emergency Management Agency (MEMA) provides adequate documentation for the funds expended. The FEMA Region IV Mitigation Division formulated a process with MEMA in which MEMA will not drawdown funds for any batch until the documentation for the batch has been reviewed by MEMA's independent auditor, where they will determine eligibility and then submit the documentation to FEMA Region IV for review and approval. FEMA performs a quarterly review of the Quarterly Report as submitted by MEMA. All funds have been consistently reported. If any discrepancies are identified, they will be addressed and resolved at that time.

Recommendation 3: "Disallow \$14.5 million (Federal share \$13.0 million) of ineligible costs that do not meet the minimum BCA threshold (finding C). This amount is included in the Recommendation 1 disallowance, and is therefore not cumulative."

OIG Analysis: MEMA did not follow Federal regulations and FEMA guidelines when performing benefit cost analyses (BCA) to determine eligibility for mitigation of homes under the Program. Specifically, 485 (55 percent, at a cost of \$14.5 million) of the homes MEMA completed did not individually meet the minimum threshold of 1.0 benefit-cost ratio (or BCR, as explained below) required by Federal regulation.

This occurred because FEMA allowed MEMA to use the method of aggregation for the whole project instead of performing benefit cost analyses on an individual basis as required by Federal regulations and FEMA guidelines. As a result, 485 residents were ineligible to participate in the Hazard Mitigation Program but erroneously allowed to do so. This potentially contributed to the large number of potential applicants (finding A) who did not get an opportunity to participate in the Program and may have been eligible. Therefore, we recommend that FEMA disallow \$14.5 million in ineligible funding. This amount is included in the recommended amount listed in finding A.

MEMA contends that "aggregation" is allowable per FEMA guidelines. However, the first mention of aggregation in FEMA's Hazard Mitigation Assistance Unified Guidance was in 2013, which is after Hurricane Katrina and after the start of this Program. Our standard audit procedures apply the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster. Furthermore, at a meeting between us and MEMA in May 2016, MEMA officials stated that they did not think the BCA calculations were performed properly.

FEMA Response: FEMA disagrees with the OIG finding and supports the aggregate BCA methodology used for this project which was approved by FEMA RIV Engineering and FEMA Headquarters. HMA 2009 Guidance dated June 19, 2008 allowed for calculating an aggregate BCR for projects. An aggregate BCR is calculated by dividing the total net present value of benefits for each structure by the total project cost estimate. BCA mythology has become even more flexible as supported by the following HMA guidance:



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HMA 2009 Guidance dated June 19, 2008

The Applicant or subapplicant is required to perform a BCA for each property, including repetitive flood loss properties and substantially damaged properties. For projects that address multiple structures (e.g., acquisition or elevation), the BCR must be calculated by totaling the anticipated or net present value of benefits for each structure and then those are aggregated to obtain the project's total net present value of benefits and dividing the total project benefits by the total project cost estimate.

HMA 2011 Guidance dated June 1, 2010

FEMA software allows for calculating an aggregate BCR for projects that address multiple structures. An aggregate BCR is calculated by dividing the total net present value of benefits for each structure by the total project cost estimate. Aggregation of benefit and cost values is allowed if the structures are vulnerable to damage as a result of similar hazard conditions. With the exception of the aggregation of property acquisition and structure demolition or relocation and structure elevation within the same subapplication, benefits cannot be aggregated across mitigation activity types.

HMA 2015 Guidance dated 02/27/2015

An evaluation of the cost-effectiveness of a project should include all activities included in the SOW. This may include activities in multiple jurisdictions. It may also include combining benefits from multiple activities and multiple hazards, such as wind and flood, if part of the same project.

Recommendation 4: "Closely monitor any future MEMA reimbursements for subcontractor mark-up claims to ensure compliance with Hazard Mitigation requirements and cost eligibility (finding D).

OIG Analysis: Our review found, and MEMA acknowledges, the Program possibly paid excessive mark-ups to the prime contractor. MEMA officials requested that we not review contractor invoices until it completes a costs review because of potential problems within the Program. Therefore, we did not review \$30.5 million of the contractor's invoices. MEMA's invoice review is ongoing and their officials are reporting there is a prime contractor mark-up of subcontractors' costs of an estimated 25 percent. Therefore, MEMA is planning to only request reimbursement of the subcontractor's costs, estimated at \$20.0 million. In our opinion, this is a good strategy based on the uncertainty of the prime contractor's mark-up of subcontractors' costs. Our limited analysis of summary cost documentation provided by subcontractors and the prime contractor shows an estimated 26 percent markup of subcontractors' costs (\$24.9 million, prime contractor; minus \$19.7 million, subcontractors; divided by \$19.7 million subcontractors).

Since MEMA has acknowledged the Program paid possible excessive mark-ups to the prime contractor and taken action by only requesting FEMA reimbursement of sub-contractor's costs, we are not questioning any prime contractor mark-ups above the recommended FEMA guidance estimate of 14 percent. However, we recommend that FEMA closely monitor any future MEMA claims to ensure subcontractor mark-up costs are not excessive.

Corrective Action: Concur. FEMA RIV is closely monitoring all costs through the established



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reconciliation. This process is being audited by MEMA's independent contractor, Horne, LLC. As batches are submitted for reconciliation, all contractor and subcontractor invoices are included, along with Horne, LLC's analysis sheets. Horne, LLC is following contractual guidelines and adjusting as appropriate. Once FEMA receives the batch documentation, the approved reconciliation procedure, as described under Recommendation 1, is performed. A "FEMA Recon" sheet is sent to MEMA to assist with the preparation for closeout of the batch. Once a batch closeout has been submitted, payment information per property is entered into the NEMIS system, a de-obligation of any excess funds is performed, and a Final Closeout letter is sent to MEMA. To date, 25 of the 39 batches have been reconciled. For closeouts, 13 of the 39 batches have been closed for a total of \$1,502,945 approved federal share with \$481,945 de-obligated. MEMA will not perform any drawdown of funds until the total \$14,501,538 (administrative and construction) in previously drawn down funds have been accounted for by FEMA Region IV through the reconciliation process and a formal approval to proceed with drawdowns is provided.

Note: An extension to the Period of Performance for this project has been approved through December 31, 2017 with a liquidation date of March 31, 2018 in order to allow the State the time to complete all batch reconciliations and closeout the project.



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