



The State of Mississippi

Community Development Block Grant Hurricane Disaster Recovery Program



Issue Date: December 30, 2013

Audit Report Number: 2014-AT-1004

TO: Yolanda Chavez, Deputy Assistant Secretary, Grant Programs, DG

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The State of Mississippi Did Not Ensure That Its Subrecipient and Appraisers Complied With Requirements, and It Did Not Fully Implement Adequate Procedures For Its Disaster Infrastructure Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the Mississippi's Community Development Block Grant Disaster Recovery program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



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The State of Mississippi Did Not Ensure That Its Subrecipient and Appraisers Complied With Requirements, and It Did Not Fully Implement Adequate Procedures for Its Disaster Infrastructure Program

Highlights

Audit Report 2014-AT-1004

What We Audited and Why

We audited the State of Mississippi's Community Development Block Grant Hurricane Disaster Recovery Program. The Gulf Coast Regional Infrastructure Program was selected for audit based upon a congressional request, and it was also included in the U.S. Department of Housing and Urban Development, Office of Inspector General's (HUD OIG) annual audit plan. Our main objectives were to determine whether the State ensured that (1) appraisers complied with the terms of appraisal agreements and Federal requirements and (2) projects and growth projections were reasonable and adequately supported.

What We Recommend

We recommend that HUD's Deputy Assistant Secretary for Grant Programs require the State to support \$7,200 in appraisal fees; more than \$2.1 million for property acquisition of three projects; and fully implement procedures and controls to address the findings cited in this audit report.

What We Found

The State did not ensure that its subrecipient, Harrison County Utility Authority, and its appraisers complied with the terms of appraisal agreements for the appraisal of property acquired under the State's Gulf Coast Regional Infrastructure Program. The State could not support \$7,200 paid for appraisals that did not meet standards. In addition, it lacked assurance that land purchased for more than \$2.1 million was appraised at a reasonable price.

The State did not fully implement adequate controls and procedures to ensure (1) that the need for and capacity of water and wastewater treatment facilities constructed addressed needs created by Hurricane Katrina or supported economic development and (2) the proper designation and completion of emergency activities. As a result, disaster funding of more than \$653 million was approved to construct 67 facilities that may include some plants, the capacity of which was either too small or excessive, and others plants that may not have been needed. More than \$9.6 million of disaster funds were approved for a facility based on an emergency requirement when the facility did not meet the definition of an emergency requirement.

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BACKGROUND AND OBJECTIVES

The Community Development Block Grant (CDBG) program is funded by the U.S. Department of Housing and Urban Development (HUD). It provides annual grants on a formula basis to entitled cities, urban counties, and States to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low- and moderate-income persons.

On August 29, 2005, Hurricane Katrina made landfall in southeast Louisiana and Mississippi with the worst property damage occurring in the coastal areas, such as Mississippi beachfront towns, which were more than 90 percent flooded in hours, as boats and casino barges rammed buildings, pushing cars and houses inland, with waters reaching 6 to 12 miles from the beach.

Soon after Hurricane Katrina, the U.S. Congress and the President appropriated more than \$5.4 billion to assist with the State of Mississippi's storm recovery efforts. The State created the Hancock, Harrison, George, Jackson, Pearl River, and Stone County Utility Authorities with the passage of Senate Bill 2943 - Mississippi Gulf Coast Region Utility Act, signed on April 18, 2006. Of the \$5.4 billion, the State allocated more than \$653 million to the Gulf Coast Regional Infrastructure Grant Program for the purpose of developing and implementing infrastructure in the six coastal counties. In the spirit of the report of the Governor's Commission on Recovery, Rebuilding, and Renewal, the State found that there was a need for consolidation of water, wastewater, and storm water services to reduce costs; promote resilience in the event of a disaster; improve the quality of the natural environment; and improve the planning and delivery of quality water, wastewater, and storm water services within these counties.

The Mississippi Development Authority is the State's designated agency responsible for administering CDBG funds. With regard to the Program, the Development Authority managed the accountability of the funds, while the Mississippi Department of Environmental Quality provided technical oversight and project management. The Department of Environmental Quality, established in 1989, is responsible for protecting the State's air, land, and water. Its mission is to safeguard the health, safety, and welfare of present and future generations of Mississippians by conserving and improving the environment and fostering wise economic growth through focused research and responsible regulation.

As the State's Program administrator, the Department of Environmental Quality, was responsible for developing the Gulf Region Water and Wastewater Plan. The Department of Environmental Quality engaged the Mississippi Engineering Group to assist in the development of the Plan, which included but was not limited to the projection of demographic changes to determine future service needs. The Mississippi Engineering Group entered into a subconsultant agreement with Angelou Economics to assist in preparing the population projections detailed in the Plan.

The Plan, finalized on January 9, 2007, identified the most critical infrastructure needs to accommodate the 64 percent projected population growth that the Mississippi Engineering Group expected to occur in the six counties over the next 20 years. The Plan prioritized those

projects, using more than \$653 million for 67 infrastructure projects located in the six¹ coastal Mississippi counties. On August 24, 2007, the State received from HUD a waiver of the requirement that at least 50 percent of the supplemental CDBG grant funds provided primarily benefit persons of low and moderate income. As of June 30, 2013, the State had expended \$597.5 million (91 percent) of its Program funding.

The Gulf Coast Regional Infrastructure Program was selected for audit based upon a congressional request, and it was also included in the Office of Inspector General's (OIG) annual audit plan. Our audit objectives were to determine whether the State ensured that (1) appraisers fully complied with the terms of appraisal agreements and Federal requirements and (2) the Plan's projects and growth projections were reasonable and adequately supported.

¹ Although George County's population is documented in the Plan, the county did not receive funding from the State.

RESULTS OF AUDIT

Finding 1: The State Did Not Ensure That Its Subrecipient and Appraisers Complied With Agreements and Federal Requirements

The Harrison County Utility Authority² (subrecipient) and its appraisers did not comply with the terms of the appraisal agreements for the appraisal of property acquired under the State’s Gulf Coast Regional Infrastructure Program. This deficiency occurred because (1) the subrecipient did not provide to the appraiser all of the required documents listed in the agreement, (2) the appraiser did not read the agreement, and (3) the review appraiser was not aware of the appraiser’s scope of services (agreement) requirements and failed to determine whether the documentation demonstrated the soundness of the appraiser’s opinion of value. As a result, the State could not support \$7,200 paid for appraisals that did not meet standards and lacked assurance that \$2.1 million was a reasonable price for the land purchased.

The Subrecipient Did Not Comply With Appraisal Agreements and Federal Requirements

The subrecipient contracted with Ladner Appraisal Group, Inc. (appraiser), on February 21, 2008, agreeing to provide appraisal services for certain real property that it planned to acquire for the 25 subrecipient projects funded under the Program. The purpose of the agreement was that the appraisals were to be used by the subrecipient for guidance in making a fair and impartial determination of the fair market value and just compensation to be offered to each property owner under eminent domain. The agreement further stated, “...the appraisal reports will be reviewed carefully by the Harrison County Utility Authority [subrecipient].”

On August 1, 2008, the subrecipient executed a contract with Doug Singletery & Associates, Inc. (review appraiser), to review the appraisals completed by the appraiser under this Program to determine whether the appraisal report under review complied with the requirements of the Uniform Act,³ Uniform Standards of Professional Appraisal Practice (USPAP), and HUD Handbook 1378.

² The State of Mississippi created the Harrison County Utility Authority with the passage of Senate Bill 2943 – Mississippi Gulf Coast Region Utility Act, signed on April 18, 2006.

³ 49 CFR (Code of Federal Regulations) Part 24, Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (42 U.S.C. (United States Code) 4601 et seq.) (Uniform Act)

We reviewed four appraisal reports with an aggregate acquisition price of more than \$2.4 million and associated appraisal fees of \$7,200 for the subject properties.

Table 1: Summary of project appraisers’ fees, values, and acquisition price

Project	Appraiser fee	Review appraiser fee	Total appraiser-review appraiser fees	Appraiser’s value of the acquisition	Acquisition price
Biloxi Broadwater Water System Improvements (W19)	\$1,200	\$600	\$1,800	\$681,900	\$340,950
Biloxi Broadwater Wastewater Transmission System Improvements (S21)	\$1,200	\$600	\$1,800	\$96,800	\$437,750
D’Iberville Wastewater Treatment Facility and Transmission System (S20)	\$1,200	\$600	\$1,800	\$1,380,000	\$1,380,000
Gulfport VA Area Water Supply Improvements (W16)	\$1,200	\$600	\$1,800	\$300,400	\$300,400
Totals	\$4,800	\$2,400	\$7,200	\$2,459,100	\$2,459,100⁴

Information Was Not Provided

Article 5 of the agreement, dated February 21, 2008, stated that the subrecipient would provide certain documents to the appraiser. Title information (title opinion) was one of the items to be supplied to the appraiser according to the agreement, and the appraiser should not have started the appraisal process without this information. Title information was also required by regulations at 49 CFR (Code of Federal Regulations) 24.103(a)(2)(i) to be included in the appraisal report. None of the appraisals reviewed contained this information. According to the appraiser, a title opinion was not received, and, in essence, the appraiser operated in the dark related to title issues and encumbrances regarding the property appraised. According to the appraiser, the only information provided at the time of the engagement was

- Tax parcel number of the property to be appraised,
- Name of the property owner,
- Survey (engineers plat) (in some instances the wrong engineers’ plats), and
- Notifications that a return receipt (green card) was received by the property owner so he could begin the appraisal process.

⁴ The Biloxi Broadwater acquisition price for both projects was paid to the same payee.

In one appraisal, W19, a title opinion showing existing easements could have alerted the appraiser that part of the property being appraised was subject to existing power line easements as shown in picture 1.



Picture 1: Power lines on project W19

It was only after the subrecipient had purchased a tract of land for \$340,950 that it was realized that the property was subject to a Mississippi Power line easement. If the subrecipient and the appraiser had requested and insisted that title information be provided, additional costs estimated to be more than \$70,000 to move the power lines, purchase existing easements from Mississippi Power, or purchase new property could have been prevented. Regulations at 49 CFR 24.103(a)(2) state that the agency has the responsibility to ensure that the appraisals it obtains are relevant to its program needs, reflect established and commonly accepted Federal and federally assisted program appraisal practices, and at a minimum, comply with the definition of an appraisal in 49 CFR 24.2(a)(3).

The Appraiser Did Not Read the Agreement

According to the agreement, the appraiser agreed to follow nationally recognized appraisal standards and techniques to the extent that such principles were consistent with the eminent domain law of the State. While not addressed by name or reference, this agreement would include but not be limited to USPAP requirements. During an initial interview with the appraiser, he stated that he had not read the agreement and did not know what was required in relation to the appraisal reports.

We performed field appraisal reviews⁵ of the original appraisal and review appraisal reports and identified various deficiencies. After disclosing the findings to the State, we agreed to allow the appraiser and review appraiser an opportunity to provide supplemental information in an effort to correct the deficiencies noted. Our review of the supplemental information was to determine whether the information provided corrected the deficiencies previously noted and whether the additional information provided support for the appraiser's value of acquisition in the original report. We determined that the supplemental information was

⁵ Projects W19, S21, S20, and W16

equivalent to a new assignment. Our review of the new appraisals indicated these also did not fully comply with USPAP despite the appraiser's effort to materially comply with the requirements of the agreement. The desk review of the current appraisals indicated the appraiser failed to

- Collect, verify, and analyze all information necessary for credible assignment results and identify characteristics of the property that were relevant to the type and definition of value and intended use of the appraisal;
- Provide appraisals that were well documented; and
- Provide appropriate allowances for differences in market conditions and physical differences between the subject and sales.

The appraiser also used a ranking method⁶ in the sales comparison approach without making market-driven adjustments for dissimilarities between the subject and comparable sales for the properties purchased for projects W19 and S21. While the ranking method is an acceptable method, it (1) is not the preferred method to use in the sales comparison approach, which is subject to eminent domain proceedings, and (2) failed to comply with the scope of services requirements contained in the agreement. The agreement states that as part of the purpose, the appraiser is to provide a full explanation of the reasoning and analysis of the evidence of value. The agreement further states that the appraiser's analysis must reflect appropriate allowances for the difference in the time of the sale of the comparable properties and the date of the appraisal and the differences in the utility, desirability, and productivity of the properties that are pertinent to their relative value. The appraisals for projects W19 and S21 failed to provide evidence related to market condition, location, and physical adjustments between the subject and sales. A highly used and respected appraisal book, "Real Estate Valuation in Litigation" by Eaton, refers to the fact that "...nothing less than a self-contained report is acceptable for eminent domain cases; and anything less than a self-contained report fails to meet the need of the user of the report."

The appraisals for the properties, purchased for projects W19, S21, and S20 as presented, failed to support the appraiser's final value conclusion of the acquisition of more than \$2.1 million. In addition, the properties purchased for projects W19 and S21 failed to comply with USPAP Standards Rules 1-2(f) and (g) and 2-2(b)(x) when the appraiser used hypothetical conditions and assumptions in the report that were confusing and misleading without proper disclosure and failed to notify the users that the use of the hypothetical conditions and extraordinary assumptions would affect the results.

Regarding the property purchased for project W16, the value conclusion of the acquisition appeared to have been reasonable based on supplemental information submitted by the appraiser; however, the appraiser failed to comply with the

⁶ A qualitative technique for analyzing comparable sales - a variant of relative comparison analysis in which comparable sales are ranked in descending and ascending order of desirability and each is analyzed to determine its position relative to the subject.

reporting requirements of USPAP (see appendix C for the specific deficiencies in the appraisal reports).

The Review Appraiser Was Not Aware of the Appraiser's Scope of Services (Agreement) Requirements and Failed To Request the Appraiser's Work File

As part of the review process, the review appraiser was to review the appraisal to determine that the report under review complied with requirements of the Uniform Act, USPAP, and HUD Handbook 1378. Of the reports reviewed, the review appraiser failed to perform the job as the review appraiser and appeared to have approved the reports as written without performing an adequate review.

Regulations at 49 CFR 24.104(c) state that the review appraiser is to review the appraiser's presentation and analysis of market information and that they are to be reviewed against 49 CFR 24.103 and other applicable requirements. The appraiser stated in the appraisals that the report was a summary report that complied with the reporting requirements of USPAP Standards Rule 2-2(b). The appraiser stated as item number 1 of the special limiting condition and item number 12 of the contingent and limiting conditions that the report did not include a full discussion of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. He further stated that supporting documentation concerning the data, reasoning, and analyses were retained in the appraiser's file. Several statements similar to this one were noted throughout the report. However, the review appraiser did not request the appraiser's work file to determine whether the documentation, including valuation data and analysis of those data, demonstrated the soundness of the appraiser's opinion of value as required at 49 CFR 24.104(c). In essence, the appraiser put the user(s) and the review appraiser on notice that they would not be able to fully understand the report without the work file. The review appraiser disregarded the appraiser's statements and proceeded with the review and approval of the appraisal.

The appraiser further stated in the sale comparison approach that there were dissimilarities between the subject property and comparable sales but did not disclose or discuss what the dissimilarities were and provided no comparative analysis, reasoning, or support for the value conclusion. Based on the content of the appraisal, the review appraiser would have been unable to conclude that the report contained adequate documentation and analysis to support the sales comparison approach and determine whether the value conclusion was supported. The level of documentation, analysis, and support for the appraiser's value conclusion of the acquisition contained within the report was insufficient to comply with the requirements of USPAP Standards Rules 1 and 2, HUD Handbook 1378, and 49 CFR Part 103 and did not meet the needs of the client.

After our review of the supplemental information, it was determined that the review appraiser failed to adequately review the appraisals for proper

documentation and approved appraisals that failed to adequately comply with the terms of the agreement and requirements of the Uniform Act (see appendix D for the specific deficiencies in the review appraisal reports).

Conclusion

The State did not ensure that its subrecipient, Harrison County Utility Authority, and its appraisers complied with the terms of the appraisal agreements for the appraisal of property acquired under the State's Gulf Coast Regional Infrastructure Program. This deficiency occurred because (1) the subrecipient did not provide all of the required documents listed in the agreement to the appraiser; (2) the appraiser did not read the agreement; and (3) the review appraiser was not aware of the appraiser's agreement and failed to determine whether the appraisal documentation demonstrated the soundness of the appraiser's opinion of value. Thus, the State could not support \$7,200 paid for appraisals that did not meet standards. In addition, it lacked assurance that land purchased for more than \$2.1 million was appraised at a reasonable price.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Grant Programs

- 1A. Require the State to provide supporting documentation for the \$7,200 in appraisal fees or reimburse the Program from non-Federal funds.
- 1B. Require the State to provide supporting documentation for the \$2,158,715 acquisition of property for projects W19, S21, and S20 or reimburse the program from non-Federal funds.

Finding 2: The State Did Not Fully Implement Adequate Controls and Procedures for Its Disaster Infrastructure Program

The State did not fully implement adequate controls and procedures to ensure (1) that the need and sizes of water and wastewater treatment facilities constructed addressed the requirements created by Hurricane Katrina or supported economic development and (2) the proper designation and completion of emergency activities. These conditions occurred because State officials accepted inadequately supported changes to population growth levels and disregarded data that would have adversely affected its emergency designation for one project. As a result, more than \$653 million in disaster funds was approved to construct 67 water and wastewater treatment facilities, which may include some plants, the capacity of which were either too small or excessive, and other plants that may not have been needed. In addition, more than \$9.6 million in disaster funds was approved for a facility based upon an emergency justification when the facility did not meet the definition of an emergency requirement.

Support for the Need and Size of Approved Water and Wastewater Projects Was Inadequate

Before the State could expend any CDBG Disaster Recovery Community Development Block Grant funds for the State's Gulf Coast Regional Infrastructure Program, HUD was required to approve the State's action plan for the intended use of the funds. On August 31, 2006, HUD approved the State's action plan to provide infrastructure needs that would support areas to accommodate future growth whether driven by population shifts or economic development. In its contract with the Mississippi Engineering Group, Inc., the State required its contractor to project demographic population changes to determine future service needs for six Mississippi counties.⁷ To meet this requirement, Mississippi Engineering Group entered into a subconsultant agreement with Angelou Economics. The population projections from the Gulf Region Water and Wastewater Plan were used to determine future water and wastewater flows for the water and wastewater facilities.

The State allowed unsupported changes to the population projections, which resulted in increases to population growth levels in amounts that were significantly higher than those supported by other population sources⁸. As a result of the unsupported changes, we could not determine whether the State ensured that the need for and sizes of water and wastewater facilities constructed addressed the needs created by Hurricane Katrina or would support economic development.

⁷ The six counties included George, Hancock, Harrison, Jackson, Pearl River, and Stone.

⁸ 2005 - Mississippi Institutions of Higher Learning, and U.S. Census Bureau

We reviewed the files related to the methodology for the development of the population projections and determined that the files lacked adequate support for why the population projections changed over time and explanations as to the basis for the population projection conclusions. During our August 14, 2013, meeting, the subconsultant stated that in any population projection, the outcome is driven by professional judgment when modifying the existing data. However, the subconsultant provided a study⁹ noting that if a projection is not based on valid data, techniques, and assumptions, the projections are not likely to provide plausible results.

During our review, we determined that the projections changed significantly in a relatively short period. For example, on July 5, 2006, the subconsultant provided the contractor with an initial population projection of 25 percent¹⁰ growth for the six coastal Mississippi counties for the entire 20-year planning period. The subconsultant preferred to be conservative with his projections for the following reasons:

- The region had been historically growing at half the rate of the national average.
- He was concerned about inferring a high build-out rate for new subdivisions to drive overall population growth.
- Rising construction costs and higher insurance rates would limit the ability of individuals to rebuild and deter reconstruction.
- People in temporary situations would increasingly consider moving out of State if housing did not return and if the job market slowed.
- Preliminary estimates showed the local job base to be steadily declining, which may indicate that long-term trends in primary industries were declining.
- The national condominium market was oversold and could limit new construction in the Mississippi Gulf Coast region.

On August 2, 2006, after substantial revisions at the request of the contractor, the Plan projected an increased population growth of 64 percent¹¹ for the planning period (see appendix E for the Plan versus the initial projections). The contractor did not believe the initial numbers were accurate and insisted that the subconsultant revise the projections. The contractor justified its request for

⁹ State and Local Population Projections Methodology and Analysis, p. 285, Smith, Tayman, and Swanson, 2001

¹⁰ $576,712$ (projected 2025) - $461,107$ (2005 census data) = $115,605 / 461,107 = 25$ percent (see contractor initial population projections table in appendix E)

¹¹ $749,029$ (projected 2025) - $457,575$ (census 2005 data) = $291,454 / 457,575 = 64$ percent (see Mississippi Gulf Region water and wastewater plan population projections table in appendix E)

increases, stating that the infrastructure needed to be in place for the population to increase and it would be difficult to justify enhanced infrastructure if the projections were low. On January 9, 2007, the State published the Gulf Region Water and Wastewater Plan for the six Mississippi counties' population projections for the 20-year planning period, which projected an increased population growth of 64 percent as shown in table 2. The Plan prioritized those projects using more than \$653 million for 67 infrastructure projects.

Table 2: Population projections - Mississippi Gulf Region Water and Wastewater Plan

County	Census Data	Permanent plus Transient Population with +/- 15% Variable and Re-Population to Census Level if Required											
	2005	(-15%)	2010	(+15%)	(-15%)	2015	(+15%)	(-15%)	2020	(+15%)	(-15%)	2025	(+15%)
George	21,011	22,462	26,426	30,390	24,079	28,329	32,578	25,813	30,368	34,923	27,671	32,554	37,437
Hancock	46,002	44,718	52,610	60,501	50,612	59,544	73,714	55,855	65,712	78,102	58,982	69,391	81,070
Harrison	189,444	216,075	254,206	292,337	243,618	286,609	343,829	264,736	311,454	370,576	282,870	332,788	394,315
Jackson	134,950	126,618	148,963	171,307	142,071	167,143	192,214	155,530	182,976	210,422	164,570	193,612	222,654
Pearl River	51,809	57,481	67,624	77,768	65,034	76,511	87,988	71,102	83,649	96,197	77,736	91,454	105,172
Stone	14,359	16,505	19,418	22,331	19,603	23,062	26,522	22,725	26,736	30,746	24,846	29,230	33,615
Total	457,575	483,860	569,247	654,634	545,018	641,197	756,844	595,761	700,895	820,966	636,674	749,029	874,263

We compared the mean absolute percent error (MAPE)¹² for the Plan's 2010 projections to the subconsultant's initial projections and two other 2010 projections shown in table 3. The MAPE is a statistical tool used to determine accuracy in projections, estimates, and forecasting. The lower the MAPE, the more accurate the numbers. The Plan's MAPE was the highest (21.93 percent), based on the midrange published numbers at the county level. The State's projections at the +15 percent value¹³ indicated an error rate of 40 and 28 percent with and without transients,¹⁴ respectively. The other two independent projections' error rates were less than 3 percent, and the subconsultant's original error rate was 9 percent, which demonstrated that the Plan's projections were less accurate when compared to other projections.

¹² It is calculated using [(actuals – forecast)/actuals] x 100.

¹³ During the August meeting with the State, the contractor stated that a standard value of ± 15 percent was included in all of the county level totals in the Plan to “appease” the stakeholders instead of what may have been a more realistic requirement for water and wastewater facilities.

¹⁴ The Plan's population projections included transient population (for example, temporary residents living in condominiums and visitors staying in hotel rooms), but the U.S. Census data do not; therefore, we compared the Plan's projections with and without transients.

Table 3: MAPE comparisons

Population projections data sources	Census 2010 actual	2010 forecast	Difference	MAPE (absolute values)
U.S. Census Bureau - 2005	466,878	465,137	1,741	0.37
Mississippi Institutions of Higher Learning (IHL) - 2005	466,878	479,962	-13,084	2.80
Angelou Economics - original projections - 2006	466,878	422,828	44,050	9.44
Mississippi Gulf Region Water and Wastewater Plan - without transients	466,878	520,188	-53,310	11.42
Mississippi Gulf Region Water and Wastewater Plan - with transients	466,878	569,247	-102,369	21.93
Mississippi Gulf Region Water and Wastewater Plan - without transients +15	466,878	598,216	-131,338	28.13
Mississippi Gulf Region Water and Wastewater Plan - with transients +15	466,878	654,634	-187,756	40.22

Conceptual design reports were prepared by the contractor that showed the population projections used to determine future water and wastewater flow needs for the water and wastewater facilities. During the August 14, 2013 meeting, the contractor stated that a standard value of + 15 percent were only included in the county totals to appease the stakeholders instead of what may have been a more realistic requirement for water and wastewater facilities.

To determine to what extent the facilities would be used once completed, Mississippi’s legislative oversight agency, the Joint Legislative Committee on Performance Evaluation and Expenditure Review, requested estimates of usage versus capacity for each project that included a water or wastewater facility. It determined that although usage estimates for newly constructed water and wastewater facilities built through the Program varied by county (ranging from less than 1 to 70 percent of capacity for water facilities and less than 1 to 87 percent of capacity for wastewater facilities), some, particularly in Harrison County, would have a relatively low utilization rate after projects were complete. For example, the water project located in North Harrison County was estimated to have less than 1 percent usage after the 2011 completion date. Also, the wastewater projects located in the city of Saucier and East Central Harrison County were estimated to have zero to 6 percent and less than 1 percent usage, respectively, after the 2011 completion dates (see appendix F for usage by county).

Because State officials accepted inadequately supported changes to population growth levels, the plan HUD approved to use more than \$653 in disaster funds to construct 67 facilities may have included some plants that were too small or large and others plants that may not have been needed.

The Designation and Implementation of an Emergency Project Were Inadequate

On August 31, 2006, HUD approved the State's action plan for \$25 million in emergency funding to address critical needs in communities impacted by Hurricane Katrina while the Plan was being completed. The State recommended five¹⁵ critical projects to receive funding for \$21.6 million (see appendix G).

Designation Was Inadequate

The River Hills Wastewater Treatment Facility (S10E project) in Harrison County received funding of more than \$9.6 million that was set aside out of the overall Program allocation to facilitate its accelerated implementation. The State identified this project as critical, stating that without the accelerated grant application and funding for the wastewater treatment facility, the expected rapid development in the area would result in more overloading of the inadequate lagoons. This condition was expected to cause more pollution in the receiving streams and more health risks to the residents in this area because the onsite wastewater treatment system had a historically high failure rate. However, on September 5, 2007, the Harrison County Utility Authority requested that the project be changed from two 200,000-gallons-per-day interim wastewater treatment facilities to a permanent one with a capacity of up to 500,000 gallons per day. The State reviewed and approved its request, knowing that the request would delay the construction of the facility, although it was designated as an emergency. One of the emergency funding criteria¹⁶ stated that construction of the project could not reasonably be delayed until the Plan was completed. Yet the construction of the facility did not begin until after April 20, 2009, which was more than 2 years after the implementation of the Plan and approval of emergency funding.

Implementation Was Inadequate

According to the State, the existing permitted facilities within the area were not expected to have adequate capacity to address the projected growth in the area, and the State was not expected to replace existing facilities with new facility capacity until after expiration of the existing 5-year pollution permits, if at all. Therefore, the State approved this project with full knowledge that the facilities would be idle until the expiration of the permits and might not serve any customers after the permits expired; therefore, the project did not meet the emergency criteria. As of September 30, 2013, more than 7 years after the emergency project was approved by HUD, the Riverhills service area was still

¹⁵ (1) Popularville Area, (2) Eastern Hancock County Regional Water Supply (Kiln), (3) Saucier wastewater treatment facility and Riverbend-Robinwood Forest Transmission System (River Hills Wastewater Treatment Facility), (4) South Woolmarket wastewater treatment facility and transmission mains, and (5) North Jackson County decentralized wastewater treatment facility.

¹⁶ See appendix G.

being serviced by private wastewater treatment lagoons and covered under various water pollution control permits. The State had not confirmed how the emergency need was being met (see pictures 2 through 5).



Picture 2: S10E project sign



Picture 3: Aeration



Picture 4: Oxidation Ditch



Picture 5: Oxidation Ditch

Conclusion

The State had not fully implemented adequate controls and procedures to ensure (1) that the need for and the sizes of water and sewer facilities constructed addressed requirements created by Hurricane Katrina or supported economic development and (2) the proper designation and completion of emergency activities. Specifically, the State approved conceptual designs for water and wastewater treatment facilities for which the facilities' sizes and capacities were not supported by objective population growth estimates. The State also constructed a wastewater treatment facility, which it designated as an emergency project, although it had not met the requirements for an emergency need. These conditions occurred because State officials allowed increases to the population growth levels that were significantly higher than population estimates supported by other sources and disregarded data that would have adversely affected its emergency designation for one project. As a result, more than \$653 million in disaster funds was approved to construct 67 water and wastewater facilities, which may include some plants, the capacity of which was either too small or excessive, and others plants that may not have been needed. In addition, more

than \$9.6 million for an emergency facility was approved when the facility did not meet the emergency requirement.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Grant Programs require the State to

- 2A. Fully implement controls and procedures to ensure that in the future the need and size of projects are determined and supported by objective and relevant population data that accurately support the size and capacity of the facilities approved for development.
- 2B. Fully implement controls and procedures to ensure that in the future projects are properly identified as emergency projects and when designations are made, the projects are constructed and implemented pursuant to the intent of that designation.

SCOPE AND METHODOLOGY

The objectives of the audit were to determine whether the State ensured that the appraisers fully complied with the terms of appraisal agreements and growth projections were reasonable and adequately supported.

Our audit scope generally covered April 1, 2006, through December 31, 2012, and was extended as needed to accomplish our objectives. We conducted our fieldwork from October 20, 2011, through October 18, 2012, at the Harrison County Utility Authority in Gulfport, MS, and the State's and HUD OIG's offices in Jackson, MS. To accomplish our objectives, we

- Reviewed applicable HUD laws, regulations, and other HUD program requirements relevant to CDBG Disaster Recovery funding;
- Obtained and reviewed the appraiser and the review appraiser agreements;
- Interviewed HUD officials, State officials and contractors, and County Utility Authority officials;
- Reviewed the State's audited financial statements and reconciled the State's quarterly system reports to Disaster Recovery Grant Reporting system reports;
- Obtained and reviewed HUD's monitoring reports and the State's monitoring documentation;
- Obtained and reviewed the State's action plans and its amendments for the Gulf Coast Regional Infrastructure Program;
- Obtained, analyzed, and reviewed the State's Gulf Region Water and Wastewater Plan, dated January 9, 2007;
- Obtained and reviewed other population projection reports: (1) the Harrison County 2030 Comprehensive Plan, (2) the Gulf Regional Planning Commission, Mississippi Gulf Coast Area Transportation Study 2030 Long-Range Transportation Plan, and (3) the State's 2010 and 2011 Joint Legislative Committee on Performance Evaluation and Expenditure Reviews;
- Conducted site visits of projects located in Harrison, Hancock, Jackson, Pearl River, and Stone Counties; and
- Obtained and reviewed the agreements between the State and its contractor.

We conducted four appraisal reviews and four corresponding review appraisal reviews to determine whether the appraiser and review appraiser complied with the terms of their appraisal agreements. These appraisals were selected for review based on the five largest land purchases for the projects associated with the Program, which totaled more than \$8.8 million (68 percent) of the more than \$13.1 million paid by the Harrison County Utility Authority for land acquisitions. The five largest land purchases were

- A. \$4.7 million (S11 and W18 projects),
- B. \$1.6 million (S19 and S19E projects),
- C. \$1.3 million (S20 project),
- D. \$778,700 (W19 and S21 projects), and

E. \$307,900 (S18 and W16 projects).

The four appraisal and corresponding review appraisal reviews were for the W19 and S21 (appraised separately), S20, and W16 projects. The two largest land purchases of more than \$4.7 million (S11 and W18) and \$1.6 million (S19 and S19E) were removed from our review since the former was an acquisition of personal property, which is not subject to an appraisal, and the latter was in litigation; thus, its acquisition cost may change based on the court ruling. Given our methodology, the results of our disbursements for the appraisal fees and land acquisition price selected for review cannot be projected to the universe of the disbursements made during the period.

To determine whether the growth projections for the 67 projects were reasonable and adequately supported, we obtained, reviewed, and analyzed the State's documents provided to support Angelou Economics' population projections methodology. We selected all 67 projects for review. The documents reviewed and analyzed included but were not limited to graphs, charts, spreadsheets, emails, and independent data sources. To assist us in accomplishing this task, we procured Oneida Total Integrated Enterprises, an independent engineering firm that specializes in demographic projections, to assess the reasonableness and accuracy of the growth projections detailed in the Mississippi Gulf Region Water and Wastewater Plan. We reviewed, analyzed, and documented Oneida's findings for use in our report; we take full responsibility for the work conducted. Oneida reviewed the methodology employed to develop the population projections published in the Plan and compared the methods to normal good practice in the field. To accomplish this review, Oneida completed the following steps:

1. To assess the accuracy of the Plan, comparisons were made at the county, tract, and block group level between the published Plan's 2005 and 2010 projections and the published U.S. Census Bureau estimates (2005) and U.S. Census Bureau counts (2010).
2. To assess the reasonableness of the demographic projections in the Plan, comparisons were made between the Plan's projections and other available projections.

We conducted the audit in accordance with 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Program operations - Policies and procedures that management has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Relevance and reliability of information - Policies and procedures that management has implemented to reasonably ensure that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that program implementation is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The State's subrecipient and its appraisers did not comply with the terms of appraisal agreements and Federal requirements for the appraisal of property acquired under the State's Gulf Coast Regional Infrastructure Program (see finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Unsupported 1/</u>
1A	\$7,200
1B	<u>\$2,158,715</u>
Total	<u>\$2,165,915</u>


- 1/ Unsupported costs are those charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments


STATE OF MISSISSIPPI
PHIL BRYANT
GOVERNOR
MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
TRUDY D. FISHER, EXECUTIVE DIRECTOR

November 22, 2013

VIA EMAIL AND U.S. POSTAL SERVICE

Ms. Nikita N. Irons
Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of Inspector General
Office of Audit (Region 4), Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, Georgia 30303-3388


Re: Gulf Coast Regional Infrastructure Program Audit

Dear Ms. Irons:

Please find enclosed the Mississippi Department of Environmental Quality's ("MDEQ") response to the Office of Inspector General's ("OIG") Discussion Draft Audit Report concerning the Gulf Coast Regional Infrastructure Program, which we received on November 1, 2013. The objectives of this audit were to determine whether the State ensured that (1) appraisers complied with the terms of appraisal agreements and Federal requirements and (2) projects and growth projections were reasonable and adequately supported.

As you will see from our response, MDEQ must take issue with the findings contained in the report, specifically that three appraisal files are not now sufficiently documented and supported and that the population study was not reasonable. MDEQ provides this response to clearly and completely set forth its position disputing these assertions.

Should you have any questions concerning this response, please feel free to contact me. Thank you for your consideration of this matter.

Sincerely,

Trudy Fisher
Executive Director

ALM/sls

JM ALM2 1256591 v1
2902789-00009 11/18/2013

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Ms. Nikita N. Irons
November 22, 2013
Page 2

Enclosures

cc: Mr. Brent Christensen, Executive Director, Mississippi Development Authority
Ms. Tennille Smith Parker, Assistant Director, Disaster Recovery and Special Issues Division,
HUD
Ms. Donna Roachford, CPD Specialist, Disaster Recovery and Special Issues Division, HUD
Mr. Jon Mabry, Chief Operating Officer, Disaster Recovery Division, MDA

JM ALM2 1256591 v1
2902789-000009 11/18/2013

RESPONSE OF STATE OF MISSISSIPPI
TO
AUDIT OF STATE OF MISSISSIPPI'S COMMUNITY DEVELOPMENT BLOCK
GRANT HURRICANE DISASTER RECOVERY PROGRAM
ISSUED BY U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
OFFICE OF INSPECTOR GENERAL, OFFICE OF AUDIT, REGION 4, ATLANTA,
GEORGIA

NOVEMBER 22, 2013

The State of Mississippi (the "State") takes exception and strongly disagrees with the findings issued by the U.S. Department of Housing and Urban Development ("HUD"), Office of Inspector General ("OIG"). The following constitutes the State's response to the specific issues raised in the Audit.

DISCUSSION

After Hurricane Katrina, HUD awarded Community Development Block Grant ("CDBG") funds totaling over 5.4 Billion Dollars provided by Congress for Disaster Recovery to the State for disaster recovery. The Mississippi Development Authority ("MDA") was designated by the Governor as the State's lead agency to administer these funds.

Pursuant to State Action Plans approved by HUD, the State allocated over \$653 Million of CDBG funds to the Mississippi Department of Environmental Quality ("MDEQ") as its subrecipient for the Gulf Coast Regional Infrastructure Grant Program (the "Program") to construct new water, wastewater and storm water infrastructure in the six coastal counties. After Katrina, the Governor's Commission on Recovery found that, among other things, inland migration and development should be encouraged in order to prevent similar devastation in the future. In other words, move the population base further from the path of future storms. The Program was the State's response to that recommendation and provides for water and wastewater infrastructure to support this effort for decades to come.

The Program combines the efforts of the Governor's Office of Disaster Recovery, the State Legislature, MDA, MDEQ, Gulf Coast Regional Utility Authority, six county utility authorities, local utility districts, six coastal counties and about a dozen municipalities. By its size and nature, this is a complex Program.

On August 14, 2011, OIG notified the State that it was undertaking an audit of the Program. Over the next twenty-seven months, OIG audited numerous aspects of the Program, reviewed thousands of documents and conducted numerous conferences and interviews. Accordingly, the audit has been a lengthy and complex undertaking that has resulted in two findings, which the

State views simply as a dispute between the State and OIG over the levels of documentation necessary to support its efforts. The State takes exception and strongly disagrees with both findings, as described below.

Finding 1: The State Did Not Ensure That Its Subrecipient and Appraisers Complied With Agreements and Federal Requirements.

Comment 1

A. The Heading of Finding 1 on Page 5 Should Be Revised.

Although Finding 1 only concerns three specific appraisals, the heading implies that the State did not ensure compliance with a broad range of "Agreements and Federal Requirements." That is misleading. A more accurate heading would be: "The State Did Not Ensure That Its Subrecipient and Appraisers Complied With Certain Agreements and Federal Requirements Regarding Appraisals."

Comment 2

B. Table 1 on Page 6 Is Misleading.

Table 1 on page 6 of the Draft Audit Report should be revised to show that (i) the appraiser's value of Parcel W19 was \$681,900, not \$681,600, and (ii) the acquisition price of Parcel S20 was \$1,380,000, not \$1,380,015. In addition, the text of the Draft Audit Report, not a footnote, should clearly state that Parcels W19 and S21 were owned by the exact same parties and were treated as two separate components of a single transaction, with the total paid for both Parcels matching exactly the total appraised value of both Parcels. Otherwise, Table 1 is misleading.

Comment 3

C. The Appraisals, as Supplemented, Support the Appraisal Values.

The State strongly disagrees with the OIG assertion that the appraisal files (the "Appraisal Files") for projects W19, S20 and S21 in Harrison County (the "Parcels") do not adequately provide assurance that \$2,158,715 was a reasonable price for the Parcels as purchased by the Harrison County Utility Authority ("HARCUA"). OIG does not claim that the appraised values for the Parcels are unreasonable, too high or otherwise wrong. The issue is whether the three Appraisals included sufficient documentation.

Comment 4

In response to OIG's initial finding that the Appraisal Files were insufficient, the State retained a highly respected, experienced and independent appraiser, Harvey Little.¹ Mr. Little has over 30 years of experience, is MAI certified, active and fully licensed, and the President-Elect of the Mississippi Chapter of the Appraisal Institute. He examined the Appraisal Files for each of the Parcels and the written criticisms prepared by OIG's appraisal consultant ("OIG's Consultant"). Mr. Little agreed that the Appraisal Files did not contain sufficient documentation of the appraised values of the Parcels. Mr. Little

¹ See pages 3 and 4 of Exhibit 1 for Mr. Little's professional qualifications.

then spoke extensively with the appraiser, review appraiser and OIG's Consultant, and concluded that the Appraisal Files could and should be supplemented consistent with applicable appraisal standards.²

Mr. Little cited the Official Comment to USPAP Standards Rule 2-2, which provides that "an appraiser must supplement a report form, when necessary, to ensure that any intended user of the appraisal is not misled and that the report complies with the applicable content requirements set forth in [the USPAP] Standards Rule."

When the OIG Consultant did not concur that supplementation was a proper course of action, MDA appealed to OIG's Counsel. On May 9, 2012, OIG's Counsel sent an email to MDA, confirming the State's right to provide supplemental materials "to make the appraisal files complete and supportive of the pricing." The email stated:

We do not care what this supplemental information is call[ed], additional info, supplemental info, whatever. We do not expect, and in fact do not recommend, that a new report be drafted. Once we have been provided with everything that MDA and its appraisers feel are required, and were required, for inclusion in the appraiser file, we will re-review the files in their totality. If they meet the documentation requirements, and they support the price, we will have no further issues.

OIG's Counsel also asked that the State's appraiser, after supplementation, "reevaluate his analysis to determine if he still feels that the price arrived at initially is supported or if any adjustments need to be made in light of the now-complete file and full information."³

The State and HARCUA then required the appraiser and review appraiser to prepare supplemental information to meet each criticism cited by OIG's Consultant. In May and June 2012, the State submitted the supplemental documentation of the Appraisal Files to OIG, confident that it had satisfied OIG's criticisms and provided sufficient documentation to support the appraised values, all consistent with HUD and USPAP standards.

At an audit review conference with OIG in Jackson on August 13, 2013, MDA asked OIG for comments regarding the supplemental documentation of the Appraisal Files

² Both OIG and the State agree that the applicable standards for appraisals, review appraisals and supplementation of appraisals are found in the Uniform Standards of Professional Appraisal Practice, commonly known as "USPAP." Those standards were incorporated into the contracts for the appraiser and review appraiser. However, OIG and the State interpret the applicable USPAP standards differently when applied to this audit.

³ See Exhibit 2 for the entirety of the May 9, 2012, email from OIG's Counsel.

Comment 5

previously sent to OIG. OIG provided no comments other than to say that the appraisal issues were still a concern.

To underscore that it had provided adequate supplemental documentation, on August 16, 2013, the State delivered to OIG an opinion dated August 13, 2013, from Mr. Little, the State's independent appraisal expert. After stating that he had reviewed the OIG's written criticisms of the Appraisal Files and had reviewed the Appraisal Files as supplemented, Mr. Little gave the following opinions:

1. The appraisals as supplemented for each parcel contain sufficient information to fulfill the requirements of the appraiser's work file.
2. The appraisals as supplemented address the issues described by HUD OIG.
3. The appraisals as supplemented comply with the [USPAP] standards described above.
4. While I have not made an independent appraisal of the properties, the data, analysis and conclusions of the appraisals as supplemented support the value shown for each parcel, and each value shown is defensible.⁴

On November 1, 2013, OIG delivered a "discussion draft audit report" (the "Draft Audit Report") to the State. To the State's surprise and extreme disappointment, OIG had "determined that the supplemental information was equivalent to a new assignment," and reviewed the supplemental information as if they were "new appraisals" instead of supplementary documentation of the original Appraisal Files. OIG concluded:

Our review of the new appraisals indicated these also did not fully comply with USPAP despite the appraiser's effort to materially comply with the requirements of the agreement. (Emphasis added.)

By treating the supplemental information as a "new assignment" – in other words, new, stand-alone appraisals, OIG guaranteed that the supplemental information would be insufficient because the supplemental information was never intended to constitute complete, new appraisals.

The State made clear that it was supplementing the original appraisals, not providing new appraisals. The appraiser's supplement to each Appraisal File contained language similar to the following:

⁴ A complete copy of Mr. Little's August 13, 2013, opinion is attached to this Response as Exhibit 1.

Please accept this letter as an attachment to the appraisal of the above referenced project. This addendum [is] to the appraisal report prepared for the Harrison County Utility Authority dated January 15, 2009; the effective date of value of the appraisal report is December 19, 2008 [and] is prepared at the request of the client.

The original appraisal report is expressly incorporated by reference into this letter addendum. This supplement is an extension of the original report and incorporates by reference all the background data, market conditions, assumptions, and limiting conditions that were contained in the original report. This supplement must be analyzed in conjunction with the previous report in order to have a full understanding of the appraisal process. This supplement can only be relied upon by a reader familiar with the original report, and is not intended to stand on its own. A copy of the previously transmitted appraisal report is retained in my office files. (Emphasis in original transmittal of supplemental documentation.)

The Draft Audit Report also included Appendix C, Appraiser Review Results, and Appendix D, Review Appraiser Review Results, which were detailed descriptions of the perceived deficiencies in the “new assignment.”

Upon reviewing the November 1, 2013, Draft Audit Report, MDA asked its independent appraisal consultant, Mr. Little, to review the Draft Audit Report and provide an opinion as to whether the supplemental information constituted a “new assignment” or was proper supplementation of the original files. MDA also asked Mr. Little to review the specific criticisms set out in Appendix C and Appendix D.

Mr. Little delivered a second opinion to MDA dated November 7, 2013 (the “November 7, 2013 Opinion”).⁵ In his November 7, 2013 Opinion, Mr. Little stated the following:

Most recently, I reviewed the November 1, 2013, discussion draft audit report from HUD OIG, specifically pages 5 – 10, Appendix C and Appendix D, which constitutes a restated and expanded critique of the same four appraisals.⁶ The chart of appraisal deficiencies is different from the deficiencies originally presented by HUD OIG. The discussion draft audit report states “the supplemental information was equivalent to a new

⁵ A complete copy of Mr. Little’s November 7, 2013, opinion is attached to this Response as Exhibit 3.

⁶ OIG initially cited deficiencies with respect to four separate appraisals: W16, W19, S20 and S21. However, on page 9 of the Draft Audit Report, OIG stated that the original appraised value for Parcel W16 “appeared to be reasonable based on supplemental information,” so the Draft Audit Report contains no demand for additional documentation with respect to Parcel W16.

Comment 6

assignment.” The report further refers to the “new appraisals” and “current appraisals,” and analyzes the supplemental information as such. However, according to USPAP, a “new assignment” involves a more current value or analysis. (See USPAP Advisory Opinion 3 and Frequently Asked Questions, Number 155, excerpts of which are attached.)⁷ Therefore, in my opinion, the supplementation of the appraisal reports was proper and addressed each specific deficiency previously cited by HUD/OIG by providing additional documentation to the original appraisal and is therefore not a “new assignment.” (Emphasis in original.)

Conclusion: After reviewing and considering the November 1, 2013, discussion draft audit report, I am of the opinion that the data, analyses, documentation and conclusions of the appraisals as supplemented provide sufficient support for the values shown in the four appraisals.

Mr. Little subsequently provided to MDA additional support and analysis of the distinction between supplemental information and a new assignment, which is quoted below.

According to USPAP, a “New Assignment” is initiated when “a more current value or analysis of a property that was the subject of a prior assignment” is agreed to by the appraiser. USPAP also says “Requests to perform additional research or analysis change the scope of work, but do not create a new assignment.”

The supplements provided to HUD/OIG did not change the client, the description of the property that was appraised, or the date of value. Instead, the supplements addressed specific issues raised by HUD/OIG. Also, each supplement specifically states that it is an attachment to the original appraisal and is an addendum to the original report previously prepared. The supplements provide additional information that addresses the concerns raised by HUD/OIG, and are therefore not “new appraisal assignments.”

Neither Mr. Little, the State’s appraisal consultant, nor the OIG Consultant has offered an opinion as to the value of the Parcels. Nor has the OIG claimed that the appraised values are unreasonable. The dispute is limited to whether there is sufficient documentation in the Appraisal Files, as supplemented, to support the original appraised values.

⁷ USPAP Advisory Opinion 3 and Frequently Asked Questions, Number 155, both of which were cited by Mr. Little to distinguish supplemental information from a “new assignment,” are attached to Mr. Little’s November 7, 2013, opinion which is attached to this Response as Exhibit 3.

The State is confident that the Appraisal Files, as supplemented, provide sufficient support and documentation for the original appraised values. At its worst, this is a professional disagreement between two respected appraisers, each making good faith, expert, subjective judgments about technical appraisal standards. That is far from sufficient support for Finding 1, especially for this State which has made a substantial, good faith effort to satisfy every deficiency cited by OIG.

Finding 2: The State Did Not Fully Implement Adequate Controls and Procedures for Its Disaster Infrastructure Program.

The State disagrees with the statement that the State did not fully implement controls and procedures for the Program. This statement is inaccurate and does not accurately reflect the results of the testing performed on the controls surrounding the infrastructure Program. The State proposes that a number of statements in the Draft Audit Report received by the State on November 1, 2013 be clarified and/or modified in order to accurately reflect the results of OIG's audit of the Program as follows.

Comment 7

A. The Heading of Finding 2 on Page 11 Should Be Revised.

The heading of Finding 2 on Page 11 of the Draft Audit Report should be modified to directly address the specific issues discussed in the Finding. The Heading on page 11 incorrectly indicates that the State did not implement adequate controls over the entire Program. This Heading is factually inaccurate because OIG reviewed the State's internal controls and procedures for numerous aspects of the Program, including those for contract procurement and disbursement. For hundreds of millions of dollars in contract procurements and disbursements, OIG identified no failures or inadequacies in the State's system of internal controls.

Finding 2 of the Draft Audit Report concludes that the State failed to ensure that its population projections were properly documented and failed to properly designate and implement certain emergency projects. Accordingly, the Heading for Finding 2 should be revised to present a more accurate picture of the conclusions of this Finding. Appropriate language for the heading would be: **"The State Did Not Ensure that the Population Projections Were Properly Documented, Nor Did It Properly Designate Certain Emergency Projects."**

Comment 8

B. Page 11, Paragraph 1 Statement regarding Size and Location of Facilities Should Be Modified.

Paragraph 1 of Page 11 says that the State expended funds on 67 facilities "which may include some plants, the capacity of which were either too small or excessive, and other plants which may not have been needed." This statement reflects OIG's misunderstanding of the goal of the Program itself and the role of population projections

Comment 9

within the Program. As stated in HUD's waiver dated August 24, 2007, Mississippi's plan was focused on "guiding settlement during the recovery into locations that were less affected by the storm, likely to be less affected by future events, and likely to have more affordable housing and access to required insurance in the long-term."⁸ Thus, the State intended to guide settlement into areas less vulnerable to future hurricanes, and it chose to do so by providing the infrastructure necessary to achieve this stated goal of the Program. Mitigation and resiliency were critical factors in determining which projects to fund. This was not a short term goal, but one that embraced a 20 year projected vision, and infrastructure with a projected useful life in excess of fifty (50) years.

The State utilized Angelou Economics' ("Angelou") population projections to assist in determining the acceptability of general locations, types, and sizes of proposed projects. The State's use of the population projections was part of its proper engineering methodology used to look at projected capacity. In this regard, it should be noted that no infrastructure project is ever designed to serve at maximum capacity when put into service, but instead it is scoped for the future, as these were. Five years into the State's implementation of this 20 year plan is far too early to judge whether any project facility is needed or whether the capacity of any of the project facilities is adequate.

To obtain population projections, the State contracted with a qualified expert, Angelou. OIG has reviewed the State's procurement of Angelou and determined it to be appropriate. Angelou complied with the terms of its contract and rendered an independent, expert report in accordance with those terms.

C. The Draft Audit Report Incorrectly Refers to Changes in the Population Projections as "Unsupported" and Improperly Omits Reference to the State's Use of Gulf Regional Planning Commission Data.

In Paragraph 3 of Page 11, the Draft Audit Report says that: "The State allowed unsupported changes to the population projections, which resulted in increases to population growth levels in amounts that were significantly higher than those supported by other population sources." The State strongly objects to the contention that Angelou's revisions to its population projections were unsupported. As set forth in the "Angelou Methodology" document previously provided to OIG, the population projections created by the Gulf Regional Planning Commission ("GRPC") served as a critical part of the basis for increasing the population projections from the initial Angelou projections for the three coastal counties.

GRPC is the metropolitan planning organization for the urbanized areas of Gulfport-Biloxi and Pascagoula-Moss Point. The GRPC's transportation planning process (and by

⁸ See Exhibit 4 for the August 24, 2007 HUD Waiver.

Comment 10

extension, its population projection methodology) has been certified by the Federal Highway Administration, thereby allowing GRPC to manage federal Surface Transportation Program funds that are allocated to the planning area. The State provided OIG with numerous documents supporting the critical role that GRPC data played in the development of final population projections. OIG states in its "Scope and Methodology" (Draft Audit Report, page 18) that it reviewed GRPC's population projections when evaluating the State's population projections. Nevertheless, the Draft Audit Report fails to recognize that GRPC data played any role in the development of the final population projections that Angelou provided to the State. To present an accurate, factual description of the process that occurred, the Draft Audit Report should reflect that Angelou considered GRPC data in creating its final projections and that GRPC's population projections were higher than the final projections prepared by Angelou.

Furthermore, Page 13, Paragraph 1 of the Draft Audit Report states that "the contractor insisted that the sub-consultant revise the projections." The State has provided correspondence to document that the previous Executive Director of MDEQ requested that Angelou's draft population projections be coordinated with population projections generated by the Gulf Regional Planning Commission. At the very least, the Draft Audit Report should state that the MDEQ Executive Director's request served as an additional reason for revisions to the Program's population projections.

D. The Draft Audit Report Contains Tables that Do Not Include All Relevant Data

On pages 13 and 14 of the Draft Audit Report, HUD OIG compares the State's final population projections to various other population projections in order to attempt to demonstrate that "the Plan's projections were less accurate when compared to other projections." See Draft Report, Page 13. However, the Draft Audit Report fails to include other relevant data that would prove that the projections were *more* accurate than certain other projections, including the GRPC projections. The State acknowledges that GRPC data was only published for the year 2030, but its consultant utilized a professionally acceptable method to extrapolate this data for intervening years so that it could be utilized for comparison purposes in Table 3, Page 14 of the Draft Audit Report. See Proposed Revised Table 3, attached as Exhibit 5 to this response. In addition to including this relevant data, the Draft Report should also note that certain data identified in Table 3 were generated prior to Hurricane Katrina. Given the impact of Hurricane Katrina on the Gulf Coast, any review of information relating to population projections should note whether they were generated before or after the storm.

The tables in Appendix E of the Draft Audit Report should also be revised to provide a comparison of similar values. The first table in Appendix E shows Angelou's initial population projections, which did not contain transient population data. The second table in Appendix E shows the Plan's final population projections, which does include

Comment 11

transient data. The third and final table in Appendix E shows the delta between the data in the first and second tables. Clearly, by comparing projections with and without transient population data, the Draft Audit Report compares apples to oranges. A more accurate comparison of the data would have the second and third tables excluding transient population data. See revised Appendix E, attached to this response as Exhibit 6.

E. The Draft Audit Report Incorrectly Alleges that the State Approved an Emergency Project with Knowledge that It Would Be Idle.

In Paragraph 3 of Page 15, the Draft Audit Report states: “the State approved this project with full knowledge that the facilities would be idle....” In prior correspondence to OIG dated June 11, 2013, regarding the S10E project, the State explained that: “The existing permitted facilities within the area were not expected to have adequate capacity to address the projected growth in the area. It was not expected to replace these existing facilities with new facility capacity until after the expiration of existing permits, if at all.” The State never intended to indicate to OIG that the S10E project would be idle for any period of time. Instead, the project was and is expected to serve new growth in the area that exceeds the capacity of existing facilities. The State fully anticipates that, during the 20 year term of the Program, existing wastewater treatment facilities will be closed and the new S10E facility will serve new growth and previously existing developments. The S10E facility remains the subject of ongoing litigation but will serve existing and future needs. In fact, the Harrison County Utility Authority is currently negotiating a service agreement to connect existing developments in the area of S10E that have a present need for additional wastewater treatment capacity.

CONCLUSION

The Gulf Coast Regional Infrastructure Grant Program is one of the most ambitious, complex, and creatively crafted efforts undertaken in disaster recovery. Its twenty-plus year goal was clear from the start – to move Mississippians from the low-lying, flood prone coastline to higher ground in the northern areas of the three Gulf Coast counties. To achieve this, it had to lay the infrastructure foundation needed to spur commercial and residential growth. According to data from all sources (not just from the census), the State is achieving this goal.

Comment 12

OIG has found fault with three appraisals used to acquire property in the Program – fault which does not go to the value paid for that property. The State agreed with this initial assessment and undertook over the course of the past year – with OIG’s approval – the proper, USPAP accepted practice to document and support those Appraisal Files. OIG’s expert disagrees with this permitted process, declaring it to be a “new assignment.” This pronouncement goes against the clear directions of USPAP guidance, as articulated by the State’s independent expert appraiser. At worst, the OIG’s finding represents nothing

Comment 13

but a battle between experts. At best, it is completely incorrect. Therefore, the State rejects OIG's conclusion with regard to Finding 1.

Likewise, the OIG – relying on expert opinion – believes that the population study performed for the State made inaccurate projections. OIG does not challenge the State's demographic expert's credentials or claim that the expert did not fully perform its obligations under the contract. Instead, OIG asserts that the expert *may have* overestimated or underestimated population growth in certain areas. Here again, OIG's expert is merely substituting its opinion for that of the State's expert – and doing so based upon current data unknown to the State's expert in late 2005. This is not a sufficient basis for any finding. Therefore, the State rejects OIG's Finding 2.

OIG Evaluation of Auditee Comments

- Comment 1** The State suggested that we revise our heading because it was misleading. However, the report clearly identified the specific agreements and Federal requirements for which the State did not comply and the heading will not be revised.
- Comment 2** We acknowledged that the amounts should be changed and we have revised Table 1 to reflect the change in Parcel W19 appraiser's value to \$681,900, changed the acquisition price of Parcel S20 to \$1,380,000, and removed the footnote reference to these projects. However, we will keep our footnote which stated that the Biloxi Broadwater acquisition price for both projects was paid to the same payee.
- Comment 3** See responses to comments 4-6 below.
- Comment 4** We commend the State in obtaining a consultant knowledgeable on appraisals in an attempt to rectify the issues noted in the initial appraisal reviews. Based on these reviews, the State was given the opportunity to submit supplemental information as agreed to by us with the full understanding that the information submitted would be their best and final opportunity and that we would review all information submitted and its relationship to the original appraisal reports. Since this was the State's best and final opportunity, there was no need to go back and forth with the State to obtain clarifications on issues related to the reports. Upon receipt of the supplemental information, we performed an appraisal review taking into consideration all requirements of the assignment against the original appraisals and supplemental information submitted that was linked to the original appraisal. Our assignment did not include a value conclusion.
- Comment 5** The State's assertion that we reviewed the supplemental information as a stand-alone appraisal is false. We were well aware that the appraiser had supplemented the original reports. Acceptance was measured in terms of material compliance with the requirements of (1) Harrison County Utility Authority (Agreement of Appraisal Services dated February 21, 2008); (2) Uniform Relocation Assistance Real Property Act commonly referred to as the Uniform Act; (3) HUD Handbook 1378 and applicable Appendices; (4) Uniform Standards of Professional Appraisal Practice (USPAP); and (5) to determine if the value of the taking in the appraisal under review was a credible opinion of value based on data presented and appropriateness of the analysis of the data relative to the final conclusions.

Our conclusion that the supplemental information actually constituted a new assignment was based on differences and changes made between the original reports and supplemental information submitted. As a result, there were differences in the deficiencies originally provided because the deficiencies were also based on the new supplemental information provided by the State.

We were well aware of Advisory Opinion 3 and Frequently Asked Questions, Number 155. The supplemental information submitted to support the original value conclusion went far and beyond simply providing additional analysis and information to support the original reports. The original appraisals contained no hypothetical conditions or extraordinary assumptions. However the supplemental information incorporated hypothetical conditions for varying conditions which in some instances were not warranted and an extraordinary assumption in the project W19 report. It should be noted that without the extraordinary assumption used in project W19, the highest and best use in the original report as stated by the appraiser would have been unachievable. In one report project W19 had a change in the identified property appraised between the original report and supplemental report (new property stated as being appraised the second time after we pointed out that the original report contained leasehold property appraised as fee simple). In two of the reports (W19 and S21) the appraiser changed the larger parcel from a single larger parcel in the original report to four larger parcels in the supplement. These changes coupled with the overall content contained in the supplements lead to the conclusion that the supplemental information constituted a new assignment.

Comment 6 The State is correct in stating that we did not provide a value conclusion. We performed a standard 3 appraisal review to determine if the appraisals and supplements complied with applicable regulations, USPAP, the agreement executed by the appraiser with the Harrison County Utility Authority (subrecipient), and if the appraised value conclusion was supported. Our position was that the appraisals (W19, S20, S21) even after submission of supplemental information, failed to support the final value conclusions by market evidence and analysis as of the effective dates of the appraisals.

Comment 7 The State suggested that we revise our heading to present a more accurate picture of the conclusions of this finding. However, the report clearly designated which sections of the program were not fully implemented and the heading will not be revised.

Comment 8 We do not have a misunderstanding of the goal of the program as the State asserted. The statement regarding the size and location of the facilities is based on the Mean Absolute Percent Error (MAPE) statistical tool provided by the State's expert and the Performance Evaluation and Expenditure Review (PEER) report published by the State's legislative oversight agency. Our MAPE comparisons showed that the Plan's projections were less accurate when

compared to other independent projections and low utilization rates were expected after some of the projects were completed as noted in the PEER report.

Comment 9 We reviewed the files related to the methodology for the development of the population projections and determined that the files lacked adequate support for why the population projections changed over time and explanations as to the basis for the population projection conclusions. Although the State coordinated with the Gulf Regional Planning Commission (GRPC) when developing its projections, GRPC only provided the State with population projections for 2005 and 2030 for three of the six counties included in the State's published Gulf Region Water and Wastewater Plan (Plan) which the State confirmed during the course of our audit. GRPC published population projections for Hancock, Harrison, and Jackson counties but not for George, Pearl River or Stone. Also, the State stated that GRPC's projections were higher than the final projections prepared by the State's expert. However, the final projections prepared by the State's expert were through 2025 and GRPC only published 2005 and 2030 projections, which is a 5 year difference. Although we acknowledge that GRPC's 2030 projections were higher than the 2025 final projections prepared by the State's expert, there were no projections provided by GRPC for 2010 - 2025. Furthermore, the documentation did not show that the reason that the contractor insisted that the subconsultant revise the initial projections were based on the State's coordination with GRPC's data.

Comment 10 We did not fail to include other relevant data that would prove that the projections were more accurate than certain other projections, including GRPC projections as the State asserted. GRPC did not provide any projections for 2010 - 2025 as noted in our response to comment 9 above. Also, GRPC only provided projections for 3 counties and Table 3 compared the projections for all 6 counties detailed in the State's Plan which was used to determine future water and wastewater flows for the water and wastewater facilities. The only data generated before Katrina were the 2010 forecast estimates for the Census and the Mississippi Institutions of Higher Learning that were published in 2005. However, both of these estimates were in line with the actual 2010 Census which was after Katrina as shown in Table 3. Further, the projections in the State's Plan included transients and there were no tables shown or discussed in the Plan to show the projections without transients. Per the State's response, transient residents must be considered when evaluating future water and sewer infrastructure needs to support the projected utility demands as these types of residents typically create much higher peak day demands on local water and sewer infrastructure. Thus, we do not plan to modify our tables.

Comment 11 The State acknowledged that it provided us with the statement and have not provided us with any documentation regarding the present need for additional capacity for this project. The State identified the S10E project as an emergency, stating that without the accelerated grant application and funding for the wastewater treatment facility, the expected rapid development in the area would

result in more overloading of the inadequate lagoons. Per the emergency funding criteria, the S10E project could not be reasonably delayed until the Plan was completed. However, the construction of this facility did not begin until after April 20, 2009, which was more than 2 years after the implementation of the Plan and approval of emergency. Further, the ongoing litigation did not begin until June 8, 2011, and the Court lifted the injunction on May 17, 2012. The State has not proven how the emergency need was being met for this project and has not provided any documentation regarding the current service agreement negotiations.

Comment 12 See responses to comments 1-6 above.

Comment 13 See responses to comments 7-11 above.

Appendix C

APPRAISER REVIEW RESULTS

Project	Summary of appraiser deficiencies – appraiser failed to
Biloxi Broadwater Water System Improvements (W19)	A Adequately consider the “needs of the client” and “intended use of the assignment results” as well as requirements of the Uniform Act and agreement in the development and communicating of the assignment results. The intended use of assignment results was for eminent domain proceedings and possible litigation; therefore, the report should have been a well-supported and -documented report that met the needs of the intended user. USPAP Standards 1 and 2, scope of work within the agreement for appraisal services, the appraisal agreement, and the Uniform Act
	B Clearly and conspicuously state all extraordinary assumptions ¹⁷ and hypothetical conditions ¹⁸ related to the appraisal and fully disclose that these would affect the assignment results. USPAP Standards Rules 1-2(f), 1-2(g), and 2-2(b)(x)
	C Recognize that the addendum and analysis submitted was a new assignment and that the new assignment was not an extension of the original appraisal. USPAP permits the appraiser to incorporate by reference specified information or analysis from a prior report but states that certain items from the prior report must be specifically identified in the new report to avoid being misleading. The appraiser failed to identify these items and disclosure that the report being incorporated was an extraordinary assumption. USPAP Advisory Opinion 3
	D Disclose that the value opinion was a “retrospective value opinion” ¹⁹ according to USPAP Statement 3
	E Properly identify the characteristics of the property being appraised (included leasehold property in the first appraisal report and failed to disclose). USPAP Standards Rule 1-2(e)
	F Limit the intended user of the report and intended use as required by USPAP Standards Rule 2-2(a)(i) and (a)(ii) and USPAP Statement 9.
	G Comply with USPAP Standards Rules 1 and 2 and the appraisal agreement in the development and reporting of the value conclusion.
	H Comply with the certification requirements of the 2012-2113 USPAP as they relate to disclosure of prior assignments according to USPAP Standards Rule 2-3.
	I Produce credible assignment results by using unsupported assumptions on the development of the property under appraisal and premises about market trends in the development of the highest and best use according to USPAP Standards Rule 1-3.
	J Refrain from using hypothetical conditions related to the larger parcel that affected value and failed to state and use the “jurisdictional exception rule” ²⁰ applicable to the Uniform Act in development and reporting. USPAP Standards Rules 1-2(g) and 2-2(a)(x), (b)(x), or (c)(x) and 49 CFR 24.103(b) of the Uniform Act
	K Provide adequate and correct information related to the notification of inspection to the principals in the W19 project according to 49 CFR 24.102(c) of the Uniform Act and article 3(a) scope of services of appraiser’s services in the agreement for appraisal services.
	L Provide an adequate inspection related to parcel B and failed to question easements across or on the proposed fee take. The appraiser also failed to note possible hazardous waste on the property. Article 4(a)7(i) contents of appraisal reports in the agreement for appraisal services.
	M Correctly calculate the value of the fee taking on parcel B (tank site), although the appraiser was well aware of the easements when supplementing the original appraisal. The appraiser stated only that the .451-acre take was encumbered with an existing easement and that it was reduced by 70 percent of its fee value but ignored this fact when calculating just compensation. Article 2(a) purpose and significance of appraisals in the agreement for appraisal services
Project	Summary of appraiser deficiencies – appraiser failed to
	N Fully discuss and provide support for the percent diminution in value ²¹ for damages to the property due to the wastewater line and water lines crossing on parcel D. Article 4(h) contents of appraisal reports in the agreement for appraisal services
	O Contain a description of the appraiser’s reasoning process used in reaching the value conclusion and

¹⁷ Is directly related to a specific assignment and presumes uncertain information to be factual. If found to be false, this assumption could alter the appraiser’s opinions or conclusions.

¹⁸ That which is contrary to what exists but is asserted by the appraiser for the purpose of analysis

¹⁹ Estimated value of property in the past

²⁰ An assignment condition that voids the force of a part or parts of USPAP when compliance with part or parts of USPAP is contrary to law or public policy applicable to the assignment

²¹ A measure of the loss of use of property that has not been physically injured but that is less marketable because of the presence in it of a known defect

		adequate data with analysis to explain and support the valuation in the appraiser's appraisal reports and work files. Article 4(h) contents of appraisal reports in the agreement for appraisal services, 49 CFR 24.103(a) of the Uniform Act, and USPAP Standards Rule 1-4
Biloxi Broadwater Wastewater Transmission System Improvements (S21)	A	Adequately consider the "needs of the client" and "intended use of the assignment results" as well as requirements of the Uniform Act and agreement in the development and communicating of the assignment results. The intended use of assignment results was for eminent domain proceedings and possible litigation; therefore, the report should have been a well-supported and -documented report that met the needs of the intended user. USPAP Standards 1 and 2, scope of work within the agreement for appraisal services, the appraisal agreement, and the Uniform Act
	B	Clearly and conspicuously state all extraordinary assumptions and hypothetical conditions related to the appraisal and fully disclose that these would affect the assignment results. USPAP Standards Rules 1-2(f), 1-2(g), and 2-2(b)(x)
	C	Recognize that the addendum and analysis submitted were a new assignment and that the new assignment was not an extension of the original appraisal. USPAP permits the appraiser to incorporate by reference specified information or analysis from a prior report but states that certain items from the prior report must be specifically identified in the new report to avoid being misleading. The appraiser failed to identify these items and disclosure that the report being incorporated was an extraordinary assumption. USPAP Advisory Opinion 3
	D	Disclose that the value opinion was a "retrospective value opinion" according to USPAP Statement 3.
	E	Limit the intended user of the report and intended use as required by USPAP Standards Rule 2-2(a)(i) and (a)(ii) and USPAP Statement 9.
	F	Produce credible assignment results by using unsupported assumptions on the development of the property under appraisal and premises about market trends in the development of the highest and best use according to USPAP Standards Rule 1-3.
	G	Comply with the certification requirements of the 2012-2113 USPAP as it relates to disclosure of prior assignments. Standard Rule 2-3
	H	Invoke, state, and use the "jurisdictional exception rule" applicable to the Uniform Act in the development and reporting of improvements on parcels C and D. 49 CFR 24.103(b) of the Uniform Act
	I	Provide adequate and correct information related to the notification of inspection to the principals in the S21 project according to 49 CFR 24.102(c) of the Uniform Act and article 3(a) scope of services of appraiser's services in the agreement for appraisal services.
	J	Fully discuss and provide support for the percent diminution in value for the proposed wastewater line that parallels this parcel. The appraiser confuses the user of the report by stating in one place in the report that a diminution in value is 80 percent but in another, states the diminution to be 70 percent. Article 2(a) purpose and significance of appraisals in the agreement for appraisal services
	K	Contain a description of the appraiser's reasoning process used in reaching the value conclusion and adequate data with analysis to explain and support the valuation in the appraiser's appraisal reports and work files. Article 4(h) contents of appraisal reports in the agreement for appraisal services, 49 CFR 24.103(a) of the Uniform Act, and USPAP Standards Rule 1-4
D'Iberville Wastewater Treatment Facility and Transmission System (S20)	A	Adequately consider the "needs of the client" and "intended use of the assignment results" as well as requirements of the Uniform Act and agreement in the development and communicating of the assignment results. The intended use of assignment results was for eminent domain proceedings and possible litigation; therefore, the report should have been a well-supported and -documented report that met the needs of the intended user. USPAP Standards 1 and 2, scope of work within the agreement for appraisal services, the appraisal agreement, and the Uniform Act
	B	Clearly and conspicuously state all extraordinary assumptions and hypothetical conditions related to the appraisal and fully disclose that these would affect the assignment results. The appraiser should have refrained from using hypothetical conditions that were not applicable or necessary to produce credible assignment results, such as assuming that roads were in place when no secondary roads were in place at the time of the appraisal. USPAP Standards Rules 1-2(f), 1-2(g), and 2-2(b)(x)
	C	Disclose that the value opinion was a "retrospective value opinion" according to USPAP Statement 3.
	D	Comply with the certification requirements of the 2012-2113 USPAP as they relate to disclosure of prior assignments according to USPAP Standards Rule 2-3.
Project		Summary of appraiser deficiencies – appraiser failed to
	E	Limit the intended user of the report and intended use as required by USPAP Standards Rule 2-2(a)(i) and (a)(ii) and USPAP Statement 9.
	F	Select comparable sales comparable to the subject property. USPAP Standards Rule 1-4
	G	Consider the characteristics of the property under appraisal related to the comparable sales. USPAP Standards Rules 1-4 and 2-2 (a)(viii), (b)(viii), or (c)(viii)
	H	Produce credible assignment results by using unsupported assumptions on the development of the property under appraisal and premises about market trends in the development of the highest and best use according to USPAP Standards Rule 1-3.
	I	Contain a description of the appraiser's reasoning process used in reaching the value conclusion and adequate data with analysis to explain and support the valuation in the appraiser's appraisal reports

		and work files. Article 4(h) contents of appraisal reports in the agreement for appraisal services, 49 CFR 24.103(a) of the Uniform Act, and USPAP Standards Rule 1-4
Gulfport VA Area Water Supply Improvements (W16)	A	Recognize that the addendum presented constituted a new assignment and failed to properly address key elements related to the new assignment according to USPAP Advisory Opinion 3.
	B	Disclose that the value opinion was a "retrospective value opinion" according to USPAP Statement 3.
Items noted above are a partial listing of deficiencies noted in the report.		

Appendix D

REVIEW APPRAISER REVIEW RESULTS

Project		Summary of appraiser deficiencies – review appraiser failed to
Biloxi Broadwater Water System Improvements (W19)	A	Perform an adequate inspection of the Broadwater property according to article 1(a) scope of services in the agreement for review appraisal services.
	B	Determine whether the Broadwater property owners were adequately notified according to 49 CFR 24.102(c) of the Uniform Act.
	C	Perform an adequate appraisal review, in accordance with Standard 3 of USPAP and article 1(b) scope of services in the agreement for review appraisal services, on the Broadwater appraisal to determine whether the results of the appraisal assignment met applicable appraisal requirements and standards before acceptance.
	D	Comply with USPAP Standards Rule 3-2 in reporting the appraisal review.
Biloxi Broadwater Wastewater Transmission System Improvements (S21)	A	Determine whether the Broadwater property owners were adequately notified according to 49 CFR 24.102(c) of the Uniform Act.
	B	Perform an adequate appraisal review, in accordance with Standard 3 of USPAP and article 1(b) scope of services in the agreement for review appraisal services, on the Broadwater appraisal to determine whether the results of the appraisal assignment met applicable appraisal requirements and standards before acceptance.
	C	Comply with USPAP Standards Rule 3-2 in reporting the appraisal review.
D'Iberville Wastewater Treatment Facility and Transmission System (S20)	A	Comply with Standard 3 of USPAP as well as requirements of the Uniform Act.
	B	Perform an adequate review of the appraisal and comply with Standard 3 of USPAP in conducting and reporting.
Gulfport VA Area Water Supply Improvements (W16)	A	Comply with Standard 3 of USPAP as well as requirements of the Uniform Act.
	B	Perform an adequate review of the appraisal and comply with Standard 3 of USPAP in conducting and reporting.

Appendix E

PLAN VERSUS INITIAL PROJECTIONS

Contractors' initial population projections					
County	2005 census data	Projected 2010	Projected 2015	Projected 2020	Projected 2025
George	21,369	23,516	24,405	25,901	26,933
Hancock	46,503	37,831	43,477	51,325	54,038
Harrison	191,433	147,609	187,814	213,784	237,895
Jackson	134,788	136,718	144,299	152,908	159,901
Pearl River	52,398	61,598	69,648	74,248	77,814
Stone	14,616	15,556	17,435	18,948	20,131
Total	461,107	422,828	487,078	537,114	576,712

Mississippi Gulf Region water and wastewater plan population projections					
County	2005 census data	Projected 2010	Projected 2015	Projected 2020	Projected 2025
George	21,011	26,426	28,329	30,368	32,554
Hancock	46,002	52,610	59,544	65,712	69,391
Harrison	189,444	254,206	286,609	311,454	332,788
Jackson	134,950	148,963	167,143	182,976	193,612
Pearl River	51,809	67,624	76,511	83,649	91,454
Stone	14,359	19,418	23,062	26,736	29,230
Total	457,575	569,247	641,198	700,895	749,029

Mississippi Gulf Region water and wastewater plan versus contractors' initial projections					
County	2005 census data	Projected 2010	Projected 2015	Projected 2020	Projected 2025
George	(358)	2,910	3,924	4,467	5,621
Hancock	(501)	14,779	16,067	14,387	15,353
Harrison	(1,989)	106,597	98,795	97,670	94,893
Jackson	162	12,245	22,844	30,068	33,711
Pearl River	(589)	6,026	6,863	9,401	13,640
Stone	(257)	3,862	5,627	7,788	9,099
Total	(3,532)	146,419	154,120	163,781	172,317

Appendix F

PEER²² USAGE ESTIMATES

Usage estimates for new water tanks and wells after completion as of July 31, 2011

County utility authority	Location of water project	Year of water project completion (actual or estimated)	Usage estimate for water project after completion
Hancock	Eastern Hancock County	2012	33 - 50%
	Kiln	2011	20 - 22%
	Pearlington	2012	29%
Harrison	North Harrison County	2011	<1%
	Western Harrison County	2013	31%
	North Gulfport-Lyman	2012	30%
	Eastern Harrison County	2011	29%
Jackson	Western Jackson County	2011	60 - 70%
	Eastern Jackson County	2011	50 - 60%
Pearl River	Poplarville	2011	61%
	Picayune	2011	35%
	Hillsdale	2011	5%
Stone	Southern Stone County	2011	57%

Usage estimates for new wastewater treatment facilities after completion as of July 31, 2011

County utility authority	Location of wastewater project	Year of wastewater project completion (actual or estimated)	Usage estimate for wastewater project after completion
Hancock	Kiln	2012	27%
	Pearlington	2012	25%
Harrison	Saucier	2011	0 - 6%
	East Central Harrison County	2011	<1%
	DeLisle-Long Beach	2013	12 - 15%
	South Woolmarket	2012	4 - 11%
Jackson	D'Iberville	2012	87%
	Western Jackson County	2011	57%
Pearl River	North Jackson Decentralized	2011	37%
	Poplarville	2011	32%
Stone	Picayune	2011	63 - 70%
	Wiggins	2011	48%
	Southern Stone County	2011	13%

²² The Mississippi Legislature Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER), A Review of the Mississippi Gulf Coast Regional Infrastructure Program, #556, November 15, 2011

Appendix G

EMERGENCY CRITERIA AND PROJECTS

Criteria for determining awards under the emergency fund included that ²³	
A	The project was not eligible for Federal Emergency Management Agency funding, and
B	The project was necessitated by a direct or indirect result of conditions caused by Hurricane Katrina, and
C	Construction of the project could not reasonably be delayed until the Plan was completed, and
D	The project was necessary to prevent or reduce the threat of loss of life, or
E	The project was necessary to correct an imminent public health threat, or
F	The project was necessary to correct damage to the environment that has resulted in public contact with or consumption of polluted or contaminated drinking or surface waters.

Emergency projects							
County	Project name	Project number	Amount budgeted per plan	Amount budgeted as of 12/31/2012	Amount expended as of 12/31/2012	Percentage expended as of 12/31/2012	Estimated completion date
Hancock	Eastern Hancock County Regional Water Supply - Emergency	W5E	\$5,700,000	\$6,455,395	\$6,380,907	99%	8/30/2011
Harrison	Saucier WWTF (Wastewater Treatment Facility) and Riverbend/Robinwood Forest Transmission System - Emergency	S10E	\$4,000,000	\$9,656,188	\$9,518,786	99%	2/15/2011
Harrison	South Woolmarket WWTF and Transmission System - Emergency	S19E	\$6,000,000	\$4,404,707	\$4,109,658	93%	11/15/2011
Jackson	North Jackson County Decentralized WWTFs - Emergency	S26E	\$3,900,000	\$4,415,627	\$4,094,803	93%	10/31/2011
Pearl River	Poplarville Regional Water Supply System - Emergency	W1E	\$2,000,000	\$2,384,142	\$2,384,142	100% ²⁴	7/20/2009
Total			\$21,600,000	\$27,316,059	\$26,488,296		

²³ Mississippi Development Authority, Gulf Coast Regional Infrastructure Program, Recovery Action Plan, amendment 2, page 4

²⁴ Project W1E is the only project for which 100 percent of the funds had been expended as of September 30, 2011.