



Issue Date June 22, 2010

Audit Report Number 2010-AO-1004

TO: Scott G. Davis, Director Disaster Recovery and Special Issues Division, DGBD

FROM: *Rose Capalungan*
Rose Capalungan, Regional Inspector General for Audit, Gulf Coast Region,
GAH

SUBJECT: The Mississippi Development Authority, Jackson, MS, Generally Ensured That
Contracts Were Procured in Accordance With Its Disaster Recovery Program
Policies and Procedures

HIGHLIGHTS

What We Audited and Why

We conducted a review of the State of Mississippi (State), a \$5.5 billion Community Development Block Grant (CDBG) disaster recovery grantee. We initiated the audit as part of the Office of Inspector General (OIG) Gulf Coast Region's audit plan and examination of relief efforts provided by the Federal Government in the aftermath of Hurricanes Katrina and Rita. Our objective was to determine whether the State ensured that contracts were procured in accordance with its and other applicable policies and procedures under its disaster recovery program (program).

What We Found

Although the State generally ensured that contracts were procured in accordance with its program policies and procedures, it paid program funds to one contractor that exceeded the contract maximums. This condition occurred because the State

did not always ensure that it followed its invoicing verification policies and procedures.

What We Recommend

We recommend that the Director of the U.S. Department of Housing and Urban Development's (HUD) Disaster Recovery and Special Issues Division require the State to support or repay its program \$21,964 in unsupported costs and ensure that its staff is knowledgeable of its invoice verification policies and procedures.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided our discussion draft audit report to the State and HUD's staff during the audit. We asked the State to provide comments on our discussion draft audit report by May 11, 2010. The State provided written comments, dated May 07, 2010. The State agreed with our finding and recommendations.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

Between December 2005 and June 2006, Congress approved a total of \$16.7 billion in supplemental Community Development Block Grant (CDBG) Disaster Recovery Assistance funds for Gulf Coast hurricane relief. Of that amount, the U.S. Department of Housing and Urban Development (HUD) awarded \$5.5 billion to the State of Mississippi (State) for its recovery efforts. The Mississippi Development Authority, the State's designated agency, administers the use of the supplemental CDBG funds.

Of the \$5.5 billion, the State allocated \$3.8 billion toward housing initiatives. This recovery program is specifically targeted at rebuilding housing, repairing public infrastructure, and rejuvenating the local economy. As of April 7, 2009, the State had approved more than \$1.8 billion in direct assistance to more than 25,000 homeowners whose homes were either damaged or destroyed by Hurricane Katrina in August 2005. Also as of November 9, 2009, the State had allocated more than \$317 million to independent contractors providing professional services related to its disaster recovery program (program).

Our objective was to determine whether the State ensured that contracts were procured in accordance with its and other applicable policies and procedures under its program.

RESULTS OF AUDIT

Finding: The State Generally Ensured that Contracts Were Procured in Accordance with Its Program's Policies and Procedures

The State generally ensured that contracts were procured in accordance with its program's policies and procedures. However, it paid excess program funds to Gulf Coast Security Service without having a fully executed contract. This condition occurred because the State did not follow its invoice verification policies and procedures. As a result, it was unable to support \$21,964 in program costs.

The State Paid \$21,964 in Unsupported Costs

A review of 12 contract files determined that 1 contractor received payments in excess of the contract maximum.

On May 25, 2007, the State executed a small purchase contract with Gulf Coast Security Service, with a maximum award amount of \$50,000, for the purpose of providing after-hours security services for the Homeowners Assistance Program. The period of performance covered November 1, 2006, through October 30, 2007.

On November 20, 2007, the State executed an amendment to this contract to increase the award amount to \$71,240 and to extend the period of performance to March 31, 2008. In a later amendment, the State attempted to further extend the period of performance to June 30, 2008, and increase the award amount to \$96,240. However, although required, the amendment was not signed by the contractor, and the State continued to pay the contractor without a fully executed contract.

Between November 1, 2006, and June 30, 2008, the State paid \$93,204 to the contractor, exceeding the \$71,240 amended and fully executed contract amount by \$21,964.

According to the Mississippi Development Authority's bureau manager, in the event that a contract has not been executed, the purchasing team is instructed to hold invoices until the authority to pay has been received in the form of an executed agreement. This procedure was not followed as required.

The State is Taking Action

During an update meeting on January 20, 2010, the State was informed of the potential unsupported reimbursements paid to its contractor. The Mississippi Development Authority's chief financial officer stated that the State would not pay for any services rendered during the extended/amendment period and was making arrangements to repay the funds. We acknowledge the State's steps toward resolving this issue.

Conclusion

The State generally ensured that contracts were procured in accordance with its and other applicable policies and procedures under its program. However, it paid program funds without having a fully executed contract amendment. This condition occurred because the State did not follow its finance policies and procedures, specifically the invoice verification procedures, when paying extended and/or amended contracts. The State should have held the invoice until authority to pay had been received in the form of an executed agreement and verify that the requested expenditures agreed with the contractual agreement. Since it failed to do so, it could not support \$21,964 in program costs, which it must either support or repay.

Recommendations

We recommend that the Director of the U.S. Department of Housing and Urban Development's (HUD) Disaster Recovery and Special Issues Division require the State to

- 1A. Support or repay its program \$21,964 in unsupported costs.
- 1B. Ensure that its staff responsible for reviewing invoices is knowledgeable of its program policies and procedures to ensure that invoices are held until authority to pay has been received in the form of an executed agreement to prevent overpayment of contract maximums.

SCOPE AND METHODOLOGY

We conducted our review at the local HUD Office of Inspector General (OIG) field office, the State's Disaster Recovery Division, and other sites as deemed appropriate. We performed our work between November 2009 and February 2010.

To accomplish our objective, we used data mining software to statistically select 23 of the State's procurement files from the 35 executed contracts as of October 31, 2009. The 23 files were selected to determine whether the State ensured that contracts were procured in accordance with its and other applicable policies and procedures under its program. Our sampling criteria used a 90 percent confidence level with a 50 percent estimated error rate.

We reviewed the hard-copy files to determine whether the files included the required information as outlined in the (1) Mississippi Development Authority's checklist for procuring personal and professional contracts, (2) Personal Service Contract Review Board regulations, and (3) the State's contract policies and procedures. We also reviewed the hard-copy files to determine whether the information in the files was complete. In addition, we reviewed the expense data to ensure that funds expended complied with the terms of the executed contract agreement.

In addition to the file reviews, we

- Reviewed HUD Handbook 6509.2, REV-5, CHG 2; HUD/State grant agreements; State written policies and procedures; applicable contracts executed related to the administration of the program; the Code of Federal Regulations; public laws; and other legal authorities relevant to the CDBG disaster recovery grants.
- Reviewed monitoring reports issued by the Mississippi State Auditor's Office and HUD.
- Interviewed key HUD and State officials involved in the administration of the program.

Our review covered the period July 1, 2007, through October 31, 2009. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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 reasonably ensure that contracts are procured in accordance with State procurement regulations.
- Relevance and reliability of information – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to provide reasonable assurance that CDBG disaster fund use is consistent with HUD's laws, regulations, and provisions of the grant agreement.
- Safeguarding of assets and resources – Policies and procedures that management has implemented to provide reasonable assurance that CDBG disaster funds are safeguarded against waste, loss, and abuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

- Based on our review, there were no significant weaknesses.

Separate Communication of Minor Deficiencies

Minor internal control and compliance issues were reported to the State's executive director and the Director of HUD's Disaster Recovery and Special Issues Division in a separate memorandum, dated May 17, 2010.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	\$21,964


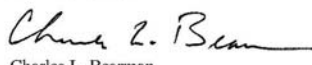
1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve 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 HALEY BARBOUR, GOVERNOR MISSISSIPPI DEVELOPMENT AUTHORITY GRAY SWOOPE EXECUTIVE DIRECTOR	
May 7, 2010	
Ms. Rose Capalungan Regional Inspector General for Audit Gulf Coast Region HUD's Office of Inspector General Hale Boggs Federal Building 500 Poydras Street New Orleans, LA 70130	Sent via FedEx
RE: MDA's Response to HUD OIG Draft Audit Report Concerning Procurement	
Dear Ms. Capalungan:	
Please find enclosed the Mississippi Development Authority's ("MDA") response to the Office of Inspector General's ("OIG") Draft Audit Report, which we received on or about April 27, 2010. The subject of this audit, as stated in the Draft Report, was to determine whether MDA generally ensured that contracts were procured in accordance with its disaster recovery program policies and procedures.	
MDA is pleased that OIG found that it was generally ensuring that all contracts were procured in accordance with all applicable federal and state laws, regulations and applicable policies. As you will see from our response, MDA is taking all necessary steps to remedy the one finding – that one of its contractors received an unsupported reimbursement in the amount of \$21,964.	
If you have any questions regarding this response, please feel free to contact me at (601) 359-9345 or Jon Mabry, Director of MDA's Disaster Recovery Division, at (601) 359-2379.	
Sincerely yours,  Charles L. Bearman Chief Compliance Officer	
CLB:by Enclosure	
cc: Jon Mabry, Chief Operating Officer Stacy McEachern, Chief Financial Officer William B. Thompson, Deputy Compliance Officer Donna G. Roachford, HUD CPD Specialist	
POST OFFICE BOX 849 · JACKSON, MISSISSIPPI 39205-0849 TELEPHONE (601) 359-3449 · FAX (601) 359-2832 · www.mississippi.org	

Ref to OIG Evaluation

Auditee Comments

**Office of Inspector General Audit Report:
Mississippi Development Authority Response**

**Community Development Block Grant
State of Mississippi
2009-AO-1801**

The Mississippi Development Authority (“MDA”) offers the following responses to the findings and recommendations of the draft audit report which was received by MDA on or about April 27, 2010.

Results of the Review: The Office of Inspector General (“OIG”) conducted a review to determine if MDA ensured that contracts were procured in accordance with its and other appropriate policies and procedures under the Katrina CDBG disaster recovery program and found that MDA did generally ensure compliance. However, in its review of 12 contract files, OIG discovered that one (1) contractor – Gulf Coast Security Service – had never executed a contract amendment which would have both extended the period of performance and increased the award amount from \$71,240 to \$96,240. The result was that the contractor received an unsupported reimbursement in the amount of \$21,964. OIG noted that MDA was taking steps to immediately remedy this situation.

Response: MDA is extremely pleased that OIG’s review determined that it was generally following all applicable procurement laws, regulations, policies and procedures, and that it only found this one minor error. However, any error concerning an unsupported payment to a contractor is not acceptable to MDA. As noted in the report, MDA is taking all necessary steps to immediately remedy this situation. In this regard, MDA has made a written demand to Gulf Coast Security Service that it either immediately executes the contract extension to support the payment or fully repays the \$21,964. If it fails to do either of these, MDA is prepared to take further legal action against the contractor.

Recommendations: OIG is recommending that HUD’s General Deputy Assistant Secretary for Community Planning and Development require MDA to

- 1A. Support or repay its program \$21,964 in unsupported costs.
- 1B. Ensure that its staff responsible for reviewing invoices is knowledgeable of its program policies and procedures to ensure that invoices are held until authority to pay has been received in the form of an executed agreement to prevent overpayment of contract maximums.

Response:

- 1A. As outlined previously, MDA is taking all necessary steps to either support the payment or refund to the program \$21,964.
- 1B. Since this matter was brought to its attention, MDA has thoroughly reviewed the applicable policies and procedures with its responsible staff.

Comment 1

Comment 2

OIG Evaluation of Auditee Comments

Comment 1 We acknowledge the State's proposed actions to remedy the recommendation. The State should provide supporting documentation to HUD's staff, who will work with the State, to resolve the recommendations.

Comment 2 See comment 1.