



Homeland Security

December 10, 2010

MEMORANDUM FOR: Tony Russell, Regional Administrator
FEMA Region VI

FROM:

Judy Martney
for Tonda L. Hadley, Director
Central Regional Office

SUBJECT:

Town of Abita Springs, Louisiana
FEMA Disaster Number 1603-DR-LA
Public Assistance Identification Number 103-00240-00
Audit Report DD-11-04

We audited public assistance funds awarded to the Town of Abita Springs, Louisiana (Town). Our audit objective was to determine whether the Town accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

The Town received an award of \$5.1 million from the Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee, for damages resulting from Hurricane Katrina, which occurred on August 29, 2005. The award provided 100% FEMA funding for 11 large projects and 10 small projects for debris removal, emergency protective measures, and repairs to Town facilities and buildings.¹ We audited 19 projects totaling \$4.78 million or 94% of the total award. The audit covered the period August 29, 2005, to October 20, 2010. During this period, the Town claimed \$4.35 million of FEMA funds for the 19 projects reviewed (see Exhibit).

We conducted this performance audit under the authority of the *Inspector General Act of 1978*, as amended and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and 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.

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

We interviewed FEMA, GOHSEP, and Town officials; reviewed judgmentally selected transactions (generally based on dollar value); and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the Town's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the Town's method of accounting for disaster-related costs and its procurement policies and procedures.

RESULTS OF AUDIT

The Town accounted for FEMA grant funds on a project-by-project basis as required. However, the Town did not follow federal procurement standards for contracting. Therefore, we question \$3,525,941 of improperly contracted costs and \$34,600 of other ineligible costs. Additionally, FEMA should deobligate \$429,503 in approved project costs that exceeded eligible amounts claimed.

Finding A: Contracting Procedures

The Town did not follow federal procurement standards for three contracts totaling \$3,525,941. The three contracts were for debris removal, monitoring debris removal, and replacing culverts. Federal procurement standards at 44 CFR 13.36 require, among other things:

- Performance of procurement transactions in a manner providing full and open competition except under certain circumstances. One allowable circumstance is when there is a public exigency or emergency for the requirement that will not permit a delay resulting from competitive solicitation. (13.36(c)(1) and (d)(4)(i))
- A cost or price analysis in connection with every procurement action, including contract modifications. (13.36(f)(1))
- Subgrantees' contracts must contain specific provisions listed in 44 CFR 13.36(i).
- Subgrantees shall not use time-and-material (T&M) contracts unless a determination is made that no other contract is suitable and provided that the contract includes a ceiling price that the contractor exceeds at its own risk. (13.36(b)(10))
- The method where price is not used as a selection factor can only be used in procurement of architectural and engineering (A&E) professional services. It cannot be used to purchase other types of services even when A&E firms are a potential source to perform the proposed effort. (13.36(d)(3)(v))

The Town claimed \$2,834,017 for debris removal contract costs without obtaining competitive bids for the work. Instead, the Town piggybacked on the debris removal contract of its parish, St. Tammany Parish. In a previous audit, we determined that St. Tammany Parish's debris

removal contract was also not procured properly.² The Town also did not perform a cost or price analysis and did not include required provisions in its debris removal contract.

The Town claimed \$546,024 for contract costs to monitor the debris removal operations using a non-competitive, T&M contract awarded to an existing engineering firm. The Town also did not (1) determine whether any other type of contract was suitable, (2) perform the required cost or price analysis, (3) include required provisions in the contract, or (4) include a cost ceiling in the contract. The \$546,024 includes \$1,710 also questioned in Finding D below. Therefore, the net amount we question for this contract is \$544,314 (\$546,024 - \$1,710).

The Town claimed \$147,610 for contract costs to remove and replace new culverts without (1) providing full and open competition, (2) performing the required cost or price analysis, or (3) including required provisions in the contract. The Town originally competed a \$61,680 contract to have ditches regraded and culverts cleaned, but never performed this work. Instead, the Town added a noncompetitive \$139,830 change order to remove old culverts and install new culverts. The Town should have re-competed the work because the scope of work changed and the cost more than doubled.

Because the Town did not follow proper procurement procedures, we question the \$3,525,941 claimed for this work (\$2,834,017 + \$544,314 + \$147,610). In September 2010, FEMA determined the Town's debris removal and monitoring costs were reasonable by comparing them to similar costs claimed by other nearby applicants after Hurricane Katrina. FEMA's practice has been to allow contract costs it considers reasonable regardless of whether the contracts comply with federal procurement regulations. We do not agree with this practice unless lives and property are at stake because the goals of proper contracting relate to more than just cost. Without open and free competition, FEMA has little assurance that contract costs are reasonable. Open and free competition increases the number of available contracting sources and thereby increases the opportunity for obtaining reasonable pricing from the most qualified contractors. Open and free competition also helps discourage and prevent favoritism, collusion, fraud, waste, and abuse.

The Town disagreed that the \$3,525,941 should be questioned and disallowed. The mayor said the costs were approved by FEMA, and that he saved the government money. He didn't understand why we are questioning these costs after FEMA determined them to be reasonable.

Finding B: Duplicate Supply Costs

The Town claimed \$19,600 twice for gas system repair supplies, once under Project 522 and again under Project 1060. Therefore, we question the \$19,600 claimed under Project 1060 as an ineligible duplicate cost. Town officials said they were aware of the problem and were told by FEMA and GOHSEP that it would be corrected at close out.

²DHS OIG Report Number DD-07-10, *Review of Hurricane Katrina Debris Removal Activities St Tammany Parish, Louisiana*, August 20, 2007.

Finding C: Supply Costs

The scope of Project 522 was to replace 100 gas meters damaged in the disaster. However, the \$85,265 claimed for the project included \$13,290 for items other than the 100 gas meters. The additional items were not within the scope of the project and were not disaster-related. They included hand held meter reading devices, software, and training. FEMA confirmed that the additional items were not in the scope of the project. To be eligible for financial assistance, all work must be required as a result of the major disaster event (44 CFR 206.223(a)(1)). Therefore, we question the \$13,290 as ineligible.

Finding D: Contract Administrative Costs

The Town claimed \$1,710 billed by its debris monitoring contractor for 57 hours spent performing administrative tasks relative to its own contract. The contract was a T&M contract with fully loaded rates, which normally cover the administrative costs of performing the work agreed upon in the contract. Further, the contract did not list hourly rates for personnel performing administrative tasks or otherwise mention administrative costs. Therefore, we question the \$1,710 as ineligible because the cost was not allowable under the contract and it duplicated costs already covered by the fully-loaded labor rates specified in the contract. Town officials were not aware that these costs were not allowable.

Finding E: Estimated Project Costs

The amount FEMA estimated and approved for Project 567 exceeded the claimed amount by \$280,179. Additionally, FEMA erroneously approved estimated costs of \$149,324 for emergency protective measures twice, once in Project 330 and once in Project 489. Therefore, FEMA should deobligate \$429,503 (\$280,179 + \$149,324) from Projects 567 and 489 and put those federal funds to better use. Town officials agreed that the excess funds totaling \$429,503 should be deobligated.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation #1: Disallow \$3,525,941 of improper contracting costs (Finding A).

Recommendation #2: Require GOHSEP to advise the Town of Abita Springs on proper procurement procedures required under federal grant awards (Finding A).

Recommendation #3: Disallow \$19,600 of duplicate supply costs claimed (Finding B).

Recommendation #4: Disallow \$13,290 of ineligible costs (Finding C).

Recommendation #5: Disallow \$1,710 of ineligible contract costs for administrative tasks (Finding D).

Recommendation #6: Deobligate \$429,503 in federal funds and put those funds to better use (Finding E).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with Town, GOHSEP, and FEMA officials during our audit and included their comments in this report as appropriate. We also provided written summaries of our findings and recommendations in advance to these officials and discussed them at exit conferences held with FEMA on November 9, 2010, with GOHSEP on November 9, 2010, and with the Town on November 10, 2010. These officials disagreed with recommendation 1 and stated they would withhold further comments until after we issued our final report. Please advise this office by February 10, 2011, of the actions planned or taken to implement the recommendations, including target completion dates for any planned actions. Significant contributors to this report were Judy Martinez, Jeffrey Campora, and Dwight McClendon. Should you have questions concerning this report, please contact me at (214) 436-5200, or your staff may contact Judy Martinez, Audit Manager, at (504) 739-7730.

cc: Acting Executive Director, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Region VI
Audit Liaison, FEMA (Job Code G-10-040)

EXHIBIT

Schedule of Projects Audited
 Town of Abita Springs, Louisiana
 FEMA Disaster Number 1603-DR-LA

<u>Project Number</u>	<u>Approved Project Amount</u>	<u>Amount Claimed</u>	<u>Finding A Amount Questioned</u>	<u>Findings B,C,D Amount Questioned</u>	<u>Amount To Be Deobligated</u>
330	\$ 160,790	\$ 160,790	\$ 0	\$ 0	\$ 0
363	76,150	76,150	0	0	0
397	6,651	6,651	0	0	0
400	39,676	39,676	0	0	0
489	230,054	80,730	0	0	149,324
522	85,265	85,265	0	13,290	0
558 ³	186,742	186,742	0	0	0
567	3,114,196	2,834,017	2,834,017	0	280,179
680	14,280	14,280	0	0	0
1060	96,652	96,652	0	19,600	0
1061	18,400	18,400	0	0	0
3235	546,024	546,024	544,314	1,710	0
4486	39,741	39,741	0	0	0
4922	1,000	1,000	0	0	0
6225	1,000	1,000	0	0	0
15311	6,206	6,206	0	0	0
15323	7,036	7,036	0	0	0
15341	147,610	147,610	147,610	0	0
15570	<u>3,362</u>	<u>3,362</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$4,780,835</u>	<u>\$4,351,332</u>	<u>\$3,525,941</u>	<u>\$34,600</u>	<u>\$429,503</u>

³ As of our audit cut-off date, the Town had actually claimed only \$171,600 for Project 558. However, the Town plans on claiming an additional \$15,142 in eligible costs, which will bring the claimed amount up to the approved project amount of \$186,742