

Department of Homeland Security **Office of Inspector General**

FEMA Should Recover \$6.7 Million of Ineligible
or Unused Funds Awarded to Cameron Parish,
Louisiana, for Hurricane Rita





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MEMORANDUM FOR: George A. Robinson
Regional Administrator, Region VI
Federal Emergency Management Agency

FROM: 
D. Michael Beard
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Recover \$6.7 Million of Ineligible or
Unused Funds Awarded to Cameron Parish, Louisiana, for
Hurricane Rita*
FEMA Disaster Number 1607-DR-LA
Audit Report DD-13-06

We audited Public Assistance grant funds awarded to Cameron Parish, Louisiana (Parish) (Public Assistance Identification Number 023-99023-00). Our audit objective was to determine whether the Parish accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

The Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee, awarded the Parish \$63.2 million for damages resulting from Hurricane Rita, which occurred on September 24, 2005. The award provided 100 percent FEMA funding for 126 large projects and 213 small projects.¹ The audit covered the period September 24, 2005, through November 28, 2012, the cutoff date of our audit, and included a detailed review of 52 projects totaling \$45.6 million, or 72 percent of the total award, and a limited review of insurance issues and costs related to one architectural and engineering firm (see Exhibit, Schedule of Projects Audited).² Table 1 shows the gross and net award before and after insurance reductions for all projects, those in our audit scope, and additional limited review projects.

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

² We audited the gross amount of \$53.8 million awarded before reductions for insurance.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Table 1. Gross and Net Award Amounts

	Gross Award Amount	Insurance Reductions	Net Award Amount
All Projects	\$77,177,351	\$(13,997,561)	\$63,179,790
Audit Scope	\$53,778,012	\$ (8,157,631)	\$45,620,381
Limited Review	\$6,165,545	\$(2,403,932)	\$3,761,613

We conducted this performance audit between October 2011 and November 2012 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards.³ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit according to the statutes, regulations, and FEMA policies in effect at the time of the disaster.

We interviewed FEMA, GOHSEP, and Parish officials; reviewed judgmentally selected project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the Parish'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 Parish's method of accounting for disaster-related costs and its procurement policies and procedures.

RESULTS OF AUDIT

The Parish generally accounted for FEMA grant funds on a project-by-project basis as required by Federal regulations. However, the Parish did not always expend public assistance grant funds according to Federal regulations and FEMA guidelines. As a result, we identified \$6,392,126 of ineligible costs comprised of the following:

- Finding B: \$3,775,600 of ineligible, duplicate, and excessive project management costs;
- Finding C: \$1,778,703 for ineligible contract costs for a noncompetitive contract;
- Finding D: \$514,714 for miscellaneous ineligible costs;
- Finding F: \$240,034 for excessive billings; and
- Finding G: \$83,075 in unallocated insurance.

³ This is the second report for this audit. We issued the first report on August 27, 2012: *Direct Administrative Costs Paid for FEMA Public Assistance Grant Funds, DD-12-19*.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

In addition, FEMA should deobligate \$317,245 of unused funds on completed projects and put the funds to better use (finding E). Several of these findings occurred because GOHSEP, as the grantee, did not adequately monitor the Parish's subgrant activities. Therefore, FEMA should also require GOHSEP to—

- Instruct the Parish to improve its procurement procedures for future disasters by including federally required contract provisions in its contracts and establishing the necessary affirmative steps to assure the use of small businesses, minority-owned firms, women's business enterprises, and labor surplus area firms when possible (finding C);
- Ensure that the Parish's claims support full project values (before reductions) (finding H); and,
- Finalize and close out the Parish's completed projects within 6 months of this report (finding H).

Finding A: Direct Administrative Costs

The Parish claimed \$4.2 million out of \$4.6 million that FEMA obligated for direct administrative costs that are ineligible, duplicate costs. This occurred because FEMA retroactively applied laws, regulations, and policies applicable to disasters declared after November 2007. These are ineligible, duplicate costs because FEMA provides a sliding-scale administrative allowance that covers all direct and indirect costs associated with managing and administering subgrants under the public assistance program for all disasters declared *before* November 13, 2007 (44 CFR 207.9(b)).⁴ As a result, FEMA inappropriately authorized the retroactive application of laws, regulations, and policies regarding direct administrative costs that became eligible for disasters declared *after* November 13, 2007.

We do not question these duplicate, ineligible costs because we addressed this issue in a previously issued management advisory report, "Direct Administrative Costs Paid for FEMA Public Assistance Grant Funds."⁵ The report questioned the retroactive application of \$45.5 million in direct administrative cost for FEMA Region VI, which included the \$4.6 million FEMA obligated for the Parish. In its response, FEMA said that it will review and reconcile project worksheets prepared for direct administrative costs, and deobligate costs that exceed established limits or that lack sufficient documentation.

⁴ On October 11, 2007, FEMA published the *Management Costs* interim rule (*Federal Register* 72 FR 57869) that established the management cost rates for emergencies and major disasters. The rule went into effect on November 13, 2007, and was implemented at 44 CFR 206, *Federal Disaster Assistance*, and 44 CFR 207, *Management Costs*.

⁵ See footnote 3.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

However, FEMA also said that as an incentive for hurricanes Katrina and Rita subgrantees, it will allow up to 3 percent of eligible costs for direct administrative cost for completed projects submitted for final project certification by August 29, 2013, and will deobligate the balance of estimated direct administrative costs. As authority for providing this incentive, FEMA cited section 638(a) and (f) of the *Post Katrina Emergency Management Reform Act of 2006 (P.L. 109-295)*, which directs that FEMA's Administrator provide incentives for the timely closeout of public assistance projects under sections 406 and 407 of the Stafford Act in the states of Mississippi, Louisiana, Alabama and Texas to effectuate the delivery of assistance to those affected by Hurricane Katrina and Hurricane Rita. FEMA also agreed that paying direct administrative costs in excess of the sliding scale for any other disasters is improper.

Finding B: Project Management Accounting and Costs

The Parish's claim included \$3.8 million of ineligible project management costs. These project management costs are ineligible because (1) the Parish did not account for them on a project-by-project basis, (2) they duplicated architectural and engineering work, (3) they included ineligible overhead costs, and (4) they duplicated grant management costs already covered by the administrative allowance. The sliding-scale administrative allowance covers all direct and indirect costs associated with managing and administering subgrants under the public assistance program for all disasters declared before November 13, 2007 (44 CFR 207.9(a) and (b)).

The Parish claimed these costs because GOHSEP requested, and officials from the FEMA Louisiana Transitional Recovery Office approved, a pilot program allowing subgrantees to claim prorated or allocated costs. FEMA, however, does not have the authority to implement a pilot program that is contrary to Office of Management and Budget cost principles that define direct costs as those that can be identified specifically with a particular final cost objective.⁶ The following amounts comprise the total \$3,775,600 of ineligible project management costs we question:

- \$2,254,969 was ineligible because the costs were for "program-wide" tasks not identified to specific projects.
- \$1,062,419 was ineligible because the costs duplicated architectural and engineering costs.
- \$360,398 was ineligible because the costs were for ineligible overhead costs.
- \$97,814 was ineligible because the costs duplicated administrative costs.

⁶ Applicable cost principles (OMB Circular A-87, Revised May 10, 2004) defines a direct cost as one that can be identified specifically with a particular final cost objective.



Project Management Accounting

The Parish claimed \$2.3 million for project management costs that were ineligible because they were for “program-wide” tasks not identified to specific projects. FEMA obligated \$4.9 million for Project 4636 as part of a single project management pilot program for Louisiana in Region VI.⁷ The scope of work for project management specified 17 tasks and project management cost estimates from 60 projects for the Parish. The contractor for program management performed project management and direct administrative work as part of the agreement with the Parish.

We reviewed selected timesheets in which the contractor documented \$2.3 million of “program wide” activities. The timesheets included descriptions such as (1) program management, planning, recruiting, interviewing, and staffing; (2) meetings with the Parish, GOHSEP, and FEMA; (3) project assessments; (4) setup of master and work breakdown schedules; (5) project coordination; (6) review of the Cost Estimating Format instruction guide; and (7) data entry. These activities and the resulting costs were general program expenses not tracked on a project-by-project basis, as required by 44 CFR 206.205(b) and included grant administration activities, contrary to FEMA 9525.6 guidance.

The Parish’s contractor explained that they devised an allocation method, or a “programmatically problem solving approach,” for the \$2.3 million “program-wide” fees because activities covered so many projects that it was impractical to track them on an individual project basis. The Parish claimed these “program-wide” fees because State and FEMA Region VI officials permitted subgrantees in the pilot program to claim prorated or allocated fees even though they did not track the fees to specific projects as FEMA 9525.6 requires. When costs cannot be tracked directly to a specific cost center, they are considered indirect costs.⁸ In fact, that is the very definition of indirect costs, which are specifically ineligible for disasters declared before November 13, 2007 according to 44 CFR 207.9(b). As stated previously, FEMA said that it may allow up to 3 percent of eligible costs for *direct* administrative costs. However, all *indirect* administrative and management costs are still ineligible.

⁷ FEMA began the Single Project Worksheet (PW) Project Management Pilot Program in September 2007 at the request of GOHSEP to simplify the process for funding eligible project management costs. FEMA’s Louisiana Recovery Office agreed to undertake the single PW approach for project management as a pilot initiative to provide project management funding for severely impacted subgrantees using a single project, or a limited number of aggregated projects grouped logically at the subgrantee’s request. The pilot program requires subgrantees to manage the project management contractor, maintain documentation, and account for costs on a project-by-project basis.

⁸ See footnote 6.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Therefore, we question \$2.3 million of project management costs as ineligible because the Parish did not track them on a project-by-project basis as required, and because they are duplicate costs under the administrative allowance and included in the contractor's time-and-materials billing rates.

When we discussed this finding with Parish officials, they said that they were going through a period of refinement to determine which tasks, as defined by FEMA, were necessary. They emphasized that any project management guidance received from GOHSEP and FEMA always came after the fact. FEMA disagreed with the finding and said that it would respond with a reasonableness-of-costs analysis based on locality, taking into account the remote location of the Parish. FEMA also noted that the label "pilot" was applied in error.

Duplication of Architectural and Engineering Costs

The Parish claimed approximately \$1.1 million of project management costs for tasks related to oversight and coordination of construction firms on projects. The Parish's project management consultant billed for tasks specified in the American Institute of Architects contracts that are usually performed by architectural and engineering firms working directly with construction contractors. Therefore, we question \$1.1 million as an ineligible duplication of work because the Parish already paid its architectural and engineering firm for these tasks, and the Parish should not receive reimbursement for these tasks again as project management costs. A Parish official acknowledged that there may have been duplicative efforts in the early stages of the contract when the program manager performed construction management oversight. Parish officials later amended the program manager's contract to discontinue those services.

Ineligible Overhead Costs

The Parish claimed \$360,398 in project management costs that were ineligible, indirect overhead expenses. The program management contractor billed for overhead expenses of office furniture, equipment, mobilization, supplies, reproductions, and network and telecom systems. The claim also included consultant expenses for travel, meals, lodging, and mileage. The Parish did not directly relate these expenses to individual projects. FEMA 9525.6 states that project management expense must be specifically accountable to a work project and must not contain any costs for grant administration activities. Therefore, we question \$360,398 as ineligible because the Parish did not attribute these costs to specific work projects, and the costs included indirect costs already covered by the administrative allowance and the contractor's time-and-materials billing rates.



Duplication of Administrative Allowance

The Parish claimed \$97,814 for consultant-billed tasks for project management on a project-by-project basis, but the task descriptions duplicated activity designated as reimbursable under the administrative allowance (44 CFR 207.9(b)). FEMA designated 17 project management tasks in the scope of work for Project 4636. However, we consider two of the tasks (“review contractor payments” and “maintain detailed project files”) as administrative in nature. Therefore, we question \$97,814 of contract costs for time coded to those tasks as a duplication of the administrative allowance.

Finding C: Procurement

The Parish complied with most Federal procurement standards in awarding 40 contracts totaling \$52.0 million of disaster-related work. However, the Parish did not (1) provide full and open competition for one architectural and engineering contract totaling \$1.8 million; (2) maintain sufficient records to detail the significant history of procurement for its \$9.4 million program management contract; (3) include a reasonable cost ceiling in a time-and-materials contract (same \$9.4 million program management contract); (4) include the required Federal provisions in all of its contracts; or (5) take all necessary affirmative steps to assure the use of small businesses, minority firms, women’s business enterprises, and labor surplus area firms when possible for contract work. As a result, full and open competition did not occur and FEMA has no assurance that costs were reasonable for this contract. Therefore, we question \$1,778,703 of ineligible contract costs for the non-competitive contract.

Federal regulations at 44 CFR 13.36, in part, require subgrantees to comply with the following procurement standards:

- Perform 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)(B);
- Maintain sufficient records to detail the significant history of procurement. These records will include, but are not necessarily limited to, the following: rationale for the method of procurement, selection of contract type, and contractor selection or rejection (13.36(b)(9));
- Use time-and-materials contracts only if the contract includes a ceiling price that the contractor exceeds at its own risk (13.36(b)(10)(ii));
- Include specific provisions in subgrantees’ contracts (13.36(i)); and



- Take affirmative steps to assure the use of small and minority firms, women's business enterprises, and labor surplus area firms when possible (13.36(e)).

Non-Competitive Architectural and Engineering Contract

The Parish awarded a non competitive architectural and engineering contract totaling \$1.8 million to a contractor that it had used before Hurricane Rita. This pre-existing contract was more than 2 decades old, and the Parish incorporated it by reference into at least 17 Hurricane Rita disaster-related construction contracts. When we asked for a more recent agreement, the Parish provided documentation supporting a 2009 bid proposal and contract. However, the proposal was for Hurricane Ike projects. Regardless, the Parish made no effort to update or compete this agreement for at least 4 years between 2005 and 2009.

The Parish also provided documentation of an October 2009 teleconference with GOHSEP to discuss GOHSEP's analysis. The analysis concluded that this architectural and engineering contractor's fees were reasonable and in line with the State guidelines. Price reasonableness, however, is only one of the goals of Federal contracting requirements. FEMA's practice has been to allow contract costs it considers reasonable, regardless of whether the contract complies with Federal procurement regulations. However, Federal procurement policies do not authorize this practice unless lives and property are at stake, because the goals of proper contracting relate to more than just reasonable cost. Full and open competition usually increases the number of bids received and thereby increases the opportunity for obtaining reasonable pricing from the most qualified contractors. Full and open competition also helps to discourage and prevent favoritism, collusion, fraud, waste, and abuse. Parish officials disagreed with this finding and said that the 2009 bid proposal and new contract were not limited to Ike projects, but also included Rita projects. However, documents the Parish officials provided after the exit conference did not support their statement. Further, Parish officials emphasized that GOHSEP and FEMA always provided guidance after the fact.

Program Management Contract

The Parish awarded a time-and-material contract valued at \$9.4 million for program management services. The scope of the contract included project planning, monitoring, construction cost estimating, bid support, management oversight, FEMA project worksheet reviews, and other architectural and engineering-related duties. The Parish published a notice in February 2008 and received proposals from four contractors. We did not question this contract because the Parish provided sufficient documentation demonstrating that the contract was competed. However, the Parish needs to be aware



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

that it did not maintain adequate solicitation and award records for this contract, justify the use of a time-and-material contract, or include a reasonable ceiling to limit costs.

Maintaining Procurement History – The Parish could not provide records of the program management proposal presentations, or the Parish’s method for conducting and scoring technical evaluations as required (44 CFR 13.36(d)(3)(iii)). Parish officials also could not provide evaluation tabulations or meeting minutes documenting their rationale for selection. Federal regulations require subgrantees to maintain records sufficient to describe the significant history of procurement, rationale for the method of procurement, selection of contract type, contractor selection or rejection (44 CFR 13.36(b)(9)). Parish officials did provide meeting minutes documenting the approval of the contract for program management and a letter describing the procurement history, but could not find other documents to support the evaluation process.

Time and Material Contract - The Parish awarded a time and material contract for program management that contained a limit of \$50 million. However, this \$50 million ceiling was unreasonably high and therefore meaningless as a cost control measure for a contract award of \$9.4 million. The Parish subsequently amended this “not-to-exceed” amount of \$9.4 million to match the total of the obligated project worksheets for direct administrative costs and project management.

Contract Provisions

The Parish did not include the contracting provisions in any of its contracts or subcontracts that 44 CFR 13.36(i) requires. These contract provisions document the rights and responsibilities of the parties and minimize the risk of contract misinterpretations and disputes. For example, the termination for cause provision (13.36(i)(2)) gives the subgrantee the right to end an agreement with a contractor for non-performance; and the access to records provision (13.36(i)(10)) gives the subgrantee, grantee, and FEMA the right to examine the contractor’s records. Although we did not question any costs because of the Parish’s failure to include these contract provisions, the Parish needs to include them in future contracts and subcontracts.

Steps To Assure Participation of Small Business and Minority Contractors

The Parish did not take the required steps to assure the use of small businesses, minority-owned firms, women’s business enterprises, and labor surplus area firms when possible (44 CFR 13.36(e)). These required affirmative steps include using the services and assistance of the Small Business Administration and the Minority Business Development Agency of the Department of Commerce, and requiring the prime contractor, if subcontracts are to be used, to take the affirmative steps listed in Federal regulations 44 CFR 13.36(e)(2)(i) through (v). Parish officials said that their engineers



and architects were responsible for handling the bid specifications and advertising, and admitted that they should have exercised better oversight. However, Parish officials were more concerned about cost than targeting specific contractors or businesses.

Although the Parish did not have steps in place to solicit awards from small businesses, minority-owned firms, women's business enterprises, and labor surplus area firms, it did award 18 of its 40 contracts to such businesses (totaling \$34.7 million of the \$52.0 million awarded). As such, we did not question the other disaster-related contract costs because the Parish otherwise competitively bid its contracts, which included awards to small and disadvantaged businesses. However, the Parish needs to improve its procurement procedures for future disasters by including federally required contract provisions in its contracts, and establishing the necessary affirmative steps to assure compliance with all Federal procurement standards.

Finding D: Miscellaneous Ineligible Costs

We identified \$514,714 of miscellaneous ineligible costs that the Parish submitted in its claim to GOHSEP. We discussed these ineligible costs with Parish officials, who agreed with us and subsequently corrected and resubmitted their claim to GOHSEP. The ineligible costs included—

- *Unauthorized Work* – \$286,600 not included in the approved scopes of work on four projects (140, 977, 2664, and 3050.)
- *Duplicate Costs* – \$100,814 either claimed on two projects or billed twice. The Parish claimed the same \$93,533 on two projects (3680 and 884) for architectural and engineering and geotechnical services. The Parish also billed \$2,183 for the same work performed on the same day at the Parish's fire stations (Project 140) on two different invoices (invoice 4627 and invoice 5426).
- *Claims Applied to Wrong Projects* – \$67,168 for costs the Parish applied to the wrong projects. The Parish claimed \$25,958 under Project 3680 for architectural and engineering work related to Project 884, and \$41,210 under Project 4116 for architectural and engineering work related to Project 4417.
- *Costs Not Related to Hurricane Rita* – \$52,133 the Parish billed for cleanup and associated A/E fees for three projects (140, 2615, and 2677) related to Hurricane Ike, not Hurricane Rita.
- *Unsupported Equipment Costs* – \$6,180 of unsupported force account equipment costs. The Parish's employees used trucks, trailers, and backhoes to complete work on Project 4116. However, the Parish's equipment-use hours did not reconcile to the operating hours listed on timesheets for four employees.
- *Excessive Fringe Benefit Charges* – The Parish inadvertently used an incorrect annual wage to calculate fringe benefit rates for force account labor on Project 4116. As a result, the Parish claimed \$1,819 in excessive fringe benefits.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Because the Parish deleted these ineligible costs from its claim to GOHSEP after we informed the Parish of the ineligible costs, we consider this finding and the related recommendation to be resolved and closed.

Finding E: Unused Federal Funds

The Parish completed work and claimed \$5,590,534 for four projects, which was \$317,245 less than the total amount FEMA estimated and approved for the four projects. The Parish completed the projects as of November 2011. Federal regulations at 44 CFR 206.205(b)(1) require the grantee to submit an accounting of eligible cost for each large project “as soon as practicable after the subgrantee has completed the approved work and requested payment.” We consider 6 months after the subgrantee has completed the approved work and requested payment a reasonable amount of time for the grantee to complete its reviews of costs claimed and submit an accounting of eligible costs to FEMA. Therefore, FEMA should require GOHSEP to submit closeout documentation for the Parish’s projects as soon as possible, so that FEMA can perform final closeouts of the Parish’s projects and put \$317,245 of unused Federal funds to better use. Parish officials agreed, but said they received conflicting guidance from GOHSEP on deobligating unused funds.

Finding F: Excessive and Prohibited Contract Costs

The Parish claimed \$240,034 in excessive and prohibited contract costs resulting from project management billing errors, incorrectly calculated architectural and engineering fees, and cost-plus-percentage calculations applied to other direct management costs.

Excessive Contract Costs – The Parish’s claim included \$160,840 in excessive contract costs consisting of \$119,205 for project management fees on Project 4636 and \$41,635 for architectural and engineering costs on Projects 2615 and 2664. The project management fees resulted from contractor billings at higher labor category rates for some employees than the assigned labor category rates listed on the contractor’s Program Management Team Listing. The program manager said that he will work with the Parish to refund the appropriate amount for any billing errors.

For Project 2615, the architectural and engineering contractor incorrectly charged the Parish an additional \$38,595 in fees because it calculated the fees using the Louisiana State Fee Curve formula, modification factor of 1.15 instead of 1, as the contract specified. For Project 2664, the contractor invoiced the Parish an additional \$3,040 in design fees above the contract rate of 5 percent of the construction cost for design. Parish officials agreed to adjust the closeout documents to reflect the correct amount for architectural and engineering for Projects 2615 and 2664, and to independently seek



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

reimbursement from the architectural and engineering contractor for the overpayment. Because the Parish claimed contract costs in excess of contract terms, we question \$160,840 of ineligible excessive contract costs.

Cost-Plus-Percentage Calculations – The Parish claimed \$79,194 of ineligible markups on other direct project management costs (\$75,684) and A/E fees (\$3,510). Federal regulations at 44 CFR 13.36(f)(4) prohibit the use of the cost-plus-a-percentage-of-cost method of contracting. Therefore, we question \$79,194 as ineligible cost-plus-percentage-of-cost markups. Parish officials agreed and will adjust the claims. GOHSEP also identified and did not allow the ineligible markups for direct project management. However, we question the \$240,034 ineligible contract costs because, at the time of our audit, these costs remained in the Parish’s claim.

Finding G: Insurance

FEMA should complete its insurance review, allocate the remaining \$83,075 in applicable insurance proceeds to the Parish’s projects, and disallow those costs as ineligible. The Parish received \$7,259,409 in insurance proceeds for property damages. However, FEMA allocated only \$7,176,334 in actual and anticipated insurance proceeds to the Parish’s projects. Federal regulations at 44 CFR 206.253(a) require that eligible costs be reduced by the actual amount of insurance proceeds relating to the eligible costs. FEMA officials explained that they did not complete the allocations because there were pending project versions that required insurance review. FEMA officials said that they will have the final allocation once they complete all the versions.

Finding H: Grant Management

Several findings (B, C, D, and E) occurred in part because GOHSEP, as the grantee, did not provide proper guidance to the Parish, and did not adequately manage and monitor the day-to-day operations of the subgrantee to ensure compliance with Federal regulations. Federal regulation 44 CFR 13.40(a) requires the grantee to manage the day-to-day operations of subgrant activity and monitor subgrant activity to assure compliance with applicable Federal requirements. In addition, we have concerns regarding GOHSEP’s handling of claims and project closeouts.

Submission of Claims

The Parish did not understand that it had to submit documentation to support the gross eligible amount of projects before reductions for anticipated or actual insurance proceeds. Therefore, the Parish limited submission of documentation supporting its claims to the obligated (net) amount of the projects, rather than the gross eligible amount. Parish officials said that they based these submissions on guidance that



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

GOHSEP provided. Parish officials also said that, when there were insurance reductions to a project's gross amount, they delayed submitting invoices to GOHSEP to support the full value of projects until the projects were ready for closeout. In several instances, the Parish submitted partial invoices for reimbursement to match the remaining obligated funds. GOHSEP acknowledged that subgrantees should submit claims to support the value of the project before applicable reductions. Parish officials said that GOHSEP notified them that it would send out a notification of the change in guidance to submit all invoices. Parish officials also said that they will begin providing all the documents to GOHSEP when the Parish requests closeout to support the gross project amount for all projects.

Project Closeout

The Parish completed all but 3 of its 339 projects more than a year ago and completed most projects at least 2 years ago. Although the Parish completed all projects, GOHSEP has not provided closeout information to FEMA. Federal regulations at 44 CFR 206.205(b)(1) require grantees to make an accounting to the FEMA Regional Administrator of eligible costs for each approved large project "as soon as practicable after the subgrantee has completed the approved work and requested payment." Therefore, GOHSEP should complete its reviews of all the Parish's projects and submit an accounting of eligible costs for closeout.

Without timely closeouts, Federal funds remain obligated as a liability against FEMA's appropriated funds and can limit FEMA's ability to authorize other disaster assistance projects. We consider 6 months after the subgrantee has completed the approved work and requested payment a reasonable amount of time for the grantee to complete its reviews of costs claimed and submit an accounting of eligible costs to FEMA.

As of October 31, 2012, FEMA had approved \$39.5 million in state management costs that GOHSEP had requested since September 2005 for managing the \$624.7 million in approved grant funds to the State of Louisiana for Hurricane Rita. Although we are not commenting on the overall reasonableness of these costs, we want to point out that FEMA is paying GOHSEP to manage this disaster, and therefore should require GOHSEP, as the grantee, to develop and implement procedures to better manage its responsibilities under this grant. Specifically, FEMA should require GOHSEP, as the grantee, to (1) ensure that the Parish's claims support full project values before reductions and (2) finalize and close out the Parish's completed projects within 6 months of this report. GOHSEP officials did not provide comments on this finding.



RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation #1: Disallow \$3,775,600 of ineligible project management costs (finding B).

Recommendation #2: Disallow \$1,778,703 of ineligible contract costs (finding C).

Recommendation #3: Disallow \$514,714 of miscellaneous ineligible costs (finding D). Because the Parish deleted these ineligible costs from its claim to GOHSEP, we consider this recommendation to be resolved and closed.⁹

Recommendation #4: Deobligate \$317,245 of unused funds and put them to better use (finding E).

Recommendation #5: Disallow \$240,034 of excessive and prohibited contract costs (finding F).

Recommendation #6: Complete the insurance review and allocate \$83,075 of unapplied insurance proceeds to the total cost of the Parish's projects and disallow those costs as ineligible (finding G).

Recommendation #7: Direct GOHSEP to—

- Instruct the Parish to improve its procurement procedures for future disasters by including federally required contract provisions in its contracts, and establishing the necessary affirmative steps to assure the use of small businesses, minority-owned firms, women's business enterprises, and labor surplus area firms when possible (finding C);
- Ensure that the Parish's claims support full project values (before reductions) (finding H); and
- Finalize and close out the Parish's completed projects within 6 months of this report (finding H).

⁹ Because FEMA had not yet obligated these ineligible costs, we will report them as costs avoided rather than costs recovered.



DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with Parish officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to FEMA, GOHSEP, and Parish officials and discussed it at exit conferences held with FEMA on November 10, 2012, and with GOHSEP and Parish officials on November 28, 2012. FEMA officials generally agreed with the findings and recommendations except for finding B. Parish officials disagreed with findings A and B. GOHSEP officials did not comment on the findings.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until we receive your response, we will consider the recommendations to be open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Major contributors to this report were Tonda Hadley, Director; Paige Hamrick, Audit Manager; James Mitchell, Auditor-in-Charge; and Tai Cheung, Program Analyst.

Please call me with any questions at (202) 254-4100, or your staff may contact Tonda Hadley, Director, Central Regional Office, at (214) 436-5200.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

EXHIBIT

Schedule of Projects Audited

Project Number and Category ¹⁰	Net Award Amount	Finding B	Finding C	Finding D	Finding F	Finding G	Total Costs Questioned	Unused Federal Funds (Finding E)
4636-E	\$4,861,280	\$3,775,600	\$ 0	\$ 0	\$194,889		\$3,970,489	\$ 0
4726-E	3,511,662	0	0	0	0		0	0
3758-C	3,017,384	0	295,382	0	0		295,382	25,164
2615-E	2,087,357	0	45,176	10,812	41,863		97,851	0
2677-E	1,261,178	0	8,006	26,003	0		34,009	0
2664-E	1,238,937	0	82,606	95,985	3,040		181,631	0
4737-E	1,070,025	0	0	0	0		0	0
140-E	1,009,920	0	9,145	19,059	0		28,204	0
884-E	850,400	0	400	0	242		642	1,277
4116-C	837,841	0	29,168	49,209	0		78,377	0
2104-E	784,224	0	0	0	0		0	256,067
3680-E	719,592	0	18,182	124,491	0		142,673	0
977-E	685,544	0	0	152,532	0		152,532	0
3050-E	679,326	0	0	36,623	0		36,623	0
4220-G	509,755	0	41,048	0	0		41,048	34,737
17 Other Large Projects	21,714,150	0	551,992	0	0		551,992	0
20 Small Projects	781,806	0	0	0			0	0
Scope Totals 52 Projects	<u>\$45,620,381</u>	<u>\$3,775,600</u>	<u>\$1,081,105</u>	<u>\$514,714</u>	<u>\$240,034</u>		<u>\$5,611,453</u>	<u>\$317,245</u>
Limited Review: A/E Contract	3,761,613	0	697,598	0	0		697,598	0
Insurance To Be Allocated (Finding G)						83,075	83,075	0
Grand Totals	<u>\$49,381,994</u>	<u>\$3,775,600</u>	<u>\$1,778,703</u>	<u>\$514,714</u>	<u>\$240,034</u>	<u>\$83,075</u>	<u>\$6,392,126</u>	<u>\$317,245</u>

¹⁰ FEMA classifies disaster-related work by type: debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C through G).



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APPENDIX

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