

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

FEMA Should Recover \$881,956 of Ineligible Funds
and \$862,983 of Unused Funds Awarded to St. Charles
Parish School Board, Luling, Louisiana






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Department of Homeland Security

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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 \$881,956 of Ineligible Funds and \$862,983 of Unused Funds Awarded to St. Charles Parish School Board, Luling, Louisiana*
FEMA Disaster Numbers 1603-, 1786-, and 1792-DR-LA
Audit Report Number DD-13-07

We audited Public Assistance (PA) grant funds awarded to St. Charles Parish School Board, Luling, Louisiana (School Board) (PA Number 089 0042C-00). Our audit objective was to determine whether the School Board 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 School Board \$6.58 million for damages resulting from three federally declared disasters:

- Hurricane Katrina (1603-DR-LA), which occurred August 29, 2005
- Hurricane Gustav (1786-DR-LA), which occurred September 2, 2008
- Hurricane Ike (1792-DR-LA), which occurred September 13, 2008

The audit covered the period August 29, 2005, through November 3, 2011, the cutoff date of our audit, and included a review of 16 large and 10 small projects totaling \$6.16 million, or 94 percent of the total awards (see exhibit).¹ Table 1 shows information for each disaster and the gross and net awards before and after insurance reductions for all projects and for our audit scope.

¹ Federal regulations in effect at the time of the disasters set the large project threshold at \$55,500 for Hurricane Katrina and \$60,900 for Hurricanes Gustav and Ike.



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Table 1. Disaster-Specific Information

Disaster	Gross Award Amount	Insurance Reductions	Net Award Amount	Large Projects Awarded	Small Projects Awarded	Federal Cost Share
1603 – Katrina	\$6,290,574	\$(1,085,243)	\$5,205,331	11	28	100%
1786 – Gustav	1,483,686	(123,950)	1,359,736	5	45	90%
1792 – Ike	<u>10,220</u>	<u>0</u>	<u>10,220</u>	<u>0</u>	<u>2</u>	90%
All Disasters	<u>\$7,784,480</u>	<u>\$(1,209,193)</u>	<u>\$6,575,287</u>	<u>16</u>	<u>75</u>	
Audit Scope	\$7,211,263	\$(1,046,994)	\$6,164,269	16	10	

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

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

BACKGROUND

The School Board, established in 1879, is a legislative body authorized to govern the public education system of the parish of St. Charles, Louisiana. The School Board is responsible for making public education in grades K–12 available to the residents of St. Charles Parish. Services include providing instructional personnel, materials, and facilities; administrative support; business services; system operations; plant maintenance; and bus transportation. The School Board provided service to 9,721 students as of February 2010.



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On August 29, 2005, Hurricane Katrina's high winds and heavy rain downed trees and damaged structures throughout School Board properties. Storm damage included uprooted trees, broken and hanging tree limbs, and damage to school buildings and facilities. Likewise, on September 2, 2008, Hurricane Gustav's high winds and rain damaged several of the School Board's classrooms, buildings, and facilities. Damage also included major destruction to the trees and vegetation on the properties. Hurricane Ike, declared on September 13, 2008, caused additional damage to the School Board's facilities and grounds.

RESULTS OF AUDIT

The School Board accounted for FEMA grant funds on a project-by-project basis as Federal regulations require. However, it did not always follow Federal regulations, including those for procurement of contracts. As a result, we question the following \$881,956 as ineligible costs:

- \$156,529 of improper contracting costs for Hurricane Katrina work (finding A) (net of \$308,700 also questioned in finding B),
- \$722,836 of unsupported costs for Hurricanes Katrina and Gustav (finding B), and
- \$2,591 of duplicate costs for Hurricane Katrina (finding C).

Additionally, FEMA should deobligate \$862,983 in unused Federal funds and put those funds to better use (\$853,100 for Hurricane Katrina and \$9,883 for Hurricane Gustav) (finding D). The majority of the findings in this report occurred because GOHSEP, as the grantee, should have better managed its responsibilities. Therefore, FEMA should require GOHSEP to submit an accounting to FEMA as soon as possible for all completed School Board projects and ensure that—

- FEMA receives information sufficient to close completed School Board projects by June 2013,
- The School Board is aware of and follows Federal procurement standards for future federally declared disasters, and
- The School Board maintains adequate documentation of costs for future federally declared disasters (finding E).

Finding A: Contracting Procedures

The School Board did not comply with Federal procurement standards in awarding disaster-related contracts for Hurricane Katrina. As a result, full and open competition did not always occur, and FEMA has no assurance that all contract costs were reasonable. Federal procurement standards at 44 CFR 13.36 require subgrantees to, among other things—



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- Perform procurement transactions in a manner providing full and open competition except under certain circumstances. One allowable circumstance is when there is 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))
- Conduct a cost or price analysis in connection with every procurement action, including contract modifications. (13.36(f)(1))
- Maintain a contract administration system to ensure that contractors perform according to the terms, conditions, and specifications of their contracts or purchase orders. (13.36(b)(2))
- Negotiate profit as a separate element of the price for each contract in which there is no price competition. (13.36(f)(2))
- Avoid the use of time-and-material type 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)(i) and (ii))
- Include in all contracts applicable provisions listed in 44 CFR 13.36(i), such as those for records retention, legal remedies, and termination for cause.

The School Board did not follow these standards in awarding \$4.1 million in contracts for Hurricane Katrina work. However, after the hurricane, the School Board's superintendent enacted the School Board's Emergency Purchase Policy to dispense with competitive bidding to immediately stabilize the local school system and community. Generally, we do not question costs based on noncompliance with Federal procurement regulations when lives and property are at risk. However, once the danger passes, subgrantees should fully comply with Federal contracting regulations. On September 15, 2005, the School Board reopened the parish's schools, but continued to use two noncompetitive time-and-material contracts for various debris removal services until January 2006. Therefore, we question \$465,229 as ineligible contract costs that the School Board incurred under these contracts after exigent circumstances ended on September 15, 2005. The \$465,229 questioned as ineligible contract costs includes \$308,700 of unsupported costs also questioned in finding B. Therefore, to avoid questioning the same costs twice, we are recommending disallowance of \$156,529 of improper contract costs, which is the \$465,229 less the \$308,700 questioned in finding B. If FEMA allows the \$308,700 of unsupported costs in finding B, it should add back the \$308,700 to costs recommended for disallowance in Recommendation 1, which relates to finding A.

School Board officials said that they continued to use noncompetitive time-and-material contracts after the schools opened because they were not fully aware of Federal procurement regulations, and that FEMA and GOHSEP officials arrived at the School Board after it had completed most of the repairs and reopened schools. School Board officials also said that FEMA and GOHSEP officials assigned to assist them constantly changed for 2 to 3 years after Hurricane Katrina, which contributed to their lack of understanding and awareness of the procurement regulations. At our exit conference, FEMA officials disagreed with the finding and said that, although schools resumed classes by September 15, 2005, the School Board's



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resources might not have been available to fully support normal operations. GOHSEP and School Board officials also disagreed with this finding because School Board officials claim that they are unsure if they paid for debris removal services after schools reopened and will review their accounting records for accuracy of the totals questioned.

As for Hurricane Gustav, School Board officials generally followed Federal procurement standards. Before Hurricane Gustav, the School Board solicited proposals and competitively awarded pre-positioned contracts for future emergency work. GOHSEP officials told us that after Hurricane Katrina, they began an aggressive program to educate GOHSEP subgrantees on Federal regulations, including those for procurement; therefore, subgrantee compliance should improve with each subsequent disaster.

Finding B: Unsupported Costs

The School Board's claim included \$722,836 of unsupported contract labor and force account material costs. The invoices for these costs did not include supporting documentation, such as timesheets, work logs, contract agreements, rate schedules for contract labor or equipment, and invoices or receipts for material purchases. Federal regulations at 44 CFR 13.20(b)(2) require subgrantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. Therefore, we question the following costs totaling \$722,836 as unsupported (\$591,928 for Hurricane Katrina and \$130,908 for Hurricane Gustav):

- \$582,064 claimed under several projects for work related to time-and-material contracts (Hurricane Katrina Projects 1632, 1693, 2133, 2152, and 3572 totaling \$451,156 plus Hurricane Gustav Projects 698 and 780 totaling \$130,908). The School Board did not provide timesheets, work logs, contract agreements, and contract rate schedules for these costs. This occurred because, according to School Board officials, they issued verbal contracts for Hurricane Katrina work. Additionally, for both Hurricanes Katrina and Gustav, the School Board did not maintain adequate procurement records to support contract billings. Without adequate labor and equipment records and contract agreements, there is no assurance that contractors are billed according to the contracted rates and for approved activities.
- \$140,772 claimed under Project 2391 for material purchases (Hurricane Katrina). The School Board did not provide copies of the invoices and receipts for perishable food items. School Board officials said that they misplaced the folder that contained all the invoices and receipts and will continue to search for the documentation.

FEMA and GOHSEP officials agreed with this finding. However, School Board officials disagreed with the finding, saying that they had submitted invoices to GOHSEP officials multiple times to support the material costs incurred. School Board officials said that they understand their



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responsibility to maintain source documentation for contract costs incurred, and they will continue to look for applicable documentation to support all costs.

Finding C: Duplicate Costs

The School Board inadvertently claimed \$2,591 of costs twice under Hurricane Katrina for Project 2159. The duplicate costs included invoices for \$2,141 to remove and replace floor tiles and \$450 to repair a chain link fence. Therefore, we question \$2,591 as ineligible, duplicate costs. FEMA officials agreed with this finding. GOHSEP and School Board officials disagreed with this finding and said that they will review their accounting records to determine whether the costs are duplicates.

Finding D: Unused Federal Funds

GOHSEP did not provide closeout information to FEMA in a timely manner for eight projects that the School Board had completed. As a result, \$862,983 of Federal funds that could have been put to better use remained obligated. As table 2 shows, the School Board completed work on the eight projects and claimed \$3,364,891, which was \$862,983 less than the total amount FEMA estimated and approved for the eight projects. The School Board completed the majority of these projects 5 years ago for Hurricane Katrina and 3 years ago for Hurricane Gustav.

Table 2. Completed Projects With Unused Funds

Project Worksheet	Date Completed	Net Award Amount	Net Amount Claimed	Unused Funds
<i>Katrina</i>				
1632	12/6/2006	\$ 113,716	\$ 101,028	\$ 12,688
2133	5/12/2006	133,968	115,892	18,076
2159	9/7/2006	98,380	27,417	70,963
2659	2/8/2006	61,820	39,093	22,727
3022	8/13/2008	2,697,208	1,984,907	712,301
3572	1/17/2006	<u>794,402</u>	<u>778,057</u>	<u>16,345</u>
Katrina Subtotals		<u>\$3,899,494</u>	<u>\$3,046,394</u>	<u>\$853,100</u>
<i>Gustav</i>				
698	9/28/2008	\$ 243,700	\$ 238,572	\$ 5,128
3297	8/10/2009	<u>84,680</u>	<u>79,925</u>	<u>4,755</u>
Gustav Subtotals		<u>\$ 328,380</u>	<u>\$ 318,497</u>	<u>\$ 9,883</u>
Totals		<u>\$4,227,874</u>	<u>\$3,364,891</u>	<u>\$862,983</u>



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According to 44 CFR 206.205(b)(1), grantees must submit 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.” 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 to submit an accounting of eligible costs to FEMA. Therefore, FEMA should deobligate \$862,983 of unused Federal funds and put those funds to better use. In addition, FEMA should require GOHSEP to submit an accounting to the FEMA Regional Administrator as soon as possible for all projects for which the School Board has completed the approved work and requested payment. GOHSEP and School Board officials agreed that unused funds should be deobligated. FEMA officials agreed with this finding and said that they will take immediate steps to review all project worksheets for the School Board that contain unused funds.

Finding E: Grant Management

The majority of the findings in this report occurred because GOHSEP, as the grantee, should have better managed its responsibilities. According to 44 CFR 13.40(a), grantees are responsible for managing and monitoring the day-to-day operations of grant- and subgrant-supported activities to ensure compliance with applicable Federal requirements. Additionally, grantees must ensure that subgrantees are aware of requirements imposed upon them by Federal statute and regulation (44 CFR 13.37(a)(2)).

GOHSEP did not obtain necessary supporting documentation from the School Board for invoiced costs and did not maintain supporting documentation received from the School Board for reimbursements already processed. As a result, the School Board’s funding may be jeopardized for otherwise eligible costs. We also cited instances in this report in which GOHSEP did not provide closeout information to FEMA in a timely manner and instances in which the School Board did not comply with Federal procurement regulations because it was not aware of or did not understand them. It is not enough for GOHSEP to merely advise subgrantees of Federal regulations. Consistent with Federal regulations, GOHSEP is responsible for managing and monitoring each project, program, subaward, function, or activity (44 CFR 13.40(a)). Further, the FEMA-State agreement for Hurricanes Katrina and Gustav requires GOHSEP to comply with the requirements of laws and regulations contained in the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, Public Law 93-288, as amended, 42 U.S.C. §5121, et seq., and its related Federal regulations.

As stated in finding A above, GOHSEP officials told us that after Hurricane Katrina, they began an aggressive program to educate GOHSEP subgrantees on Federal regulations, including those for procurement; therefore, subgrantee compliance should improve with each subsequent disaster.



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RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation #1: Disallow \$156,529 of improper contracting costs for Hurricane Katrina, unless FEMA grants an exemption for all or part of the costs as provided for in 44 CFR 13.6(c) and Section 705(c) of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended (finding A).

Recommendation #2: Disallow \$591,928 of unsupported costs for Hurricane Katrina unless the School Board can provide adequate documentation to support these costs (finding B).

Recommendation #3: Disallow \$130,908 (\$117,817 Federal share) of unsupported costs for Hurricane Gustav unless the School Board can provide adequate documentation to support these costs (finding B).

Recommendation #4: Disallow \$2,591 of duplicate costs claimed for Hurricane Katrina (finding C).

Recommendation #5: Deobligate \$853,100 of unused Federal funds for Hurricane Katrina and put those funds to better use (finding D).

Recommendation #6: Deobligate \$9,883, (\$8,895 Federal share) of unused Federal funds for Hurricane Gustav and put those funds to better use (finding D).

Recommendation #7: Direct GOHSEP to submit an accounting to FEMA as soon as possible for all large projects for which the School Board has completed the approved work and requested payment (finding D).

Recommendation #8: Direct GOHSEP to ensure that—

- FEMA receives information sufficient to close completed School Board projects by June 2013,
- The School Board is aware of and follows Federal procurement standards for future federally declared disasters, and
- The School Board maintains adequate documentation of costs for future federally declared disasters (finding E).



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DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with School Board 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 School Board officials and discussed it with FEMA officials on June 21 and October 10, 2012, and with GOHSEP and School Board officials on October 26, 2012.

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 are Tonda Hadley, Director; Judy Martinez, Audit Manager; Chiquita Washington, Auditor-in-Charge; and Mary Monachello, Auditor.

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.



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EXHIBIT

Schedule of Projects Audited

Project Worksheet	Net Award Amount	Net Claim Amount	Finding A	Finding B	Finding C	Questioned Cost	Unused Funds Finding D
<i>Katrina – DR 1603</i>							
1632	\$ 113,716	\$ 101,028	\$ 0	\$ 20,849	\$ 0	\$ 20,849	\$ 12,688
1693	78,216	82,794	0	16,571	0	16,571	0
2133	133,968	115,892	0	37,484	0	37,484	18,076
2152	261,627	261,627	0	67,552	0	67,552	0
2159	98,380	27,417	0	0	2,591	2,591	70,963
2391	114,181	149,182	0	140,772	0	140,772	0
2659	61,820	39,093	0	0	0	0	22,727
3022	2,697,208	1,984,907	0	0	0	0	712,301
3572	794,402	778,057	465,229	308,700	0	773,929	16,345
Other Projects	568,506	573,868	0	0	0	0	0
Subtotals	<u>\$4,922,023</u>	<u>\$4,113,865</u>	<u>(\$465,229)</u>	<u>\$591,928</u>	<u>\$2,591</u>	<u>\$1,059,748</u>	<u>\$853,100</u>
Net			<u>\$156,529</u>			<u>\$751,048</u>	
<i>Gustav – DR 1786</i>							
698	\$ 243,700	\$ 238,572	\$ 0	\$ 76,317	\$ 0	\$ 76,317	\$ 5,128
780	378,680 ²	377,537	0	54,591	0	54,591	0
3297	84,680	79,925	0	0	0	0	4,755
Other Projects	524,966	539,760	0	0	0	0	0
Subtotals	<u>\$1,232,026</u>	<u>\$1,235,794</u>	<u>\$ 0</u>	<u>\$130,908</u>	<u>\$ 0</u>	<u>\$130,908</u>	<u>\$ 9,883</u>
<i>Ike – DR 1792</i>							
1533	\$ 1,205	\$ 1,205	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
1539	9,015	9,015	0	0	0	0	0
Subtotals	<u>\$ 10,220</u>	<u>\$ 10,220</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Grand Totals	<u>\$6,164,269</u>	<u>\$5,359,879</u>	<u>\$156,529</u>	<u>\$722,836</u>	<u>\$2,591</u>	<u>\$881,956</u>	<u>\$862,983</u>

² We did not request deobligation of \$1,143 of unused funds (\$378,680–\$377,537) because a version to deobligate unused project funds was processed after the audit performance period ended.



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