Department of Homeland Security

Office of Inspector General

FEMA Should Recover $2.3 Million of Unsupported, Unused, and Ineligible Grant Funds Awarded to East Jefferson General Hospital, Metairie, Louisiana

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

FROM: John V. Kelly
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Recover $2.3 Million of Unsupported, Unused, and Ineligible Grant Funds Awarded to East Jefferson General Hospital, Metairie, Louisiana*
FEMA Disaster Number 1603-DR-LA
Audit Report Number OIG-14-53-D

We audited Public Assistance grant funds awarded to East Jefferson General Hospital (Hospital) in Metairie, Louisiana (Public Assistance Identification Number 051-UTUK-00). Our audit objective was to determine whether the Hospital accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

The Governor's Office of Homeland Security and Emergency Preparedness (State), a FEMA grantee, awarded the Hospital $12.4 million for damages resulting from Hurricane Katrina, which occurred on August 29, 2005. The award provided 100 percent funding for 22 large and 51 small projects.[1] The audit covered the period August 29, 2005, through June 20, 2013, the cutoff date of our audit, and included a review of 11 large and 5 small projects totaling $9.48 million, or 76 percent of the total award (see Exhibit, Schedule of Projects Audited and Questioned Costs).[2] As of our cutoff date, the Hospital had claimed and the State had reimbursed $9.9 million.

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

[2] We audited the gross amount of $14.3 million awarded before reductions for insurance.

Table 1 shows the gross and net award amounts before and after reductions for insurance for all projects and for those in our audit scope.

Table 1. Gross and Net Award Amounts

	Gross Award Amount	Insurance Reductions	Net Award Amount
All Projects	$14,292,177	($1,885,667)	$12,406,510
Audit Scope	$10,624,801	($1,149,203)	$9,475,598

Because the Hospital needed additional time to obtain its procurement documents from a third-party contractor, we have divided the audit into two phases. During this first phase, we reviewed the support and eligibility of specific costs the Hospital claimed. We are planning a second phase to review the methodology the Hospital used to award disaster-related contracts.

We conducted this phase of the performance audit between June 2013 and January 2014 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 by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We interviewed FEMA, State, and Hospital 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 Hospital's internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the Hospital's method of accounting for disaster-related costs.

BACKGROUND

East Jefferson General Hospital is a publicly owned and operated Louisiana service district hospital with a volunteer board of 10 Directors appointed by the Jefferson Parish Council and the parish President. In August 2005, the Hospital was one of only three hospitals in the New Orleans metropolitan area that remained open in the aftermath of

Hurricane Katrina. The storm's strong winds, heavy rainfall, and flooding damaged multiple buildings throughout the Hospital's campus and other off-site Hospital-owned properties.

RESULTS OF AUDIT

Generally, the Hospital accounted for and expended FEMA grant funds on a project-by-project basis as Federal regulations and FEMA guidelines require. However, the Hospital's claim included $768,667 of unsupported and ineligible costs. As a result, we question $768,667, consisting of $325,853 of unsupported contract costs (finding A), $307,495 of ineligible costs the Hospital incurred after the project completion deadline (finding B), and $135,319 of ineligible building repair and equipment costs (finding C).

In addition, FEMA should deobligate $1,493,606 of unused funds on five completed projects and one project the Hospital does not intend to complete and put the funds to better use (finding D). The majority of these findings occurred because the State, as the grantee, did not adequately monitor the Hospital's subgrant activities to ensure compliance with Federal regulations and FEMA guidelines. Therefore, FEMA should direct the State to improve its subgrant management.

Finding A: Documentation of Costs

The Hospital's claim included $325,853 of unsupported time-and-material contract costs. The Hospital did not require its contractors to provide $317,983 in support for contract labor and equipment amounts billed, such as contract agreements or rate schedules and subcontractor invoices. Additionally, the Hospital could not provide evidence that it paid $7,870 to its vendor for contract work. Cost principles at 2 Code of Federal Regulations (CFR) CFR 225, Appendix A, Section C.1.j., state that a cost must be adequately documented to be allowable under Federal awards.[3] Therefore, we question contract costs totaling $325,853 as unsupported costs for work related to time-and-material contracts.

Hospital officials said they did not obtain supporting documentation from their contractors because they were not aware they needed to obtain records to support time-and-material billings. They also said that their focus after the hurricane was on serving patients, rather than retaining documentation. By not reconciling contractor invoices to contract agreements and rate schedules, the Hospital and FEMA have no assurance that contractors billed according to the contracted rates and performed work

[3] OMB Circular A-87, in effect at the time of the disaster, was relocated to 2 CFR, part 225, on August 31, 2005.

on only approved project activities. Hospital officials said they will attempt to obtain documentation from their contractors. We will consider any additional support the Hospital provides during our audit follow-up process.

Finding B: Project Extension

The Hospital claimed $307,495 after its project completion deadline expired. FEMA established an August 29, 2010, deadline to complete $1,116,514 of building repairs and mold remediation on one of its medical buildings.[4] However, the Hospital did not meet this deadline or file for an extension. The Hospital claimed $1,011,317 for repair work before the August 29, 2010, project completion deadline. However, the Hospital claimed an additional $307,495 in repair costs almost 3 years (May 17, 2013) after the August 2010 project completion deadline expired.

Federal regulations at 44 CFR 206.204(c) and (d) place time restrictions on project completion and set forth requirements for subgrantees to request extensions for project completion. Hospital officials said that they were not aware they needed to submit a project extension request before completing the work. As a result of our audit, these officials submitted a project extension request, and in November 2013, FEMA officials retroactively approved the extension for work the Hospital completed by January 2013. Therefore, we consider this finding and the related recommendation to be resolved and closed and require no further action from FEMA.

Finding C: Ineligible Building Repair Costs

The Hospital's claim included $135,319 for contract costs that were ineligible. The majority of these costs were ineligible because the following costs were outside the scope of work that FEMA approved for building repairs:

- $118,574 on Project 6328 for the installation of building skylights and contract retainage;
- $14,432 on Project 4948 for electrical materials, plumbing work, removal and storage of flooded items, and building accessories; and
- $1,033 on Project 4069 for replacement of a sprinkler system.

The remaining $1,280 was ineligible because it was not the Hospital's legal responsibility to pay it. This $1,280 represents half of the $2,560 the Hospital claimed for equipment costs for its jointly-owned linen service. The Hospital was responsible for only half of the damages to the linen service because it jointly owns it with another hospital. The State

[4] FEMA granted a blanket extension of the permanent work completion deadline until August 29, 2010, for Hurricane Katrina applicants, which extended the Hospital's previous project completion deadline of August 29, 2009.

agreed that the $1,280 of costs were not eligible because the costs were not the Hospital's responsibility. FEMA's *Public Assistance Policy Digest* (FEMA 321, pp. 75−76) states that funds for costs outside the scope of work that FEMA approves are not eligible and disaster work must be the legal responsibility of the applicant.

Therefore, we question $135,319 as ineligible contract and equipment costs. Hospital officials said the ineligible items it claimed resulted from an error on their part, and they will request project funding adjustments to address the out of scope items and work with the State to determine the legal responsibility of its jointly-owned equipment costs.

<u>Finding D: Unused Federal Funds</u>

FEMA should deobligate $1,493,606 in unused funds consisting of—

- $1,463,606 of excess funding for five of the Hospital's completed projects; and
- $30,000 for one project the Hospital does not intend to complete.

The Hospital did not use $1,493,606 of obligated funds because it completed work on five projects and claimed $4,792,405, which was $1,463,606 less than the total amount FEMA estimated and approved for the projects. Hospital officials also decided not to complete $30,000 of work on another project. The Hospital completed the majority of the five projects over 6 years ago, but the State did not provide timely closeout information to FEMA for the projects. As a result, $1,493,606 of Federal funds that FEMA could have put to better use remains obligated. In a recent OIG report, we found that the State has been very slow providing closeout information to FEMA because State officials had not made closing projects a priority.[5] However, State officials said they have since established a closeout schedule with FEMA.

Federal regulation 44 CFR 206.205(b)(1) requires 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." We consider 6 months after the subgrantee has completed the approved work and requested payment to be a reasonable amount of time for the grantee to complete its reviews of costs subgrantees claimed and to submit an accounting of eligible costs to FEMA. Without timely closeouts, unneeded Federal funds remain obligated as a liability against FEMA's appropriated funds and can limit FEMA's ability to authorize other disaster assistance projects.

[5] Report Number DD-13-15, *State of Louisiana Needs a Strategy to Manage Hurricanes Katrina and Rita Public Assistance Grants More Effectively,* September 26, 2013.

Therefore, FEMA should require the State to submit closeout documentation for six of the Hospital's projects and put $1,493,606 ($1,463,606 plus $30,000) of unused Federal funds to better use. Hospital officials agreed that FEMA should deobligate unused funds. However, they said that they plan to submit additional invoices to the State for one project. Hospital officials were unable to provide us the additional invoices, but said they will continue to work with the State to provide invoices for project closeouts.

Finding E: Grant Management Issues

The majority of the findings in this report occurred because the State, as the grantee, should have managed its responsibilities better. 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 assure compliance with applicable Federal requirements. Additionally, grantees are required to ensure that subgrantees are aware of requirements that Federal statutes and regulations impose upon them (44 CFR 13.37(a)(2)). In this instance, the State did not ensure the Hospital maintained adequate source documentation to support claimed costs, did not provide closeout information to FEMA timely, and did not ensure the Hospital completed project work within extended completion deadlines.

It is not enough for the State merely to advise subgrantees of Federal regulations; consistent with 44 CFR 13.40(a), the State is responsible for managing and monitoring each project, program, subaward, function, or activity. Further, the FEMA-State agreement for Hurricane Katrina requires the State to comply with the requirements of 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. Therefore, FEMA should direct the State to finalize and close out the Hospital's completed projects within 6 months of this report (finding D), and ensure that the Hospital—

- maintains adequate source documentation to support claimed costs (finding A);
- completes project work within required deadlines and requests applicable project extensions promptly (finding B); and,
- claims costs only for approved project work (finding C).

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation #1: Disallow $325,853 of unsupported contract costs unless the Hospital can provide adequate documentation to support these costs (finding A).

Recommendation #2: Disallow $307,495 of ineligible work the Hospital did not complete by required deadlines or approve the Hospital's project extension request for additional time to complete the project. FEMA approved the Hospital's project extension during our audit; therefore, we consider this recommendation to be resolved and closed and to require no further action from FEMA (finding B).

Recommendation #3: Disallow $135,319 of ineligible contract costs outside the approved project scopes of work and equipment costs not the legal responsibility of the Hospital (finding C).

Recommendation #4: Deobligate $1,493,606 of unused Federal funds and put them to better use (finding D).

Recommendation #5: Direct the State to—

- finalize and close out the Hospital's completed projects within 6 months of this report;
- ensure the Hospital completes project work within required completion deadlines and requests applicable project extensions promptly;
- ensure the Hospital maintains adequate source documentation to support claimed costs; and
- ensure the Hospital claims costs only for approved project work (finding E).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with Hospital officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to FEMA, State, and Hospital officials and discussed it at exit conferences held with FEMA officials on December 17, 2013, with State officials on January 6, 2014, and with Hospital officials on January 7, 2014. FEMA officials generally agreed with all recommendations, while the State reserved formal comment until after we issue our final report.

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 the contact information of responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until we receive and evaluate your response, we will consider the recommendations 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 Christopher Dodd, Acting Director; Paige Hamrick, Audit Manager; Chiquita Washington, Auditor-in-Charge; Mary Monachello, Auditor; and Jamie Hooper, Auditor.

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

Exhibit

Schedule of Projects Audited and Questioned Costs

Project Number	Project Category	Net Award Amount	Finding A	Finding B	Finding C	Total Questioned Costs	Unused Funds (Finding D)
2499	E	$ 182,562	$ 0	$ 0	$ 0	$ 0	$ 0
2504	E	54,664	0	0	0	0	0
3920	E	21,371	0	0	0	0	0
4069	E	177,531	0	0	1,033	1,033	0
4127	E	33,107	0	0	0	0	0
4550	E	1,116,514	53,320	307,495	0	360,815	0
4948	E	72,244[6]	0	0	14,432	14,432	72,244
6328	E	1,825,916	0	0	118,574	118,574	0
9689	E	1,914,651	7,870	0	0	7,870	39,553
10193	B	325,500	0	0	0	0	63,000
11086	E	30,000	0	0	0	0	30,000
11629	E	158,274	0	0	0	0	0
12020	E	105,181[7]	218,223	0	0	218,223	76,975
12043	B	234,358	46,440	0	0	46,440	0
12072	E	3,176,878	0	0	1,280	1,280	1,211,834
18241	E	46,847	0	0	0	0	0
Totals		$9,475,598	$325,853	$307,495	$135,319	$768,667	$1,493,606

[6] The net obligated amount ($72,244) for Project 4948 is a result of the gross obligated amount ($189,478) less insurance reductions ($117,234). Based on actual costs incurred, we recommend FEMA deobligate $72,244 and address the excess insurance reduction ($22,412) to correct the net obligated amount of this project to zero.
[7] The net obligated amount ($105,181) for Project 12020 is a result of the gross obligated amount ($671,616) less insurance reductions ($566,435).

Appendix

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