



Homeland
Security

March 2, 2007

MEMORANDUM FOR: James W. Stark, Director
FEMA Louisiana Transitional Recovery Office
Jonda L. Hadley

FROM: Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *Interim Review of Hurricane Katrina Activities*
City of Kenner, Louisiana
FEMA Disaster No. 1603-DR-LA
Public Assistance Identification Number 051-39475-00
Report Number DD-07-08

We performed an interim review of public assistance funds awarded to the City of Kenner (City), Louisiana. Our objective was to determine whether the City expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

As of August 31, 2006, the cut-off date for our review, the City had received an award of \$26 million from the Governor's Office of Homeland Security and Emergency Preparedness, a FEMA grantee, for damages resulting from Hurricane Katrina. The award was for 76 FEMA-approved projects funded at 100% for emergency work and 90% for permanent work. We reviewed the costs for three projects totaling \$7 million, or 27% of the award (see Exhibit 1).

We performed this review under the authority of the Inspector General Act of 1978, as amended. We interviewed City, State, and FEMA officials; reviewed the City's accounting system, disaster cost documentation, and contracting policies and procedures; and performed other procedures considered necessary under the circumstances. The nature and brevity of this assignment precluded us using our normal audit protocols; therefore, we did not conduct this review according to generally accepted auditing standards. Had we followed such standards, other matters might have come to our attention.

RESULTS OF REVIEW

The City did not track costs on a project-by-project basis or support cost eligibility. If left uncorrected, the City's final claim could include errors and ineligible costs. Further, the City did not

follow federal procurement regulations when it awarded \$1.4 million in contracts for the purchase of travel trailers. As a result, FEMA has no assurance that costs were reasonable.

Accounting System

FEMA regulations require project-by-project accounting. However, the City used only one disaster account and did not maintain documentation adequate to support costs. According to federal regulations:

- The payment of claims requires an accounting of eligible costs for each approved large project (44 CFR 206.205 (b)(1)).
- To be eligible for FEMA funds, an item of work must be required because of the major disaster event (44 CFR 206.223 (a)(1)).
- Grantees and subgrantees must maintain records that properly identify the source and application of funds provided for financially assisted activities (44 CFR 13.20(b)(2)).
- Accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, and contract documents (44 CFR 13.20(b)(6)).

Further, according to FEMA's *Public Assistance Guide* (FEMA 322, October 1999, p.113), "The importance of maintaining a complete and accurate set of records for each project cannot be overemphasized. . . . All of the documentation pertaining to a project should be filed with the corresponding PW and maintained by the applicant as the permanent record of the project. These records become the basis for verification of the accuracy of project cost estimates during validation of small projects, reconciliation of costs for large projects, and audits."

The City did not identify the project worksheet (PW) number or project description for any of the items charged to its disaster account and commingled some disaster costs with non-disaster costs in pre-existing accounts. The City also recorded FEMA funds received in its general revenue account. A City official said that they are in the process of creating separate accounts to record remaining debris removal expenses.

Between August 27, 2005, and August 31, 2006, the City submitted cost reimbursement requests for emergency work under PW 58 for payroll and equipment usage. The City did not maintain adequate documentation, such as daily logs or activity records, to support the \$4.6 million requested. The following depicts additional record and documentation problems:

- The City incorrectly applied its regular time benefit rate of 27.72% to its claim for \$1.2 million for police department personnel overtime for the period August 28 through September 23, 2005. The correct fringe benefit rate for overtime was 1.45%. This error resulted in excess fringe benefit costs of about \$239,000.

- Fire department payroll costs included \$105,000 for regular time that is ineligible according to 44 CFR 206.228(a)(4). The charges included about 3600 hours of regularly scheduled shift work during the period August 28, to September 9, 2005.
- Payroll costs for other than the police and fire personnel included about \$216,000 for regularly scheduled hours. According to 44 CFR 206.228(a)(4), regular time is not eligible for permanent employees performing emergency protective measures. The City closed its offices due to the emergency and automatically paid its employees their regular pay. However, in addition to receiving regular pay, employees who worked during the emergency received pay for all hours worked at straight time or overtime rates (time and a half), depending on positions held. In essence, the City paid its employees regular time and overtime for the same hours.
- Payroll costs for mechanics' salaries of \$12,922 are ineligible because these costs are incorporated in force account equipment rates. According to FEMA's *Public Assistance Guide* (FEMA 322, October 1999, p.37), equipment rates typically include maintenance. Therefore, the additional claim for mechanics' salaries duplicates costs already included in the rates.
- The charges of about \$226,000 for fire vehicles and other equipment and \$378,000 for police vehicles were excessive because they included standby or down time, which is not eligible according to FEMA's *Public Assistance Guide* (FEMA 322, October 1999, p.37). As previously discussed, the City did not maintain activity records or mileage logs to document when and how vehicles were used for disaster activities. Therefore, the City claimed all costs based solely on FEMA's equipment hourly rates. For the period August 29, to September 10, 2005, the City charged 24 hours daily for all fire equipment, when this equipment was sometimes idle. For example, the City's charges for five fire department vehicles exceeded the assigned operators' time by more than 400 hours. Also, the City charged 12 hours daily for most police vehicles from August 28 to September 23. Without proper documentation, eligible vehicle expenses are not readily quantifiable.
- The City requested \$106,228 for the costs of six diesel-powered pumps purchased after the hurricane to move sewage from lift stations to the treatment plant. However, the City plans to keep the pumps for permanent non-disaster use and, therefore, should have requested reimbursement based on hourly equipment usage rates according to FEMA's *Public Assistance Guide* (FEMA 322, October 1999, p.37). A City official said they had not documented usage, but estimated the pumps were used 24 hours per day for 20 days. Unless the usage amount can be documented, eligible expenses will not be quantifiable.
- At the time of our review, the City had not reduced its claim for the \$84,948 in insurance proceeds received for repairs to its Pontchartrain Center that were charged to PW 58. Section 312 of the Stafford Act prohibits duplication of benefits.

Contracting Procedures

The City did not follow federal procurement regulations in awarding contracts for the purchase of travel trailers. As a result, FEMA has no assurance that costs were reasonable. Federal procurement regulations under 44 CFR 13.36:

- Require the performance of procurement transactions in a manner providing full and open competition except under certain circumstances. (13.36(c))
- Require that subgrantees maintain records sufficient to detail the significant history of the procurement, including the rationale for the method of procurement, the basis for contractor selection, and basis for the contract price. (13.36(b)(9))

Under PW 49, the City paid \$1.4 million for 89 travel trailers to provide temporary housing to City personnel whose homes were unusable due to the hurricane. The City did not obtain competitive bids for this purchase and did not maintain documentation to justify the contractor selection or price. A City official said that not all of the 89 trailers are presently in use. He also said that FEMA has not provided disposition instructions for the trailers that are no longer needed.

RECOMMENDATIONS

We recommend that the Director, FEMA Louisiana Transitional Recovery Office, in coordination with the grantee:

1. Require the City to account for each large project separately.
2. Require the City to prepare and maintain documentation adequate to support all disaster costs claimed.
3. Require the City to comply with federal procurement regulations for all future contracts.
4. Evaluate the \$1.4 million in contract costs for travel trailers to determine cost reasonableness.
5. Provide written guidance to the City for disposition of trailers no longer in use (44 CFR 13.32(e)).
6. Ensure that applicable insurance proceeds are deducted from approved disaster costs.
7. Disallow \$679,150, comprised of the following questionable costs:
 - \$239,000 for excess fringe benefit costs for the City's police department personnel.
 - \$105,000 for ineligible regular time labor costs claimed for emergency work performed by the City's fire department.
 - \$216,000 for ineligible regular time labor costs claimed for emergency work performed by other City employees.
 - \$12,922 for mechanics' salaries covered by FEMA equipment rates.
 - \$106,228, less allowable amount for hourly equipment usage, for the purchase of six diesel-powered pumps.

DISCUSSION WITH MANAGEMENT AND FOLLOW-UP

We discussed the results of our review with City officials on November 20, 2006, and grantee and FEMA officials on November 21, and November 28, 2006, respectively. City officials concurred with our findings and recommendations, except that they did not consider any costs to be ineligible. FEMA and grantee officials concurred with the recommendations. Please advise this office by May 2, 2007, of the actions taken or planned to implement our recommendations, including target completion dates for any planned actions. If you have questions concerning this report, please call me at (940) 891-8900.

cc: DHS Audit Liaison
FEMA Audit Liaison
Deputy Director, GCRO
Chief Financial Director, GCRO
Regional Director, FEMA Region VI
Public Assistance Officer, FEMA Louisiana TRO
Chief of Staff, FEMA Louisiana TRO
Manager, Compliance Audit Division, LLA
Louisiana State Coordinating Officer
Louisiana State Inspector General
Louisiana Legislative Auditor
Director of Finance, Gulf Coast Recovery Office

EXHIBIT

Schedule of Audited Projects
City of Kenner, Louisiana
FEMA Disaster Number DR-1603-LA

| <u>Project Number</u> | <u>Award Amount¹</u> | <u>Amount Claimed²</u> | <u>Questioned Costs</u> |
|---------------------------|-------------------------------------|---------------------------------------|-----------------------------|
| 58 | \$4,600,000 | \$4,600,000 | \$679,150 |
| 49 | 1,400,000 | 1,400,000 | 0 |
| 1215 | <u>1,000,000</u> | <u>1,000,000</u> | <u>0</u> |
| Totals | <u>\$7,000,000</u> | <u>\$7,000,000</u> | <u>\$679,150</u> |

¹ The total \$26.3 million award was for 76 FEMA-approved projects, 18 large and 58 small. Federal regulations in effect at the time of the disaster set the large project threshold at \$55,500.

² Represents the amount claimed as of August 31, 2006, the cut-off date for our review. At that time, the three projects audited remained open.