



Homeland
Security

July 7, 2010

MEMORANDUM FOR: Tony Russell, Regional Administrator
FEMA Region VI

A handwritten signature in black ink that reads "Tonda L. Hadley".

FROM: Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *Orleans Levee District*
FEMA Disaster Number 1603-DR-LA
Public Assistance Identification Number 071-UYCTP-00
Audit Report Number DD-10-12

We audited public assistance funds awarded to the Orleans Levee District (District). Our audit objective was to determine whether the District 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 (GOHSEP), a FEMA grantee, awarded the District \$55.4 million for damages resulting from Hurricane Katrina. The award provided 100% funding for 67 large and 53 small projects.¹ The audit covered the period August 29, 2005, through November 2, 2009, the cut-off date of our audit. We audited 19 projects under Category E permanent work (buildings, contents, and equipment) totaling \$27.5 million, or 50% of the total award, (see Exhibit). As of the cut-off date of our audit, repairs were in various stages of completion; and the District had claimed, and GOHSEP had disbursed \$27.4 million.

We conducted this performance audit under the authority of the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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

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

BACKGROUND

The Orleans Levee District is primarily responsible for the operation and maintenance of levees, embankments, seawalls, jetties, breakwaters, water basins, and other hurricane and flood protection improvements surrounding the City of New Orleans, including the southern shores of Lake Pontchartrain and along the Mississippi River. These responsibilities include the maintenance of 104.8 miles of levees and floodwalls, 200 floodgates, 103 flood valves, and 2 flood control structures. To enhance flood protection, the District and the United States Corps of Engineers participate and fund several joint flood protection projects relative to the Lake Pontchartrain and Vicinity Hurricane Protection Plan. The District also constructs, operates, and maintains public parks, beaches, marinas, aviation fields, and other similar facilities.²

RESULTS OF AUDIT

The District accounted for and expended FEMA grant funds according to federal regulations and FEMA guidelines. The District accounted for disaster costs on a project-by-project basis and generally followed federal procurement standards. However, we question \$295,062 because the District did not purchase the required insurance on personal property. Also, the District did not include federally-required contract clauses in its contracts.

Finding A: Insurance

The District's claim included \$295,062 of repair costs for automobiles and maintenance equipment for which the District did not have insurance at the time of Hurricane Katrina and did not purchase insurance to cover any future damage. Section 311(a)(1) of the Stafford Act and 44 CFR 206.253(b)(1) require an applicant to purchase and maintain insurance against future losses as a condition of receiving FEMA grant funds. The vehicles the District repaired were insurable; however, the District did not purchase insurance to cover future damages before receiving reimbursement of those repair costs. Therefore, we question \$295,062 as ineligible.

Finding B: Contracting

The District contracted for over \$15 million of construction and service work for projects within our audit scope, but did not include required clauses in the contracts. Federal regulations at 44

² Source: www.orleanslevee.com.

CFR 13.36(i) list required contract provisions that must be included in every contract to assure sound and complete agreements. We did not question any costs related to contracting because the District otherwise followed federal procurement regulations.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI, disallow \$295,062 of ineligible costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with GOHSEP officials on June 30, 2010, with FEMA officials on July 1, 2010, and with the District on July 7, 2010. All officials agreed with our findings and recommendation. Please advise this office by September 7, 2010, of the actions planned or taken to implement the recommendation, including target completion dates for any planned actions. Significant contributors to this report were Paige Hamrick, James Mitchell, and Rebecca Hetzler. Should you have questions concerning this report, please contact me or Paige Hamrick, Audit Manager, at (214) 436-5200.

cc: Interim Director, Louisiana Recovery Office
Audit Liaison, Louisiana Recovery Office
Audit Liaison, FEMA Region VI
Audit Liaison, FEMA (Job Code G-10-007)

**Schedule of Audited Projects
Orleans Levee District
FEMA Disaster Number 1603-DR-LA**

Project Number	PW Amount	Costs Questioned
1980	\$ 257,484	\$227,378
1985	67,684	67,684
5272	3,305,222	0
6109	365,208	0
7583	110,289	0
7745	3,008,581	0
8267	509,153	0
8615	3,120,079	0
8679	62,824	0
9094	57,004	0
10515	3,170,945	0
12414	1,959,356	0
16874	2,243,253	0
17806	1,916,215	0
18288	11,433	0
18409	1,108,732	0
18434	4,400,000	0
18436	1,563,507	0
18476	<u>249,600</u>	<u>0</u>
Totals	<u>\$27,486,569</u>	<u>\$295,062</u>