

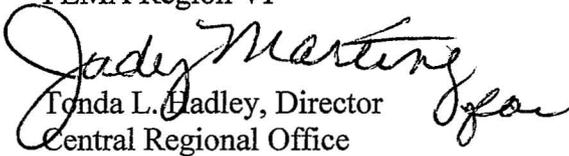
U.S. Department of Homeland Security  
Central Regional Office  
Office of Emergency Management Oversight  
7460 Warren Parkway, Suite 275  
Frisco, Texas 75034



# Homeland Security

December 09, 2010

MEMORANDUM FOR: Tony Russell, Regional Administrator  
FEMA Region VI

FROM:   
Tonda L. Hadley, Director  
Central Regional Office

SUBJECT: *Lafon Nursing Facility of the Holy Family*  
FEMA Disaster Number 1603-DR-LA  
Public Assistance Identification Number 071-UAGGU-00  
Audit Report Number DD-11-02

We audited public assistance funds awarded to the Lafon Nursing Facility of the Holy Family (Lafon), located in New Orleans, Louisiana. Our audit objective was to determine whether Lafon accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

Lafon received an award of \$12.75 million from the Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee, for damages resulting from Hurricane Katrina, which occurred on August 29, 2005. The award provided 100% funding for six projects. The audit covered the period August 29, 2005, to August 18, 2010, the cut-off date for our audit. We audited Project 13911 totaling \$11.75 million, or 92% of the award.

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 evidence obtained provides a reasonable basis for our findings and conclusions.

We interviewed FEMA, GOHSEP, and Lafon officials; reviewed all disaster cost documentation for Project 13911 submitted as of August 18, 2010; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of Lafon'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 Lafon's method of accounting for disaster-related costs and its procurement policies and procedures.

## BACKGROUND

Lafon is a non-profit nursing facility that provides care to the aged and infirmed. It occupies the first floor of a two-story building that was damaged by Katrina floodwaters. The nursing facility is designed to provide care for 155 persons.

## RESULTS OF AUDIT

Lafon accounted for FEMA grant funds on a project-by-project basis as required. However, Lafon did not obtain and maintain sufficient flood insurance required for receiving federal disaster assistance and did not always follow federal procurement standards. As a result, we question approximately \$10.75 million of the \$11.75 million estimated for Project 13911.

### **Finding A: Insurance Requirement**

Lafon is underinsured with only \$1 million of flood insurance on its building, while costs estimated to repair the building total \$11.75 million. "The applicant is required to obtain and maintain flood insurance in the amount of eligible disaster assistance, as a condition of receiving Federal assistance that may be available" (44 CFR 206.252(d)). Lafon officials told us they were working diligently to obtain the required amount of flood insurance. However, if Lafon does not obtain the appropriate amount of insurance, FEMA should disallow the uninsured portion of eligible claimed costs. As of August 18, 2010, our audit cut-off date, Lafon had claimed \$10,999,900 for Project 13911 and was preparing reimbursement requests for additional costs incurred.<sup>1</sup>

### **Finding B: Contracting Procedures**

Lafon followed proper procurement procedures for most of its contracted services, but did not competitively award a \$1,140,349 contract for architect and engineering (A&E) services. Lafon awarded the noncompetitive A&E contract to a firm it had used before Hurricane Katrina. Lafon officials stated that A&E firms were hard to come by at the time, so they awarded the contract to the firm that had originally built and made renovations to the building. According to 2 CFR 215.43, "All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition." Therefore, we question \$1,140,349 as ineligible costs claimed under Project 13911 for noncompetitive contract services.

In September 2010, FEMA performed a reasonableness test of Lafon's A&E costs based on construction costs as of April 2010. FEMA determined the A&E costs were reasonable based on the "Engineering and Design Services Cost Curve B for projects of average complexity" in its June 2007 Public Assistance Guide (FEMA 322). FEMA's practice has been to allow contract costs it considers reasonable regardless of whether the contract complies with federal procurement regulations. We do not agree with this practice unless lives and property are at stake because the

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<sup>1</sup> In calculating eligible costs for Project 13911, FEMA should deduct the \$1,140,349 ineligible contract costs questioned in Finding B from the final amount claimed for the project. Because the final amount claimed was unknown at our audit cut-off date, we used the \$11.75 million estimated for the project to calculate the uninsured portion.

goals of proper contracting relate to more than just cost. Without open and free competition, FEMA has little assurance that contract costs are reasonable. Open and free competition increases the number of available contracting sources and thereby increases the opportunity for obtaining reasonable pricing from the most qualified contractors. Open and free competition also helps discourage and prevent favoritism, collusion, fraud, waste, and abuse.

## RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

**Recommendation #1:** Ensure that Lafon obtains and maintains additional flood insurance to cover the full amount of eligible disaster assistance provided for building repairs or disallow the uninsured portion totaling approximately \$9.6 million (Finding A).<sup>2</sup>

**Recommendations #2:** Disallow \$1,140,349 of ineligible contracting costs (Finding B).

## DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with FEMA, GOHSEP, and Lafon officials during our audit and included their comments in this report as appropriate. We also provided written summaries of our findings and recommendations in advance to these officials and discussed them at exit conferences held with FEMA on November 17, 2010, with Lafon on November 17, 2010, and with GOHSEP on November 22, 2010. FEMA officials disagreed with our findings and recommendations and stated that FEMA is never going to agree with disallowing costs that would otherwise be eligible if it were not for non-competitively bid contracts. Lafon officials disagreed with our findings and recommendations and stated that they disagree because they feel they are being penalized for what they did—that there was a good effort to get the facility re-opened to meet the needs of the community and now they are being penalized. GOHSEP officials stated they would withhold further comments until after we issued our final report.

Please advise this office by February 7, 2011, of the actions planned or taken to implement the recommendations, including target completion dates for any planned actions. Significant contributors to this report were Judy Martinez, Susan Stipe, and Bryan Chauvin. Should you have any questions, please contact me at (214) 436-5200, or your staff may contact Judy Martinez, Audit Manager, at (504) 739-7730.

cc: Acting Executive Director, FEMA Louisiana Recovery Office  
Audit Liaison, FEMA Louisiana Recovery Office  
Audit Liaison, FEMA (Job Code G-10-042)  
Audit Liaison, FEMA Region VI

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<sup>2</sup> We estimated the uninsured portion of \$9,609,651 as follows: \$11.75 million estimated for Project 13911 less \$1,140,349 ineligible costs questioned in Finding B less \$1 million insurance.