



Homeland Security

August 14, 2006

MEMORANDUM FOR: Scott Morris
Director
FEMA's Florida Long Term Recovery Office
Orlando, Florida

FROM:

for C. David Kimble *Matt J. Kimble*
Audit Director
Atlanta Field Office

SUBJECT: *Review of Hurricane Wilma Activities
City of Fort Lauderdale, Florida
FEMA Disaster No. 1609-DR-FL
Report Number GC-FL-06-50*

We performed an interim review of disaster-related costs associated with Hurricane Wilma debris removal activities for the city of Fort Lauderdale, Florida. The objectives of the review were to determine whether the city (1) was properly accounting for debris removal costs and whether such costs were eligible for funding under FEMA's public assistance program, and (2) awarded debris removal contracts according to federal regulations and FEMA guidelines, and had adequate procedures for monitoring the activities of the debris removal contractors.

The city received an award of \$24.6 million from the Florida Department of Community Affairs, a FEMA grantee, for debris removal activities. The award provided 75 percent FEMA funding for one project (project 2932) under which the city awarded 16 contracts. Fifteen contracts were for debris removal and one was for monitoring debris removal. The 15 debris removal contracts consisted of 1 unit price contract and 14 time-and-material contracts.

As of March 6, 2006, the cut-off date of our review, the city had recorded \$5.9 million in project expenditures. The city, however, had not submitted any costs to FEMA for reimbursement and had not received any FEMA funds under the project.

We analyzed the city's accounting system and reviewed the city's contracting practices, contract documents, contractor billings, and monitoring procedures. We also interviewed FEMA, city, and contractor officials. The nature and brevity of this assignment precluded the use of our normal audit protocols; therefore, this review was not conducted according to generally accepted government auditing standards. Had we followed such standards, other matters might have come to our attention.

The review was conducted in conjunction with the President's Council on Integrity and Efficiency as part of its examination of relief efforts provided by the Federal government in the aftermath of Hurricanes Katrina, Rita, and Wilma. As such, a copy of the report has been forwarded to the PCIE Homeland Security working group, which is coordinating the Inspectors General review of this important subject.

RESULTS OF REVIEW

The city had an effective system for accounting for debris removal costs. A separate cost account had been established to record project expenditures and accounting entries could be systematically traced to supporting source documents. However, the city did not follow proper contracting procedures when awarding debris removal contracts. As a result, we determined \$1,104,070 (FEMA Share \$828,053) of the contract charges was unreasonable.

Federal regulations and FEMA guidelines place restrictions on the use of time-and-material contracts because this method of procurement does not provide an incentive for contractors to control costs. Federal regulation (44 CFR § 13.36), allows a grant recipient to use time-and-material contracts but only after a determination has been made that no other form of contracting is suitable and with a contract ceiling price that the contractor exceeds at its own risk. Additionally, FEMA guidelines¹ limit time-and-material contracts for debris removal to a maximum of 70 hours of actual emergency debris clearance.

Despite these restrictions, for project 2932, the city retained 14 contractors using time-and-material contracts without a determination of whether more suitable contracting arrangements existed and without a ceiling price. Moreover, work under the 14 contracts lasted approximately 370 hours (37 days at 10 hours per day), or 300 hours beyond the permissible time limit. These contractors were paid a total of \$5,887,288.

According to 44 CFR 13.43(a)(2), a grant recipient's failure to comply with applicable statutes or regulations can result in the disallowance of all or part of the costs of the activity or action found not in compliance. Under project 2932, the city spent \$5,887,288 for the removal of 252,108 cubic yards of debris under time-and-material contracts. We determined that \$1,104,070 of the contract costs was unreasonable.

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, paragraph C.1.a; states that cost under federal awards must be both necessary and reasonable. The circular defines a reasonable cost as cost that does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness, the circular also requires grant recipients to consider sound business practices, federal regulations and guidelines, and market price for comparable goods and services.

We reviewed debris removal costs of nearby communities for the same disaster and determined that \$4,783,218 was a reasonable cost for removing the city's 252,108 cubic yards of debris. That was

¹ *Debris Management Guide*, FEMA Publication 325, dated April 1999.

\$1,104,070 less than the \$5,887,288 the city paid, We computed the \$4,783,218 by accepting the \$2,424,327 billed by the 14 time-and-material contractors during the initial 70 hours of work (7 days at 10 hours each day). During that period, 47,698 cubic yards of debris² were removed. We then added \$2,358,891, calculated by multiplying \$11.54, the average cost per cubic yard paid by nearby communities, times the remaining 204,410 cubic yards of debris. We discussed this methodology with city officials and they agreed with it and our conclusion.

RECOMMENDATIONS

We recommend that the Director of the Florida Long Term Recovery Office, in conjunction with the grantee:

1. Instruct the city, for future declarations, to comply with federal regulations and FEMA guidelines governing contracting practices; and
2. Inform the city that \$1,104,070 of the \$5,887,288 in time-and-material contract charges represents unreasonable costs that are not eligible for FEMA funding.

DISCUSSION WITH MANAGEMENT AND FOLLOW-UP

We discussed the results of our review with city, FEMA, and grantee officials on May 18, 2006. City officials concurred with our findings.

Please advise me by September 29, 2006, of the actions taken to implement the recommendations. Your response should be sent to:

U.S. Department of Homeland Security
Office of Inspector General
3003 Chamblee-Tucker Road
Atlanta, GA 30341

Auditors Oscar Andino, Vilmarie Serrano, and Danny Helton performed this review. Should you have any questions concerning this report, please contact me at (770) 220-5242.

²According to city records, the contractors removed 252,108 cubic yards of debris over a 37-day period. This averages to 6,814 cubic yards per day, or 47,698 cubic yards for a 7 - y period.

cc: Under Secretary for Management
Under Secretary for Federal Emergency Management
Office of General Counsel, DHS
Chief Financial Officer, DHS
Chief Procurement Officer, DHS
Audit Liaison, DHS
Audit Liaisons, FEMA
Chief Financial Officer, FEMA
Senior Procurement Officer, FEMA
Deputy Director, Gulf Coast Recovery
Florida State Coordinating Officer
FEMA Regional Director, Region IV