

Department of Homeland Security **Office of Inspector General**

FEMA Public Assistance Grant Funds Awarded to
St. Charles Parish, Louisiana



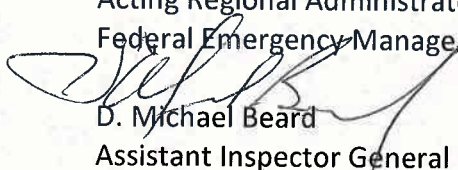


OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

September 12, 2012

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

FROM: 
D. Michael Beard
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Public Assistance Grant Funds Awarded to
St. Charles Parish, Louisiana*
FEMA Disaster Numbers 1786- and 1792-DR-LA
Audit Report DD-12-20

We audited Public Assistance (PA) grant funds awarded to St. Charles Parish, Louisiana (Parish) (Public Assistance Identification Number 089-99089-00). Our audit objective was to determine whether the Parish accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

The Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee, awarded the Parish \$3.5 million and \$1.4 million, respectively, for damages resulting from Hurricanes Gustav and Ike, which both occurred in September 2008. The awards provided 90 percent FEMA funding for Hurricane Gustav, and 90 to 100 percent FEMA funding for Hurricane Ike (see table 1). The awards consisted of 9 large projects and 68 small projects.¹ The audit covered the period September 2, 2008, through January 23, 2012, the cutoff date of our audit, and included a detailed review of 19 projects totaling \$4.5 million, or more than 90 percent of the total awards (see Exhibit A, Schedule of Projects Audited and Costs Questioned). We also conducted a limited review of \$11,130 of approved direct administrative costs for all remaining Gustav projects.

¹ Federal regulations in effect at the time of the disasters set the large project threshold at \$60,900.



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Table 1. FEMA Funding by Disaster and Category

Disaster Name/Number	Award Amount	Federal Share (Category) ²
Gustav/1786	\$3,458,552	90% (A–G)
Ike/1792	<u>1,365,750</u>	100% (A, B) 90% (C–G)
Total Awards	<u>\$4,824,302</u>	

We conducted this performance audit between January and July 2012 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 applying the statutes, regulations, and FEMA policies in effect at the time of the disaster.

We interviewed FEMA, GOHSEP, and Parish officials; reviewed judgmentally selected project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our audit objective. We did not assess the adequacy of the Parish’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 the Parish’s method of accounting for disaster-related costs and its policies and procedures.

RESULTS OF AUDIT

The Parish accounted for FEMA grant funds on a project-by-project basis as required by Federal regulations, but did not reconcile its claimed costs with incurred costs in a timely manner. GOHSEP also inaccurately reported the Parish’s incurred costs to FEMA. As a result, FEMA erroneously deobligated \$362,420; the Parish’s project records included numerous cost overruns, underruns, and unclaimed costs; and the Parish claimed unsupported and ineligible costs.

² Categories of work are category A (debris removal), category B (emergency protective measures), and categories C–G (permanent work).



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We concluded that FEMA needs to adjust project amounts by disallowing unsupported and ineligible costs from some projects, reobligating amounts for some projects to correct the Parish's and GOHSEP's accounting errors, and deobligating amounts from other projects. Specifically, we determined that, after disallowing costs we questioned, FEMA should reobligate \$380,164 and deobligate \$25,930, for a total net reobligation of \$354,234. Although the net effect of these errors is not significant in proportion to the almost \$5 million awarded to the Parish, the errors indicate that GOHSEP needs to provide better grant management to FEMA.

Further, although the Parish generally followed Federal procurement standards for contracting, it did not include required provisions in all its contracts; did not perform a cost or price analysis on all procurements; and did not take all necessary affirmative steps to assure that small businesses, minority firms, women's business enterprises, and labor surplus area firms were used when possible for its contract work.

Finding A: Accounting and Grant Management

The Parish did not timely reconcile its claimed costs with its incurred costs, and GOHSEP did not provide needed grant management. GOHSEP also inaccurately reported the Parish's incurred costs to FEMA. As a result, at the end of fiscal year 2011, when FEMA was looking for funds for other disaster assistance projects, FEMA erroneously deobligated \$362,420 that was necessary to cover the Parish's eligible expenses.

In addition, the Parish's project records included numerous cost overruns, underruns, and unclaimed costs; and the Parish claimed unsupported and ineligible costs as follows:

- Cost overruns and underruns netting \$43,894 for which the Parish did not receive funding;
- Unsupported costs of \$50,845 (see finding B); and
- Ineligible costs of \$1,235 (see finding C).

To correct these errors, FEMA needs to adjust the project amounts by reobligating \$380,164, and deobligating \$25,930, for a total net obligation of \$354,234 (see exhibit A). If GOHSEP had effectively managed the grant, it would have detected these errors, because the Parish completed its projects more than 3 years ago.

Federal regulation 44 CFR 13.40(a) requires the grantee to manage the day-to-day operations of subgrant activities. Further, 44 CFR 13.37(a)(2) requires the grantee to ensure that subgrantees are aware of requirements imposed upon them by Federal statute and regulation. Also, Federal appropriations laws and the Statement of Federal Financial Accounting Standards (SFFAS) require Federal agencies to record obligations in



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the accounting records on a factual and consistent basis throughout the Government.³ The overrecording and underrecording of obligations are equally improper. Both practices make it impossible to determine the precise status of Federal appropriations. When the precise amount is not known at the time the obligation is incurred, agencies appropriately record an obligation based on the best estimate at the time. Agencies, however, must periodically adjust that obligation as more precise data on the liability become available. That is, they must deobligate funds or increase the obligation level, as the case may be (7 Government Accountability Office-Policy and Procedures Manual § 3.5.D; B-300480, April 9, 2003, and SFFAS Number 5, paragraphs 19, 24, 25, and 29). Agencies must document both the initial recordings and the adjustments to recorded obligations.

Although the Parish completed all projects more than 3 years ago, GOHSEP has not provided closeout information to FEMA. Federal regulations at 44 CFR 206.205(b)(1) require 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.” Therefore, GOHSEP should complete its reviews of all projects and submit an accounting of eligible costs for closeout.

Without timely closeouts, Federal funds remain obligated as a liability against FEMA’s appropriated funds and can limit FEMA’s ability to authorize other disaster assistance projects. We consider 6 months after the subgrantee has completed the approved work and requested payment a reasonable amount of time for the grantee to complete its reviews of costs claimed and submit an accounting of eligible costs to FEMA.

As of May 3, 2012, FEMA had approved \$51.7 million in management and administrative costs for managing the \$1 billion in approved grant funds to the State of Louisiana for Hurricanes Gustav and Ike. Of the \$51.7 million, GOHSEP has requested \$13.3 million since August 2008. Although we are not commenting on the overall reasonableness of these management costs, we point out that FEMA is paying GOHSEP to manage these disasters and therefore should require GOHSEP, as the grantee, to develop and implement procedures to better manage its responsibilities under this grant.

The above discussions regarding project tracking and monitoring demonstrate that GOHSEP, as the grantee, should have managed this grant better. In addition, we cited instances in a previous audit for Hurricane Katrina in which the Parish did not comply with Federal regulations.⁴ It is not enough for GOHSEP to merely advise subgrantees of

³ U.S. General Accounting Office, Principles of Federal Appropriations Law, 3rd edition, Volume II, February 2006, Chapter 7, Section B: Criteria for Recording Obligations (31 U.S.C. § 1501).

⁴ DD-12-06, FEMA Public Assistance Grant Funds Awarded to St. Charles Parish, Louisiana, February 22, 2012.



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Federal regulations. According to 44 CFR 13.40(a), GOHSEP is responsible for managing the day-to-day operations of grant- and subgrant-supported activities, and monitoring must cover each program, function, or activity. Further, the FEMA-State agreement for Hurricanes Gustav and Ike requires GOHSEP to comply with the requirements of laws and regulations contained in 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.

It is FEMA's responsibility to hold GOHSEP accountable for proper grant administration. GOHSEP and the Parish should have timely reconciled incurred, claimed, and reimbursed costs. Therefore, it is critical that both GOHSEP and the Parish strengthen their accounting procedures to ensure compliance with Federal guidelines, and FEMA should take steps to ensure that GOHSEP improves its grant management procedures. GOHSEP officials agreed that there is a need for action on this issue.

Finding B: Documentation

The Parish's claim included \$50,845 in unsupported direct administrative costs (DAC). The Parish completed 73 projects that included \$54,675 of approved DAC. However, the Parish did not account for actual incurred DAC on a project-by-project basis, as required. According to Parish officials, they did not track DAC because they were unaware of the requirement to support these costs until 2009. However, GOHSEP's presentation during the applicants' briefing for Hurricanes Gustav and Ike, which occurred in September 2008, stated that all DAC must be documented by project. The Parish was able to support only \$3,830 of the total \$54,675 of approved DAC.

Federal regulations at 44 CFR 13.20(b)(2) require subgrantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. In addition, FEMA Disaster Assistance Policy 9525.9, Section D, states that DAC must include costs that can be tracked, charged, and accounted for directly to a specific project, and are limited to actual reasonable costs incurred for a specific project. The requirement further states that if a project is complete when the project worksheet is prepared, actual DAC will be included in the project for the subgrantee, and a summary of the actual costs will be attached to the project. FEMA has stated that DAC must be adequately supported even for small projects, which require documentation.

The majority of the Parish's 75 projects were completed before FEMA authorized them. While FEMA regulations allow the authorization of projects after work is complete, the Parish must limit its claim to those costs it can document as incurred. Because the



Parish did not have support for some of the DAC, we question \$50,845 of unsupported DAC. GOHSEP officials said that they will work with the Parish to determine whether additional costs can be supported.

Finding C: Duplicate Scopes of Work and Costs

The Parish's claim included \$1,235 of duplicate claimed costs. The Parish submitted invoices to support costs incurred for Project 2026 and submitted these same invoices to support costs for Project 4251 (both small projects). This occurred because the projects contained duplicate scopes of work. The scope of work on Project 2026 was for repair work to two sites. Project 4251 included the same sites in addition to two other sites. Because the two projects included the same scope of work, FEMA should deobligate \$1,235 of duplicate funding under Project 2026. GOHSEP officials said that they will work with the Parish to substantiate the duplication before they concur.

Finding D: Contracting

Although the Parish generally followed Federal procurement standards for contracting, it did not comply with three procurement standards required by Federal regulations. First, the Parish did not include in its contracts the provisions required by 44 CFR 13.36(i). These contract provisions document the rights and responsibilities of the parties and minimize the risk of contract misinterpretations and disputes.

Second, the Parish did not perform a cost or price analysis on any of the six contracts we reviewed. Federal regulations at 44 CFR 13.36(f)(1) require subgrantees to perform a cost or price analysis in connection with every procurement. Performing a cost or price analysis decreases the likelihood of unreasonably high or low prices, contractor misinterpretations, and errors in pricing relative to the scope of work.

Third, the Parish did not take all necessary affirmative steps to assure that small businesses, minority firms, women's business enterprises, and labor surplus area firms were used when possible, as required by 44 CFR 13.36(e). These affirmative steps should include using the services and assistance of the Small Business Administration and the Minority Business Development Agency of the Department of Commerce, and requiring the prime contractor, if subcontracts are to be used, to take the affirmative steps listed in Federal regulations 44 CFR 13.36(e)(2)(i) through (v).

In our audit of the Parish's grant funds awarded for Hurricane Katrina,⁵ we recommended that the Parish establish the necessary steps to meet the requirements

⁵ DD-12-06, FEMA Public Assistance Grant Funds Awarded to St Charles Parish, Louisiana, February 22, 2012.



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of 44 CFR 13.36. As a result, the Parish revised its standard contract template. The revision states that the Parish “shall, to the extent consistent with quality, price, risk and other lawful and relevant considerations, use its good faith efforts to achieve participation by minority, women and disadvantaged businesses.” However, simply stating that the Parish’s policy is to consider awarding contracts to minority, women-owned, and disadvantaged businesses is not sufficient. Rather, the Parish must document the affirmative steps taken to encourage such firms to bid on its contracts.

We did not question any disaster-related contract costs because the Parish obtained bids from small and disadvantaged businesses and awarded three of its contracts to such businesses (three contracts totaling \$1.5 million out of six contracts totaling \$1.9 million). However, in the future, the Parish needs to document the steps it takes to assure compliance with all Federal procurement standards.

Parish officials said that they did not receive contracting guidance from GOHSEP until early 2012. However, they agreed to follow the regulations in the future. GOHSEP officials disagreed with our finding on the need for cost and price analyses, commenting that FEMA makes the decision on this issue, and that GOHSEP follows FEMA’s practice that if a contract was bid properly, the process itself served as a cost or price analysis. In addition, GOHSEP officials said that requiring applicants to complete a cost or price analysis on every contract would be onerous. We disagree with GOHSEP’s comments because (1) FEMA is not a party to grantee and subgrantee contracts and, therefore, is not involved in the decision as to the necessity of a cost or price analysis; (2) Federal regulations require cost or price analyses even when contracts are properly bid, in part to lessen the likelihood of underbidding, which can lead to nonperformance and contract disputes, and overbidding, which may occur when bidders have colluded on their bids; and (3) completing a simple cost or price analysis is not onerous; for example, the Parish could have determined what it paid for similar services in the past, or could have asked FEMA, GOHSEP, or neighboring parishes what they considered a fair price for similar services.

RECOMMENDATIONS

We recommend that the Acting Regional Administrator, FEMA Region VI:

Recommendation #1: Direct GOHSEP to strengthen its grant accounting procedures to ensure accurate financial reporting (finding A).

Recommendation #2: Direct GOHSEP to assist the Parish to strengthen its accounting procedures to ensure compliance with Federal guidelines (finding A).



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Recommendation #3: Direct GOHSEP to develop and implement oversight procedures to improve monitoring of its subgrantees' activities (finding A).

Recommendation #4: Adjust project amounts by obligating or deobligating funds as indicated on exhibit A (finding A).

Recommendation #5: Disallow \$50,845 (\$24,867 Federal share from 1786-DR-LA and \$23,215 Federal share from 1792-DR-LA) in unsupported direct administrative costs (finding B).

Recommendation #6: Disallow \$1,235 (\$1,112 Federal share) from 1786-DR-LA of ineligible duplicate claimed cost (finding C).

Recommendation #7: Direct GOHSEP to instruct the Parish to develop and implement procedures sufficient to ensure the following:

- All necessary affirmative steps are taken to assure that small businesses, minority firms, women's business enterprises, and labor surplus area firms are used when possible;
- Cost or price analyses are performed in connection with every procurement action; and
- Federally required contract provisions are included in its contracts (finding D).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with Parish officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to FEMA, GOHSEP, and Parish officials and discussed it at exit conferences held with FEMA officials on July 23, 2012, and with GOHSEP and Parish officials on July 24, 2012.

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 responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and



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appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Major contributors to this report were Tonda Hadley, Director; Paige Hamrick, Audit Manager; James Mitchell, Auditor-in-Charge; and Rebecca Hetzler, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact Tonda Hadley, Director, Central Region Office, at (214) 436-5200.



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EXHIBIT A

**Schedule of Projects Audited and Costs Questioned
September 2, 2008, to January 23, 2012
St Charles Parish, Louisiana
FEMA Disaster Numbers 1786- and 1792-DR-LA**

Project Number	Net Award Amount	Finding B	Finding C	Total Costs Questioned	Erroneous Deobligations	Net Over/Underruns	Project Worksheet Adjustments
Projects in Initial Audit Scope for 1786							
3033	\$2,077,248	\$ 3,501	\$ 0	\$ 3,501	\$205,442	\$ 3,834	\$205,775
483	532,776	7,915	0	7,915	22,657	0	14,742
4249	208,124	1,200	0	1,200	0	0	(1,200)
534	104,369	1,854	0	1,854	0	(650)	(2,504)
1618	98,850	850	0	850	0	0	(850)
4272	42,970	500	0	500	0	0	(500)
4243	11,104	250	0	250	0	0	(250)
4147	5,787	100	0	100	0	0	(100)
4255	4,110	150	0	150	0	0	(150)
4251	1,672	80	0	80	0	0	(80)
4250	1,395	50	0	50	0	0	(50)
2026	1,235	0	1,235	1,235	0	0	(1,235)
4298	500	50	0	50	0	0	(50)
Limited review	<u>368,412</u>	<u>11,130</u>	<u>0</u>	<u>11,130</u>	<u>0</u>	<u>0</u>	<u>(11,130)</u>
Subtotals	<u>3,458,552</u>	<u>27,630</u>	<u>1,235</u>	<u>28,865</u>	<u>228,099</u>	<u>3,184</u>	<u>202,418</u>
Projects in Initial Audit Scope for 1792							
1145	818,225	17,826	0	17,826	90,914	0	73,088
1146	206,045	4,489	0	4,489	22,894	0	18,405
1039	184,618	0	0	0	20,513	(7,959)	12,554
846	109,412	0	0	0	0	(7,331)	(7,331)
817	42,400	400	0	400	0	56,000	55,600
1274	<u>5,050</u>	<u>500</u>	<u>0</u>	<u>500</u>	<u>0</u>	<u>0</u>	<u>(500)</u>
Subtotals	<u>1,365,750</u>	<u>23,215</u>	<u>0</u>	<u>23,215</u>	<u>134,321</u>	<u>40,710</u>	<u>151,816</u>
Grand Totals	<u>\$4,824,302</u>	<u>\$50,845</u>	<u>\$1,235</u>	<u>\$52,080</u>	<u>\$362,420</u>	<u>\$43,894</u>	<u>\$354,234</u>
Total to be obligated							<u>\$380,164</u>
Total to be deobligated							<u>\$(25,930)</u>



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EXHIBIT B

Distribution List
St Charles Parish, Louisiana
FEMA Disaster Numbers 1786- and 1792-DR-LA

Department of Homeland Security

Secretary
Chief Financial Officer
Under Secretary for Management
Audit Liaison, DHS

Federal Emergency Management Agency

Administrator
Chief of Staff
Chief Financial Officer
Chief Counsel
Chief Procurement Officer
Director, Risk Management and Compliance
Executive Director, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Region VI
Audit Liaison, FEMA (Job Code G-11-044)

Grantee

Director, Louisiana Governor's Office of Homeland Security and Emergency
Preparedness
Audit Liaison, Louisiana Governor's Office of Homeland Security and Emergency
Preparedness

State

Louisiana Legislative Auditor

Subgrantee

President, St. Charles Parish, Louisiana

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Should you be unable to access our website, you may submit your complaint in writing to: DHS Office of Inspector General, Attention: Office of Investigations Hotline, 245 Murray Drive, SW, Building 410/Mail Stop 2600, Washington, DC, 20528; or you may call 1 (800) 323-8603; or fax it directly to us at (202) 254-4297.

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