

U.S. Department of Homeland Security  
Central Regional Office  
Office of Emergency Management  
Oversight  
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**Homeland  
Security**

March 24, 2010

MEMORANDUM FOR: Mark H. Landry, Interim Director,  
FEMA Louisiana Transitional Recovery Office

FROM: *for* *Page Hamrick*  
Tonda L. Hadley, Director  
Central Regional Office

SUBJECT: *Town of Vinton, Louisiana*  
FEMA Disaster Number 1607-DR-LA  
Public Assistance Identification Number 019-78820-00  
Audit Report Number DD-10-06

We audited public assistance funds awarded to the Town of Vinton, Louisiana (Vinton). The objective of the audit was to determine whether Vinton 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 Vinton \$5.24 million for damages resulting from Hurricane Rita, which occurred on September 24, 2005. The award provided 100% funding for 10 large and 18 small projects.<sup>1</sup> The audit covered the period September 24, 2005, through September 22, 2009, during which Vinton claimed, and GOHSEP paid, \$4.9 million. We audited 15 projects totaling \$5.12 million or 98% of the total award (see Exhibit). FEMA did not complete an insurance review and Vinton did not report all disaster damages. Therefore, our audit scope was limited because we could not determine whether all damages resulting from the hurricane were included in Project Worksheets (PW) or whether all damages covered by insurance were reduced by applicable insurance proceeds.

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

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

believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective except for the scope limitation discussed above.

We interviewed FEMA, GOHSEP, and Vinton 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 Vinton's internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of Vinton's methods of accounting for disaster-related costs and its procurement policies and procedures.

## **BACKGROUND**

High winds from Hurricane Rita resulted in fallen trees and downed utility poles and lines, completely shutting down the town's electrical power system. The hurricane also caused roof damage to the town's storage facility and sewage lift station pumps, and left substantial amounts of vegetative debris in Vinton's drainage ditches and public roads. Vinton quickly moved to restore power and clear debris by using its employees, private contractors, and the assistance of other public agencies under mutual aid agreements.

## **RESULTS OF AUDIT**

Vinton accounted for disaster costs on a project-by-project basis, as required. However, Vinton did not always follow federal procurement standards for contracting; and its claim included \$402,872 of costs that were ineligible. Additionally, FEMA should deobligate \$184,409 estimated for costs that Vinton did not incur or did not claim; and complete the review of Vinton's insurance applicable to disaster damages.

### **Finding A: Contracting Procedures**

Vinton claimed \$3.9 million for contracted services using seven contractors, properly awarding and administering two of the largest contracts (\$3.2 million). However, Vinton did not properly procure the services of the remaining five contractors according to federal regulations and FEMA guidelines.

Federal procurement standards at 44 CFR 13.36 require, among other things:

- Performance of procurement transactions in a manner providing full and open competition except under certain circumstances. One allowable circumstance is when there is a public exigency or emergency for the requirement that will not permit a delay resulting from competitive solicitation. (13.36(c)(1) and (d)(4)(i))
- Subgrantees shall not use time-and-material (T&M) contracts unless a determination is made that no other contract is suitable and provided that the contract includes a ceiling price that the contractor exceeds at its own risk. (13.36(b)(10))

- A cost or price analysis in connection with every procurement action, including contract modifications. (13.36(f)(1))
- Subgrantees' contracts must contain specific provisions listed in 44 CFR 13.36(i).
- Obtain price or rate quotations from an adequate number of qualified sources for purchases under \$100,000. (13.36(d)(1))

Vinton did not use full and open competition for a time-and-material (T&M) contract totaling \$319,977 for removing downed tree limbs from electric utility lines. Rather, Vinton used a contract procured by another jurisdiction. Vinton did not determine whether any other type of contract was suitable, did not perform the required price analysis, and the contract did not contain a cost ceiling or contract provisions required by federal regulations. Vinton also procured four contracts (totaling \$26,773) under \$100,000 without obtaining quotes. We did not question the costs associated with the improper contacting because exigent circumstances existed.

### **Finding B: Mutual Aid Costs**

Vinton claimed \$279,018 for mutual aid costs to complete work that FEMA classified as permanent work (Category F) under PW 244. These costs are ineligible under Category F. FEMA Public Assistance Policy 9523.6, *Mutual Aid Agreements for Public Assistance*, section 7.E.1.b.(i) states, "Examples of mutual aid work that are not eligible include permanent recovery work." Vinton used mutual aid agreements to restore power during the emergency period. If FEMA had classified power restoration work as Category B emergency protective measures, the \$279,018 claimed for mutual aid costs would have been eligible. However, because FEMA classified all of the work as permanent rather than emergency protective measures (Category B), the costs were not eligible based on FEMA policy. FEMA can classify electrical work as either permanent or emergency work. We recognize that the majority of electrical work is often permanent. However, FEMA should classify the work to restore power to residential customers and critical facilities as Category B, emergency protective measures, because this work may save lives and property. Further, classifying power restoration work as emergency work clearly delineates the period of time when exigent circumstances exist, which sometimes justify relaxed procurement procedures, such as non-competitive contracts and time-and-material contracts. When lives are at risk, there is often not enough time for full-and open competition or for preparing a detailed scope of work necessary for lump sum or unit price contracts. We discussed this finding with FEMA officials, who agreed that reclassifying the PW as Category B, which reflects the actual type of work completed, would make the claimed costs eligible. Therefore, we recommended that FEMA reclassify PW 244 as Category B because it better reflects the type of work performed.

### **Finding C: Contract Prices**

Vinton's claim included \$119,934 of contract costs that were in excess of contract rates. As stated in Finding A, Vinton used a T&M contract procured by another jurisdiction to assist in disaster recovery. The contractor billed Vinton \$287,582 of labor costs using rates that exceeded the contract rates. We recalculated labor charges using the hourly rates listed in the contract.

Based on contract rates, the labor costs billed should have been \$167,648. Therefore, we questioned \$119,934, (\$287,582 - \$167,648) as improperly billed and ineligible.

#### **Finding D: Duplicate Costs**

Vinton's claim included \$3,920 of duplicate contract costs. Vinton included the cost in both PWs 244 and 3179. Therefore, we questioned the \$3,920 as a duplicate cost.

#### **Other Matters:**

##### *PW Obligations*

FEMA estimated and obligated disaster damage costs of \$184,409 that Vinton did not incur or did not claim. FEMA estimated costs of \$182,400 for the demolition of privately owned structures and homes under PW 1913. The US Army Corps of Engineers completed the work and Vinton did not claim costs for the demolition. Also, Vinton completed work under one PW for \$1,419 less than the estimated costs. In addition, Vinton's claim included \$590 of math errors that GOHSEP identified and deducted from the claim. Therefore, we recommended FEMA deobligate \$184,409 for costs Vinton did not incur or did not claim.

##### *Costs Covered by Insurance*

We could not determine whether Vinton's claim included duplicate costs covered by insurance because FEMA did not complete an insurance review to determine how insurance proceeds should be applied to eligible damages, and Vinton did not submit all damages related to the hurricane. Therefore, we could not determine whether Vinton received duplicate benefits as a result of insurance coverage. Federal regulations prohibit the use of FEMA public assistance funds for damages covered by insurance (44 CFR 206.253). Therefore, we recommended that FEMA complete the insurance review to determine whether Vinton received duplicate benefits.

### **RECOMMENDATIONS**

We recommend that the Interim Director, Louisiana Transitional Recovery Office:

1. Reclassify Project Worksheet 244 from permanent work (Category F) to emergency protective measures (Category B).
2. Disallow \$119,934 of excess contract prices.
3. Disallow \$3,920 of duplicate costs.
4. Deobligate \$184,409 of disaster damage costs not incurred or claimed.
5. Complete the insurance review to determine whether Vinton received duplicate benefits.

## **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP**

We discussed the results of our audit with FEMA officials on February 18, 2010, and with the Town of Vinton and GOHSEP officials on February 26, 2010. FEMA officials agreed with our findings and recommendations. Please advise this office by May 25, 2010, of the actions planned or taken to implement the recommendations, 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: Regional Administrator, FEMA Region VI  
Audit Liaison, FEMA Region VI  
Audit Liaison, FEMA Louisiana Transitional Recovery Office  
Audit Liaison, FEMA (Job Code DG09C12)

Schedule of Audited Projects  
Town of Vinton, Louisiana  
FEMA Disaster Number 1607-DR-LA

<u>Project Number</u>	<u>PW Amount</u>	<u>Finding C</u>	<u>Finding D</u>	<u>Total Costs Questioned</u>	<u>Costs to be Deobligated</u>
155	\$ 18,332	\$ 0	\$ 0	\$ 0	\$ 0
168	11,083	0	0	0	0
244	380,061	0	3,920	3,920	0
280	5,000	0	0	0	0
394	10,417	0	0	0	0
561	51,023	0	0	0	0
564	319,976	119,934	0	119,934	0
1409	218,673	0	0	0	0
1759	60,425	0	0	0	0
1790	395,000	0	0	0	0
1906	3,167,733	0	0	0	0
1913	182,400	0	0	0	182,400
3129	110,826	0	0	0	0
3179	130,855	0	0	0	2,009
3181	60,588	0	0	0	0
<b>Totals</b>	<b><u>\$5,122,392</u></b>	<b><u>\$119,934</u></b>	<b><u>\$3,920</u></b>	<b><u>\$123,854</u></b>	<b><u>\$184,409</u></b>