

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



**Homeland
Security**

July 20, 2010

MEMORANDUM FOR: Tony Russell, Regional Administrator
FEMA Region VI

Tonda L. Hadley

FROM: Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *Recovery School District - Abramson High School*
FEMA Disaster Number 1603-DR-LA
Public Assistance Identification Number 033-UA9M2-00
Audit Report DD-10-14

We audited public assistance funds awarded to the Recovery School District (RSD) under project worksheets (PW) 12798 and 14936. The audit objective was to determine whether RSD accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

RSD received an award of \$37.2 million from the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee, for the referenced PWs for damages resulting from Hurricane Katrina. The award provided 100% funding. We audited \$17.6 million in funds advanced to RSD for these two PWs (see Exhibit A). The audit covered the period November 2005 to February 2010, the cut-off date for our audit.

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.

We interviewed FEMA, GOHSEP, and RSD officials; reviewed RSD documentation for an advance payment for the construction of schools; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of RSD controls

applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of RSD's method of accounting for disaster-related costs.

BACKGROUND

The Recovery School District is a special school district administered by the Louisiana Department of Education. Created by legislation passed in 2003, the RSD was designed to take underperforming schools and transform them into successful places for children to learn.¹ In November 30, 2005, the Governor signed Louisiana HB 121 Act 35 (Act) into law. The Act transferred control of failing schools throughout the state, most of which were from the Orleans Parish School Board (OPSB), to the RSD and assigned RSD responsibility for repairing, renovating, rebuilding, and building of schools and facilities. RSD acquired control of 112 schools and other buildings from the OPSB. Hurricane Katrina and the resulting floods damaged more than 344 school buildings, some beyond repair. FEMA has written over 1,100 PWs to repair or replace these buildings and has obligated \$798.7 million. RSD and OPSB formulated and proposed to FEMA a "Master Plan" (Plan) that would create one alternate PW for RSD and OPSB to replace all existing PWs.

RESULTS OF AUDIT

RSD did not account for and expend FEMA funds according to federal regulations and FEMA guidelines. FEMA obligated \$37.2 million under PWs 12798 and 14936 to demolish and rebuild a school and administration building at the site of Abramson High School in New Orleans, Louisiana. As of February 2010, GOHSEP had paid RSD \$17,587,281 for work performed under the two PWs. However, according to RSD and GOHSEP officials, RSD submitted a claim for \$859,487, of which GOHSEP allowed \$695,132, for approved demolition work at the site, and spent the remaining funds on work outside the scope of the two PWs. Further, we visited the Abramson site in December 2009 and observed that RSD had not started any permanent work. Therefore, we question as ineligible \$16,892,149 paid for work that was not authorized and recommend \$19,602,818 be deobligated and put to better use.²

RSD and OPSB prepared a rebuilding Plan and identified the sites it planned not to rebuild as "Land Bank" properties.³ The Abramson site is in the Plan to be demolished and to become part of the Land Bank. RSD and GOHSEP officials were aware that funds advanced for these two PWs were not spent for the eligible scope of work in the PWs.

¹ Source: rsdla.net and Louisiana Senate Bill No. 710, Act 9, 2003.

² The \$16,892,149 questioned is the difference between the \$17,587,281 GOHSEP paid to RSD and the \$695,132 GOHSEP allowed for demolition. The \$19,602,818 recommended for deobligation is the difference between the \$37,190,099 in total obligations and the \$17,587,281 paid to RSD.

³Initially the RSD planned that it would place properties in a Land Bank to retain the school sites for future development as a school or other district purpose. An October 2009 study by Urban Land Institute, commissioned by the RSD, OPSB, and the Office of the Federal Coordinator for Gulf Coast Rebuilding, said these properties were deemed unsuitable for long-term educational use because they were no longer suitable to be used as schools or their condition dictated demolition.

RSD expended federal funds without authorization and, therefore, did not exercise effective control and accountability over FEMA funds. The Louisiana Department of Education and RSD officials said they had a funding mechanism referred to as a “revolver account” similar to a line of credit, which they used to draw advance funds against approved PWs for use on other projects. GOHSEP officials said they were not aware of this funding mechanism, nor could they provide documentation to justify their approval of payments to RSD. Federal regulations at 44 CFR 206.205(b)(1) state:

The Grantee shall make an accounting to the RD [FEMA Regional Director] of eligible costs for each approved large project. In submitting the accounting the Grantee shall certify that reported costs were incurred in the performance of eligible work, that the approved work was completed, that the project is in compliance with the provisions of the FEMA-State Agreement, and that payments for that project have been made in accordance with 44 CFR 13.21, Payments. Each large project shall be submitted as soon as practicable after the subgrantee has completed the approved work and requested payment.

FEMA officials said that they also did not know about the revolver account and were not aware of RSD’s use of funds for unauthorized alternate projects. They also said GOHSEP officials have emphasized that they knew how to account for FEMA funds. FEMA officials acknowledged that the funding was complex and they knew RSD had cash flow issues, but stated that FEMA is not involved and does not have responsibility for processing or approving payments directly to RSD.

As discussed in the background section of this report, RSD provided a plan to FEMA to replace existing PWs by creating one large alternate project to include disaster work on all New Orleans public schools. However, FEMA has not approved the proposed plan. Therefore, we question the \$16,892,149 paid for work not authorized, and recommend \$19,602,818 in FEMA funds be deobligated and put to better use.

RSD Response:

RSD Officials disagreed with our findings stating that Section 552 of the Consolidated Omnibus Appropriations Act of 2008 allows “the advance of obligated funds to Louisiana public school districts affected by Katrina or Rita.” They stated further that RSD used “the omnibus advance to complete work that FEMA has recommended as eligible as part of temporary facility project worksheets and/or within the scope of alternate project settlement worksheet 19166 that the RSD and FEMA are currently finalizing.”

OIG Response:

We audited PWs 12798 and 14936, under which FEMA authorized RSD to demolish and rebuild a school and administration building at the site of Abramson High School in New Orleans. We do not agree that Section 552 of the Consolidated Omnibus Act of 2008 authorized RSD to use funds authorized for this specific purpose on a completely different, non-FEMA approved project.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

1. Disallow \$16,892,149 for unauthorized work.
2. Deobligate \$19,602,818 for work that was not performed.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with FEMA, GOHSEP, and RSD officials during our audit and included their comments in this report. We provided written summaries of our findings and recommendations in advance to these officials and discussed them at exit conferences held with FEMA on June 8, 2010, with GOHSEP on June 8, 2010, and with RSD and the Louisiana Department of Education on June 24, 2010. FEMA and GOHSEP officials stated that they would reserve their comments until after we issued our final report. RSD officials disagreed with our findings and recommendations and, on June 28, 2010, provided written comments on our findings. A summary of RSD's response has been included in our report, and the complete written response can be found in Exhibit B.

Please advise this office by September 20, 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 Judy Martinez, Jeffrey Campora, and Dwight McClendon. Should you have questions concerning this report, please contact me at (214) 436-5200, or your staff may contact Judy Martinez, Audit Manager, at (504) 739-7730.

cc: Interim Director, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Region VI
Audit Liaison, FEMA (Job Code G-10-010)

EXHIBIT A

Schedule of Audited Projects
Recovery School District – Abramson High School
FEMA Disaster Number 1603-DR-LA

<u>Project Number</u>	<u>PW Amount</u>	<u>Amount Paid to RSD</u>	<u>Amount Questioned</u>	<u>Amount To Be Deobligated</u>
12798	\$35,427,154	\$16,317,961	\$15,958,313	\$19,109,193
14936	<u>1,762,945</u>	<u>1,269,320</u>	<u>933,836</u>	<u>493,625</u>
Totals	<u>\$37,190,099</u>	<u>\$17,587,281</u>	<u>\$16,892,149</u>	<u>\$19,602,818</u>

Recovery School District's Response to
DHS OIG Report Number DD-10-XX



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 Poland Avenue, New Orleans, LA 70117
504.872.0600 • www.nolapublicschools.net



June 28, 2010

Judy Martinez
FEMA Office of Inspector General
1 Seine Court
Algiers, LA 70114

Subject: Recovery School District FIPS # 033-UA9M2-00
FEMA Dr-1603-LA
Abbreviated applicant response for inclusion in IG audit findings

Dear Ms. Martinez:

Please include the following paragraphs within your draft audit report of the Recovery School District's (RSD's) Project Worksheets 12798 and 14936:

The RSD acknowledges the use of \$17,587,281 to conduct repairs on disaster-damaged facilities and to install temporary facilities in order to restore the essential service of K-12 public education in New Orleans following Hurricane Katrina. In order to address barriers to recovery, Congress authorized Section 552 of the Consolidated Omnibus Appropriations Act of 2008 to allow the advance of obligated funds to Louisiana public school districts affected by Katrina or Rita. RSD provided documentation within the scope of this audit that demonstrated its coordination with the Grantee (GOHSEP), the Louisiana Recovery Authority (LRA), and the Louisiana Legislative Auditor (LLA) to ensure that all parties agreed that Section 552 allows the RSD to accept such an advance from GOHSEP. Further, the RSD provided a copy of a letter from the district to DHS Secretary Chertoff that outlined the RSD's use of Section 552.

This omnibus funding advance was necessary because FEMA was unable, at the time, to either (1) respond to the applicant's requests to effectively document disaster damages on eligible facilities, or (2) process alternate projects under the aegis of the FEMA public assistance program. Either action would have facilitated scope and cost alignments and rendered the omnibus advance unnecessary. RSD demonstrated prudence under prevailing circumstances at the time and utilized the omnibus advance to complete work that FEMA has recommended as eligible as part of temporary facility project worksheets and/or within the scope of alternate project settlement worksheet 19166 that the RSD and FEMA are currently finalizing. RSD vigorously defends its use of the omnibus advance to restore public education in New Orleans and requests that the OIG recommendation to disallow \$16,892,149 for unauthorized work, to deobligate \$19,602,818 and to "put those funds to better use" be rescinded.

Please contact me if you have any questions or need any additional information at 225-333-1456 or ramsey.green@la.gov.

Sincerely,

Ramsey Green
Chief Operating Officer

Cc:
Tonda Hadley, DHS OIG
Jeffrey Campora, DHS OIG
Dwight McClendon, DHS OIG
Paul Pastorek, LDOE
Paul Vallas, RSD
Robert Fulton, RSD
Lona Edwards Hankins, RSD
Carlos Dickerson, LDOE
Leslie Jewell, LDOE
Nicole Boothman-Shepard, Jacobs/CSRS

"Rebuilding New Orleans Through Education"