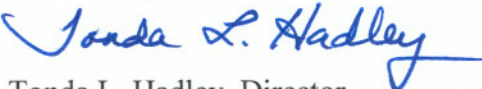




Homeland Security

January 27, 2011

MEMORANDUM FOR: Tony Russell, Regional Administrator
FEMA Region VI

FROM: 
Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *Chennault International Airport Authority, Lake Charles,
Louisiana*
FEMA Disaster Number 1607-DR-LA
Public Assistance Identification Number 019-URY7A-00
Audit Report Number DD-11-07

We audited public assistance funds awarded to Chennault International Airport Authority (CIAA) located in Lake Charles, Louisiana. Our audit objective was to determine whether CIAA accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

CIAA received an award of \$14.1 million from the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee, for damages resulting from Hurricane Rita, which occurred in September 2005. The award provided 100% FEMA funding for 15 large projects and 26 small projects.¹ The audit covered the period September 24, 2005, to August 13, 2010, the cut-off date of our audit, and included 11 projects totaling \$10.9 million (net of insurance proceeds), or 78% of the total award. CIAA had completed all work on its projects but had not yet claimed all costs. As of the cut-off date of our audit, CIAA had claimed \$11.8 million, and GOHSEP had disbursed \$11.4 million.

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.

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

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

BACKGROUND

The State of Louisiana established CIAA in 1986 as a political subdivision and provided CIAA with grants to convert a former U.S. Air Force base in Lake Charles into an industrial park to promote economic development. CIAA is located on approximately 1600 acres and its operating expenses are substantially funded by local property taxes. CIAA's primary tenants service and maintain aircraft owned by the U.S. military and certain major U.S. domestic airlines.

CIAA spent approximately \$49 million to repair damages from Rita and to upgrade its facilities to current code requirements. CIAA funded these expenditures with approximately \$33.1 million of insurance proceeds, \$11.4 million in FEMA funding, and its own funds and funds from other governmental agencies.

RESULTS OF AUDIT

CIAA generally accounted for and expended FEMA grant funds according to federal regulations and FEMA guidelines. However, CIAA did not always follow federal procurement standards in awarding \$28.0 million of contracts. Further its claim included \$349,348 of ineligible contract costs, \$231,819 of unsupported contract costs, and \$4,376 of ineligible non-disaster costs.² Additionally, FEMA has not completed allocation of insurance proceeds to CIAA's projects and obligated \$3,022 of costs twice on one project.

Finding A: Contracting

CIAA awarded a \$349,348 cost-plus-percentage-of-cost contract. Federal regulations at 44 CFR 13.36 (f)(4) specifically state that cost-plus-percentage-of-cost contracts shall not be used. These type contracts provide incentive for the contractor to incur as much cost as possible. Also, only one of 36 contracts contained the federally required contract clauses listed in 44 CFR 13.36(i). Therefore, we question \$349,348 of ineligible contract costs (see footnote 2).

CIAA officials agreed with this finding but did not agree that the costs should be disallowed. CIAA officials stated the recommendation did not fully consider that CIAA's insurer approved the costs and that CIAA issued the contract in the immediate aftermath of the storm during a chaotic period with shortages of governmental services, fully functioning utilities, housing, material, and labor.

² We also questioned \$169,513 of the unsupported costs under ineligible contract costs. Therefore, the net amount of questioned ineligible contract costs is \$179,835.

Finding B: Documentation

CIAA claimed \$231,819 in unsupported contract costs. Cost principles at 2 CFR 225, Appendix A, Section C.1.j state that a cost must be adequately documented to be allowable under federal awards. Further, FEMA's *Public Assistance Guide* (FEMA 322, October 1999) states that applicants must carefully document contractor expenses. Specifically, invoices submitted by CIAA did not include approved time sheets for contractor-billed labor and equipment costs and invoices for material costs. Therefore, we question \$231,819 of unsupported costs.

CIAA officials agreed with this finding but, for the same reasons cited under Finding A, did not agree that the unsupported costs should be disallowed. CIAA officials have requested additional support from its contractors. We will consider any additional support CIAA provides during audit follow-up.

Finding C: Insurance

FEMA had not completed its insurance review as of the cut-off date of our audit. CIAA received \$33.1 million of property insurance proceeds. However, FEMA had allocated only \$30.5 million to CIAA's projects. Some of the insurance proceeds were for ineligible disaster damages, but we estimated that as much as \$1.2 million of additional insurance proceeds may be applicable to FEMA-eligible projects. Therefore, FEMA needs to complete its insurance review and allocate the applicable insurance proceeds to CIAA's projects. FEMA officials have obtained the detailed insurance listing to determine whether further allocations are necessary.

Finding D: Ineligible Costs

CIAA claimed \$4,367 for utility costs incurred after CIAA completed the associated project. According to 44 CFR 206.223 (a)(1), work must be required as a result of the disaster to be eligible for FEMA funding. The utility costs were not required as a result of the disaster because CIAA incurred them after project completion. Therefore, we question \$4,367 of ineligible costs. CIAA officials agreed with this finding.

Finding E: Obligations

FEMA inadvertently obligated a \$3,022 engineering fee twice on the same project. Therefore, FEMA should deobligate the duplicate \$3,022 fee. CIAA officials agreed with this finding

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation # 1: Disallow \$179,835 of ineligible contract costs (Finding A).

Recommendation # 2: Disallow \$231,819 of unsupported costs (Finding B).

Recommendation #3: Complete the insurance review, allocate the applicable insurance proceeds to CIAA's projects, and deobligate those amounts from the projects (Finding C).

Recommendation #4: Disallow \$4,367 of ineligible non-disaster related costs (Finding D).

Recommendation #5: Deobligate \$3,022 of duplicate funding and put those funds to better use (Finding E).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with FEMA, GOHSEP, and CIAA officials and have 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 January 20, 2011, with GOHSEP on January 13, 2011, and with CIAA on January 27, 2011. FEMA officials stated they would respond to the report after it was issued and they have had time to review additional documentation. However, FEMA officials did state that FEMA will not agree with disallowing contract costs that are reasonable, even if they are incurred under prohibited contract types. GOHSEP officials reserved comment until after we issue our final report. CIAA officials agreed with the facts presented in the report, but noted that the contracting and unsupported cost findings related only to contracts issued immediately after the storm and before they were familiar with FEMA's requirements.

Please advise this office by March 29, 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 Paige Hamrick, James Mitchell, and William Haney. Should you have questions concerning this report, please contact me or Paige Hamrick, Audit Manager, at (214) 436-5200.

cc: Acting Executive Director, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Region VI
Audit Liaison, FEMA (Job Code G-10-047)

**Schedule of Audited Costs
Chennault International Airport Authority
FEMA Disaster Number 1607-DR-LA**

Project Number	Project Amount	Finding A	Finding B	Finding D	Finding E	Less Amounts Questioned in Both A & B³	Net Costs Questioned
2769	\$ 30,455	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2818	27,062	0	0	0	0	0	0
3082	347,084	0	0	4,367	0	0	4,367
3264	243,350	152,740	106,152	0	0	(70,479)	188,413
3277	208,402	196,608	110,380	0	0	(99,034)	207,954
3394	1,115,133	0	0	0	0	0	0
3586	206,458	0	0	0	0	0	0
3935	1,185,943	0	0	0	0	0	0
4002	2,393,268	0	0	0	0	0	0
4500	2,565,027	0	0	0	0	0	0
4548	2,612,743	0	15,287	0	3,022	0	18,309
Totals	<u>\$10,934,925</u>	<u>\$349,348</u>	<u>\$231,819</u>	<u>\$4,367</u>	<u>\$3,022</u>	<u>(\$169,513)</u>	<u>\$419,043</u>
Net		<u>-\$169,513</u>					
		<u>\$179,835</u>					

³ The \$231,819 questioned as unsupported in Finding B includes \$169,513 also questioned in Finding A as ineligible contract costs. Recommendation 1 (Finding A) is to disallow \$179,835 of questioned costs, which is net of the \$169,513 of costs questioned in both findings. Therefore, if FEMA does not disallow the \$169,513 of costs as unsupported (Finding B), it should add back the \$169,513 to increase the amount of Recommendation 1 to \$349,348.