

Office of Inspector General

U.S. Department of Homeland Security
Central Regional Office
Office of Emergency Management Oversight
3900 Karina Street, Room 224
Denton, Texas 76208



**Homeland
Security**

December 19, 2008

MEMORANDUM FOR: James W. Stark, Director
FEMA Louisiana Transitional Recovery Office

Tonda L. Hadley

FROM: Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *Hurricane Katrina Debris Removal Activities in
Plaquemines Parish, Louisiana*
FEMA Disaster No. 1603-DR-LA
Report Number DD-09-03

Attached for your review is our report, *Hurricane Katrina Debris Removal Activities in Plaquemines Parish, Louisiana*. We contracted with the independent public accounting firm Foxx & Company to perform this review. The report identifies four reportable conditions and questions \$133,253 for ineligible costs claimed by the Parish.

We discussed the results of the review and recommendations with Parish officials on September 11, 2008, and with FEMA and grantee officials on November 12, 2008. FEMA officials concurred with our findings and recommendations. However, grantee officials elected to reserve their comment on the findings and recommendations until after the report is issued.

Parish officials also concurred with the findings and recommendations concerning the procurement of services and the unallowable labor and unsupported equipment costs. Parish officials said that FEMA was aware of, or had approved, the Parish's actions on the demolition of commercial properties and the use of a percentage-of-cost-cause in a contract. However, the Parish did not have documentation to support FEMA's approval of these actions.

We appreciate the cooperation you and your staff provided to our contractor, Foxx & Company, and us during the audit. Please advise this office by March 19, 2009, of the actions taken or planned to implement the recommendations, including target completion dates for any planned actions. If you have questions concerning this report, please call me at (940) 891-8900, or your staff may contact Judy Martinez, Audit Manager, at (504) 762-2055.

Attachment

**cc: Regional Director, FEMA Region VI
Audit Liaison, FEMA Region VI
Audit Liaison, FEMA Louisiana Transitional Recovery Office
Audit Liaison, FEMA (Job Code DC8C03)
Audit Liaison, Gulf Coast Recovery Office**



December 19, 2008

U.S. Department of Homeland Security
Office of Inspector General
Central Regional Office
Denton, Texas

Foxx & Company audited Hurricane Katrina debris removal activities in Plaquemines Parish, Louisiana. The objective of the audit was to determine whether the contracts, contractor billings, and the Parish's force account costs complied with applicable federal criteria. Foxx & Company performed the audit according to Contract Number GS-23F-9832H and Task Order TPD-FIG-BPA-07-0007 dated September 28, 2007.

The enclosed report includes recommendations to improve the Parish's management of grant funds provided for debris removal under the Federal Emergency Management Agency's (FEMA) Public Assistance Program debris removal grants. Foxx & Company discussed the audit results in draft with FEMA, Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), and Parish officials on November 12, 2008 and September 11, 2008, respectively. The comments received from these officials were included, as appropriate, in the body of the proposed final report.

We appreciate the opportunity to have conducted this audit. If you have any questions, or if we can be of any further assistance, please call me at (513) 639-8843.

Sincerely,

Foxx & Company

Martin W. O'Neill
Partner

Enclosure

cc: Regional Director, FEMA Region VI
Audit Liaison, FEMA Region VI
Audit Liaison, FEMA Louisiana Transitional Recovery Office
Audit Liaison, FEMA (Job Code DC8C03)
Audit Liaison, Gulf Coast Recovery Office

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ACRONYMS:

CFR	Code of Federal Regulations
CY	Cubic Yard
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
GOHSEP	Louisiana Governor's Office of Homeland Security and Emergency Preparedness
PW	Project Worksheet

INTRODUCTION

Hurricane Katrina struck Plaquemines Parish, Louisiana, (Parish) on August 29, 2005. The hurricane caused extensive flooding and damage throughout the Parish with over 5,000 homes and other buildings damaged beyond repair. The debris, including downed trees, covered many of the Parish's roads and hampered relief efforts. As of December 31, 2007, about 2.8 million cubic yards (CY) of debris were removed from the Parish.

By December 31, 2007, the cut-off date for our review, the Federal Emergency Management Agency (FEMA) had approved 31 Public Assistance Grant Program Project Worksheets (PW) for debris removal and related activities in the Parish. Many of the PWs were revised before December 31, 2007, to extend time frames, increase funding amounts, or provide for other changes required by the amount of work needed. In total, FEMA approved and obligated approximately \$70.7 million for the Parish Government's debris removal and related activities.

To complete the work specified in the PWs, the Parish awarded 17 contracts from November 3, 2005, through July 23, 2007, for debris removal, monitoring, and related debris removal activities. The Parish used its own personnel and equipment to monitor debris removal efforts by contractors hired by the Parish. Parish personnel were also directly involved in debris removal efforts. As of December 31, 2007, the Parish had received \$32.3 million from the Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee. The \$32.3 million represents the total incurred costs approved by GOHSEP for the removal of debris in Plaquemines Parish.

RESULTS OF AUDIT

In the wake of Hurricane Katrina, the Parish successfully removed large volumes of debris. The removal of debris helped to restore public health and safety and ensure economic recovery throughout the Parish. However, we identified the following reportable conditions that resulted in questioned costs of \$133,253. A schedule of the questioned costs is included in Exhibit A.

- A. Unallowable Percentage-of-Cost Clause Used in a Contract (\$126,342)
- B. Services Procured Without Written Contracts and Competitive Bids
- C. Commercial Properties Demolished Without Prior FEMA Approval
- D. Unallowable Costs for Unauthorized Positions and Force Account Equipment (\$6,911)

A. Percentage-of-Cost Clause Used in a Contract

The Parish claimed costs of \$126,342 under a cost-plus-percentage-of-cost clause in a debris-monitoring contract. Cost-plus-percentage-of-cost clauses are strictly prohibited under federal and state regulations. As a result, we question the \$126,342 claimed as unallowable costs.

According to Title 44 Code of Federal Regulations (CFR) 13.36(f)(4), the cost-plus-percentage-of-cost method of contracting shall not be used. Also, 44 CFR 13.37(a)(2) requires states to ensure that subgrantees are aware of requirements imposed upon them by federal statute and regulation. Furthermore, 44 CFR 13.40(a) requires states to monitor subgrant-supported activities to assure compliance with applicable federal requirements. Additionally, FEMA Publication 325, *Debris Management Guide*, dated April 1999, states that cost-plus-percentage-of-cost contracts are ineligible for FEMA reimbursement and shall not be used.

The Parish awarded a competitively bid contract on May 1, 2006, to an engineering firm to provide services in three phases of a project to remove debris from the Parish drainage system under PW 10732. Although the contract had hourly rates for resident inspection hours, the Parish agreed to pay the contractor a fee of 4% of the actual construction cost proportionate to the completion of the work. According to federal and state procurement regulations, this form of contracting is not allowed. The Parish claimed \$126,342 under the percentage clause of the contract for PW 10732.

A Parish official said that he was not aware that the cost-plus-percentage-of-cost contract method for payment was not allowed. The official said he relied on reviews by the Parish legal department and FEMA to determine whether the contract met legal requirements. Furthermore, the Parish's lack of compliance with federal procurement standards demonstrates that GOHSEP or its representatives did not adequately monitor the Parish's subgrant activities. However, Foxx & Company is not making recommendations for improving GOHSEP's performance because the Department of Homeland Security, Office of Inspector General, made such recommendations in a prior report, and FEMA and GOHSEP are taking actions to implement those recommendations.¹

Conclusion/Recommendations

The cost-plus-percentage-of-cost contract clause used by the Parish did not comply with federal regulations. As a result, we question the \$126,342 costs claimed and reimbursed by FEMA and recommend that the Director, FEMA Louisiana Transitional Recovery Office:

1. Disallow the claimed costs of \$126,342, and
2. Require GOHSEP to advise the Parish not to use cost-plus-percentage-of-costs clauses in future contracts.

¹ *Audit of Louisiana State Grant Management Award, Public Assistance Program*, Report number DD-08-01, issued January 17, 2008.

B. Procurement of Services

The Parish did not follow federal and state procurement standards in hiring firms to provide services. In two instances, the Parish procured services without written contracts. As a result, the Parish was legally vulnerable to nonperformance by the firms providing the services. In one of these instances, the Parish procured the services without competitive bids.

According to 44 CFR 13.36(b)(1), applicants are to follow their own procurement procedures as long as those procedures conform to applicable federal law and regulations. Also, according to 44 CFR 13.36(c)(1), all procurement transactions will provide full and open competition. FEMA's Debris Removal Applicant's Contracting Checklist, Fact Sheet RP9580.201, requires that contracts be in writing and comply with all federal, state, and local requirements. In addition, FEMA's *Debris Management Brochure* (FEMA 329) states that debris-related contracts should be competitively bid and written on a unit-price basis. The lack of competitive bids was also identified in the Parish's Single Audit Report for calendar year 2006.²

In two instances, the Parish procured services exceeding \$100,000 without written contracts.

- Under PW 13362, the Parish received proposals from six contractors for monitoring services and verbally hired the lowest bidder without a written contract. The contractor's President stated that there was no contract awarded, but rather the Parish contacted her by phone and informed her that, based on the company's proposal, they were hired as the debris removal monitors. The Parish submitted its claim in the amount of \$739,530 to GOHSEP for the services.
- Under PW 2942, the Parish rented equipment from a firm for operation at landfills without soliciting bids or having a written contract or other agreement. A Parish official stated that the local firm was hired because it was available and had performed debris removal work for the U.S. Army Corps of Engineers. The equipment rented included dump trucks, backhoes, bulldozers, and water trucks. Some of the equipment rental rates included an operator. Although the Parish did not have a written contract, it paid the firm based on invoices submitted to the Parish. The invoices submitted were supported by receipts detailing the daily hours the equipment was in operation. The Parish rented equipment from October through December 2005, and claimed \$101,170 for these services.

A Parish official told us that they hired the local firm because, after the hurricane, equipment and operators were needed immediately. Based on Foxx & Company's prior audits of debris

² Office of Management and Budget (OMB) Circular A-133, issued pursuant to the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996, sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards. The Circular requires non-federal entities that expend \$500,000 or more in a year in federal awards to have a single or program-specific audit conducted for that year according to provisions set out in the Circular. A single audit means an audit that includes both the entity's financial statements and the federal awards.

removal activities in other parishes, the hourly rates charged by the local firm for the equipment and operators were within a reasonable range. The rates charged were also within the range of FEMA's maximum acceptable rates. However, without written contracts the Parish was legally vulnerable to nonperformance by the firms that provided debris removal services within the Parish.

Conclusions/Recommendations

The Parish did not comply with the federal requirement that full and open competition be provided in all procurement transactions and that contracts should be in writing.

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

3. Require GOHSEP to direct the Parish to comply with federal procurement regulations concerning competitive bids and written contracts for Katrina and future disasters.

C. Commercial Properties Demolished

The Parish did not obtain required prior approval from FEMA before it demolished or removed debris from 245 commercial properties. Fifty-two of these properties contained physical structures that had to be demolished. Because commercial properties are expected to have insurance for demolition and debris removal, it is FEMA policy to approve individual requests for reimbursement. As a result, FEMA should disallow the costs for the demolition and debris removal of commercial properties.

FEMA Recovery Division Policy 9523.13 contains guidance for reimbursement of state, county, and municipal governments for costs incurred in debris removal from commercial property.³ This guidance states that any state or local government that intends to remove debris from commercial property must, before commencing work, submit a written request to the FEMA Federal Coordinating Officer seeking approval for reimbursement. It is assumed and expected that commercial enterprises retain insurance that can and will cover the cost of debris removal.

A Parish official said that they did request approvals from FEMA. In support of the Parish having requested approvals, the officials provided an email from FEMA that addressed 40 commercial properties that the Parish President requested as eligible for demolition funding. The Parish official stated that the FEMA response to this request was evidence that FEMA approved the demolitions and the removal of the resulting debris. This email, however, did not constitute approval by FEMA; rather it contained comments and questions about each property, including whether or not it was a commercial property. Furthermore, 34 of the 40 properties were not included in Parish records as properties from which the Parish removed debris or demolished.

Parish officials also stated that, in addition to the 40 properties referred to in the email, the Parish President had requested in writing FEMA approval for demolition or debris removal for other commercial properties. The Parish officials said they hand-delivered requests to the FEMA

³ Debris removal includes demolition of unsafe structures under FEMA policy number 9523.13.

office in Baton Rouge, Louisiana. Parish officials provided copies of the request letters addressed to FEMA, Department of Homeland Security, Washington, D.C. We compared the commercial property addresses in the letters to a Parish listing of all commercial properties for which the Parish had completed debris removal or demolition. Of the 245 properties on this listing, 23 had letters requesting demolition or debris removal. The remaining 222 properties did not have letters requesting approval; and the Parish could not provide documentation that FEMA approved the demolitions or debris removal. In addition, the Parish could not provide evidence that FEMA approved debris removal and demolition for the 23 properties.

The Parish contracted with a company to remove debris created from the demolition of residential and commercial properties. The terms of the contract were based on the cubic yards of debris and distance hauled, not on the cost of demolitions per property. The company also removed debris from right-of-ways in the Parish.

The Parish claimed and was reimbursed for costs associated with the removal of debris from the Parish, including debris from the 245 commercial properties. The amount of debris from the commercial properties could not readily be determined from the Parish's claim documentation because the debris contractor only showed the amount of debris hauled, not the location where it was picked up. Therefore, we could not calculate the cost associated with the demolition and debris removal for the 245 commercial properties.

Parish officials stated that they did not receive responses from FEMA for their demolition requests so the Parish proceeded with the demolitions. A Parish official said that he believed FEMA was aware of the demolitions because either FEMA or state personnel took pictures of the properties before and after demolition and debris removal. FEMA developed an automated system for the Parish that contained documentation of the demolitions and debris removal. FEMA officials we interviewed could not provide definitive answers about the approval of these commercial properties for demolition. However, the FEMA officials were aware that the state had determined that some properties were not historically significant. Parish officials said they believed that obtaining these state determinations constituted approval for demolition.

Conclusions/Recommendations

The Parish did not obtain prior approval from FEMA for the demolition of structures and debris removal from 245 commercial properties. Therefore, we consider the costs associated with the demolitions and removal of debris from the commercial properties as ineligible for FEMA funding.

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

4. Direct GOHSEP to:
 - a. Develop a methodology for estimating the amount of debris removed from the 245 commercial properties demolished without FEMA's prior approval, and

- b. Require the Parish to obtain required FEMA approvals in future disasters for commercial property demolitions.
5. Disallow the costs claimed by the Parish for the estimated amount of debris removed from the 245 commercial properties demolished without FEMA's prior approval.

D. Labor and Equipment Costs

The Parish claimed unallowable labor and unsupported equipment costs totaling \$6,911 under two PWs. As a result, we question the unallowable and unsupported costs of \$6,911 claimed by the Parish.

In the first instance under PW 9090, the Parish hired a contractor to provide asbestos testing of homes to be demolished. The contract stated that the Parish would pay fees outlined in the contractor's proposal, which became part of the contract. These fees included hourly rates for specific personnel positions. The contractor billed for the services of two Site Surveillance Technicians at rates of \$55 and \$75 per hour, respectively. These positions were not specified in the contract; and therefore, were not authorized. Total hours billed at these rates were 5 hours and 48 hours, respectively. The total unallowable cost was \$3,875. Title 44 CFR 13.36(b)(2) requires grantees and subgrantees to maintain a contract administration system to ensure that contractors perform according to the terms, conditions, and specifications of their contracts or purchase orders. Therefore, we question the \$3,875 as unallowable because these costs were billed for positions not authorized under the Parish's contract.

In the second instance under PW 2942, the Parish claimed costs for the use of Parish equipment that was not supported by time sheets of force account employees using the equipment. In comparing the dates and hours from Parish equipment and overtime records, we found 18 instances where the equipment hours were charged when force account employees did not work. A total of 184 extra hours were charged for equipment rentals. At \$16.50 an hour, the Parish claimed excess costs of \$3,036. Title 44 CFR 13.20(b)(6) requires that costs claimed under federal programs must be adequately supported. Therefore, we question \$3,036 as unsupported.

For the unauthorized positions charged for asbestos testing, Parish officials said they did not verify that the hourly costs claimed for positions under PW 9090 were authorized in the contract. A Parish official also said that a firm hired to monitor contracts was reviewing the hours claimed. For the dates and hours claimed for force account equipment, the Parish did not reconcile the equipment hours claimed to the overtime hours claimed by Parish employees.

Conclusion/Recommendation

The Parish claimed unallowable labor costs of \$3,875 and unsupported equipment costs of \$3,036. Therefore, we question excess costs claimed totaling \$6,911.

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

6. Disallow the unallowable costs totaling \$6,911.

DISCUSSIONS WITH MANAGEMENT

We discussed the results of the review and recommendations with Parish officials on September 11, 2008, and with FEMA and GOHSEP officials on November 12, 2008. FEMA officials concurred with our findings and recommendations. However, GOHSEP officials elected to reserve their comment on the findings and recommendations until after the report is issued.

Parish officials also concurred with the findings and recommendations concerning the procurement of services and the unallowable labor and unsupported equipment costs. Parish officials said that FEMA was aware of, or had approved, the Parish's actions on the demolition of commercial properties and the use of a percentage-of-cost-cause in a contract. However, the Parish did not have documentation to support FEMA's approval of these actions.

**Schedule of Questioned Costs
As of December 31, 2007
Audit of Debris Removal Activities
Plaquemines Parish, Louisiana
FEMA Disaster 1603**

Description	Finding	Recommendation Number	Questioned Cost
Cost-Plus-Percentage-of-Cost, PW10732	A	1	\$126,342
Unsupported Labor Costs, PW 9090	D	6	3,875
Unsupported Force Account Equipment Costs, PW 2942	D	6	3,036
Total			\$133,253

**Objective, Scope and Methodology
Audit of Debris Removal Activities
Plaquemines Parish, Louisiana
FEMA Disaster Number 1603**

The objective of Foxx & Company's audit of Hurricane Katrina debris removal activities in Plaquemines Parish, Louisiana was to determine whether the awarded contracts and contractor billings, and the claimed force account costs complied with applicable federal criteria.

The scope of the audit included all debris removal and monitoring activities managed by the Parish during the period August 29, 2005, through December 31, 2007. Foxx & Company performed the work at the Joint Field Office in Baton Rouge, Louisiana and the Plaquemines Parish government offices.

Foxx & Company's methodology included obtaining information on debris removal and related activities by reviewing and analyzing documents such as PWs, contracts, and Parish financial reports. We reviewed the 2006 Parish Single Audit Report that identified issues relating to debris removal and met with the auditors responsible for the report to obtain additional information on their methodology, findings, and recommendations. We also obtained information through interviews with FEMA, GOHSEP, and Parish officials to further understand debris removal activities, and the internal control and accounting procedures for those activities. During the course of our audit we examined support for force account labor and equipment, contractor billings, contract compliance with federal requirements, and compliance with demolition requirements. Through these efforts we were able to determine whether the amounts claimed for incurred expenses were appropriately supported, accurate, and in compliance with applicable laws and regulations. We obtained and analyzed information on the demolition and removal of debris from private properties by the Parish to determine whether these activities were performed according to applicable laws and regulations.

The Department of Homeland Security, Office of Inspector General is reporting the results of the audit to appropriate FEMA officials. We discussed the audit results in a draft of this report with cognizant FEMA, GOHSEP, and Parish officials. The comments received were incorporated, as appropriate, within the body of the report.

We conducted this performance audit in accordance with 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Although the audit report comments on costs claimed by Plaquemines Parish, we did not perform a financial audit, the purpose of which would be to render an opinion on Plaquemines Parish's financial statements. Accordingly, we do not express such an opinion.