

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



**Homeland  
Security**

November 20, 2009

MEMORANDUM FOR: Tony Russell, Acting Director  
FEMA Louisiana Transitional Recovery Office

*Tonda L. Hadley*

FROM: Tonda L. Hadley, Director  
Central Regional Office

SUBJECT: *Ernest N. Morial Exhibition Hall Authority*  
FEMA Disaster Number DR-1603-LA  
Public Assistance Identification Number 000-UUZGZ-00  
Audit Report DD-10-02

We audited public assistance funds awarded to the Ernest N. Morial Exhibition Hall Authority (Convention Center), an agency of the State of Louisiana. The audit objective was to determine whether the Convention Center 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 Convention Center \$1,275,201 under Project Worksheets (PW) 10689 and 11558 for Hurricane Katrina clean up, storm damage, and hazard mitigation. The award provided 100% funding for the projects. As of July 2009, the cut-off date for our audit, the Convention Center had claimed \$1,275,201 for reimbursement and had received \$1,235,687 from GOHSEP. We audited 100% of the funds claimed.

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, 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 Convention Center officials; compared expenditures for eligible costs with insurance proceeds; reviewed insurance policies; analyzed disaster and non-

disaster costs; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the Convention Center's internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the Convention Center's method of accounting for disaster-related costs.

## **BACKGROUND**

The Convention Center is the nation's sixth largest convention facility. It is a 3 million square foot building located on high ground adjacent to the Mississippi River in downtown New Orleans. During Katrina, the Convention Center suffered wind damage along with the loss of water and power. However, immediately after Katrina hit, levees in the New Orleans area failed, and flood waters filled the city. Although it was not open to the public, approximately 20,000 evacuees converged on the Convention Center to escape the floods. The evacuees came to the Convention Center because it was on high ground, officially designated shelters were full, and incorrect reports stated that evacuation transportation was on its way to the Convention Center.

Because the Convention Center was not open, it did not have the resources (staff, electricity, water, and provisions) and security necessary to house evacuees. However, evacuees broke into the Convention Center starting on August 29, 2005, and used it as a shelter until they were evacuated. Evacuations were completed on September 4, 2005. Before troops from the Arkansas National Guard arrived on September 2, 2005, the evacuees received little organized support from either government or charitable agencies while they occupied the Convention Center and, as a result, the facility suffered significant damages.

## **RESULTS OF AUDIT**

FEMA was not aware that the Convention Center's insurance proceeds exceeded its damage expenditures because the Convention Center did not account for FEMA funds on a project-by-project basis as required. As a result, the \$900,062 that the Convention Center claimed for its insurance deductibles is not eligible. Also, the Convention Center did not complete all the work described in the scope of work for a hazard mitigation project, and the costs for the completed work varied significantly from FEMA's estimates. Therefore, FEMA should inspect the work performed on the project and determine whether the Convention Center's costs are reasonable.

### **A. Accounting for Grant Funds**

The Convention Center did not comply with federal requirements to account for costs on a project-by-project basis and maintain files that contain all the documentation for each project (FEMA Publication 322, *Public Assistance Guide*, October 1999, p. 113). The Convention Center also did not identify the source and application of funds as required by 44 CFR 13.20(b)(2).

As a result, FEMA was not aware that the Convention Center's insurance proceeds exceeded its damage expenditures. Convention Center management officials said they did not know they were required to maintain records according to federal requirements because their understanding was that they only needed to document their insurance deductibles.

### **B. Insurance Proceeds**

The Convention Center's insurers paid the Convention Center \$68.0 million to settle its claims for business interruption (\$36.2 million) and property damages (\$31.8 million). However, the Convention Center estimated that it spent only \$28.7 million for property damages and other disaster-related expenses. Therefore, the \$900,062 the Convention Center claimed for its insurance deductibles under PW 10689 is not eligible for FEMA funding because the insurance proceeds for property damages exceeded the expenditures for property repairs.

The Convention Center did not initially seek FEMA funding because it had substantial insurance coverage. The Convention Center applied for FEMA funding only after FEMA contacted it and advised that it may be eligible for FEMA assistance. Because the Convention Center focused on maximizing its insurance recoveries, it did not develop in-depth knowledge of FEMA claim requirements. Instead, Convention Center management relied on discussions with changing sets of FEMA and GOHSEP personnel to address FEMA claim issues. Convention Center's management stated that their understanding from the discussions was that FEMA would pay for the face value of its property damage insurance deductibles (\$1,100,000) and for the costs of certain hazard mitigation projects (\$375,000).

When FEMA initially obligates funds for a project with insurance, it frequently estimates the obligation as an amount equal to the insurance deductible, with the understanding that the amount may be adjusted in the future. Adjustments may be required because FEMA policies allow reimbursement for only the actual expenditures for damages not covered by insurance, which in many cases can approximate the deductible. However, FEMA cannot provide funding if a subgrantee's insurance proceeds exceed its damage expenditures because such funding would represent a duplication of benefits. Section 312 (a) of the Stafford Act, as amended, states that no entity will receive assistance for any loss for which financial assistance has already been received from any other program, from insurance, or from any other source.

In May and June 2008, FEMA estimated insurance proceeds and the cost of damages and hazard mitigation work on two PWs for the Convention Center. The Convention Center did not realize it had to provide FEMA and GOHSEP with updated totals of actual insurance receipts and disaster costs upon project completion. As a result, the 2008 PW versions did not reflect the Convention Center's actual data.

The primary differences between the 2008 PW estimates and the Convention Center's actual costs and insurance proceeds were that the PWs did not reflect \$10.5 million received from the secondary insurance carrier (FEMA was not aware the Convention Center had received proceeds from the secondary insurance policy) and a \$6.4 million increase in disaster costs (see Exhibit).

FEMA approved PW 10689 based on the understanding that the Convention Center's claimed costs of \$22.3 million exceeded its insurance proceeds of \$21.4 million by about \$900,000. However, the Convention Center actually received \$31.8 million from its insurance carriers and spent only \$28.7 million on Katrina damage repairs. Therefore, the Convention Center's insurance proceeds exceeded its expenditures for Katrina damages by \$3.1 million. Convention Center officials said that they used the excess funds for other facility improvements. Reasons they did not use all the insurance funds to repair Katrina damages included:

- Uncompleted work (e.g., new carpet in two ballrooms to be completed in 2009 and some deferred contents and equipment replacement).
- Cost savings achieved by using lower cost repair alternatives (e.g., replacing interior wall coverings with painted sheetrock).
- Decisions not to replace all damaged contents and equipment.

Because the Convention Center's insurance proceeds for property damages exceeded its expenditures for property repairs, we questioned the \$900,062 claimed for insurance deductibles under PW 10689 as not eligible for FEMA funding.

### **C. Hazard Mitigation Project**

In May 2008, FEMA approved \$375,139 under PW 11558 for a Section 406 hazard mitigation project to replace 34,680 square feet of laminated glass panels (including 115 skylights) with stronger Lexan® glass and to replace 32,033 square feet of damaged metal soffit with an aluminum composite soffit. Under the Stafford Act, Section 406 Hazard Mitigation is a funding source for cost-effective measures to reduce or eliminate the threat of future damage to a facility damaged during the disaster.

The Convention Center completed the hazard mitigation project except that they did not use the stronger Lexan glass when replacing glass in 115 skylight panels. Convention Center officials said that using Lexan® glass for its skylights was not feasible for technical reasons. The final costs for replacing all other glass was much higher than expected, but the costs for replacing the metal soffit was much less than expected.

In November 2008 (subsequent to the start of the audit), the Convention Center submitted a new mitigation proposal that increased total hazard mitigation costs by \$31,961 to \$407,100. GOHSEP did not submit the new proposal to FEMA for approval until July 2009. The table below compares estimated costs of PW 11558 to the Convention Center's new hazard mitigation proposal:

Hazard Mitigation - Work Description	PW 11558	New Proposal	Increase (decrease)	Comments
Replace 34,680 square feet of laminated glass with Lexan® glass	\$155,713	\$255,413	\$99,700	New proposal did not include replacing 115 skylights with Lexan glass.
Replace 32,033 square feet of metal soffit with an aluminum composite	<u>219,426</u>	<u>151,687</u>	<u>(\$67,739)</u>	New proposal increased square footage to 32,839, but costs decreased.
Totals	<u>\$375,139</u>	<u>\$407,100</u>	<u>\$31,961</u>	

Because the Convention Center did not complete all the work described in the PW and because the costs for work completed varied significantly from the PW's estimated costs, FEMA should inspect the work and determine whether the costs listed in the new proposal are reasonable.

## RECOMMENDATIONS

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

1. Require GOHSEP to ensure the Convention Center accounts for disaster receipts and disbursements on a project-by-project basis and maintains supporting documentation to identify the source and application of funds for disaster-related damages.
2. Disallow \$900,062 under PW 10689 as ineligible costs.
3. Inspect the hazard mitigation work performed under PW 11558 and determine whether the \$407,100 costs listed in the Convention Center's new hazard mitigation proposal are reasonable.

## DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the final results of our audit with FEMA officials on September 2, 2009; with GOHSEP officials on September 3, 2009; and with Convention Center officials on September 11, 2009. FEMA officials agreed with our findings and recommendations; and GOHSEP officials elected to reserve their comments until after the report was issued. Convention Center officials said they disagreed with our report findings and recommendations because of issues recently identified by their outside consultants. They said they would inform GOHSEP of any disagreements to the audit report after the consultants complete their review.

Please advise this office by January 19, 2010, of the actions planned or taken to implement our recommendations, including target completion dates for any planned actions. Significant contributors to this report were Judy Martinez, Paige Hamrick, and William Haney. Should you have any 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: Acting Regional Administrator, FEMA Region VI  
Audit Liaison, FEMA Region VI  
Audit Liaison, FEMA Louisiana Transitional Recovery Office  
Audit Liaison, FEMA (Job Code DG8C17)

Insurance Receipts and Disaster and Mitigation Costs  
 Ernest N. Morial Exhibition Hall Authority  
 FEMA Disaster Number 1603-DR-LA

	PW 10689 (Note 1)	PW 11558 (Note 1)	PW Totals (Note 1)	Not Reflected on PWs	Totals (Note 2)
Disaster Costs	<u>\$17,938,253</u>	<u>\$4,352,636</u>	<u>\$22,290,889</u>	<u>\$ 6,393,868</u>	<u>\$28,684,757</u>
Insurance Proceeds: <sup>1</sup>					
Primary Insurer	\$17,038,191	\$4,352,636	\$21,390,827	\$ (99,999)	\$21,290,828
Secondary Insurer	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,511,545</u>	<u>10,511,545</u>
Total Insurance	<u>\$17,038,191</u>	<u>\$4,352,636</u>	<u>\$21,390,827</u>	<u>\$10,411,546</u>	<u>\$31,802,373</u>
Excess (Deficit) Disaster Costs to Insurance Funds	<u>\$ 900,062</u>	<u>0</u>	<u>\$ 900,062</u>	<u>\$(4,017,678)</u>	<u>\$(3,117,616)</u>
Hazard Mitigation	<u>0</u>	<u>\$ 375,139</u>	<u>\$ 375,139</u>	<u>\$ 31,961</u>	<u>\$ 407,100</u>

Note 1: Convention Center personnel said that FEMA facilitated PW reviews and processing by allocating insurance proceeds between the PWs so that PW 10689 would fund only insurance deductibles (unreimbursed costs) and PW 11558 would fund only the hazard mitigation costs

Note 2: The Convention Center did not analyze its actual disaster costs on a line item basis to determine to which PW costs should be allocated. Therefore, we evaluated the Convention Center's insurance and eligible cost position on a total disaster basis.

<sup>1</sup> Insurance amounts shown relate to property damages and do not include the \$36.2 million the Convention Center received for business interruption.