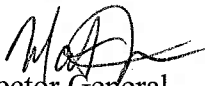




Homeland Security

AUG 24 2011

MEMORANDUM FOR: Tony Russell
Regional Administrator, Region VI
Federal Emergency Management Agency

FROM: Matt Jadacki 
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Public Assistance Grant Funds Awarded to
Port of New Orleans, Louisiana*
FEMA Disaster Number 1603-DR-LA
Public Assistance Identification Number 071-UC5WW-00
Audit Report DD-11-19

We audited public assistance grant funds awarded to the Port of New Orleans, Louisiana (PONO). Our audit objective was to determine whether PONO accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

PONO received an award of \$70.75 million from the Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee, for damages resulting from Hurricane Katrina, which occurred on August 29, 2005. The award provided 100% funding for 104 large projects totaling \$69.38 million and 246 small projects totaling \$1.37 million.¹ Our audit included a detailed cost review of 20 completed permanent work projects totaling \$9.45 million, or 13% of the award. Because PONO was using a system approach to improved projects, we also assessed the reasonableness of its plan to complete 14 improved projects at a cost of \$39.93 million in place of 41 approved projects totaling \$40.22 million. The audit covered the period August 29, 2005 through November 8, 2010, the cutoff date of our audit (see Exhibit A, Schedule of Audited Projects).

We conducted this performance audit pursuant to 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 upon our audit objective. We believe

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

that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit based upon the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We interviewed FEMA, GOHSEP, and PONO officials; reviewed 100% of claimed costs for the 20 projects audited; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of PONO's internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. However, we did gain an understanding of PONO's method of accounting for costs and its procurement policies and procedures.

BACKGROUND

PONO is a local government subunit of the State of Louisiana. It encompasses 22 million square feet of publicly owned cargo-handling and cruise facilities and has more than 6 million square feet of covered storage area. It is the only deepwater port in the United States served by six Class 1 railroads.² It accommodates an average of 2,000 vessel calls each year. The commodities that pass through PONO include coffee, copper, rubber, steel, forest products, and containerized cargo. In addition to cargo, more than 700,000 passengers sail through PONO each year, with three cruise lines departing from the port.



Figure 1: Mississippi River Facilities. This map depicts the location of riverfront facilities, some so severely damaged by Hurricane Katrina they had to be demolished (Celeste, Orange, and Market Street sheds), and others that will be relocated from the Inner Harbor Navigation Canal to the river, such as the cold storage facility in the red shaded area at the far left of the map. Source: PONO.

² A Class 1 Railroad, as defined by Webster's dictionary, is any railroad with gross revenues of at least \$250 million (in 1991), according to the U.S. Department of Transportation.

PONO facilities lie alongside the Mississippi River in New Orleans and along the Inner Harbor Navigation Canal (IHNC, also known as Industrial Canal). The IHNC is a 5.1-mile waterway that connects Lake Pontchartrain, via the Mississippi River Gulf Outlet (MRGO) and the Intracoastal Waterway, to the Mississippi River. The MRGO was a 76-mile-long manmade channel that provided deep-sea ships a shortcut to the Intracoastal Waterway. During

Hurricane Katrina, the MRGO funneled the storm surge into New Orleans at as much as 8 feet per second. On June 5, 2008, the Secretary of the Army recommended deauthorization of part of the MRGO project by constructing a rock closure structure.

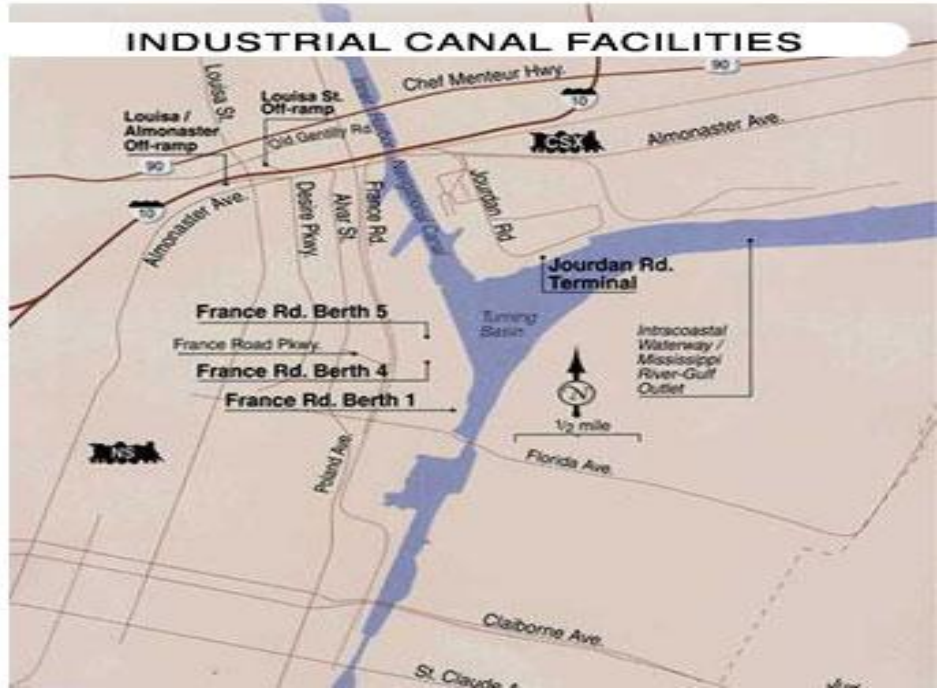


Figure 2: Industrial Canal Facilities as They Existed Before Katrina. These facilities are no longer accessible to deep-draft vessels because of the closing of the MRGO. Some of these facilities have been sold, some are closed, and some will be relocated along the Mississippi River. Source: PONO.



Figure 3: Jourdan Road Facilities on the IHNC as They Appeared Before Katrina. This cold storage facility has been repaired and is in use, but products must be trucked between the warehouse on the IHNC and the ships on the river because deep-draft access is no longer available on the IHNC. The cold storage facility is being relocated along the Mississippi River and can be seen in the first red shaded area on the far left side of figure 1. Source: PONO.



Figure 4: Napoleon Avenue Container Terminal on the Mississippi River as It Appeared Before Katrina. This 61-acre site includes a 48-acre marshalling area. This site appears in the yellow shaded area in figure 1. Source: PONO.

Because properties on the IHNC are no longer accessible to deep-draft vessels, PONO officials recognized the need to relocate most of their IHNC facilities to the Mississippi River. *Public Assistance Policy Digest*, FEMA-321 (October 2001), states, “Applicants performing restoration work on a damaged facility may use the opportunity to make additional improvements while still restoring the facility to its pre-disaster design.” FEMA refers to projects where these improvements occur as improved projects. A donor project is a permanent work project whose facility (or facilities) contributes funds, and in some cases, scope of work, toward a proposed eligible permanent alternate or improved project. Applicants may apply donor funds toward repairs, enhancements, or new construction, or to purchase the contents and equipment that best serve post-disaster needs.

RESULTS OF AUDIT

PONO accounted for and expended FEMA grant funds according to federal regulations and FEMA guidelines, and its plan for completing 14 improved projects appeared reasonable. However, PONO had not completed the allocation of insurance proceeds to its projects and had not used all approved funding in completing certain projects. As a result, FEMA should allocate approximately \$2.6 million of insurance proceeds to PONO’s projects and disallow those amounts from the projects as ineligible, and deobligate \$670,974 in approved project costs that exceeded the actual amounts incurred and claimed. In addition, GOHSEP overpaid PONO \$1,353,205; however, we do not question these costs because FEMA funding was not involved.

Finding A: PONO’s Plan for Improved Projects

We reviewed PONO’s System Approach Funding Plan (Plan) to relocate most of its IHNC facilities to the Mississippi River. The Plan entails completing 14 improved projects at a cost of \$39.93 million in place of 41 approved projects totaling \$40.22 million (see Exhibit B, Schedule of Improved Projects). The overall Plan costs less to fund the improved projects than to repair the damaged facilities, and it appears reasonable considering that properties on the IHNC are no longer accessible to deep-draft vessels. PONO repaired some of the properties along the IHNC, such as a trucking container yard, security fencing, and clogged sewer lines, but opted to use most of the approved funding from the damaged IHNC properties to relocate a cold storage facility and to expand or improve other facilities on the riverfront.

A July 2007 memorandum from the Gulf Coast Recovery Office allowed FEMA to consider a group of facilities that provides a common service to be part of an aggregated function or system. In August 2010, PONO submitted its Plan to GOHSEP; GOHSEP and FEMA approved the Plan in November 2010 and February 2011, respectively. PONO expected to complete the 14 improved projects in its Plan by June 30, 2016.

Finding B: Unused Federal Funds

PONO claimed \$2,068,712 under four projects.³ The amounts FEMA estimated and approved exceeded the amounts claimed by \$670,974. Therefore, FEMA should deobligate \$670,974 and put those federal funds to better use (see Exhibit A, Schedule of Audited Projects).

Finding C: Insurance Allocation

PONO received approximately \$82.73 million in net insurance proceeds. As of February 15, 2011, PONO had allocated approximately \$80.13 million to eligible insured projects, leaving approximately \$2.6 million not allocated to projects. At the time of our audit, PONO, not FEMA, had been directing the amount of insurance proceeds applied and to which projects. According to 44 CFR 206.253(a), eligible costs must be reduced by the actual amount of insurance proceeds relating to the eligible costs. Therefore, FEMA should allocate approximately \$2.6 million of insurance proceeds to PONO's projects to reduce those amounts from the projects as ineligible.

Other Matters

GOHSEP overpaid PONO \$1,353,205 on four projects. For three of the projects this occurred, because GOHSEP paid PONO before FEMA reduced the projects to zero after applying actual insurance proceeds. For the fourth project, FEMA deobligated the project amount because of ineligibility after GOHSEP paid PONO. Because the overpayment did not reduce authorized FEMA funding, we do not question these costs. However, GOHSEP should collect the overpayment so it can fund other projects.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation #1: Deobligate \$670,974 (\$670,974 federal share) of unused federal funds and put them to better use (finding B).

Recommendation #2: Allocate approximately \$2.6 million (\$2.6 million federal share) of insurance proceeds to PONO's projects and disallow those amounts from the projects as ineligible (finding C).

³ We updated the amounts claimed on May 12, 2011 (beyond our November 2010 audit cutoff date) because PONO had completed these four projects and submitted all claims as of this date.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with PONO officials during our audit and included their comments in this report, as appropriate. We also provided written summaries of our findings and recommendations in advance to FEMA, GOHSEP, and PONO officials and discussed them at exit conferences held with GOHSEP and PONO officials on June 29, 2011, and with FEMA officials on July 7, 2011. FEMA, GOHSEP, and PONO officials concurred with our findings and recommendations.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. To promote transparency, this report will be posted to our website, with the exception of sensitive information identified by your office. Significant contributors to this report were Tonda Hadley, Judy Martinez, Susan Stipe, and Rodney Johnson.

Should you have questions concerning this report, please contact me at (202) 254-4100 or Tonda Hadley at (214) 436-5200.

cc: Administrator, FEMA
Executive Director (Acting), FEMA Louisiana Recovery Office
Audit Liaison, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Region VI
Audit Liaison, FEMA (Job Code G-11-005)
Audit Liaison, DHS

**Schedule of Audited Projects
Port of New Orleans, Louisiana
FEMA Disaster Number 1603-DR-LA**

Project Number	Project Amount	Category	Funds Put to Better Use (Finding B)
1725	\$ 115,081	C	\$ 0
9295	0	C	0
16345	1,619,584	C	646,964
18096	470,065	C	0
19157	421,361	D	0
911	461,700	E	2,079
1641	56,651	E	0
1833	951,532	E	0
2029	1,678,048	E	0
2250	866,630	E	0
2277	468,378	E	0
5450	75,147	E	0
15511	95,000	E	0
15901	142,636	E	1,225
16586	78,557	E	0
16591	515,766	E	20,706
17405	274,562	E	0
17496	0	E	0
19046	587,584	E	0
18747	<u>568,925</u>	F	<u>0</u>
SUBTOTAL	<u>\$9,447,207</u>		\$ 670,974
Insurance to be Allocated (Finding C)			<u>2,600,378</u>
TOTAL			<u>\$3,271,352</u>

**Schedule of Improved Projects
Port of New Orleans, Louisiana
FEMA Disaster Number 1603-DR-LA**

PROJECT NAME	DONOR PROJECT	DONOR PROJECT AMOUNT	DONOR TOTALS	PROJECT ESTIMATE
Fireboat Crew Dredge Parts Building	18503	\$307,674		
Project Total		\$307,674	\$307,674	\$320,000
Governor Nichols & Esplanade Substructure	3718	\$326,889		
	1799	<u>135,300</u>		
Project Total		\$462,189	\$462,189	\$460,000
Pile Driver Storage Building	18386	\$150,113		
	18387	<u>151,751</u>		
Project Total		\$301,864	\$301,864	\$300,000
Napoleon Stage C Marshalling Yard	3329	\$1,947,963		
Project Total		\$1,947,963	\$1,947,963	\$2,000,000
Port-wide Sprinkler Control Valves	18917	\$517,873		
Project Total		\$517,873	\$517,873	\$500,000
Modifications to Julia Street Wharf	1832	\$2,285,139		
	2389	759,023		
	17805	54,684		
	18580	674,438		
	19184	159,432		
	19185	<u>144,931</u>		
Project Total		\$4,077,647	\$4,077,647	\$4,100,000
New Orleans Cold Storage	18385	\$3,219,490		
	18505	276,550		
	18686	1,155,607		
	19008	1,499,288		
	19012	2,080,125		
	19084	35,927		
	19087	<u>1,253,755</u>		
Project Total		\$9,520,742	\$9,520,742	\$9,500,000
Morrison Yard Renovation	17458	\$1,624,023		
	17462	116,896		
	18504	216,537		
	18507	2,796,093		
	18566	52,869		
	18859	<u>93,149</u>		
Project Total		\$4,899,567	\$4,899,567	\$5,000,000

Schedule of Improved Projects (Continued)
Port of New Orleans, Louisiana
FEMA Disaster Number DR-1603-LA

PROJECT NAME	DONOR PROJECT	DONOR PROJECT AMOUNT	DONOR TOTALS	PROJECT ESTIMATE
Napoleon Crane Rail Extensions	19070	<u>\$2,847,247</u>		
Project Total		\$2,847,247	\$2,847,247	\$2,500,000
Port Administration Building Repairs	18526	<u>\$918,974</u>		
Project Total		\$918,974	\$918,974	\$1,000,000
Nashville B/Silocaf Paving	17396	\$ 116,896		
	18586	<u>2,165,216</u>		
Project Total		\$2,282,112	\$2,282,112	\$2,250,000
Dredge Discharge Lines	6106	\$1,329,380		
	6142	<u>1,355,793</u>		
Project Total		\$2,685,173	\$2,685,173	\$3,000,000
Erection Testing and Start-Up Cranes	6135	<u>\$3,158,374</u>		
Project Total		\$3,158,374	\$3,158,374	\$3,000,000
Louisiana Paving	1304	\$ 860,920		
	18437	1,368,641		
	18438	753,849		
	18478	810,340		
	18502	1,524,184		
	18506	161,976		
	18658	777,311		
	18686	<u>37,616</u>		
Project Total		\$6,294,837	\$6,294,837	\$6,000,000
TOTALS			\$40,222,236	\$39,930,000