

Department of Homeland Security **Office of Inspector General**

FEMA Public Assistance Grant
Funds Awarded to Ochsner Clinic
Foundation, New Orleans, Louisiana






OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

June 20, 2012

MEMORANDUM FOR: George A. Robinson
Acting Regional Administrator, Region VI
Federal Emergency Management Agency

FROM: 
D. Michael Beard
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Public Assistance Grant Funds Awarded to
Ochsner Clinic Foundation, New Orleans, Louisiana*
FEMA Disaster Number 1603-DR-LA
Audit Report Number DD-12-15

We audited Public Assistance (PA) funds awarded to Ochsner Clinic Foundation (Ochsner) in New Orleans, Louisiana (Public Assistance Identification Number 000-UO50N-00). Our audit objective was to determine whether Ochsner 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 Ochsner \$18.3 million for damages resulting from Hurricane Katrina, which occurred on August 29, 2005. The award provided 100 percent funding for 44 large projects and 86 small projects.¹ The audit covered the period August 29, 2005, to September 12, 2011, the cutoff date of our audit, and included a review of 33 projects totaling \$15.1 million, or 83 percent of the total award. We also performed a limited review of several projects to determine whether contract awards complied with Federal regulations (see Exhibit A, Schedule of Projects Audited). Although Ochsner had completed most of its disaster recovery work as of our cutoff date, it was developing plans for Category E (permanent work) projects associated with its New Orleans East Family Clinic facility and had not yet claimed all costs for some of its completed projects.

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



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We conducted this performance audit between September 15, 2011, and January 18, 2012, 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit according to the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We interviewed FEMA, GOHSEP, and Ochsner officials; reviewed judgmentally selected project costs (generally based on dollar value); reviewed Ochsner's 2005–2010 annual financial statements; reviewed Federal audit reports applicable to Ochsner (see the Other Matters section of this report); reviewed expenses and revenues Ochsner presented in congressional testimony; reviewed a detailed analysis the State of Louisiana prepared describing the source of Federal disaster assistance provided by another Federal agency to Ochsner through the State; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of Ochsner's internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of Ochsner's methods of accounting for disaster-related costs and its procurement policies and procedures.

BACKGROUND

Ochsner, a Louisiana nonprofit corporation headquartered in New Orleans, Louisiana, owns and operates, directly or through its fully owned affiliates, 8 regional hospitals, an 11-story clinic, a 143-room hotel, and 35 health centers throughout southeast Louisiana. In August 2005, Hurricane Katrina's winds, wind-driven rain, and catastrophic flooding damaged buildings and interrupted health care operations at Ochsner's medical facilities.

RESULTS OF AUDIT

Ochsner did not account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. Ochsner's insurance carriers fully reimbursed Ochsner for all FEMA-eligible expenses. Therefore, Ochsner's entire grant, currently obligated for \$18.3 million, is ineligible for FEMA funding. Although Ochsner's insurance proceeds made its entire grant ineligible for FEMA funding (finding A), we determined that



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\$9,673,862 of the \$18,266,765 grant was also ineligible for reasons other than insurance. Specifically, we identified the following ineligible costs questioned under other criteria:

- Finding B. \$4,781,162 of costs claimed for 16 contracts that Ochsner awarded after the exigent/emergency period without competition
- Finding C. \$2,426,451 of unsupported contract costs
- Finding D. \$2,197,550 of replacement costs that exceeded repair costs questioned because FEMA officials did not correctly apply the “50 Percent Rule” when deciding to replace, rather than repair, Ochsner’s Algiers Clinic
- Finding E. \$199,938 of costs that were outside the approved project scopes of work
- Finding F. \$62,828 in duplicate costs
- Finding G. \$5,933 for a credit that Ochsner received, but did not deduct from its claim, as required

We also identified \$170,409 in unused funding for completed work that FEMA could have put to better use (finding H). Generally, these findings resulted because GOHSEP did not effectively execute its responsibilities as the grantee (finding I). Accordingly, we recommend that FEMA—

1. Disallow \$18,266,765 of ineligible project costs covered by insurance and request that GOHSEP recover \$11,668,346 of funding reimbursed to Ochsner.
2. Disallow costs questioned in findings B through G if Ochsner claims costs above the \$32,678,597 of insurance proceeds that FEMA determined were applicable to FEMA-eligible costs/losses.
3. Require GOHSEP to develop and implement procedures to better manage its responsibilities under its grants.

Finally, the U.S. Department of Health and Human Services (HHS) provided \$48.5 million in Medicaid funding to Ochsner, through the State of Louisiana, to cover financial and operating challenges caused by Hurricane Katrina. However, because Ochsner also received more than \$55 million from its insurance carriers to cover both property damages and losses from business interruption, Ochsner may have recognized a net operating gain as a result of the catastrophe. Therefore, we will provide HHS and the HHS Office of Inspector General with copies of this report for their consideration.



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Finding A: Insurance Allocations

Ochsner's insurance carriers fully reimbursed Ochsner for all FEMA-eligible expenses. Therefore, Ochsner's entire grant, currently obligated for \$18.3 million, is ineligible for FEMA funding. Section 312 (a) of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, (Stafford Act), as amended, prohibits the receipt of PA funds with respect to any part of such loss where an applicant received assistance from insurance.

Ochsner received \$55.6 million in total insurance proceeds for both FEMA-eligible property losses and noneligible business interruption (BI) losses. This amount includes proceeds from a large legal settlement that Ochsner received in October 2008 after litigation with one of its insurance carriers. However, FEMA was not aware of the settlement, and therefore did not reduce eligible grant funding accordingly because GOHSEP, as the grantee, did not notify FEMA as required when Ochsner received its insurance proceeds.

When we started our audit, FEMA had already applied \$3,171,070 of insurance proceeds against Ochsner's eligible project costs of \$21,437,835, thus reducing the obligated grant amount to \$18,266,765. However, after we informed FEMA about the large insurance settlement, FEMA officials determined that Ochsner should have applied up to \$32,678,597 of the \$55,629,197 in total insurance proceeds received to reduce FEMA-eligible losses (\$55,629,197 total insurance proceeds, less \$17,251,104 attributable to noneligible BI losses), less \$5,699,496 of legal costs equals \$32,678,597). Therefore, in addition to the \$3,171,070 FEMA has already applied to reduce Ochsner's projects, another \$29,507,527 in insurance proceeds remains available for application to reduce Ochsner's projects (\$32,678,597 total insurance proceeds less \$3,171,070 already applied).

Ochsner officials said they did not provide FEMA or GOHSEP the settlement documentation because they considered the entire settlement allocable to BI losses, which are not eligible for FEMA reimbursement. However, we discussed the insurance settlement with FEMA officials, who said Ochsner should have applied the entire insurance settlement to FEMA-eligible projects because the insurance policy on which Ochsner based its litigation specifically listed the FEMA-eligible buildings. Although we generally agree with FEMA's reasoning, at our exit conference FEMA officials said that, after further review, they were no longer certain that Ochsner's insurance proceeds will completely eclipse its FEMA-eligible costs and, therefore, FEMA officials plan to work with Ochsner and GOHSEP officials to arrive at an equitable allocation of the insurance proceeds.



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Therefore, FEMA should (1) disallow \$18,266,765 of ineligible project costs covered by insurance and request that GOHSEP recover \$11,668,346 of funding already reimbursed to Ochsner, and (2) disallow costs questioned in findings B through G if Ochsner claims costs above the \$32,678,597 of insurance proceeds that FEMA determined were applicable to FEMA-eligible costs/losses.

Finding B: Contracting

Ochsner did not comply with Federal contracting requirements after the exigent period. The exigent period is the time when immediate actions are required to protect life and property. We generally do not question costs based on noncompliance with contracting regulations when lives and property are at risk. However, once the danger passes, applicants should fully comply with Federal contracting regulations. Therefore, we question \$4,781,162 in costs claimed for 16 contracts that Ochsner awarded without competition after the exigent period.

Federal regulations at 2 CFR 215,² require, among other things, that—

- All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. (2 CFR 215.43)
- Some form of a cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. (2 CFR 215.45)
- Specific provisions shall be included in all contracts and subcontracts. (2 CFR 215.48)
- Positive efforts should be made to ensure the use of small businesses, minority-owned firms, and women's business enterprises. (2 CFR 215.44)
- Procurement documents are to be made available for awards exceeding the small purchase threshold. (2 CFR 215.44)

Ochsner did not (1) provide open and free competition for any contract; (2) perform the required cost or price analysis on many of its contracts; (3) include the required Federal provisions in many of its contracts; (4) make positive efforts to ensure the use of small businesses, minority-owned firms, and women's business enterprises; or (5) provide

² The Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations are located at 2 CFR 215 (formerly known as Office of Management and Budget Circular A-110).



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procurement documents for awards exceeding the small purchase threshold for its contract work.

Ochsner solicited contract work from vendors on its preferred contractor list and from a group purchasing organization. These contracts consisted of project work requiring specialists in architecture and engineering, roofing, mechanical and electrical, and security services. Ochsner officials said they used these sources because they worked well for them in the past. Ochsner officials also said that neither FEMA nor GOHSEP officials informed them that their contracting procedures did not comply with Federal regulations. However, we determined that GOHSEP did provide procurement guidance to key Ochsner officials several times.

FEMA's general practice has been to allow contract costs it considers reasonable regardless of compliance with Federal procurement regulations. We do not agree with this practice because the goal of proper contracting involves more than just cost. Without open and free competition, FEMA has little assurance that contract costs are reasonable. Open and free competition not only provides an environment for obtaining reasonable pricing from the most qualified contractors, it also discourages favoritism, collusion, fraud, waste, and abuse.

Finding C: Documentation of Costs

Ochsner's claim included \$2,426,451 of unsupported contract costs. The invoices for these costs did not include supporting documentation, such as timesheets and work logs for labor, contract agreements or rate schedules, and evidence of vendor payments. Cost principles at 2 CFR 230, Appendix A, Section A.2.g, state that a cost must be adequately documented to be allowable under Federal awards. Therefore, we question the following costs totaling \$2,426,451 as unsupported:

- \$2,156,902 for costs claimed under several projects for work related to time-and-materials contracts.³ Ochsner was unable to provide timesheets, work logs, contract agreements, and contract rate schedules for these costs. This occurred because Ochsner officials did not obtain records needed to support the billings from contractors. Without adequate labor and equipment records and contract agreements, there is no assurance that contractors billed according to the contracted rates and for approved project activities.

³ Projects 4520, 4538, 4610, 4908, 9217, 9223, 12227, and 16445.



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- \$259,549 that Ochsner plans to claim under Project 18628 for construction costs associated with its Algiers Clinic. Ochsner was unable to provide evidence that it paid the invoice.
- \$10,000 for costs claimed under Project 9217 to procure, furnish, and install temporary trailers at its Algiers Clinic. Ochsner submitted an invoice for \$19,047; however, because of a dispute with the contractor, Ochsner paid only \$9,047 of the \$19,047 invoiced amount, resulting in \$10,000 in unsupported costs.

Ochsner officials generally disagreed with this finding and plan to prepare a formal response after talking with FEMA and GOHSEP officials, as well as their attorneys.

Finding D: Clinic Replaced Rather than Repaired

FEMA officials did not correctly apply the “50 Percent Rule” when deciding to replace, rather than repair, Ochsner’s Algiers Clinic. As a result, replacing the clinic will likely cost \$2.2 million more than repairing it would have cost. FEMA used an expedited and inaccurate method to estimate costs that significantly underestimated replacement costs. FEMA cost estimators used the expedited method because they believed that FEMA policy allowed them to use it and that it produced sufficiently accurate results.

According to Federal regulation 44 CFR 206.226(f)(1), “A facility is considered repairable when disaster damages do not exceed 50 percent of the cost of replacing a facility” FEMA refers to this regulation as the “50 Percent Rule” and implements it according to its Disaster Assistance Policy 9524.4. FEMA uses this decision-making policy to determine whether to fund the repair or replacement of a disaster-damaged facility.⁴

In this case, FEMA estimated that it would cost \$278,997 to repair the clinic (hard costs only) and \$512,250 to replace the clinic (hard costs only).⁵ Therefore, FEMA decided to replace the clinic because the estimated costs to repair it were 54 percent of the estimated costs to replace it. However, FEMA’s replacement decision stemmed from incorrect and unsupported repair and replacement cost estimates. Rather than developing the detailed scope of work and itemized costs elements required by FEMA’s Cost Estimating Format, FEMA officials estimated the \$512,250 replacement costs by

⁴ Federal regulation 44 CFR 206.226(f)(1) is clarified under various FEMA policies and publications, including Public Assistance Guide FEMA 322, October 1999, pp. 28–31; Public Assistance Policy Digest, October 2001, p. 106; and Disaster Assistance Policy DAP9524.4, September 24, 1998. FEMA updated DAP9524.4 on March 25, 2009.

⁵ Only direct construction costs, known as “hard” costs, can be included in the numerator or denominator of either the repair or replacement costs under the 50 Percent Rule. “Soft” costs include demolition, site work, and project management costs.



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entering lump-sum square footage data, along with other general factors, into an off-the-shelf cost-estimating program.⁶ In addition, rather than developing detailed individual repair cost elements, FEMA estimated the percentages of damage by broad type and multiplied these percentages by the estimated replacement costs to arrive at \$278,997 to repair the building, or a 54 percent repair/replacement ratio (\$278,997 divided by \$512,250). A ratio of 50 percent or greater indicates that FEMA should fund replacement of the building.

Additionally, FEMA did not retain detailed support for its replacement calculation or the analysis it used to assess damages. Therefore, FEMA could not support the reasonableness of assumptions used in its estimates. FEMA's current estimate of replacement costs is \$2,476,547. Based on the dramatic escalation of replacement costs, Ochsner likely should have repaired the clinic, rather than replaced it. Regardless, FEMA used incorrect and unsupported repair and replacement cost estimates in making its decision. Therefore, we question as ineligible \$2,197,550, calculated as the difference between the \$2,476,547 gross amount obligated to replace the clinic and the \$278,997 estimated to repair it. Ochsner officials generally disagreed with this finding and plan to prepare a formal response after talking with FEMA and GOHSEP officials, as well as their attorneys.

Finding E: Scope of Work

Ochsner's claim included \$199,938 for costs that were ineligible because they were outside the approved project scopes of work:

- \$132,191 for building replacement costs that was outside the scope of Project 18628. GOHSEP also reviewed these costs and determined that Ochsner's claim for Project 18628 should be reduced by \$132,191.
- \$67,747 for glazing repairs and cleaning for skylights and atrium windows that was outside the scope of Project 16445.

In addition, Ochsner erroneously claimed \$1,503 under Project 11630 for cleaning costs that should be claimed under Project 12227, and erroneously claimed \$1,047 under Project 4610 for roof repairs to the hospital clinic that should be claimed under Project 11630. According to *Public Assistance Policy Digest* (FEMA 321, p. 75), funds for costs that are outside the scope of work approved by FEMA are not eligible. Therefore, we question \$199,938 as ineligible; and FEMA should require GOHSEP to direct Ochsner to correct the errors identified by claiming costs under the appropriate projects. Ochsner

⁶ CEF for Large Project Instructional Guide, Version 2, November 1998.



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officials generally disagreed with this finding and plan to prepare a formal response after talking with FEMA and GOHSEP officials, as well as their attorneys.

Finding F: Duplicate Costs

The costs Ochsner incurred included \$62,828 in duplicate costs. Ochsner claimed \$31,120 under Project 6839 and \$3,373 under Project 9217 for fees incurred for damage assessments. The costs of the damage assessments were duplicate costs because Ochsner's statutory administrative allowance provides funding for such costs. FEMA's *Public Assistance Guide* (FEMA 322, October 1999, pp. 41–42) specifically states that the cost of assessing damage, collecting cost data, and developing cost estimates are examples of the type of activity that the administrative allowance is intended to cover.

Additionally, Ochsner intends to submit four invoices totaling \$28,335 under Project 12174 for the installation of telephone system and computer network cables and components used to set up temporary trailers at the Algiers Clinic. These costs were duplicate costs because they were already included under Project 9217. Therefore, we question \$62,828 as ineligible duplicate costs. Ochsner officials generally disagreed with this finding and plan to prepare a formal response after talking with FEMA and GOHSEP officials, as well as their attorneys.

Finding G: Costs Credited

Ochsner received a \$5,933 credit from its contractor for filter and oil costs under Project 6839, but did not deduct the credit from its claim as required. According to cost principles at 2 CFR 230, Appendix A, Section A.5.a, applicable credits refers to those receipts or reduction of expenditures that operate to offset or reduce expense items that are allocable to awards as direct or indirect costs. To the extent that such credits received by the organization relate to allowable costs, the organization should credit these costs to the Federal Government. Therefore, we question \$5,933 of costs claimed for Project 6839 as ineligible. Ochsner officials generally disagreed with this finding and plan to prepare a formal response after talking with FEMA and GOHSEP officials, as well as their attorneys.

Finding H: Unused Funds

GOHSEP did not provide closeout information to FEMA in a timely manner for 10 projects that Ochsner had completed. As a result, \$170,409 of Federal funds remained obligated that could have been put to better use. Ochsner completed work and claimed \$4,801,207 in total costs for 10 projects, which was \$170,409 less than the total amount



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FEMA estimated and approved for the projects. Ochsner completed the majority of these projects more than 3 years ago.

Federal regulation 44 CFR 206.205(b)(1) requires grantees to make an accounting to the FEMA Regional Administrator of eligible costs for each approved large project “as soon as practicable after the subgrantee has completed the approved work and requested payment.” Therefore, GOHSEP should complete its reviews of all 10 projects and submit an accounting of eligible costs to FEMA so that FEMA can perform final or partial closeouts of the projects.

We consider 6 months after the subgrantee has completed the approved work and requested payment a reasonable amount of time for the grantee to complete its reviews of costs claimed and to submit an accounting of eligible costs to FEMA. Without timely closeouts, Federal funds remain obligated as a liability against FEMA’s appropriated funds and can limit FEMA’s ability to authorize other disaster assistance projects. Normally, we would recommend that FEMA deobligate the \$170,409 and put those Federal funds to better use; however, these funds will be deobligated after FEMA disallows the costs questioned in finding A.

Finding I: Grant Management

The majority of findings in this report occurred because GOHSEP, as the grantee, should have managed its responsibilities better. According to 2 CFR 215.51(a), grantees are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award.

Additionally, grantees are required to “immediately notify the Federal awarding agency of developments that have a significant impact on the award-supported activities. Also, notification shall be given in the case of problems, delays, or adverse conditions which materially impair the ability to meet the objectives of the award. This notification shall include a statement of the action taken or contemplated, and any assistance needed to resolve the situation” (2 CFR 215.51(f)). Other Federal regulations specifically require the grantee to notify FEMA of any entitlement to an insurance settlement or recovery (44 CFR 206.252(c) (flood) and 44 CFR 206.253(a) (other than flood)).

GOHSEP did not notify FEMA that Ochsner had received a large insurance settlement. As a result, FEMA was not aware of the settlement and did not reduce eligible grant funding accordingly. We also cited instances throughout this report in which Ochsner did not comply with Federal regulations. It is not enough for GOHSEP to merely advise subgrantees of Federal regulations; consistent with Federal regulations, GOHSEP is “responsible for managing and monitoring each project, program, subaward, function,



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or activity supported by the award.” Further, the Hurricane Katrina FEMA-State agreement requires GOHSEP to comply with the requirements of laws and regulations found in the Stafford Act and its related Federal regulations.

As of March 9, 2012, FEMA had approved \$262.8 million in management and administrative costs to GOHSEP since August 2005 for managing the \$10.4 billion in approved grant funds to the State of Louisiana for Hurricane Katrina, including the amount paid to Ochsner. Although we are not commenting on the overall reasonableness of these management costs, we point out that FEMA is paying GOHSEP to manage this disaster and therefore should require GOHSEP, as the grantee, to develop and implement procedures to better manage its responsibilities under this grant. At the exit conference, GOHSEP officials noted that many of the problems identified in this report occurred several years ago and that GOHSEP has since taken steps to improve its oversight of its PA grant applicants.

Other Matters

Ochsner received \$48.5 million in Medicaid funding from HHS, passed through the State of Louisiana House Bill 879, as a supplement for “substantial financial and operational challenges in the aftermath of Hurricane Katrina.”⁷ We determined these facts in part by reviewing (1) Ochsner’s financial statements for 2005 through 2010, (2) a detailed analysis that the State of Louisiana prepared of Federal disaster assistance funds that HHS provided to Ochsner through the State, and (3) reports prepared by the U.S. Government Accountability Office (GAO) and the HHS Office of Inspector General (OIG).⁸ In its report, GAO estimated that Ochsner would realize a net income of \$5.6 million in 2007 and suffer a net loss of \$18.1 million in 2008, largely attributed to Hurricane Katrina. However, as cited in the earlier finding on insurance proceeds, Ochsner received a large insurance settlement in 2008 that was not included in GAO’s 2008 net loss estimate.

We compared the total damages reported by Ochsner (approximately \$86.5 million) to the overall disaster assistance Ochsner received for Hurricane Katrina (\$104 million), and estimated that Ochsner may have realized a net profit of \$17.7 million, not including the \$21.4 million that FEMA estimated for property losses before insurance was applied. Because Ochsner may have profited from the Medicaid funding, HHS should determine whether this funding level was appropriate. Because this issue does

⁷ Appropriations Act 228 of 2009 Regular Session.

⁸ GAO-08-681R, *Hurricane Katrina: Trends in the Operating Results of Five Hospitals in New Orleans before and after Hurricane Katrina*, July 17, 2008; HHS OIG report, A-01-08-00507, *Review of Expenses and Revenues Presented in Congressional Testimony by Ochsner Health System*, July 29, 2008.



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not involve FEMA funds, we have no recommendation for FEMA. However, we will provide a copy of this report to HHS and the HHS OIG for their review.

RECOMMENDATIONS

We recommend that the Regional Director, FEMA Region VI:

Recommendation #1: Disallow \$18,266,765 of ineligible project costs covered by insurance and request that GOHSEP recover \$11,668,346 of funding reimbursed to Ochsner (finding A).

Recommendation #2: Disallow ineligible contract costs questioned in finding B unless FEMA grants Ochsner an exemption, with proper justification, to the applicable Federal procurement requirements (finding B).

Recommendation #3: Disallow costs questioned in findings C through G if Ochsner claims costs above the \$32,678,597 of insurance proceeds applicable to FEMA-eligible costs [or the final amount FEMA determines based on future adjustments to insurance proceeds] (findings C–G).

Recommendation #4: Require GOHSEP to complete its closeout accounting of the 10 completed large projects identified in this report (finding H).

Recommendation #5: Require GOHSEP to develop and implement oversight procedures to improve its monitoring of its subgrantees (finding I).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with FEMA, GOHSEP, and Ochsner officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to these officials and discussed it at exit conferences held with FEMA officials on March 28, 2012, and with GOHSEP and Ochsner officials on March 29, 2012. FEMA officials said they would continue to work with Ochsner and GOHSEP officials on the insurance allocation issue. Additionally, FEMA officials acknowledged the need for better compliance with Federal contracting requirements. However, FEMA officials said they would not agree to disallow funding based on contracting violations if they determined that the costs were reasonable. FEMA officials also said they would review the accuracy of cost estimates used in the 50 Percent Rule calculations and generally acknowledged the need to maintain proper supporting documentation.



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Overall, FEMA officials said they would reserve their final decisions regarding the findings and recommendations until after we issue this report. GOHSEP officials reserved comment on all findings and recommendations. Ochsner officials generally disagreed with the results of this audit, and stated that Ochsner had adhered to the guidelines on FEMA-eligible expenses as recommended by FEMA and GOHSEP officials for this disaster. Ochsner officials also said they intend to file a formal response to FEMA and GOHSEP.

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. We will post the report to our website for public dissemination. Significant contributors to this report were Tonda Hadley, Christopher Dodd, and Chiquita Washington.

Should you have questions, please call me at (202) 254-4100, or your staff may contact Tonda Hadley, Director, Central Regional Office, at (214) 436-5200.



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EXHIBIT A

Schedule of Projects Audited
August 29, 2005, to September 12, 2011
Ochsner Clinic Foundation, New Orleans, Louisiana
FEMA Disaster Number 1603-DR-LA

Project Number	Questioned Costs						Unused Funds Finding H
	Finding A	Finding B	Finding C	Finding D	Findings E-G	Total Costs Questioned in Findings B-G	
<i>Projects in Initial Audit Scope</i>							
3464	\$ 28,663	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
4538	21,738	0	4,214	0	0	4,214	0
4610	929,767	0	664,675	0	0	664,675	145
4935	416,924	0	0	0	0	0	0
5073	681,870	0	0	0	0	0	0
5233	17,408	0	0	0	0	0	0
6512	99,779	0	0	0	0	0	(200)
6839	250,000	0	0	0	37,053	37,053	(93,753)
7835	17,500	0	0	0	0	0	0
9182	20,818	0	0	0	0	0	0
9217	167,854	0	102,481	0	3,373	105,854	0
9223	77,320	0	77,320	0	0	77,320	0
11261	403,100	0	0	0	0	0	0
11577	40,431	0	0	0	0	0	0
11610	758,500	0	0	0	0	0	45,625
11630	364,684	0	112,346	0	0	112,346	128,389
11677	13,633	0	0	0	0	0	0
11747	51,259	0	0	0	0	0	0
11800	200,584	175,845	0	0	0	175,845	24,739
12174	316,204	0	0	0	28,335	28,335	0
12227	1,360,748	0	555,586	0	0	555,586	0
15647	40,556	0	0	0	0	0	0
15937	372,236	0	0	0	0	0	0
15993	692,667	0	0	0	0	0	2,510
16118	230,241	0	0	0	0	0	2,782
16189	2,661,409	15,300	0	0	0	15,300	0
16198	1,371,385	449,550	0	0	0	449,550	3,872
16203	101,300	45,000	0	0	0	45,000	56,300
16212	11,122	0	0	0	0	0	0
16445	568,659	636,406	568,659	0	67,747	1,272,812	0
16792	326,365	0	0	0	0	0	0
17035	408,404	0	0	0	0	0	0
18628	<u>2,058,051</u>	<u>2,811,198</u>	<u>259,549</u>	<u>2,197,550</u>	<u>132,191</u>	<u>5,400,488</u>	<u>0</u>
Subtotals	\$15,081,179	\$4,133,299	\$2,344,830	\$2,197,550	\$268,699	\$8,944,378	\$170,409



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EXHIBIT A
(continued)

Schedule of Projects Audited
August 29, 2005, to September 12, 2011
Ochsner Clinic Foundation, New Orleans, Louisiana
FEMA Disaster Number 1603-DR-LA

Project Number	Questioned Costs						Unused Funds Finding H
	Finding A *	Finding B	Finding C	Finding D	Findings E-G	Total Costs Questioned in Findings B-G *	
<i>Projects Added to Initial Scope of Audit</i>							
4520	\$ 68,978	\$ 0	\$ 68,978	\$ 0	\$ 0	\$ 68,978	\$ 0
4908	34,553	0	12,643	0	0	12,643	0
6582	88,208	0	0	0	0	0	0
6728	57,562	0	0	0	0	0	0
6736	5,000	0	0	0	0	0	0
9196	125,040	0	0	0	0	0	0
11757	521,430	480,523	0	0	0	480,523	0
12196	33,491	0	0	0	0	0	0
12231	279,100	0	0	0	0	0	0
16110	91,500	0	0	0	0	0	0
16618	<u>183,321</u>	<u>167,340</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>167,340</u>	<u>0</u>
Subtotals	<u>\$ 1,488,183</u>	<u>\$ 647,863</u>	<u>\$ 81,621</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 729,484</u>	<u>\$ 0</u>
All Other Projects	<u>\$ 1,697,403</u>						
Totals	<u>\$18,266,765</u>	<u>\$4,781,162</u>	<u>\$2,426,451</u>	<u>\$2,197,550</u>	<u>\$268,699</u>	<u>\$9,673,862</u>	<u>\$170,409</u>

*The total amount questioned and recommended for disallowance is \$18,266,765, which is the total amount of Ochsner's award (finding A). Because we cannot question the same costs twice, the additional amounts listed as questioned in findings B-G (questioned under different criteria than those used in finding A) and the unused funds identified in finding H are for FEMA's consideration in case Ochsner claims costs above the \$32,678,597 of insurance proceeds that FEMA determined were applicable to FEMA-eligible costs/losses (or the final amount FEMA determines based on future adjustments to insurance proceeds).



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Department of Homeland Security

EXHIBIT B

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