

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

FEMA Public Assistance Grant Funds  
Awarded to City of Bogalusa, Louisiana

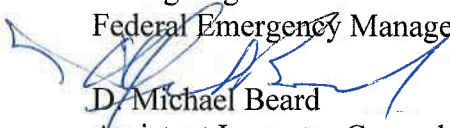




# Homeland Security

May 11, 2012

MEMORANDUM FOR: Tony 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  
City of Bogalusa, Louisiana*  
FEMA Disaster Numbers 1603- and 1786-DR-LA  
Audit Report Number DD-12-11

We audited public assistance grant funds awarded to the City of Bogalusa, Louisiana, (City) (Public Assistance Identification Number 117-08150-00). Our audit objective was to determine whether the City accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

The Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee, awarded the City \$4.39 million for damages resulting from Hurricane Katrina (1603-DR-LA), which occurred on August 29, 2005, and Hurricane Gustav (1786-DR-LA), which occurred on September 1, 2008. Table 1 presents specific information for each disaster. The audit covered the period August 27, 2005, through August 15, 2011, and included a review of \$4.39 million or 100 percent of the total award (see exhibits A and B).<sup>1</sup>

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<sup>1</sup> We audited the gross amount of \$5.32 million (\$5.2 million before reductions for insurance under Hurricane Katrina, plus \$0.12 million with no reductions for insurance under Hurricane Gustav).

**Table 1. Disaster-Specific Information**

<b>Disaster</b>	<b>Disaster Number</b>	<b>Amount Awarded (Millions)</b>	<b>Large Projects<sup>2</sup> Awarded</b>	<b>Small Projects Awarded</b>	<b>Federal Cost Share</b>
Hurricane Katrina	1603	\$4.27	10	40	100%
Hurricane Gustav	1786	\$0.12	1	2	90%
<b>Total</b>		<b>\$4.39</b>	<b>11</b>	<b>42</b>	

We conducted this performance audit September 2011 and March 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 City officials; reviewed judgmentally selected project costs (generally based on dollar value); and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the City'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 City's method of accounting for disaster-related costs and its procurement policies and procedures.

## **BACKGROUND**

The City of Bogalusa is located in Washington Parish in southeast Louisiana and encompasses 9.9 square miles. The City's water supply is from a deep-well system. Hurricane Katrina caused major structural, electrical, and mechanical damages to the City's water system, including the control system and the communication system between the control system and outside components. In 2008, Hurricane Gustav caused little property damage, but the City incurred costs for emergency protective measures to ensure the safety of its citizens, including filling and distributing sandbags and assisting with evacuations.

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<sup>2</sup> Federal regulations in effect at the time of the disasters set the large project threshold at \$55,500 for Hurricane Katrina and \$60,900 for Hurricane Gustav.

## RESULTS OF AUDIT

The City accounted for FEMA grant funds on a project-by-project basis, as required. However, the City did not obtain and maintain insurance for certain repaired facilities; claimed ineligible costs for labor; and did not complete one small project. As a result, we questioned \$583,312 of ineligible costs claimed for Hurricane Katrina.

In addition, FEMA should deobligate and put to better use \$194,509 in Federal funds that exceeded the actual amounts the City incurred and claimed for Hurricanes Katrina and Gustav; and GOHSEP should complete reviews of all large projects awarded for Hurricanes Katrina and Gustav and submit an accounting of eligible costs to FEMA.

### **Finding A: Insufficient Insurance Coverage**

The City did not obtain and maintain sufficient insurance required as a condition for receiving Federal disaster assistance. As a result, the City may not have adequate insurance coverage the next time disaster strikes. Section 311 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, Public Law 93-288, as amended, 42 U.S.C. §5121, et seq. requires recipients of disaster assistance to obtain and maintain such types and extent of insurance “as may be reasonably available, adequate, and necessary, to protect against future loss to [any property to be replaced, restored, repaired, or constructed with such assistance].” Further, the FEMA Public Assistance Guide (FEMA 322, October 1999, p. 97) states that (1) as a condition for receiving public assistance for a facility, an applicant must obtain and maintain insurance to cover that facility for the hazard that caused the damage; and (2) such coverage must, at a minimum, be in the amount of the estimated eligible project costs for that structure before any reduction.

The City received funding for 12 Katrina projects totaling \$514,280 for the cost of repairs resulting from wind damage. The City did not have insurance for the damaged items at the time of the disaster, and has not obtained and maintained insurance since. Therefore, FEMA should disallow these costs unless the City obtains and maintains insurance coverage for the damaged items in the minimum amount of \$514,280.

We discussed this issue with City officials on November 10, 2011, and they responded that they had not been previously informed that the funding would have to be repaid if they did not obtain insurance. However, we determined that the City had been previously informed of insurance requirements because the City maintained folders for each of its projects that included the project worksheet. The project worksheets clearly explained the insurance requirements. Figure 1 is an excerpt from the project worksheet for Project 4620, which is 1 of the 12 projects we questioned.

## Figure 1. Excerpt From Project Worksheet for Project 4620

### PROJECT WORKSHEET REPORT

DECLARATION NO. FEMA-LA - DR1603  
FIPS NO. 117-08150-00  
APPLICANT NAME BOGALUSA, CITY OF  
FEMA PW # 4620

#### GENERAL COMMENTS

04-25-06 GENERAL POLICY IS ON FILE. THE FACILITY IS NOT INSURED. PW DAMAGE IS FOR WIND DAMAGE. U.2) UNINSURED FIRST BITE & O&M INSURANCE APPROVAL OF THIS PROJECT WORKSHEET IS CONTINGENT UPON THE APPLICANT COMPLYING WITH TITLE 44 OF THE CODE OF FEDERAL REGULATIONS (CFR), PARTS 206.252 AND 206.253 WHICH STATES, ASSISTANCE UNDER SECTION 406 OF THE STAFFORD ACT WILL BE APPROVED ONLY ON THE CONDITION THAT INSURANCE IS OBTAINED AND MAINTAINED IN SUCH TYPES AND AMOUNTS AS ARE REASONABLE AND NECESSARY TO PROTECT AGAINST FUTURE LOSS.

THE AMOUNT AND EXTENT OF INSURANCE FOR OTHER THAN FLOOD HAZARDS MUST BE GREATER THAN OR EQUAL TO THE AMOUNT OF ELIGIBLE COSTS (BEFORE ANY INSURANCE PROCEEDS DEDUCTIONS) FOR ELIGIBLE DAMAGES ATTRIBUTED TO OTHER THAN FLOOD HAZARDS ON A PER BUILDING BASIS AND SEPARATELY FOR CONTENTS COVERAGE WHEN PERSONAL PROPERTY IS PART OF THE ESTIMATED COSTS IN THIS PROJECT WORKSHEET. THE REQUIREMENTS OF SECTION 311 OF THE STAFFORD ACT ARE WAIVED WHEN ELIGIBLE COSTS FOR AN INSURABLE FACILITY (DEFINED AS BOTH BUILDING AND CONTENTS FOR INSURANCE PURPOSES) DO NOT EXCEED \$5,000 IN ACCORDANCE WITH 44 CFR 206.253(D).

THE APPLICANT MUST PROVIDE THE GRANTEE, LOUISIANA DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY PREPAREDNESS WITH DOCUMENTATION THAT CONFIRMS THE APPLICANT WILL OBTAIN AND MAINTAIN INSURANCE FOR THE FLOOD AND OTHER THAN FLOOD HAZARDS THAT CAUSED THE DAMAGES. A COMMITMENT TO OBTAIN, OR PROOF THAT THE APPLICANT HAS OBTAINED ALL OF THE REQUIRED INSURANCE SHALL BE FILLED WITH THE GRANTEE PRIOR TO OBTAINING PROJECT FUNDING.

FAILURE TO OBTAIN AND MAINTAIN ALL REQUIRED INSURANCE ON THIS FACILITY WILL JEOPARDIZE CURRENT FEDERAL FUNDING AS WELL AS DISQUALIFY THIS FACILITY FROM RECEIVING ASSISTANCE UNDER THIS PROGRAM IN FUTURE DISASTER EVENTS, PURSUANT TO SECTION 311 OF THE STAFFORD ACT. THE REQUIRED INSURANCE SHALL BE MAINTAINED FOR THE LIFE OF THE FACILITY OR THE RESTORATIVE WORK, WHICHEVER IS LESS. SELF-INSURANCE IS NOT AUTHORIZED AS INSURANCE UNDER SECTION 311 AND DOES NOT SATISFY THE INSURANCE REQUIREMENTS. DUE TO THE HIGH COST OF INSURANCE, SOME APPLICANTS MAY REQUEST TO INSURE THE DAMAGED FACILITIES UNDER A BLANKET INSURANCE POLICY COVERING ALL THEIR FACILITIES, AN INSURANCE POOL ARRANGEMENT, OR SOME COMBINATION OF THESE OPTIONS. SUCH AN ARRANGEMENT MAY BE ACCEPTED FOR OTHER THAN FLOOD DAMAGES. HOWEVER, IF THE SAME FACILITY IS DAMAGED IN A SIMILAR FUTURE DISASTER, ELIGIBLE COSTS WILL BE REDUCED BY THE AMOUNT OF ELIGIBLE DAMAGE SUSTAINED ON THE PREVIOUS DISASTER.

### **Finding B: Ineligible Force Account Labor**

The City claimed \$24,249 for ineligible overtime paid to its mayor, department heads, and supervisors who did not normally receive overtime. FEMA Public Assistance Policy Digest, FEMA-321 (October 2001) states that pay will be determined according to predisaster written policies. FEMA Response and Recovery Directorate Policy 9525.7 (July 20, 2000) states in section 7.D. that straight time and overtime will be determined according to the applicant's written policies and labor union contracts in effect prior to the disaster.

City officials held a staff meeting on August 26, 2005, in preparation for Hurricane Katrina, and approved the payment of overtime for supervisory personnel during emergencies such as Katrina. Because the City did not have a written policy to pay overtime for supervisory personnel before the onset of the impending disaster, overtime pay for supervisory personnel totaling \$24,249 is ineligible.

### **Finding C: Uncompleted Small Project**

The City received \$44,783 for a small project, but did not complete the work as required. City officials explained that they did not complete the original project, ballpark repairs, because the location was deemed unsafe because of its proximity to City streets. FEMA approved the City's request for an alternate project for lighting a field at the City sports complex. However, City officials explained that they could not complete the alternate project because the area was found to be a natural wetland that could not be disturbed for underground wiring, and they could not obtain approval for aboveground wiring. City officials agreed with this finding, but said that they are still trying to find another alternate project to replace the original one. According to 44 CFR 206.205(a), *Payment of Claims – Small Projects*, failure to complete a small project may require the repayment of Federal funds. Therefore, FEMA should disallow \$44,783 as ineligible, unless the City requests and FEMA approves funding for an appropriate alternate project.

### **Finding D: Unused Federal Funds**

GOHSEP did not perform timely closeouts of projects the City completed. As a result, \$195,800 of Federal funds obligated for Hurricanes Katrina and Gustav remained unused and obligated. The amount FEMA estimated and approved for seven large Hurricane Katrina projects exceeded the amounts the City claimed for completing the projects by \$182,889 (see exhibit A). In addition, FEMA estimated and approved \$67,954 for a Hurricane Gustav large project, but the City completed the work for \$55,043, or \$12,911 less than the approved amount (see exhibit B). Therefore, FEMA should deobligate \$195,800 of unused Federal funds (\$182,889 from the seven Hurricane Katrina projects and \$12,911 from the Hurricane Gustav project).

City officials said they had completed all large projects and claimed all costs for Hurricane Katrina projects by February 2011 and for Hurricane Gustav projects by September 2010. According to 44 CFR 206.205(a) and (b)(1), grantees are required to make final payment on small projects when they are approved and are required to submit an accounting of eligible costs for each large project “as soon as practicable after the subgrantee has completed the approved work and requested payment.”

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 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. Therefore, FEMA should require GOHSEP to submit closeout documentation for both disasters so that FEMA can perform final closeouts of the projects and put unused Federal funds to better use.

## Other Matters

GOHSEP overpaid the City a total of \$242,150 on seven Katrina projects because FEMA took actions that reduced approved funding after GOHSEP had paid the City for costs claimed on these projects, as shown in table 2.

- For Projects 185, 500, 501, 534, and 1703, the overpayments occurred because FEMA deobligated the projects subsequent to GOHSEP paying the City.
- For Projects 2732 and 4582, the overpayments occurred because FEMA applied actual insurance proceeds subsequent to GOHSEP paying the City.

These payments did not reduce authorized FEMA funding, and we do not question these costs. However, GOHSEP should collect the overpayments totaling \$242,150 so it can fund other projects.

**Table 2. GOHSEP Overpayments—Katrina**

<b>Project Number</b>	<b>Amount Overpaid</b>	<b>Reason for Overpayment</b>
185	\$124,263	Deobligated – ineligible costs
500	21,875	Deobligated – scope of work and costs not accurate
501	30,583	Deobligated – repairs not required
534	6,113	Deobligated – repair costs were inaccurate
1703	5,400	Deobligated – repair costs were inaccurate
2732	13,899	Applied actual insurance proceeds
4582	<u>40,017</u>	Applied actual insurance proceeds
<b>Total</b>	<b>\$242,150</b>	

## **RECOMMENDATIONS**

We recommend that the Acting Regional Administrator, FEMA Region VI:

**Recommendation #1:** Require the City to obtain and maintain insurance to cover the full amount of eligible disaster assistance provided or disallow \$514,280 as ineligible (finding A).

**Recommendation #2:** Disallow \$24,249 of ineligible force account labor costs claimed (finding B).

**Recommendation #3:** Disallow \$44,783 of ineligible costs claimed for an uncompleted small project unless FEMA approves a request by the City to fund an appropriate alternate project (finding C).

**Recommendation #4:** Deobligate \$182,889 of unused Federal funds awarded for Hurricane Katrina and put those funds to better use (finding D).

**Recommendation #5:** Deobligate \$12,911 (\$11,620 Federal share) of unused Federal funds awarded for Hurricane Gustav and put those funds to better use (finding D).

**Recommendation #6:** Require GOHSEP to complete reviews of all large projects awarded to the City for Hurricanes Katrina and Gustav and submit an accounting of eligible costs to FEMA (finding D).

## **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP**

We discussed the results of our audit with City officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to FEMA, GOHSEP, and City officials and discussed it at exit conferences held separately with FEMA and GOHSEP officials on March 6, 2012, and with City officials on March 8, 2012. FEMA generally agreed 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. We will post the report on our website for public dissemination.

Significant contributors to this report were Tonda Hadley, Judy Martinez, Susan Stipe, and Rodney Johnson.

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

cc: Administrator, FEMA  
Director, Risk Management and Compliance, FEMA Office of Chief Financial Officer  
Executive Director, FEMA Louisiana Recovery Office  
Audit Liaison, FEMA Louisiana Recovery Office  
Audit Liaison, FEMA Region VI  
Audit Liaison, FEMA (Job Code G-11-059)  
Audit Liaison, DHS



**Schedule of Projects Audited  
August 27, 2005, Through August 15, 2011  
City of Bogalusa, Louisiana  
FEMA Disaster Number 1603-DR-LA**

Project Number	Gross Award Amount	Insurance Reductions	Net Award Amount	Insufficient Insurance Coverage (Finding A)	Ineligible Force Account Labor (Finding B)	Uncompleted Small Project (Finding C)	Total Amount Questioned	Unused Federal Funds (Finding D)
185	\$2,263,210	\$ 0	\$2,263,210	\$ 0	\$24,249	\$ 0	\$ 24,249	\$ 0
524	35,000		35,000					
533	3,060		3,060					
542	39,819		39,819	38,819			38,819	
545	18,290		18,290	18,281			18,281	
793	23,470		23,470					
794	87,800		87,800					
888	44,783		44,783			44,783	44,783	
891	26,040		26,040					
1080	3,320		3,320					
1142	16,463		16,463					
1159	120,500		120,500					27,500
1253	4,817		4,817					
1263	4,480		4,480					
1266	6,299		6,299	6,299			6,299	
1270	14,400		14,400					
1273	402,990	(378,000)	24,990					
1274	14,569		14,569	14,569			14,569	
1544	187,229	(182,800)	4,429					
1766	46,171		46,171					
1995	13,924		13,924					
2141	52,754		52,754	52,754			52,754	
2144	77,383		77,383	28,867			28,867	48,516
2229	51,748		51,748	51,748			51,748	
2404	16,786		16,786					
2524	222,491	(82,435)	140,056					35,919
2548	2,375		2,375					
2609	20,665		20,665					
2732	14,932	(13,899)	1,033					
2759	7,843		7,843	7,843			7,843	
2782	27,961		27,961					

**Schedule of Projects Audited (Continued)**  
**August 27, 2005, Through August 15, 2011**  
**City of Bogalusa, Louisiana**  
**FEMA Disaster Number 1603-DR-LA**

Project Number	Gross Award Amount	Insurance Reductions	Net Award Amount	Insufficient Insurance Coverage (Finding A)	Ineligible Force Account Labor (Finding B)	Uncompleted Small Project (Finding C)	Total Amount Questioned	Unused Federal Funds (Finding D)
2947	1,050		1,050					
2961	3,149		3,149					
2999	95,721	(85,160)	10,561					
4195	92,519		92,519					25,037
4197	7,121		7,121					
4200	4,657		4,657					
4207	3,842		3,842					
4367	123,749	(119,344)	4,405					
4582	55,534	(49,422)	6,112					
4620	66,580		66,580	65,717			65,717	863
5287	53,738		53,738	53,738			53,738	
5681	29,338		29,338					
5891	4,174		4,174					
5920	101,545		101,545					10,688
6416	442,955		442,955					
16097	191,546		191,546	157,180			157,180	34,366
16358	9,156		9,156					
17224	18,465		18,465	18,465			18,465	
17788	9,150		9,150	0	0	0	0	0
<b>SUB TOTAL</b>	<b>\$5,185,561</b>	<b>(\$911,060)</b>	<b>\$4,274,501</b>	<b>\$514,280</b>	<b>\$24,249</b>	<b>\$44,783</b>	<b>\$583,312</b>	<b>\$182,889</b>
2088 <sup>3</sup>	11,441	(11,441)	0	0	0	0	0	0
<b>TOTALS</b>	<b>\$5,197,002</b>	<b>\$(922,501)</b>	<b>\$4,274,501</b>	<b>\$514,280</b>	<b>\$24,249</b>	<b>\$44,783</b>	<b>\$583,312</b>	<b>\$182,889</b>

<sup>3</sup> Katrina Project 2088 is not counted in the universe of 50 projects because it has a zero balance. It is included in exhibit A to show the insurance reduction.

**Schedule of Projects Audited**  
**August 31, 2008, Through August 15, 2011**  
**City of Bogalusa, Louisiana**  
**FEMA Disaster Number 1786-DR-LA**

Project Number	Award Amount	Unused Federal Funds (Finding D)	Federal Share of Unused Federal Funds (Finding D)
00873	\$ 3,462	\$ 0	\$ 0
02597	67,954	12,911	11,620
02657	<u>52,812</u>	<u>0</u>	<u>0</u>
<b>Totals</b>	<b><u>\$124,228</u></b>	<b><u>\$12,911</u></b>	<b><u>\$11,620</u></b>

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