

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

**Costs Incurred for Rejected
Temporary Housing Sites**



Office of Inspector General

U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

August 11, 2008

Preface

The Department of Homeland Security, Office of Inspector General, was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report, prepared for us by Williams, Adley & Company, LLP, addresses contract costs incurred by the Federal Emergency Management Agency for rejected temporary housing sites in the aftermath of Hurricane Katrina. It is based on interviews with employees and officials of relevant agencies and subgrantees, direct observations, and a review of applicable documents.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General



February 28, 2008

Mr. Matthew Jadacki
Assistant Inspector General
Office of Inspector General
Department of Homeland Security
Washington, DC 20528

Dear Mr. Jadacki:

Williams, Adley & Company LLP performed a review of costs incurred by the Federal Emergency Management Agency (FEMA) on rejected temporary housing sites for the Hurricane Katrina relief effort during the period September 1, 2005 through June 30, 2006. The review was performed in accordance with our Task Order TPD-FIG-06-K-00029, dated January 9, 2006. This report presents the results of our review and offers recommendations to improve FEMA operations.

Our review was conducted in accordance with applicable *Government Auditing Standards*, 2003 revision. The review was an attestation engagement as defined by Chapter 2 of the Standards and it included a review and report of costs incurred, with a compliance element. Although the review report comments on costs incurred by FEMA, we did not perform a financial audit, the purpose of which would be to render an opinion on the agency's financial statements.

We appreciate the opportunity to have conducted this review. If you have any questions, or if we can be of further assistance, please call me on 202.371.1397.

Sincerely,

WILLIAMS, ADLEY & COMPANY, LLP

A handwritten signature in cursive script that reads 'Jocelyn Hill'.

Jocelyn Hill, CPA
Partner



Table of Contents/Abbreviations

Executive Summary	1
Background	2
Results of Review	4
Other Observations	10
Conclusions	10
Recommendations	12
Management Comments and OIG Analysis	12

Figures

Figure 1 – Rejected Cancellation Costs by Contractor	2
Figure 2 – Site Development Process	3
Figure 3 – Rejected Sites by Parish	A1-3

Appendices

Appendix 1 – Objectives, Scope and Methodology
Appendix 2 – FEMA Official Comments
Appendix 3 – Site Development Process
Appendix 4 – Other Observations
Appendix 5 – Report Distribution

Abbreviations

COTR	Contracting Officer’s Technical Representative
DHS	Department of Homeland Security
FAR	Federal Acquisition Regulation
FEMA	Federal Emergency Management Agency
GSA	General Services Administration
IA-TAC	Individual Assistance – Technical Assistance Contracts
OIG	Office of Inspector General
PWS	Performance Work Statement
WA&Co	Williams, Adley & Company, LLP



Executive Summary

This report describes the results of Williams, Adley & Company, LLP's review of contract costs incurred by the Department of Homeland Security, Federal Emergency Management Agency (FEMA), on temporary housing rejected sites for the Hurricane Katrina relief effort. Rejected sites are sites such as parking lots or farm land that were initially identified as potential temporary housing unit group sites but were later rejected during the assessment, design, or development stage. The objectives of the review were to determine whether:

- FEMA implemented and enforced control procedures to ensure contractor compliance with the Individual Assistance – Technical Assistance Contract Performance Work Statement and minimize the risk of fraud, waste, and abuse.
- Contractors were in compliance with the Performance Work Statement requirements established through the Contract.
- FEMA effectively inspected, accepted, and paid for services.

We determined that FEMA incurred up to \$5.6 million in excessive costs for rejected sites because controls were not always implemented and enforced. Actions that should have happened sequentially sometimes occurred simultaneously, and important procedures were not followed. Although FEMA made initial use of checklists to monitor contractor compliance with the processes as defined in the Performance Work Statement, it did not consistently enforce the controls and follow up on outstanding matters in a timely manner. In addition, not all contractors were in compliance with the requirements of the contract. In some cases, the contractor did not conduct thorough assessments of the proposed sites, did not obtain permits as required, and did not adhere to the proper sequence of procedural steps as defined in the Performance Work Statement. Because FEMA did not consistently enforce adherence to the established protocols, the process was dependent on each contractor's site assessment practices. Based upon our estimates, one contractor's costs were over 790 % greater than the other contractors. If FEMA had provided sufficient oversight for the Contract, the excessive costs could have been avoided.

As of April 2006, FEMA rejected 176 sites with a total cancellation cost of \$8,546,372. Of this amount, we estimated that between \$5.4 million and \$5.6 million was excessive. We judgmentally selected rejected temporary housing sites with estimated costs over \$300,000 under the four Contracts for the Hurricane Katrina Relief. Our efforts resulted in the selection of seven rejected sites from Shaw, the only contractor meeting our criteria. We judgmentally selected three Hill sites for comparison because the reasons for rejection were similar to those given for the Shaw sites, but the estimated costs were much lower with each being under \$50,000. No specific Fluor sites were reviewed; and Bechtel had no rejected sites. See Appendix 1 for a more detailed discussion of the Objectives, Scope, and Methodology for this review.

Overall, FEMA needs to improve contract oversight monitoring by employing an adequate number of trained acquisition staff and using effective construction management tools to monitor contractor performance and assure compliance with the terms of the contract.

Background

On August 29, 2005, Hurricane Katrina devastated the Gulf Coast regions of Louisiana, Mississippi, and Alabama. The scope of relief effort was massive in terms of the area impacted, number of displaced persons needing housing, and required resources. In an effort to ramp up both human and material resources, the Federal Emergency Management Agency (FEMA) issued purchase orders to four contractors for temporary housing assistance in those states devastated by Hurricane Katrina including the transportation, installation, storage, and deactivation of temporary housing units. FEMA awarded no-bid contracts to Fluor Enterprises, Inc. (Fluor), Shaw Group (Shaw), Bechtel National, Inc. (Bechtel) and CH2M Hill Constructors, Inc. (Hill). These contracts, referred to as Individual Assistance – Technical Assistance Contracts (IA-TACs), tasked the contractor to provide and coordinate comprehensive project management services to include all phases of design, planning, budgeting, construction, destruction, and restoration from project beginning through completion and closeout.

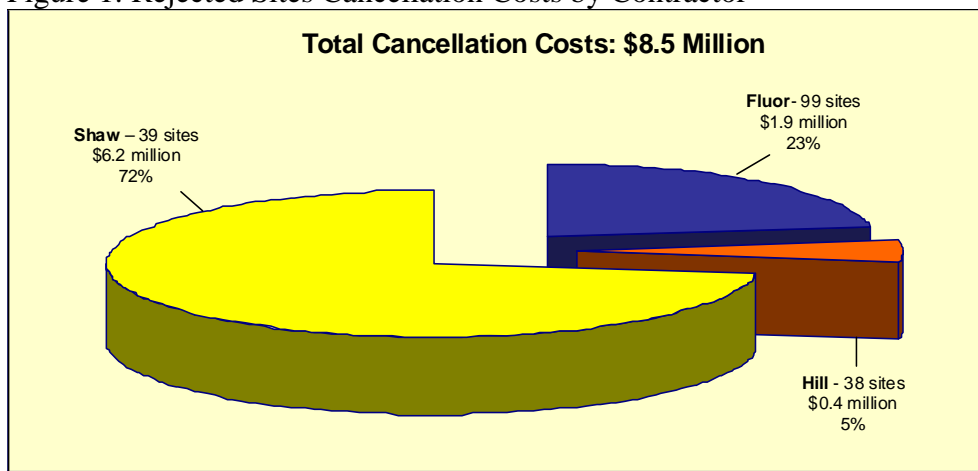
The contractors were tasked with:

- Identifying and confirming appropriate housing sites based on feasibility analyses,
- Performing group site designs and site preparation work, and
- Providing ongoing maintenance and security for each of the sites.

Appropriate housing sites could be any property, such as vacant land or a parking lot, identified as a potential temporary housing unit group sites. Sometime during the feasibility assessment, design, or development process, a site could be determined to be unsuitable or unusable, and therefore rejected.

As of April 2006, FEMA rejected 176 sites with total cancellation costs of \$8,546,372. Of the four IA-TACs, Fluor had 99 (56%) rejected sites, Shaw had 39 (22%) rejected sites, Hill had 38 (22%) rejected sites, and Bechtel had no rejected sites. Figure 1 below graphically depicts the actual cancellation cost for each IA-TAC and the percentage of total cost as well as the number of rejected sites by contractor.

Figure 1: Rejected Sites Cancellation Costs by Contractor

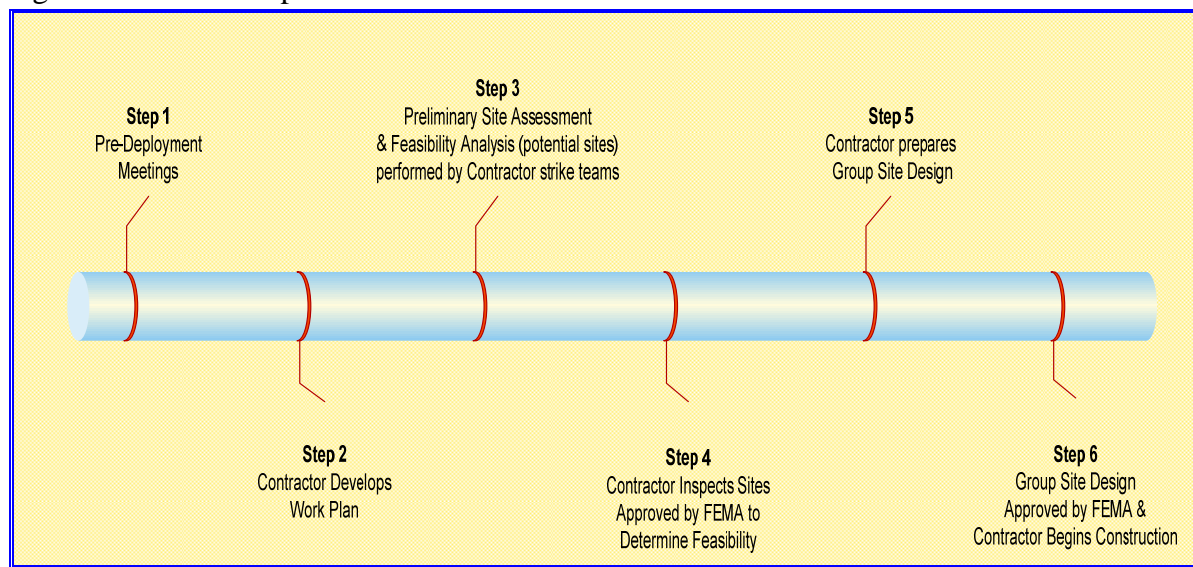


Source: WA&Co analysis of data provided by FEMA



The process for identifying, inspecting, accepting, and designing plans for group sites and determining the sequence of decision points is detailed in the Performance Work Statement (PWS). As discussed more thoroughly in Appendix 3, a sequence of successive tasks should have been undertaken for each potential site, with each task providing additional information to advise FEMA whether a group site was feasible. The sequencing of steps is summarized in Figure 2 below:

Figure 2: Site Development Process



Source: WA&Co analysis of Performance Work Statement provided by FEMA

Preliminary site assessments, feasibility analyses, and site inspections identified above as Steps 3 and 4, were critical points, in terms of cost savings, because FEMA relied on contractor input to decide whether to proceed with design and construction activities. During Step 3, the contractor was responsible for obtaining key information about site locations, including site conditions and readiness for development, utility services, flood plain issues, environmental hazards, necessary permits, availability and ownership of the sites, and availability of services such as shopping, public transportation, and schools. During Step 4, FEMA instructed the contractor to obtain additional information for those specific sites including obtaining local official input and approval of site development; gathering contact information for key individuals such as site owners, building and permit officials, community leaders, and elected officials; and checking zoning requirements.

Steps 3 and 4 provided the information used by:

- The contractor to develop up to 50% of the group site design work and a rough cost estimate;
- FEMA to decide on the feasibility of constructing each group site; and
- General Services Administration (GSA) to negotiate lease agreements.

Contractor was to proceed with the more costly effort of 100% group site design and construction activities only after Step 4 was completed.



Results of Review

Although each IA-TAC contractor knew the steps detailed in the PWS, FEMA did not enforce adherence to the procedural steps and relied heavily on the contractors' work and judgment rather than on its own quality assurance activities. Contractor compliance with the sequence of work was inconsistent, and some steps were executed simultaneously or only partially executed. Furthermore, the thoroughness of feasibility analyses and site assessments varied from site to site and among the contractors.

Pursuant to Section 2.2 of the PWS, *Management and Administration*, subsection 2.2.2.1, the contractors were required to support FEMA on a project-by-project basis with sound project management and resources to achieve the best value of the work being performed. The contractors were required to understand FEMA's recovery mission, principles, and procedures, and act in the best interest of FEMA. Also, per the Federal Acquisition Regulation (FAR), Subpart 1.602-2, Responsibilities, Federal Contracting Officers are responsible for ensuring the performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships. We determined that compliance with these requirements was not consistent, either on the part of FEMA or the contractors, and resulted in excessive costs, at least in the case of one contractor, Shaw.

Shaw's excessive costs were incurred in part because FEMA did not always implement or enforce contractor oversight control. Although FEMA made initial use of checklists to monitor the process, it did not consistently enforce controls and follow up on outstanding matters in a timely manner. Because FEMA did not consistently enforce adherence to the established protocols, the process was dependent on the contractor's site assessment practices. While contractor compliance was inconsistent and the thoroughness of feasibility analyses and site assessments varied from site to site and among the contractors, Fluor and Hill contained their costs for sites ultimately rejected by FEMA. However, Shaw performed various contract tasks simultaneously rather than sequentially or failed to follow important procedures. These practices resulted in an estimated \$5.4 million to \$5.6 million in excessive costs related to rejected temporary housing sites, when compared to Fluor and Hill. Shaw's inconsistent adherence to contract protocols and insufficient oversight by FEMA led to waste of government funds as discussed below.

Shaw incurred the highest average estimated cost by type of rejection as well as the highest average cost per rejected site. The average estimated cost of a Shaw rejected site was \$159,635, at least eight times higher than the lower average costs per site of \$19,541 and \$10,157 for Fluor and Hill, respectively. This cost disparity was irrespective of the reason for rejection, except for sites rejected as unsuitable early in the process before substantial work commenced. While Fluor and Hill's average cost per site was substantially lower than Shaw's, we did not determine the reasonableness of their costs. However, we noted that the lower average costs for sites rejected by Hill were attributed to the contractor's more thorough site assessments and early identification and communication of potential problems to the Project Review Board. Because there was only limited site identification and design activity prior to the creation of the Project Review Board and all three contractors had sites rejected within the same timeframe, between October 2005 and March 2006, we could not determine a direct correlation between cost containment and creation of this oversight body.



We reviewed the geographic locations within Louisiana where the rejected sites were located to determine if a direct correlation existed between the rejected site locales and costs. As described in Appendix 1, each contractor was responsible for multiple parishes in the southern part of Louisiana; however, three contractors, Fluor, Shaw, and Hill, all worked Orleans Parish. The southeastern portion of Louisiana was the most devastated as a result of Hurricane Katrina. A reasonable assumption would be that costs could be higher in this area of the state, but Fluor and Hill's incurred costs in the most affected areas were comparably lower than Shaw's costs.

We were unable to determine an exact amount of excessive costs incurred by Shaw because their invoices did not identify costs to specific contract activities such as preliminary site inspections, researching permit requirements, or meeting with local officials. Instead Shaw's costs were identified to reflect general timeframes based on the period billed by subcontractors. Therefore, we estimated excessive costs for Shaw, at a summary level, based on the entire population of Shaw rejected sites. Based on our estimates, we found that Shaw's costs were between 793 to 1,158% higher than that of Fluor and Hill, respectively. As shown in Table 1 below, we used Fluor and Hill's average rejected site costs per type of rejection to estimate what Shaw's rejected site costs may have been.

Table 1

SHAW GROUP			
ESTIMATED EXCESSIVE COSTS FOR REJECTED SITES			
REASON FOR REJECTION	NUMBER OF SITES	COST USING FLUOR AVERAGE ESTIMATED COST PER SITE	COST USING HILL AVERAGE ESTIMATED COST PER SITE
Parish/Mayor Rejected	8	\$ 166,608	\$ 81,143
Owner Withdrew Site	12	224,256	141,429
Cost Prohibitive	6	128,604	75,000
Environmental Concerns	6	125,010	125,010
No Need in Parish	2	36,066	50,000
Site Unsuitable	2	52,686	45,000
Lease Issues	1	7,311	11,000
Other	2	45,139	8,800
TOTAL	39	\$ 785,679	\$ 537,381
Estimated Costs – Shaw		\$ 6,225,787	\$ 6,225,787
Estimated Excessive Costs		\$ 5,440,108	\$ 5,688,406

Source: WA&CO analysis of data provided by FEMA

As indicated above, costs of between \$5.4 million and \$5.6 million for Shaw sites rejected by FEMA could have been avoided if:

- Shaw had complied with its obligation to provide the best value for its work and acted in the best interest of FEMA, and
- FEMA had provided sufficient oversight for this IA-TAC.

Costs Incurred for Rejected Temporary Housing Sites



Specific areas that contributed to excessive costs for sites rejected by FEMA are discussed below.

Approvals without Required Permits

Shaw did not conduct thorough assessments of two of seven proposed sites, did not obtain permits as required, and did not adhere to the proper sequence of procedural steps. In addition, FEMA did not effectively implement and enforce contract oversight procedures that would have precluded these things from occurring. For the two proposed sites, FEMA issued a notice to proceed on construction activities although the contractor had not obtained the necessary building permits. These events led to wasteful activities and excessive costs that were not in the government's best interest. Excessive costs associated with these rejected sites could not be determined because subcontractor invoices did not contain a sufficient level of detail. However, we estimate that about \$438,000 in construction costs at one site could have been avoided, as well as over \$600,000 in construction and demobilization costs at the other site.

The Federal Acquisition Regulation under 48 CFR 37.503(a), Agency-head Responsibilities, says that it is an agency head responsibility to ensure that requirements for services are clearly defined and appropriate performance standards are developed. This responsibility is established so that the agency's requirements can be understood by potential offerors and that performance in accordance with contract terms and conditions will meet the agency's requirements.

The PWS defines work requirements and had FEMA implemented and enforced contract oversight procedures to ensure that the contractor followed it, the excessive costs associated with rejected sites would have been prevented or mitigated.

The PWS requires the contractor to:

- Identify and contact points-of-contact for state and local officials with jurisdiction over the use of temporary disaster housing in affected areas including, but not limited to:
 - State and local requirements or restrictions, and process for obtaining permits within the identified counties and
 - Placement (zoning) restrictions for temporary disaster housing. (Exhibit 2 - Work Plan, §4.1-2 – Points of Contact).
- Adhere to applicable local, state, and federal building regulations and laws; and be responsible for acquiring all permits and approvals for items identified in the scope of work for facilities and structures as specified in task orders. (Exhibit 12 – Group Design, §2.3 – Permits, Codes & Applicable Laws, and the PWS, §2 – Scope of Work, in particular, §2.12 - Group Site Design, §2.12.2 and §2.13.7 - General Construction Services).
- Identify prospective sites and perform site feasibility analysis of commercial, public, and private properties in areas designated by FEMA. The contractor shall also identify any local or state code requirements and applicable laws and ordinances pertaining to the property sites and expected uses. The contractor shall incorporate identified code requirements and laws or ordinances into the site feasibility analysis. (Exhibit 3 -



Preliminary Land or Property Identification and Usage Assessment, §2.6 - Site Assessment & Feasibility Analysis).

The site development process in the PWS requires contractors to perform assessments of locations that could be used as potential group sites for temporary housing solutions. If performed as required, the site assessments provided basic and vital information needed by the contractors and FEMA to determine the suitability of a location. As discussed below, site development requirements for the two rejected Shaw sites—Annunciation Playground and the Old JC Penney building—were not followed by Shaw or enforced by FEMA.

❖ *Annunciation Playground*

Shaw performed many site development processes simultaneously, instead of sequentially as defined in the PWS. In addition, Shaw did not perform proper feasibility activities, such as identifying and obtaining all required permits and obtaining local officials' approval for the planned construction activities. Further, FEMA did not effectively manage contract activities for the site or follow up on outstanding matters in a timely manner.

The business case summary created by Shaw at the initial stages of the site planning process reported that if the permits, building inspections, and design review processes were waived, construction could begin before design was complete and it would take the contractor a shorter timeframe to construct the site. In the November 15, 2005, design meeting minutes, FEMA's Project Review Board expressed concern that Shaw did not provide the list of permits needed for the construction of the site. On November 19, 2005, FEMA granted authority to proceed with the construction of the site and required that the contractor immediately provide copies of permits. During the November 23, 2005, construction kick-off meeting, Shaw reported that the underground utilities needed to be examined, but Shaw did not have a certificate to dig. Nonetheless, Shaw continued to work on the site without permits until the mayor and the city council rejected the site and a stop work order was issued on January 7, 2006.

The total cost billed to the government for this project as of the date of our review included \$438,000 billed by their subcontractor for construction activities. These included activities such as labor (\$54,300), materials (\$217,200), and equipment (\$65,800), along with the associated overhead and profit.

Although FEMA made initial use of checklists, it did not use construction management tools such as a construction schedule and milestones to monitor the process. As a result, FEMA did not effectively manage the contractors' activities or follow up on outstanding matters. For example, FEMA did not obtain, nor require Shaw to obtain, written assurances from city officials that the site could be used for the intended purpose. In addition, FEMA did not require that Shaw identify and obtain needed permits earlier in the process and before substantial costs had been incurred. If FEMA had required Shaw to obtain permits and letters of approval from local officials before construction commenced, most of the costs incurred for this rejected site, such as the approximately \$438,000 billed for construction-related costs by their subcontractor, could have been avoided.



❖ *Old JC Penney Building*

FEMA did not institute a quality assurance program to verify that the contractor conducted proper assessments in the field before granting authority to proceed. As a result, FEMA did not identify critical issues or important performance gaps in a timely manner, resulting in excessive costs for this rejected site.

On October 25, 2005, Shaw began site assessment activities and obtained the notice to proceed with the design on November 17, 2005, without the knowledge that the site contained restrictive covenants prohibiting mobile home parks and governmental subsidized housing. The minutes from Shaw's December 12, 2005, construction kick-off meeting documented Shaw's belief that FEMA-managed projects did not require permits, but Shaw committed to investigating the matter further. We found no evidence that Shaw followed up on the permit issue and construction commenced without obtaining a permit.

Shaw believed that FEMA-managed projects did not require permits and it proceeded with construction; it also believed the site was located in an area subject to Jefferson Parish Council Emergency Ordinance #22604, which waived building permit requirements. Section 4 of the ordinance allowed, with a building permit, the temporary placement of RVs, travel trailers, motor coaches, mobile homes, pop ups, and other equipment designed for short-term living purposes on commercial, business, and industrial zoned private property, but only through January 1, 2006. On December 15, 2005, after construction had commenced, the FEMA Contracting Officer's Technical Representative (COTR) issued a stop work order due to the restrictive covenants for the site. The site was cancelled on January 26, 2006, due to lease issues related to the restrictive covenants.

The total cost billed to the government as of the date of our review included:

- \$82,000 for construction documents,
- \$98,200 for security guard services during demobilization of the site,
- \$426,800 for site construction and demobilization work, and
- \$127,100 for actual site demobilization.

FEMA did not hold Shaw accountable for any of the costs incurred and there were no cost-share provisions in the task order to penalize the contractor for wasteful spending of government funds. Even if cost-share provisions had been made, invoices submitted by subcontractors were not sufficiently detailed and costs were not identified to narrowly defined timeframes, making it difficult to determine the questioned costs. Shaw invoices reflected that all work, except for demobilization efforts, was completed the day before the stop work order was issued. However, both construction and demobilization costs should not have been incurred if the permit process had been properly followed.

In contrast to these results, Hill's site assessments contained more complete information than Shaw's. For example, Hill's initial site assessment for the Brandt Dufrene location in Paradise, Louisiana, indicated that St. Charles Parish was not interested in a FEMA group site. Furthermore, the assessment disclosed that new parish ordinances specifying numerous conditions to obtain



parish permits could impact the placement of the site. The site was rejected on February 22, 2006. At the time of our review, this site had a total estimated cancellation cost of \$25,000. We concluded that the costs for the Shaw rejected sites would have been in line with those for Hill if Shaw had followed proper protocols and FEMA had enforced adherence to them.

Work Performance

FEMA and Shaw did not follow work performance guidelines and protocols established in the PWS. As a result, unwarranted approvals to begin construction activities occurred. For example, at the Robinson Road site, FEMA issued a notice to proceed on construction activities although Shaw had identified serious environmental conditions. \$380,000 in design work could have been avoided if FEMA had rejected the site based on the initial site assessment. At Buckhorn Bend in Quachita Parish, Shaw granted its subcontractor a notice to proceed on construction activities without first receiving a notice to proceed from FEMA. The two sites discussed below demonstrate the impact of FEMA and contractor noncompliance with work performance requirements.

❖ *Robinson Road*

Shaw's site assessment, completed on September 23, 2005, indicated that the temporary housing site would be located on a pecan orchard that contained seven small buildings and eight 55-gallon drums of lubricant oil. FEMA expressed concern about the suitability of the location due to the pesticides used in the pecan orchard and the potential hazard of the eight 55-gallon drums of lubricant oil found on the site. Email communication between Shaw and FEMA made it clear that FEMA was not in favor of the site, but on October 1, 2005, FEMA allowed Shaw to proceed with design. On October 9, 2005, the COTR notified Shaw that the project was put on hold, and on October 11, 2005, the Project Review Board removed the hold. FEMA rejected the site on October 20, 2005, because it was not viable.

Shaw was aware of the environmental issues but continued with design work instead of advising FEMA against it. PWS §2.2, Management and Administration, subsection 2.2.2.1, required that Shaw support FEMA on a project-by-project basis with sound project management and resources to achieve the best value of the work being performed and to act in the best interest of FEMA. As such, Shaw should have discontinued design work until the environmental issues were resolved. We calculated that Shaw billed FEMA \$398,664 for the assessment and design of this site, including over \$380,000 for 1 week of design work performed by a subcontractor prior to Shaw receiving the notice to proceed with the design.

Since FEMA did not have a quality assurance process in place to ensure Shaw acted in the best interest of the federal government, it did not follow up and resolve the environmental concerns prior to the contractor incurring unnecessary costs. More importantly, FEMA's decision to grant the notice to proceed with design was a questionable management decision and increased the risk of fraud, waste, and abuse of federal funds.



❖ *Buckhorn Bend - Whitehall*

Shaw allowed its subcontractor to proceed with construction activities at Buckhorn Bend – Whitehall on October 1, 2005, without receiving a notice to proceed from FEMA. On October 9, 2005, the FEMA COTR notified Shaw that based on the 100% design review by the U.S. Army Corps of Engineers and FEMA Disaster Housing Operations, the project was suspended and should not proceed beyond the design phase.

We calculated that Shaw had billed FEMA \$347,792 for this site including costs for design, permit, engineering, and site investigative work performed by Shaw’s subcontractor for the period September 26, 2005 to October 4, 2005. Shaw’s invoicing format did not provide a clear and concise detail of when costs were incurred for each activity undertaken. For example, the invoice Shaw submitted did not specify the cost incurred by period of performance for each site development phase (i.e., site assessment, design and construction) or the type of work performed in detail. Therefore, we were unable to calculate the questioned costs for construction related activities.

Limited training and high turnover within FEMA contributed to their inability to provide adequate oversight. The IA-TAC contracts were awarded based on an urgent and compelling need without sufficient time for training. Further, high turnover prevented adequate knowledge transfer from one COTR to the next. Consequently, FEMA COTRs were not fully knowledgeable of all contract requirements, and even if they had been, there were limited personnel available to provide effective oversight. With limited staffing and numerous contractor activities to oversee, it was unreasonable to expect a COTR to be able to effectively administer quality assurance programs. As such, contractors were left to themselves to ensure that they acted in FEMA’s best interest.

Systemic shortcomings in FEMA’s quality assurance process and questionable contractor performance resulted in excessive costs to the federal government for the sites ultimately rejected by FEMA. In contrast to Shaw’s performance, Hill’s performance on the Balliviero property site in South Buras, Louisiana, resulted in this site being rejected before substantial costs were incurred. The Shaw rejected sites incurred substantially greater costs for site design and construction activities than the Fluor and Hill rejected sites, leading to the conclusion that Shaw and its COTR placed less emphasis on the viability of the sites before incurring such costs.

Other Observations

Other matters outside our objectives surfaced during this review. They are discussed in Appendix 4 of this report. We believe that these additional issues warrant consideration in FEMA’s planning and management of current and future disaster relief efforts.

Conclusions

Based on our review of rejected temporary housing sites, we concluded that excessive costs were incurred for the seven Shaw rejected sites. Shaw’s inconsistent adherence to contract protocols and insufficient oversight by FEMA led to waste of government funds. The excessive costs were attributable to poor decision making, communication breakdowns, nonadherence to established

Costs Incurred for Rejected Temporary Housing Sites



protocols, and procedural deficiencies. FEMA's oversight of the IA-TAC contractors was inadequate, due in part to limited training, staff shortages, and high turnover. The IA-TAC contracts were awarded by FEMA based on an urgent and compelling need without sufficient time for training. Further, high turnover and staff rotations prevented adequate knowledge transfer from one COTR to the next. Consequently, FEMA COTRs were not fully knowledgeable of all contract requirements, and staff shortages limited their ability to provide effective oversight.

We observed lower average costs per site for the Hill and Fluor rejected sites although these contractors performed the same types of services under FEMA's oversight. The disparity between average rejection costs for Shaw, as compared to Hill and Fluor, helps to demonstrate that the effectiveness of management controls and the ability to ensure accountability when controls fail are critical to efficient and effective operations within any organization. Hill and Fluor held themselves accountable to FEMA in a manner that resulted in lower average rejection costs despite FEMA's inadequate monitoring of their performance.

Controls and accountability mechanisms help to ensure that resources are used appropriately. Nevertheless, during a catastrophic disaster, decision makers struggle with the tension between implementing controls and accountability mechanisms, and the demand for quick response and recovery assistance. It is well understood that one of FEMA's biggest challenges during disaster relief efforts is to balance the need to quickly provide housing and other assistance to victims, while ensuring accountability and providing proper oversight to protect against waste, fraud, and abuse. FEMA has already taken steps to address the limitations in their capacity to respond to disasters. As noted in other studies and reports issued during the past year by Congress, the Government Accountability Office (GAO), Department of Homeland Security, Office of Inspector General (DHS-OIG), and others, FEMA has begun the process of correcting operational and control deficiencies. As FEMA continues to make improvements in cost efficiency, decision making effectiveness, and service delivery, we recommend that FEMA include a focus on improvements in oversight monitoring.

Since award of the IA-TACs that we reviewed under this contract, FEMA rebid the contracts as IA-TAC IIs, which were awarded in August 2006 for a 2-year period. While FEMA is aware that it needs to strengthen its emergency management capabilities in advance of another catastrophic disaster, a remaining concern is that waste may be occurring now under the current IA-TAC I. This waste would be occurring as a result of the control deficiencies we observed in the areas of procedures and protocols, communication, and oversight during our review of rejected sites under the initial IA-TACs. Prior to issuance of the IA-TAC III contract, it is critical that FEMA implement recommendations contained in this report, to reduce the risk of waste and abuse and to improve service delivery during future disaster recovery efforts. Timely implementation of our recommendations will serve to address the highly relevant issues reported herein and enhance current disaster recovery efforts already underway, as documented in FEMA's Gap Analysis Initiative, the National Disaster Housing Strategy, and the National Response Framework.



Recommendations

We recommend that FEMA:

- **Recommendation 1:** Develop and implement quality assurance procedures to ensure the contractor is carrying out its duties in accordance with the contract and in the best interest of the government. At a minimum FEMA should:
 - Determine reasonable workload requirements, institute minimum staffing levels, and create redundancies in key positions to ensure that service delivery meets the agency's goals.
 - Provide ongoing training to COTRs and other personnel responsible for contractor oversight to ensure proper understanding of contract requirements and contractor responsibilities.
 - Use construction management tools such as checklists to ensure the submission of all required documents in the proper sequence and to ensure oversight duties are conducted in a manner that will minimize enforcement deficiencies and inconsistencies.
 - Develop and implement a protocol to resolve site development issues before authorizing the contractor to proceed with the next level of work.
 - Actively monitor contractor performance through timely and periodic verification of construction progress and site development reports to ensure that information provided by contractors is accurate and timely.
- **Recommendation 2:** Develop and communicate a structured process for transferring knowledge among key personnel responsible for contractor oversight. This process should include a resource library for procedural, policy, contract, best practices, and other information that can be readily accessed and shared by FEMA employees monitoring the contract.

Management Comments and OIG Analysis

FEMA provided written comments on the draft of this report and concurred with all of our recommendations. FEMA's written comments are contained in Appendix 2.



Appendix 1 - Objectives, Scope, and Methodology

Objectives

The objectives of the review were to determine whether: (1) FEMA implemented and enforced control procedures to ensure contractor compliance and minimize the risk of fraud, waste and abuse; (2) contractors were in compliance with the PWS requirements and other requirements established through the IA-TAC; and (3) FEMA effectively inspected, accepted, and paid for services.

Scope

The scope of this engagement included conducting a review of judgmentally selected, rejected temporary housing sites with estimated costs over \$300,000 under the four IA-TACs for the Hurricane Katrina Relief Effort, as well as a small sample of rejected sites with lesser costs, from two other contractors, for comparability purposes. This report covers our review of seven rejected sites under Shaw's IA-TAC and three Hill rejected sites for which we performed a limited review for comparison purposes. We did not review rejected site files for Fluor; and Bechtel did not have rejected sites.

As shown in the following table, we reviewed three rejected sites for Hill under the IA-TAC and seven rejected sites for Shaw, with a total estimated cancellation cost of \$3,132,581. The rejected sites reviewed were selected judgmentally by DHS-OIG and WA&Co, based on the reason for rejection and the total dollar amount of estimated cancellation costs. We used estimated cancellation costs because FEMA was not able to provide actual costs at the time of review.

Shaw rejected sites were primarily concentrated in the Jefferson and Orleans parishes of Louisiana. Fluor had 23 rejected sites in parishes including Calcasieu, Cameron, Orleans, Saint Bernard, Washington, Tangipahoa, Saint Tammany, Saint John the Baptist, and Saint Mary. Hill rejected sites were located mainly in Lafourche, Orleans, and Plaquemines parishes. A list of parishes with rejected sites and the associated average cost for each is provided below for three of the IA-TAC contractors:

HILL REJECTED SITES SUMMARY BY PARISH

	Parish	Number of Sites	Total Estimated Cost	Average Cost
1	Calcasieu	1	\$25,000	25,000
2	Lafourche	4	21,000	5,250
3	Orleans	27	200,000	7,407
4	Plaquemines	5	115,000	23,000
5	St. Charles	1	25,000	25,000
		<u>38</u>	<u>\$386,000</u>	

Costs Incurred for Rejected Temporary Housing Sites



FLUOR REJECTED SITES SUMMARY BY PARISH

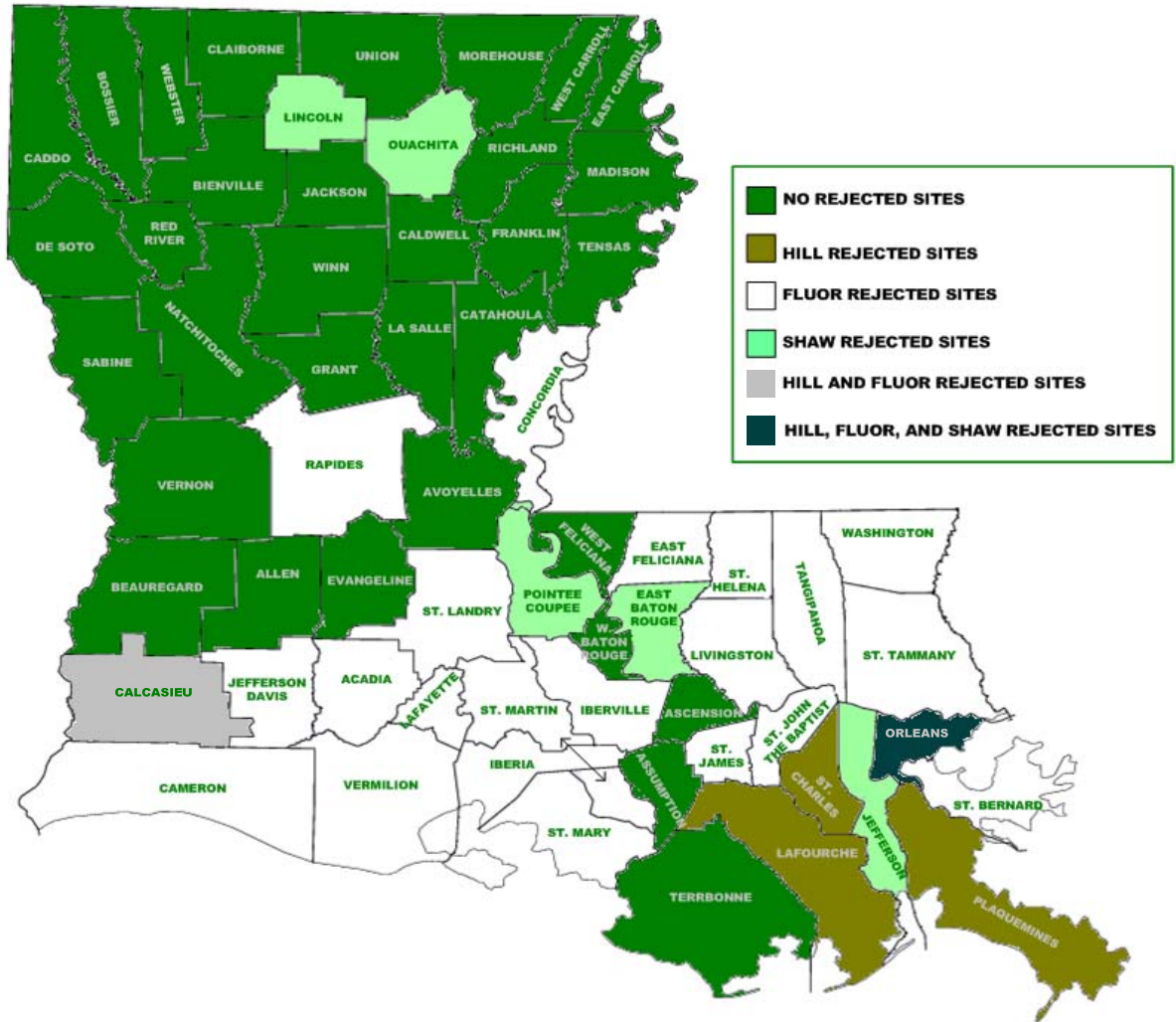
	Parish	Number of Sites	Total Estimated Cost	Average Cost
1	Acadia	1	\$225	\$225
2	Calcasieu	12	267,335	22,278
3	Cameron	8	117,137	14,642
4	Concordia	2	805	403
5	East Feliciana	1	264,354	264,354
6	Iberia	1	4,415	4,415
7	Iberville	3	19,899	6,633
8	Jefferson Davis	1	28,841	28,841
9	Lafayette	1	595	595
10	Livingston	1	2,796	2,796
11	Orleans	13	87,614	6,740
12	Rapides	2	301,485	150,743
13	St. Bernard	12	235,323	19,610
14	St. Helena	1	0	0
15	St. James	3	32,489	10,830
16	St. John the Baptist	4	161,448	40,362
17	St. Landry	2	40,121	20,060
18	St. Martin	1	30,285	30,285
19	St. Mary	4	96,974	24,244
20	St. Tammany	7	107,703	15,386
21	Tangipahoa	8	80,701	10,088
22	Vermilion	1	6,964	6,964
23	Washington	10	47,076	4,707
		<u>99</u>	<u>\$1,934,585</u>	

SHAW REJECTED SITES SUMMARY BY PARISH

	Parish	Number of Sites	Total Estimated Cost	Average Cost
1	East Baton Rouge	2	\$397,034	\$198,517
2	Grand Isle State Park	1	9,703	9,703
3	Jefferson	14	2,207,655	157,690
4	Lincoln	1	19,041	19,041
5	Orleans	18	2,350,595	130,589
6	Ouachita	2	807,354	403,677
7	Point Coupee	1	434,405	434,405
		<u>39</u>	<u>\$6,225,787</u>	

Costs Incurred for Rejected Temporary Housing Sites

Figure 3: Rejected Sites by Parish



Source: WA&Co analysis based on data provided by FEMA.

Costs Incurred for Rejected Temporary Housing Sites



REJECTED SITES SELECTED FOR REVIEW				
NO	SITE	IA-TAC	REASON FOR REJECTION-COMMENTS	ESTIMATED COST
1	Canseco Lot	CH2M Hill	Owner withdrew the offer	\$ 45,000
2	Balliviero Property	CH2M Hill	Site was not feasible due to lack of water supply and sewage system	\$ 25,000
3	Brandt Dufrene Private Property	CH2M Hill	Parish was not interested in site and new ordinances required many permits, making the site unfeasible	\$ 25,000
1	Annunciation Playground	Shaw Group	No permits – Rejected by Mayor and City Council	\$500,000
2	Buckhorn Bend - Whitehall	Shaw Group	Environmental concerns and inability to obtain water and sewage permits.	\$370,902
3	New Roads	Shaw Group	Owner withdrew	\$434,405
4	Old JC Penney	Shaw Group	Restricted covenants at the site prohibited Mobile Homes	\$645,058
5	Progressive Baptist Church	Shaw Group	Cost prohibitive and irresolvable lease issues	\$317,866
6	Public School Admin Bldg	Shaw Group	School board rejected due to irresolvable lease issues	\$332,898
7	Robinson Road	Shaw Group	High environmental concerns	\$436,452
TOTAL				\$3,132,581

Source: WA&CO analysis of data obtained from FEMA as of February 2006 (Hill) and September 2006 (Shaw).

*Actual figures were not available at time of our review.

Additional details regarding each rejected site are provided below.

- Canseco Lot:** This site is located at the southeast corner of Patterson and Thayer streets in New Orleans, Louisiana. The initial site assessment identified the site to be a flat and grassy site with small trees on the east side. There were no environmental concerns identified on the strike team site assessment. Nonetheless, the right of entry agreement prohibited FEMA from occupying the property until an agreement was reached between FEMA and the property owner on rent, indemnities, insurance, and other terms. The site was rejected on December 6, 2005 because the owner withdrew the offer. At the time of this review, the site had a total estimated cancellation cost of \$45,000.
- Balliviero Property:** This site is located at 35954 Highway 11 in South Buras, Louisiana, and had a total of 10.5 acres to be used for a travel trailer group site. The site assessment identified two houses that needed to be removed and the need for utility restoration in the entire community. Furthermore, on a utility update memo it was documented that no water supply would be available in Buras for at least 2 months and the sewage treatment plant was awaiting services. There was no estimate as to when there would be any sewer system available. The site was rejected on December 22, 2005, due to site feasibility and cost. At the time of our review the total estimated cancellation cost was \$25,000.

Costs Incurred for Rejected Temporary Housing Sites



- **Brandt Dufrene:** This site is located at 837 Highway 306, Paradise, Louisiana, and had a total of 40 acres to be used for a travel trailer group site. The site assessment did not identify any environmental issues, but noted that the site was in a flood zone. Also, it was identified on the initial site assessment that the St. Charles Parish was not interested in a FEMA group site and that new parish ordinances specifying many conditions to obtain permits could affect the placement of the site. The site was rejected on December 22, 2005, due to high leasing costs. At the time of our review, this site had a total estimated cancellation cost of \$25,000.
- **Annunciation Playground:** This site is located at Annunciation and Orange Streets in New Orleans, Louisiana. The site was designed for 40 travel trailers in a community-like setting. At the time the strike team performed the preliminary site assessment, the anticipated ready for occupancy date was November 25, 2005. The land's previous use was a playground. The site was rejected by the City Council. At the time of this review, the site had a total estimated cancellation cost of \$500,000.
- **Buckhorn Bend – Whitehall:** This site is located at 200 Farmerville Highway in Ruston, Louisiana. Buckhorn Bend-Whitehall was designed to house 320 travel trailers in a community-like setting. The business case summary estimated the construction costs to be \$6,400,000. Review Board meeting minutes reported that Shaw suspected that pesticides were used on the land and an independent firm was hired to research environmental issues. The local government withheld issuing a building permit until the utility services were provided. Also, the contractor experienced difficulties in obtaining the water and sewer permits. The owners rejected the site, and decided to proceed with commercial pads instead of a group site. At the time of this review, the site had a total estimated cancellation cost of \$370,902.
- **New Roads-Curet:** This site is located at 2340 Myrtle Avenue in Baton Rouge, Louisiana. The site had 116 acres included in the offer, but only 86 were usable. The land was to be transformed to house 680 travel trailers in a community-like setting. The business case summary estimated construction costs at \$13,600,000 and the cost per unit at \$20,000, based on a Shaw standard layout. The initial site assessment identified the site as having flood issues that needed to be addressed in the site preparation cost, and identified previous use as a pasture with a small pecan grove. The owner, due to liability issues with the site's lease agreement, rejected the site. At the time of this review, the site had a total estimated cancellation cost of \$434,405.
- **Old JC Penney Building:** This site is located at Lapalco Boulevard and Barateria Boulevard in Marrero, Louisiana within the Bell Promenade Mall of Jefferson Parish. The 3.5-acre parking lot of the Old JC Penney Building was designed to house 35 travel trailers in a community-like setting. The business case summary estimated the design cost to be \$87,500 and construction costs at \$875,000. At the time of the initial site assessment, the site had already received the Parish President's approval. The anticipated ready for occupancy date was December 9, 2005. The site was rejected because it had restrictive



covenants that prohibited mobile home parks from being built. At the time of this review, the site had a total estimated cancellation cost of \$645,058.

- **Progressive Baptist Church:** This site is located at the end of Cohen Avenue off of Westbank Expressway in Marrero, Louisiana. Approximately 150 travel trailers were to be placed on 17.5 acres of land in an exclusive group site. At the time the strike team performed the preliminary site assessment, the estimated design cost was projected to be \$450,000 and construction costs were estimated at \$4,500,000. Within the project scope of work, it was reported that a 5-acre parcel of the land contained small amounts of asbestos. The site was rejected due to irresolvable lease issues. At the time of this review, the site had a total estimated cancellation cost of \$317,866.
- **Public School Administration Building:** This site is located at 3500 DeGaulle Avenue in Algiers, Louisiana. The site, approximately 10 acres, was going to be used to house 200 travel trailers within a community setting. The business case summary estimated the design cost to be \$400,000 and construction costs at \$5,000,000. If no permits, building inspections, or design review approval were required, then it would have taken approximately 5 days to design and 9 days to deliver the final product. The estimated ready for occupancy date was October 19, 2005. The contractor reported the site as having moderate damage. The School Board rejected the site due to irresolvable lease issues. At the time of this review, the site had a total estimated cancellation cost of \$332,898.
- **Robinson Road:** This site is located at 3104 Breard Street in Monroe, Louisiana. The property has 120 acres with 80 acres reserved for a pecan orchard and 40 acres as undeveloped. The 40-acre property formerly used as a pecan orchard was intended to house 320 travel trailers in a community-like setting. The business case summary estimated construction cost to be \$6,400,000. The strike team site assessment reported that eight 55-gallon drums of lubricant oil were located on the premises. The environmental checklist reported that prior land use might have been for a municipal waste site or abandoned hazardous waste site with former underground storage tanks. Public transportation was greater than 10 miles away and herbicide and pesticide sprays had been used on the property for the pecan orchard. The site was rejected because local officials determined there was no requirement for it, and because of environmental suitability problems. At the time of this review, the site had a total estimated cancellation cost of \$436,452.

We performed reviews covering the period September 1, 2005 through June 30, 2006, on rejected sites. We did not independently test contractor payroll costs or FEMA's adherence to procurement and contracting requirements. We relied upon the payroll audits performed by the Defense Contract Audit Agency and IA-TAC procurement audits conducted by the DHS Office of Acquisitions and Assistance to separately address these issues.



Methodology

Our methodology included reviewing and analyzing rejected site documentation to determine whether FEMA and the contractor had procedures in place to ensure that sites selected were feasible and costs to the government were reasonable. We held several meetings and obtained pertinent documents from FEMA headquarters in Washington, DC and the COTR at the FEMA Joint Field Office in Baton Rouge. Additionally, we held interviews with Shaw personnel and obtained pertinent documentation to gather information and conduct our examination. During our rejected site review activities, we:

- Interviewed FEMA and Shaw personnel to obtain an understanding of policies and procedures followed and to identify potential internal control weaknesses and their cause.
- Reviewed each rejected sites' initial strike team site, work plans, and group site designs and determined whether Shaw was in compliance with the PWS specifications in the contract and whether FEMA and the United States Army Corps of Engineers were provided complete and accurate information to facilitate the early detection of issues or concerns that would affect the suitability of the sites.
- Reviewed the general permit requirements for each site and determined whether the contractor acquired the necessary permits.
- Reviewed expenditures invoiced by Shaw, and paid by FEMA, and determined whether proper controls were in place to ensure that costs incurred by the contractor were reasonable and allowable for each rejected site reviewed.
- Reviewed Project Review Board and design meeting minutes, as well as email communications, to determine whether adequate information was communicated and issues identified promptly during the site development stage to promote the timely determination of feasibility.
- Performed a limited comparison between the seven Shaw rejected sites and the three Hill sites, which were rejected for similar reasons but had lower estimated cancellation costs.

We performed the audit under the authority of the *Inspector General Act of 1978*, as amended, in January 2007, and according to Generally Accepted Government Auditing Standards. We executed tests, conducted interviews, made observations, and performed examinations in the following areas:

- Strike Team Preliminary Site Assessment;
- Group Site Design;

Costs Incurred for Rejected Temporary Housing Sites



-
- Work Plans;
 - Project Review Board meeting minutes;
 - Notice to Proceed;
 - Stop Work Orders; and
 - Limited Invoice Review.



Appendix 2 – FEMA Official Comments

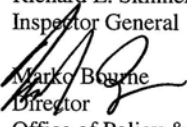
U.S. Department of Homeland Security
Washington, DC 20472



FEMA

July 3, 2008

MEMORANDUM FOR: Richard L. Skinner
Inspector General

FROM: 
Marko Bourne
Director
Office of Policy & Program Analysis

SUBJECT: FEMA Response to OIG Draft Audit Report WF # 766315 - *Costs Incurred for Rejected Temporary Housing Sites*

FEMA concurs with the recommendations outlined in the draft report and is actively working to incorporate enhanced quality assurance procedures and controls, as well as enhancing the operating procedures and policies of the IA-TAC Program Management Branch.

We sincerely appreciate the opportunity to provide updated status in our effort to respond to the OIG's recommendations in this report. As FEMA works toward refining its programs, the Office of the Inspector General's independent analysis of program performance greatly benefits our ability to continuously improve our activities. We look forward to continuing this partnership in the future. Questions concerning the attached document should be addressed to Brad Shefka, Chief, FEMA GAO/OIG Audit Liaison Office, 202-646-1308.

Costs Incurred for Rejected Temporary Housing Sites



Appendix 3 – Site Development Process

Step 1: The predeployment meetings with FEMA (strategic planning) are not focused around any specific location or type of event and are designed to build a strong systematic approach for managing, monitoring, and supporting programmatic issues and disaster operations. The contractor meets with FEMA representatives to plan and coordinate response, deployment, implementation of activities, and become familiar and acquainted with FEMA requirements, methods, policies and procedures. At this point, FEMA should provide the contractor with information regarding regulations and any specific process flows to be used during a disaster recovery mission.

Step 2: According to the Performance Work Statement attached to the IA-TACs, the contractor was responsible for developing a work plan within 7 days of the mission identification by FEMA (Exhibit 2 of the PWS). The work plan shall describe in detail concepts, procedures, timelines, management and organization, and how planning documents will be used to assure satisfactory contract performance. Within this document, the contractor was responsible for identifying the following key items, which could have assisted in the timely identification of an unfeasible site:

- Point of contact for state and local officials with jurisdiction over use of temporary disaster housing in affected areas;
- State and local requirements or restrictions, and the process for obtaining permits within the identified counties/parishes;
- Placement (zoning) restrictions for temporary disaster housing;
- Lot boundary restrictions;
- Permit requirements to place or install temporary disaster housing;
- Utility companies' requirements for inspection, transfer of service, and deposits; and
- Any other state or local requirements that may affect the timely, efficient, and cost-effective installation and occupancy of temporary disaster housing.

Once these items were identified, FEMA was responsible for determining, negotiating, and obtaining a waiver if required; however, a waiver was not guaranteed.

Step 3: The site assessment and feasibility analysis (Preliminary Land or Property Identification and Usage Assessment) was to be performed based on criteria furnished by FEMA. Through the performance of this assessment, the contractor was to identify any local or state code requirements and applicable laws or ordinances pertaining to the property sites. Additionally, the contractor should determine multiple factors inclusive of site accessibility (including any towing restrictions), flood zone considerations, and utility availability to include the sources and accessibility for approved utilities. The site assessment also includes detailed information regarding the site characteristics such as whether the area is fairly level and has adequate drainage facilities, trees, shrubs, debris,

Costs Incurred for Rejected Temporary Housing Sites



and other items that may affect the site preparation. This information should have been incorporated into feasibility analysis provided to FEMA for review and approval prior to continuing to the site inspection.

Step 4: The site inspection process uses a method that was tailored to the disaster situation to determine site feasibility. The contractor is responsible for identifying the flood zone, whether the site has utilities, and when they will be available. If not, the site must have the proper zoning requirement to include any lot boundary zonings, and if the contractor identifies this site unfeasible, they should identify what is needed to make the system ready. Once this information is gathered, the paperwork should be provided to Disaster Housing Operations management to ensure there is enough information for FEMA to determine the feasibility of the site. As part of this process, the contractor and the FEMA Disaster Housing Operations team are responsible for obtaining the landowner's authorization for the feasible site prior to unit installation.

Step 5: The group site design is to include infrastructure, site layout, and construction strategy (timeline). During the development of group site design, the contractor should address and abide by all federal, state, and local requirements including environmental and historical preservation requirements. The design should include and incorporate the necessary permits; appropriate federal, state and local codes and ordinances; projected completion; and other disaster relevant information. Upon approval of the site design, the contractor can commence construction, which should be done in the most timely and efficient manner possible under the circumstances and priorities established by FEMA. Nonetheless, if any environmental issues are identified and the site design is not approved by FEMA, the contractor should not incur construction costs.



Appendix 4 – Other Observations -- *Lease Agreement Process*

We determined that for three rejected sites, FEMA allowed design or construction activities to occur although leases had not been properly executed. The sites involved were:

- Public School Administration Building
- New Roads - Curet
- Progressive Baptist Church

❖ *Public School Administration Building*

On October 10, 2005, FEMA granted Shaw a notice to proceed when the Project Review Board (PRB) was notified that the lease for the New Orleans Public School Administration Building was executed. A notice to proceed for construction was issued on October 27, 2005. Two days later, FEMA issued a stop work order after being notified that an unauthorized individual had signed the lease. The school board rejected the site on November 19, 2005, after exploring other options. The expenses invoiced for this site included approximately \$135,900 for construction and deactivation costs, \$120,600 for design costs, and \$105,700 for site security and other installation costs.

❖ *New Roads – Curet*

FEMA authorized Shaw to proceed with 100% site design of the New Roads – Curet site prior to ensuring that the property owners were in agreement with the terms of the lease. On October 15, 2005, Shaw submitted the 100% site design plan to FEMA and the United States Army Corps of Engineers for review and comments. On October 18, 2005, the site owners withdrew the site for consideration due to liability concerns with the hold-harmless provisions of the GSA lease and declined to sign the agreement. Thereafter, on October 19, 2005, FEMA issued a stop work order for this site. The estimated cost for this site was \$434,405.

❖ *Progressive Baptist Church*

The Progressive Baptist Church site was rejected due to irresolvable lease issues and prohibitive costs. At the time of this review, the site had total billed cancellation costs of \$293,807 for design work performed by Lincoln Builders, a subcontractor to Shaw. The original design called for 150 travel trailers to be built on 17.5 acres of land in an exclusive group site. Within the project scope of work, it was reported that a 5-acre parcel of the land contained small amounts of asbestos. These factors should have led to an early decision that the site was not viable.

FEMA did not implement safeguards to ensure issues encountered during the site assessment phase were substantially resolved before the contractor was authorized to proceed with the next level of work. While FEMA depended on GSA to negotiate its lease agreements, it did not establish proper procedural steps to ensure due diligence in confirming execution of a legally binding lease agreement. Also, FEMA did not establish a process whereby lease agreement information was shared with site owners during the initial site assessment phase



so that lease objections could be identified and resolved or insurmountable obstacles recognized early in the process.

48 CFR §37.114(a), Special Acquisition Requirements, requires federal agencies to ensure a sufficient number of qualified government employees are assigned to oversee contractor activities, especially those that involve support of government policy or decision-making. Additionally, during the performance of service contracts, the functions being performed by the contractors shall not be changed or expanded to become inherently governmental.

According to Exhibit 2, Work Plan, §4.1- 5 of the PWS, the contractor is responsible for developing a resource list of potential land or property usage and for obtaining a point of contact (POC) information. Additionally, according to the FAR, under 48 CFR 37.503(a), it is an agency head responsibility to ensure requirements for services are clearly defined and appropriate performance standards are developed.

As a best practice, the contractor and FEMA should perform due diligence to ensure all individuals negotiating agreements that may result in costs to the government have the authority to do so.

Without proper oversight and accountability enforcement, there is a greater risk of engaging the government in unauthorized commitments that lead to waste of government funding. Because negotiations with site owners did not begin early in the site identification process, risks associated with obtaining lease agreements were not recognized and costs were incurred unnecessarily. Also, because the potential lessor was not at risk financially for withdrawing from a lease agreement, there was no incentive to withhold right of entry to the premises to limit construction activities.

In comparison, the site assessment package the Hill strike team submitted for their three rejected sites included more detailed information on the strike team assessment and documentation than the information Shaw submitted. The type of information Hill provided included letters of approval from parish presidents and letters of right of entry authorizing the contractor access to the land for the purpose of providing temporary emergency shelter. The additional notes and documentation led FEMA and the contractor to determine the suitability of sites at an earlier stage, leading to a reduction of cost for the rejected sites.

As an example, we reviewed the Canseco Lot site that Hill was to develop in New Orleans, Louisiana. It was rejected on December 6, 2005, because the owner withdrew the offer. As of November 2006, the site had a total estimated cancellation cost of \$45,000. There were no environmental concerns identified on the strike team site assessment. Nonetheless, the right of entry agreement prohibited FEMA from occupying the property until an agreement was reached between FEMA and the property owner on rent, indemnities, insurance, and other terms. FEMA and Hill correctly avoided incurring substantial development costs pending resolution of the lease issues, which subsequently did not get resolved.



Appendix 5 – Report Distribution

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