

Office of Inspector General

U.S. Department of Homeland Security
Central Regional Office
Office of Emergency Management Oversight
3900 Karina Street, Room 224
Denton, Texas 76208



**Homeland
Security**

January 9, 2009

MEMORANDUM FOR: James W. Stark, Director
FEMA Louisiana Transitional Recovery Office

FROM: *Tonda L. Hadley*
Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *Hurricane Katrina Debris Removal Activities in the
City of Kenner, Louisiana*
FEMA Disaster No. 1603-DR-LA
Report Number DD-09-04

Attached is our report, *Hurricane Katrina Debris Removal Activities in the City of Kenner, Louisiana*. We contracted with the independent public accounting firm Foxx & Company to perform this review. The report identifies five reportable conditions and questions \$5,466,587 for ineligible costs claimed by the Parish.

We discussed the results of the audit with FEMA, GOHSEP, and City of Kenner officials on November 12, 2008. FEMA officials concurred with the findings and recommendations. With respect to Finding C, FEMA officials acknowledged the need for a clarification of the agency's policy concerning trucks being more than 95% full when carrying vegetative or construction and demolition debris. GOHSEP and City officials said that they would reserve their official comments on the findings and recommendations until after the report is issued.

We appreciate the cooperation you and your staff provided to our contractor, Foxx & Company, and us during the audit. Please advise this office by April 9, 2009, of the actions taken or planned to implement the recommendations, including target completion dates for any planned actions. If you have questions concerning this report, please call me at (940) 891-8900, or your staff may contact Judy Martinez, Audit Manager, at (504) 762-2055.

Attachment

cc: Regional Director, FEMA Region VI

Audit Liaison, FEMA Region VI
Audit Liaison, FEMA Louisiana Transitional Recovery Office
Audit Liaison, FEMA (DC8C01)
Audit Liaison, Gulf Coast Recovery Office



January 9, 2009

U.S Department of Homeland Security
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Central Regional Office of Inspector General
Denton, Texas

Foxx & Company audited Hurricane Katrina debris removal activities in the City of Kenner, Louisiana managed by the City of Kenner government. The objective of the audit was to determine whether the contracts and contractor billings complied with applicable federal criteria. Foxx & Company performed the audit according to Contract Number GS-23F-9832H and Task Order TPD-FIG-BPA-07-0007 dated September 29, 2007.

The enclosed report includes recommendations to improve the City's management of grant funds provided for debris removal under the Federal Emergency Management Agency's (FEMA) Public Assistance Program. Foxx & Company discussed the audit results with FEMA, Louisiana Governor's Office of Homeland Security and Emergency Preparedness, and City officials on November 12, 2008. The comments received from these officials were included, as appropriate, in the body of the proposed final report.

We appreciate the opportunity to have conducted this audit. If you have any questions, or if we can be of any further assistance, please call me at (513) 639-8843.

Sincerely,

Foxx & Company

Martin W. O'Neill
Partner

Enclosure

cc: Regional Director, FEMA Region VI
Audit Liaison, FEMA Region VI
Audit Liaison, FEMA Louisiana Transitional Recovery Office
Audit Liaison, FEMA (Job Code DC8C01)

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ACRONYMS:

CFR	Code of Federal Regulations
CY	Cubic Yard
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
GOHSEP	Louisiana Governor's Office of Homeland Security and Emergency Preparedness
OIG	Office of Inspector General
PW	Project Worksheet

INTRODUCTION

Hurricane Katrina struck the City of Kenner, Louisiana (City) on August 29, 2005.¹ The devastation in Louisiana was extensive. The Federal Emergency Management Agency (FEMA) estimated that 1.3 million cubic yards (CY) of residential debris were created in the City.

The City awarded six contracts with five companies for Katrina-related debris removal and monitoring activities.

Company	Contract	Activity
1	A	Removal of debris from right-of-ways
2	B	Removal of debris from catch basins
	C	Removal of debris from drain lines
3	D	Removal of hazardous limbs and trees
4	E	Monitoring debris removal – right-of-ways and catch basins
5	F	Monitoring debris removal – drain lines

FEMA funded 100% of the cost of debris removal for all applicants affected by Hurricane Katrina. The largest volume of debris was located along the City's right-of-ways. By December 31, 2007, the cut-off date for our audit, FEMA had approved 12 Public Assistance Grant Program Project Worksheets (PW) for debris removal from the City. A schedule of the approved PWs is included in Exhibit A. The amount approved for the PWs was \$30.4 million. As of March 27, 2008, the City received \$29.6 million from the Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee.

RESULTS OF AUDIT

In the wake of Hurricane Katrina, the City successfully removed large volumes of debris. The removal of debris helped to restore public health and safety and ensure economic recovery throughout the City. However, our audit identified some reportable conditions concerning the City's management of debris removal activities. Two of the reportable conditions identified claims made by the City that resulted in questioned costs. The reportable conditions shown below are discussed in detail in this report.

- A. Accounting for Grant Funds Not in Compliance with Federal Requirements
- B. Contracts Amended Without Competition
- C. Excess Quantities of Debris Claimed (\$5,464,037 questioned)
- D. Excess Costs for Cleaning Catch Basins (\$2,550 questioned)
- E. Receipt and Use of Administrative Allowance Funds Not Recorded

¹ The City of Kenner is the largest incorporated area in Jefferson Parish in the New Orleans Standard Metropolitan Statistical Area.

A. Accounting for Grant Funds

The City's accounting system did not track debris removal costs on a project-by-project basis. This condition was previously cited in a March 2007 Department of Homeland Security (DHS) Office of Inspector General (OIG) audit report (DD-07-08). The report stated that the City used only one general ledger account for the FEMA costs and did not identify the project worksheet number or project description for any of the items charged to the account. The DHS OIG report concluded that the City's accounting system did not meet federal requirements to maintain records for each approved project or maintain documentation to support the validity and eligibility of disaster costs. As of December 31, 2007, the cut-off date for our audit, we determined that the City had not revised its accounting system to identify costs incurred for each PW separately as recommended by the DHS OIG.

According to FEMA's *Public Assistance Guide* (FEMA 322), all documentation pertaining to a project should be filed with the corresponding PW and maintained by the subgrantee as a permanent record for the project. Each PW represents a project. Furthermore, 44 CFR 13.20(b)(2) requires a subgrantee to maintain records that identify the source and application of funds provided for financially assisted activities.

City officials said they recognize the importance of maintaining records that identify the source and application of funds provided under the Public Assistance program. The City recorded all expenditures resulting from Hurricane Katrina into a single general ledger account. The officials said that recording each PW as a separate general ledger account was not practical and would prevent the City's financial statements from properly reporting expenditures by activity and function. The officials said that, with the City's old accounting system, the manner in which some PWs were written caused the City to have problems in accounting in its general ledger for the application of all the funds by PW. However, the officials said the City is working on developing a record-keeping system to comply with the federal requirement.

Conclusions/Recommendations

The City did not comply with the federal requirements that all costs associated with a specific PW be maintained in records that identify the source and application of funds. Compliance with these requirements will be necessary when the receipt and expenditure of funds is reconciled under individually approved PWs during the grant closeout process.

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

1. Require GOHSEP to ensure that the City completes the implementation of the new system that complies with the federal requirement to track receipt and expenditure of grant funds on a project-by-project basis.

B. Contract Amendments

The City amended existing contracts with three companies to include work on debris even though the type and magnitude of work significantly changed from the original contracts. One of the contracts was for the removal of debris, and two were monitoring contracts. The City did not properly compete the amendments to the basic contract as required by federal regulations. As a result, the City had no assurance that it received the best value or used the most effective contractors.

According to 44 CFR 13.36(c)(1), sub-grantees are required to promote and provide for full and open competition in awarding contracts. Title 44 CFR 13.36(f)(1) also provides that subgrantees must perform a cost or price analysis in connection with every non-competitive procurement action including contract modifications. FEMA's *Public Assistance Debris Management Guide* (FEMA Publication 325), provides that contract modifications may be necessary to cover situations that develop after a contract is awarded. Changes are permitted, subject to an equitable adjustment of the contract price, provided changes are within the scope of the contract.

On August 26, 2005, before Hurricane Katrina occurred, the City awarded a \$605,000 competitive contract with a company (Company A) to perform street repair services. On September 21, 2005, the City amended the existing contract to include removal of Hurricane Katrina debris from the City's right-of-ways. On February 2, 2006, the City and contractor officials agreed that the total cost of this debris removal work would not exceed \$25 million. Even though the debris resulted in a significant increase in the contract value and a different type of work, the City opted to amend the existing contract without seeking competitive proposals or performing a cost or price analysis. According to City officials, the debris removal rates were negotiated between the parties based on rates deemed acceptable by FEMA and later approved by GOHSEP.

Although the majority of debris was removed under this improperly procured contract, the City made improvements to its contracting practices on later contracts. The City competed three other Katrina-related debris removal contracts awarded in December 2005, March 2007, and April 2007. These contracts totaled about \$5 million. In addition, the City publicly bid and awarded a debris removal contract for subsequent hurricane seasons.

The City also contracted with two companies to monitor debris removal activities. Before Hurricane Katrina, the City also had pre-existing professional services contracts with these two companies to perform engineering services. The City did not seek competition on either of these original contracts.

- One company had performed engineering services for the City since 2004; the contract was valued at \$325,000 per year. Following Katrina, the contract was amended to

include \$4.9 million for debris monitoring work. City officials contended that the monitoring rates were reasonable based on its analysis of similar rates in the area.

- A second engineering company's contract was amended in April 2007 to include monitoring debris removal from the City's drain lines. The cost of the monitoring work was \$86,900. According to City officials, FEMA concluded that the rates in the existing contract were reasonable and the existing company could perform the work.

In both cases, the debris monitoring work that was added was not within the scope of the contract, but the City did not seek competition as required. Consequently, the two contractors selected might not have been the most technically or cost effective contractors available for debris removal monitoring.

Although the City did not seek competition on the three contracts for debris removal and monitoring, the rates charged by the City for debris removal and monitoring activities appear reasonable based on FEMA's maximum acceptable rates and Foxx & Company's experience with other subgrantees in Louisiana who received Katrina-related debris removal awards.

Conclusions/Recommendations

Because the type or magnitude of work changed significantly from the original contracts for these three contractors, the City should have competed the debris removal and monitoring work. Without competition, the City could not assure FEMA that costs were reasonable for the debris removal contractor, or that the most effective contractors were selected to monitor the debris removal activities. However, because nearly all the debris removal work under the contracts had been completed at the time of our audit, it is too late to re-compete these contracts.

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

2. Require GOHSEP to inform City officials that any modifications to contracts that significantly change the type or magnitude of work on future FEMA projects must provide for full and open competition.

C. Quantities of Debris Claimed

The City claimed excess costs for removing debris that was not determined according to federal guidance. The City claimed (1) \$486,463 for loads of debris in trucks estimated to contain more than 95% of truck capacity, and (2) \$4,977,574 for loads of debris from trucks that were not certified to haul debris. As a result, the City claimed, and we question the excess costs of \$5,464,037.

According to FEMA Guidance, it is "virtually impossible" for a truck to be 100% full when carrying vegetative or construction and demolition debris. In addition, FEMA Directive 9580.1 states that trucks cannot receive credit for more than 100% of the measured capacity of the truck

even if the material is above the sideboards. From towers, debris monitors compare the certified capacity of the trucks to the volume of debris in trucks as the trucks enter debris disposal sites. FEMA's guidance states that the estimates of volume should be measured in 5% increments. FEMA Directive 9580.1 also states that debris must be hauled in trucks with certified cubic yard capacities in order for the debris removal to be eligible for FEMA funding.

The City's monitoring contractor measured and certified trucks to be used by the debris removal contractor to haul debris from the City's right-of-ways. The City paid its main debris removal contractor \$23.2 million under four different PWs. The monitoring contractor provided records that identified (1) all trucks certified to haul debris, (2) CY capacities for the certified trucks, (3) the volume of debris removed from the City, and (4) invoices submitted for payment.

We compared the certified capacities of trucks with the cubic yards claimed per truckload. If a truck was estimated to contain more than 95% of its capacity, we concluded that the City had claimed excess cubic yards based on the FEMA guidance.

The City claimed \$486,463 for 32,393 CYs of debris that exceeded the 95% ceiling. The excess cost of \$486,463 included \$421,759 for trucks with estimated CYs above 100% of the truck's capacity. The following table summarizes the excess cost claimed of \$486,463 which we question as ineligible:

**Schedule of Excess Costs Claimed
September 12, 2005 Through May 31, 2007**

Estimated Volume (% of Truck Capacity)		# Truck Loads*	Excess Cubic Yards	Excess Cost Claimed
From	To			
96%	100%	5,691	4,701	\$ 64,704
101%	200%	1,625	18,320	280,993
201%	300%	135	7,839	119,817
301%	400%	15	1,139	17,626
401%	500%	0	0	0
501%	600%	3	289	3,323
Totals		7,469	32,288	\$ 486,463

* The 5,168 truck loads were hauled by 135 trucks.

In addition, we question \$4,977,574 for the claimed cost of removing debris that was hauled in uncertified trucks. Monitoring contractor records showed that the City claimed costs for 401,600 CYs of debris hauled in uncertified trucks. We considered any debris hauled in uncertified trucks as ineligible debris. We questioned the costs of debris removal when the truck number

was missing from the load ticket or did not agree with the certification forms maintained on file by the monitoring contractor.

City and debris monitoring contractor officials agreed that only certified trucks should be allowed to haul debris. According to monitoring contractor officials, the load ticket file could have errors that were caused when the debris monitor prepared the load tickets (e.g. enter 1000-R instead of 1000 R) or when the data input person entered incorrect information.

Other weaknesses in internal controls within the process for claiming reimbursements for cubic yards hauled could also have contributed to the excess claims made by the City. For example:

- Trucks certification forms were not always signed. Of the certification forms provided by the monitoring contractor, about 33% were not signed.
- Trucks with different Vehicle Identification Numbers were given the same truck number for certification purposes. Fourteen truck numbers were duplicated for trucks with different Vehicle Identification Numbers.
- Better supervisory review of load tickets could have detected that the estimated volumes of debris hauled greatly exceeded the certified capacities of the trucks.

The City's claims for reimbursement were based on the monitoring contractor's estimates reported on load tickets. Contractor and City officials said they were not aware of FEMA's guidance on acceptable truck volume estimates. City officials said that FEMA should have discussed the estimating criteria early in the debris removal effort before payments were made to the contractor. City officials also said they did not know why estimates of debris loads in excess of 100% of a truck's certified cubic yard capacity would have occurred.

Conclusions/Recommendations

The City did not comply with FEMA guidance and overestimated the amount of debris hauled. It was the City's responsibility to comply with all federal requirements and FEMA guidance when it accepted the FEMA awards. Therefore, we question the \$5,464,037 that the City claimed for excess debris.

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

3. Disallow the \$486,463 claimed for trucks that hauled volumes of debris above acceptable FEMA levels.
4. Disallow the \$4,977,574 claimed for debris hauled by trucks that were not certified.

D. Costs for Cleaning Catch Basins

The City claimed excess costs of \$2,550 for debris removed from catch basins by a contractor. Title 44 CFR 13.36(b)(2) states that subgrantees are responsible for ensuring contractors perform according to the terms, conditions, and specifications of their contracts.

In December 2005, the City awarded a contract to have Katrina-related debris removed from catch basins. Another company, under contract to perform other debris monitoring services for the City, monitored the cleaning of storm drainage catch basins. The City paid the contractor \$2,901,475 to clean 6,827 catch basins, each basin costing \$425. The work was performed during October 2005 and April through June 2006.

We tested a sample of 2,320 billings, or 34%, of the catch basins cleaned by the contractor. The City's claim for cleaning the 2,320 basins was \$986,000. Records showed that claims were duplicated for four catch basins and claims were made for two catch basins even though the work had not been completed. The excess claims totaled \$2,550. The monitoring contractor did not detect the errors when submitting the invoices to the City for payment.

Conclusions/Recommendations

The claim for six extra catch basins resulted in the City being overpaid \$2,550. Therefore, we question the excess costs claimed.

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

5. Disallow the claimed costs of \$2,550.

E. Receipt and Use of Administrative Allowance Funds

The City did not separately record the receipt, or document the use of, the administrative allowance funds totaling \$130,000 from FEMA.

Title 44 CFR 206.228(a)(2)(ii) provides an administrative allowance to subgrantees to cover the necessary costs of requesting, obtaining, and administering federal disaster assistance. This statutory administrative allowance is automatically added as a percentage of the total amount of assistance for the subgrantee when projects are processed.² According to FEMA guidance dated July 2002, the subgrantee must maintain records of how the administrative allowance funds are spent, and records documenting expenditures of the funds are subject to audit. The guidance also provides that surplus administrative allowance funds must be returned to FEMA at closeout.

As of December 31, 2007, the City had received \$130,000 in administrative allowance funds and deposited the funds into a single general revenue account. The administrative allowance funds

² The administrative allowance is based on a sliding scale, ranging from 3% of the first \$100,000 of eligible costs to ½% of eligible costs in excess of \$5,000,000.

were not separately tracked or recorded in the City's accounting system. City officials said they had not separately recorded the receipt of administrative allowance funds because they thought the funds could be used for any City expense. In addition, the officials said they were not aware of record-keeping requirements at grant close out or that unused funds had to be returned to FEMA.

According to City officials, they had incurred expenses that were eligible for use of the administrative allowance funds. The officials stated that the funds had been used to partially subsidize personnel costs associated with administering the FEMA grant, but the City had not separately recorded these transactions. Subsequent to our inquiry, the City officials said they would retroactively identify administrative expenditures that they believe were allowable administrative costs. The officials also said that notations would be added to the accounting system to account for the use of the \$130,000. At the conclusion of our audit fieldwork, the City had not yet accounted for the expenditure of the administrative allowance funds.

Conclusions/Recommendations

If the City does not use the administrative allowance funds and record and document the use of the funds before grant closeout, the City will be required to return the funds to FEMA. The opportunity to recover allowable administrative costs would be lost.

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

6. Require GOHSEP to provide the City with a list of eligible uses of administrative allowance funds and guidance on what type of records must be maintained to account for the use of administrative allowance funds to support costs at closeout; and to ensure that the administrative allowance funds are fully supported at close out.

DISCUSSIONS WITH MANAGEMENT

We discussed the results of the audit with FEMA, GOHSEP, and City of Kenner officials on November 12, 2008. FEMA officials concurred with the findings and recommendations. With respect to Finding C, FEMA officials acknowledged the need for a clarification of the agency's policy concerning trucks being more than 95% full when carrying vegetative or construction and demolition debris.

GOHSEP and City officials said that they would reserve their official comments on the findings and recommendations until after the report is issued. City officials asked for copies of the data used in Finding C to calculate excess costs claimed for trucks hauling vegetative or construction and demolition debris. The officials recognized that FEMA has agreed to clarify its policy concerning trucks capacities when hauling debris. The officials said they would work with the monitoring contractor to validate the data used in support of Finding C. Following the exit conference, Foxx & Company provided the City copies of the data used to support Finding C.

**Schedule of Approved Projects and Claims
As of December 31, 2007
Audit of Debris Removal Activities
City of Kenner, Louisiana
FEMA Disaster 1603**

Project	Debris Activity	Amount Approved	Amount Claimed	Questioned Cost
1214	Monitoring	\$ 1,619,342	\$ 1,501,751	\$ 0
1215	Removal	1,018,697	954,583	0
1216	Monitoring	784,607	784,607	0
* 1221	Removal	19,471,018	19,471,018	5,464,037
* 2920	Removal	225,000	95,159	
*16642	Removal	2,677,961	2,658,876	
2921	Removal	0	0	0
15095	Removal	2,901,475	2,901,475	2,550
15358	Removal	220,240	0	0
15523	Removal and Monitoring	643,459	408,919	0
16357	Monitoring	768,052	768,052	0
16391	Monitoring	86,865	86,865	0
Total		\$30,416,716	\$29,631,305	\$5,466,587

* We compared cubic yards claimed on load tickets with cubic yard capacities on trucks certified to haul debris in the City of Kenner. The data analysis identified claims for trucks that had not been certified as well as claims for trucks estimated to contain more than 95% of the certified capacity. However, the time periods of the load tickets provided by the contractor did not align with the time periods of the Project Worksheets. As a result, we were not able to allocate the \$5,464,037 questioned costs among the applicable PW numbers 1221, 2920, and 16642.

**Objectives, Scope, and Methodology
Audit of Debris Removal Activities
City of Kenner, Louisiana
FEMA Disaster Number 1603**

The objective of Foxx & Company's audit of Hurricane Katrina debris removal activities in the City of Kenner, Louisiana was to determine whether the awarded contracts and contractor billings complied with applicable federal criteria.

The scope of the audit included all debris removal and monitoring activities managed by the City during the period August 29, 2005, through December 31, 2007. Foxx & Company performed the work at the Joint Field Office in Baton Rouge, FEMA's area office in Jefferson Parish, City of Kenner's government offices, and contractor offices.

Foxx & Company's methodology included interviews with FEMA, GOHSEP, City, and contractor officials to obtain an understanding of internal control systems and to identify issues and concerns relative to the debris removal. Our audit included reviewing all contract types, procurement methods, reasonableness of contract rates, compliance with federal requirements, and PWs approved to complete the debris removal effort. We also audited selected contractor billings that led to City payment requests submitted to GOHSEP through December 31, 2007. This effort allowed us to determine whether the amounts claimed for incurred expenses were appropriately supported, accurate, and in compliance with applicable laws and regulations.

The Department of Homeland Security, Office of Inspector General is reporting the results of the audit to appropriate FEMA officials. Foxx & Company discussed the audit results in our draft with cognizant FEMA, GOHSEP, and City officials. The comments received were incorporated, as appropriate, within the body of the report.

Foxx & Company conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Although the audit report comments on cost claimed by the City, we did not perform a financial audit, the purpose of which would be to render an opinion on the City's financial statements or the funds claimed to FEMA. Therefore, we do not express such an opinion.