

DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

St. Bernard Parish, Louisiana's Management of State Homeland Security Grants Awarded For the Removal of Debris From Hurricane Katrina (Redacted)



Notice: The Department of Homeland Security, Office of Inspector General, has redacted this report for public release. The redactions are identified as (b)(2), comparable to 5 U.S.C. 552 § (b)(2). A review under the Freedom of Information Act will be conducted upon request.

NQV 30 2006



**Homeland
Security**

Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) 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 published as part of our DHS oversight responsibilities to promote economy, effectiveness, and efficiency within the Department.

The attached report presents the results of a review of the St. Bernard Parish, Louisiana's management of DHS grants awarded for the removal of debris created by Hurricane Katrina. We contracted with the independent public accounting firm Foxx & Company to perform the review. Foxx & Company's report identified five reportable conditions. The conditions included non-compliance with Federal requirements, claims for ineligible or unreasonable costs, and opportunities for improved controls and accuracy during the debris removal process. The review also noted other issues that impacted the Parish's progress in removing debris. These issues and the reportable conditions are discussed in the attached report.

Foxx & Company is responsible for the attached report dated September 30, 2006, and the conclusions expressed in the report.

The recommendations herein were discussed in draft with State and Parish officials 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 black ink, appearing to read "Matt Jadacki".

Matt Jadacki
Deputy Inspector General
Disaster Assistance Oversight



Foxx & Company
Certified Public Accountants

September 30, 2006

Office of Inspector General
U.S. Department of Homeland Security
Washington, D.C.

Foxx & Company performed a review of ongoing Hurricane Katrina debris removal activities in St. Bernard Parish, Louisiana. The objective of the review was to determine whether the awarded contracts and contractor billings were in compliance with applicable Federal criteria. Foxx also reviewed selected aspects of the overall management of debris removal and monitoring within the Parish because of the magnitude of the devastation, the volume of debris created by Katrina, and the length of time that it will take to complete the removal process. Foxx performed the review according to Contract Number GS-23F-9832H and Task Order TPD-FIG-06-K-00027 dated January 9, 2006.

The attached report includes recommendations to improve the Parish's management of the Department of Homeland Security (DHS) debris removal grants. Foxx & Company discussed the review results in draft with cognizant DHS, State of Louisiana, and Parish officials. The comments received were incorporated, as appropriate, within the body of the 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

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ACRONYMS:

| | |
|------|-------------------------------------|
| CFR | Code of Federal Regulations |
| FEMA | Federal Emergency Management Agency |
| JFO | Joint Field Office |
| PW | Project Worksheet |

INTRODUCTION

Hurricane Katrina struck St. Bernard Parish on August 29, 2005. The devastation was extensive. FEMA estimated that about 5,308,000 cubic yards of residential debris was created within the Parish. By March 31, 2006, the cut-off date for our review, eight Public Assistance Grant Program Project Worksheets had been approved for the removal of debris from the Parish. The total amount approved for the eight Project Worksheets was \$98,902,752, including the grantee and subgrantee administrative allowances. A schedule of the approved Worksheets is included as Attachment I. About 1,316,000 cubic yards of debris (about 25 percent of the total estimated) was removed from the Parish by March 31, 2006.

According to the FEMA approved Project Worksheets, the cost of the debris removal was to be 100 percent paid for by the Federal government until June 30, 2006. After June 30, 2006, the Federal sharing ratio would drop to 90 percent. The funding of the remaining 10 percent was the responsibility of the State of Louisiana (grantee). However, the Department of Homeland Security extended the 100 percent Federal share to December 31, 2006.

RESULTS OF REVIEW

Although commendable progress has been made to clean up the Parish, a huge amount of debris remains. As of March 31, 2006, about four million cubic yards of debris still needed to be removed. The majority of the remaining debris will be from the demolition of about 10,000 residential homes. According to Project Worksheet No. 3070, approved June 8, 2006, about \$137 million was included for the removal of demolition debris. On June 23, 2006, an additional \$11.8 million was obligated by FEMA for monitoring the demolition effort.

Several reportable conditions were identified. The conditions included non-compliance with Federal requirements, claims for ineligible or unreasonable costs, and opportunities for improved controls and accuracy during the debris removal process. There were other issues that impacted the Parish's progress in removing debris. These issues and the reportable conditions are discussed in detail below.

Required Cost and Pricing Analysis not Performed

St. Bernard Parish awarded a non-competitive contract for debris removal monitoring activities without performing a cost or price analysis of the contract. The Parish did not require the contractor to update its August 2002 established overhead rate, which was included in the awarded contract. The contract also included cost-plus-a-percentage-of-cost language which was a prohibited contracting methodology. As a result, the Parish (1) did not comply with applicable Federal regulations and (2) did not demonstrate that the fixed hourly rates established under the contract were reasonable.

According to 44 CFR 13.36 (f) (1) a cost or price analysis must be performed in connection with every noncompetitive procurement action including contract modifications. Furthermore, according to 44 CFR 13.36 (f)(4), cost-plus-a-percentage of cost methods of contracting shall not be used. Under 44 CFR 13.43 (a)(2) failure to comply with applicable statutes or regulations can result in the disallowance of all or part of the cost of the activity or action not in compliance.

On September 7, 2005, an engineering firm, that had been under contract with the Parish for engineering services since April 2003, submitted a proposal to the Parish to provide support for the Parish's debris removal and recovery operations in the wake of Hurricane Katrina. The proposed services included providing engineering and inspection services to monitor the Parish's debris removal contractor.

In December 2005, the Parish amended the April 2003 contract according to the firm's proposal and awarded a non-competitive contract. However, prior to the award, the Parish did not perform a cost or price analysis of the firm's proposed costs. The Parish also did not require the firm to update its overhead rate included in the contract. The overhead rate used to establish the fixed rates under the amended contract was 148.67 percent. This rate was established in December 2003 based upon an audit of the firm's costs for the 12 months ended August 31, 2002. In addition, no review was made of the firm's direct labor rates.

The awarded contract included a cost-plus-a-percentage of cost provision. The provision provided that the Program Manager will be reimbursed for other direct costs charged to the project at a rate not to exceed 1.10 times the direct costs. The adding of the 10 percent to direct costs constitutes a cost-plus-a-percentage of cost method of contracting. Although the additional 10 percent was initially included in the contractor's invoices, the State deleted these amounts when the invoices were reviewed and approved. Nevertheless, the prohibited language should be deleted from the contract.

During the last quarter of calendar year 2005, the firm converted 95 debris monitors, who had been supporting the firm's monitoring activities, to full time employee status. The conversion of the 95 monitors to employee status significantly increased the firm's direct labor, cost allocation base. However, the firm's indirect expenses would not have increased in equal proportions to the direct labor costs. Consequently, the indirect cost (overhead) rate should have been decreased, and the reduced rate should have been used in establishing the fixed hourly rates under the amended contract. Although we requested the engineering firm to provide us with their current indirect cost proposal, we were not provided this information.

Without a cost or price analysis, the exact impact of the increased direct labor cost allocation base on the firm's indirect cost rate could not be determined. However, using the firm's direct labor costs and indirect expenses for the 10-month period ending October 31, 2005, we estimated that the indirect cost rate could be reduced from 148.67 percent to about 96 percent. The impact of the reduction on the rates per hour charged under the contract could be significant, especially considering that the amount of debris that remains to be removed is greater than the amount that had been removed through

March 31, 2006. Furthermore, we could not assess the reasonableness of the fixed labor rates.

In March 2006, FEMA approved Project Worksheet No. 3816 for debris removal monitoring activities. The obligated (eligible) amount was about \$475,500. Subsequently, based upon a review of “base monitoring rates” being charged by other applicants in close proximity to St. Bernard Parish, FEMA reduced the obligated amount for Worksheet No. 3816 by 24 percent. The 24 percent was applied to all levels of wages included in the original Worksheet, even though the percent calculated was only based upon a comparison of prevailing “base monitoring rates.” As revised, the new obligated amount for the Worksheet was \$368,372. In May 2006, the State sent a check for \$368,762 to the Parish for payment under Worksheet No. 3816.

A second Project Worksheet (No. 6456) was approved on June 23, 2006 for \$11.7 million to cover monitoring expenses most of which had already been incurred by the contractor. The eligible amount for Worksheet No. 6456 was originally about \$15.5 million. However, during the FEMA and State review and approval process, the \$15.5 million requested amount was reduced by 24 percent to about \$11.7 million.

According to Parish and contractor officials, a third Project Worksheet was being prepared in June 2006, for an additional \$25 million to cover the contractor’s future debris monitoring costs.

FEMA and State officials acknowledged that a cost or price analysis should have been performed and that the firm’s overhead rate should have been updated in conjunction with the award of the non-competitive contract. However, FEMA and State officials expressed concern that the non-competitively awarded contract was still in effect nearly a year after Hurricane Katrina. During our exit briefing in August 2006, FEMA and State officials confirmed that discussions were ongoing with Parish officials concerning the need for a competitive contract for the monitoring services.

Parish and contractor officials concurred that a cost or price analysis was not conducted when the non-competitive contract was awarded in December 2005. The officials also concurred that the overhead rate used for the contract was the rate that had been established in December 2003. In recognition of the Federal regulations, the officials agreed to perform the required analysis and update the overhead rate. The officials also agreed to delete the prohibited cost-plus-a-percentage of cost contract language from the monitoring contract.

Conclusion/Recommendation:

Because the possibility exists that the labor rates and the overhead rates were overstated, the Parish and ultimately FEMA may have overpaid a substantial amount for the contractor’s monitoring activities. The Parish should perform a cost or price analysis of the monitoring contractor’s costs, including requiring the engineering firm to update its overhead rate. If the labor rates and overhead costs are different, the revised hourly rates under the contract should be appropriately changed, and the revised rates should be

applied to the contractor's debris removal monitoring claims under the non-competitive contract. In addition, the contract should be modified to delete the cost-plus-a-percentage of cost language as prohibited by Federal regulation.

Accordingly, we recommend that the Federal Coordinating Officer, in conjunction with the State of Louisiana Office of Homeland Security and Emergency Preparedness Agency, ensure that the St. Bernard Parish:

1. Performs an independent cost or price analysis of the monitoring contract using current labor rates and an updated overhead rate from the engineering firm,
2. Re-negotiates the fixed hourly rates in consideration of the results of the cost or price analysis and the updated overhead rate,
3. Applies the revised rates to the hours claimed by the engineering firm for the monitoring activities, and
4. Modifies the contract to delete the prohibited cost-plus-a-percentage of cost provision from the contract.

Ineligible Costs Claimed for Trees

The State reimbursed St. Bernard Parish for ineligible cuts of hanging branches from trees. A FEMA review reported that nearly 50 percent of about 3,400 "hanger" cuts claimed between December 6, 2005, and February 6, 2006 were ineligible cuts. However, the FEMA review was not considered by the State during the invoice review and approval process. As a result, the State reimbursed the Parish for the full amount claimed, \$431,185. If the results of the FEMA review had been considered, the reimbursement would have been \$222,070. Accordingly, we question \$209,115 reimbursed under Project Worksheet Numbers 2050 and 3078 for ineligible cuts.

FEMA's Debris Management Guide (FEMA 325) states that Public Assistance grant funds may be used to remove hazardous limbs that are hanging in trees and that threaten a public use area. The Guide defines hazardous limbs (hangers) as limbs greater than two inches in diameter. The contractual agreements between St. Bernard Parish and the debris removal contractor said hangers measuring two inches or more in diameter would be removed for a unit price per hanger. The unit price varied depending upon the diameter of the hanger. According to FEMA officials, only one cut per hanger was eligible for reimbursement.

In February 2006, FEMA officials, located in St. Bernard Parish, performed a review of hanger cuts claimed during the period of December 6, 2005 through February 6, 2006. The review included 148 trees from which 3,421 cuts were claimed. As shown in the following table, there were 1,677 discrepancies in the number of cuts claimed.

| Diameter | Unit Price | Claimed ¹ | | Discrepancies | | Error Rate |
|----------|------------|----------------------|------------|---------------|------------|------------|
| | | Cuts | Costs | Cuts | Questioned | |
| 2" - 4" | \$ 115 | 2,806 | \$ 322,690 | 1,415 | \$ 162,725 | 50.43 % |
| 5"-12" | \$ 175 | 557 | \$ 97,475 | 226 | \$ 39,550 | 40.57 % |
| Over 12" | \$ 190 | 58 | \$ 11,020 | 36 | \$ 6,840 | 60.07 % |
| Totals | | 3,421 | \$ 431,185 | 1,677 | \$ 209,115 | 49.02 % |

The following are examples of the discrepancies reported from the FEMA review.

- The contractor made cuts that were less than the minimum 2 inches in diameter (According to a FEMA official, cuts of hangers that were less than 2 inches were the most frequent problem found during the FEMA review.)
- Some work was performed in a remote site that presented no hazard to the public
- Cuts were made on a tree that was dead prior to Hurricane Katrina and the cuts were not eligible for reimbursement
- Some trees claimed to have had hangers could not be located
- Only eleven (11) cuts could be identified on one tree even though 195 cuts had been claimed

According to the St. Bernard-based FEMA officials who performed the review, the results were provided to the FEMA Operations Manager for Eastern Louisiana at the Joint Field Office (JFO) in Baton Rouge, Louisiana. The St. Bernard-based FEMA officials said the expectations were that appropriate adjustments would be made to the Parish's invoices. The officials also said they told Parish officials about the discrepancies during a review of the Parish's claims for hanger cost reimbursements. Although documentation could not be located to support that the review results had been sent to the FEMA Operations Manager at the JFO, we verified that the Parish was told of the discrepancies in the Parish's hanger cost reimbursement claims. The Parish's monitoring contractor was also aware that discrepancies had been identified.

FEMA officials at the JFO could not recall having seen the results of the review of hanger claims from St. Bernard Parish. State officials located at the Joint Field Office responsible for reviewing and approving Parish invoices also said they had no knowledge of the FEMA review. As a result, the State officials approved the Parish's invoices as submitted, without adjusting for FEMA identified discrepancies.

FEMA and State officials agreed that the results of the FEMA review had been misplaced within the JFO. The officials concurred that the review results should have been considered during the invoice review and approval process.

St. Bernard Parish and contractor officials said they had been told that FEMA had conducted a review of hanger cuts. However, the officials said that they had not seen the results of the review. The officials did not concur that ineligible hanger cuts had been claimed. The officials said FEMA monitors were present when the hangers were being

¹ Sample selected by FEMA involved Project Worksheet Numbers 2050 and 3078. The specific amounts per Project Worksheet were not identified by FEMA.

cut and that all cuts made, and subsequently claimed, were determined to be eligible when the cuts were made. The officials requested that they be provided the opportunity to review FEMA's supporting documentation if FEMA and State officials determine that adjustments should be made to approved invoices.

Conclusion/Recommendation:

The review documentation received from the St. Bernard-based FEMA officials provided sufficient evidence to support that the \$209,115 approved for ineligible hanger cuts should have been disallowed. Accordingly, we consider the \$209,115 to be a questioned cost.

We recommend that the Federal Coordinating Officer, in conjunction with the State of Louisiana Office of Homeland Security and Emergency Preparedness Agency:

1. Request the St. Bernard-based FEMA officials to resubmit the review results for consideration,
2. Require FEMA and State officials at the JFO to review the review results and determine the adjustments that should be made to the previously approved St. Bernard Parish invoices,
3. Disallow all costs associated with cuts determined to be ineligible based upon the FEMA and State JFO officials review,
4. Disallow all costs determined to be unallowable, and
5. Require FEMA to clarify its guidance on removing hangers and modify training to ensure that future claims are according to FEMA policy.

Questionable Costs Claimed Under the Monitoring Contract

Costs claimed by the Parish's monitoring contractor were excessive for certain activities related to the monitoring of debris removal. The rates per hour charged by monitoring contractor officials were not reasonable for the monitoring work performed. In addition, some of the direct costs claimed appeared to be for general management activities. Our review identified about \$84,600 of unreasonable and duplicative claims during the months of September and October 2005. At the time of our review, the State had not reimbursed the Parish for the \$84,600 claimed by the monitoring contractor.

According to 2 CFR Part 225, allowable costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. In addition, costs must be accorded consistent treatment, i.e., a cost may not be assigned as a direct cost if any other cost incurred for the same purpose has been allocated to the Federal award as an indirect cost.

Furthermore, according to FEMA's Public Assistance Guide, Publication 322, a cost is reasonable if, in its nature, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. A reasonable cost is a cost that is both fair and equitable for the type of work being performed. Consideration should be given to the type of work and whether the

individuals concerned acted with prudence in conducting the work. Publication 322 provides that reasonable costs can be established from several sources, including through average costs for similar work in the area.

Based upon our review of the contractor's supporting documentation, about \$84,600 of claimed costs, under Project Worksheet No. 3816, for supervisory engineering activities were not reasonable for the work performed. For example, one official essentially worked full time as an engineer on debris removal and billed his time at the rate of \$161 an hour. According to this official, his rate was justified because the work required engineering expertise, and the firm was a small firm that did not have employees to perform the engineering work that had to be performed. However, the firm had several registered engineers working under the contract. The billing rate for the registered engineers averaged \$95.57 per hour.

Furthermore, the Parish allowed the monitoring contractor to claim direct costs for activities that appeared to be general management in nature rather than in direct support of the Parish's debris monitoring activities. Because general management activity costs are included in the calculation of indirect labor rates, and the indirect cost rates are used to establish the fixed hourly rates under a contract, charging general management activities as direct costs resulted in duplicative claims for the same activities. The following are examples of the activities that we consider to be general management in nature:

- Communicating with Parish officials on contract matters
- Attending status meetings with Parish officials
- Organizing inspectors
- Reviewing "cleanup contract" and discussing contract needs with FEMA
- Attending progress meetings and working on progress reports

FEMA and State officials concurred that the costs claimed must be reasonable and that duplicative claims should be disallowed. The officials said specific attention will be given to the condition being reported during the invoice review and approval process.

Parish and contractor officials did not concur that unreasonable or duplicate costs had been claimed. With respect to the reasonableness of the rates claimed, the officials said the rates were reasonable because the work performed was debris removal related and was also in support of engineering aspects of the contract with the Parish.

With respect to the duplicative claims, the officials said the work performed was appropriately claimed by the contractor as a direct cost, and that the hours claimed were not for general management activities. That is, the type of work performed was not included as indirect costs in the calculation of the firm's overhead rate. In view of the examples identified during our review, the Parish and contractor officials agreed to review the costs claimed to ensure that duplicative claims were not made.

Conclusion/Recommendation:

The Parish's invoices included unreasonable rates for activities that were not fair and equitable for the type of work being performed by the monitoring contractor. In addition, duplicative claims resulted from general management activities being charged as direct costs. The costs claimed by the monitoring contractor should be reviewed to ensure that the rates claimed were reasonable for the work performed and were not duplicated as direct and indirect costs. The results of the review should be considered along with the results of FEMA's 24 percent reduction in the obligated amount for the Project Worksheets discussed above.

We recommend that the Federal Coordinating Officer, in conjunction with the State of Louisiana Office of Homeland Security and Emergency Preparedness Agency, require the Parish to:

1. Review all current and future costs claimed by the monitoring contractor to ensure that:
 - a. The hourly rates being applied are fair and equitable in relation to the type of work being performed, and
 - b. The time claimed is directly in support of the debris monitoring activities as compared to being general management in nature, and
2. Disallow any claims that were based upon unreasonable rates or that were duplicated as direct and indirect costs.

Improved Controls Needed for Load Ticket Processing

Improvements were needed to the process for handling load tickets for debris removal. Load tickets provided the basis for the debris removal contractor to invoice St. Bernard Parish for cubic yards of debris hauled truck-by-truck from residential areas to the temporary landfills and from the temporary landfills to the permanent landfill. The load tickets management process contained an internal control weakness that could allow bogus tickets to be processed without being detected. As a result, inflated invoices could be approved and the contractor could get paid for debris that was not removed from the Parish.

According to the "Standards for Internal Control in the Federal Government," published by the U.S. Government Accountability Office,² internal controls serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. No one individual should control all key aspects of a transaction or event. Additionally, the standards state that physical control must be established to secure and safeguard vulnerable assets.

² Formerly the General Accounting Office

The load ticket management process was a high risk process because inventories of tickets were maintained at three office locations and several people handled the tickets before the tickets were completed and submitted in support of contractor invoices.

The driver's copy of the five-part load ticket was not always crosschecked with the copies of the load tickets used to prepare and support weekly invoices from the debris removal contractor. The driver's copy of a load ticket was the verification that a delivery to a landfill was actually made. Although our review did not disclose that bogus tickets had been processed, we identified several opportunities within the load ticket management process where someone could --



FEMA, State, Parish, and contractor officials concurred that an internal control weakness existed. Parish and contractor officials said the ticket management process had been modified, as suggested during our review, to require the site monitor to keep a copy of the load ticket for reference by the monitoring contractor during the invoicing process.

Conclusion/Recommendation:



Accordingly, we recommend that the Federal Coordinating Officer, in conjunction with the State of Louisiana Office of Homeland Security and Emergency Preparedness Agency, ensure that St. Bernard Parish appropriately modified and implemented the load ticket management process to require:

1. The site monitor to:
 - a. Keep a copy of each load ticket when a truck is loaded and ready to be sent to the landfill, and
 - b. Give the copy of each ticket to his/her supervisor at the end of each day,
2. The supervisor to accumulate the tickets and provide the tickets to the monitoring contractor's staff involved in verifying the legitimacy and accuracy of the invoices received from the debris removal contractor, and

3. The contractor staff to check the tickets received from the site monitor with the copy of each ticket received from the tower monitor, and reconcile any differences.

Improved Accuracy Needed in Determining Debris Hauled

Visual inspections of individual trucks did not result in accurate judgments of the cubic yards hauled to the temporary landfills. Comparisons of cubic yard calls³ by more than one monitor for the same truck showed inconsistencies in the cubic yard judgments. Recognizing that truly accurate calls are not possible from a visual inspections, we conservatively estimated, based upon a 4.3 percent variance in monitor calls, that the \$31.2 million claimed for the debris hauled through March 31, 2006, could have ranged from between \$29.9 and \$32.5 million.

According to 2 CFR Part 225, government units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices. The basic guidelines under the CFR provide that allowable costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

All debris picked up by the debris removal contractor was required to go to a temporary landfill in St. Bernard Parish for visual measurement. From a tower, a contract monitor looked into each truck and judgmentally determined the cubic yards in the truck. A FEMA monitor acted as an observer but also made a judgment call for each truck. The FEMA call was recorded on a log that was not shared with the contract monitor. The debris contractor based the weekly invoices only on the cubic yards determined by the contract monitor.

The difficulty in visually judging the cubic yards per truck was compounded by the type of debris and/or how well a truck was loaded, e.g., compactly loaded versus loosely loaded. For example, trucks hauling hazardous materials were required to be wrapped and covered in plastic to prevent spillage as the truck was driven to a landfill. The plastic cover made it very hard to estimate how much or what had been loaded into the truck.

In our sample of over 400 trucks, the visual calls by two different monitors varied by about 4.3 percent. The calls by the monitors for 59 (about 14 percent) of the over 400 trucks varied by more than 10 percent. The calls by the contract monitor and the FEMA monitor were supposed to be independent. However, from a test conducted during our review, the range of variances in a controlled environment was significantly greater than when the two monitors were working alone in the tower. During our test, the differences between independent calls ranged from between 9 and 15 percent per truck.

At the contract cost of \$23.70 per cubic yard, the cost of the 1,316,000 cubic yards hauled to the temporary landfill through March 31, 2006 was about \$31.2 million. The existence

³ As each truck passed under a tower, monitors looked into the truck to determine the number of cubic yards hauled to the temporary landfill. These judgments were referred to as "calls."

of the 4.3 percent variance means that this cost could have been as low as \$29.9 million or as high as \$32.5 million. We consider this to be a conservative range because of the higher variances observed during our review.

Internet-based research supported that portable scales could be purchased for \$60,000 to \$70,000, plus shipping and installation charges. The cost to rent a portable scale was estimated between \$4,000 and \$4,500 per month. According to our research, truck scales are readily available and could be installed within 5 days of an order. The rental cost would include delivery, installation, calibration, and maintenance.

FEMA, State, Parish, and contractor officials acknowledged that errors occur when the volume of debris removed from the Parish is determined by visual inspection. FEMA and State officials emphatically agreed that weighing trucks was a better methodology. The officials suggested that FEMA should probably consider the weighing methodology for FEMA-wide application.

Parish and contractor officials did not concur. The officials expressed concerns with converting to weighing trucks for the remainder of the Parish's debris. The concerns included contract negotiation and monitoring implications.

Conclusion/Recommendation:

With nearly 4.0 million cubic yards of debris remaining to be removed from the Parish, the methodology for determining the cost of debris removal should be converted from cubic yards to weight. The conversion would require changing the contract cost basis from cubic yards to weight. However, FEMA and contractor officials agreed that an agreed upon rate per ton could be negotiated. The methodology would include weighing each truck as it enters the landfill and then again after its load was dumped. Using scales would also be more efficient because the number of monitors needed at the landfill could be reduced. Some monitoring personnel would still be required, but the portable scales would process the weight of the truck and print out the results for use in the invoicing process.

Accordingly, we recommend that the Federal Coordinating Officer, in conjunction with State of Louisiana Office of Homeland Security and Emergency Preparedness Agency and St. Bernard Parish officials, convert to weight rather than cubic yards as the basis for determining the cost of removing debris from the Parish.

OTHER NOTABLE RESULTS:

FEMA requires applicants for Public Assistance funding to follow specific guidelines in order to receive benefits. Coordination and communication are needed at various FEMA, State and subgrantee levels to consistently and successfully (1) implement the guidelines and (2) expedite debris removal efforts. Delays in the project worksheets and payment processes, as well as the setting of consistent guidance on policies impacted the debris removal progress in the Parish.

Project Worksheets and Payments Processes

Delays in the preparation, review, and approval processes for Project Worksheets delayed debris removal within the Parish. The first Project Worksheet was not approved until about five months after Hurricane Katrina struck St. Bernard Parish.

Project Worksheets contain the information needed for FEMA to approve the scope of work and cost estimate prior to funding debris removal projects. The Project Worksheet must be approved (funds obligated) in order for the applicant to be reimbursed for debris removal efforts. The prime contractor in St. Bernard Parish started removing debris on September 16, 2005. FEMA assigned an official to prepare and coordinate the first Project Worksheet (PW 2050) in mid November 2005. PW 2050 was approved by FEMA in late January 2006. By the end of March 2006, FEMA had approved eight Project Worksheets for debris removal work. Many of the Project Worksheets were delayed for months while various FEMA reviews occurred. According to St Bernard Parish and contractor officials, neither FEMA nor the state provided adequate explanations as to why delays occurred or what could be done to help expedite the process.

The approved Project Worksheets did not include all periods of time when debris had been removed. As a result, Worksheet revisions were needed to ensure that the Parish could be reimbursed for incurred expenses. For example, debris was picked up in February 2006, but a Project Worksheet had not been prepared to cover February expenses.

FEMA, State and St. Bernard Parish officials said that delays in Project Worksheet approvals and payments to the Parish were also affected by other ongoing concerns. First, the magnitude of debris throughout St. Bernard Parish and the Gulf Coast limited FEMA's ability to assign personnel to prepare Project Worksheets in a timely manner. The volume of debris removal efforts created by Hurricane Katrina significantly complicated and delayed the Project Worksheet preparation, review, and approval process. Second, FEMA and State officials were actively working with St. Bernard Parish to achieve reasonable rates for the debris removal contract. FEMA and State officials were reluctant to approve Project Worksheets until reasonable contract pricing rates were reached between St. Bernard Parish and the debris removal contractor. These negotiations continued from December 2005 to March 2006. Third, although St. Bernard Parish was awarded \$32 million in emergency funding shortly after the Hurricane Katrina disaster, the State insisted that the expenditures for these funds be properly documented before reimbursing the Parish. While waiting for adequate documentation on the emergency funding, the State opted to delay payment to St. Bernard Parish for debris removal efforts.

During the delays in the Project Worksheet approvals and invoice payments, the St. Bernard Parish debris removal contractor continued to remove debris, paying its workers and subcontractors from its own resources until early March 2006. The contractor then cited financial problems and stopped debris removal for a three-week period. On March 31, 2006, the State paid St. Bernard Parish \$23 million for debris removal work

completed. The Parish then paid the contractor for some of its past work and debris removal work resumed. The period of work stoppage that resulted from the contractor not being paid for over six months likely contributed to the relatively low percentage of debris removed from the St. Bernard Parish in comparison to other parishes in Louisiana.

The debris monitoring contractor in St. Bernard Parish also struggled financially while waiting for Project Worksheet approvals and payments. According to the monitoring contractor, continued delays in receiving reimbursement for its monitoring efforts in the future could impact its debris monitoring efforts and further delay debris removal.

Commercial Debris Removal Policy Implementation

St. Bernard Parish has experienced setbacks in its efforts to remove a large volume of commercial properties debris.⁴ According to FEMA policy, debris can be removed from commercial property and be eligible for FEMA reimbursement when such removal is in the public interest. FEMA, State and local officials must agree as to when commercial debris is eligible for public assistance funding. However, there were inconsistencies in FEMA guidance governing the pickup of the commercial debris. According to Parish and contractor officials, the inconsistencies created confusion and uncertainty as to what could or could not be collected for removal.

Immediately following the Hurricane, FEMA authorized the removal of commercial debris. Then, in late October 2005, FEMA rescinded its authorization to pick up commercial debris.

In December 2005, FEMA reconsidered its position on picking up commercial debris and reauthorized that the Parish could be reimbursed for commercial debris pick up. At that time, FEMA and the State of Louisiana agreed on eligibility criteria for commercial debris removal, including storm-generated debris.

However, in February 2006, FEMA informed the State that--unless there was prior FEMA approval--construction and demolition debris removed from commercial buildings may not be moved to the curbside for pickup under the FEMA Public Assistance Program. As a result, St. Bernard Parish could not be reimbursed for the removal of storm-generated debris from commercial properties, and the accumulation of large amounts of commercial debris led to health, safety and economic concerns.

In April 2006, St Bernard Parish asked FEMA for approval to remove the commercial debris along the public right of way. However, FEMA did not approve the request until June 2006. The Parish began to aggressively pick up the commercial debris following FEMA approval.

FEMA and State officials acknowledged that different interpretations of FEMA policies had occurred with respect to the removal of commercial debris. The officials agreed that inconsistent interpretations had delayed the economic recovery of the Parish. According

⁴ As of June 2006, an estimate of the amount of commercial debris to be removed did not exist.

to St. Bernard Parish officials, both residential and commercial debris concerns need to be addressed to allow the Parish to economically recover and for the residents to safely return to their homes.

DISCUSSIONS WITH MANAGEMENT

The results of the review were discussed with DHS/FEMA, State, Parish, and contractor officials. The comments received during the discussions have been incorporated, as appropriate, into the RESULTS OF THE AUDIT section of the report. Actions planned or taken in response to the review have also been incorporated into the report.

**Department of Homeland Security
Office of Inspector General
State of Louisiana – Saint Bernard Parish
Review of Debris Removal Activities**

Schedule of Approved Project Worksheets as of March 31, 2006

| Project Worksheet | Activity | Total Amount Approved |
|--------------------------|-------------------|------------------------------|
| 2050 | Debris Removal | \$ 17,987,638 |
| 2496 ⁵ | Debris Removal | \$ 0 |
| 2573 | Debris Removal | \$ 67,283 |
| 3078 | Debris Removal | \$ 70,725,651 |
| 3812 | Debris Removal | \$ 243,018 |
| 3442 | Debris Removal | \$ 40,656 |
| 3658 | Debris Removal | \$ 9,358,200 |
| 3816 | Debris Monitoring | \$ 480,306 |
| Total | | \$ 98,902,752 |

⁵ Project Worksheet No. 2496 was approved for over \$22 million, but was subsequently de-obligated because the debris covered by the Worksheet was determined to be ineligible debris.

**Department of Homeland Security
Office of Inspector General
State of Louisiana – Saint Bernard Parish
Review of Debris Removal Activities**

Objectives, Scope, and Methodology

The **objective** of Foxx & Company’s review of ongoing Hurricane Katrina debris removal activities in St. Bernard Parish, Louisiana was to determine whether the awarded contracts and contractor billings were in compliance with applicable Federal criteria. Foxx also reviewed selected aspects of the overall management of debris removal and monitoring within the Parish because of the magnitude of the devastation, the volume of debris created by Katrina, and the length of time that it will take to complete the removal process. The **scope** of the review included all debris removal and monitoring activities managed by St. Bernard Parish during the period August 29, 2005 and March 31, 2006.

The Department of Homeland Security, Office of Inspector General (DHS/OIG) is reporting the results of the audit to appropriate DHS officials. Foxx & Company discussed the review results in draft with cognizant DHS, State of Louisiana, and Parish officials. The comments received were incorporated, as appropriate, within the body of the report.

Foxx & Company’s **methodology** included reviewing all contract types, procurement methods, reasonableness of contract rates, compliance with Federal requirements, and cost/price analyses performed by the Parish. We also reviewed contractor billings through March 31, 2006, to determine whether the amounts claimed for incurred expenses were appropriately supported, accurate, and according to applicable laws and regulations.

Foxx & Company performed the work at the Joint Field Office in Baton Rouge, FEMA’s area offices in New Orleans, St. Bernard Parish’s government offices, contractor locations, and at the temporary and permanent landfill locations. The nature and brevity of this review precluded the use of our normal review protocols. Therefore, this review was not conducted according to Generally Accepted Government Auditing Standards. Had we followed such standards, other matters may have come to our attention.

**Department of Homeland Security
Office of Inspector General
State of Louisiana – Saint Bernard Parish
Review of Debris Removal Activities**

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