



Homeland
Security

SEP 29 2006

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

FROM: *Dennis R. White*
for Jack Lankford
Gulf Coast Audit Manager

SUBJECT: *Review of Hurricane Katrina Activities
Congressional Inquiry, Contingency Payment of Contractors in
St. Tammany Parish, Louisiana
Report Number GC-01-06-57*

The purpose of this memorandum is to inform you of the results of our inquiry regarding an allegation that St. Tammany Parish (Parish) was not paying one of its debris removal prime contractors in a timely manner and, consequently, the prime contractor was not paying its subcontractors in a timely manner. The subcontractor's allegation further stated that the Parish's reason for not paying was because it was concerned that the Federal Emergency Management Agency (FEMA) might not reimburse the Parish for the work. We initiated this review based on a request from Congressman Dennis Moore. Our objectives were to determine whether the Parish was not paying its debris removal contractors in a timely manner and whether the Parish, in turn, was not paying because it was concerned that the work would not be eligible for FEMA reimbursement.

We reviewed the Project Worksheet (PW) and related correspondence and interviewed officials from FEMA and the Parish.

The Parish contracted for the removal of "leaners and hangers" from trees damaged by Hurricane Katrina. The prime contractor hired a number of subcontractors to do the work. FEMA obligated funding for the work under PW Number 3068. FEMA funding was available and the work was substantially completed when the contractor billed the Parish in March 2006. As of August 10, 2006, the Parish requested and received 50 percent of the prime contractor's billings and had paid that amount, or about \$7 million, to the prime contractor. The prime contractor had paid its subcontractors less than 50 percent of their billings.

Parish officials told us that payments are slow because they are reviewing the bills for accuracy. We recognize the importance of reviewing bills before paying them, but nearly six months appears to be an excessive amount of time. We have not noted such long payment delays in other debris removal operations that we have reviewed in the Parish.

We could not determine whether the Parish was not paying the bills because it was concerned that the work may not be eligible for FEMA reimbursement. FEMA policy prohibits making payments to a contractor contingent upon FEMA reimbursement of costs. Although Parish personnel said that

they were concerned that they may pay contractor billings that might eventually be determined ineligible by FEMA, there was no documentation indicating that payments to contractors were contingent on the work being eligible for FEMA reimbursement. We contacted FEMA and State program officials for their comments on this issue. FEMA agreed that the Parish is prohibited from making contract payments contingent on FEMA reimbursement. The State withheld comment pending a legal opinion.

Because the payment delays have been excessive and are impacting the financial health of contractors and subcontractors, and because the delays are related to the Parish's concern about the eligibility of the work for FEMA reimbursement, we recommend that the Director, Louisiana Transitional Recovery Office, in coordination with the State and the Parish, encourage the Parish to expedite the review and payment process and ensure that payments to contractors are not contingent upon FEMA reimbursement. Please advise us within 30 days of the actions you have taken or planned to implement this recommendation. Your response should be sent to:

U.S. Department of Homeland Security
Office of Inspector General
One Seine Court, 6th Floor
New Orleans, LA 70114

We conducted this review in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the federal government in the aftermath of Hurricanes Katrina and Rita. As such, we have forwarded a copy of the report to the PCIE Homeland Security Working Group that is coordinating Inspectors' General review of this important subject.

The nature and brevity of this assignment precluded the use of our normal audit protocols; therefore, this review was not conducted according to generally accepted government auditing standards. Had we followed such standards, other matters might have come to our attention.

Should you have any questions, please call me at (510) 377-7383.

cc: Under Secretary for Federal Emergency Management
Acting Under Secretary for Management
General Counsel, DHS
Chief Financial Officer, DHS
Chief Procurement Officer, DHS
Audit Liaison, DHS
Chief Financial Officer, FEMA
Audit Liaisons, FEMA
Deputy Director, Gulf Coast Recovery
Regional Director, FEMA Region IV
Public Assistance Officer, FEMA Louisiana TRO

Chief of Staff, FEMA Louisiana TRO
Manager, Compliance Audit Division, LLA
Louisiana State Coordinating Officer
Louisiana State Inspector General