



# City of New Orleans, New Orleans, LA

## Community Development Block Grant Disaster Recovery Assistance Funds



**To:** Cheryl S. Breaux,  
Director, Office of Community Planning and Development, 6HD

**From:** //signed//  
Gerald Kirkland,  
Regional Inspector General for Audit, 6AGA

**Subject:** The City of New Orleans, LA, Did Not Always Comply With Requirements  
When Administering Its 2013 Disaster Relief Grant

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of our audit of the City of New Orleans, LA's Community Development Block Grant 2013 Disaster Relief Appropriations Act grant.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



**Audit Report Number: 2015-FW-1002**

**Date: June 26, 2015**

**The City of New Orleans, LA, Did Not Always Comply With Requirements  
When Administering Its 2013 Disaster Relief Grant**

## Highlights

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### What We Audited and Why

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We audited the City of New Orleans' Community Development Block Grant Disaster Recovery (CDBG-DR) assistance funds awarded to the City as a result of damages caused by Hurricane Isaac. We selected the City for review as part of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's national annual audit plan. Our objective was to determine whether the City maintained adequate procurement controls and financial management systems and administered its CDBG-DR funds in accordance with Federal guidelines, HUD regulations, and other requirements.

### What We Found

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The City did not always maintain adequate procurement controls and financial management systems or administer its CDBG-DR funds in accordance with Federal guidelines, HUD regulations, and other requirements. Specifically, it did not always (1) prepare independent cost estimates or cost analyses, (2) have documentation to support expenditures, or (3) submit timely projections to HUD or maintain a complete public Web site. These conditions occurred because the City did not understand or disregarded Federal requirements or did not have written documentation setting clear requirements for its CDBG-DR contracted work. As a result, it could not show that costs were reasonable, adequately support its contract costs, or ensure that it received the greatest overall benefit from more than \$2.5 million paid to its contractors. Further, the City could not provide reasonable assurance to HUD that it had adequate procurement and financial controls for the proper administration and expenditure of its CDBG-DR funds; thus, its remaining \$4.5 million in CDBG-DR grant funds was at risk of mismanagement.

### What We Recommend

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We recommend that HUD require the City to (1) support or repay more than \$2.5 million and develop and implement a HUD-approved written plan and checklists to correct and prevent the procurement and financial deficiencies identified, to better ensure that it spends its remaining \$4.5 million in CDBG-DR funds in accordance with requirements. We also recommend that HUD require the City to (1) amend its contracts to clarify the type of documentation needed to support invoices, (2) maintain complete CDBG-DR procurement and expenditure files, (3) obtain training concerning procurement and CDBG-DR requirements, and (4) maintain a required log of its Web site updates and submit the log to HUD periodically for review to ensure that it completes the updates in a timely manner and in accordance with the requirements.

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# Background and Objective

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Through the Disaster Relief Appropriations Act of 2013 (Act),<sup>1</sup> Congress made available \$15.18 billion in Community Development Block Grant (CDBG) funds for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization. In accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1974, these funds were to be used in the most impacted and distressed areas affected by disasters that occurred during calendar years 2011, 2012, and 2013. The U.S. Department of Housing and Urban Development (HUD), Office of Community Planning and Development, is responsible for the management and oversight of the CDBG Disaster Recovery (CDBG-DR) assistance program.

The Act required HUD to certify, in advance to signing the grant agreement with the City that the City had in place proficient procurement processes and financial controls.<sup>2</sup> In turn, HUD, in its Federal Register, required the City make submissions showing evidence that it had adequate procurement processes and financial controls.<sup>3</sup> The Federal Register also required the City to submit a plan detailing its proposed use of funds to address disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization in the most impacted and distressed areas.<sup>4</sup> As part of the City's action plan, dated September 3, 2013, the City documented its need for funding, which emphasized repairing infrastructure and improving failed or negatively impacted water and drainage areas, and provided policies and procedures outlining its procurement processes and financial controls.

On May 29, 2013, through Federal Register Volume 78, Number 103, HUD, allocated more than \$514 million<sup>5</sup> to assist with recovery in the most impacted and distressed areas declared with a major disaster in 2011 or 2012. Of this amount, HUD allocated more than \$15 million to the City of New Orleans to assist with recovery from widespread damage caused by Hurricane Isaac, which made landfall on the Louisiana coast in August 2012. On April 22, 2014, HUD executed a grant agreement with the City for \$7.1 million in CDBG-DR funds with an expenditure deadline of 2 years. As of October 31, 2014, the City had spent more than \$2.5 million to pay administration costs and for four contractors to carry out disaster-related activities, including grant management, demolition, and drainage cleaning services.

Our objective was to determine whether the City maintained adequate procurement control and financial management systems and administered its CDBG-DR funds in accordance with Federal guidelines, HUD regulations, and other requirements.

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<sup>1</sup> Public Law 113-2, dated January 29, 2013, Title X, Chapter 9, initially authorized \$16 billion. On March 1, 2013 the President issued a sequestration order pursuant to section 251A of the Balanced Budget and Emergency Deficit Control Act, as amended (2 U.S.C.901a), and reduced funding to \$15.18 billion.

<sup>2</sup> Public Law 113-2, dated January 29, 2013, Title VIII

<sup>3</sup> 78 FR 103 (May 29, 2013), section IV

<sup>4</sup> 78 FR 103 (May 29, 2013), section II

<sup>5</sup> This was the second allocation of CDBG-DR funds appropriated by the Act.

# Results of Audit

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## **Finding 1: The City Did Not Administer Its CDBG-DR Funds in Accordance With Procurement and Expenditure Requirements**

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The City did not administer its CDBG-DR funds in accordance with requirements. Specifically, it did not always prepare independent cost estimates before the bidding process, perform cost analyses for contract cost increases, or prepare contract modification documents that described the scope of work and performance requirements for contract cost increases or changes. In addition, the City did not always have adequate documentation to support expenditures. These conditions occurred because the City did not (1) fully understand or follow the Federal requirements; and (2) establish clear documentation requirements for CDBG-DR work. As a result, it could not show that costs were reasonable, adequately support its contract costs, or ensure that it received the greatest overall benefit from more than \$2.5 million paid to its contractors. Further, the City could not provide reasonable assurance to HUD that it had adequate procurement and financial control systems in place for the proper administration and expenditure of its CDBG-DR funds. Finally, the remaining \$4.5 million under its CDBG-DR grant agreement with HUD was at risk of mismanagement.

### **The City Did Not Prepare Independent Costs Estimates, Cost Analyses, or Contract Modifications When Required**

Contrary to regulations at 24 CFR (Code of Federal Regulations) Part 85.36<sup>6</sup> and Federal Register Volume 78, Number 103 (May 29, 2013), for three sampled contract files, the City did not always prepare (1) independent cost estimates, (2) cost analyses, or (3) adequate contract modifications for the CDBG-DR contracts (see the table below).

#### **Material procurement deficiencies**

<b>Contract type</b>	<b>Contract payments (as of October 2014)</b>	<b>No independent cost estimate</b>	<b>No cost analysis for contract increases</b>	<b>Inadequate contract modification</b>
Drainage cleaning	\$1,611,143		X	X
Demolition	616,529	X	X	X
Grant management	328,737	X	X	X
<b>Total</b>	<b>\$2,556,409</b>			

Before Hurricane Isaac, the City had written agreements with three contractors to clean drainage systems, perform demolition, and manage its other federally funded program grants. The City used these same contractors under its existing contracts to carry out its CDBG-DR work. The

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<sup>6</sup> The City, as a direct grantee, was subject to the procurement requirements of 24 CFR 85.36 (b) through (i).

City did not rebid for the contract work and stated that the initial procurement of the contracts documented the work requirements and its initial cost analyses supported the cost reasonableness of contract increases for CDBG-DR work.

The regulations required the City to (1) make independent cost estimates for its procurements before receiving bids or proposals; (2) perform a cost analysis when negotiating a modification, including change orders, to any type of contract if the modification changed the work authorized under the contract and the price or total estimated cost, either upward or downward;<sup>7</sup> (3) maintain records sufficient to detail the significant history of procurements, including the basis for the contract price;<sup>8</sup> and (4) make submissions to HUD showing that it had adequate procurement control systems in place.<sup>9</sup> An independent cost estimate is an in-house document used to compare to bids received during procurements to ensure that the bids are valid. A cost analysis evaluates the separate elements that make up a contractor's total cost proposal to determine whether they are allowable, directly related to the requirement, and reasonable.

However, for its demolition and grant management contracts, the City did not have documentation showing that it performed independent cost estimates before the bidding process to establish a basis for the contract prices. In addition, for its demolition contractor, the City did not perform adequate costs analyses for 10 of 41 properties demolished. Of the 10, the City performed cost analyses for 7 *after* the contractor performed the work and did not document the estimated cost for 3. For its drainage cleaning and grants management contracts, the City did not perform any cost analyses for contract cost increases.

Further, the City did not execute proper contract modification documents for contract cost increases or changes for CDBG-DR work. To document the increases, the City used a change order with minimal information, notices to proceed, and a purchase order. The change order for the demolition contractor stated only that the cost increases were needed to pay invoices. The notices to proceed for the drainage cleaning contractor only authorized the contractor to start work and did not include changes to the scope of work or performance requirements to justify the contract cost increases; even though the City waived at least one deliverable requirement. Specifically, the City required this contractor to submit project completion reports; however, when requested, the City stated that it did not require the reports for the CDBG-DR work; thereby changing the work authorized under the original contract. In addition, the City did not have written documentation showing this change.

The City was also at risk of exceeding the contract amount for its grant management contractor since it did not properly document changes to the contract. In this case, the purchase order issued to increase the contract costs resulted in an anticipated \$590,028 in excess costs over the contract amount. Had the contract increase undergone proper procurement procedures, this error may have been identified and corrected.

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<sup>7</sup> 24 CFR 85.36(f)(1), and Quick Guide to Cost and Price Analysis for HUD Grantees

<sup>8</sup> 24 CFR 85.36(b)(9)

<sup>9</sup> 78 FR 103 (May 29, 2013), section IV

### **The City Did Not Adequately Support Expenditures**

Although required by 2 CFR Part 225 and the City's Disaster CDBG Accounting Policies and Procedures Manual, for one of five sampled vouchers, the City did not maintain complete supporting documentation for more than \$1.6 million paid to its drainage cleaning contractor. This payment was for removing clogs and storm-related debris from drainage systems following Hurricane Isaac to prevent flooding in various areas in the City.

The regulations required the City to adequately document and support its costs with source documentation.<sup>10</sup> However, the City's expenditure file did not include work activity logs or other documentation to support the paid invoices. In addition, the City could not show that it verified that the quantities invoiced by the contractor for linear footage and areas cleaned were accurate. Further, the City could not show that it compared the preliminary damage assessments<sup>11</sup> to the invoices to ensure their accuracy and validity. City officials stated that they documented their review and verification by marking each item and signing the invoices. However, the invoices did not always have the markings or signatures.

### **The City Did Not Understand Requirements, Clearly Detail Documentation Requirements and Did Not Follow Its Policy**

#### *The City Did Not Understand Procurement Requirements*

The City did not understand requirements regarding the documents needed to support its procurements. Since the City believed that it could rely on the cost analyses from its existing procurements, the contract increases for the CDBG-DR work did not always have a (1)

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**The City did not understand what information they were required to maintain in their files.**

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corresponding cost analyses showing the basis for the increases or (2) proper contract modification documents describing the scope of work and performance requirements.

In addition, throughout the audit, despite repeated requests for procurement documentation, the City did not provide complete procurement files. For example, the files also did not include documentation showing (1) the rationale for the method of procurement; (2) selection of contract type; and (3) debarment reviews. In other instances, we had to explain procurement requirements to City officials because they did not understand what information they were required to maintain in their files. Since the City increased the contract costs and, in some instances, changed work authorized under the contract, it should have performed a cost analysis, executed adequate contract modification documents, and maintained documentation supporting the procurement history and the need for the changes.<sup>12</sup>

Without (1) independent cost estimates to ensure cost reasonableness, (2) cost analyses showing how it derived the contract cost increases, (3) contract modification documents establishing the

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<sup>10</sup> 2 CFR Part 225, appendix A-C(1)(j) and 24 CFR 85.20(b)(6)

<sup>11</sup> According to the City, the Federal Emergency Management Agency had completed preliminary damage assessment before the emergency work began.

<sup>12</sup> 24 CFR 85.36(b)(9) and (f)(1)

terms and details for the contract increases or changes in work authorized under the contract, the City could not show that costs were reasonable or ensure that it received the greatest overall benefit from more than \$2.5 million paid to its contractors. In addition, the City could not provide reasonable assurance to HUD that it had adequate procurement control systems in place.

*The City Did Not Clearly Detail Documentation Requirements and Did Not Follow Its Policy*

In addition to not following Federal requirements and its policies and procedures when documenting its expenditures, the City's contract agreement with its drainage cleaning contractor did not detail the types of source documentation needed to support its invoices. Therefore, the City could not support more than \$1.6 million<sup>13</sup> or provide reasonable assurance to HUD that it had adequate financial control systems in place.

**The City Had Begun To Take Action to Resolve Deficiencies Related to Inadequate Documentation**

During the audit, the City did not provide complete file documentation for its procurement and expenditure transactions, resulting in many requests for missing documents. After the audit fieldwork ended, the City provided more than 18,000

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The City did not provide complete file documentation, resulting in many requests for missing documents.

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pages of documentation to support its procurements and expenditures. We considered the procurement documentation when finalizing our conclusions. However, due to the large amount of documentation provided for payments to the drainage cleaning contractor, we did not fully assess its validity or adequacy. We performed a cursory review of the documentation to assess whether it was sufficient to justify a reduction in the questioned costs in this report. We compared the work activity logs, provided as support for payments to the drainage cleaning contractor, to the contractor's invoices. We determined that the work activity logs were not reliable. For example, the work activity log did not show more than \$5,000 that the City paid for Chadmark Street. Therefore, we discontinued our review and based our conclusions on the documentation reviewed during the audit. The City will need to provide the remaining documentation to HUD for review during the audit resolution process and they will assist the City with resolving the recommendations.

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<sup>13</sup> These funds were also considered unsupported as part of the procurement review.

## **Conclusion**

Because the City did not fully understand Federal requirements, establish clear requirements for its contractors, or follow its own accounting policies, it did not always prepare independent cost estimates before the bidding process, perform cost analyses for contract cost increases, prepare contract modification documents describing the scope of work and performance requirements for contract cost increases, adequately support expenditures, or verify the accuracy of invoices before making payments. As a result, the City could not show that costs were reasonable, adequately support its contract costs, or ensure that it received the greatest overall benefit from more than \$2.5 million paid to its contractors. In addition, the City could not provide reasonable assurance to HUD that it had adequate procurement and financial control systems in place to ensure the proper administration and expenditure of disaster funds. Further, the remaining \$4.5 million under its CDBG-DR grant agreement with HUD was at risk of mismanagement.

## **Recommendations**

We recommend that the Director of HUD's New Orleans Office of Community Planning and Development require the City to

- 1A. Support the cost reasonableness of the drainage cleaning contract and provide adequate support for payment of the contractor's invoices or repay its grant any of the \$1,611,143 that it cannot support. Repayment should be from non-Federal funds.
- 1B. Support the reasonableness of the cost increases for the demolition contract or repay \$616,529 to its grant from non-Federal funds.
- 1C. Support the reasonableness of the cost increases for the grant management contract or repay \$328,737 to its grant from non-Federal funds.
- 1D. Develop and implement a HUD-approved written plan and checklists that will correct and prevent the deficiencies outlined in the finding to ensure compliance with CDBG-DR requirements and the procurement and expenditure policies and procedures it previously submitted to HUD. The written plan and checklists should include systems that ensure that it performs independent cost estimates and cost analyses, maintains documentation supporting the complete history of its procurements, and maintains adequate supporting documentation for its expenditures. Implementing this recommendation should better ensure that the City spends its remaining \$4.5 million in CDBG-DR funds in accordance with requirements.
- 1E. Obtain training on Federal procurement requirements. The training should include instructions on preparing independent cost estimates and cost analyses as well as maintaining adequate cost reasonableness and contract modification documentation to ensure that the City maintains proficient procurement practices.
- 1F. Amend its drainage cleaning contract to clarify and specify the type of documentation needed to support its expenditures.
- 1G. Maintain complete CDBG-DR procurement and expenditures files with all documentation needed to support its transactions, activities, and compliance with Federal requirements.

## **Finding 2: The City Did Not Submit Timely Projections, and Its CDBG-DR Web Site Lacked Required Information**

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The City did not always follow Federal requirements as it did not submit its projections in a timely manner and its CDBG-DR Web site lacked required components. This condition occurred because the City disregarded or was not always aware of the requirements. As a result, it could not provide reasonable assurance to HUD that it had adequate controls to ensure compliance with CDBG-DR requirements, properly implement and administer its grant, or provide transparency and accountability to the public.

### **The City Did Not Submit Its Projections in a Timely Manner**

Federal regulations required the City to amend its published action plan with a projection of expenditures and outcomes to HUD within 90 days of HUD approving its action plan.<sup>14</sup> HUD needed this information to track the City's progress and evaluate expenditure timeliness in relation to the projection schedules. HUD informed the City on several occasions that it had not submitted its projections, which were due March 30, 2014.<sup>15</sup> However, the City did not submit its projections until more than 6 months after the due date, disregarding the HUD requests and showing an inability to meet CDBG-DR requirements. Because of the City's inability to provide the information in a timely matter, it could not assure HUD that it had adequate controls to properly implement and administer its grant.

### **The City's Web Site Lacked Required Information**

A review of the City's public Web site determined that the Web site did not include procurement policies and procedures, executed CDBG-DR contracts, and the status of services or goods procured (for example, the phase of the procurement, requirements for proposals, etc.) as required.<sup>16</sup> When we notified the City that its Web site did not comply with the requirements, City officials stated that they were not aware of all the Web site requirements. Therefore, we provided the requirements to the City, but it did not comply. Three months later, we again notified the City that its Web site did not comply with the requirements. The City then updated its Web site. By not complying with the requirements, the City failed to provide full transparency and accountability to the public.

### **Recommendations**

We recommend that the Director of HUD's New Orleans Office of Community Planning and Development require the City to

- 2A. Maintain a log of its required Web site updates and submit it to HUD periodically for review to ensure that the City completes timely updates in line with requirements.
- 2B. Obtain training concerning the CDBG-DR requirements including related Federal Register requirements. Specifically, the training should include instructions on submission requirements, deadlines and website requirements.

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<sup>14</sup> 78 FR 103 (May 29, 2013), sections III and IV

<sup>15</sup> HUD approved the City's action plan on December 30, 2013, and 90 days thereafter was March 30, 2014. The projection was submitted October 17, 2014.

<sup>16</sup> 78 FR 43 (March 5, 2013), section VI

# Scope and Methodology

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We conducted our audit at the City's office in New Orleans, LA, and the HUD Office of Inspector General's (OIG) offices in New Orleans and Baton Rouge, LA, between October 2014 and April 2015. Our audit scope covered the City's CDBG-DR grant for the period August 1, 2012 through October 31, 2014. We expanded the scope as necessary to accomplish our audit objective.

To accomplish our objective, we

- Reviewed relevant laws, regulations, and program guidance.
- Reviewed the City's organizational structure and written policies for the program.
- Reviewed the City's 2013 audit report, CDBG-DR grant agreement, and action plans.
- Reviewed HUD site visit reports and the City's procurement and program expenditure files.
- Interviewed City staff.
- Assessed the City's compliance with project eligibility, action plan, and funding obligation requirements.

Of five contracts in place to perform CDBG-DR work with payments totaling more than \$2.56 million, we selected for review a nonstatistical sample of three contracts, totaling more than \$2.55 million,<sup>17</sup> based upon amounts spent and high risk of noncompliance. We reviewed the procurement files to determine whether the City maintained adequate documentation to support that it procured its contracts in accordance with Federal requirements. We did not assess the reliability of any computer-processed data regarding the procurement review because we did not rely heavily on computer data to conduct this review.

Of five vouchers totaling more than \$2.56 million, which included \$306 for administrative costs and the remainder for four contractors, we performed a 100 percent review. We reviewed the expenditure files to determine whether the City made eligible and supported payments. Through file reviews, we determined that the computer-processed data were generally reliable.

In addition to the procurement and expenditure reviews, we assessed the City's compliance with (1) project eligibility, (2) action plan, and (3) funding obligation requirements. We did not assess the reliability of any computer-processed data for these assessments because we did not rely heavily on computer data to conduct this review.

We conducted the 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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>17</sup> For the other two contracts, the City had paid only \$3,999 on one and \$0 for the other.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of policies and procedures used to implement its CDBG-DR grant.
- Reliability of data concerning CDBG-DR expenditures.
- Compliance with applicable Federal requirements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The City did not administer its CDBG-DR funds in accordance with requirements. Specifically, it did not always comply with procurement requirements or always have documentation to support its CDBG-DR expenditures (finding 1).
- The City did not always comply with Federal requirements as it did not (1) amend its published action plan to include its projection of expenditures and outcomes within 90 days of the action plan's approval and (2) maintain a complete public Web site (finding 2).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs and Funds to Be Put to Better Use**

<b>Recommendation number</b>	<b>Unsupported 1/</b>	<b>Funds To Be Put to Better Use 2/</b>
1A	\$1,611,143	
1B	616,529	
1C	328,737	
1D		\$4,539,286
<b>Totals</b>	<b>\$2,556,409</b>	<b>\$4,539,286</b>

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, requiring the City to develop and implement a HUD-approved written plan and checklists that will correct and prevent the deficiencies outlined in the finding, as well as ensuring that it remains compliant with CDBG-DR requirements and the procurement and expenditure policies and procedures it previously submitted to HUD, will better ensure that the City spends its remaining \$4.5 million<sup>18</sup> in CDBG-DR funds in accordance with requirements.

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<sup>18</sup> \$7,100,000 grant amount - \$2,560,714 expenditures = \$4,539,286.

# Appendix B

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 1

OFFICE OF COMMUNITY DEVELOPMENT  
**CITY OF NEW ORLEANS**

Mitchell J. Landricu  
MAYOR

Ellen M. Lee  
DIRECTOR

June 1, 2015

Mr. Gerald R. Kirkland  
Regional Inspector General for Audit  
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Office of Inspector General  
819 Taylor Street Suite 13A09  
Fort Worth, TX. 76102

**RE: 2014 City of New Orleans Audit of Community Development Block Grant Disaster Recovery (CDBG-DR) – Hurricane Isaac**

Dear Mr. Kirkland:

The City of New Orleans is in receipt of the draft audit report concerning the Community Development Block Grant (CDBG) Disaster Recovery Assistance Funds dated May 21, 2015 as well as participating in the May 27, 2015 discussion of said report. This audit was conducted by the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG) beginning on October 27, 2014. The objective, as stated in the HUD OIG Audit Draft Results report was to determine whether the City of New Orleans maintained adequate procurement controls and financial management systems and administered its Community Development Block Grant Disaster Recovery (CDBG-DR) funds in accordance with Federal guidelines, HUD regulations, and other requirements.

Enclosed please find the City's response to the findings and recommendation as noted:

According to the Draft Audit Report HUD OIG believes that the City either did not understand or there was disregard for the Federal requirements associated with the CDBG-DR contract work. The City of New Orleans disagrees with the findings identified in the draft report.

The declaration of Hurricane Isaac in August 2012, pre-qualified the City of New Orleans for the Disaster Relief Appropriations Act of 2013. This Act required HUD to certify, in advance, that the City had proficient procurement processes and financial controls. At no point during the HUD certification process, the City's submissions of its procurement processes and financial controls, nor the Action Plan was the City notified in any manner that there were compliance concerns identified by HUD. The City worked closely with HUD representatives and stipulated in its use of funds plan that any CDBG-DR funding received would be used to cover the 25% cost share match the City had with FEMA for Hurricane Isaac or to cover expenses that were as a result of Hurricane Isaac but were not eligible for FEMA reimbursement. Each of the expenses

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being questioned during this audit were in existence at the time the City executed a grant agreement with HUD for the \$7.1 million dollars.

**Finding #1 Response: The City Did Not Administer Its CDBG-DR Funds in Accordance With Procurement and Expenditure Requirements**

Per the finding, HUD OIG believes the City did not always prepare independent cost estimates before the bidding process, perform cost analyses for contract cost increases, or pre-contract modification documents that describe the scope of work and performance requirements for contract cost increases. Either, HUD OIG did not understand or did not ask for clarification from the City during its review of the documentation provided. Pursuant to Louisiana State Law, the Home Rule Charter of the City of New Orleans, the City of New Orleans Municipal Code as well as Chief Administrative Office Policy Memoranda including, but not limited to, Policy Memorandum 113(R), the City of New Orleans will release no Public Works solicitation without an approved requisition sufficient to cover the confirmed estimate of the proposed project cost. Typically, this cost estimate is referenced on the first page of all solicitation documents.

**Storm Drain Cleaning and Demolitions:**

As it relates to the storm drain cleaning contract with Magnum and the demolition contract with Metro Durr, the finding that the City should have performed cost analyses to justify contract cost increases, please see the detailed explanations below:

Both contracts were awarded as unit cost contracts. This means the City provided a rate sheet of services attached to the Invitation to Bid (ITB) (see Attachment 1) and each responsive bidder submitted their best rates for each service listed on the rate sheet. For Magnum, the City's rate sheet included estimates. Of all the responsive bidders, the City selects the vendor with the overall lowest rates. Quantities are not relevant on Magnum's rate sheet, so it is implied that the rate refers to a unit of one. The auditors reviewed, in error, the unit costs with a quantity of one as the total contract value, and compared that against the total value of what was invoiced by Magnum. To ensure cost reasonableness, the City's invoices should have been reviewed to ensure the rates billed were the same rates outlined in the contracts. If the billed rates exceeded the contract rates, there would have been a contract increase issue; however, that did not occur. For each of the seven (7) invoices submitted by Magnum, the rates billed mirror the rates outlined in their contract with the City.

In the case of the City's demolition contract with Metro Durr, although quantities are referenced on the rate sheets; it is made clear that these quantities are used for bid comparison purposes only. The quantities provided were projections which differed from actual assigned work. The

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Comment 2

Comment 3

Comment 4, 7

Comment 5

Comment 6

Comment 4

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 MAYOR

Ellen M. Lee  
 DIRECTOR

Comment 7

finding implies that the City's contract and amendment documents did not reflect changes in the scope of work, which is accurate as there was not a need for any scope changes associated with this disaster-related demolition work per the previous statement. The services listed on the contract rate sheet are the exact same services that appear on Metro Durr's invoices to the City of New Orleans. The City's disaster-related demolition scope included a list of 41 Imminent Danger of Collapse (IDC) properties (see **Attachment 2**), which is supported by Preliminary Assessment Reports and Notices to Proceed (see **Attachment 3**). These Notices to Proceed function as work orders from the City's Code Enforcement Department to Metro Durr. These properties were submitted under CDBG-DR because FEMA's guidelines have been modified drastically making the IDC scope of work ineligible for reimbursement through FEMA's Public Assistance grants program.

Comment 8

Each of the contracts reviewed during this audit were properly procured in advance of Hurricane Isaac as the City utilizes the vendors during the normal course of operations outside of emergency declarations. The rates billed prior to Isaac are the same rates billed during Isaac, which further demonstrates cost reasonableness. In the case of Magnum Construction, the rates billed are actually lower than the City's estimated rates provided in the Invitation to Bid.

Comment 9

Further disputing the finding that cost estimates and/ or cost analyses were not performed-for Magnum's work scope, the City's Department of Public Works also prepared a cost estimate on September 3, 2012 (see **Attachment 4**) in conjunction with FEMA and the City's grants management consultants for Isaac recovery work. This cost estimate assessed the overall drainage and catch basin work to be performed at \$6,000,000.00, see chart below:

	Quantity	Unit Price	Unit of Measure	Estimated Total Cost
Catch Basins	10,000	\$250.00	Each	\$ 2,500,000.00
Drain Lines	1,000,000	\$3.50	Linear Feet	\$ 3,500,000.00
				<b>\$ 6,000,000.00</b>

As indicated in the next chart outlined below, the seven (7) invoices billed by Magnum are well within the initial \$6 Million cost estimate drafted by the City's Department of Public Works.

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Invoice#	Invoice Date	Invoice Amount
121082P-1	9/14/2012	\$ 35,617.76
121082P-2	10/1/2012	\$ 357,781.11
03-121082P-3A	10/31/2012	\$ 2,319,739.66
03-121082P-3B	10/31/2012	\$ 1,237,911.93
04-121082P-4A	11/13/2012	\$ 1,334,853.53
04-121082P-4B	11/14/2012	\$ 288,703.44
05-121082P-5	12/13/2012	\$ 39,763.05
		<b>\$ 5,614,370.48</b>

Comment 10

Per the finding, the City's expenditure file did not include activity work logs or any other documentation to support the paid invoices. The City provided at least 5 banker's boxes of supporting documentation. The documentation was requested by the City's Documents Control Department once it was clarified what level of support would be needed and was shared with the auditors at the end of their fieldwork phase. Over 18,000 pages of documentation was shared with the auditors, yet a very small sample size (Chadmark Street only) was tested which yielded the determination that the City did not have a sufficient level of supporting information. Of the \$1,611,143 submitted to the auditors for testing, the value of the work for Chadmark Street is approximately \$5,146.62.

Grants Management:

Comment 11

The finding stated the City of New Orleans was at risk of exceeding the contract amount for its grants management contractor, Jacobs CSRS/ New Orleans Grants Management Group, since purchase orders were used to increase contract costs. Jacobs/ NOGMG provides quarterly task orders with estimates for the work to be performed (**see Attachment 5**) which gives the City visibility of the projected costs of grants management work in 3-months intervals. If any risk of exceeding contracts were to occur, the City would have ample time to draft and route a contract amendment to address any changes.

Comment 12

In addition to City of New Orleans's grants management contract being properly procured, it also compared the awarded contractor's rates against General Services Administration's (GSA) Authorized Federal Supply Service Price List: Contract GS-10F-0358K effective from September 1, 2000 through August 31, 2015 (see Attachment 6). Jacobs CSRS/ New Orleans Grants Management Groups' rates by labor category were either lower than or well within an

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Comment 12

acceptable range to GSA's rates. Furthermore, the City's grant management rates are validated quarterly as task orders estimating the work for the quarter are submitted for City approval.

**Finding #2 Response: The City Did Not Submit Timely Projections, and Its CDBG-DR Web Site Lacked Required Information**

*The City's Website Lacked Required Documentation*

Comment 13

The City of New Orleans will concede to this finding; however, it should be noted that all required and requested updates were made to the City's website during HUD OIG's field work phase. The City will adhere to HUD OIG's recommendation to maintain a log of the required Website updates and it will be submitted for quarterly review.

Comment 14

The City takes the findings outlined in HUD OIG's draft audit report very seriously. The City believes the manner in which the audit was conducted led to an environment of confusion where clear and concise requests for documentation or clarification were not received. The City of New Orleans will work continuously with HUD representatives to ensure access is granted to any and all documentation required to resolve these finding. If further information is required concerning the above corrective actions, please feel free to contact Natasha F. Muse, Director of Administrative Support at (504) 658-4208 or [nfmuse@nola.gov](mailto:nfmuse@nola.gov).

Sincerely,



Ellen M. Lee  
Director of Housing Policy and Community Development

EML/mdw  
Enclosures

cc: Cheryl S. Breaux  
Tracey Carney  
Russell Quinola  
Natasha F. Muse  
Katie Dignan  
Mia D. Wallace

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## OIG Evaluation of Auditee Comments

- Comment 1** The City asserted that at no point during the HUD certification process, the City's submissions of its procurement processes and financial controls, or the action plan was the City notified that there were compliance concerns identified by HUD. We disagree. On October 20, 2013, HUD notified the City that it had to make resubmissions because its financial controls and action plan did not comply with HUD regulations. In addition, during HUD's certification process, with respect to financial controls and procurement processes, HUD ensured that the City had necessary written procedures in place to administer the CDBG-DR grant. However, HUD did not certify that the City would administer and spend grant funds in accordance with these procedures and comply with HUD requirements once the City received the grant funds.
- Comment 2** The City asserted that HUD OIG did not understand or ask for clarification from the City during its review of the documentation provided. The City did not elaborate on what it believed HUD OIG misunderstood. Regarding the requests for clarification, we disagree. We sent many emails and met with the City staff several times, requesting documentation and clarification of documentation provided. In some instances, we asked for the same documentation several times. Federal regulations<sup>19</sup> required the City to maintain sufficient documentation in its files to support its grant activities. However, the City did not maintain sufficient documentation resulting in the need for further explanation or clarification. See examples of requests for procurement-related documentation and clarification in appendix C.
- Comment 3** The City asserted that under Louisiana State Law, the City's Home Rule Charter, and Chief Administrative Office policy memorandums, including but not limited to Policy Memorandum 113(R), the City will release no public work solicitation without an approved requisition sufficient to cover the confirmed estimate of the proposed project cost. This cost estimate is typically referenced on the first page of all solicitation documents. We acknowledge the City's explanation of these requirements. However, 24 CFR 85.36(b)(9) and (f)(1) required the City to perform and maintain documentation of an independent cost estimate, which must be performed before the bidding process. The City did not provide this documentation for its demolition and grant management contracts. In addition, during the exit conference, the City stated that it often based estimates on the knowledge and 20-plus years' experience of its staff rather than documented research. Further, because the purpose of the independent cost estimate is to compare it to bids to ensure that the bids are valid, it should not be referenced on solicitation documents. Providing potential bidders with this information defeats its purpose and exposes HUD funds to fraud, waste, and abuse (for example, bid rigging, underbidding, etc.). Therefore, we stand by our conclusions.

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<sup>19</sup> 24 CFR 85.20(b)(2) and (b)(6); 24 CFR 85.36(f)(1); and 2 CFR Part 225, appendix C (1)(j)

**Comment 4** The City stated that its drainage cleaning and demolitions contracts were unit price contracts, meaning that it provided a rate sheet of services attached to the invitation to bid, each responsive bidder provided its best rates for each service listed on the rate sheet, and the City selected the vendor with the overall lowest rates. The City asserted that quantities were not relevant on the contractor's rate sheet, which implied that the rate referred to a unit of one. We disagree. We did not base our conclusions on implications but, rather, on what the City documented in its files. The contract documents did not include information regarding the contract type and contract ceiling amount or statements that the quantities were not relevant. Therefore, we stand by our conclusions.

**Comment 5** The City asserted that HUD OIG mistakenly reviewed the unit costs with a quantity of one as the total contract value and compared that against the total value of what was invoiced by the drainage cleaning contractor. The City believed that to ensure cost reasonableness, its invoices should have been reviewed to ensure that the billed rates were the same rates outlined in the contract.

We disagree. HUD's Quick Guide to Cost and Price Analysis for HUD Grantees required a cost analysis when negotiating a *modification*, including change orders, to *any* type of contract if the modification changed the work authorized under the contract and the price or total estimated cost, either upward *or* downward. The City extended the original contract, dated April 2008, annually through April 2013. The extensions to the contract stated that the terms and conditions of the agreement remained in full force and effect and did not include increases in contract costs or changes to the authorized contract work. However, as noted in the March 5 through 11, 2015, email communications (appendix C), the City stated that it did not require certain contract deliverables for the CDBG-DR work. This statement constituted a change to the work authorized under the contract. In addition, the contract documents reflected a contract amount of \$10,000, and the CDBG-DR work increased the contract cost to more than \$6 million, thus exceeding the total estimated cost.

Although the unit price did not change, by extending the dates for the contract work, waiving deliverables, and exceeding the total estimated cost, the City essentially modified the work authorized under the original contract and was required to perform a cost analysis. We amended the report to provide further clarification regarding the requirement for the cost analysis. However, we stand by our conclusion that the City was required to perform a cost analysis.

**Comment 6** The City asserted that if the billed rates exceeded the contract rates, there would have been a contract increase issue; however, that did not occur. We disagree. The City's assertion refers to an expenditure issue rather than the procurement issue discussed in the finding. We agree that the rates did not exceed the contract rates since we verified this through our expenditure review. Had we determined that the rates exceeded the contract rates, it would have been an expenditure issue

rather than a contract increase or procurement issue. Therefore, we stand by our conclusion.

**Comment 7** The City asserted that the demolition contract was a unit price contract and that the services listed on the contract rate sheet were the same services that appeared on the invoices to the City and there was no need for scope changes. With its response, the City provided an imminent danger of collapse property listing, preliminary damage assessments, and notices to proceed to support costs. Based on our review of this additional documentation, we agree that the City conducted an adequate cost analysis before increasing the contract amount for 31 of 41 properties demolished. However, for the remaining 10, the City performed cost analyses for 7 *after* the work was performed and did not document the estimated cost for 3. Therefore, we revised the report to reflect this conclusion. Further, as stated in comment 3 above, the City did not provide documentation showing that it performed an independent cost estimate. Thus, we stand by our conclusion regarding the cost reasonableness of this contract.

**Comment 8** The City asserted that each of the contracts reviewed during the audit was properly procured in advance of Hurricane Isaac as the City uses the vendors outside of emergency declarations and rates billed before Isaac were the same rates billed during Isaac, which further demonstrates cost reasonableness. We disagree. As shown in finding 1 and comments 2, 3, 4, 5, 7, 9, 11, and 12, the City did not follow HUD procurement requirements when procuring the drainage cleaning, demolition, and grant management contracts.

**Comment 9** The City asserted that further disputing the finding that cost estimates or cost analyses were not performed for the drainage cleaning contractor work scope, the City prepared a cost estimate on September 3, 2012, for Hurricane Isaac recovery work, which assessed the drainage cleaning work to be performed at \$6 million. With its response, the City provided the cost estimate documentation. Our review of this documentation determined that the cost estimate was not sufficient since the City based the estimate on the original contract rates and did not consider the contract scope changes discussed in comment 4, which may have required a reduction in the original rates.

**Comment 10** The City asserted that it provided at least five banker's boxes of supporting documentation to the auditors at the end of their fieldwork phase. The City also asserted that more than 18,000 pages were shared with the auditors yet a very small sample size (Chadmark Street only) was tested. Specifically, of more than \$1.6 million submitted, approximately \$5,146 was for Chadmark Street, which yielded a determination that the City did not have a sufficient level of supporting documentation.

We disagree. We requested this documentation in January and again in February 2015. The City provided the documentation, consisting of more than 18,000 pages, in April 2015 *after* audit fieldwork had ended. The statements referring to Chadmark Street were an example of deficiencies identified during a cursory review of the additional documentation provided and did not represent the

questioned costs. We based the conclusions regarding the unsupported costs on the City's failure to provide adequate supporting documentation with its expenditure files during the audit.

In addition, during our exit conference, we informed the City that this was a cursory review, the example was not the basis for the questioned costs, and it would have to work with HUD to resolve the issues. We amended the report to provide more clarification regarding the cursory review of the additional documentation provided by the City. The City will need to provide this documentation to and work with HUD to resolve the findings and recommendations during the audit resolution process.

**Comment 11** As related to the City's risk of exceeding its contract amount for its grant management contractor, the City asserted that the contractor provides quarterly task orders with estimates for work to be performed, which gives the City visibility of projected costs in 3-month intervals. The City also asserted that if any risk of exceeding contracts were to occur, the City would have ample time to route a contract amendment.

We disagree. As of August 2014,<sup>20</sup> the City had authorized work for this contractor that exceeded the total contract amount. In addition, the City did not provide documentation showing that it had identified and corrected this issue during the audit or with its response. Further, the City's CDBG-DR policy required it to maintain a contract register to use as a tool to track contract revisions and amendments. However, the City did not maintain a contract register for its CDBG-DR contracts. Had the City maintained a contract register, it could have identified this deficiency sooner since the contract register should reflect contract activity.

**Comment 12** Regarding the grant management contract's being properly procured, the City asserted that it compared the awarded contract rates against the General Services Administration's Authorized Federal Supply Service Price List: Contract: GS-10F-0358K and the contractor's labor categories were either lower than or well within an acceptable range of the General Services Administration's rates. The City provided additional documentation listing the General Services Administration rates. Our review of this additional documentation determined that the General Services Administration rates were not completely comparable to the rates in the executed contract. Specifically, the General Services Administration listing did not include certain positions that were listed in the contract, such as integration manager, damage assessment team lead, estimator, audit support, document controls, safety coordinator, skin-envelope specialist, and certified facility manager, among others. In addition, as discussed in comment 3, the City did not provide documentation showing that it performed an independent cost estimate.

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<sup>20</sup> A screenshot from the City's purchase order inquiry system showed that as of March 3, 2015, the last transaction date for this contractor was August 19, 2014.

**Comment 13** The City conceded to finding 2 and asserted that it made all of the required and requested updates to its Web site during our fieldwork phase. We acknowledge the City's efforts in correcting its deficiencies. However, the City did not make the necessary updates until April 20, 2015, after we again informed the City of the issues and our fieldwork ended.

**Comment 14** The City stated that it takes the findings outlined in the report very seriously and asserted that the manner in which the audit was conducted led to an environment of confusion in which clear and concise requests for documentation or clarification were not received. We disagree as we communicated with the person(s) designated by the City and made several requests and follow-ups throughout the audit. The confusion and several requests for documentation resulted from the City's lack of understanding and disregard of HUD and CDBG-DR requirements. The grant agreement with HUD held the City solely responsible for administering grant funds in accordance with requirements and maintaining documentation to support its compliance.

## Appendix C

### Requests for Clarification and Documentation Regarding Procurement Files

Date of contact	Contact person	Description
November 14, 17, and 19, 2014	Director of administrative support and deputy director of transactions	Emails requesting procurement documents for the drainage and demolition contractors, which the City had not provided.
January 6, 2015	City staff	Meeting informing the City that the drainage cleaning and demolition procurement files did not include the independent cost estimates and cost analyses and again requesting those records.
January 23, 2015	Director of administrative support, project delivery unit manager, and document control lead manager	Email requesting all procurement documents for the grant management contractor. An independent cost estimate and cost analysis was not provided.
February 3 and 9, 2015	Project delivery unit manager and project manager	Emails requesting clarification of costs in notices to proceed for its drainage cleaning contractor. The City stated that it based costs on best guesses following the hurricane and did not provide documentation supporting the statement or documented cost estimate research.
March 2 and 3, 2015	Project manager, director of administrative support, and project delivery unit manager	Email and telephone contacts requesting clarification for purchase orders and documentation of cost estimates for its grants management contractor. The City stated that it did not perform the cost estimates.
March 5 through 11, 2015	Project delivery unit manager, director of administrative support, and project manager	Emails requesting a project completion report required by the drainage cleaning contract. The City stated that it did not require this deliverable for the CDBG-DR work and some City staff members were not aware of this contract requirement.
March 26 and 27, 2015	Project delivery unit manager, director of administrative support, and project manager	Follow-up emails requesting clarification for two purchase orders totaling \$5.9 million and \$590,028, provided for the grant management contract that did not have corresponding contract amendments. The City did not have a contract amendment for the \$590,028.
April 1, 8, and 14, 2015	City staff	Email informing the City that audit fieldwork had ended, provided the City with draft finding outlines, and held a formal meeting regarding the draft findings. The City provided more procurement documents that it had not provided during the audit despite many requests.