

GOVERNOR'S OFFICE OF HOMELAND SECURITY
AND EMERGENCY PREPAREDNESS



COMPLIANCE AUDIT
ISSUED JULY 9, 2008

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

July 9, 2008

MR. MARK A. COOPER, DIRECTOR
GOVERNOR'S OFFICE OF HOMELAND SECURITY
AND EMERGENCY PREPAREDNESS
Baton Rouge, Louisiana

We have audited certain transactions of the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP). Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the propriety of certain financial transactions.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*; therefore, we are not offering an opinion on the agency's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

The accompanying report presents our findings and recommendations as well as management's response. This correspondence is intended primarily for the information and use of management of GOHSEP.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Steve J. Theriot", written over a faint circular stamp.

Steve J. Theriot, CPA
Legislative Auditor

TB:GD:DD:sr

GOHSEP

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OVERVIEW

With hurricanes Katrina and Rita, south Louisiana suffered the largest natural disaster in United States history and placed enormous strains on responding agencies such as the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP).¹ GOHSEP, being understaffed to manage such a large disaster, was forced to seek outside assistance from an emergency management contractor, as well as the assistance of other subcontractors to meet its labor needs. At the request of Colonel Perry Jeff Smith, former Director of GOHSEP, we performed a review of the relationship between GOHSEP and its primary emergency management contractor, James Lee Witt Associates (JLW), and subcontractors of JLW who supply labor for administration of the Federal Emergency Management Agency (FEMA) Public Assistance (PA) program.

The objective of this review was to determine whether GOHSEP acquired needed specialized labor for its recovery efforts in the most cost effective manner and to identify measures that should be taken to prepare for any future major disasters. We reviewed the period October 2005 through December 2006. While GOHSEP management and staff and JLW performed an admirable job of responding to the disasters, it appears that GOHSEP could take advantage of alternative contracting methods and potentially realize substantial cost savings in future disaster management efforts. Although progress has been made in each of the areas described below, to effectuate these alternative methods, GOHSEP should:

1. Maintain standing or pre-bid contracts with local manpower agencies to provide the types of general administrative or data entry labor necessary during emergency situations
2. Ensure that all primary contractors possess appropriate qualifications and limit use of subcontractors where not necessary
3. Maintain staff knowledgeable of the public procurement process and who are capable of entering into large numbers of contracts quickly and efficiently
4. Maintain a database of companies with the capability to supply the different types of specialized labor that would be needed in case of catastrophic disasters
5. Develop an in-house training program for grant managers and debris monitors

The following describes the nature of the relationships among GOHSEP, JLW, and the subcontractors as well as recommendations for strengthening GOHSEP's operations and response to future disasters.

¹ Before March 2006, the Governor's Office of Homeland Security and Emergency Preparedness was named the Louisiana Office of Homeland Security and Emergency Preparedness (LOHSEP) and operated under the State Military Department (SMD). In March 2006, LOHSEP was transferred to the Governor's Office and renamed the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP). In this report, we use the most recent name – GOHSEP.

BACKGROUND

On August 29, 2005, Hurricane Katrina made landfall in Louisiana and on September 24, 2005, Hurricane Rita made landfall in Louisiana. Combined, south Louisiana suffered the largest natural disaster in United States history and placed enormous strains on responding agencies such as GOHSEP. On September 15, 2005, the State Military Department entered into a contract under which JLW agreed to provide disaster management consulting services for the state's PA program.² Under the PA program, FEMA awarded grants to state and local governments and certain nonprofit organizations. These grants were for debris removal, emergency protective measures, and restoration of infrastructure.

The contract required JLW to provide "a team of State Public Assistance Specialists." These Public Assistance Specialists were defined as FEMA program experts. An accompanying fee schedule gave the hourly billing rate for the different categories of work performed by these JLW employees. The rates ranged from \$50 for data entry work to \$275 per hour for the Principal (James Witt). The different categories of work included Project Coordinator, Public Assistance Officer, Public Assistance Coordinator, Operations Specialist, Accountant, Grant Administrator, Engineer/Programmer, Administrative Support, and Data Entry. The fee schedule attached to the JLW contract gave a rate of \$125 per hour for grant managers. This fee schedule was provided to FEMA and attached to the project worksheet approved by FEMA. Debris monitors were not listed on the original fee schedule; however, the contract was later amended to allow billing for debris monitors at \$100 per hour.

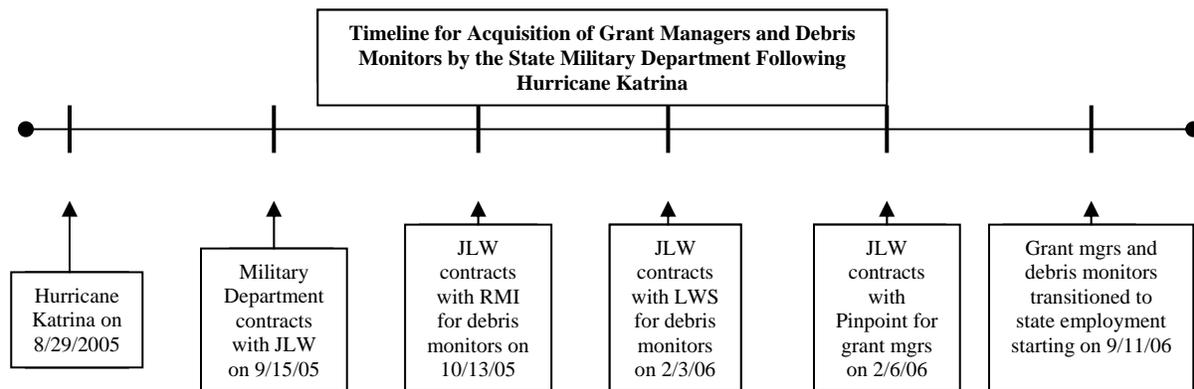
JLW used its own contract employees to fill most of these categories of work; however, it subcontracted with other companies to obtain grant managers and debris monitors. JLW billed GOHSEP approximately double its labor costs for these subcontracted employees. According to JLW, doubling labor cost is within the customary markup allowed in the industry. Had GOHSEP contracted directly for these employees rather than obtaining them through JLW, it could have avoided the 100 percent markup charged by JLW and achieved cost savings of potentially \$9,403,754.³ GOHSEP's initial plan was to eventually convert these subcontract individuals to temporary state employment. Had GOHSEP accomplished this plan earlier, the cost savings could potentially have been even more substantial because the hourly pay received by the grant managers and debris monitors was substantially less than what JLW paid its subcontractors.

² At the time the contract was signed, GOHSEP was under SMD and responsible for administration of the PA program.

³ The \$9,403,754 refers to the difference between what JLW billed GOHSEP for grant managers and debris monitors and what JLW paid its subcontractors for this labor.

JLW Subcontractors

To meet the state's demand for grant managers and debris monitors, JLW subcontracted with three companies: Pinpoint Resources for grant managers and Recovery Management, Inc., (RMI) and Louisiana Workforce Solutions LLC (LWS) for debris monitors. JLW signed the contract with RMI on October 13, 2005. The contracts with LWS and Pinpoint were signed on February 3, 2006, and February 6, 2006, respectively. The RMI contract is still in effect. JLW terminated the contracts with Pinpoint and LWS in September and October 2006, based on its understanding that the employees were to be transitioned to state employment. GOHSEP began transitioning the grant managers and debris monitors from JLW subcontractors to state employment on September 11, 2006.



Pinpoint Resources

Pinpoint is a workforce solutions firm headquartered in Indianapolis, Indiana. It was established in 1993 and offers several workforce related services including staff augmentation. According to its contract with JLW, Pinpoint's responsibilities were to screen potential hires through interviews and background checks, refer pre-qualified candidates to JLW, on-board accepted candidates, provide human resource and payroll responsibilities, and co-monitor employee performance.

According to its contract, Pinpoint was to supply approximately 68 individuals to be trained as grant managers. The hiring decisions on potential hires were not, however, to be made by Pinpoint. Rather, a committee made up of JLW and GOHSEP employees made all hiring decisions on the applicants supplied by Pinpoint.

Between February 2006 and September 2006, JLW billed GOHSEP approximately \$5,777,320 for grant manager labor supplied by Pinpoint. According to information supplied by JLW, Pinpoint billed JLW approximately \$2,886,994 for this same labor. JLW's markup was 100 percent or \$2,890,325 (\$5,777,320 – \$2,886,995).

LWS

LWS is a Louisiana-based company. Its contract responsibilities were identical to those of Pinpoint, except that LWS provided employees to be trained as debris monitors rather than grant managers.

LWS was established on January 25, 2006, which was nine days before it entered into its contract with JLW. Louisiana Department of Labor records show that at the time LWS entered into its contract with JLW, it had no employees. LWS contracted with United States Protection Co. (USP), a New Orleans-based temporary agency, which recruited personnel to be trained as debris monitors. LWS used HR Solutions for payroll and accounting services, e.g., handling tax withholdings for employees.

According to its contract with JLW, LWS was to supply 60 individuals to be trained as debris monitors. According to Amanda Smith (no relation to Colonel Smith), owner of LWS, she personally recruited employees in addition to the recruiting performed by USP. The hiring decisions on potential hires appear to have been made by employees of RMI and JLW not LWS.

Between February 2006 and September 2006, JLW billed GOHSEP approximately \$4,085,814 for the debris monitor labor supplied by LWS. According to information supplied by JLW, LWS billed JLW approximately \$2,040,038 for this same labor. JLW's markup was 100 percent or \$2,045,775 (\$4,085,814 – \$2,040,038).

RMI

RMI is an Arkansas-based company specializing in providing debris monitoring services. According to its contract, RMI was to provide "personnel services, advice and expertise regarding debris monitoring, supervision and training." RMI provided approximately 30 to 40 debris monitors. These employees along with JLW employees helped select, train, and supervise the debris monitors hired by LWS.

According to Mark Merritt, Senior Vice President and Partner in JLW, the debris monitors supplied by RMI were more experienced than the debris monitors supplied by LWS. As a result, JLW billed GOHSEP \$100 per hour for the debris monitors from RMI and only \$75 per hour for the debris monitors from LWS.

From October 2005 through December 2006, JLW billed GOHSEP approximately \$8,946,506 for the debris monitor labor supplied by RMI. According to information supplied by JLW, RMI billed JLW approximately \$4,478,854 for this same labor. JLW's markup was 100 percent or \$4,467,652 (\$8,946,506 – \$4,478,854).

Selection of JLW Subcontractors

Based on our review, it does not appear that JLW engaged in any systematic review of alternative companies to the three selected. According to Mr. Merritt, he met Rex Powers (Vice President of Pinpoint Resources) at a committee meeting at the State Capitol shortly after Hurricane Katrina. Mr. Powers mentioned that he had a staffing company, Pinpoint, and was interested in supplying labor for disaster recovery. Mr. Merritt met with Mr. Powers in late January 2006, where it was agreed that Pinpoint would supply JLW with grant administrators. This agreement was later codified in the contract signed on February 6, 2006.

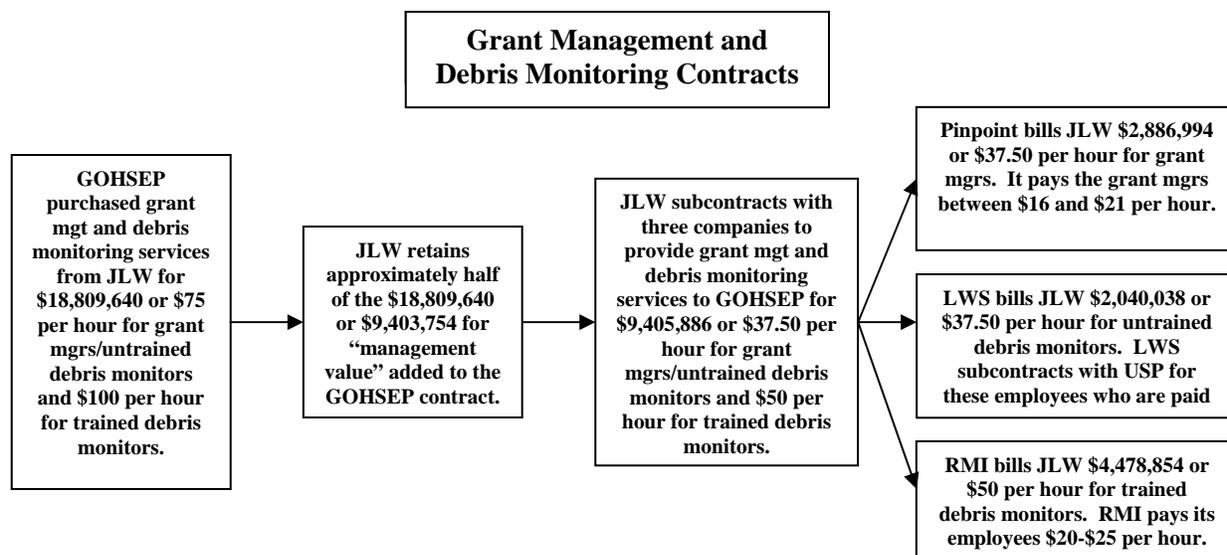
Mr. Merritt also asked Mr. Powers if Pinpoint could supply debris monitors to JLW. Mr. Powers suggested that LWS could supply the debris monitors. According to Mr. Merritt, he liked the idea because LWS was a Louisiana-based company. The agreement with LWS was codified in the contract signed on February 3, 2006. Ms. Smith stated that she did the recruiting of employees and Mr. Powers handled the rest of the business. She paid Mr. Powers for management and consulting services.

According to Mr. Merritt, RMI was founded by his father. Mr. Merritt added that JLW has used RMI on several other projects in different states. It should be noted that the Louisiana Board of Ethics ruled in May 2006 that there was no ethical conflict with JLW hiring RMI because Mr. Mark Merritt “is not responsible for oversight over JLW’s subcontract with RMI.” JLW’s Director of the Southeast Region oversees the RMI contract and is “rated” by Mr. Witt and not Mr. Merritt.

Loss of Potential Cost Savings

Between February 2006 and December 2006, JLW billed \$18,809,640 to GOHSEP for the grant managers and debris monitors provided by its subcontractors: Pinpoint, LWS, and RMI. JLW paid approximately half of this amount or \$9,405,886 to its three subcontractors. Therefore, JLW earned 100 percent or \$9,403,754 (\$18,809,640 – \$9,405,886) on its three subcontracts.

We asked Mr. Merritt what services JLW provided to justify the 100% markup of labor costs for the three subcontractors. Mr. Merritt responded that the markup was based on “management value” added by JLW. During our audit, we determined that JLW did provide management value to the work of the subcontracted grant managers and debris monitors. JLW employees were involved in the training, direction, supervision, and monitoring of these subcontracted employees. However, the cost of the JLW employees who performed these training, direction, supervision, and monitoring functions was paid for directly by GOHSEP to JLW and not paid out of the proceeds earned by JLW on these three subcontracts.



According to Mr. Merritt, JLW also incurred significant administrative costs associated with reviewing time sheets and expense sheets, overseeing the contracts, etcetera. These costs were not billed directly to GOHSEP. In addition, JLW had to pay subcontractor expenses in the face of significant delays in getting paid by GOHSEP.

Rationale for JLW Subcontracting

In an effort to determine how the acquisition of needed specialized labor could have been accomplished more efficiently, we discussed these issues with Colonel Perry Jeff Smith, the former Director of GOHSEP. We asked Colonel Smith why he did not either contract directly for grant administrators and debris monitors or hire grant administrators and debris monitors as state employees to avoid the markup that JLW charged for providing these employees. Colonel Smith responded that FEMA had already approved the JLW contract and waiting on FEMA to approve another contract could have delayed the disbursement of PA funds. He added that before March 2006, GOHSEP was not an independent agency and did not have the payroll or purchasing functions necessary to either contract for grant administrators and debris monitors or hire its own employees to perform these functions.

Colonel Smith also stated that the \$75 per hour that JLW charged GOHSEP for the grant administrators and debris monitors from Pinpoint and LWS was significantly less than the \$125 and \$100 per hour that JLW normally charged for these employees. Colonel Smith was able to obtain this reduced rate because these employees were not experienced. Colonel Smith also acted to obtain an additional discount on the \$75 per hour cost for the grant managers from Pinpoint. Specifically, the 100% markup upon which the \$75 per hour rate was based was reduced for the first three weeks as the grant managers were trained. The actual markups were 25% for the first week, 50% for the second week, and 75% for the third week. Finally, Colonel Smith added that after GOHSEP became independent and he had the resources to manage additional employees, he transitioned the Pinpoint and LWS employees to state employment as

soon as was practical. GOHSEP records indicated that the process of transitioning these employees to state employment began in September 2006.

We also asked Mr. Merritt, acting as GOHSEP's Disaster Management Consultant, why he did not advise Colonel Smith to either hire employees directly or contract for them directly and potentially save the state significant funds. Mr. Merritt responded that GOHSEP did not have the budget authority to hire additional employees nor did it have the staff to contract directly for these employees. Mr. Merritt added that FEMA and GOHSEP approved the rates he charged for grant managers and debris monitors; the industry standard was a 100 to 200 percent markup and the length of time before transitioning the employees to state employment was controlled by GOHSEP and not JLW.

Conclusion

Between October 2005 and December 2006, GOHSEP paid JLW, its consultant, \$18,809,640 for grant administrators and debris monitors that JLW acquired through subcontracts with three separate companies. JLW's markup on these employees was 100%. Consequently, had GOHSEP possessed the ability to contract directly with these companies, it could have realized cost savings of approximately \$9,403,754. Potentially, even more savings could have been achieved through hiring temporary state employees to perform these jobs.

Recommendations

Although progress has been made in each of the areas described below, GOHSEP should continue efforts to strengthen policies and procedures in these areas to ensure the most efficient and economic acquisition of disaster recovery labor in future emergency situations.

1. GOHSEP should consider developing standing or pre-bid contracts with local manpower agencies to provide the types of general administrative or data entry labor necessary during emergency situations. GOHSEP should not acquire this labor second-hand through a disaster management company and be forced to pay significant markups when GOHSEP can acquire this labor directly.
2. GOHSEP should require all primary contractors to document in writing the necessity for reliance on any subcontractors, the qualifications and experience of the contractor, and the capability of the subcontractor to fulfill the terms of the subcontract without reliance on further subcontracts. This control would help limit unnecessary levels of subcontractors and help ensure that contractors with appropriate qualifications are selected.
3. GOHSEP should acquire trained staff that understands the state procurement code and is capable of developing requests for proposals and following the public bid process. The capability to do this will allow GOHSEP the flexibility to enter into multiple contracts quickly and efficiently. As a result, there will be less need to rely on a single consultant to provide all disaster recovery labor.

4. GOHSEP should develop and maintain a database of companies with the capability to supply the different types of specialized labor that would be needed in case of catastrophic disasters such as Hurricane Katrina. The database should be regularly updated to include current contact information. With this database in place, GOHSEP could save time researching potential suppliers of disaster recovery labor during emergencies.

5. GOHSEP should consider developing an in-house training program. During future emergency situations, it may not be possible to acquire sufficient numbers of trained and experienced grant managers and debris monitors. As demonstrated with the recent experience of Hurricane Katrina, generalists can be trained to perform these functions in relatively short order. GOHSEP should consider cross-training some of its staff to train new employees. In addition, GOHSEP should develop a curriculum to include formal instructional material, such as training videos and a procedures manual.

The purpose of the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) is to "respond to, and recover from, all natural and man-made emergencies" and "to reduce the loss of life and property through an all-hazards emergency management program of prevention, mitigation, preparedness, response and recovery." GOHSEP has seven sections, including disaster recovery, executive, information technology, operations, preparedness, support services, and regional support. In March 2006, GOHSEP was moved under the Governor's Office. Before this move, GOHSEP was called the Louisiana Office of Homeland Security and Emergency Preparedness and was under the State Military Department.

The procedures performed during this audit consisted of:

- (1) interviewing GOHSEP and contractor employees;
- (2) examining selected documents and records of GOHSEP and JLW;
- (3) performing analytical tests; and
- (4) reviewing applicable state and federal laws and regulations.

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Management's Response



BOBBY JINDAL
GOVERNOR

State of Louisiana
Governor's Office of Homeland Security
and
Emergency Preparedness

MARK A. COOPER
DIRECTOR

June 24, 2008

Mr. Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Draft Review of Contracting Procedures - October 2005 through December 2006

Dear Mr. Theriot:

I have reviewed the draft report completed by the Legislative Auditor addressing our agency's process used to acquire specialized labor for the recovery efforts following Hurricanes Katrina and Rita. The report provides a history of events and the contracting of the James Lee Witt organization. The report also addressed the manner in which grant management personnel were provided through the use of a sub-contractor.

On behalf of the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), I would like to point out some of the more important issues which reflect on the conclusions reached.

The contract for James Lee Witt and Associates was entered into by the previous Governor of Louisiana and her staff.

The operation known as LOEP had no input in the decision. The Agency, now defined as GOHSEP, was under the Louisiana State Military Department, LOEP, and not a stand alone agency.

The decision to use a sub-contractor under the prime contractor, James Lee Witt and Associates, was reached because of the need to provide timely assistance to the applicants devastated by the two storms.

If the James Lee Witt Contract had not been used to facilitate the acquisition of grant managers, the contract for these services would have required a lengthy bid process. Negotiations were made while the Agency was under the Louisiana State Military Department.

The Governor's Office of Homeland Security and Emergency Preparedness was organized March 1, 2006, and is referred to as GOHSEP.

We concur with and have implemented many of the suggestions made in the report. Below is a listing of each of your recommendations and actions either taken or in process to effect a successful implementation.

Recommendation 1

Stated that GOHSEP should maintain standing or pre-bid contracts with local manpower agencies to provide the types of general administrative or data entry labor necessary during emergency situations.

Management concurs and has worked with their state partners to help set up a contract for labor in the area of administration and data entry if a future requirement arises. GOHSEP also has its own ongoing contractual relationship with West Staff for personnel staffing.

Recommendation 2

Stated that GOHSEP should ensure that all primary contractors possess the appropriate qualifications and limit the use of subcontractors where not necessary.

Management concurs and all of the contracts under the GOHSEP banner state that a prime contractor can not use sub-contractors unless it is proposed to GOHSEP and the sub-contractors' qualifications are reviewed and approved by GOHSEP.

Recommendation 3

Stated that GOHSEP should maintain staff knowledgeable of the procurement process and who are capable of entering into large numbers of contracts quickly and efficiently.

Management concurs with this recommendation. The agency has a person that is knowledgeable in contracting for the required services. The agency has a contracting officer position that is currently frozen per the Executive Order. Management would like to point out that if the bid laws remain in effect as they did in Katrina, the bid process is still cumbersome and can lead to undesired delays in emergency situations.

Recommendation 4

Stated that GOHSEP should maintain a database of companies with the capability to supply the different types of specialized labor that would be needed in a catastrophic disaster.

Management concurs with this and has talked with our state partners about this need. The State of Louisiana has established a data base by categories located on the purchasing web site for services. The state purchasing and contracting arm further has established in excess of 200 vendors that have been pre-bid qualified and available for use by this or any agency. GOHSEP has also entered into pre-bid arrangements for services that the agency knows would be needed in an event such as Katrina or Rita. This includes a contract for assistance with the response phase.

Recommendation 5

Stated that GOHSEP should develop an in-house training program for grant managers and debris monitors for the continuation of this event and future events.

Management concurs and is taking steps to improve the current training program and hire a qualified trainer. The desired result of an in house training program is still in the developing stage, but management believes progress is being made.

Management of GOHSEP is daily putting the lessons learned in place as preventative measures for future events.

We want to thank you and the members of your staff for the professional approach taken in preparing this report. We are continuing to improve the processes which support the people of Louisiana during a disaster situation. GOHSEP looks forward to a continued working relationship with you and your team.

If I can be of any assistance please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark A. Cooper". The signature is fluid and cursive, with the first name "Mark" being the most prominent.

Mark A. Cooper

Colonel(R) Perry Jeff Smith, Jr., CPA
EMAIL- abovethestorm@eatel.net

Mr. Steve J. Theriot, CPA
Legislative Auditor, State of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana, 70804-9397

June 23, 2008

RE: Comments on compliance audit findings on the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) relating to use of primary emergency management contractor, James Lee Witt Associates (JLW)

Dear Mr. Theriot

First, let me thank you for agreeing to my request to perform this review. I believe it is critical to learn all that we can from the largest natural disaster in history so that Louisiana and others may improve not only the response to, but the recovery from future major disasters. In addition, there were questions that surfaced in various news reports concerning Louisiana's contractor that I believe deserved clarification.

My comments to your report are more fully elaborated in the body of this response and are summarized as follows:

Improvements I agree with most of your recommended changes. In fact, many of the recommendations in the report were made and/or underway within 12 months after Katrina. Most of your suggestions would have required actions and or resources that were not in place before Katrina. As such, given the facts and circumstances that existed at the time, most of these recommendations could not have been implemented in the Katrina/Rita catastrophic events.

Contractor Selection Obtaining immediate assistance in managing the devastation caused by Katrina was critical. The Governor's Office directly negotiated and approved the contractor, JLW, and the contract utilizing emergency procurement methods. FEMA and other states also entered into contracts using emergency processes. Any reasonable person can readily understand the necessity of such actions given the catastrophic nature of the event.

Federal Government (FEMA) Approval FEMA at multiple levels on multiple occasions approved the JLW contract. The contract was/is paid for with 100 percent federal funds specifically approved for this specific contract. The use of technical assistance contractors, such as JLW, is and has been standard practice for many years by FEMA and other states.

Implementing Change The ability and speed to change the method of administering the public assistance program (PA) along with related contract(s) and implement other lessons learned from Katrina, was/is dictated by circumstances, constrained by laws, regulations and resources. Limited resources and the sheer magnitude of changes needed required the prioritization of what changes to make first. Preparing for the 2006 hurricane season was of paramount importance and the number one (1) priority.

Clarification of GOHSEP and LOHSEP The report may lead a reader to have a misunderstanding that GOHSEP was not a new agency and was only a name change. This would be far from accurate. The Louisiana Office of Homeland Security and Emergency Preparedness (LOHSEP), was a small understaffed, under resourced agency that was within the State Military Department (SMD) and supported by SMD. GOHSEP was formed in March 2006 as a completely separate independent agency. When GOHSEP was formed it did not have a complete staff and, in fact, had to continue to use the support of SMD to July 2006. The Director of LOHSEP was the Adjutant General, the Director of GOHSEP was/is appointed by the Governor.

Performance The actual cost of administering the PA program has been extraordinarily low by any standard or comparison. During the time frame of your report, approximately \$2.1 billion of PA funds were disbursed at cost of approximately \$55 million or less than 3%. Through January 15th 2008 over \$3 billion of PA funds were disbursed with similar results in administrative costs.

===== (further comments)

Improvements

I agree with many of the suggestions in the report, and, in fact, many of these changes were implemented or were in process of being implemented prior to the start of the 2006 hurricane season, while other changes were put in motion shortly after the end of the 2006 hurricane season. As you indicated in your report, a substantial number of contractor employees were moved to direct state hires beginning in September 2006. The technical assistance contract for disaster assistance was put out for public bids utilizing the complete State of Louisiana procurement process. Recommendations made by the Louisiana Legislative Auditors office and by the Department of Homeland Security Office of Inspector General were incorporated as part of the new contract. In addition, working with the Division of Administration, over 200 pre- storm contracts for emergency goods and services were put in place prior to the 2006 hurricane season.

Contractor Selection

The JLW contract was negotiated directly by the Governor's office under extraordinary emergency circumstances within days after hurricane Katrina, the largest catastrophic natural disaster in our countries history, made landfall. Just a few of the unprecedented extraordinary circumstances that existed at the time include; 1.4 million Louisiana citizens were displaced to all fifty (50) states; over 400,000 citizens were in emergency shelters; search and rescue operations were still underway; Orleans and St. Bernard parishes were still substantially underwater; the Federal Government had refused to handle body recovery and the state had to take the lead in this delicate task.

In short, the State of Louisiana and all state agency, including the SMD which LOHSEP was a part, were completely consumed in life saving activities. The same was true of Federal and local governments. It was clear to me that the intent of the Governor's staff was to get the best possible help for the citizens and local governments engaged as quickly as possible while still evaluating multiple contractors before making a selection. As a point of reference, it was my experience that a typical state contracting process done under non-emergency rules, may take 120 days or longer to get in place. Any reasonable person would clearly understand that the citizens and local governments did not have 120 days to wait for standard contracting process. During Katrina, FEMA and other state and local government agencies also used emergency contracting processes.

Federal Government (FEMA) Approval

FEMA, at multiple levels and multiple times, approved the JLW contract. FEMA considered the rates that Louisiana paid its contractor reasonable under the circumstances and were comparable to rates that they paid their contractors and prices paid in other states. The JLW contract was paid for by 100% federal funds that could only be used to administer the contract. Other states and FEMA use and continue to use, multiple technical assistance contractors (TAC). In fact, the Louisiana Legislative Auditors Office has been (from the beginning) and still is a technical assistance contractor to GOHSEP. TAC's are considered to be the best way to move through the highly bureaucratic PA program in an efficient manor as possible given the burdensome "red tape".

Implementing Change

There were challenges in moving immediately in implementing lessons learned. Just a few are listed in this paragraph. Just three (3) weeks after Katrina, Rita hit thereby creating a major response effort all along Louisiana's coast line lasting through 2005 with the last out of state first responders not leaving the state until April of 2006. Louisiana experienced multiple state disasters and another major federally declared disaster (18 Parish flood) in 2006. In addition, to "stand down" the PA process and re-bid takes months and would have literally stopped the disbursement of an average of \$100 million per month in PA funds. Clearly any reasonable person would know that this would not have been acceptable. As a new agency, GOHSEP did not have the resources needed to immediately implement all of the many lessons learned from Katrina/Rita. Priority had to be given to implementing as many response activities as possible before the 2006 hurricane season which was only three (3) months away from the inception of GOHSEP.

Clarification of GOHSEP and LOHSEP

As a new agency created in March 2006, GOHSEP did not have an administrative and finance section and most other key positions were unfilled. Prior to March of 2006 LOHSEP was the responsibility of the State Military Department (SMD) and the Director of LOHSEP was the Adjutant General (TAG). Administrative and finance functions for LOHSEP were handled by SMD with TAG or his designated representative making personnel and budgeting decisions. GOHSEP continued to use SMD's administrative and finance section until July 2006.

Performance

During the time period covered in your report over \$2.1 billion in public assistance funds were distributed by GOHSEP in about 16 months, a feat never done by any other state in this nation. The cost to administer the program through your report date was approximately \$55 million or less than 3%. This includes those payments to JLW as outlined in your report as well as to other contractors such as the Louisiana Legislative Auditor and force account labor. If you measure this by any standard including comparisons to other states, FEMA, or other disaster grants administered by the State of Louisiana, this is an extraordinarily low percentage.

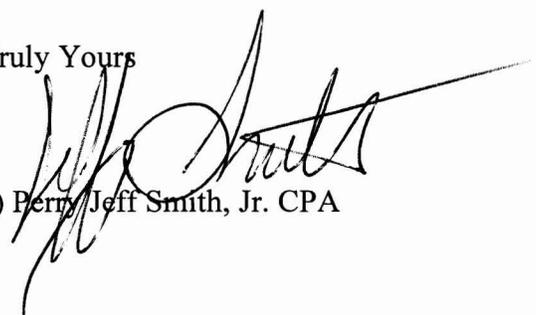
In summary, a state must provide adequate resources to the agency responsible for emergency management. Clearly an agency with less than 40 full time permanent people assigned (LOHSEP full time permanent manning before Katrina) was not sufficient for even a moderate disaster much less a Katrina. Some of your recommendations may have been able to be implemented for Katrina had LOHSEP been adequately resourced.

The state emergency management agency should be strong and independent, with experienced leadership; leaders with years of "hands on" direct disaster management experience. Hurricanes are by far Louisiana's greatest threat to Louisiana. Therefore, it is only logical that Louisiana emergency management leaders should be well experienced in hurricanes and the PA process that follows. The state must also recognize that the emergency management agency has a unique purpose and mission and should alter the normal constraints that are typical of other state agencies.

At the Federal Level, the PA program as currently written and being administered, is broken. It is probable that for future major disasters, hundreds of millions in administrative costs may be able to be saved at the federal level and tens of millions at the state and local levels if the public assistance process were completely overhauled. The added benefit would be a more rapid recovery!

Again, thank you and your team of professionals for a quality report.

Very Truly Yours


Col.(R) Perry Jeff Smith, Jr. CPA

Act with confidence.



June 26, 2008

Dear Mr. Duty,

Thank you for the opportunity to review and comment on the latest draft of the audit report related to our services in Louisiana for the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP). While you should be commended generally for the accuracy of your facts in this analysis, we continue to believe that certain elements of the draft report are not fully explained or put in context, which could leave the reader with mistaken impressions about the services provided by JLWA to the State of Louisiana.

Reflected in your audit and the points below, we respectfully request you reconsider your conclusion that the State would have been able to save money should they have contracted directly. We believe it is impossible to ascertain, over two years after the decision making process and environment, what the State would have been charged if they had had the ability to contract directly or the quality of the staff that would have been retained. It is more than conceivable the State would have been charged the same 18 million that JLWA charged or more to procure this assistance given industry norms.

Specifically, we have some thoughts and suggested revisions outlined below, and look forward to a discussion once you have an opportunity to review.

Here are a few revisions we would like to note:

- The report states a cost savings projection for GOHSEP going directly to subcontractors for support and not access those personnel through another contractor. While this may sound correct on the surface, the fact was that at the time when the decision was made, GOHSEP was overwhelmed by the disaster, did not have sufficient contracting staff to develop the multiple contracts that are being recommended. In addition, GOHSEP did not have management staff available either internally or from other State agencies (who were also overwhelmed) capable of managing the additional staff. Had GOHSEP gone the route of direct sub-contracts, JLWA would not have been able to provide management of the new cadre coming in to support GOHSEP (it would not have been appropriate for one contractor hired by the state to manage another under a separate contract mechanism). This demonstrates that GOHSEP did not have the capability at the time to directly sub-contract as recommended by the legislative auditors. Furthermore, the decision to bring on these new staff was based on the crisis in the immediate wake of the hurricanes. Time was of the essence, and the contracting process, even under emergency provisions, would have taken several weeks at a minimum even if the State had sufficient

contracting personnel (JLWA's contract, for example, took 17 days to execute under such provisions). GOHSEP (not JLWA) made the determination that they could access the personnel that they so desperately needed so GOHSEP directed JLWA to undertake the process and entrusted us to recruit, train and manage the additional staff.

Most importantly, we feel it is impossible to assume that given all of these factors, that the State would have been able to acquire such staff or get them at the rates JLWA was able to negotiate. With those facts acknowledged by all involved and with that perspective, to surmise or conclude that the State would have saved a certain amount of funds, we believe, is impossible to ascertain or conclude. We would appreciate it if that were reflected in the next version.

- Page 3: Pinpoint section says that Pinpoint did not make hiring decision, and a committee of JLWA and GOHSEP did so. The reason for this is that the plan all along was to transition these personnel to the State, so they did not want to just accept any warm body for the job. They wanted quality, trainable personnel who could become longer-term GOHSEP employees. Also, JLWA's participation in the meetings was solely related to the fact that our staff were to be responsible for managing and training the new hires brought on by PinPoint. The State made all final selections.
- Pages 3 and 4: The discussion of mark-up in the Pinpoint, LMS, and RMI sections does not reference that the pricing for the personnel paid by the State in all three cases were discussed with, agreed-to and established by GOHSEP. Furthermore, FEMA concluded that the costs for the services rendered were reasonable and paid the bills, providing support for JLWA's contention that the billing mark-up practice described is both reasonable and standard practice within the consulting industry. The lack of mention of these facts paints the picture that this mark-up is somehow excessive or extraordinary, which is not the case. We would appreciate it if that were reflected in the next version.
- Page 4: Selection of JLW Subcontractors section discusses the lack of competition in the selection of JLWA subs as if that is a problem. We were not required to do so, and GOHSEP did not expect nor desire us to do so due to the critical need for staff. The vast majority of contracts executed by both FEMA and GOHSEP operated in this same manner. Under our contract, we were only required to fill the need within the negotiated contract pricing [Even the ethics board opinion related to our services for GOHSEP reflected this point, stating that JLWA was asked to provide a service at a specified price, and that how we staffed that function (either with our own staff or through sub-contractors) was a decision for JLWA to make alone]. Not only did we do that, we provided discounts to the cost of personnel below that permitted under the contract, to reflect the actual costs incurred by JLWA. We would appreciate it if that were reflected in the next version.
- Page 5: In the Loss of Potential Cost Savings section, where the report undermines the justification for the mark-up, we must again reference the facts pointed out in our first note in this document – it is impossible to determine what price or quality the State would have been able to access if they had not directed JLWA to complete this task. In addition, the report completely overlooks the overhead expense, multiple full-time admin and finance folks we had to bring in (at no charge to the state) to administer these contracts and personnel, and the risks we assumed to our reputation by hiring and "branding" untrained personnel as JLWA staff (our company normally only uses experts in the field, and our reputation in the industry is based on this fact). Also, we were

incurring significant "carrying-cost" for delayed payment of invoices, and that had to be included in the calculation because we paid our subcontractors on-time whether or not the State paid us. These issues are briefly mentioned (and not flushed out sufficiently to make it sound like anything other than an only slightly relevant footnote). We would appreciate it if that were reflected in the next version.

- Page 6: The section on "Rationale for JLW Subcontracting" should be put before the sections discussing the mark-ups and cost savings. That rationale is necessary to understand the reason for the use of the JLWA contract vehicle.
- Page 7: The draft report explains the mark-up of subcontractor expenses by JLWA in such a way that it portrays the only justification for the mark-up is a statement by Mr. Merritt that our mark-up was at the lower end of industry standard. The fact is that we also provided the Louisiana Legislative Auditors with evidence that this was the case in the form of print-outs and internet links showing that other firms providing similar services were recommending (and charging) mark-ups of 100-200% or even more. This should be referenced in the next version of your report. Furthermore, what I communicated to your office was that normal industry markup is 2 to 3 times the cost which translates to a 100% to 200% markup as opposed to the 200% to 300% figure provided in your report. This error should be corrected before you finalize your findings.
- First Paragraph in "Conclusions": Again, the cost issues cannot be simply observed and conclusions made by what JLW received in payment. This should not just conclude that the cost savings could have been achieved. It should say that while GOHSEP did not have any other reasonable opportunity at the time of the decision, due to the extraordinary time-criticality of bringing the new staff on board and GOHSEP's inadequate staffing levels for contracting and program management, such savings could be possible in the future if GOHSEP takes action now to ensure they have sufficient PFT staffing and enter into such sub-contracts with vendors so that they do not have to go through another contractor to obtain those services in the future.

I want to thank you for the opportunity to comment on your latest draft report. If there is anything that I can do to further assist with your efforts please don't hesitate to ask.

Sincerely,



Mark Merritt
President, James Lee Witt Associates