

**INTERNAL CONTROLS OVER PAYMENTS
FOR EMERGENCY DISASTER RELIEF
TRANSPORTATION SERVICES**

Office of the Secretary of Transportation

Report Number: AV-2006-051

Date Issued: June 30, 2006



Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Report on Internal Controls Over
Payments for Emergency Disaster Relief
Transportation Services
Office of the Secretary of Transportation
AV-2006-051

Date: June 30, 2006

From: David A. Dobbs 
Assistant Inspector General
for Aviation and Special Program Audits

Reply to
Attn. of: JA-10

To: Acting Director, Office of Intelligence, Security,
and Emergency Response

This is our second report assessing internal controls over the emergency disaster relief transportation services contract. We issued our initial report, "Internal Controls Over the Emergency Disaster Relief Transportation Services Contract" (Report Number AV-2006-032¹) on January 20, 2006.

Currently, under the Federal Government's National Response Plan, the Department of Transportation (DOT) is responsible for coordinating and providing Federal and civil transportation support, as directed by the Federal Emergency Management Agency (FEMA) during times of national emergency. The Office of Intelligence, Security, and Emergency Response coordinates those efforts within the Department.

To support the Department's responsibilities during national emergencies, the Federal Aviation Administration's (FAA) Southern Region awarded a competitive contract to Landstar Express America, Inc., in 2002 to provide the bulk of transportation services designated to the region by FEMA. When the contract is activated during national emergencies, FAA's Southern Region, with support from FAA contracting personnel, coordinates activities of the contract under the direction of FEMA. Among the services provided by the contractor during the 2005 hurricane season were the transportation of commodities such as water, ice,

¹ OIG reports can be accessed on our website: www.oig.dot.gov.

and food to disaster distribution sites and the transport of people to and from hurricane-affected areas.

In the aftermath of Hurricane Katrina, the immediate transportation of vital supplies and people to and from hurricane-affected areas was critical to save lives. The circumstances surrounding that disaster were both dire and extraordinary, and FAA Southern Region management and the contractor provided an unprecedented response to the crisis as it unfolded. For example, in the aftermath of the hurricane, the Emergency Transportation Center and Landstar arranged for over 11,000 trucks to move more than 14,000 truckloads of goods.

During national emergencies, DOT also assigns Government personnel to various FEMA-designated staging locations. DOT representatives assigned to a base camp, mobilization site, or Federal or State staging area act as the Contracting Officer's Technical Representative and provide contract oversight and direction to the contractor. Those duties include coordinating transportation requests with the FAA Southern Region's Emergency Transportation Center and monitoring the movement of commodities by recording the arrival and departure of trucks and trailers checking in and out of the location.

The objective of this audit was to determine if FAA Southern Region's internal controls over the contract were sufficient to ensure that the Government receives the goods and services it pays for. In this case, DOT's responsibilities are limited to the transportation of commodities—not the commodities themselves. Therefore, we focused our efforts on verifying that transportation services were provided as billed. We visited FAA's Southern Region the weeks of January 30, 2006, and February 6, 2006, as part of this assessment. We also visited FEMA warehouses and distribution centers in Louisiana, Mississippi, and Texas to observe operations (see Exhibit A for a full explanation of our scope and methodology). This performance audit was performed in accordance with Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States.

RESULTS IN BRIEF

We found that better internal controls over the emergency disaster relief transportation services contract are needed to ensure that the Government receives the transportation services it pays for. While there were procedures in place for Government personnel at field locations to log trucks and trailers in and out as they arrived and departed, this documentation was not uniformly sent to FAA's Southern Region Emergency Transportation Center and was not used to verify invoices from the contractor.

Instead, contracting officers were relying on documentation provided by the contractor to verify that transportation services had been provided as billed. While the documentation offered a level of support for billings, the lack of an independent verification process meant that contracting officers essentially had to rely on contractor documentation to support the contractor's invoices. We believe that a better internal control process is needed to independently verify that transportation services were provided as billed.

FAA Southern Region management is aware of the need to develop better internal controls and is in the process of addressing this issue. In December 2005, system engineers from FAA Southern Region began developing a system to put all aspects of administration of the contract on-line.

As designed, the system would require Government personnel at field locations to verify on-line that they had received trucks and trailers destined for their locations and to log out shipments on-line when they leave. This would allow personnel from FAA Southern Region's Emergency Transportation Center to have real-time access to the status of all shipments during an emergency. It would also create an "audit trail" that contracting officers could use to compare the receipt of goods and services (logged by Government personnel on-site) against contractor invoices after the emergency has passed. According to system engineers, the intent is to have the system on-line and operating by early summer 2006 for the next North Atlantic hurricane season.

In our opinion, the new system as demonstrated to us should significantly improve internal controls over the contract. The key now will be follow-through. FAA Southern Region management is facing a very tight window for testing and implementing the system, and meeting the early summer deadline is critical for ensuring that improved controls are in place for the next hurricane season.

Once the system is in place and operating, FAA Southern Region management will need to ensure that contracting officers are using the system to verify invoices. We are recommending that FAA Southern Region management incorporate that requirement into the standard operating procedures associated with administering and managing the contract.

We are also recommending that FAA Southern Region in conjunction with the Office of Intelligence, Security, and Emergency Response determine if the costs associated with developing and fielding the new system are reimbursable by FEMA as part of the Department's responsibilities under the National Response Plan.

We provided the Office of the Secretary of Transportation (OST) with a copy of our draft report on May 26, 2006. On June 20, 2006, OST provided us with its formal response to our draft, which is contained in its entirety in the Appendix. In general, OST agreed with the findings and facts as discussed in our report and concurred with our recommendations. Our recommendations and a summary of OST's response can be found on page 8 of this report.

FINDINGS

Better Controls Are Needed To Independently Verify Receipts Before Invoices Are Certified for Payment

We found that better internal controls over the contract are needed to ensure that the Government receives the transportation services it pays for. Specifically, we found that FAA Southern Region did not have procedures in place that required contracting officers to compare invoices to receiving documentation prepared by Government personnel at field locations before certifying invoices for payment. While there were requirements for Government personnel at field locations to log trucks and trailers in and out as they arrived and departed, that documentation was not used to verify invoices from the contractor.

We tested a statistical sample of 29 task orders (with an approximate value of \$71 million) and their related invoices to determine if we could verify the billings against receiving documentation sent to the Emergency Transportation Center from 11 different field locations. We found that the receiving documentation submitted to the Emergency Transportation Center was either incomplete or missing. In some cases where receiving documentation had been submitted to the Emergency Transportation Center, we were able to verify a portion but not all of the charges being billed by the contractor. For example,

- One task order in our sample called for moving generators from Fort Worth, Texas, to Meridian, Mississippi. The contractor invoice submitted for this task order billed FAA to provide the truck to move the generators and to hold the trailer at the Meridian location for 20 days at the direction of FEMA. In total, the contractor invoiced FAA \$30,470.10 for those services, which contracting officers certified for payment using documentation provided by the contractor. Upon reviewing the arrival/departure log maintained at the field location, we were able to independently verify that the truck arrived at Meridian, but were unable to verify the length of time the trailer remained there.

In other instances, we could not find any Government-prepared receiving documentation to compare with the invoice. For example,

- One task order in our sample was for 15 trucks with trailers to pick up and transport home-recovery kits from Fort Worth, Texas, to Barksdale Air Force Base in Louisiana. The contractor invoice submitted for this task order billed FAA for each of the 15 trucks used to transport the home-recovery kits and for the 169 days the trailers were held at the Barksdale location at the direction of FEMA. In total, the contractor invoiced FAA \$272,816 for these services, which FAA contracting officers certified for payment using documentation provided by the contractor. However, we could not verify those charges because there were no arrival/departure logs included with the documentation sent from Barksdale to the Emergency Transportation Center. Independent receiving documentation is a key component of a good internal control system.

The 29 task orders in our sample were from 11 different field locations, some of which were still open at the time of our site visits and had not sent any Government-prepared documentation to the Emergency Transportation Center. Although documentation from 5 of the 11 field locations had not been submitted to the Emergency Transportation Center, all the invoices in our sample from these 5 field locations were still processed and approved for payment.

Because receiving documentation from the field locations was inadequate or unavailable, we were unable to independently verify the invoiced amounts for any of the 29 task orders in our sample. Likewise, we found that contracting officers and personnel from the Emergency Transportation Center were instead relying on documentation provided by the contractor to verify that the transportation services had been provided as billed. This documentation included manual spreadsheets tracking the movement of goods and services, shipping and receiving information maintained by the contractor and posted on the contractor's website, bills of lading provided by the contractor, and subcontractor invoices.

While the documentation provided offered a level of support for billings, the lack of an independent verification process meant that contracting officers essentially had to rely on contractor documentation to support the contractor's invoices. We believe that a better internal control process is needed to independently verify the receipt of transportation services.

FAA Is Developing a New On-Line System That Should Significantly Improve Controls Over Receipts and Payments

FAA Southern Region management is aware of the need for better internal controls for verifying the receipt of transportation services billed and is actively working to address the issue. In December 2005, system engineers from FAA Southern Region began developing a system to put all aspects of the contract on-line. The new system (called the Regional Emergency Transportation Representative portal) would track all task orders issued by FEMA, including the status of all trucks and trailers dispatched by the contractor during emergencies.

As currently envisioned, the system would require Government personnel at field locations to verify on-line that they had received trucks and trailers destined for their locations and to log out shipments on-line when they leave. This would allow personnel from the Emergency Transportation Center to have real-time access to the status of all shipments during an emergency. It would also create an “audit trail” that contracting officers could use to compare the receipt of transportation services (logged by Government personnel on-site) against contractor invoices after the emergency has passed.

As of June 2006, FAA Southern Region management has completed the design of the system and plans to have the system on-line and operating by early summer 2006 for the next North Atlantic hurricane season.

In our opinion, the new system as demonstrated to us should significantly improve internal controls over the contract. The key now will be follow-through. FAA Southern Region management is facing a very tight window for testing and implementing the system, and meeting the early summer deadline is critical for ensuring that improved controls are in place for the next hurricane season.

Once the system is in place and operating, FAA Southern Region management will need to ensure that contracting officers are using the system to verify invoices. We are recommending that FAA Southern Region management incorporate that requirement into the standard operating procedures associated with administering and managing the contract.

In addition, we are recommending that FAA Southern Region in conjunction with the Office of Intelligence, Security, and Emergency Response determine if the costs associated with developing and fielding the new system are reimbursable by FEMA as part of the Department’s responsibilities under the National Response Plan.

Actions Are Also Underway To Review Prior Expenditures

While the new system should significantly improve future controls over the contract, it is important to recognize that the current processes that we observed, which rely almost entirely on the vendor, have likely been in place since the inception of the contract in 2002.

This past year, as a result of the extraordinary efforts and resources needed in the wake of Hurricanes Katrina, Rita, and Wilma, the Department contracted with the Defense Contract Audit Agency (DCAA) to review billings associated with the contract during 2005. Given the existing controls over the contract at the time, those actions were clearly a step in the right direction, but in our opinion additional measures were still needed to ensure that prices associated with the contract are reasonable and allowable.

In March, we met with senior officials from the Office of Intelligence, Security, and Emergency Response; the Office of the Assistant Secretary for Budget and Programs/Chief Financial Officer; and FAA Southern Region to discuss our concerns regarding DCAA audit coverage of the contract. We also met with officials from FEMA in February to determine whether FEMA would reimburse the Department for audits of the contract.

As a result of those meetings, the Department agreed to request additional DCAA audits of incurred costs associated with the contract and subsequent discussions with FEMA officials indicated that FEMA would pay for those audits; however, it remains dependent on the Office of Intelligence, Security, and Emergency Response to formalize an agreement with FEMA. Key to this issue is a final agreement with FEMA, which officials from OST told us they plan to address by the end of July. However, if an agreement cannot be reached, this issue should, in our opinion, be brought to the attention of the Deputy Secretary.

The Department also agreed that those audits would include, at a minimum, justification of best value awards for competitive subcontract awards, documented support for verbal quotes exceeding \$100,000, and cost or pricing data and the contractor's documented evaluation when only one bid was obtained. The Department plans to work in consultation with the Office of Inspector General to formulate the scope of the review before requesting additional DCAA audits.

In our opinion, the Department's action to engage DCAA is a sound business approach for ensuring the Government's interests and addresses our concerns regarding prior expenditures. The key now will be follow-through.

RECOMMENDATIONS

We recommend that FAA Southern Region management, in conjunction with the Office of Intelligence, Security, and Emergency Response:

1. Implement appropriate policies and procedures requiring contracting officers to verify contractor invoices against receiving documentation in the Regional Emergency Transportation Representative portal once the system has been integrated and is fully operational.
2. Determine if the costs associated with developing and fielding the Regional Emergency Transportation Representative portal are reimbursable by FEMA as part of the Department's responsibilities under the National Response Plan and if so, recoup those costs.
3. Follow through on its commitment to have DCAA complete audits of incurred costs associated with the contract and inform the Office of Inspector General of the results of those audits.

AGENCY COMMENTS

We sent OST our draft report on May 26, 2006. On June 20, 2006, OST provided us with its formal response, which is contained in its entirety in the Appendix. In general, OST agreed with the findings and facts as discussed in our report and concurred with our recommendations.

- In response to recommendation number one, OST and FAA agreed to promulgate appropriate procedures and policies for using the Regional Emergency Transportation Representative portal for documenting transportation service receipt within 90 days of the system's full implementation.
- In response to recommendation number two, OST and FAA agreed to meet with officials from FEMA by the end of July to discuss whether costs associated with developing and fielding the system are reimbursable as part of the Department's responsibilities of the National Response Plan.
- In response to recommendation number three, OST and FAA agreed to meet with officials from FEMA by the end of July to discuss engaging DCAA to conduct audits of incurred costs associated with the contract and agreed to provide us with the proposed DCAA audit objectives prior to initiating those reviews.

ACTIONS REQUIRED

We consider the Department's planned actions fully responsive to our recommendations and consider them resolved, pending the implementation timeframes identified in OST's response. Please provide us with a copy of the procedures and policies for using the Regional Emergency Transportation Representative portal for documenting transportation service receipt once they have been implemented. We are also requesting that you provide us with documentation on the outcome of the meetings with FEMA to determine if the new system's costs are reimbursable and to engage DCAA in additional audits of the contract, as well as the proposed objectives for those reviews.

We appreciate the courtesy extended to our staff during our site visits to FAA Southern Region. If you have any questions or need further information, please contact me at (202) 366-0500 or my Program Director, Dan Ravielle, at (202) 366-1405.

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cc: Assistant Secretary for Budget and Program/
Chief Financial Officer
Carolyn Blum, ASO-1
Martin Gertel, M-1

EXHIBIT A. SCOPE AND METHODOLOGY

This review was conducted in accordance with Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States and included such tests as we considered necessary to provide reasonable assurance of detecting abuse or illegal acts.

We performed our initial internal control assessment on October 18 and 19, 2005, and the week of October 24 through October 28, 2005. During this period, we observed daily operations at two FEMA warehouses, a FEMA distribution center, and several other FEMA field locations in Louisiana, Mississippi, and Texas to obtain an understanding of the process. We interviewed representatives of DOT, FEMA, and the contractor to obtain an understanding of how each field location processed task orders. We focused our efforts on documenting the roles and responsibilities of each agency represented at the field location and the Government documentation used for receiving and transferring goods and services.

During the week of January 30, 2006, through February 3, 2006, we visited the FAA Southern Region and interviewed the manager of the Emergency Transportation Center to determine how FAA ensured that goods and services had actually been received before processing invoices for payment. To test this process, we conducted the following audit steps. First, we determined which task orders had been invoiced by the contractor. We then drew a random, stratified statistical sample of 29 task orders out of the 171 that had been invoiced. For each task order in our sample, we determined whether or not that particular location was open or had already been closed. If the location had been closed, we determined if documentation from that particular location had been sent to the Emergency Transportation Center. If the location was still open, we replaced this item if a replacement was available.

We reviewed the information provided by the field locations to determine what type of independent Government information was being collected and submitted to the Emergency Transportation Center regarding the receipt of goods and services. We then tried to verify billings on invoices against independent Government-prepared documentation (such as a Government Bill of Lading and arrival/departure logs) to determine if there was documentation to support the charges.

APPENDIX. MANAGEMENT COMMENTS



U.S. Department of
Transportation
Office of the Secretary
of Transportation

Memorandum

ACTION: Comments on Office of Inspector General (OIG)
Subject: Draft Report - Controls Over the Emergency Disaster Relief
Transportation Services Contract Date: June 20, 2006

Roger Bohmert
From: Roger Bohmert
Acting Director, Office of Intelligence, Security,
and Emergency Response

Reply to
Attn. of:

To: David A. Dobbs
Assistant Inspector General for
Aviation and Special Program Audits

Under the National Response Plan and Emergency Support Function (ESF) #1, the Department of Transportation is responsible for providing transportation support in response to domestic Incidents of National Significance. The Department's role is focused exclusively on providing transportation support for the Federal Emergency Management Agency (FEMA) and other Federal agencies. The Department's top priority at the time of an emergency is placed on providing the transportation services necessary to deliver goods, equipment, and services as quickly as possible to those in need of assistance.

The scope of DOT's ESF #1 activities in response to the 2005 Gulf Coast hurricanes far exceeded those in recent years and stretched thin the available contracting resources. In order to continue obtaining necessary transportation services, FAA relied on available documentation to make payment to the transportation services contractor. However, both the FAA and the contractor recognize that final payment levels will be based on a careful review of available documentation, and a final contract audit. This is particularly true with the expiration of the current contract in December 2006, when a contract closeout audit would be done.

As the primary in-house audit capability, the Department also relies on the audit and review services offered by the OIG. The OIG, with its efforts to date, has been helpful in providing useful oversight and identifying alternatives to further improve the Department's actions in this area.

Recommendations and Response:

OIG recommends that FAA Southern Region management, in conjunction with the Office of Intelligence, Security, and Emergency Response:

Recommendation 1: Implement appropriate policies and procedures requiring contracting officers to verify contractor invoices against receiving documentation in the Regional

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Emergency Transportation Representative portal once the system has been integrated and is fully operational.

Response: Concur. FAA and the Department require that on-site representatives maintain appropriate documentation of transportation services received and that prior to final payment, reasonable and responsible action is taken to independently verify the receipt of services as billed. Given the nature of the transportation services provided, and the conditions under which they are provided, especially during the critical period immediately following an event, we recognize that there may be instances in which it simply may not be possible to provide complete independent verification for the gamut of individual charges. Nonetheless, in order to serve as effective stewards of the taxpayers' funds, FAA is developing the Regional Emergency Transportation Representative portal to assist in documenting transportation service receipt. FAA anticipates that it will be able to field the system during the summer of 2006. Once the system has been tested and is fully operational, FAA will, within 90 days, promulgate policies requiring the system's use and provide procedures for implementation.

Recommendation 2: Determine if the costs associated with developing and fielding the Regional Emergency Transportation Representative portal are reimbursable by FEMA, as part of the Department's responsibilities under the National Response Plan and if so, recoup those costs.

Response: Concur. Representatives of the Department and FAA will meet with FEMA officials with the intent of reaching an agreement on this before the end of July.

Recommendation 3: Follow through on its commitment to have DCAA complete audits of incurred costs associated with the contract (dependent on FEMA's determination) and inform the Office of Inspector General of the results of those audits.

Response: Concur. Representatives of the Department and FAA will meet with FEMA officials with the intent of reaching an agreement on this before the end of July. However, in addition to informing the OIG of the audit results, we believe it will be useful to the effort to have the OIG review audit objectives prior to DCAA initiating its efforts, to ensure the audit objectives fulfill those aspects OIG and management agree are useful and necessary, before the work commences. The OIG, and its expertise on contract auditing, can serve a potentially valuable role in helping to ensure maximum benefit is obtained from DCAA's work.

cc: Ms. Stefani, B-2
Mr. Gertel, M-1
Mr. Litman, M-60
Ms. Blum, ASO-1
Ms. Briatico, ABU-100