

## EXECUTIVE SUMMARY

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The Office of Inspector General (OIG) conducted an evaluation of a contract awarded by the City of New Orleans to Disaster Recovery Consultants, LLC (DRC). The purpose of the contract was to assist the City with Federal Emergency Management Agency (FEMA) claims for damages caused by Hurricanes Katrina and Rita. The City's initial contract with DRC, with an effective date of December 1, 2006, was for a one-year term, with a maximum compensation amount of \$600,000. This contract has since been amended eight times, extending the term through December 31, 2010, and increasing the maximum compensation to \$7,350,000. During the 40-month period from December 2006 through March 2010, DRC billed the City \$7,294,229 under this contract.

This evaluation identified problems with contract terms and contract management practices that eroded the City's ability to hold the contractor accountable and led to excessive costs. The findings and recommendations are summarized below.

### FINDINGS

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**Finding 1. The City Repeatedly Extended the DRC Contract and Increased the Cost Without Assessing Whether the Arrangement is Cost Effective.**

***1a. The Contract was Based Entirely on Hourly Billings with No Schedule, Milestones, or Deliverables.***

The terms do not provide incentives for efficiency or allow the City to hold DRC accountable for producing results that justify the cost of its services. Moreover, the contract contains no timetable for completion and the City has no system for tracking DRC's progress.

One City employee pointed to \$295 million in FEMA funds the City has received as evidence of the value of DRC's services, but our review determined that the amount of FEMA funding is not a useful gauge of the efficiency or effectiveness of DRC's work. Most of these funds were obligated and spent by 2007, while DRC has continued to bill by the hour in recent years with no meaningful indicators of progress.

***1b. The City Could Not Assess the Reasonableness of DRC's Billing Rates Because the Qualifications and Responsibilities for DRC Personnel were Not Defined.***

DRC and the City negotiated a schedule of hourly labor rates after DRC was chosen for the contract. Most of the work under the contract was performed by individuals with the title "public assistance consultant," at rates ranging from \$90 to \$110 per hour. The contract is

silent as to the qualifications required for this position or the nature of the work to be performed at these hourly rates.

We found that two City employees left the City's payroll after the DRC contract was awarded and immediately became public assistant consultants under the contract. DRC billed the City \$90 per hour for these former City employees, who had little prior background in handling FEMA reimbursement claims. Despite their lack of technical expertise, the City paid DRC the equivalent of \$157,000 per year for each of these individuals, more than double the cost of the salary and benefits the City had been paying for their services as City employees. Other DRC personnel billed as public assistance consultants also appeared to lack substantial technical expertise to justify the hourly rates for their work.

In addition to questions about the qualifications of DRC's public assistance consultants, some of the timesheets submitted to the City indicate that many of the tasks they performed were clerical rather than technical in nature. These tasks included scanning documents, gathering records, and entering data. The tasks were not always related to the FEMA program; for example, timesheets describe such tasks as preparing an inventory of the City's "take-home" cars. DRC billed for all of these tasks based on hourly rates for public assistance consultants, ranging from \$90 to \$110 per hour. The contract includes an hourly rate of \$30 for clerical services but DRC did not use this billing rate for any of the services provided to the City.

***1c. The City Expanded the DRC Contract by Adding Services that are Unrelated to FEMA Public Assistance.***

None of the eight amendments increasing the cost and duration of the contract contains any changes in the scope of work, but billing records show that DRC was asked to provide services that have nothing to do with the original purpose of the contract. Since February 2008, DRC employees have worked in the City's Finance Department performing such tasks as processing real estate tax bills, reconciling IRS tax deposits, and other accounting and audit functions outside the scope of the contract. From February 2008 through March 2010, DRC billed the City \$1,115,398 for services performed in the City's Finance Department that have little or no relationship to the FEMA reimbursement process.

The routine audit and accounting functions DRC provided are typically handled by City employees. In this evaluation, we determined that the cost to the City of contracting with DRC for this work was approximately double the cost of hiring City employees. For the period covered by this evaluation, from February 2008 through March 2010, the City paid \$558,035 more to obtain these services through the DRC contract instead of hiring Finance Department staff.

**Finding 2. The City Ignored Contract Requirements Relating to Disadvantaged Business Enterprise Participation.**

Under the contract, DRC was committed to giving 20% of the contract work to the DBE subcontractor it had chosen. DRC did not meet this commitment, nor did the firm file the contractually required quarterly reports on DBE participation with the City. The City made no effort to ensure compliance, even though the contract states that failure to meet DBE participation and reporting requirements is a material breach.

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**CONCLUSIONS AND RECOMMENDATIONS**

The City failed to include contract terms to ensure accountability or to exercise effective oversight. The contract was extended and expanded multiple times over a period of four years with no assessment of DRC's progress and no timetable for completion. The City did not attempt to determine whether the services needed could be obtained more cost-effectively through another contract or by using City employees before extending the contract. This evaluation identified at least **\$1.7 million in waste** that could have been avoided through improved contracting practices and cost-consciousness decisions. To address the findings in this evaluation, the City should:

**Recommendation 1. Include Contract Provisions that Provide Incentives for Efficiency and Controlling Contract Costs.**

**Recommendation 2. Institute an Annual Review for Every Professional Services Contract to Reassess the Need for the Services and Evaluate the Contractor's Performance.**

**Recommendation 3. End the Practice of Amending Professional Services Contracts by Adding Work that is Unrelated to the Original Scope of Services.**

**Recommendation 4. Compare the Costs and Benefits of Contracting for Services Versus Hiring City Employees.**

**Recommendation 5. Monitor Contracts to Ensure Compliance with DBE Program Requirements.**

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**THE CITY'S OFFICIAL RESPONSE**

After reviewing the internal draft of this report, the City indicated that it will take all recommended steps to improve the administration of DRC's contract, which it will extend through December 31, 2010. The City will undertake a new competitive procurement for the services with the goal of awarding a new contract to take effect on January 1, 2011.