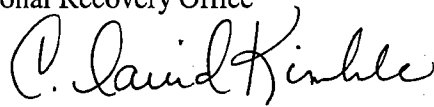




# Homeland Security

January 8, 2009

MEMORANDUM FOR: Benjamin A. (Alec) Watson, Acting Director  
FEMA Mississippi Transitional Recovery Office

FROM: C. David Kimble, Director   
Eastern Regional Office

SUBJECT: *Hurricane Katrina Activities for the  
Catholic Diocese of Biloxi, Mississippi*  
Public Assistance Identification Number: 000-UIMTF-00  
FEMA Disaster No. 1604-DR-MS  
Report No. DA-09-08

We performed an audit of disaster funds provided to the Catholic Diocese of Biloxi, Mississippi, (Diocese) for damages sustained to school facilities as a result of Hurricane Katrina. The objectives of the audit were to determine whether the Diocese was properly accounting for disaster-related costs and whether such costs were eligible for funding under the Federal Emergency Management Agency's (FEMA) disaster assistance programs.

As of January 9, 2008, the cut-off date of our review, the Diocese had received an award of \$39.7 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for debris removal, emergency protective measures, and repair and replacement of school buildings and educational equipment. The award provided 100% FEMA funding for 46 large projects and 68 small projects.<sup>1</sup>

We limited our scope to \$19.3 million awarded under 9 large projects (see Exhibit). However, we also judgmentally selected other projects for possible duplication of funding from the U.S. Department of Education. The audit covered the period from August 29, 2005, to January 9, 2008. During this period, the Diocese received \$13.8 million of FEMA funds under the 9 large projects.

We conducted this performance audit under the authority of the *Inspector General Act of 1978*, as amended, and according to 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>1</sup> Federal regulations in effect at the time of Hurricane Katrina set the large project threshold at \$55,500.

We judgmentally selected samples of project cost documentation (generally based on dollar value); interviewed Diocese, MEMA, and FEMA personnel; reviewed the Diocese's disaster-grant accounting and procurement policies and procedures; and performed other procedures considered necessary under the circumstances. We did not assess the adequacy of the Diocese's internal controls applicable to its grant activities because it was not necessary to accomplish our objectives. We did, however, gain an understanding of the Diocese's grant accounting system and its policies and procedures for administering the activities provided for under the FEMA award.

## RESULTS OF AUDIT

The Diocese accounted for FEMA funds on a project-by-project basis according to federal regulations for large projects. However, we identified \$1.2 million of FEMA funding that should be deobligated because the Diocese received funding from another federal agency to cover the work. In addition, we identified \$88,000 of questioned costs resulting from unremitted interest earned on FEMA advances, charges covered by insurance, and unauthorized project costs. Moreover, the Diocese did not comply with federal procurement regulations when awarding two emergency protective measures contracts totaling \$484,000.

A. Project Funding. The Diocese used funds received from the U.S. Department of Education's Restart program to accomplish the scope of work identified in various projects for which FEMA funds valued at \$1.2 million were already obligated. According to the Stafford Act (Section 312), FEMA funds cannot be used for expenditures recoverable from another federal program, insurance, or any other source. The details of the projects, which were either completed or in process, are as follows:

1. *Completed Projects.* The Diocese notified MEMA of the use of Restart funds to accomplish total work authorized under Projects 9405, 9545, 9717, 9719, 10420 and 10421, and work applicable to demolition and site clearance activities under Projects 8879, 9045, 9046 and 9048. We noted that the Diocese did not request nor receive any payments from FEMA on the projects. However, as of the date of our review, funding was still obligated for \$1.2 million on these projects, as identified below.

Project	Description	Amount
8879	Remove Building	\$214,929
9045	Building Demolition	24,943
9046	Building Demolition	32,613
9048	Building Demolition	68,881
9405	Contents Mercy Hall 9	66,410
9545	Contents OLA McCauley Hall	264,066
9717	Contents OLA Johnson Hall	131,460
9719	Contents Resurrection School	323,019
10420	Sewer & Gas Line Repairs	22,663
10421	Canopies to Building A	58,867
<b>Total</b>		<b>\$1,207,851</b>

2. *In Process Projects.* Project 10367 provided \$225,069 of FEMA funding for the replacement of school contents. We noted that Restart funds were also provided to the Diocese for the purchase of school contents, but available documentation did not clearly identify specific items purchased by the Diocese. As of July 21, 2008, the Diocese had not requested any FEMA reimbursement for school contents under the project. If the Diocese does request FEMA reimbursement, it should be required to demonstrate that Restart funds were not provided for the requested items.
- B. Interest Earned on FEMA Advances. According to 44 CFR 13.21(i), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on FEMA advances. The Diocese earned \$21,317 of interest on FEMA funds advanced for the construction of a school under Project 6312. During our fieldwork, we noted that it had not remitted the interest to FEMA as required. However, after bringing this matter to the attention of Diocese officials, a check for \$21,317 was forwarded to FEMA on May 23, 2008. As a result of this action by the Diocese, we consider this finding resolved and closed.
- C. Insurance Recovery. According to 44 CFR 206.250(c), actual and anticipated insurance recoveries shall be deducted from otherwise eligible costs. The Diocese reported total insurance recoveries to FEMA, including \$32,873 applicable to Project 10833. However, we noted that FEMA had not deducted this amount from total eligible project costs. After notifying FEMA officials of the error, they took action and reduced the project's cost for the insurance proceeds. Therefore, we consider this finding resolved and closed.
- D. Project Costs. The scope of work authorized under Project 10714 for the construction of a new high school does not contain a provision for warranty costs beyond what is provided for in the construction contract. However, the Diocese charged \$33,600 to the project for an additional one-year warranty (Change Order No. 3) applicable to construction of the access road to the school. We question the \$33,600 because it is for an item that is not provided for in the scope of work approved by FEMA.
- E. Contracting Procedures. According to 44 CFR 13.36(b)(10), time-and-material contracts will be used only after a determination is made that no other contract is suitable and must contain a ceiling price that the contractor exceeds at its own risk. The Diocese awarded two disaster contracts totaling \$484,380 on a time-and-material basis for work performed during September 19, 2005 through October 2, 2005. However, the Diocese did not set a ceiling price and the contracts did not define a clear scope of work. As result, FEMA has no assurance that the work performed under the contracts was obtained at a fair and reasonable price. In addition, we noted that the Diocese did not have a written code of standards governing employees engaged in procurement activities, as required by 44 CFR 13.36 (b)(3).

## RECOMMENDATIONS

We recommend that the Acting Director, Mississippi Transitional Recovery Office, in coordination with MEMA:

**Recommendation # 1.** Deobligate funding of \$1,207,851 on projects whose activities were funded by other government agencies.

**Recommendation #2.** Inform the Diocese that school contents approved under Project 10367 are not eligible for FEMA reimbursement if U.S. Department of Education funds are used to replace the items.

**Recommendation #3.** Disallow the questioned costs of \$33,600 applicable to extended warranty costs under Project 10714.

**Recommendation #4.** Inform the Diocese to comply with proper procurement procedures when awarding contracts under the FEMA award.

## DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were discussed with FEMA officials on August 1, 2008, and with MEMA and Diocese officials on September 12, 2008. The Diocese agreed with all audit findings except for the extended warranty costs questioned under Finding D. However, the Diocese agreed that the extended warranty was not included in the scope of work and was a discretionary purchase by the Diocese.

Please advise me by March 9, 2009, of the actions taken to implement the recommendations contained in this report. Should you have any questions concerning this report, please call me at (404) 832-6702 or Larry Arnold at (228) 385-1717. Key contributors to this assignment were Larry Arnold, Gary Rosetti and Pat McGowan.

cc: DHS Audit Liaison  
FEMA Audit Liaison  
Deputy Director, GCRO  
Chief Financial Director, Gulf Coast Recovery Office  
Regional Director, FEMA Region IV  
Public Assistance Office, FEMA Mississippi Transitional  
Recovery Office  
Chief of Staff, FEMA Mississippi TRO  
Mississippi State Coordination Officer  
Mississippi Legislative Auditor  
Director of Finance, Gulf Coast Recovery Office

Catholic Diocese of Biloxi, Mississippi  
FEMA Disaster No. 1604-DR-MS  
Schedule of Funds Awarded, Incurred, Paid, and Questioned  
August 29, 2005 through January 9, 2008

Project Number	Amount Awarded	Amount Incurred <sup>2</sup>	Amount Paid	Amount Questioned	Better Use Of Funds
6312	\$5,258,858	\$6,024,094	\$3,549,729	\$21,317	
7570	513,600	1,169,191	588,029		
8513	5,485,473	12,487,471	3,301,207		
8660	730,846	1,663,743	727,250		
8879	1,725,381	1,976,447	1,294,036		
9048	1,906,539	2,183,966	1,429,904		
9716	265,612	265,612	265,612		
10081	218,768	218,768	218,768		
10714	3,185,298	7,251,210	2,388,973	33,600	
Various (Funding De- Obligation)					\$1,207,851
10833 (Insurance)				32,873	
Totals	\$19,290,375	\$33,240,502	\$13,763,508	\$87,790	\$1,207,851

<sup>2</sup> Project costs incurred exceed amount awarded for various projects due to construction costs of an elementary school and a high school exceeding improved project funding by FEMA.