

Department of Homeland Security **Office of Inspector General**

FEMA Public Assistance Grant Funds Awarded to
Catholic Charities Housing Association of Biloxi, Inc.
Biloxi, Mississippi



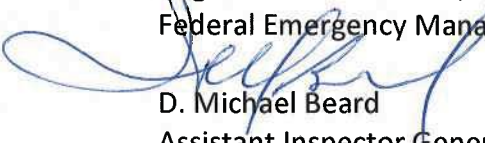


OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

MAY 30 2012

MEMORANDUM FOR: Major P. (Phil) May
Regional Administrator, Region IV
Federal Emergency Management Agency

FROM: 
D. Michael Beard
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Public Assistance Grant Funds Awarded to
Catholic Charities Housing Association of Biloxi, Inc.
Biloxi, Mississippi
FEMA Disaster Number 1604-DR-MS
Audit Report Number DA-12-19*

We audited Public Assistance (PA) grant funds awarded to Catholic Charities Housing Association of Biloxi, Inc. (Catholic Charities Housing) in Biloxi, MS, (FIPS Code 000-UR4DC-00). Our audit objective was to determine whether Catholic Charities Housing accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines.

As of November 2, 2011, Catholic Charities Housing received a PA award of \$30.7 million from the Mississippi Emergency Management Agency (State), a FEMA grantee, for damages resulting from Hurricane Katrina, which occurred in August 2005. The award provided 100 percent FEMA funding for emergency protective measures and repair and replacement of buildings, equipment, and recreational facilities damaged as a result of the disaster. The award included 13 large and 6 small projects.¹

We audited four large projects with awards totaling \$29.8 million. The audit covered the period August 29, 2005, to November 2, 2011, during which Catholic Charities Housing submitted claims for \$14.7 million for projects included in our audit scope (see Exhibit, Schedule of Projects Audited). At the time of our audit, Catholic Charities Housing had not completed work on all projects, and therefore, had not submitted a final claim to the State for project expenditures.

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



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

We conducted this performance audit between November 2011 and April 2012 pursuant to 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 upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We judgmentally selected project costs (generally based on dollar value); interviewed Catholic Charities Housing, State, and FEMA personnel; reviewed Catholic Charities Housing's procurement policies and procedures; reviewed applicable Federal regulations and FEMA guidelines; and performed other procedures considered necessary under the circumstances to accomplish our audit objective. We did not assess the adequacy of Catholic Charities Housing's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. However, we gained an understanding of Catholic Charities Housing's method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA award.

RESULTS OF AUDIT

Catholic Charities Housing accounted for project expenditures according to Federal regulations and FEMA guidelines. However, we identified \$1,177,564 of project funding that should be deobligated and put to better use, which consists of \$952,515 for project work not implemented and \$225,049 of ineligible funding resulting from a miscalculation of estimated project management costs. In addition, we question \$65,528 of project costs claimed for unauthorized work.

Finding A: Authorized Scopes of Work Not Implemented

Catholic Charities Housing did not implement authorized scopes of work totaling \$952,515 under Projects 9569 and 9595. Federal regulation 2 CFR 215.62(a)(2) states that if a recipient materially fails to comply with the terms and conditions of an award, the Federal awarding agency may disallow all or part of the costs of the activity or action not in compliance. Further, 44 CFR 206.205(b) states that eligible work under large projects must be completed to be eligible for payment.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

1. *Hazard Mitigation Funding.* Catholic Charities Housing did not complete \$118,273 of hazard mitigation measures funded under Project 9569 (Notre Dame De La Mer apartments). FEMA awarded Catholic Charities Housing \$134,581 of funding for temporary aluminum panels to protect the building from floodwaters and for elevated platforms to protect a generator and air conditioner units. However, Catholic Charities Housing spent only \$16,308 of the funding to construct the elevated platform for the generator; no other work was performed. Therefore, the remaining \$118,273 (\$134,581 less \$16,308) of funding should be deobligated and put to better use because the authorized work was not completed.
2. *Building Demolition Funding.* In November 2006, FEMA awarded Catholic Charities Housing \$834,242 under Project 9595 for the demolition of the Santa Maria De La Mer apartments destroyed at the old location. As of March 2012, Catholic Charities Housing has not taken any action to demolish the apartments. During our fieldwork, Catholic Charities Housing indicated that a mortgage held by the U.S. Department of Housing and Urban Development was the reason for the delay in demolishing the damaged property. However, we noted that the loan has been paid off and would no longer be a factor. In addition, the demolition of the building may not be in Catholic Charities Housing's best financial interest. An independent appraisal performed in August 2009 concluded that the existing structure, including the land, had a value of \$4.1 million, whereas the land without the structure was valued at about \$1.6 million. Because more than six years have passed since Hurricane Katrina, FEMA should establish a deadline to accomplish the demolition work, and if the deadline is not met, the funding of \$834,242 should be deobligated and put to better use.

Finding B: Ineligible Improved Project Funding

Catholic Charities Housing received \$225,049 of ineligible funding on Project 9595 due to calculation errors in the FEMA Cost Estimating Format (CEF).² Catholic Charities Housing applied for an improved project³ for the Santa Maria De La Mer Apartments at

² FEMA *Standard Operating Procedure 9570.8* provides guidance on the CEF process and refers to an Excel-based template used to estimate costs for large projects. Once the eligible scope of work and base costs are determined, add-on factors such as overhead, bonds, insurance, cost escalation, project management, and profit are then determined and added to the base costs to arrive at total estimated eligible project costs.

³ An improved project refers to restoration work that involves improvements to a damaged facility while maintaining the same function of the predisaster facility and at least the equivalent capacity. Federal



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

a new location from the destroyed apartments. FEMA approved the request and obligated \$24,959,265 of project funding using the CEF, which is FEMA's standard procedure for estimating eligible funding under large projects. We reviewed FEMA's project files on the Santa Maria De La Mer construction project, which supported a 3 percent rate to estimate project management costs. However, the CEF Excel-based spreadsheet calculated estimated program management costs at a 4 percent rate, thereby overstating estimated costs by \$225,049. Therefore, \$225,049 of ineligible funding should be deobligated and put to better use.

Since the CEF Excel-based template is used to calculate estimated obligated amounts for alternate or improved projects, the calculation errors within the template could be a systemic problem, which would overstate the obligated amounts for projects using CEF calculations. A prior audit⁴ of CEF calculations on alternate projects revealed similar errors in the Excel-based template, which overstated obligated amounts. Therefore, we recommend that FEMA review CEF calculations on other Disaster 1604 alternate and improved projects for accuracy and adjust the obligated amounts accordingly.

Finding C: Ineligible Costs

Catholic Charities Housing claimed \$65,528 under Project 9569 (Notre Dame De La Mer apartments) to upgrade a security system (\$29,907) and repair and replace a stairwell (\$35,621) that were outside the project's authorized scope of work. According to Catholic Housing Charities, they thought the two items were included in the project's scope. *Cost Principles for Nonprofit Organizations* (2 CFR 230, Appendix A, A.4.a) states that a cost is allocable to a Federal award if it is incurred specifically for the award.

At the exit conference, Catholic Charities Housing officials said that the security system upgrade was required by city officials to meet code requirements and, therefore, the costs should be allowed. However, the upgrade is not specifically included in the project's scope of work. Therefore, we question the \$65,528.

regulation 44 CFR 206.203(d)(1) limits Federal funding for improved projects to the Federal share of the approved estimates of eligible costs.

⁴ DHS OIG report DA-11-12, April 11, 2011, FIPS code 000-U6SCL-00.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation #1: Deobligate and put to better use \$118,273 of funding under Project 9569 for work not implemented concerning hazard mitigation (finding A).

Recommendation #2: Establish a deadline for completion of demolition work on Project 9595 and if not met, deobligate \$834,242 and put those funds to better use (finding A).

Recommendation #3: Review the Cost Estimating Format calculations on other Disaster 1604 alternate and improved projects for accuracy and adjust obligated amounts accordingly (finding B).

Recommendation #4: Deobligate and put to better use \$225,049 of ineligible funding under Project 9595 (finding B).

Recommendation #5: Disallow \$65,528 of ineligible costs claimed for unauthorized work under Project 9569 (finding C).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with Catholic Charities Housing, State, and FEMA officials during our audit. We also provided a draft report in advance to these officials and discussed it at the exit conference held on April 11, 2012. Catholic Charities Housing officials agreed with findings A and B, and disagreed in part with finding C. Their comments, where appropriate, are included in the body of the report. FEMA and State officials generally agreed with our findings and recommendations.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Major contributors to this report were David Kimble, Eastern Region Audit Director; Larry Arnold, Audit Manager; Gary Rosetti, Auditor-in-charge; Lynn Smith, Auditor; and Alicia Lewis, Auditor.

Please call me with any questions, or contact David Kimble, Eastern Region Audit Director, at (404) 832-6702.

cc: Administrator, FEMA
Audit Liaison, FEMA Mississippi Recovery Office
Audit Liaison, FEMA Region IV
Audit Liaison, FEMA (Job Code G-11-071)
Audit Liaison, DHS



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

EXHIBIT

Schedule of Projects Audited
August 29, 2005, to November 2, 2011
Catholic Charities Housing Association of Biloxi, Inc.
FEMA Disaster Number 1604-DR-MS

Project Number	Project Scope	Amount Awarded	Amount Claimed	Amount Questioned	Funds Put to Better Use	Finding
9569	Notre Dame De La Mer Apartments for the Elderly	\$544,851	\$400,075	\$65,528	\$118,273	A, C
9595	Santa Maria De La Mer Apartments for the Elderly	23,741,768	10,487,464	0	1,059,291	A, B
11231	Santa Maria De La Mer Senior Living Community Land Acquisition	1,309,768	1,309,768	0	0	
11232	Santa Maria De La Mer Senior Living Community Sitework	4,165,358	2,456,293	0	0	
Totals		\$29,761,745	\$14,653,600	\$65,528	\$1,177,564	

ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this report, please call the Office of Inspector General (OIG) at (202)254-4100, fax your request to (202)254-4305, or e-mail your request to our OIG Office of Public Affairs at DHS-OIG.OfficePublicAffairs@dhs.gov. For additional information, visit our OIG website at www.oig.dhs.gov or follow us on Twitter @dhsOIG.

OIG HOTLINE

To report alleged fraud, waste, abuse or mismanagement, or any other kind of criminal or noncriminal misconduct relative to Department of Homeland Security programs and operations:

- Call our Hotline at 1-800-323-8603
- Fax the complaint directly to us at (202)254-4292
- E-mail us at DHSOIGHOTLINE@dhs.gov; or
- Write to us at:
DHS Office of Inspector General/MAIL STOP 2600,
Attention: Office of Investigation - Hotline,
245 Murray Drive SW, Building 410
Washington, DC 20528

The OIG seeks to protect the identity of each writer and caller.