Department of Homeland Security

Office of Inspector General

Insurance Allocations to FEMA Public Assistance Grant Funds Awarded to the Administrators of the Tulane Educational Fund, New Orleans, Louisiana

DD-12-10

April 2012

Office of Inspector General

U.S. Department of Homeland Security
Washington, DC 20528

Homeland Security

APR 19 2012

MEMORANDUM FOR: Tony Russell
Regional Administrator, Region VI
Federal Emergency Management Agency

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

SUBJECT: *Insurance Allocations to FEMA Public Assistance Grant Funds Awarded to the Administrators of the Tulane Educational Fund, New Orleans, Louisiana*
FEMA Disaster Number 1603-DR-LA
Audit Report Number DD-12-10

We are currently auditing $153.1 million of Federal Emergency Management Agency (FEMA) public assistance funds awarded to the administrators of the Tulane Educational Fund (Tulane) in New Orleans, Louisiana (Public Assistance Identification Number 000-ULVHC-00). The Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee, awarded these funds to Tulane for disaster recovery work related to Hurricane Katrina, which occurred in August 2005. The purpose of this memorandum is to advise you of insurance issues related to Tulane's award that require your immediate attention.

As discussed below, FEMA needs to (1) apply an additional $24.5 million of proceeds from Tulane's commercial insurance policies to reduce the value of Tulane's projects and (2) complete its review of eligible and ineligible losses covered under Tulane's commercial insurance policies to determine whether the amount of proceeds applied to reduce the value of Tulane's projects should be increased or decreased.

We are conducting this performance audit 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives. Our overall objective is to determine whether Tulane accounted for and expended FEMA public assistance funds according to federal regulations and FEMA guidelines. At the conclusion of our audit, we plan to issue our complete audit report, including any additional findings and recommendations. Table 1 shows the gross and net award amounts obligated before and after reductions for a Small Business Administration (SBA) loan and insurance proceeds (applied as of June 2011) for all projects.

Table 1. Gross and Net Award Amounts

	Gross Award Amount	SBA Loan Reduction	Insurance Reductions	Net Award Amount
All Projects	$291,896,596	$(1,500,000)	$(137,309,505)	$153,087,091

<u>Background – Insurance Proceeds</u>

Tulane received or is expected to receive approximately $274.6 million of commercial insurance proceeds for Katrina property damages and business interruption and $28.8 million in National Flood Insurance Program (NFIP) proceeds for property damages. Most of Tulane's commercial policies provided blanket coverage for losses that can be classified as either (1) eligible for FEMA reimbursement (primarily physical property losses) or (2) not eligible for FEMA reimbursement (primarily business interruption losses). All of the flood insurance is eligible for FEMA reimbursement; however, neither Tulane nor its insurers allocated the proceeds received from blanket commercial insurance policies between FEMA-eligible losses and FEMA-ineligible losses. Federal regulations at 44 CFR 206.250(c) require FEMA to deduct actual or anticipated insurance recoveries that apply to eligible costs from project awards. This action prevents subgrantees from receiving duplicate benefits for losses.

<u>Issue #1: Application of Insurance Proceeds to Tulane's Projects</u>

As of June 2011, FEMA had applied approximately $137.3 million of the $303.3 million in insurance proceeds from Tulane's insurance policies to reduce the value of Tulane's projects, thereby allowing Tulane to retain $166.0 million (see table 2). Since then, FEMA has determined that at least another $24.5 million of insurance proceeds retained by Tulane covered FEMA-eligible expenses. Therefore, FEMA should apply the additional $24.5 million of insurance proceeds to Tulane's projects. Doing so will increase the amount of insurance proceeds applied to Tulane's projects from $137.3 million to $161.8 million and decrease the amount of insurance proceeds retained by Tulane from $166.0 million to $141.5 million.

Tulane officials did not fully agree that an additional $24.5 million of insurance proceeds should be applied to reduce the value of its projects. They believe that Tulane will not recover all of the future flood insurance settlements projected by FEMA and that less of the insurance proceeds should be applied to FEMA-eligible expenses.

Table 2. Application of Tulane's Insurance Proceeds as of June 2011

Type of Insurance	Insurance Proceeds		
	Received by Tulane	Applied to Projects	Retained by Tulane
Commercial Insurance	$274,573,165	$108,536,323	$166,036,842
NFIP Insurance			
Actual Proceeds	$ 23,160,783		
Anticipated Proceeds	5,612,399		
Total NFIP Insurance	28,773,182	28,773,182	0
Totals	**$303,346,347**	**$137,309,505**	**$166,036,842**

Issue #2: Allocation of Insurance Proceeds From Blanket Commercial Policies

Neither Tulane nor FEMA has developed a formal, documented analysis of eligible and ineligible losses covered by insurance. As a result, obligated funds may be overstated or understated because FEMA does not know what proportion of insurance proceeds should be allocated to eligible and ineligible disaster costs/losses. Therefore, FEMA should request the appropriate documentation from Tulane to support its eligible and ineligible losses. Based on this documentation, FEMA should develop its own analysis of eligible and ineligible losses and adjust the allocation of insurance to Tulane's projects accordingly. FEMA officials said that they have always planned to update Tulane's insurance allocation when the facts warranted and agreed that an update is necessary.

RECOMMENDATIONS

We recommend the Regional Administrator, FEMA Region VI:

Recommendation #1: Apply an additional $24.5 million of proceeds from Tulane's commercial insurance policies to reduce the value of Tulane's projects. Because these costs are funded from another source, they are ineligible (issue #1).

Recommendation #2: As soon as possible, complete the review of eligible and ineligible losses covered under Tulane's commercial insurance policies to determine whether the amount of proceeds applied to reduce the value of Tulane's projects should be increased or decreased (issue #2).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the interim results of our audit with FEMA and discussed insurance issues with Tulane officials during our audit and have included their comments in this report as appropriate. We also provided a draft report in advance to FEMA officials and discussed it at an exit conference held with FEMA on February 14, 2012. FEMA 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.

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 to our website for public dissemination. Significant contributors to this report were Tonda Hadley, Paige Hamrick, William Haney, and Timothy Scott.

Should you have questions concerning this report, please contact me at (202) 254-4100 or Tonda Hadley at (214) 436-5200.

cc: Administrator, FEMA
Director, Risk Management and Compliance, FEMA Office of Chief Financial Officer
Executive Director, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Region VI
Audit Liaison, FEMA (Job Code G-11-043)
Audit Liaison, DHS

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.