

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

FEMA Should Recover \$48.9 Million for Inadequate Insurance Coverage for Holy Cross School, New Orleans, Louisiana



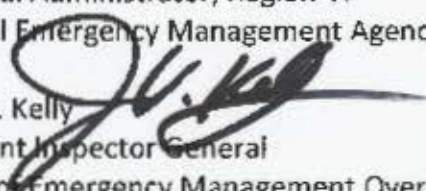


OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

NOV 22 2013

MEMORANDUM FOR: George A. Robinson
Regional Administrator, Region VI
Federal Emergency Management Agency

FROM: John V. Kelly 
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Should Recover \$48.9 Million for Inadequate Insurance Coverage for Holy Cross School, New Orleans, Louisiana*
FEMA Disaster Number 1603-DR-LA
Audit Report OIG-14-10-D

We are currently auditing Federal Emergency Management Agency (FEMA) Public Assistance grant funds awarded to the Holy Cross School (Holy Cross), (Public Assistance Identification Number 071-U1Z17-00).¹ The Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee, awarded Holy Cross the gross amount of \$89.3 million for damages resulting from Hurricane Katrina, which occurred on August 29, 2005. As table 1 shows, Holy Cross's insurance proceeds as of September 2012 reduced the gross amount to a net award of \$86.6 million. The award provided 100 percent funding for 16 projects—13 large and 3 small projects.

Table 1. Gross and Net Award Amounts

	Gross Award Amount	Insurance Reductions	Net Award Amount
All Projects	\$89,346,449	(\$2,791,984)	\$86,554,465

¹ We are auditing the gross amount of \$89.3 million awarded before reductions of \$2.8 million for insurance settlements.



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This memorandum advises you of an issue that requires your immediate attention. FEMA should disallow \$48.9 million of Holy Cross' \$86.6 million award because Holy Cross has not obtained and maintained the required amounts of flood insurance, or obtained certification of insurance from the State insurance commissioner to obtain an exemption from all or part of the obtain-and-maintain insurance requirements (see Exhibit, Schedule of Holy Cross Projects Questioned for Inadequate Flood Insurance Coverage).

We are conducting this performance audit pursuant to the *Inspector General Act of 1978*, as amended, and in accordance with generally accepted government auditing standards. Our overall objective is to determine whether Holy Cross accounted for and expended FEMA Public Assistance funds according to Federal regulations and FEMA guidelines. Because of the size of the award, we have divided this audit into phases. At the conclusion of our audit, we will issue a final audit report that may include additional findings and recommendations.

BACKGROUND

Holy Cross operates as a private, non-profit school with a curriculum that covers grades 5–12. Hurricane Katrina devastated the Holy Cross school buildings located in the Ninth Ward neighborhood of New Orleans. In January 2006, Holy Cross opened a temporary campus; and, in 2007, the Brothers of the Congregation of Holy Cross and their board of directors elected to relocate the campus to the Gentilly neighborhood of New Orleans. Holy Cross constructed four new buildings—an administration building, a middle school, a high school, and a central services/student center building—using FEMA funding.

Holy Cross Did Not Obtain Required Flood Insurance Coverage

Holy Cross did not obtain \$48.9 million of required flood insurance coverage for its replaced disaster-damaged facilities, which is a condition for receiving Federal disaster assistance. As a result, Holy Cross does not have adequate flood insurance coverage to meet Federal regulation insurance requirements to protect it and taxpayers in future disasters.

Section 311 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, Public Law 93-288 as amended, requires applicants of disaster assistance to obtain and maintain such types and extent of insurance as may be reasonably available, adequate, and necessary, to protect against future loss to any property to be replaced, restored, repaired, or constructed with such assistance. Federal regulations at 44 CFR 206.252(d) also require grant recipients to obtain and maintain insurance in the amount of eligible disaster assistance as a condition of receiving Federal funds. Grant recipients may also seek an exemption from insurance requirements from their State insurance commissioner. FEMA also provides additional guidance on the obtain-and-maintain requirement in its *Public Assistance Guide* (FEMA 322, October 1999, p. 97). The guide states that (1) as a condition for receiving public assistance for a facility,



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an applicant must obtain and maintain insurance to cover that facility for the hazard that caused the damage; and (2) such coverage must, at minimum, be in the amount of the estimated eligible project costs for that structure before any reduction.

Based on the required amount of the flood-related eligible damage assistance FEMA determined the required amount of obtain-and-maintain insurance was \$52.9 million. Holy Cross should have obtained and maintained \$52.9 million in flood insurance or received an exemption from insurance requirements from its State insurance commissioner.² However, Holy Cross obtained only \$4.0 million in flood insurance, or \$48.9 million less than the required amount. Holy Cross completed construction on the high school and middle school in August 2009, completed the administration building in March 2010, and completed the central services/student center in February 2011. Holy Cross should have increased its flood insurance coverage as it completed these buildings or obtained an exemption with a certification of insurance from the Louisiana insurance commissioner.

Holy Cross officials said that they intended to file for an insurance exemption, but delayed filing because they were not certain of the process or how much flood insurance FEMA required. However, uncertainty over how to proceed does not justify inaction given that Holy Cross started occupying its new buildings 4 years ago—more than adequate time to obtain the required flood insurance or insurance exemption. Further, each project worksheet clearly identified the amount of flood insurance coverage that FEMA required for each building. Therefore, FEMA should disallow as ineligible \$48,879,429 for the uninsured portion of the new buildings unless Holy Cross obtains the required insurance coverage or obtains an exemption.

Holy Cross officials also said they “obtained the maximum flood insurance available through the National Flood Insurance Program (NFIP) for each building; however, the FEMA obtain-and-maintain requirement sets forth substantially more flood insurance than what is available through the NFIP.”³ In addition, Holy Cross officials said they have a pending application to the Louisiana Insurance Commissioner seeking a certification that the insurance currently in place is adequate and reasonable, but the application is still in process. Although Holy Cross may have obtained the maximum available NFIP insurance, it did not obtain insurance available from other carriers, and the \$4 million it obtained is \$48.9 million less than the amount Federal regulations require. The Louisiana Insurance Commissioner has not completed the certification. Additionally, the Louisiana Commissioner’s review is an evaluation of insurance availability and affordability for Holy Cross not an evaluation of the adequacy of insurance coverage.

² This amount represents the total required flood insurance per the project worksheets for the six projects with insurance requirements.

³ NFIP offers a maximum of \$500,000 each for building and contents coverage. Additional flood insurance for amounts greater than \$500,000 is available from private insurance providers.



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Grant Management for Monitoring Insurance Requirements Is Inadequate

GOHSEP did not adequately monitor Holy Cross' compliance with FEMA's Public Assistance grant procedures. FEMA requires GOHSEP, as grantee, to ensure that Holy Cross obtained the required amount of flood insurance or obtained an exemption. However, neither GOHSEP nor Holy Cross started the process of filing an application for an exemption until November 2012. GOHSEP did not take steps to ensure the proper amount of coverage because it did not have procedures to monitor an applicant's insurance coverage. In a June 2011 letter to GOHSEP, FEMA emphasized that GOHSEP should seek exemptions for its grant recipients as soon as possible. GOHSEP should, therefore, develop and implement written procedures to better monitor its grant applicants and enforce the requirement to obtain and maintain adequate insurance coverage and obtain exemptions promptly. GOHSEP officials stated that they sent a March 2013 letter to all their applicants and had recently implemented procedures to ensure better oversight of insurance requirements. Although GOHSEP officials sent a letter, it did not follow up to ensure applicants obtained the required insurance or certification, and GOHSEP does not have procedures in place to actively identify applicants without insurance in a timely manner.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region VI:

Recommendation #1: Disallow \$48,879,429 (\$52,879,429 required less \$4,000,000 purchased) for the replacement of buildings and their contents as ineligible, unless Holy Cross obtains the required flood insurance coverage or a certification of insurance exemption from the State insurance commissioner.

Recommendation #2: Require GOHSEP to develop and implement procedures to monitor and enforce FEMA's obtain-and-maintain insurance requirements.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with Holy Cross officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to FEMA, GOHSEP, and Holy Cross officials and discussed it at exit conferences held with FEMA, Holy Cross, and GOHSEP officials on September 11, 2013, and again with GOHSEP officials on September 26, 2013. FEMA officials generally agreed with our findings and recommendations. GOHSEP and Holy Cross officials generally disagreed with our findings and recommendations and said they would complete the insurance certification within a short period of time.



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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 the contact information of responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until we receive and evaluate your response, we will consider the recommendations to be open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we will provide 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 are Christopher Dodd, Acting Director; Paige Hamrick, Audit Manager; Jeffrey Campora, Senior Auditor; and John Polledo, Senior Auditor.

Please call me with any questions at (202) 254-4100 or your staff may contact Christopher Dodd, Acting Director, Central Regional Office, at (214) 436-5200.



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Exhibit

Schedule of Holy Cross Projects Questioned for Inadequate Flood Insurance Coverage

Project Number	Description	Gross Project Amounts	Less Wind Damage and Non-Insurable Amounts ⁴	Required Flood Insurance	Insurance Obtained	Inadequate Flood Insurance Coverage
12753	Gymnasium	\$12,650,999	(4,171,198)	\$8,479,801	\$ 0	\$ 8,479,801
12965	Main High School	14,541,175	(1,634,397)	12,906,778	500,000	12,406,778
13136	Central Services	7,970,166	(65,522)	7,904,644	500,000	7,404,644
13237	Middle School	14,018,670	(620,166)	13,398,504	500,000	12,898,504
13333	Main Administration	26,951,577	(21,033,840)	5,917,737	500,000	5,417,737
18224	Building Contents ⁶	<u>4,557,192</u>	<u>(285,227)</u>	<u>4,271,965</u>	<u>2,000,000</u>	<u>2,271,965</u>
Totals		<u>\$80,689,779</u>	<u>(\$27,810,350)</u>	<u>\$52,879,429</u>	<u>\$4,000,000</u>	<u>\$48,879,429</u>

⁴ Includes wind damage, direct administrative costs, and amounts FEMA deducted for actual or estimated insurance proceeds.

⁵ The gymnasium and central services buildings are on a common foundation; therefore, NFIP insurance is reflected on only one project.

⁶ Building contents applies to all four buildings.



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