

Department of Homeland Security Office of Inspector General

**FEMA Should Recover \$8.0 Million of \$26.6 Million in
Public Assistance Grant Funds Awarded to St.
Stanislaus College Preparatory in Mississippi –
Hurricane Katrina**






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Department of Homeland Security

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

MAY 22 2014

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

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

SUBJECT: *FEMA Should Recover \$8.0 Million of \$26.6 Million in
Public Assistance Grant Funds Awarded to St. Stanislaus
College Preparatory in Mississippi – Hurricane Katrina*
FEMA Disaster Number 1604-DR-MS
Audit Report Number OIG-14-95-D

We audited Public Assistance funds awarded to St. Stanislaus College Preparatory (St. Stanislaus) located in Bay Saint Louis, Mississippi (FIPS Code 045-22226-00). Our audit objective was to determine whether St. Stanislaus accounted for and expended Federal Emergency Management Agency (FEMA) funds according to Federal regulations and FEMA guidelines.

St. Stanislaus received a Public Assistance grant award of \$26.6 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 debris removal activities, emergency protective measures, and repairs to permanent buildings and facilities. The award consisted of 26 large projects and 11 small projects.¹

We audited four large projects with awards totaling \$11.2 million (see Exhibit, Schedule of Projects Audited and Questioned Costs). The audit covered the period of August 29, 2005, to February 19, 2013, during which St. Stanislaus claimed \$12.2 million in FEMA funds for the four projects. At the time of our audit, St. Stanislaus had not completed work on all projects and, therefore, had not submitted a final claim to the State for all project expenditures.

Table 1 shows the gross and net award amounts before and after reductions for insurance for all projects and for those in our audit scope.

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



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Table 1. Gross and Net Award Amounts

	Gross Award Amount	Insurance Reductions	Net Award Amount
All Projects	\$26,562,042	(\$7,843,475)	\$18,718,567
Audit Scope	\$11,714,368	(\$495,213)	\$11,219,155

Source: FEMA Project Worksheets

We conducted this audit between February 2013 and August 2013 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. To conduct this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We selected and reviewed specific project costs (generally based on dollar value); interviewed St. Stanislaus, State, and FEMA personnel; reviewed St. Stanislaus 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 also notified the Recovery Accountability and Transparency Board of all contracts the subgrantee awarded under the projects within our audit scope to determine whether the contractors were debarred or whether there were any indications of other issues related to them that would indicate fraud, waste, or abuse. We did not assess the adequacy of St. Stanislaus' internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. However, we gained an understanding of St. Stanislaus' method of accounting for disaster-related costs and its policies and procedures for administering activities provided for under the FEMA award.

BACKGROUND

St. Stanislaus is located on the Mississippi Gulf Coast in Bay Saint Louis, Mississippi. St. Stanislaus, founded in 1854 by the Brothers of the Sacred Heart, is the oldest institution of learning on the Mississippi Gulf Coast. Chartered in 1870 as St. Stanislaus College, the school became a college preparatory in 1923. Currently, St. Stanislaus is a Catholic boarding and day school for boys, grades 7 through 12. The school sustained significant damage from Hurricane Katrina (figure 1) in August 2005. St. Stanislaus received a Public



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Assistance grant to cover disaster-related damage as a private nonprofit facility, as defined under 44 Code of Federal Regulation (CFR) 206.221(e).

Figure 1: St. Stanislaus College Preparatory – Katrina Damage



Source: www.Schlatter.org

RESULTS OF AUDIT

FEMA should recover \$8,012,665 of the \$26.6 million grant funds awarded to St. Stanislaus. Although St. Stanislaus generally accounted for FEMA funds on a project-by-project basis, it did not always expend those funds according to Federal regulations and FEMA guidelines when awarding contracts totaling \$8,012,665. These contracts were for eligible permanent work, but the work was not critical to re-opening the school. Our review of two other projects revealed that St. Stanislaus did not comply with Federal contracting requirements for contract work procured under the projects. However, we did not question any costs under those projects because (1) the contract work was for activities critical to reopening the school, and (2) FEMA had taken corrective action on the noncompliance issues by disallowing unreasonable and ineligible contract costs before our audit.



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Finding A: Contracting Procedures

St. Stanislaus did not comply with Federal procurement requirements when awarding contracts totaling \$8,012,665 for permanent work. The work included construction of a new dining hall, acquisition of professional architectural and engineering (A/E) services, and demolition of damaged facilities.

Federal grant requirements, codified at 2 CFR 215, required, among other things, that St. Stanislaus—

- Conduct all procurement transactions in a manner to provide, to the maximum extent practical, open and free competition. (2 CFR 215.43)
- Make positive efforts to use small businesses, minority-owned firms, and women’s business enterprises, whenever possible. (2 CFR 215.44(b))

In addition, FEMA’s *Public Assistance Guide* (FEMA 322, *Public Assistance Guide*, October 1999, p. 39) specifies the following conditions:

- Contracts must be of reasonable cost, generally competitively bid, and must comply with Federal, State, and local procurement standards.
- Applicants should not use noncompetitive proposals except when the award of a contract is not feasible under small purchase procedures, sealed bids, or competitive proposals. And, if one of the following circumstances applies: (1) the item is available only from a single source, (2) there is an emergency requirement that will not permit a delay, (3) FEMA authorizes noncompetitive proposals, or (4) the applicant has attempted solicitation from a number of sources and determined that competition is inadequate.

St. Stanislaus Did Not Adequately Consider Small Businesses, Minority-Firms, and Women Business Enterprises

St. Stanislaus could not provide evidence that it made efforts to include small businesses, minority-firms, and women’s business enterprises when procuring contract work totaling \$8,012,665 (Projects 9689 and 11046). According to St. Stanislaus officials, the school awarded the contracts using Mississippi procurement policies. However, there was no evidence in the procurement files that the school provided an opportunity for small businesses, minority-firms, and women’s business enterprises to bid for the Federally-funded contract work. Therefore, we question \$8,012,665 as ineligible contract costs. This amount also includes \$818,580 (\$595,077 for Project 9689 and



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\$223,503 for Project 11046) of costs that we also questioned because St. Stanislaus awarded contracts without full and open competition that we describe in the following paragraphs. Therefore, we question a net amount of \$7,194,085 in this portion of the finding.

Open and Free Competition

St. Stanislaus did not competitively bid contracts for demolition work (Project 9689) and professional A/E services (Projects 9689 and 11046) totaling \$818,580. Open and free competition increases the probability of reasonable pricing from the most qualified contractors and helps discourage and prevent favoritism, collusion, fraud, waste, and abuse. Therefore, we question the \$818,580 as ineligible contract costs.

- Demolition Work. Under Project 9689, St. Stanislaus did not promote an open and free procurement process when it hired a contractor to demolish its damaged dining hall. Instead of soliciting bids from all sources for the work totaling \$156,350, St. Stanislaus contacted several specific contractors to obtain quotes and selected a firm that had previously performed debris cleanup work for the school. However, this process restricted competition because it did not provide an opportunity for all interested contractors to bid for the contract work. Therefore, we question \$156,350 under Project 9689.
- A/E Services. St. Stanislaus hired two contractors for nonemergency A/E services totaling \$662,230 under Projects 9689 and 11046, without open and free competition. St. Stanislaus officials said they did not seek competitive bids for the A/E contracts because State and FEMA officials told them that such work did not require competitive bids. However, State and FEMA officials that we interviewed during this audit told us that St. Stanislaus should have sought competitive bids for the A/E services. We question \$438,727 under Project 9689 and \$223,503 under Project 11046 for nonemergency contract work St. Stanislaus awarded without open and free competition.

Projects Critical to Reopening the School Not Questioned

Our review of Projects 10695 and 10291 revealed that St. Stanislaus did not comply with Federal contracting requirements for contract work procured under the projects. However, we did not question any costs under those projects because (1) the contract work was for activities critical to reopening the school, and (2) FEMA had taken corrective action on the noncompliance issues by disallowing unreasonable and ineligible contract costs before our audit.



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Table 2 identifies the questioned contract costs by project and scope of work.

Table 2. Questioned Costs for Non-Compliance with Federal Contracting Procedures

Project Number	Project Scope	Amount Awarded	Small Business/ Minority/ Women Firms	Full and Open Competition	Total Amount Questioned
9689	Dining Hall	\$5,154,480	\$4,545,062	\$595,077	\$5,140,139
11046	Cafeteria and Dining - Ancillary/Sitework	2,899,876	2,649,023	223,503	2,872,526
Totals		\$8,054,356	\$7,194,085	\$818,580	\$8,012,665

Source: FEMA Project Worksheets and OIG Analysis

St. Stanislaus Response. St. Stanislaus officials disagreed with our finding, saying that they took all measures available to them under the circumstances to encourage and promote open and free competition for all items and contracts procured. The officials also said that St. Stanislaus exceeded State law requirements and normal reasonable procurement efforts under the circumstances to ensure that they afforded small business and minority-owned businesses an opportunity to secure work competitively. Finally, St. Stanislaus officials told us they actively sought out women-owned architecture firms and small firms to provide services at a time in which there was a shortage of available professionals because of the emergency circumstances the storm caused.

Office of Inspector General (OIG) Response. We requested documentation from St. Stanislaus’ officials to support their assertions. However, they did not provide us with any documentation to support their claims. Therefore, our position remains unchanged.

Finding B: Grant Management

The State did not fulfill its grantee responsibility to ensure that St. Stanislaus followed Federal procurement regulations. The nature and extent of ineligible costs we identified demonstrate that the State should have done a better job of reviewing St. Stanislaus’ contracting methods. According to 44 CFR 13.37(a)(2), the State, as grantee, must ensure that subgrantees are aware of requirements that Federal regulations impose on them. Further, 44 CFR 13.40(a) requires the grantee to manage the day-to-day operations of subgrant activity and monitor subgrant activity to ensure compliance with



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applicable Federal requirements. Therefore, we recommend that FEMA remind the State of its grant management responsibilities for monitoring subgrantees.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation #1: Disallow \$8,012,665 of ineligible costs that St. Stanislaus claimed for contracts that did not comply with Federal requirements, unless FEMA decides to grant an exception for all or part of the costs as provided for in Section 705(c) of the *Robert T Stafford Disaster Relief and Emergency Assistance Act*, as amended, and determines that the costs are reasonable (finding A).

Recommendation #2: Direct the State to remind St. Stanislaus of its responsibility to comply with Federal procurement regulations when acquiring goods and services with FEMA funds (finding A).

Recommendation #3: Remind the State of its grantee responsibilities to ensure that subgrantees are aware of and comply with Federal regulations (finding B).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with St. Stanislaus, 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 August 23, 2013. St. Stanislaus officials disagreed with our findings and recommendations. We incorporated their comments, as appropriate, into the body of this report.

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 for responsible parties and any other supporting documentation necessary to inform us about the status of the recommendations. Until we receive and evaluate your response, we will consider the recommendations 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



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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 David Kimble, Director; Larry Arnold, Audit Manager; Emma Peyton, Auditor-in-Charge; and Rickey Smith, Auditor.

Please call me with any questions at (202) 254-4100, or your staff may contact David Kimble, Director, Eastern Regional Office, at (404) 832-6702.



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Exhibit

Schedule of Projects Audited and Questioned Costs

Project Number	Category	Project Scope	Net Amount Awarded	Amount Claimed	Amount Questioned ²	Finding
10695	A	Debris Removal	\$940,366	\$1,096,024	\$0	
10291	B	Campus Wide Emergency Protective Measures	2,224,433	2,545,087	0	
11046	G	Cafeteria and Dining - Ancillary/Sitework	2,899,876	3,285,276	2,872,526	A
9689	E	Dining Hall	5,154,480	5,319,943	5,140,139	A
Totals			\$11,219,155	\$12,246,330	\$8,012,665	

Source: FEMA Project Worksheets and OIG Analysis

² Although the claimed amounts exceed the award amounts, FEMA closed the projects at the award amounts. Therefore, we based our questioned amounts on the award amounts.



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