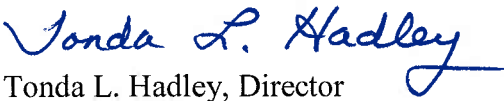




Homeland Security

March 17, 2011

MEMORANDUM FOR: Tony Russell, Regional Administrator
FEMA Region VI

FROM: 
Tonda L. Hadley, Director
Central Regional Office

SUBJECT: *Roman Catholic Church of the Archdiocese of New Orleans*
Funding of Permanent Work
FEMA Disaster Number 1603-DR-LA
Public Assistance Identification Number 000-UV6IX-00
Audit Report Number DD-11-11

We audited public assistance funds awarded to the Roman Catholic Church of the Archdiocese of New Orleans (Archdiocese) for disaster recovery work related to Hurricane Katrina. Our audit objective was to determine whether the Archdiocese accounted for and expended Federal Emergency Management Agency (FEMA) grant funds according to federal regulations and FEMA guidelines.

The Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), a FEMA grantee, awarded the Archdiocese \$338 million for damages resulting from Hurricane Katrina. The award provided 100% funding for 647 large and 528 small projects.¹ As of November 23, 2010, the cut-off date of our audit, permanent work projects were in various stages of completion; and the Archdiocese had claimed and GOHSEP had disbursed \$71 million to the Archdiocese.

Due to the size of this award and the number of projects, we divided the audit into phases. During this second phase, our audit covered the period August 29, 2005, through November 23, 2010. Our audit scope included a review of FEMA project funding decisions for Category E projects (Buildings and Equipment) based on FEMA policies for developing alternative projects and deciding whether to repair or replace damaged facilities.²

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

² FEMA disaster assistance policies governing these funding decisions are described in *Alternate Projects*, DAP 9525.13, and *Repair vs. Replacement of a Facility Under 44 CFR 206.226(f) (The 50% Rule)*, DAP 9524.4.

In this phase of the audit, we reviewed FEMA's funding decisions for 57 Category E large projects totaling \$247 million or 73% of the total award. We also reviewed transactions supporting 52 small projects in all project categories of work totaling \$1.3 million, or 87% of the \$1.5 million in small project awards. Finally, we reviewed the application of Archdiocese insurance proceeds to both large and small projects in all project categories.

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 and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We interviewed FEMA, GOHSEP, and Archdiocese officials; reviewed judgmentally selected transactions (generally based on dollar value) of claimed costs; and performed other procedures considered necessary to accomplish our objectives. We did not assess the adequacy of the Archdiocese's internal controls applicable to grant activities because it was not necessary to accomplish our audit objectives. We did, however, gain an understanding of the Archdiocese's methods of accounting for disaster-related costs and its procurement policies and procedures.

BACKGROUND

The Archdiocese is a division of the Roman Catholic Church and is the second-oldest diocese in the United States. The Archdiocese encompasses 8 civil parishes in the New Orleans metropolitan area and includes 108 church parishes. In addition to the religious facilities of each church parish, the Archdiocese also owns primarily non-religious facilities including school buildings, housing for elderly and disabled persons, and charitable assistance buildings. Hurricane Katrina's high winds and flooding caused extensive damage to many of the Archdiocese's primarily non-religious buildings. Private nonprofit organizations that own or operate private nonprofit facilities not used primarily for religious purposes or instruction are eligible for Public Assistance disaster funding (44 CFR 206.222(b) and 44 CFR 206.221(e)(1)).

When determining how to repair disaster damage, it is not always practical or cost effective to repair a damaged facility. In some cases, the damage is simply too great to repair cost effectively. According to 44 CFR 206.226(f)(1), a facility is considered repairable when disaster damages do not exceed 50 % of the cost of replacing a facility to its pre-disaster condition. This regulation is often referred to as "The 50% Rule." Also, according to 44 CFR 206.203(d)(2), when an applicant determines that restoring a damaged facility would not best serve the public welfare, the applicant may request FEMA approval of an alternate project.

RESULTS OF AUDIT

The Archdiocese generally accounted for and expended FEMA grant funds according to federal regulations and FEMA guidelines. However, we question \$362,864 because the Archdiocese decided not to complete nine small projects totaling \$181,580, FEMA did not deduct \$170,229 in insurance proceeds from four projects, and FEMA funded two small projects, at \$11,055 each, with the same scope of work. In addition, GOHSEP overpaid the Archdiocese \$212,714; however, we do not question these costs because FEMA funding was not involved.

Finding A: Small Projects

After receiving project funding, Archdiocese officials decided not to perform repairs on nine small projects, but rather planned to use the funds on other disaster recovery projects. However, the Archdiocese did not submit a request to FEMA, through GOHSEP, for approval of its alternate plans. Because FEMA did not authorize the alternate use, the Archdiocese should return the funds. According to 44 CFR 206.205(a), failure to complete a small project may require the federal payment to be refunded. Therefore, we question \$181,580 of ineligible funds for the nine small projects not completed (see Exhibit).

Finding B: Insurance Proceeds

FEMA did not reduce project amounts by \$170,229 for actual insurance proceeds on four projects. This occurred because the actual insurance proceeds exceeded the insurance proceeds anticipated in the initial project funding. GOHSEP officials said they plan to recover these funds when they close-out the projects. Section 312(a) of the Stafford Act, as amended, prohibits duplication of benefits, stating that entities will not receive assistance for any loss for which financial assistance has already been received from any other program, from insurance, or from any other source. Also, according to 44 CFR 206.253(a), eligible costs must be reduced by the actual amount of insurance proceeds. Therefore, we question \$170,229 as an ineligible duplication of benefits (see Exhibit).

Finding C: Duplicated Small Projects

FEMA officials inadvertently funded projects 6129 and 11735, at \$11,055 each, for the same scope of work at the same location. Therefore, we question \$11,055 as ineligible duplicate project funding (see Exhibit).

Other Matters

GOHSEP overpaid the Archdiocese \$212,714 on four projects.³ This occurred because, after GOHSEP paid the Archdiocese, FEMA deobligated the project amounts to fund alternate projects and adjust for actual insurance proceeds. GOHSEP officials said they plan to work with

³ GOHSEP overpaid the Archdiocese on project numbers 5346 (\$45,859), 5606 (\$122,131), 6980 (\$15,386), and 8025 (\$29,338).

Archdiocese officials to recover the funds. However, because it did not involve FEMA funding, we do not question the overpayment.

RECOMMENDATIONS

We recommend the Regional Administrator, FEMA Region VI:

Recommendation #1: Disallow \$181,580 (\$181,580 federal share) as ineligible for small projects not performed (Finding A).

Recommendation #2: Disallow \$170,229 (\$170,229 federal share) as ineligible for insurance proceeds not deducted from the projects (Finding B).

Recommendation #3: Disallow \$11,055 (\$11,055 federal share) as ineligible for duplicate project funding (Finding C).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our audit with FEMA, GOHSEP and Archdiocese officials. We also provided written summaries of our findings and recommendations in advance to FEMA, GOHSEP, and Archdiocese officials and discussed them at exit conferences held with FEMA on March 3, 2011, and with GOHSEP and the Archdiocese on February 18, 2011. These officials, while generally agreeing with the findings, reserved further comments on the recommendations until after we issue our final report. Please advise this office by June 17, 2011, of the actions planned or taken to implement the recommendations, including target completion dates for any planned actions. To promote transparency, this final report and your response to this report, including your corrective actions planned, will be posted to our website, with exception of sensitive information identified by your office. Significant contributors to this report were Christopher Dodd, John Polledo, and Natalie Lick. Should you have questions concerning this report, please contact me, or your staff may contact Christopher Dodd, Audit Manager, at (214) 436-5200.

cc: Acting Executive Director, FEMA Louisiana Recovery Office
Audit Liaison, FEMA Louisiana Recovery Office
Audit Liaison, FEMA (Job Code G-10-060)
Audit Liaison, FEMA Region VI
Audit Liaison, DHS

**Schedule of Questioned Costs
Roman Catholic Church of the Archdiocese of New Orleans
FEMA Disaster Number 1603-DR-LA**

<u>Project Number</u>	<u>Project Category</u>	<u>Finding A</u>	<u>Finding B</u>	<u>Finding C</u>	<u>Total Costs Questioned</u>
1584	B	\$ 0	\$ 19,315	\$ 0	\$ 19,315
6129	B	0	0	11,055	11,055
7363	E	0	124,424	0	124,424
7400	E	0	14,325	0	14,325
8220	E	26,145	0	0	26,145
8893	E	14,352	0	0	14,352
9007	G	16,171	0	0	16,171
9737	E	10,663	0	0	10,663
9931	E	17,028	0	0	17,028
12096	E	15,718	0	0	15,718
12488	E	33,899	0	0	33,899
14658	E	37,261	0	0	37,261
15890	E	10,343	0	0	10,343
17029	G	<u>0</u>	<u>12,165</u>	<u>0</u>	<u>12,165</u>
Totals		<u>\$181,580</u>	<u>\$170,229</u>	<u>\$11,055</u>	<u>\$362,864</u>