OFFICE OF INSPECTOR GENERAL

Mount Carmel Baptist Church in Hattiesburg, Mississippi, Needs Assistance to Ensure Compliance with FEMA Public Assistance Grant Requirements

Homeland Security

September 30, 2015

OIG-15-152-D

DHS OIG HIGHLIGHTS

Mount Carmel Baptist Church in Hattiesburg, Mississippi, Needs Assistance to Ensure Compliance with FEMA Public Assistance Grant Requirements

September 30, 2015

Why We Did This

Mount Carmel expects to receive $13.2 million for damages from a February 2013 disaster. We conducted this audit early in the grant process to identify areas where Mount Carmel may need additional technical assistance or monitoring to ensure compliance with Federal requirements.

What We Recommend

The Federal Emergency Management Agency (FEMA) should direct Mississippi to provide technical assistance and monitoring to ensure Mount Carmel complies with Federal grant requirements to avoid losing an estimated $13.2 million of Federal funding.

For Further Information:
Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

At the time of our audit, Mount Carmel Baptist Church (Mount Carmel) did not have adequate policies, procedures, and business practices to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. Although the disaster occurred in 2013, Mount Carmel had not begun work to repair any of its damaged facilities and, therefore, had not incurred any costs for disaster-related work.

In addition, Mount Carmel may lack the financial stability to meet the required 25 percent non-Federal cost share for the grant award. Finally, a Mount Carmel affiliate did not always comply with Federal grant requirements for a past Federal grant it received from another Federal agency. Therefore, FEMA should place special award conditions as needed on Mount Carmel through additional requirements.

These challenges occurred primarily because of Mount Carmel's limited familiarity with Federal requirements. However, the grantee (Mississippi) is responsible for ensuring that its subgrantee (Mount Carmel) is aware of and complies with these requirements. Implementing our recommendations should provide FEMA with reasonable assurance that Mount Carmel will avoid misspending the estimated $13.2 million in FEMA Public Assistance funding it expects to receive.

FEMA Response

FEMA's written response is due within 90 days.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

September 30, 2015

MEMORANDUM FOR: Gracia Szczech
Regional Administrator, Region IV
Federal Emergency Management Agency

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

SUBJECT: *Mount Carmel Baptist Church in Hattiesburg, Mississippi, Needs Assistance to Ensure Compliance with FEMA Public Assistance Grant Requirements*
Audit Report Number OIG-15-152-D

We audited the capability of Mount Carmel Baptist Church in Hattiesburg, Mississippi, (Mount Carmel) to manage Federal Emergency Management Agency (FEMA) Public Assistance grant funds. We conducted this audit early in the Public Assistance process to identify areas where Mount Carmel may need additional technical assistance or monitoring to ensure compliance with Federal regulations and FEMA guidelines. In addition, by undergoing an audit early in the grant process, grant recipients have the opportunity to correct noncompliance before they spend a majority of their grant funding. It also allows them the opportunity to supplement deficient documentation or locate missing records before too much time elapses.

At the time of our audit, FEMA and the Mississippi Emergency Management Agency (Mississippi), a FEMA grantee, were still drafting Mount Carmel's project worksheets to estimate damages resulting from severe storms and tornadoes that occurred in February 2013. Mount Carmel officials estimate eligible disaster-related damages to be approximately $13.2 million. The award provides 75 percent FEMA funding for eligible work.[1] FEMA determined that Mount Carmel was an eligible applicant because, at the time of the disaster, some of its facilities provided educational and governmental type services. At the time of our audit field work, Mount Carmel had not begun work to repair any of the damaged facilities and, therefore, had not incurred any costs for disaster-related work.

Background

Mount Carmel Baptist Church in Hattiesburg, Mississippi, is a state-registered private non-profit organization that provides religious, educational, and

[1] FEMA-State Agreement for Disaster Number 4101-DR-MS.

governmental type services to the local community. On February 10, 2013, strong winds and driving rain severely damaged and/or destroyed four of Mount Carmel's structures. The structures consist of Building A (church sanctuary), Building B (Alpha Christian School), Building C (multi-purpose facility used for classrooms, daycare center, homeless shelter, and a senior citizens center), and Building D (governmental services use).

In March 2013, Mount Carmel submitted a Request for Public Assistance to FEMA for disaster-related damages. FEMA Region IV denied the request in April 2013, stating that Mount Carmel did not provide complete documentation to support its eligibility as a private non-profit organization.[2] Mount Carmel appealed FEMA's decision and provided additional documentation to support its claim as a private-non-profit organization. FEMA Region IV reviewed Mount Carmel's appeal documentation and in June 2014 approved Mount Carmel as eligible to apply for financial assistance for damages sustained to Buildings B, C, and D. FEMA determined that Building A was not eligible for financial assistance because Mount Carmel used the structure primarily for religious purposes. Figures 1, 2, and 3 show damages to Buildings B, C, and D, respectively.

Figure 1: Building B - Alpha Christian School

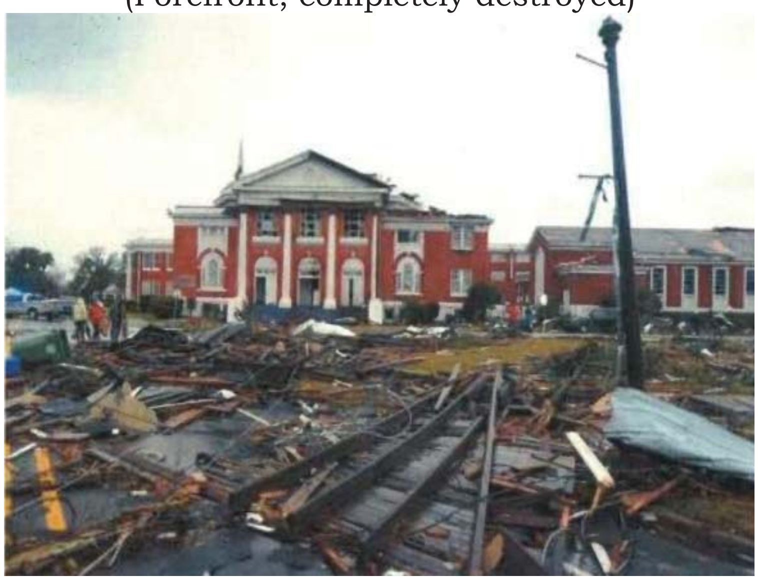
Source: Office of Inspector General (OIG) on-site visit

[2] FEMA has determined that private-non-profit organizations that own or operate facilities that provide certain services of a governmental nature are eligible for financial assistance. Qualifying private non-profits are those that provide education, medical, custodial care, emergency, utility, certain irrigation facilities, and other essential governmental services.

Figure 2: Building C - Multi-Purpose Facility

Source: OIG on-site visit

Figure 3: Building D - Governmental Services Facility
(Forefront, completely destroyed)



Source: hattiesburgamerican.com

Results of Audit

At the time of our audit, Mount Carmel did not have adequate policies, procedures, and business practices to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. Specifically, Mount Carmel had not established policies and procedures for—

- accounting for and adequately documenting disaster costs on a project-by-project basis;
- procuring goods and services in accordance with Federal procurement standards and FEMA guidelines;
- allocating and deducting insurance proceeds from eligible project costs; and
- obtaining and maintaining required insurance to protect against future losses for facilities repaired and/or replaced using FEMA funds.

In addition, Mount Carmel may lack the financial stability to meet the required 25 percent non-Federal cost share for the grant award. Finally, Carmel Estates, Incorporated, operating as Eagle Wing Estates II (Eagle Wing)—a corporation Mount Carmel Baptist Church established—did not always comply with Federal grant requirements for a past Federal grant it received from another Federal agency.

These challenges occurred primarily because of Mount Carmel's limited familiarity with Federal regulations and FEMA guidelines. However, Mississippi, as the grantee, is responsible for ensuring that its subgrantees are aware of and comply with these requirements. Based on the findings in this report, FEMA should direct Mississippi to provide Mount Carmel with additional technical assistance and closely monitor its grant activities to ensure compliance with Federal grant requirements. In addition, FEMA should place special award conditions as needed on Mount Carmel to lessen the risk of noncompliance. FEMA's implementation of these recommendations should provide the agency with reasonable assurance that Mount Carmel will avoid misspending the estimated $13.2 million in FEMA Public Assistance funding it expects to receive.

Finding A: Project Cost Accounting

At the time of our audit, Mount Carmel had not established adequate policies and procedures to account for disaster costs on a project-by-project basis. Federal regulations and FEMA guidelines require—

- grantees to account for large project expenditures on a project-by-project basis (Title 44 Code of Federal Regulations (CFR) 206.205(b)). FEMA requires subgrantees to keep records for all disaster costs on a project-by-project basis (*Public Assistance Guide*, FEMA 322, June 2007, p. 137); and
- grant recipients to maintain accounting records that adequately identify the source and application of Federal funds and maintain source documentation to support those accounting records (2 CFR 200.302(b)(3)).

We discussed grant accounting requirements with Mount Carmel officials. We also advised them to review 2 CFR Part 230 (*Cost Principles for Non-Profit Organizations*). In addition, we advised them to review FEMA's *Public Assistance Guide* (FEMA 322) for guidance on accounting for and documenting project costs. As a result, during our field work, Mount Carmel officials developed accounting procedures to separately track project costs. We reviewed the procedures and they appear adequate. Mount Carmel officials agreed with this finding.

Finding B: Procurement Procedures

Mount Carmel did not have written procurement policies and procedures in place to ensure compliance with Federal procurement requirements. After FEMA notified Mount Carmel of its eligibility, Mississippi provided Mount Carmel officials with a copy of Federal procurement standards at 44 CFR 13.36 as a guide for drafting procurement policies and Mount Carmel started the process of drafting policies. However, the procurement standards in 44 CFR 13.36 do not apply to private non-profit organizations; rather, they apply to Federal grants awarded to states, local governments, and Indian tribal governments. Although very similar to 44 CFR 13.36, the procurement standards in 2 CFR 215.40 apply to private non-profit organizations, such as Mount Carmel. We discussed Federal procurement requirements applicable to private non-profits with Mount Carmel officials and advised them to use 2 CFR 215.40 as a basis for developing their written procurement policies and procedures.

During our field work, Mount Carmel established written procurement policies and procedures for awarding contracts for disaster-related activities that conform to the standards in 2 CFR 215.40. Additionally, using the new procedures, Mount Carmel began a procurement action during our audit to hire a program management firm to properly oversee the FEMA grant and related projects. Our limited review of the procurement process that Mount Carmel used to hire the firm indicated that the procurement complied with Federal requirements. Mount Carmel officials agreed with this finding.

Finding C: Insurance Requirements

Mount Carmel had not established procedures for properly allocating insurance proceeds to FEMA-approved projects and may experience difficulty obtaining and maintaining insurance coverage for facilities repaired and/or replaced with FEMA funding. Section 312(a) of the *Stafford Act*,[3] Duplication of Benefits, states that no entity will receive assistance for any loss for which they have received financial assistance from any other program, from insurance, or from any other source. In addition, 44 CFR 206.250(c) requires FEMA to deduct actual and anticipated insurance recoveries from otherwise eligible costs. Finally, Section 311 of the *Stafford Act* requires recipients 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."

At the time of our audit, Mount Carmel had not established policies and procedures for allocating anticipated and actual insurance proceeds. Mount Carmel submitted claims totaling approximately $5,200,000 to its insurance carrier for disaster damages. However, payment of the claims was uncertain because Mount Carmel was in litigation with its insurance company to determine whether policy coverage existed at the time of the disaster. Mount Carmel's insurance company canceled its policy in November 2012, about 3 months before the disaster, citing "increase in hazard due to foreclosure proceedings." Mount Carmel's inability to pay its mortgage caused the foreclosure proceedings and demonstrates Mount Carmel's financial instability. According to church officials, during litigation, the court determined that the insurance company did not have legal grounds to cancel Mount Carmel's insurance policy. However, the dollar amount it may receive from the judgment is still pending.

Further, more than 2 years have passed since the disaster, so additional damages the disaster did not directly cause may have occurred to the damaged properties. During litigation between Mount Carmel and its insurance company, Mount Carmel attempted, without success, to receive funding from its insurance company to mitigate additional damages that may have occurred after the February 2013 disaster. Therefore, because the court determined that the insurance company did not have legal grounds to cancel the insurance policy and because additional damages may have occurred, the pending judgement may be greater than the initial damages. Finally, because of the ongoing litigation and foreclosure actions, Mount Carmel may experience problems acquiring and maintaining insurance coverage for repaired/replaced damaged facilities.

We discussed these issues and Federal requirements for obtaining and maintaining insurance against future losses with Mount Carmel officials. At the end of our audit field work, Mount Carmel had not formalized policies and

[3] *Robert T. Stafford Disaster Relief and Emergency Act*, Public Law 93-288, 42 U.S.C. §5154, as amended.

procedures for properly allocating insurance proceeds. Mount Carmel officials agreed with this finding.

Finding D: Special Award Conditions

In addition to the aforementioned issues, Mount Carmel may lack the financial stability to meet the required 25 percent non-Federal cost share and other financial demands of the grant. Further, Eagle Wing, Mount Carmel's affiliate, did not always comply with requirements of a previous grant award from another Federal agency. Therefore, FEMA should place special conditions on Mount Carmel's grant award. According to 2 CFR 215.14, an awarding agency may impose special award conditions through additional requirements, as needed, to an applicant if the agency determines that an applicant—

- has a history of poor performance, or
- is not financially stable, or
- has a management system that does not meet Federal standards, or
- has not conformed to terms and conditions of previous awards, or
- is otherwise not responsible.

We determined that Mount Carmel (1) may not be financially stable enough to meet financial obligations associated with FEMA awards; (2) does not have proven management systems for accounting, program management, and procurement (see findings A and B); and (3) in this case, its affiliate, did not always conform to the terms and conditions of a previous Federal grant award.

<u>Financial Stability</u>

Mount Carmel may lack the financial stability to meet the required 25 percent non-Federal cost share of the estimated $13,226,700 damages for the grant award. According to the State-Local Disaster Assistance Agreement,[4] Mississippi will not pay any of Mount Carmel's 25 percent cost share; therefore, Mount Carmel will have the full liability of the 25 percent.[5] We reviewed Mount Carmel's bank statements from January 2011 to February 2015 and its monthly average balance was below $5,000. Therefore, we concluded that, without assistance from outside sources, Mount Carmel may not be able to pay its 25 percent non-Federal

[4] The State-Local agreement is between Mississippi and its subgrantee. The agreement is effective on the date that Mississippi and the subgrantee sign it, and it applies to all assistance funds the subgrantee receives from or through Mississippi.
[5] The state of Mississippi normally pays half of the applicant's cost share; however, it does not pay any portion for private non-profit applicants.

cost share of the grant award or pay insurance premiums necessary to obtain and maintain the required amount of insurance on its repaired facilities. Also, Mount Carmel's recent foreclosure actions that we discuss in finding C may cause problems in obtaining outside funding. Mount Carmel officials stated they could contribute their 25 percent cost share; however, they did not provide any evidence supporting their assertion. If Mount Carmel does not complete eligible projects by established deadlines because it cannot afford to meet its financial obligations under the grant, Mount Carmel risks losing all FEMA obligated funding for those projects.

Compliance with Terms and Conditions of Previous Federal Awards

Eagle Wing, Mount Carmel's affiliate, did not always comply with the terms and conditions of a grant award it received previously from another Federal agency. In 2013, Eagle Wing received a $1,076,539 Federal grant award from the U.S. Department of Housing and Urban Development (HUD) for low-income housing for the elderly. Its 2013 single audit report revealed numerous prior financial reporting violations relative to the HUD grant in question.[6] Specifically, this independent auditor's report revealed prior audit findings concerning contract overpayments and the transfer of Federal funds to a personal account. According to the 2013 audit report, Eagle Wing had returned neither the contract overpayments nor the personal account deposit to the proper authorized accounts. Therefore, Eagle Wing, which Mount Carmel established and supports, did not comply with Federal financial reporting requirements.

Conclusion

Mount Carmel's lack of financial stability to meet Federal requirements related to receiving grant funding; unproven management systems for accounting, program management, and procurement; and its affiliate's noncompliance with requirements of a previous grant award from another Federal agency justify FEMA using its authority to place special conditions on Mount Carmel's grant award in accordance with 2 CFR 215.14. Such special conditions should provide FEMA with additional assurance that Mount Carmel will avoid misspending the estimated $13,226,700 in FEMA Public Assistance funding it expects to receive.

[6] The objective of the low-income housing program for the elderly is to provide Federal capital advances and project rental assistance under Section 202 of the *National Housing Act of 1959* for developing housing projects serving very low-income elderly persons. HUD awards Section 202 funds to private non-profit groups and, in some cases, for-profit limited partnerships, provided that the sole general partner is either an otherwise qualifying non-profit or a corporation wholly owned and controlled by the non-profit.

Mount Carmel officials did not agree with our position that it failed to comply with the requirements of a previous grant award from another Federal agency. Mount Carmel officials stated that it served as the sponsor for Eagle Wing in 2000, adding that Mount Carmel was required by regulation to establish an "owner." Officials added that Mount Carmel "is not now nor has it ever been responsible for the receipt of or management of HUD funds received by Eagle Wings II." Officials further stated that Eagle Wing has been separate from Mount Carmel for over 14 years. Although Mount Carmel supports Eagle Wing's mission of providing affordable housing for the elderly, it does not control its board of directors nor participate in its operational management.

We disagree with Mount Carmel's comments. Even though Mount Carmel did not receive HUD funding directly, having established and provided support for Eagle Wing, it maintains a vested interest in that organization, including representation on its board of directors. Therefore our position remains unchanged.

Finding E: Grant Guidance, Management, and Oversight

At the time of our audit, Mount Carmel officials did not have an adequate understanding of project cost accounting, rules for recording and documenting disaster costs, Federal procurement standards, or insurance requirements. Further, a Mount Carmel affiliate did not always comply with Federal grant requirements for a previous Federal grant it received from another Federal agency. Mount Carmel officials said that Mississippi officials did not initially provide adequate guidance and accurate information, but that Mississippi officials currently assigned have provided better guidance and information to help them move forward with recovery.

Federal regulations require grantees to (1) ensure that subgrantees are aware of Federal regulations, (2) manage the operations of subgrantee activity, and (3) monitor subgrantee activity to ensure compliance. Therefore, FEMA should—

- direct Mississippi to provide additional technical assistance, increase the frequency of project monitoring, and require additional detailed financial reports; and
- place special award conditions as needed on Mount Carmel through additional requirements.

Proper grant management, additional monitoring, and special award conditions should provide FEMA with reasonable assurance that Mount Carmel will avoid misspending the estimated $13,226,700 in FEMA Public Assistance funding it expects to receive.

FEMA and Mississippi officials withheld comments pending receipt of our final report.

Recommendations

We recommend that the Regional Administrator, FEMA Region IV:

Recommendation 1: Direct Mississippi, as the grantee, to provide additional technical assistance and increase the frequency of project monitoring to ensure Mount Carmel complies with all Federal regulations and FEMA guidelines and to avoid the improper spending (funds put to better use) of approximately $13.2 million (Federal share, $9.9 million) in FEMA Public Assistance funds (findings A, B, C, and E).

Recommendation 2: Place special award conditions as needed on Mount Carmel through additional requirements for its grant award as 2 CFR 215.14 allows (finding D).

Discussion with Management and Audit Follow-up

We discussed the results of our audit with Mount Carmel, Mississippi, and FEMA officials during our audit. In March 2015, we also notified Mississippi and FEMA of our concerns about Mount Carmel's financial stability (finding D). We also provided a draft report in advance to these officials and discussed it at the exit conference on July 29, 2015. We included the officials' comments, as applicable, in the body of the report. Mount Carmel officials agreed with all findings except the noncompliance with terms and conditions of previous Federal awards portion of finding D. Mississippi and FEMA officials elected to withhold comments until after we issue our final 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. Please email a signed pdf copy of all responses and closeout request to Larry.Arnold@oig.dhs.gov. Until we receive and evaluate your response, we will consider the recommendations as open and unresolved.

The Office of Emergency Management Oversight major contributors to this report are David Kimble, Director; Larry Arnold, Director; Mary James, Acting Audit Manager; John Skrmetti, Audit Manager; and Jerry Aubin, Auditor-in-Charge.

Please call me with any questions at (202) 254-4100, or your staff may contact Larry Arnold, Director, Gulf Coast Regional Office, at (228) 822-0346.

Appendix A

Objective, Scope, and Methodology

We audited the capability of Mount Carmel to manage FEMA Public Assistance grant funds. Our audit objective was to determine whether Mount Carmel's policies, procedures, and business practices are adequate to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines for FEMA Disaster Number 4101-DR-MS. Mount Carmel anticipates receiving an estimated $13.2 million of Public Assistance grant funding for damages to facilities it uses to provide educational and governmental type services. The damages resulted from severe storms and tornadoes that occurred in February 2013.

Our audit covered the period February 10, 2013, to January 28, 2015. At the time of our audit, FEMA and Mississippi had not completed damage assessments; therefore, FEMA had not obligated any Public Assistance funding for Mount Carmel's damaged facilities.

To accomplish our objective, we interviewed FEMA, Mississippi, and Mount Carmel officials; assessed the adequacy of the policies, procedures, and business practices Mount Carmel uses or plans to use to account for and expend Federal grant funds and to procure and monitor contracts for disaster related work; and performed other procedures considered necessary under the circumstances to accomplish our audit objective. We did not perform a detailed assessment of Mount Carmel's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective.

We conducted this performance audit between January 2015 and July 2015, 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. Unless stated otherwise in this report, to conduct this audit, we applied the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

Appendix B

Potential Monetary Benefits

Table 1: Summary of Potential Monetary Benefits

Type of Potential Monetary Benefit	Amounts	Federal Share
Funds Put to Better Use (Cost Avoidance)	$ 13,226,700	$ 9,920,025
Questioned Costs – Ineligible	0	0
Questioned Costs - Unsupported	0	0
Totals	**$13,226,700**	**$9,920,025**

Source: OIG analysis of findings in this report

Appendix C

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