



## **WASTE REPORT for October 19, 2016**

### **The School of Waste**

**The Waste Report strives to report on original examples of egregious government waste uncovered by the Federal Spending Oversight Subcommittee (FSO). However, sometimes something so shocking comes along that it deserves mention here, even though it has already come to public attention.**

**This is one of those cases.**

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In 2005, the private, non-profit Hope Academy (Hope) in coastal Mississippi suffered flooding caused by Hurricane Katrina's storm surge. Hope was eligible for federal Public Assistance grants to rebuild. However, as the Inspector General for the Department of Homeland Security details in a recent report, with the federal taxpayers footing the bill, Hope wanted more.<sup>1</sup> **Through unsupported claims, unethical deals, and multiple appeals, almost 10 years after Katrina, the taxpayer is currently out \$2.9 million.**

The Federal Emergency Management Agency (FEMA) would have paid to mitigate the damages to the Hope Academy and elevate their building. However, Hope claimed rebuilding its original facility would be **inadequate for it to service 90 students, its K-12 enrollment prior to the storm. Instead of rebuilding its 5,770 sq. ft. building, Hope claimed it now needed a new 13,319 sq. ft. (about 2.3 times larger) facility.**<sup>2</sup> Of course, had the storm not hit, they presumably would have served those students in the old building. Nonetheless, after some back and forth, including appeals to the regional FEMA office, FEMA eventually agreed in 2010 to pay for the larger school.

**Upon gaining approval for a larger school building, Hope then claimed its 2/3rds of an acre lot was just too small and asked the taxpayers to pay an additional \$1.4 million for a new 16-acre property (we will come back to this).**<sup>3</sup>

#### Were there 90 students?

The larger facility and the new property were all predicated on an enrollment of 90 students at the time Katrina hit, a claim the IG questioned and asserted Hope never sufficiently demonstrated. The IG reviewed the physical profile of the old school building and found it wasn't "credible that these five separate rooms would be adequate to educate 90 students in 13 different grade levels."<sup>4</sup> Throughout the process, FEMA had apparently taken Hope's word on its enrollment.

As part of their investigation, the IG asked Hope to provide some additional proof of its 2005 student population, including student names, tuition receipts, tax filings, payroll checks, etc. Hope claimed all their records were destroyed in the storm, and that the bank no longer kept records from 2005. **Hope also said it was not required to file state or federal income tax returns, and that it paid its staff as contractors, so it did not withhold payroll taxes. What is all the more odd is that one document Hope did provide was a canceled check for tax services, which would seem unnecessary for an entity not filing taxes.**<sup>5</sup>

As to the student names, **Hope could only recall 13 names of its supposed 90 students. Further, one former student from 2005 told the IG they only recalled there being about 40 students at the school.**<sup>6</sup>

#### A Shady Land Deal

We said we'd come back to the land. It turns out the 16 acres Hope needed (for its new building) were about 40 percent wetlands and were owned by the president of Hope's Board of Directors. **In fact, the Board President did not recuse**

<sup>1</sup> <https://www.oig.dhs.gov/assets/GrantReports/2016/OIG-16-135-D-Sep16.pdf>

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

himself from the transaction, and, as the IG reports, “signed as purchaser and seller on the closing documents for the land purchase, as well as the authorized signer on the check used to pay the seller [himself].”<sup>7</sup>

Acting as seller of the land, the Board President hired (although Hope reimbursed the cost) three separate appraisers. The IG questioned the appraisals, noting that “[a]ll three appraisal amounts were very close, with two presenting the exact same value of \$1,600,000 [despite using different site descriptions].”<sup>8</sup> Hope itself had no appraisal done and settled (with its own Board President) on a \$1.4 million price - or \$92k an acre (including for wetland acres).

FEMA disagreed with the \$92k-an-acre price (thinking it should be more like \$45k) and did not want to pay for unusable wetlands. Hope turned to the Arbitrations Board, which landed between the two prices, awarding \$40k an acre for the usable land but also awarding \$19k an acre for the wetlands, putting taxpayers on the hook for about \$500k. In their review, the IG valued the land at about \$26k an acre for the usable portion and \$5k an acre for the wetlands - a total of \$276k.<sup>9</sup>

Further, in anticipation of being reimbursed by the federal taxpayer for the land purchase, “the seller (i.e., the Board President) financed the loan .... **This would make Hope’s Board President the seller, buyer, financier, and payer in this land transaction.**”<sup>10</sup> However, the ultimate payers were really FEMA and the federal taxpayer. The IG labeled the whole land transaction as unethical.<sup>11</sup>

### A New School, a New Community

The FSO Subcommittee was interested in Hope’s current status, and what we found was pretty amazing.

Those 16 acres Hope bought were nowhere near the original school site in D’Iberville, MS, nor were they just some vacant property. **Instead, the new location was about 15 miles away in Gulfport, MS, in a brand-new housing development called Florence Gardens (FG) – “a pristine master-planned community.”**<sup>12</sup>

FG is still selling lots, and its website includes a banner link to “Our School,”<sup>13</sup> which is clearly meant to be a selling point for a community branded as family oriented. On the “Our School” page, FG boasts of its new 13,000 sq. ft. building with space to grow, “state-of-the-art technology,” and furniture made of antimicrobial materials.<sup>14</sup> FG’s “Amenities” page also references Hope.

The federal taxpayer probably paid for some of that technology and furniture. **Even though Hope officials could only recall 13 students, they were able to produce a 15-page list (from memory) of items destroyed in the storm and asked FEMA for nearly \$800k.** FEMA lowered the amount to just shy of \$500k, but **the IG thinks even that number is exaggerated; Hope had an insurance policy for the school’s contents with a maximum payout of just \$17,200.**<sup>15</sup>

**Nonetheless, Hope got a bigger building, more land, and new equipment. The Board President sold some land, and Florence Gardens got a school to support its family friendly, neighborly model. It all only cost taxpayers \$2.9 million.**

**Oh, and one more thing. Care to guess the identity of the CEO of Florence Gardens? Yep, it’s the same Board President who acted as both buyer and seller of the 16-acre property.**<sup>16</sup>

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<sup>7</sup> Ibid. Clarification ours.

<sup>8</sup> Ibid. Clarification ours.

<sup>9</sup> Ibid.

<sup>10</sup> Ibid. Clarification ours.

<sup>11</sup> Ibid.

<sup>12</sup> <http://www.hopeacademyfg.org/about-hope-academy/>

<sup>13</sup> <http://www.florencegardens.com/our-school/>

<sup>14</sup> <http://www.hopeacademyfg.org/about-hope-academy/>

<sup>15</sup> <https://www.oig.dhs.gov/assets/GrantReports/2016/OIG-16-135-D-Sep16.pdf>

<sup>16</sup> <http://www.wlox.com/story/28062331/groundbreaking-offers-hope-for-hope-academy-children>