ONE HUNDRED NINTH CONGRESS

Congress of the United States

House of Representatives

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March 8, 2006

Richard L. Skinner
Inspector General
U.S. Department of Homeland Security
Washington, DC 20528

Dear Mr. Skinner:

On February 16, you issued a brief, three-page report on the $236 million contract with Carnival Cruise Lines to provide temporary housing for evacuees in the aftermath of Hurricane Katrina. The report also covered the much smaller $13 million contract with the ferry ship Scotia Prince. In the report, you concluded that "FEMA's decision to lease the cruise ships was reasonable under the circumstances, although not necessarily cost-efficient." You further found that "cruise ships could be cost efficient for high-cost areas like New Orleans as long as a high occupancy rate is maintained," but noted that "several problems kept the occupancy rate low in the first weeks after the disaster, and the ships never reached full occupancy."

The Carnival contract expired this month and all of the passengers left the ships by March 1. As a result, we now know the actual occupancy rates for the ships over the course of the contract period. I am writing to request that you update your analysis to reflect the new information.

Your analysis compared the cost of housing evacuees in cruise ships with the federal per diem rate in New Orleans and along the Mississippi-Alabama coast. You found that the contracts, taken together, would have been cost efficient if occupancy had remained at 95% throughout the six months.

My staff has done a preliminary analysis of the contracts. It finds that if the three Carnival Cruise ships are considered on their own, they would not be cost efficient even at full occupancy. If every berth had been filled on the two ships based in New Orleans, the Sensation and the Ecstasy, the weekly cost per person would have been about $1,270, almost exactly the federal weekly per diem rate of $1,286 in that area. If every berth had been filled on the Holiday, which was based along the Mississippi-Alabama coast, the cost per week would have been $1,294, almost twice the local per diem weekly rate of $770.

As your report acknowledged, the ships did not reach full occupancy. My staff's preliminary analysis, based on occupancy data for the last five months of the contract and your office's estimate that the ships averaged a 35% occupancy rate during the first month of the contract, shows that the three Carnival Cruise ships housed an average of 4,408 people over the course of the contract, far below the contract maximum of 7,116. As a result of the low occupancy rates, the average weekly cost of housing individuals on the three Carnival ships was much higher than the federal per diem rates. For the two ships based in New Orleans, the average weekly cost per passenger was about $1,862, 45% more than the local federal per diem rate of $1,282. The Holiday, the Carnival Cruise ship based along the Mississippi-Alabama coast was the least occupied ship, averaging only 818 passengers during this period. This low occupancy led to a per person weekly cost of $2,923, almost four times more than the local weekly per diem rate.[1]

It is not surprising that the three ships never neared full occupancy. The testimony of a top Carnival official before the House Select Committee on Katrina indicates that the three ships were never expected to hold 7,116 passengers. Terry Thornton, a Vice President at Carnival Cruise Lines, testified that "while contractor capacity is higher, the capacity of these vessels based on two persons per cabin is 5,556."[2] He then told the Committee that at the time of his testimony, the ships were at or above 100% capacity based on this lower capacity number.

I urge you to re-examine the contracts in light of the actual passenger counts for the full six months of the contract period. In addition, I request that you provide me with additional information that should be available now that the contract is complete. Specifically, I request:

- Documentation of the total amount paid to Carnival Cruise Lines, the total amount of costs reimbursed, and the total amount of profit earned by Carnival under this contract; and

- Documentation regarding Carnival's obligations under the profit neutrality provision of the contract, including any audits performed by the government and the total amount of payments reimbursed to the government by Carnival.

I look forward to your response.

Sincerely,

Henry A. Waxman

Henry A. Waxman
Ranking Minority Member

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[1] This estimate is calculated by taking an average of the occupancy reported in 20 FEMA Weekly Reports submitted to Congress between October 13, 2005, and February 28, 2006, and estimating an average of 35% occupancy for the first four weeks of the contract.

[2] House Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina, *Hurricane Katrina: The Federal Government's Use of Contractors to Prepare and Respond*, 109th Cong. (Nov. 2, 2005).