

*Office of Inspector General*U.S. Department of Homeland Security  
Washington, DC 20528**Homeland  
Security**

June 16, 2006

MEMORANDUM FOR: E.C. Smith  
Director  
Texas Transitional: Recovery Office  
Austin, Texas

FROM: Christopher Dodd  
Gulf Coast Audit Manager

A handwritten signature in black ink, appearing to read "Christopher Dodd".

SUBJECT: *Review of Hurricane Katrina Activities  
Dallas Housing Authority, Dallas, TX  
FEMA Disaster Number EM-3216-TX  
Report Number GC-TX-06-43*

We performed a review of interim housing costs associated with Hurricane Katrina activities for the Dallas Housing Authority (DHA), Dallas, Texas. The objective of the review was to determine whether the DHA was properly accounting for disaster related costs and whether such costs were eligible for funding under FEMA's disaster assistance program.

The DHA received an award totaling \$29 million from the Texas Division of Emergency Management, a FBMA grantee, for interim housing costs necessitated by Hurricane Katrina. The award provided 100 percent FEMA funding, under two project types - project management and interim housing (see attached Exhibit). During March 2006, approximately 10,800 evacuees were living in 4,700 apartment units, all funded under this grant award.

As of March 31, 2006, the cut-off date of our review, the DHA had received \$20.6 million and expended \$19.2 million of FEMA funds.

Our review consisted of an analysis of the DHA's accounting and administrative controls over the grant funds as well as interviews with DHA officials. The nature and brevity of this assignment precluded the use of our normal audit protocols. Therefore, this review was not conducted in accordance with generally accepted government auditing standards. Had we followed such standards, other matters may have come to our attention.

This review was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the federal government in the aftermath of Hurricanes Katrina and Rita. As such, a copy of the report has been forwarded to the PCIE Homeland Security Working Group, which is coordinating Inspector General review of this important subject.

## RESULTS OF REVIEW

The DHA had an effective system to account for and ensure the appropriate use of disaster grant funds. However, the DHA should remit interest earned on advanced FEMA funds and take appropriate action to reduce the FEMA award by the amount of program income generated through furniture sales.

1. In November and December of 2005, the DHA placed \$20.6 million of FEMA funds in an interest bearing account that generated \$206,000 in interest. During the ensuing months, the DHA spent approximately \$19.2 million, resulting in a remaining balance of \$1.4 million at the end of March 2006. Federal regulation generally requires subgrantees to return interest earned to FEMA. According to 44 CFR 13.21(i) *Interest earned on advances*. "Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act and the Indian Self-Determination Act, grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances."

However, DHA officials asserted that it is exempt from remitting interest earned on federal funds under the Intergovernmental Cooperation Act 31 U.S.C §6501 et seq. because it is a state entity. While the Texas Code authorizes housing authorities, if a municipality establishes a housing authority, the authority is a unit of local government. The municipality decides whether to create a housing authority and appoints its board members. Accordingly, the ICA, which excludes local governments from its coverage by definition, does not provide DHA an exception to the general rule that interest earned on advances of federal funds must be returned to the Treasury.

2. DHA offered evacuees an opportunity to purchase Public Assistance furniture for \$49.99 and, as a result, DHA collected over \$37,000 in program income. Federal regulation (44 CFR 13.25) requires subgrantees to remit program income to FEMA. We discussed DHA's obligation regarding the income with the FEMA Public Assistance Coordinator responsible for the DHA grant. The FEMA official agreed that DHA should return all program income to FEMA either through a project worksheet de-obligation or by payment to FEMA through the Texas Division of Emergency Management. DHA officials also agreed that DHA should remit the sales proceeds to FEMA.

## RECOMMENDATIONS

We recommend that the Federal Coordinating Officer, in conjunction with the Texas Division of Emergency Management:

1. Require the DHA to remit interest on advanced funds to FEMA.
2. Require the DHA to remit to FEMA program income generated through the sale of furniture.

### DISCUSSION WITH MANAGEMENT

**We discussed the results of our review with DHA officials on March 29, 2006. We** also discussed the results of our review with FEMA and Texas Division of Emergency Management Officials on April 3, 2006. **DHA officials disagreed** with the first finding and recommendation and agreed with the **second finding and recommendation**. Please inform us by June 27, 2006, of the actions taken or planned to implement the **recommendations**. Your **response should** be sent to **Gary J. Barard, Gulf Coast Audit Coordinator**, at:

**U.S. Department of Homeland Security  
Office of Inspector General  
3003 Chamblee-Tucker Road  
Atlanta, GA 30341**

Auditors Lori Smith, DeWayne Bailey and **Sharon Snedeker** performed this **review**. Should you **have any questions** concerning this report, **please** contact me at (940) **465-4018**,

**cc:** Under **Secretary** for Management  
Under Secretary for **Federal, Emergency** Management  
Office of **General** Counsel, DHS  
Chief Financial **Officer**, DHS  
Chief Procurement Officer, **DHS**  
**Audit** Liaison, DHS  
**Audit** Liaisons, FEMA  
Chief Financial Officer, FEMA  
Senior Procurement **Officer**, FEMA  
Deputy Director, Gulf Coast **Recovery**  
Texas State Coordinating **Officer**  
FEMA **Regional** Director, Region VI

**EXHIBIT**

**Dallas Housing Authority Dallas, Texas  
Disaster Relief Funding  
EM 3216-TX  
Funding as of March 31,2006**

| <b>Project Number</b>  | <b>Award Amount</b> | <b>Approved Activity</b> |
|------------------------|---------------------|--------------------------|
| 116                    | \$154,000           | Project Management       |
| Various *              | \$28,910,064        | Interim,Housing          |
| <b>Amount Awarded:</b> | <b>\$29,064,064</b> |                          |

\* = 34 Project Worksheets, each for \$850,296, were written and obligated by FEMA.