




Homeland Security

June 8, 2006

MEMORANDUM FOR: Patricia English
Senior Procurement Executive
Federal Emergency Management Agency

FROM: Matt Jadacki 
Special Inspector General
Gulf Coast Hurricane Recovery

SUBJECT: ***Management Advisory Report on Contract HSFHQ-06-C-0024 to Provide Assistance to Eligible Evacuees in Need of Housing and Pharmaceuticals***
Report Number GC-HQ- 06-41

On March 28, 2006, we began a review of Katrina evacuee hotel invoices submitted by the American Red Cross (ARC) to FEMA for reimbursement under the subject contract. The objectives of the review are to determine whether: (1) lodging rates were reasonable, allowable and necessary; (2) evacuees were eligible to receive lodging; and (3) effective contracting practices were adhered. We engaged the independent accounting firm of Ollie Green & Company, CPAs to conduct this review of evacuee lodging expenses.

Recently, the ARC notified us that it had identified unallowable charges it billed to FEMA for lodging its employees and volunteers. Only evacuee lodging expenses are allowable costs under the contract with ARC. ARC has identified \$103,293 of such billings to date, and is continuing to identify additional **unallowable** billings. ARC officials said that they would provide us a weekly update of unallowable charges they identify and will reimburse FEMA for all those charges once FEMA provides them with guidance on how to repay the funds.

We recommend that FEMA:

- I Determine the extent of the unallowable charges under the lodging contract.
2. Initiate collection procedures to recoup unallowable charges from ARC.
3. Develop and implement controls to identify and prevent future unallowable charges under lodging contracts.

We will continue our review of the ARC contract. We are conducting this review 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 will be forwarded to the PCIE Homeland Security Working Group that is coordinating Inspectors General review of this important subject.

The nature and brevity of this assessment 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 might have come to our attention.

Please advise us by June 22,2006, of the actions taken or planned to implement the recommendations,including target completion dates for any planned actions. Should you have any questions concerning this report, please call me at 202-254-4100.

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
Deputy Director, Gulf Coast Recovery