



# Homeland Security

August 30, 2006

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Director of Recovery  
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FROM: *Dennis P. Roberts*  
for Matt Jadacki  
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Gulf Coast Hurricane Recovery

SUBJECT: ***Debit Card Overdrafts***  
***Report Number GC-HQ-06-51***

We reviewed FEMA's Assistance Card (debit card) program to determine why overdrafts were occurring. Overdrafts are instances where cardholders receive more funds than FEMA authorized. Our objectives were to determine: 1) how many debit cards have been overdrawn and for how much; 2) why overdrafts occurred; 3) who is responsible for resolving the overdrafts; and 4) what FEMA has done to correct the problem.

To achieve our objectives, we interviewed officials from the Financial Management Service (FMS), U.S. Department of the Treasury; FEMA Headquarters; the Disaster Finance Center (DFC); Virginia National Processing Service Center (VA-NPSC); and JP Morgan Chase (JPMC). We also reviewed a sample of 45 overdrafts and pertinent guidance. We performed other procedures as necessary to achieve our objectives. The nature and brevity of this inquiry precluded the use of normal audit protocols. Therefore, it was not conducted according to generally accepted auditing standards. Had we followed such standards, other matters may have come to our attention. We are also forwarding a copy of this management advisory to the Homeland Security Working Group with the President's Council on Integrity and Efficiency that is coordinating efforts of the Inspectors' General on activities relating to Hurricane Katrina.

## **Background**

Between September 9 and 10, 2005, FEMA issued at least 10,954 debit cards, totaling over \$21.9 million, to Hurricane Katrina evacuees located at three shelters in Dallas, Houston, and San

Antonio.' The cards were to be provided to those who had registered with FEMA for assistance but did not have electronic funds access to an existing bank account, had no existing bank account, or no accessible mailing address. Each card was initially "loaded" with \$2,000. The cards were provided through the U.S. Debit Card Program provided by JPMC, acting as Financial Agent to FMS, and could be used at any automated teller machine (ATM) or to make purchases at most stores that accepted debit cards with the *MasterCard* logo.<sup>2</sup> When first issued, cardholders had immediate access to \$2,000 of Expedited Assistance (EA) and were given information on where and how to use the card by FEMA. However, they were not always required to sign for the cards nor provided information on how the funds should be used or warned of the consequences of misusing those funds. FEMA records show that for the 45 cardholders we sampled, a majority had not signed for their cards and, of the 28 provided letters informing them of what EA should be used for, all were sent the letters erroneously.

EA is an accelerated method of disbursing disaster assistance for housing or other essential needs. It is not normally implemented under the FEMA Individuals and Households Program (MP) and only authorized when the magnitude of an event/disaster demands it. Hurricane Katrina evacuees should only have received EA if: 1) they had registered with FEMA for assistance; 2) their registration was only for the primary residence; 3) they were displaced due to the disaster; and 4) they were in need of shelter.

Many cards were not limited to \$2,000. FEMA added money to some of the cards, after the initial \$2,000 was loaded, to provide these cardholders with additional assistance. The amount of money added and what it could be used for varied. For example, in addition to the \$2,000 of EA, cardholders whose primary residence was in one of the most severely impacted areas in Louisiana or Mississippi also received \$2,358 in advanced rental assistance to help them with their transitional housing needs. The most that should be added to a card, though, was \$24,200 since the maximum amount of financial assistance provided to an individual or household under FEMA's MP was \$26,200. None of the cards we reviewed exceeded this amount. The potential exists, though, for some cardholders to have received more than the maximum. This could have occurred in situations where a cardholder had an overdraft, received the maximum amount from FEMA, and FMS/JPMC recovered the overdraft from the merchant.

Thirty of the 45 cards we reviewed had, on average, over \$6,300 added to them based on FEMA's determination that the cardholders were eligible for additional assistance. A JPMC official told us that, as of July 3, 2006, FEMA has continued to add money to the cards on a daily basis. As of June 27, 2006, at least seven cards had amounts available over \$20,000.

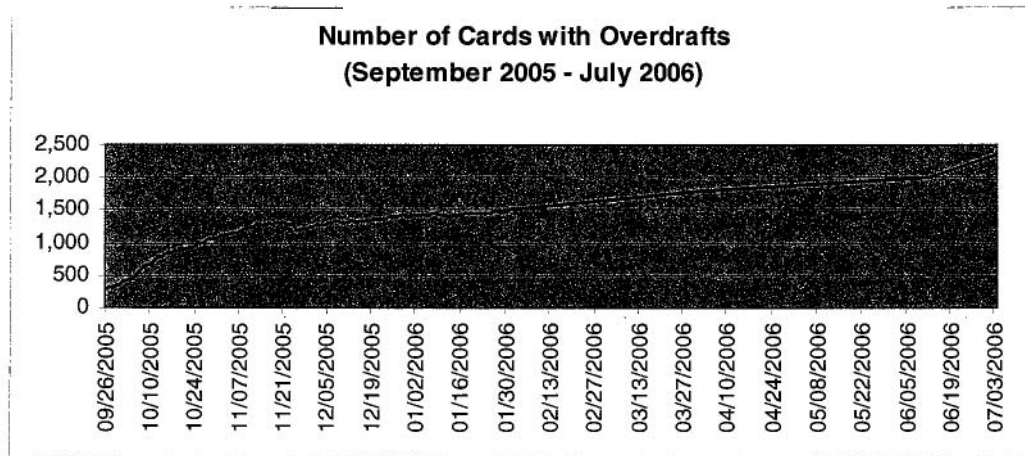
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<sup>1</sup> Although FEMA officials told us that they believe a total of 10,954 cards had been issued, GAO recently reported that JPMC claimed that it had distributed 10,989 cards (GAO-06-844T). DHS OIG had previously reported that 11,374 cards were distributed (OIG-06-32). Information that we were provided as of June 27, 2006, by FMS/JPMC via the VA-NPSC, indicated that over 12,500 cards, including replacements, had been issued.

<sup>2</sup> According to FMS/JPMC officials, in order to be consistent with the American Red Cross, FMS/JPMC and FEMA agreed to block certain Merchant Category Codes (MCC) and not allow purchases/point-of-sale (POS) transactions based on the following industries: 5921-package stores, beer, wine, and liquor; 5993-cigar stores and stands; 7273-dating and escort services; 7297-massage parlors; 7995-betting, off-track betting and wagers at race; 9211-court costs, including alimony and child support; 9222-fines; and 9223-bail and bonds payments.

## Overdrafts

In late September 2005, about 284 cards were overdrawn. This increased to over 1,400 cards three months later. JPMC records show that 2,356 cards had been overdrawn as of July 3, 2006. This represents about 21 percent of the cards issued, and the number continues to increase. On average, based on a ten-month period from October 2005 through July 2006, over 235 additional debit card accounts are being overdrawn each month. The following chart shows the increasing number of accounts with overdrafts during a ten-month period.



Source: FMS/JPMC and FEMA

The total overdrawn amount on the 2,356 cards overdrawn as of July 3, 2006, was \$189,677. The largest overdrawn amount was \$6,444 and the lowest was less than a dollar. On average, about \$80 was overdrawn per card. The majority of overdrafts, about 80 percent, were less than \$50. The following table shows the amounts overdrawn as of July 3, 2006.

Overdrafts	As of July 3, 2006	
	Count	Percentage
Above \$3,000	7	0.30%
\$2,000 to \$2,999	3	0.13%
\$1,000 to \$1,999	13	0.55%
\$500 to \$999	23	0.98%
\$200 to \$499	86	3.65%
\$100 to \$199	125	5.30%
\$50 to \$99	213	9.04%
\$10 to \$49	1,056	44.82%
\$5 to \$9.99	253	10.74%
\$0.1 to \$4.99	571	24.49%
Total	2,356	100.00%

Source: FMS/JPMC

The data FMS/JPMC provided may be substantially understated, and more instances of overdrafts and larger dollar amounts than the data indicates might actually have occurred. That is because

overdrafts are reduced or eliminated when FEMA adds funds to an overdrawn account or when FMS/JPMC charges the overdraft back to the merchant and recovers the money.

We analyzed a sample of 45 overdrafts totaling \$28,433. Miscellaneous point of sale (POS) transactions accounted for about 67 percent of the number of overdrafts, but only about 15 percent of the amount overdrawn. Car rental agencies and hotels accounted for over 22 percent of the transactions resulting in overdrafts and over 71 percent of the amount overdrawn.<sup>3</sup> Cash withdrawals, although relatively small in number, accounted for almost 14 percent of the total amount overdrawn.

Analysis of 45 Overdrafts			
Transaction Resulting in Overdrafts	Count	Amount	Amount Percentage
Car Rental	6	\$16,859.51	65.70%
Hotel	4	1,378.82	5.37%
Cash Withdrawal	5	3,503.46	13.65%
Miscellaneous POS (includes fast food, gas stations, and etc.)	30	3,920.84	15.28%
Total	45	\$25,662.63	100.00%

Source: DHS OIG

### Reasons for Overdrafts

According to FEMA and FMS/JPMC officials, overdrafts are typically caused by:

- Floor limits. At certain retail locations such as fast food restaurants, merchants require fast checkout and therefore MasterCard does not require pre-authorization for transactions below a certain dollar amount, a floor limit. According to JPMC officials, the bank cannot refuse these types of transactions even if there are insufficient funds to support the dollar amount.
- Forced-posted transactions. In some situations, for example, when the POS terminal is unavailable, a merchant manually processes the transaction without acquiring a required pre-authorization approval. JPMC can initiate chargebacks to recoup funds in these cases.
- Expiration of the authorization hold period. Authorization hold is the practice within the banking industry of authorizing electronic transactions and holding this balance as unavailable either until the merchant clears the transaction (also called settlement), or the hold period expires. If a merchant's clearing transaction is not received before expiration of the hold period, the funds are released, and in some instances may be spent by the cardholder before the clearing transaction is received.

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<sup>3</sup> In three cases, not only did the cardholder withdraw more money from their debit card accounts than what was authorized, they also used the money inappropriately – i.e., a portion of the money that FEMA had provided them for housing assistance was instead used toward car rentals.

- Posting delays. Certain types of merchants, such as hotels and car rental agencies, do several pre-authorizations over a period of time and post a valid transaction by adding all pre-authorized transactions. In these cases, the merchants request multiple pre-authorizations in small increments and then post a clearing transaction that includes all the pre-authorized amounts. Sometimes by the time the transaction is posted, the cardholder has already spent the money elsewhere.
- Settlements exceeding authorizations. This usually occurs in situations involving hotels where the pre-authorization transaction is less than the posted transaction. For instance, a cardholder may register and be pre-authorized for a 3-night stay at a hotel while actually staying 7 nights and being billed accordingly.

### Resolving the Overdraft Problem

Because there was no formal written agreement<sup>4</sup> between FEMA and FMS/JPMC setting forth terms or responsibilities for the debit cards, including recovery of overdrafts, it is difficult to determine who is responsible for the overdrafts. Typically, such an agreement would be completed before debit cards were issued to ensure accountability and preclude any misunderstandings. FMS, since at least January 2006, has been working with FEMA to finalize such an agreement. FEMA and FMS have not agreed on who is responsible for recouping overdrawn funds, and FEMA has not decided what action to take regarding evacuees who exceeded the limits on their cards.

In the absence of a formal written agreement, but with the consent of FEMA and FMS, JPMC has taken a number of steps to deal with the overdrafts. FEMA officials told us that they have asked FMS/JPMC to close debit cards that have a negative or zero amounts available and schedule the remaining cards to expire by September 2006. For overdrafts less than \$50, a JPMC official said they initiate a claim through charge backs or other appropriate mechanisms; but do not immediately cancel the cards. A charge back is an existing commercial technique whereby the issuer of the card disputes the transaction and returns it to the merchant. Over \$219,000 in charge backs has been initiated to date with recoveries exceeding \$49,000. A JPMC official said that, in situations where overdrafts exceed \$50, the cards are immediately canceled and the accounts suspended. However, we identified three instances where cardholders who had overdrawn their cards by more than \$50 were able to reuse their debit cards once FEMA provided additional funds to the cards that cleared the overdrafts.<sup>5</sup>

Although FEMA had set a target date of April 1, 2006, for terminating the FEMA Debit Card Program, a substantial amount of work remains. This includes identifying cardholders, notifying them in writing that their cards will be cancelled, and providing them any remaining amounts available through checks or electronic fund transfers. FEMA officials told us that, despite data

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<sup>4</sup> We were unable to locate either a mission assignment or signed interagency agreement. Mission assignments are work orders issued by FEMA to another Federal agency that are used during response for short-term activities. Interagency agreements, which are normally administered by a Contracting Officer, are used for recovery and long-term operations.

<sup>5</sup> FEMA added money to these debit card accounts approximately two-to-three months after the first overdrafts occurred.

exchange errors between FEMA and FMS/JPMC, they have identified 10,850 cardholders.<sup>6</sup> However, the majority of cardholders have not been notified that their debit cards will be cancelled by September 2006. Also, mistakes continue to occur. For example, a few days after a cardholder with an overdraft of about \$20 had been notified that her debit card would be cancelled and the account closed, FEMA added almost \$10,000 to the account. FEMA records indicated that this happened because the applicant was eligible for the additional assistance and she had not yet reached the maximum amount<sup>7</sup> that FEMA could provide her.

### **Recommendations**

We recommend that you:

1. Formalize, through a memorandum of understanding or other appropriate instrument with FMS, the terms and responsibilities for resolving overdrafts including the recovery of funds.
2. Deactivate all debit cards and accounts as soon as practicable, after providing cardholders written notification.
3. Stop adding funds to debit cards.

FEMA has already begun action on our recommendations. Please advise us within 30 days of the actions taken to implement the recommendations. 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

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<sup>6</sup> During our review, we identified at least 12 instances where FEMA may have identified more than one cardholder to the same FEMA registration.

<sup>7</sup> To date, this cardholder had been awarded a little over \$18,000 in housing and other needs assistance. The maximum amount that FEMA can provide a Hurricane Katrina evacuee is \$26,200.