



**Homeland
Security**

September 29, 2006

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

Christopher Dodd

FROM: Christopher Dodd
Audit Manager

SUBJECT: *Review of Hurricane Katrina Activities
City of Houston, Texas
FEMA Disaster Number EM-3216-TX
Report Number GC-TX-06-58*

We performed a review of evacuee sheltering, interim housing, and project management costs associated with Hurricane Katrina activities for the City of Houston, Texas (City). The objective of the review was to determine whether the City was properly accounting for disaster related costs and whether such costs were eligible for funding under FEMA's Public Assistance program.

The City received an award totaling \$252.6¹ million from the Texas Division of Emergency Management, a FEMA grantee, for interim housing (\$222.3 million), project management (\$18.6 million), and sheltering (\$11.7 million) costs necessitated by Hurricane Katrina (see attached Exhibit). The award provided 100 percent FEMA funding for as many as 100,000 evacuees living in 34,000 apartment units. As of May 31, 2006, the cut-off date of our review, the City received and expended \$203.0 million of the grant award.

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

We conducted 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, we have forwarded a copy of the report to the PCIE Homeland Security Working Group, which is coordinating Inspectors' General review of this important subject.

¹ Amount obligated by FEMA as of June 15, 2006.

BACKGROUND

Hurricane Katrina was the most destructive natural disaster in U.S. history and displaced over a million people along the Gulf Coast. Texas received over 400,000 evacuees filling public buildings, convention centers, hotels, and stadiums throughout the state. Three weeks later, Hurricane Rita forced thousands more to seek shelter. Local government employees and thousands of volunteers helped provide evacuees with housing, shower facilities, food, clothing, medical care, communications, social services and even some recreational activities.

Generally, the relief effort occurred in two phases: mass sheltering and interim housing. During the mass sheltering phase, local government officials provided leadership, shelter facilities, and security. The mass shelters resembled small cities; temporary banks opened, local churches held services, government assistance agencies opened offices, and the U.S. Postal Service established temporary post offices. Volunteers from the American Red Cross and many other organizations worked with evacuees to identify unmet needs, distribute donated clothes, locate lost family members, and provide counseling to those who, in many cases, lost everything.

As the shelters closed, local government officials focused on providing interim housing for evacuee families. The City placed over 34,000 families in apartments, paid their utilities, and provided families with basic furniture and household goods. FEMA Public Assistance grants helped fund much of these activities.

RESULTS OF REVIEW

The City's disaster-related costs were eligible for funding under FEMA's Public Assistance program, and the City properly accounted for sheltering and project management costs. However, the city did not properly account for its interim housing costs, representing \$222.3 million of the \$252.6 million in FEMA funding, in the months following the arrival of hurricane evacuees.¹ As a result, FEMA has no assurance that the City made housing payments for only qualified evacuees or that the amounts paid were accurate.

The unprecedented magnitude and extraordinary nature of the disaster made the City's job difficult. Over 400,000 Hurricane Katrina evacuees initially sought refuge in Texas and up to 150,000 arrived in the Houston area seeking food, shelter and medical care. FEMA, State of Texas, and City officials had no experience providing interim housing under FEMA's Public Assistance program because FEMA developed this new program in the weeks following Hurricane Katrina. Further, the sudden flood of thousands of rent invoices quickly overwhelmed the City's payment system and City officials did not have time to adequately verify the accuracy of invoices prior to payment.

To properly manage its interim housing program, the City should have maintained certain basic and readily accessible documents for each landlord and evacuee, such as the following:

¹ Office of Management and Budget Circular A-87, Attachment A, requires that costs be adequately documented. Also, management controls, such as verifying the accuracy of invoices before payment, are processes designed to provide reasonable assurance that resources are safeguarded and that financial information is reliable. Source: The Committee of Sponsoring Organizations of the Treadway Commission.

- Evacuee intake forms that included identity, previous residence in a disaster impacted area, contact information, and names and ages of family members living in the household.
- Individual leases that establish the terms and conditions of the rental arrangement including agreements between landlords and the City.
- Invoices for rent, utilities, and furniture for each evacuee, including documents to confirm furniture delivery.

Further, before paying invoices, the City should have taken steps to verify that purchases were authorized, goods and services were actually received, and prices and quantities paid agreed with lease terms. Specifically, the City should have:

- Compared names on invoices to lists of qualified evacuees.
- Verified that landlords charged agreed-upon monthly rates.
- Compared utility invoices to lists of authorized apartment units.
- Reviewed furniture invoices to verify that proper furniture packages were billed at agreed-upon rates and received by evacuees.
- Reconciled rent invoices to previously submitted invoices to ensure the City did not pay landlords twice for the same month.
- Compared invoices to evacuee move-out lists to ensure landlords did not bill for vacated apartments.

Document Recovery and Payment Verification

The City did not always retain key documentation because City officials did not initially recognize the importance of retaining these documents. To correct this problem, in March 2006, the City, with the help of outside contractors, embarked on a massive, 24-hour-per-day document recovery and payment verification project designed to locate missing documentation and verify the accuracy of past payments. The City needed to verify past payments because City officials did not have time to verify the accuracy of invoices before payment during the early months of the emergency. The City has completed much of its document recovery and invoice reconciliation activities. However, this project contributed to the City's high overall project management costs.

Project Management Costs Increase

The City's project management costs have been significant; and, during our review, we worked with FEMA and the City to identify ways to control these costs. Housing programs are expensive to operate and City officials throughout Texas requested additional FEMA funding to cover project management costs. By early November 2005, FEMA's Public Assistance Officer in Texas approved project management expenditures to ensure cost effectiveness and facilitate project completion. As of the end of May 2006, the City estimated it would spend over \$30 million on project management costs, or nearly \$1,000 per evacuee family.

The City's project management costs initially included hiring contractors to perform housing inspections, place evacuees in interim housing, and manage furniture deliveries. Later, the City's project management activities included document recovery, data reconciliation, and financial reporting. Finally, project management included the cost of transitioning evacuees from FEMA's Public Assistance program to its Individuals and Households program.

On April 3, 2006, we began our review of the City's evacuee costs. Four days later, we notified FEMA management of our concerns that project management costs were escalating and recommended that FEMA take steps to monitor and control these costs. On April 8, FEMA's Acting Director of Recovery sent a technical assistance team to review the City's activities and recommend ways to control costs.

On May 23, based on recommendations from the technical assistance team, FEMA notified City management that the City should reduce project management costs by ending the recovery of some documentation. One month later, on June 21, FEMA directed City management to further reduce costs by ending its invoice verification activities. We believe these actions were appropriate and will help control project management costs.

We also observed the following:

- The City did not establish an adequate payment verification process and did not maintain sufficient supporting documentation over rental payments. Rental payments we reviewed contained errors and the City paid some charges twice.
- FEMA's interim housing program included providing evacuee families with basic furniture for their new homes. During the initial months (Phase 1) of the furniture delivery program, the City did not maintain adequate documentation for approximately \$10 million in furniture deliveries. However, during the remaining months of the furniture program (Phase 2), the City established adequate controls over furniture deliveries. This problem occurred because the City did not maintain records showing which apartment units received furniture. To facilitate moving evacuees into apartments, the City sometimes delivered furniture before apartment units were inspected and evacuees moved in. Although the City could support furniture deliveries to specific apartment complexes, the City did not maintain records showing which units received the furniture and what furniture pieces were delivered to individual units. As a result, the City could not adequately support that it delivered the proper furniture package to only eligible evacuees. It would not be cost effective to reconstruct these records; therefore, we do not recommend that the City recover furniture documentation.
- Since the emergency began in September 2005, the City received \$203 million of FEMA advances and placed these funds in an interest-bearing account. In the following months the City earned approximately \$1 million in interest income. According to federal regulation (44 CFR 13.21(i)), a sub-grantee shall promptly, but at least quarterly, remit interest earned on advances.

RECOMMENDATIONS

We recommend that the Director, Texas Transitional Recovery Office, in conjunction with the Texas Division of Emergency Management:

1. Continue monitoring the City's project management costs to ensure the City expends federal funds only on approved activities.

2. Require the City to remit to FEMA the more than \$1 million of interest earned on the FEMA advances.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our review with FEMA and City of Houston officials on June 14, 2006. City officials generally agreed with our findings and recommendations. Please inform us within two weeks of the date of this memo of the actions taken or planned to implement the recommendations. Your response should include target completion dates for any planned actions.

Should you have any questions concerning this report, please contact me at (940) 465-4018.

Attachment

cc: Secretary
Deputy Secretary
Chief of Staff
Deputy Chief of Staff
Executive Secretary
Under Secretary for Federal Emergency Management
Acting Under Secretary for Management
General Counsel
Chief Financial Officer
Audit Liaison
Chief Privacy Officer
Audit Liaisons, FEMA
Chief Financial Officer, FEMA
Deputy Director, Gulf Coast Recovery

EXHIBIT

**City of Houston, Texas
Disaster Relief Funding
EM 3216-TX
As of May 30,2006**

Project Number -Version	Award Amount	Approved Activity
1-0	\$ 1,750,000	Sheltering
1-1	269,774	Sheltering
2-0	37,261,000	Interim Housing
2-1	101,002,153	Interim Housing
2-2	40,000,000	Interim Housing
2-3	17,000,000	Interim Housing
2-4	24,000,000	Interim Housing
2-5	(3,548,075)	Interim Housing²
2-6	6,611,425	Interim Housing
48-0	3,764,963	Sheltering
48-1	117,627	Sheltering
72-0	794,342	Sheltering
72-1	445,019	Sheltering
172-0	976,363	Sheltering
172-1	150,642	Sheltering
450-0	45,960	Sheltering
465-0	16,517	Interim Housing
639-0	35,336	Sheltering
643-0	7,293	Sheltering
655-0	274,024	Sheltering
669-0	566,141	Sheltering
670-0	60,279	Sheltering
670-1	10,121	Sheltering
678-0	28,253	Sheltering
681-0	273,000	Sheltering
682-0	15,575	Sheltering
683-0	12,565	Sheltering
685-0	14,761	Sheltering
689-0	18,548,075	Project Management
692-0	41,452	Sheltering
694-0	2,058,521	Sheltering
Amount Awarded:	<u>\$252,603,105</u>	

² Version 2-5 reduced the obligation of Project Number 2 by \$3.5 million.