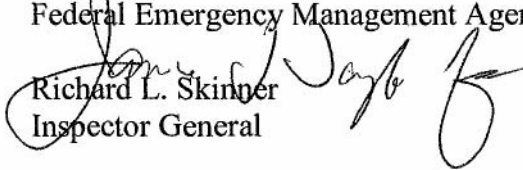




**Homeland
Security**

February 21, 2006

MEMORANDUM FOR: R. David Paulison
Acting Director
Federal Emergency Management Agency

FROM: 
Richard L. Skinner
Inspector General

SUBJECT: FEMA *Should Invest Funds Associated With Grant*
EMW-2006-GR-00.56
Report Number GC-HQ-06-13

The purpose of this memorandum is to inform you of an issue that we identified during our initial review of the Federal Emergency Management Agency's (FEMA) grant to the National Case Management Consortium¹ that will provide case management services for displaced persons affected by Hurricane Katrina.

Our review of the grant documents—including the Memorandum of Agreement (MOA) under which \$66 million in funds were transferred from the Department of State (DOS) to the Department of Homeland Security (DHS)—raises questions as to whether more than \$2.5 million in interest could be earned on these funds while they are in FEMA's custody and be subsequently applied to the case management program to further assist Hurricane Katrina victims.

In the aftermath of Hurricane Katrina, a number of foreign governments and international entities donated over \$100 million to help assist Hurricane Katrina victims. Although the donors did not place specific restrictions on the use of these funds, DOS officials have told us that the donors wanted to maximize the benefits to victims of Katrina with as little funding as possible going to overhead. Subsequently, \$66 million of this money was transferred to DHS/FEMA under the MOA with DOS. The MOA provided that all \$66 million of funds were to finance case management services for up to 100,000 households affected by Hurricane Katrina. DHS/FEMA subsequently awarded a \$66 million grant to the National Case Management Consortium to provide case management services for displaced persons affected by Hurricane Katrina. Under this grant, UMCOR will manage the activities of nine sub-grantees whose employees and volunteers will provide case management services over the 24 month term of the grant. While UMCOR and the sub-grantees will be provided some up-front funds to cover their start-up costs, the vast majority of the funds will be disbursed over an extended period of time as reimbursement for expenses. Despite

¹ The National Case Management Consortium includes the United Methodist Committee on Relief (UMCOR)/Emergency Services International and the National Voluntary Organizations Active In Disasters (NVOAD).

the early provision of limited start-up funds, the funds held by FEMA will average more than \$30 million per day over the life of the grant.²

The MOA provided that, "Upon transfer by the DOS and until disbursement to a grantee(s), DHS/FEMA shall maintain the foreign contributions in the special account established by the Treasury under the authority of 42 U.S.C. § 5201(b). These funds shall not be comingled with other appropriated or gift funds."³ The MOA further provides that, "If any funds transferred pursuant to this MOA remain available upon termination of all Case Management Initiatives, the funds shall be maintained in the special account established in the Treasury under the authority of 42 U.S.C. § 5201(b). The parties to this MOA shall jointly determine the disposition of these remaining funds and any interest that may have accrued in the special account."⁴

Section 5201 (b) states that, "At the request of the President or his delegate, the Secretary of the Treasury may invest and reinvest excess monies in the fund. Such investments shall be in public debt securities with maturities suitable for the needs of the fund and shall bear interest at rates determined by the Secretary of the Treasury, taking into consideration current market yields on outstanding marketable obligations of the United States of comparable maturities. The interest on such investments shall be credited to, and form a part of, the fund." Based on section 4035 of the Department of Treasury's Investment Fund Operating Circular, FEMA is responsible for determining the amount of excess monies in the funds and for instructing how they should be invested.

FEMA has not invested the \$66 million. Consequently, FEMA is forgoing major income that could be of significant use to the case management program. The funds may be invested in mirror image market-based Treasury specials, special-issue non-marketable Treasury securities offered exclusively in book-entry form.⁵ At the current 4.29 percent interest rates for Treasury bills—a suitable product for these funds⁶—the total interest that would be earned on a \$30 million average fund balance over two years is more than \$2.5 million.⁷ In addition, FEMA has direct experience in similar investment activities, having invested temporary cash surpluses in the National Flood Insurance Fund for the past 20 years.

Foregoing interest on these donated funds will deprive the case management program of more than \$2.5 million in possible interest income. This decision significantly lessens both the breadth and depth of the services provided to Hurricane Katrina victims and likewise belies the intentions of the

² \$66 million less limited start up funds when spent at a steady rate of reimbursement results in an average balance of \$30 to \$33 million depending upon the total amount of start-up funds advanced. \$60 million divided by two equals \$30 million.

³ Memorandum of Agreement Between the Department of State and the Department of Homeland Security (2005237): October 11, 2005.

⁴ Ibid.

⁵ See sections 4010 and 4015 of the Investment Fund Operating Circular (December 23, 2002).

⁶ 4.29 % was the rate of return for 90-day T- bills on January 27, 2006. While higher interest rates could be earned with longer term investments, 90 day T-bills can be used to calculate a conservative interest rate and a "laddered" series of T-bills would allow for fully adequate funds availability for a normal draw down

⁷ \$30,000,000 average balance x .0429 interest rate x 2 year life of account = \$2,574,000.

foreign donors. Many DHS and UMCOR officials have noted that because the program's funding only allows approximately 10 percent of disaster victims, or 100,000 households, to receive case management assistance, additional funds could both potentially expand the program beyond 100,000 households and provide ongoing assistance beyond the current performance period of the grant. Moreover, the donors' agreement with the DOS was predicated on the fact that these funds were to be applied to victims' needs and not overhead/administrative costs. The intentions of the donors would best be met by investing the donated funds in interest bearing accounts before disbursement.

Therefore, we recommend that FEMA:

1. Ensure that the funds for grant EMW-2006-GR-0056 that are held for future payments under the grant are appropriately and promptly invested in public debt securities with maturities suitable for the needs of the fund;
2. Use the interest earned on the DHS/FEMA administered funds for the needs of the case management program. Alternatively, should there be remaining funds upon the termination of the case management initiatives, the disposition of such funds should be determined in coordination with the DOS, per the MOA.

The nature and brevity of this assessment precluded the use of our normal audit protocols. As a result, this review may not have been conducted in accordance with generally accepted government auditing standards. Had we followed such standards, other matters might have come to our attention.

This review was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) 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 made available to the PCIE Homeland Security Working Group, which is coordinating Inspectors General review of this important subject.

We discussed the results of our review with both UMCOR and FEMA officials, who concurred with our findings and recommendations.

Please advise us within five days of the actions taken or planned to implement these recommendations, including target completion dates for any planned actions. Should you have any questions concerning this report, please call me, or Matt Jadacki, Special Inspector General, Gulf Coast Hurricane Recovery, at 202-254-4100.

cc: Under Secretary for Management
Chief Financial Officer, DHS
Audit Liaison, DHS
Chief Financial Officer, FEMA
Grants Management Specialist, FEMA
Office of Counsel, FEMA