



Homeland Security

February 13, 2006

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

FROM: *Dennis R. White*
for Matt Jadacki
Special Inspector General for Gulf Coast Hurricane Recovery

SUBJECT: *Management Advisory Report on Invoices submitted under Order HSFEHQ-06-F-0047 by Corporate Lodging Consultants, Inc. Report Number GC-HQ-06-09*

The purpose of this memorandum is to inform you of the results of our inquiries regarding the Federal Emergency Management Agency's (FEMA's) contract management and administration of a task order under a Blanket Purchase Agreement (BPA) Number QPN-BQR-0016 awarded by the General Services Administration to Corporate Lodging Consultants, Inc. (CLC). We initiated this review based on information we received in the period from November 8 through December 12, 2005. Our objective was to determine whether FEMA had used effective contract management processes to award and administer a task order to provide emergency lodging for Katrina evacuees.

To achieve our objective, we interviewed FEMA officials, reviewed the terms and conditions of the BPA, a task order issued under the BPA to CLC, related invoices; and performed other procedures necessary to achieve our objective.

The BPA provided fixed rates per room night for CLC's services with lodging costs priced separately at cost. The BPA did not provide any mechanisms to control lodging costs (i.e., provided neither monetary incentives for meeting lodging cost goals nor penalties for failing to meet lodging cost goals).

The task order was for 4,000,000 room nights of emergency lodging and, according to the terms of the BPA, CLS would be paid \$2.48 per room night. The actual lodging costs were to be paid separately. The task order contained an estimate of \$60 per room night, however, it was not a mandatory cap. The contractor was required to quickly secure accommodations for people displaced by disasters or emergencies and to establish and maintain direct billing rates with hotels for lodging and manage such relationships. The task order specifically stated, "The contractor shall endeavor to ensure reasonable lodging rates..." The task order did not contain any incentives for the contractor to achieve these estimated costs or penalties for failing to achieve the estimated costs per room night.

As of November 15, 2005, CLC had submitted 16 invoices for 629,840 rooms and \$42,278,115 for an average room rate of \$67.13. Our review of a sample of three invoices submitted by CLC

disclosed that the average room rate for 126,000 rooms was nearly \$70, or more than \$10 over the estimated daily amount of \$60 in the task order. FEMA has reported that the industry average hotel rate is approximately \$102, which includes state and local taxes. Among these charges, we found 773 rooms that were over \$150 per night with a total cost of \$147,935 or a \$191 per night average. In some instances, the room rates were excessive compared to the contract's estimated cost, but were consistent with the hotel's published price. For example, CLC paid the Millennium Hilton in New York City its published rate of \$438.00 per night. The Panama City Beachfront Condominiums charged between \$330 to \$375 per night for beachfront condominiums in Panama City, Florida. The Residence Inn in downtown Chicago charged up to \$399 per night. As late as December 7, 2005, FEMA was still paying relatively high prices – up to \$364 per night at the Hilton Gas Lamp Quarter in San Diego, CA, and up to \$339 per night at the Intercontinental in New Orleans, LA.

There were instances where the charged room rates were considerably higher than the hotels' published price list as shown below:

Hotel Name & Location	Charged Rate	Published Rate With Applicable Taxes	Discrepancy
Ontario, CA	\$199.00	\$84.92	\$114.08
Niles IL	\$242.17	\$109.99	\$132.18
Orlando, FL	\$200.67	\$155.72	\$44.95

*Audit work is underway to determine whether the charged rate was appropriate.

FEMA reported that they took over management of this FEMA program from Red Cross who had previously managed the program. Whatever hotel arrangements were in place at that time, continued under CLC. FEMA reported that any hotel could sign up with CLC and applicants could move into any hotel that would consent to participate with CLC. FEMA reported that no one other than the applicants chose hotels. FEMA reported that CLC is actively working to receive credits from hotels where the charged rates exceeded published rates.

Recommendations

We recommend that FEMA:

1. require that the contractor continue to obtain appropriate credits to hotel billings where room charges were higher than published room rates plus applicable taxes.
2. request that GSA modify the contract to provide incentives for meeting contract cost estimates and/or penalties for failing to meet contract cost estimates.
3. work with the CLC and/or the American Red Cross to revise the process for selecting hotels to prevent excessive per night room charges.

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.

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 Hurricane Katrina and Rita. As such, a copy of the report has been forwarded to the PCIE Homeland Security Working Group which is coordinating Inspectors' General review of this important subject.

We will be continuing our review efforts in this area and will report on the results in the future.

Please advise the Office of Inspector General by March 6, 2006, of the actions taken or planned to implement the recommendation, including target completion dates for any planned actions. Should you have any questions concerning this report, please call me, or Dennis White, at 202-254-4100.

cc: Secretary
Deputy Secretary
General Counsel
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Under Secretary for Management
DHS Chief Procurement Officer
Assistant Secretary for Policy
DHS Audit Liaison
FEMA Audit Liaison