



Homeland Security

February 16, 2006

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

FROM: *Richard L. Skinner*
Richard L. Skinner
Inspector General

SUBJECT: *Management Advisory Report on the Acquisition of Cruise Ships for Hurricane Katrina Evacuees (Report Number GC-HQ-06-11)*

The purpose of this memorandum is to inform you of the results of our review of the Federal Emergency Management Agency (FEMA) leasing four cruise ships for housing Hurricane Katrina evacuees. Specifically, we reviewed the reasonableness of FEMA's decision to lease the cruise ships and the major contract requirements, and we performed a limited analysis of the cost efficiency of using the cruise ships for temporary housing. The Naval Audit Service reviewed the contract awards and administration because FEMA assigned the mission task of leasing the cruise ships to the Military Sealift Command (MSC). Consequently, we did not review contracting methods or prices.

We concluded that FEMA's decision to lease the cruise ships was reasonable under the circumstances, although not necessarily cost efficient. Our analysis indicated that the cruise ships could be cost efficient for a high-cost area like New Orleans as long as a high occupancy rate is maintained. Unfortunately, several problems kept the occupancy rate low in the first weeks after the disaster, and the ships never reached full occupancy. In general, cruise ships are not likely to be cost efficient in low-cost areas such as Mississippi and Alabama. However, there are factors other than cost efficiency that must be considered.

The Decision to Lease Cruise Ships

FEMA assigned the MSC to lease four cruise ships, specifying a six-month lease with one three-month option and a contract ceiling of \$250 million, to provide immediate housing for Hurricane Katrina evacuees. Although FEMA had never before used cruise ships for temporary housing of disaster victims, a FEMA official told us that that option had been considered after flooding in the Virgin Islands, during an exercise in New Orleans, and after the recent Florida hurricanes. Cruise ships are self-contained and can provide immediate housing when other housing sources are not available. Given the severity of damage to Gulf Coast housing, the cruise ships offered a reasonable source of temporary housing.

Limited Analysis of Cost Efficiency

We compared the cruise ship costs to local area federal government per diem to determine whether the ships were cost efficient. The analysis is limited however, because lodging at the federal government per diem rates was not available in many areas. Lodging at any price was unavailable in some areas, and many motels and hotels charged rates much higher than per diem rates. Also, other factors, such as the proximity of available housing to the city and work sites are an important factor in determining efficiency. Nonetheless, this analysis provides some basis for comparing costs. In November 2005, the weekly government per diem rate in New Orleans was \$1,282 and about \$770 in Alabama and Mississippi, while the average weekly cost per person on the cruise ships, at full occupancy, was \$1,177.

The cruise ship cost efficiency depends on the ships' occupancy rate. FEMA's goal was to quickly fill the ships with evacuees. We were told, however, that evacuees were reluctant to board the ships. Fewer than 100 evacuees were willing to board the two ships originally located in Galveston. As a result, FEMA decided to use the ships to house response workers and area government officials. The occupancy rate rose to 30 percent in October and 80 percent by the end of November.

We determined that a 95 percent overall occupancy rate was needed to be more cost effective than the per diem rates. During the first 30 days, when the average occupancy for the ships was about 35 percent, FEMA paid a weekly rate of \$3,300 per person -- or three times the average per diem rate.

The per diem rate in New Orleans was \$1,282 per week. On November 13, 2005, the cruise ship *Sensation* was 82 percent occupied and cost \$1,632 per person per week; the *Ecstasy* was 92 percent occupied and cost \$1,316 per person per week; and the *Scotia Prince* was 91 percent occupied and cost \$537 per person per week.

In Alabama and Mississippi, the average per diem rate was only \$770 a week per person. The cruise ship *Holiday*, at 84 percent occupancy rate on November 13, 1995, cost \$1,541 per person per week. Even at full occupancy, the *Holiday's* weekly cost per person was \$1,294. Following is a table showing the costs per person at full occupancy.

Ship Name	Contract Cost	Maximum	6-Month	Cost per
		Passengers	Cost	Week
<i>Sensation</i> (New Orleans area)	\$91,133,000	2,634	\$34,599	\$1,331
<i>Ecstasy</i> (New Orleans area)	\$82,713,000	2,634	\$31,402	\$1,207
<i>Holiday</i> (Alabama-Mississippi area)	\$62,153,000	1,848	\$33,633	\$1,294
<i>Scotia Prince</i> (New Orleans area)	\$13,000,000	1,020	\$12,745	\$490
Total Average Passenger Cost	\$248,999,000	8,136	\$30,604	\$1,177

While costs for shipboard lodging were high, there were simply no alternatives in some locations.

In addition to the reluctance of evacuees to move onto the cruise ships, maintaining full occupancy was hindered by other factors. Cabins were generally designed for more than one person, however, although city workers registered their families for the cabins, the family members often did not occupy the cabins. In addition, first responders often resisted attempts to put two or more unrelated

individuals in the same cabin. Also, tents and shelters were often located closer to work sites than the ships and thus offered a shorter commute. Finally, some people said that the word did not get out on the availability of the cruise ships so some people did not realize they were an option.

Recommendation

We recommend that FEMA consider the cost efficiency and other issues we have discussed in this report before renewing the cruise ship contract. For example, the Scotia Prince is a low cost option in a high cost area and is more cost efficient than the other ships.

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. 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.

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