

GAO

Report to the Committee on Homeland  
Security and Governmental Affairs,  
U.S. Senate

March 2007

HURRICANES  
KATRINA AND RITA  
DISASTER RELIEF

Continued Findings of  
Fraud, Waste, and  
Abuse





Highlights of [GAO-07-300](#), a report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

### Why GAO Did This Study

The Federal Emergency Management Agency (FEMA) continues to respond to hurricanes Katrina and Rita. GAO's previous work identified suspected fraud, waste, and abuse resulting from control weaknesses associated with FEMA's Individuals and Households Program (IHP) and the Department of Homeland Security's (DHS) purchase card program. Congress asked GAO to follow up on this previous work to determine whether potentially improper and/or fraudulent payments continued to be made. GAO testified on the results of our audit and investigative efforts on December 6, 2006. This report summarizes the results of our follow-up work.

### What GAO Recommends

GAO recommends that DHS direct FEMA to take six actions, including establishing controls to prevent duplicate housing benefits to FEMA trailer and apartment residents and duplicate benefit payments for the same damages. GAO is also recommending that FEMA establish controls to prevent benefits to nonqualified aliens. FEMA outlined actions it plans to take or has taken that are designed to address each of our six recommendations. However, FEMA plans to perform additional investigations on two of the findings to determine whether problems are systemic prior to implementing recommended changes.

[www.gao.gov/cgi-bin/getrpt?GAO-07-300](http://www.gao.gov/cgi-bin/getrpt?GAO-07-300).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-7455 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

# HURRICANES KATRINA AND RITA DISASTER RELIEF

## Continued Findings of Fraud, Waste, and Abuse

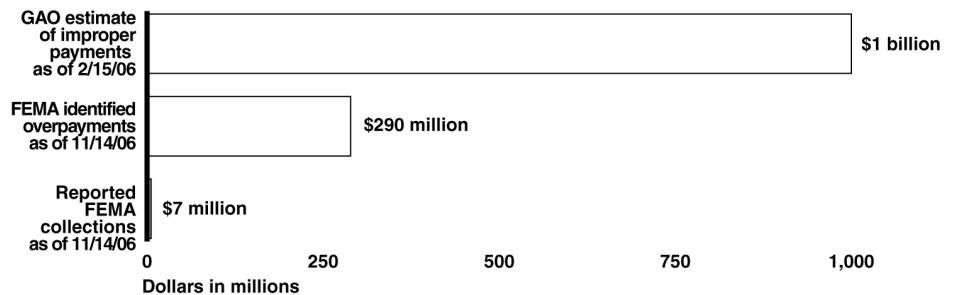
### What GAO Found

In our December 6, 2006, testimony, GAO stated that FEMA made tens of millions of dollars of potentially improper and/or fraudulent payments associated with both hurricanes Katrina and Rita. These payments include \$17 million in rental assistance paid to individuals to whom FEMA had already provided free housing through trailers or apartments. In one case, FEMA provided free housing to 10 individuals in apartments in Plano, Texas, while at the same time it sent these individuals \$46,000 to cover out-of-pocket housing expenses. In addition, several of these individuals certified to FEMA that they needed rental assistance.

FEMA made nearly \$20 million in duplicate payments to thousands of individuals who claimed damages to the same property from both hurricanes Katrina and Rita. FEMA also made millions in potentially improper and/or fraudulent payments to nonqualified aliens who were not eligible for IHP. For example, FEMA paid at least \$3 million to more than 500 ineligible foreign students at four universities in the affected areas. This amount likely understates the total payments to ineligible foreign students because it does not cover all colleges and universities in the area. FEMA also provided potentially improper and/or fraudulent IHP assistance to other ineligible non-U.S. residents, despite having documentation indicating their ineligibility.

Finally, FEMA's difficulties in identifying and collecting improper payments further emphasized the importance of implementing an effective fraud, waste, and abuse prevention system. For example, GAO previously estimated improper and potentially fraudulent payments related to the IHP application process to be \$1 billion through February 2006. As of November 2006, FEMA identified about \$290 million in overpayments and collected about \$7 million.

**GAO Improper Payment Estimate and FEMA Reported Overpayments and Collections**



Source: GAO analysis and FEMA data.

Finally, GAO's work on DHS purchase cards showed continuing problems with property accountability, including items GAO investigated that could not be located 1 year after they were purchased.

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United States Government Accountability Office  
Washington, DC 20548

March 15, 2007

The Honorable Joseph I. Lieberman  
Chairman  
The Honorable Susan M. Collins  
Ranking Minority Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

On December 6, 2006, we testified before the Senate Committee on Homeland Security and Governmental Affairs on the continued findings of fraud, waste, and abuse associated with disaster relief for hurricanes Katrina and Rita.<sup>1</sup> In addition to the December 6 testimony, in several prior hearings, we testified that significant control weaknesses in the Federal Emergency Management Agency's (FEMA) Individuals and Households Program (IHP) and in the Department of Homeland Security's (DHS) purchase card program left the government vulnerable to significant fraud, waste, and abuse.<sup>2</sup> As we previously reported, the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act)<sup>3</sup> provides the basis for IHP. IHP is a major component of the federal disaster response efforts designed to provide financial assistance to individuals and households that have, as a direct result of a major disaster, necessary expenses and serious needs that cannot be met through other means. The Stafford Act allowed registrants to receive financial assistance up to a cap of \$26,200 for disasters occurring in 2005. In early October 2006, FEMA reported to Congress that it had delivered approximately \$7 billion in IHP aid for hurricanes Katrina and Rita. This IHP amount included expedited

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<sup>1</sup>GAO, *Hurricanes Katrina and Rita Disaster Relief: Continued Findings of Fraud, Waste, and Abuse*, [GAO-07-252T](#) (Washington, D.C.: Dec. 6, 2006).

<sup>2</sup>GAO, *Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse*, [GAO-06-403T](#) (Washington, D.C.: Feb. 13, 2006); *Hurricanes Katrina and Rita Disaster Relief: Improper and Potentially Fraudulent Individual Assistance Payments Estimated to Be Between \$600 Million and \$1.4 Billion*, [GAO-06-844T](#) (Washington, D.C.: June 14, 2006); and *Purchase Cards: Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity*, [GAO-06-957T](#) (Washington, D.C.: July 19, 2006). Work on [GAO-06-957T](#) was performed jointly with the DHS Office of Inspector General.

<sup>3</sup>42 U.S.C. §5121-5206.

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assistance, temporary housing assistance, repair and replacement of real and personal property, and other miscellaneous categories.

Our December 6, 2006, testimony detailed our findings related to additional work we had performed since June 2006. Specifically, the testimony addressed our findings related to potentially improper and/or fraudulent (1) rental assistance payments FEMA made to registrants at the same time it was providing free housing via trailers and apartments; (2) duplicate assistance payments to individuals who claimed damages to the same property for both hurricanes Katrina and Rita; and (3) IHP payments to nonqualified aliens who did not qualify for IHP. For purposes of the testimony, potentially improper and/or fraudulent payments referred to payments made by FEMA based on potentially improper and/or fraudulent registration data submitted by IHP registrants. The testimony also discussed (1) the importance of fraud prevention, and (2) the results of our investigation into property bought by FEMA using DHS purchase cards, which was subsequently lost or stolen. This report summarizes the findings detailed in our December 6, 2006, testimony and makes specific recommendations for corrective action. Our December 6, 2006, testimony is reprinted in appendix I.

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## Overview of Testimony

In our testimony, we stated that our audit and investigative work on FEMA disaster relief payments associated with hurricanes Katrina and Rita identified additional indications of fraud, waste, and abuse. Specifically, we found that FEMA made nearly \$17 million in potentially improper and/or fraudulent rental assistance payments to individuals after they had moved into FEMA trailers. For example, after FEMA provided a trailer to a household—in January 2006—FEMA provided rental assistance payments to the same household in late January, February, and April of 2006 totaling approximately \$5,500. In addition, FEMA provided potentially improper and/or fraudulent rental assistance payments to individuals living in FEMA-provided apartments. For example, FEMA made nearly \$46,000 in rental assistance payments to at least 10 individuals living in apartments at the same time that the apartments were being paid for by FEMA through the city of Plano, Texas. Seven of 10 in this group self-certified to FEMA that they needed rental assistance, despite the fact that they were living in rent-free housing. Because of limitations in FEMA data, we were not able to identify the full extent of potentially improper rental assistance payments made to individuals in FEMA-provided apartments.

We also found that nearly \$20 million in potentially improper and/or fraudulent payments went to individuals who, using the same property,

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registered for assistance for both hurricanes Katrina and Rita. With few exceptions, FEMA officials explained that victims of both disasters are entitled to only one set of IHP payments for the same damaged property. However, FEMA officials told us that to increase the speed with which FEMA could distribute disaster assistance, they turned off the system edits that should have identified these types of duplicate payments. Consequently, FEMA paid over 7,000 individuals IHP assistance twice for the same property—once for Hurricane Katrina and once for Hurricane Rita. These individuals received double payments for expedited assistance, rental assistance, and/or housing replacement. For example, FEMA records showed that one registrant received two housing replacement payments of \$10,500 each, despite the fact that he had only one property to replace.

Millions of dollars of improper and potentially fraudulent payments also went to nonqualified aliens, including foreign students and temporary workers. For example, FEMA improperly paid at least \$3 million in IHP assistance to more than 500 ineligible foreign students at four universities. Further, FEMA provided IHP payments that included expedited assistance and personal property totaling more than \$156,000 to 25 individuals who claimed to be foreign workers on temporary visas. FEMA made these payments despite having copies of the work visas for several individuals, which should have alerted FEMA that the temporary workers were not eligible for financial assistance. Social Security Administration records also showed many of the individuals used invalid Social Security numbers, which could have alerted FEMA about the individuals' ineligibility. In addition, several students and university officials stated that FEMA personnel encouraged all students—including international students who did not qualify for IHP assistance—that they were eligible for IHP financial assistance. Because we did not obtain information from all universities in the Gulf region and because of unavailability of detailed data on other nonqualified legal aliens, we were not able to determine the magnitude of improper and/or fraudulent payments in this area.

Our findings also showed that the small amount of money that FEMA has been able to collect from improper payments further demonstrates the need to have adequate preventive controls. We previously reported that inadequate preventive controls related to the IHP application process resulted in an estimated \$1 billion of potentially improper and/or

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fraudulent payments through February 2006.<sup>4</sup> In contrast, as of November 2006, FEMA had detected through its own processes about \$290 million in overpayments. This overpayment amount, which FEMA refers to as recoupments, represents the improper payments that FEMA had detected and had issued letters requesting repayments. However, through November FEMA had only collected nearly \$7 million. Collection of only \$7 million of an estimated \$1 billion of fraudulent and improper payments clearly supports the basic point we have previously made<sup>5</sup> that fraud prevention is far more efficient and effective than detection and collection.

With respect to findings regarding the DHS purchase card program, we found weaknesses and breakdowns in accountability for property items bought for hurricanes Katrina and Rita relief efforts using government purchase cards.<sup>6</sup> For example, FEMA is still unable to locate 48 of the 143 missing items (e.g., laptop computers, printers, and GPS units) identified in our July 2006 testimony. Moreover, 37 items were missing from an additional 103 items that we investigated for the July testimony. Thus, over a year after they were purchased, FEMA could not locate 85 of the 246 items (34 percent) that we investigated; we presume these items are now lost or stolen. Our investigation also revealed that although FEMA was in possession of 18 of the 20 flat-bottom boats it had purchased for hurricane relief efforts, FEMA had not received the title to any of these boats. FEMA could not provide any information about the location of the remaining two boats.

In response to our December testimony, FEMA acknowledged weaknesses in the processes and systems that resulted in ineligible individuals receiving assistance. FEMA stated that in the 15 months since Hurricane Katrina, FEMA has made great strides in correcting its deficiencies. Examples of improvements FEMA has informed us that it put into service include an upgraded registration application that FEMA expects will prevent duplicate registrations and an identity verification process so that all registrations for assistance are subjected to the same stringent criteria.

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<sup>4</sup>To develop this estimate we followed a probability procedure based on random selections. We express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. The 95 percent confidence interval surrounding the estimate of \$1 billion ranges from \$600 million to \$1.4 billion.

<sup>5</sup>GAO, *Individual Disaster Assistance Programs: Framework for Fraud Prevention, Detection, and Prosecution*, GAO-06-954T (Washington, D.C.: July 12, 2006).

<sup>6</sup>These property items were purchased by FEMA between June and November 2005.

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FEMA believes that the stringent controls it instituted this past year improve its safeguards and will help eliminate processing errors and fraudulent abuse. FEMA further stated that it will consider and evaluate any new findings that can assist in improving its processes and procedures.

Based on the findings in our testimony of December 6, 2006, we are recommending that the Secretary of Homeland Security direct the Director of FEMA to take a number of actions to reduce the potential for fraud and abuse. Recommendations include developing controls to prevent duplicate rental assistance benefits, increasing controls to prevent ineligible nonqualified aliens from receiving payments, and enabling controls to prevent duplicate payments to the same individual across multiple disasters. FEMA concurred with all recommendations and responded that it had taken, or is in the process of taking, actions to implement these recommendations. However, in its response FEMA indicated that on two of the recommendations it planned to perform investigations to determine the extent of the problems identified prior to implementing the recommendations.

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## Conclusions

Ineffective preventive controls for FEMA's IHP have resulted in substantial fraudulent and improper payments. The additional examples of potentially fraudulent and improper payments, totaling tens of millions of dollars, that we highlighted in our December 2006 testimony further show that our estimate of \$1 billion in potentially improper and/or fraudulent payments through February is likely understated. In addition, we did not include in this total potentially improper and/or fraudulent payments to individuals who received disaster assistance from FEMA even though they also received insurance payments for damaged property. With respect to property bought with government purchase cards, FEMA's inability to find items 1 year after they were purchased, including laptop computers, printers, and GPS units, shows that FEMA property accountability controls are ineffective and possibly resulted in the loss or theft of government property.

We have previously provided 25 recommendations to DHS and FEMA to improve management of IHP and the purchase card program. FEMA and DHS had fully concurred with 19 recommendations, and substantially or partially concurred with the remaining 6 recommendations. DHS and FEMA also reported that they have taken actions, or plan to take actions, to implement all our recommendations. While we have not performed work to determine whether FEMA's actions adequately address our



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recommendations, if properly implemented, our recommendations from previous and current work should allow DHS and FEMA to rapidly provide assistance to disaster victims while at the same time providing reasonable assurance that disaster assistance payments are accurate and properly authorized. As we have stated in prior reports addressing IHP improper and fraudulent payments, these recommendations only address specific weakness identified in this report and are only part of a comprehensive fraud prevention program that should be in place. Further, FEMA should ensure that there are adequate manual processes in place to allow registrants who are incorrectly denied assistance to expeditiously appeal the decision and receive aid. Also, FEMA should fully field test all changes to provide assurance that valid registrants are able to apply for and receive IHP payments.

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## Recommendations for Executive Action

We recommend that the Secretary of Homeland Security direct the Director of FEMA to take the following six actions to address weaknesses identified in the administration of IHP.

To prevent rental assistance payments from being provided at the same time that FEMA provides free housing (including trailers, mobile homes, and apartments), FEMA should

- develop processes for comparing IHP registrant data with FEMA direct housing assistance data to prevent IHP registrants from receiving payments for rental assistance covering the time they are living in FEMA-provided housing and
- provide clear guidance to IHP registrants, including rental assistance registrants, indicating how the payments are to be used.

With respect to duplicate assistance payments across multiple disasters, FEMA should implement and/or enable controls to prevent duplicate payments to the same individual from different disasters for the same damage done to the same address.

To prevent improper payments to nonqualified aliens, FEMA should

- provide clear guidance and training to FEMA and contractor employees on the specific types of aliens eligible for financial disaster assistance, and identify nonqualified aliens, and
- develop processes to identify and deny assistance to nonqualified aliens who register for IHP assistance using valid Social Security

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numbers through data comparisons with agencies that maintain data on legal aliens with Social Security numbers.

With respect to property bought with DHS purchase cards, if FEMA cannot locate this property in a reasonable time period, it should work with DHS to reconcile its tracking system data and declare these items lost or stolen.

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## Agency Comments and Our Evaluation

On February 15, 2007, FEMA provided written comments on a draft of this report in which it outlined actions it plans to take or has taken that are designed to address each of our six recommendations. FEMA's comments are reprinted in appendix II. FEMA provided examples of several planned actions to address identified weaknesses. For example, concerning our recommendation to provide clear guidance to victims receiving IHP rental assistance on how funds should be used, FEMA stated that it is conducting a comprehensive review of existing communications policies and is developing a more effective strategy to ensure that registrants understand IHP and its purpose. Additionally, in response to our recommendation to develop processes to identify and deny assistance to nonqualified aliens who register for IHP assistance, FEMA stated that it is reaching out to other federal agencies and commercial vendors in order to enhance FEMA's ability to screen out applications from nonqualified aliens. FEMA's response indicates that it is attempting to address problems we identified in IHP. As the federal government prepares for future disasters, it will be important for FEMA to establish effective controls to prevent fraudulent and improper payments before they occur.

However, in its responses to our recommendations concerning actions to prevent duplicate housing assistance and housing damage repair assistance, FEMA also stated it planned to perform additional investigations to confirm that the conditions described in our draft report are in fact representative of systemic problems before initiating appropriate corrective actions. Nonetheless, we continue to believe, as discussed in our testimony (see app. I), that our work amply demonstrates the systemic nature of the problems identified and the need for the recommended corrective actions.

Specifically, with respect to our recommendation on preventing individuals from receiving rental assistance payments while residing in FEMA-provided housing (apartments and trailers), we continue to believe our work demonstrates a systemic problem exists. In fact the \$17 million in potentially duplicate rental assistance paid to thousands of IHP

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registrants is conservative and may even understate the extent of the problems. In addition, our case studies clearly showed payments that were at least improper and potentially fraudulent. Further, our work included steps to minimize the possibility that, as FEMA asserted, many of these cases could be explained by the fact that rental assistance payments could have been made retroactively to cover rental expenses prior to the date of payment. Specifically, in arriving at our estimate of the extent of a systemic problem in this area, we took the following steps to ensure that our reported estimate of the extent of potentially duplicate payments in this area did not overstate the problem.

- We only included payments as potential duplicates when they were made to an IHP registrant at the same time that the registrant was residing in FEMA-provided housing. We did not consider payments made before a registrant moved in to FEMA-provided housing as duplicates even though FEMA often makes advance rental assistance payments. For example, FEMA provided more than \$3 million in rental assistance payments to FEMA trailer registrants in the week before they moved into FEMA trailers. These payments averaged more than \$1,700, which indicates they were likely for multiple months of rental assistance and could have been duplicate assistance payments because they would have covered the time the registrants were in FEMA trailers.
- We conducted field investigations on case studies to ensure that conclusions reached were accurate.
- We excluded from our analysis any payments made to IHP registrants living in FEMA-provided apartments. Those payments were excluded from the analysis because FEMA failed to maintain detailed reliable data on individuals living in FEMA-provided apartments. Thus there are potentially millions more in duplicate rental assistance payments associated with IHP registrants living in FEMA-provided apartments, as supported by our case study investigations.

As discussed in our testimony, our work also clearly demonstrates a systemic problem and our recommended corrective action with respect to controls to prevent duplicate payments to the same individual for the same damage across multiple disasters. FEMA stated it was unsure whether all payments we identified as duplicates were in fact duplicate payments to the same individual for the same damage across multiple disasters. FEMA stated that some payments could have resulted from damage from Hurricane Katrina, and then future payments were made based on different damage caused by Hurricane Rita.

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However, this assertion is contrary to representations FEMA made to us during the course of the audit. Specifically, FEMA told us during the audit that with few exceptions, registrants would only be entitled to one payment for each damage and/or need. We acknowledge that a registrant could have had a house damaged by Hurricane Katrina, and could have repaired the damage and moved back into the original house—only to have it damaged again by Hurricane Rita. However, this it is an extremely unlikely scenario given the severity of the damage caused by Hurricane Katrina and the fact that Hurricane Rita occurred shortly after, leaving very little time for inspectors to inspect and certify housing damage between storms, especially given there were more than 7,000 registrants we identified. According to our case studies, FEMA performed the first inspection of the properties in question after both hurricanes affected the area. Our case studies also showed that FEMA used two different inspectors to look at damaged properties, once for Hurricane Katrina and once for Hurricane Rita. Without having an inspection performed before Hurricane Rita hit, or having the same inspector review the claim to determine what damage was from Hurricane Rita and what damage was from Hurricane Katrina, FEMA is not in a position to know whether it paid for the same damaged items twice. Therefore, we continue to believe our work demonstrates a systemic problem for which FEMA should institute our recommendation to institute controls that prevent duplicate payments to the same individual for the same damage registered for under different disasters.

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We are sending copies of this report to the Secretary of Homeland Security, and the Director of the Federal Emergency Management Agency. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. If you or your staffs have questions about this report, please contact me at (202) 512-7455 or [kutzg@gao.gov](mailto:kutzg@gao.gov); or contact John Kelly at (202) 512-6926 or [kellyj@gao.gov](mailto:kellyj@gao.gov). Other individuals who made major contributions to this report were Gary Bianchi, Jennifer Costello, Jason Kelly, Barbara Lewis, Jonathan Meyer, Andrew McIntosh, John Ryan, and Tuyet-Quan Thai.

A handwritten signature in black ink that reads "Gregory D. Kutz". The signature is written in a cursive style with a large, stylized initial "G".

Gregory Kutz  
Managing Director  
Forensic Audits and Special Investigations

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# Appendix I: Testimony on Continued Findings of Fraud, Waste, and Abuse

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**GAO**

**United States Government Accountability Office**

**Testimony  
Before the Committee on Homeland  
Security and Governmental Affairs,  
U.S. Senate**

For Release on Delivery  
Expected at 10:00 a.m. EST  
Wednesday, December 6, 2006

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## **HURRICANES KATRINA AND RITA DISASTER RELIEF**

### **Continued Findings of Fraud, Waste, and Abuse**

Statement of Greg Kutz, Managing Director  
Forensic Audits and Special Investigations

John J. Ryan, Assistant Director  
Forensic Audits and Special Investigations



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**GAO-07-252T**



Highlights of GAO-07-252T, a testimony to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

**Why GAO Did This Study**

Hurricanes Katrina and Rita destroyed homes and displaced millions of individuals. While the Federal Emergency Management Agency (FEMA) continues to respond to this disaster, GAO's previous work identified significant control weaknesses—specifically in FEMA's Individuals and Households Program (IHP) and in the Department of Homeland Security's (DHS) purchase card program—resulting in significant fraud, waste, and abuse.

Today's testimony will address whether FEMA provided improper and potentially fraudulent (1) rental assistance payments to registrants at the same time it was providing free housing via trailers and apartments; (2) duplicate assistance payments to individuals who claimed damages to the same property for both hurricanes Katrina and Rita; and (3) IHP payments to non-U.S. residents who did not qualify for IHP. This testimony will also discuss (1) the importance of fraud identification and prevention, and (2) the results of our investigation into property FEMA bought using DHS purchase cards.

To address these objectives, GAO data mined and analyzed FEMA records and interviewed city officials, university officials, and foreign students. GAO also traveled to Louisiana and Texas to inspect selected property items and to investigate improper housing payments to individuals living in FEMA-provided housing.

[www.gao.gov/cgi-bin/gettrpt?GAO-07-252T](http://www.gao.gov/cgi-bin/gettrpt?GAO-07-252T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-7455 or kutzg@gao.gov.

December 6, 2006

**HURRICANES KATRINA AND RITA DISASTER RELIEF**

**Continued Findings of Fraud, Waste, and Abuse**

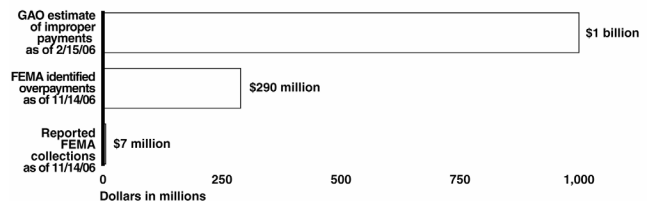
**What GAO Found**

FEMA continued to lose tens of millions of dollars through potentially improper and/or fraudulent payments from both hurricanes Katrina and Rita. These payments include \$17 million in rental assistance paid to individuals to whom FEMA had already provided free housing through trailers or apartments. In one case, FEMA provided free housing to 10 individuals in apartments in Plano, Texas, while at the same time it sent these individuals \$46,000 to cover out-of-pocket housing expenses. In addition, several of these individuals certified to FEMA that they needed rental assistance.

FEMA made nearly \$20 million in duplicate payments to thousands of individuals who claimed damages to the same property from both hurricanes Katrina and Rita. FEMA also made millions in potentially improper and/or fraudulent payments to nonqualified aliens who were not eligible for IHP. For example, FEMA paid at least \$3 million to more than 500 ineligible foreign students at four universities in the affected areas. This amount likely understates the total payments to ineligible foreign students because it does not cover all colleges and universities in the area. FEMA also provided potentially improper and/or fraudulent IHP assistance to other ineligible non-U.S. residents, despite having documentation indicating their ineligibility.

Finally, FEMA's difficulties in identifying and collecting improper payments further emphasized the importance of implementing an effective fraud, waste, and abuse prevention system. For example, GAO previously estimated improper and potentially fraudulent payments related to the IHP application process to be \$1 billion through February 2006. As of November 2006, FEMA identified about \$290 million in improper payments and collected about \$7 million.

**GAO Improper Payment Estimate and FEMA Reported Overpayments and Collections**



Source: GAO analysis and FEMA data.

GAO's previous work on the DHS purchase cards also showed significant problems with property accountability. Of 246 items we investigated that FEMA purchased for hurricane relief efforts using DHS's purchase cards, 85 items—or 34 percent—are still missing and presumed lost or stolen.

United States Government Accountability Office

**Appendix I: Testimony on Continued Findings  
of Fraud, Waste, and Abuse**

Chairman and Members of the Committee:

Thank you for the opportunity to discuss our forensic audit and related investigations into the Federal Emergency Management Agency's (FEMA) response to hurricanes Katrina and Rita. In several prior hearings, we testified that significant control weaknesses in FEMA's Individuals and Households Program (IHP) and in the Department of Homeland Security's (DHS) purchase card program have left the government vulnerable to significant fraud, waste, and abuse. In February 2006,<sup>1</sup> we testified before this Committee that specific control weaknesses in the IHP program resulted in improper expedited assistance payments and nonexistent controls left the government vulnerable to substantial fraud and abuse related to IHP. Several months later, in June 2006,<sup>2</sup> we testified on additional work performed whereby we projected that the weak or nonexistent controls resulted in an estimated \$1 billion dollars in potentially fraudulent and improper IHP payments.<sup>3</sup> Most recently, in July 2006,<sup>4</sup> we testified before this Committee that control weaknesses in DHS's purchase card program had resulted in fraud, waste, and abuse, including activity by FEMA related to hurricanes Katrina and Rita. Our purchase card work also showed that poor controls over property acquired primarily for hurricanes Katrina and Rita operations, including laptops, printers, global positioning system (GPS) units, and flat-bottom boats, resulted in lost, missing, or stolen assets. We have issued companion

<sup>1</sup>GAO, *Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse*, GAO-06-403T (Washington, D.C.: Feb. 13, 2006).

<sup>2</sup>GAO, *Hurricanes Katrina and Rita Disaster Relief: Improper and Potentially Fraudulent Individual Assistance Payments Estimated to Be Between \$600 Million and \$1.4 Billion*, GAO-06-844T (Washington, D.C.: June 14, 2006).

<sup>3</sup>To reach this estimate we followed a probability procedure based on random selections. Therefore, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we expressed our confidence in the precision of our particular sample's results as a 95 percent confidence interval. The 95 percent confidence interval surrounding the estimate of \$1 billion ranges from \$600 million to \$1.4 billion.

<sup>4</sup>GAO, *Purchase Cards: Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity*, GAO-06-957T (Washington, D.C.: July 19, 2006). This work was performed jointly with the DHS Office of Inspector General.



reports<sup>5</sup> following each of these testimonies that included numerous recommendations on how to address the weaknesses identified by our audit and investigative work.

As we previously reported, the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act)<sup>6</sup> provides the basis for IHP. IHP is a major component of the federal disaster response efforts designed to provide financial assistance to individuals and households that, as a direct result of a major disaster, have necessary expenses and serious needs that cannot be met through other means. The Stafford Act allowed registrants to receive financial assistance up to a cap of \$26,200 for disasters occurring in 2005. In early October 2006, FEMA reported to Congress that it had delivered approximately \$7 billion in IHP aid for hurricanes Katrina and Rita. This IHP amount included expedited assistance, temporary housing assistance, repair and replacement of real and personal property, and other miscellaneous categories.

Today's testimony reflects new findings related to additional work we have performed since June 2006. The testimony will address whether FEMA provided potentially improper and/or fraudulent (1) rental assistance payments to registrants at the same time it was providing free housing via trailers and apartments; (2) duplicate assistance payments to individuals who claimed damages to the same property for both hurricanes Katrina and Rita; and (3) IHP payments to nonqualified aliens who did not qualify for IHP. This testimony will also discuss (1) the importance of fraud prevention, and (2) the results of our investigation into property bought by FEMA using DHS purchase cards, which was subsequently lost or stolen. For purposes of this testimony, potentially improper and/or fraudulent payments refers to payments made by FEMA based on potentially improper and/or fraudulent registration data submitted by IHP registrants.

<sup>5</sup>GAO, *Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse*, GAO-06-655 (Washington, D.C.: June 16, 2006); GAO, *Hurricanes Katrina and Rita: Unprecedented Challenges Exposed the Individuals and Households Program to Fraud and Abuse; Actions Needed to Reduce Such Problems in Future*, GAO-06-1013 (Washington, D.C.: Sept. 27, 2006); and GAO and DHS Inspector General, *Purchase Cards: Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity*, GAO-06-1117 (Washington, D.C.: Sept. 28, 2006).

<sup>6</sup>42 U.S.C. §5121-§5206.

To address these objectives, we compared information included in FEMA databases; performed data mining on FEMA databases; and interviewed officials in selected cities and universities, and foreign students. We also traveled to Louisiana and Texas to physically inspect selected items FEMA purchased for hurricane relief efforts. For details on our scope and methodology, see appendix I. We conducted our audit and investigations from June 2006 through November 2006. We conducted our audit work in accordance with generally accepted government auditing standards and conducted our investigative work in accordance with the standards prescribed by the President's Council on Integrity and Efficiency.

### Summary

Our audit and investigative work on controls over FEMA disaster relief payments associated with hurricanes Katrina and Rita identified additional potentially improper and/or fraudulent payments, including the following:

- Nearly \$17 million in potentially improper and/or fraudulent rental assistance payments to individuals while they were living in trailers also paid for by FEMA. For example, after FEMA provided a trailer to a household—in January 2006—FEMA provided rental assistance payments to the same household in late January, February, and April of 2006 totaling approximately \$5,500.
- FEMA provided potentially improper and/or fraudulent rental assistance payments to individuals living in FEMA-paid apartments. For example, FEMA made nearly \$46,000 in rental assistance payments to at least 10 individuals living in apartments at the same time that the apartments were being paid for by FEMA through the city of Plano, Texas. Seven of 10 in this group self-certified to FEMA that they needed rental assistance, despite the fact that they were living in rent-free housing. Because of limitations in FEMA data, we were not able to identify the full extent of potentially improper rental assistance payments made to individuals in FEMA-paid apartments.
- Nearly \$20 million in potentially improper and/or fraudulent payments went to individuals who registered for both hurricanes Katrina and Rita assistance using the same property. With few exceptions, FEMA officials explained that victims of both disasters are entitled to only one set of IHP payments for the same damaged property. However, FEMA officials told us that they turned off the system edits that should have identified these types of duplicate payments to increase the speed with which FEMA could distribute disaster assistance. Consequently, FEMA paid over 7,000 individuals IHP assistance twice for the same property—once for Hurricane Katrina and once for Hurricane Rita.

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These individuals received double payments for expedited assistance, rental assistance, and/or housing replacement. For example, FEMA records showed that one registrant received two housing replacement payments of \$10,500 each, despite the fact that he had only one property to replace.

- Millions of dollars of improper and potentially fraudulent payments went to nonqualified aliens, including foreign students and temporary workers. For example, FEMA improperly paid at least \$3 million in IHP assistance to more than 500 ineligible foreign students at four universities. Further, FEMA provided IHP payments that included expedited assistance and personal property totaling more than \$156,000 to 25 individuals who claimed to be foreign workers on temporary visas. FEMA made these payments despite having copies of the work visas for several individuals, which should have alerted FEMA that the temporary workers were not eligible for financial assistance. Because we did not obtain information from all universities in the Gulf region and because of unavailability of detailed data on other nonqualified legal aliens, we were not able to determine the magnitude of potentially improper and/or fraudulent payments in this area.
- The small amount of money that FEMA has been able to collect from improper payments further demonstrates the need to have adequate preventive controls. We previously reported that inadequate preventive controls related to the IHP application process resulted in an estimated \$1 billion of potentially improper and/or fraudulent payments through February 2006. In contrast, as of November 2006, FEMA had detected through its own processes about \$290 million in overpayments. This overpayment amount, which FEMA refers to as recoupments, represents the improper payments that FEMA had detected and had issued letters requesting repayments. However, through November FEMA had only collected nearly \$7 million of the about \$290 million identified for recoupment. Collection of only \$7 million of an estimated \$1 billion of fraudulent and improper payments clearly supports the basic point we have previously made<sup>7</sup> that fraud prevention is far more efficient and effective than detection and collection.
- Regarding the DHS purchase card program, we found overall problems with property items bought for hurricanes Katrina and Rita relief efforts using government purchase cards. For example, FEMA is still

<sup>7</sup>GAO, *Individual Disaster Assistance Programs: Framework for Fraud Prevention, Detection, and Prosecution*, GAO-06-954T (Washington, D.C.: July 12, 2006).

unable to locate 48 of the 143 missing items (e.g., laptop and printers) identified in our July 2006 testimony. Moreover, 37 items were missing from an additional 103 items that we investigated. Thus, over a year after being purchased, FEMA could not locate 85 of the 246 items (34 percent) that we investigated, and are presumed lost or stolen.

- Our investigation also revealed that although FEMA was in possession of 18 of the 20 flat-bottom boats it had purchased for hurricane relief efforts, FEMA had not received the title to any of these boats. Further, FEMA could not provide any information about the location of the remaining two boats, although local law enforcement officials informed us that they found one of the boats in a shed at the house of its previous owner.

### Potentially Improper and/or Fraudulent Housing Assistance Payments Related to Trailers and Apartments

We found that FEMA provided nearly \$17 million in potentially improper and/or fraudulent rental assistance payments to individuals already housed in other accommodations that FEMA provided through other disaster assistance programs. The Stafford Act prohibits FEMA from providing rental assistance payments under IHHP to an applicant if temporary housing has been provided by any other source.<sup>42</sup> Despite this prohibition, FEMA did not have an effective process in place to compare IHHP registrant data with data on individuals already housed in FEMA-purchased trailers and FEMA-provided apartments. FEMA also failed to adequately advise victims that they were prohibited from receiving rental assistance for the same period they occupied rent-free housing. Consequently, FEMA improperly paid nearly \$17 million to over 8,600 registrants after they had already moved into FEMA trailers. While the quality of FEMA data did not allow us to make similar calculations for the amount and number of individuals receiving rental assistance payments after they had been housed in FEMA-provided apartments, the amount could be substantial.

In the aftermath of hurricanes Katrina and Rita, FEMA used various programs to house displaced victims, including financial assistance for rent and rent-free housing. Rent-free housing included trailers that FEMA purchased and apartments that FEMA either paid for directly or reimbursed state and local governments for after they paid landlords on behalf of the disaster victims. According to a FEMA official, to expedite

<sup>42</sup> 42 U.S.C. §5155, C.F.R. §206.101.

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apartment rental assistance, FEMA provided payments to over 100 different state and local governments for the provision of rent-free apartments.

By comparing information in two of FEMA's databases—the FEMA Response and Recovery Applicant Tracking System (FRRATS) and the National Emergency Management Information System (NEMIS)—we calculated that FEMA improperly made rental assistance payments—intended to cover out-of-pocket rental expenses—totaling nearly \$17 million to over 8,600 individuals after they had moved into FEMA-provided trailers.<sup>9</sup> Some received multiple rental assistance payments even after they moved into free FEMA-provided housing. In some instances, the payments were made based on potentially fraudulent claims because recipients typically have to certify to FEMA that they continued to need IHP rental assistance.

Limitations in FEMA apartment data did not allow us to determine the magnitude of potentially duplicate rental assistance payment to individuals housed in rent-free apartments. In contrast to trailer data, which FEMA maintains in the FRRATS database, we could not validate accuracy or completeness of apartment data. According to FEMA officials, the accuracy of apartment data was questionable because it came from the over 100 state and local authorities who assisted in delivering housing aid for FEMA. The completeness of data was also at issue because FEMA did not ask states to collect registration data from individuals in rent-free apartments until well after the aid was provided, and therefore individuals who may have left the rent-free apartments were not included in the data. Table 1 provides illustrative examples of duplicate rental assistance payments to registrants in FEMA trailers and rent-free apartments.

<sup>9</sup>FEMA officials stated that they did not believe that the initial rental assistance payment, provided to cover the first few months of rental housing, should be considered a duplication of benefits if it was provided to trailer residents. FEMA officials argued that this amount is designed to assist disaster victims in moving from temporary emergency housing into a normal apartment or home lease situation. The United States District Court for the Eastern District of Louisiana expressed approval when FEMA permitted claimants to reapply for three months of IHP rental assistance even though they had already received IHP rental assistance for that period where the claimants certified that the first IHP rental assistance was used for essential needs other than lodging and/or that they had not been notified the money could only be used for lodging. *McWaters v. FEMA*, Civ. Action. No. 05-5488 (Order and Reasons dated 12/12/05 and 6/16/06). The court also permitted short term lodging program participants to remain in their rent free lodging two weeks after receiving their rental assistance or the disapproval of their claim. *Id.*

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**Table 1: Examples of Duplicate and Potentially Improper and/or Fraudulent Housing Assistance Payments Related to FEMA Trailers and Apartments**

Case	Amount of duplicate and improper payment	Type/ location of FEMA-provided unit	Details
1	\$46,000	Apartment/ Plano, TX	<ul style="list-style-type: none"> <li>10 residents of an apartment complex applied and received rental assistance.</li> <li>At the same time, FEMA provided rent-free housing at the apartment in Plano, Texas.</li> <li>FEMA records indicated that seven registrants certified to FEMA that they needed rental assistance, despite the fact that they lived in rent-free apartments.</li> </ul>
2	3,600	Apartment/ Austin, TX	<ul style="list-style-type: none"> <li>Registrant received free housing in September 2005 when the registrant moved into an apartment the city of Austin paid for on behalf of FEMA.</li> <li>FEMA made rental assistance payments in September 2005, February 2006, and May 2006 totaling more than \$3,600 at the same time that it paid \$705 per month for the apartment.</li> </ul>
3	1,700	Apartment/ Houston, TX	<ul style="list-style-type: none"> <li>Registrant received assistance in February and a smaller payment in May 2006 covering rent from February through May 2006.</li> <li>Registrant received a rent-free apartment for the months of February, April, and May 2006. We were unable to confirm whether the registrant received rent-free housing in March 2006 due to incomplete data.</li> </ul>
4	5,400	Trailer/ Slidell, LA	<ul style="list-style-type: none"> <li>Registrant received trailer in mid-March 2006.</li> <li>Registrant received two rental assistance payments totaling more than \$5,400 in April and May 2006 for the time the registrant lived in the trailer.</li> </ul>
5	5,500	Trailer/ Lacombe, LA	<ul style="list-style-type: none"> <li>Five members of the same household registered and received IHP assistance using the same damaged address.</li> <li>FEMA delivered a trailer to the damaged property in January 2006, but continued to provide rental assistance to four members of the same family in January, February, and April 2006.</li> <li>One interviewee informed us that the rental receipt that a family member provided to FEMA was fictitious.</li> <li>In addition to the \$5,500 in improper duplicative payments for trailer and rental assistance, the family also received over \$6,000 in potentially improper and/or fraudulent payments by submitting multiple registrations.</li> </ul>

Source: GAO analysis of FEMA's IHP trailer, data and apartment data from selected cities.

- Case 1 relates to a series of potentially improper and/or fraudulent IHP rental assistance payments totaling \$46,000 made to 10 registrants already housed in rent-free housing. In this case, FEMA paid nearly \$46,000 in rental assistance to 10 residents of an apartment complex in Plano, Texas, from September 2005 through June 2006. However, at about the same time period (October 2005 through March 2006), the city of Plano made payments totaling more than \$74,000 directly to the apartment, for which it received reimbursements from FEMA. Of the total amount paid, \$46,000 was duplicative and therefore potentially improper and/or fraudulent. Our review of FEMA records indicated

that 7 of the 10 individuals certified to FEMA that they were in need of rental assistance, even after they had been provided with free housing. Further, FEMA records showed that 7 provided rental receipts and/or leases that clearly indicated that the rent was paid by the city of Plano.

- Case 5 relates to a family of five, all of whom registered for IHP using the same damaged address. Four registrations were duplicative and therefore payments on those registrations are potentially improper and/or fraudulent. Further, despite the fact that FEMA had installed a trailer on the damaged property in January 2006, FEMA continued to send rental assistance payments in late January, February, and April 2006 totaling approximately \$5,500. Further, a family member informed us that the family had moved back into the damaged home prior to the trailer being delivered. Consequently, when the trailer was delivered, it simply increased the living space for the household, and it was used by a family member who lived in the house prior to the hurricane. Further, evidence we gathered during the course of the investigation indicated that a rental receipt provided to FEMA to justify continued need for rental assistance was fictitious, and that the family member who submitted the receipt had never paid rent to the supposed landlord. In addition to the \$5,500 in improper duplicative rental assistance payments, we found that the family members also received at least \$6,000 in other potentially improper and/or fraudulent IHP payments arising from the duplicate registrations.

In the course of apartment-related audit and investigative work, we also identified 14 individuals who improperly received more than \$75,000 in disaster assistance using one apartment building as their hurricane-damaged address, even though the building had minimal damage and residents were not forced to evacuate. We provide further details in appendix II.

**Potentially Improper  
and/or Fraudulent  
IHP Assistance  
Payments to  
Individuals Claiming  
Damages from Both  
Hurricanes**

FEMA made nearly \$20 million in duplicate payments to thousands of individuals who submitted claims for damages to the same primary residences from both hurricanes Katrina and Rita. With few exceptions, FEMA officials explained that victims of both disasters should not receive duplicate benefits for the same necessities and/or damages to the same property. However, in order to process disaster claims more quickly, FEMA disabled a system edit check in NEMIS that could have alerted FEMA officials when the same individual applied for both disasters using the same identifying information. This system change resulted in nearly \$20 million in duplicate payments being made based on duplicate registrations for hurricanes Katrina and Rita.

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In October 2005, FEMA officials informed us that the small amount of time between the impact of hurricanes Katrina and Rita had necessitated the issuance of new policy to prevent duplicate claims for the same damaged property for both hurricanes. FEMA officials said that, with few exceptions, the new policy specified that registrants were entitled to one payment for the same damage and/or need. FEMA explained to us that this was necessary because most individuals did not have an opportunity to replace and/or repair damages they incurred from Hurricane Katrina before Hurricane Rita struck, and because their displacement was likely caused by both hurricanes. At the time, FEMA officials informed us that they had available a system edit check in NEMIS intended to alert FEMA system administrators when the same individual applies for assistance for both disasters, so that FEMA personnel could perform a manual review prior to payments being made.

Despite having a control available, we identified through our review of FEMA's NEMIS that FEMA made payments to about 7,600 individuals who used the same social security number (SSN) and hurricane-damaged addresses for their Hurricane Katrina registration that they used for their Hurricane Rita registration. Subsequently, FEMA officials informed us that these duplicate payments occurred because FEMA disabled the system edit check feature. FEMA stated that they deactivated the system edit check in order to process disaster claims more quickly, because the manual review process that they had intended for these duplicate registrations would have held up many eligible payments. Because of this, FEMA paid nearly \$20 million in duplicate payments to individuals who submitted duplicate registrations using the same SSNs and damaged addresses. The nearly \$20 million includes duplicate payments for all areas of IHP assistance, including expedited assistance, rental assistance, housing replacement payments, or a combination of these. In five of the six cases where we performed investigative work, the same individual received duplicate payments to replace the same damaged property. The individuals also failed to provide FEMA with evidence that they had replaced the items or conducted repair work after Hurricane Katrina, only to have those items or that work destroyed again by Hurricane Rita. In all cases, FEMA performed its first physical inspection of the damaged property after the passing of both hurricanes.

In addition to other IHP payment types, all six individuals we investigated also received IHP personal property payments to compensate them for lost or destroyed household items, twice—once for Hurricane Katrina and again for Hurricane Rita. In one case, an individual received multiple payments for more than \$27,000—over the \$26,200 cap—for personal



property replacement alone. In total, this individual received more than \$51,800 in IHP assistance, of which at least \$25,000 is potentially improper and/or fraudulent. According to FEMA records, another registrant received two housing replacement payments of \$10,500 each, despite the fact that the individual had only one property to replace.

**Potentially Improper  
and/or Fraudulent  
Payments to  
Nonqualified Aliens**

FEMA made at least \$3 million dollars of improper and potentially fraudulent payments to nonqualified aliens who were not eligible for IHP financial assistance. U.S. law specifically prohibits nonqualified aliens, such as foreign students and workers on temporary visas, from receiving financial assistance in case of disaster.<sup>10</sup> However, FEMA did not have implementing controls in place, such as an agreement in place with other government agencies, such as the Social Security Administration (SSA), to identify nonqualified aliens and prevent them from receiving such assistance. Consequently, FEMA paid at least \$3 million to foreign students from four selected universities. FEMA also made payments to other nonqualified aliens, such as workers on temporary visas. However, because of a lack of data on other nonqualified aliens, we were unable to determine the magnitude of any such improper payments. FEMA made such payments even in cases in which FEMA received information indicating that the alien applying for assistance was not qualified to receive financial disaster assistance.

**IHP Payments to Ineligible  
International Students**

The destruction caused by hurricanes Katrina and Rita affected thousands of college students in the fall of 2005. As with other U.S. citizens and qualified aliens, college students who were able to demonstrate losses were eligible to receive IHP payments to assist them in recovering from the disaster. However, U.S. law<sup>11</sup> and FEMA policy specifically prohibits students in the United States on student visas from receiving IHP assistance. By comparing data provided by four universities in Louisiana and Texas against registrant information in NEMIS, we determined that FEMA improperly provided at least \$3 million in financial assistance, in the form of IHP payments, to more than 500 students in the United States on student visas. This amount could understate the total payments to

<sup>10</sup>8 U.S.C. §1611 allows the U.S. government to provide nonfinancial, in kind emergency disaster relief, including short term shelter to temporary legal aliens (nonqualified aliens) after a disaster, but prohibits them from receiving financial assistance.

<sup>11</sup>8 U.S.C. §1611.

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ineligible foreign students because we requested information on international students from only four of the colleges and universities in the areas affected by hurricanes Katrina and Rita.

Our interviews of school officials and several of the ineligible students stated that they received misleading information from FEMA personnel. Specifically, officials at several universities informed us that FEMA personnel actively encouraged all students—including international students—to register for IHP assistance. Despite being ineligible for financial disaster assistance, many international students with whom we spoke stated that FEMA officials told them they were eligible to receive IHP payments and should apply for aid.

We found that FEMA made these payments despite evidence provided to FEMA by students—specifically their student visas—that indicated that they were not eligible for cash assistance. Further, consistent with a finding we reported on previously, FEMA could have identified these students if it had validated their identities with SSA prior to issuing IHP payments. In fact, more than 400 of the students reported as foreign by the four universities were also identified by SSA as non-U.S. citizens. Table 2 displays some examples of ineligible students and payments they received.

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**Table 2: Improper Payments Made to Ineligible International Students**

Case	Location	Number of payments/ amount	Type of payments
1	Louisiana	6/\$25,500	Expedited assistance, rental assistance, transportation assistance, and personal property replacement
2	Louisiana	6/\$22,500	Expedited assistance, rental assistance, housing repair, and personal property replacement
3	Louisiana	3/\$17,700	Rental assistance and personal property replacement
4	Louisiana	4/\$16,400	Expedited assistance, rental assistance, and housing repair
5	Louisiana	3/\$17,000	Rental assistance and personal property replacement
6	Louisiana	4/\$10,900	Expedited assistance, rental assistance, and transportation replacement
7	Texas	3/\$7,700	Expedited assistance, rental assistance, and personal property replacement
8	Louisiana	3/\$6,500	Expedited assistance, rental assistance, and personal property replacement

Source: GAO analysis of university data and FEMA IHP data.

- Case 4 concerns a student in New Orleans who received more than \$16,000 in FEMA payments, including payments for expedited assistance, rental assistance, and personal property replacement. According to NEMIS data, the student's damaged property was in the hardest-hit area of the city, and therefore the student's qualification for IHP was performed through geospatial mapping, while his identity was also validated through a third-party contractor. The student told us that he repeatedly informed FEMA personnel that he was an international student on an F1 visa, and was told each time that he qualified for assistance. In addition to receiving rental payments from FEMA, the student also received a trailer in April 2006. The student stated that he received a letter from FEMA in August 2006 asking for the money back. Further, he is concerned because a FEMA representative informed him that he was not immune to legal action for receiving payments he was ineligible for, despite the fact that he had informed FEMA of his status all along.
- Case 6 involves an international student in New Orleans who received nearly \$11,000 in FEMA payments. The student had a student visa from

Brazil, and stated on his IHP registration that he owned a home in the New Orleans area. The registrant informed us that he applied via phone, and that he took care to inform the FEMA personnel that he was an international student. According to this student, in this and subsequent conversations with FEMA employees (one of whom was a supervisor at a relief center he visited), he was repeatedly told that he qualified for assistance despite his international student status. Our review of FEMA records confirmed the student's assertion that he provided FEMA with a copy of his visa. In fact, a copy of his visa was scanned into NEMIS and had a note next to it stating "Proof of Qualified Alien," despite the fact that the visa clearly showed he was an international student and therefore ineligible.

- In case 8, a student in New Orleans at the time of Hurricane Katrina received three payments totaling \$6,500 covering expedited assistance, rental assistance, and personal property replacement even though he repeatedly told FEMA representatives that he was an international student. The student registered for aid via FEMA's Web site using a valid SSN. The student told us that the SSN was given to him because he was allowed to work in the United States. He stated that during the registration process, he did not find any information that made him aware that he was not eligible for assistance. After registering online, he stated that he also contacted FEMA call center employees and made them aware that he was not a U.S. citizen and was in the country on a student visa, and said he was told by call center employees that he was eligible. The student informed us that during an inspection process, the inspector certified that he was a qualified alien even after he showed the inspector his visa. He subsequently received more than \$2,000 for property replacement based on the inspection. However, because the student's visa was not scanned into FEMA's system, we could not corroborate his statement that he repeatedly informed FEMA of his status.

#### Payments to Other Nonqualified Aliens

We also found that weaknesses in FEMA's controls resulted in improper and/or potentially fraudulent IHP payments being made to other nonqualified aliens, such as workers in the United States on temporary work visas. Because of the unavailability of detailed data on other nonqualified aliens, we were unable to calculate the magnitude of this problem. However, our investigative work uncovered 25 cases where FEMA provided improper payments to nonqualified temporary workers. Specifically, we found that FEMA provided 50 disaster assistance payments totaling nearly \$156,000 to 25 individuals who worked at a crab processing facility, despite the fact that FEMA records clearly showed that

11 individuals were in the United States on temporary work visas, and were therefore ineligible for IHP assistance.<sup>12</sup> These payments included expedited assistance payments of \$2,000 and payments of over \$10,000 for replacement of property. Some registrants received as much as \$15,000 in IHP payments. In one instance, the registrant's file at FEMA contained a copy of a FEMA flier specifically indicating that aliens in the United States on work visas were not eligible for IHP. Next to the flier was a copy of the registrant's temporary work visa. Despite clearly having evidence that he was ineligible for IHP payments, FEMA paid this registrant more than \$15,000 in IHP assistance.

Although we were not able to validate that all 25 registrants possessed work visas, we were informed by the registrants' employer that all 25 employees brought their work visa documents with them to FEMA when they filed the disaster claims. However, data from SSA indicated that only 14 of the 25 employees used valid SSNs on their FEMA application.<sup>13</sup> The remaining 11 individuals provided SSNs to FEMA that were never issued or belonged to other individuals in order to get IHP assistance. Payments made to the 11 workers who submitted fictitious information to FEMA are therefore potentially fraudulent.

**Ineffective Detective  
Controls Point to  
Need for Better  
Preventive Controls**

We previously reported that inadequate preventive controls related to the IHP application process resulted in an estimated \$1 billion of potentially improper and/or fraudulent payments through February 2006. As of November 2006, FEMA had detected through its own processes about \$290 million in overpayments and had collected nearly \$7 million of the about \$290 million identified as improper. Collection of only \$7 million of an estimated \$1 billion of potentially improper and/or fraudulent payments clearly supports the basic point we have previously made, that fraud prevention is far more effective and less costly than detection and monitoring.

<sup>12</sup>According to the owner of the crab processing facility, the remaining 14 individuals were also in the United States as temporary workers, a fact that we were unable to validate. We have referred the 25 individuals to the Katrina Fraud Task Force for further investigation.

<sup>13</sup>Foreign workers who are admitted legally into the United States are issued SSNs.

**FEMA's Detection Controls  
Are Not Effective at  
Identifying All Potentially  
Improper and/or  
Fraudulent Payments**

In June 2006, we testified that an estimated \$1 billion was potentially improper and/or fraudulent. We derived this estimate from statistical sampling work we conducted on registrations submitted to FEMA as of mid-February 2006. We also reported that this estimate potentially understates the total potentially improper and/or fraudulent payments because the scope of our statistical sampling work did not include verifying for insurance or actual property damage, among others things.

As of November 2006, FEMA reported that it had identified about \$290 million in overpayments to nearly 60,000 registrants. This overpayment, which FEMA refers to as recoupments, represents the improper payments that FEMA reported it had detected and for which it had issued collection letters. According to FEMA officials, the payments identified as improper were based on cases referred to the fraud hotlines and registrations that met specific criteria of being more likely improper.

Although FEMA had identified about \$290 million in overpayments, to date FEMA had collected nearly \$7 million. We did not validate the potential collection amount. However, the amount that FEMA had collected on overpayments related to hurricanes Katrina and Rita supports our prior statements that detective controls, while an important element of a fraud prevention program, are more costly and not as effective as preventive controls. As FEMA's historical experience demonstrated, once a payment had been disbursed because of weak preventive controls, it is difficult to identify individuals who received the improper payments, contact those individuals, and collect on those payments. As discussed previously, when system edit checks that should occur during the processing of disaster registration are circumvented, significant improper payments occur that require extensive data mining and follow-up actions to identify and recover improper payments.

In addition to the difficulties in collecting overpayments, there are limitations to the ability of detective controls in identifying all instances of overpayments. For example, our conversations with several foreign students indicate that although some have received recoupment letters, others have not.

**FEMA Had Not Issued  
Recoupment Notice to  
GAO Registrations**

The limitations of detective controls are demonstrated through GAO's own experience with the FEMA registration, payment, and recoupment processes. As we testified previously, GAO submitted a number of registrations using false identities and fictitious addresses to test the effectiveness of FEMA's internal controls. We also testified that we

received payments on registrations we submitted. However, to date, we had not received recoupment notices from FEMA indicating that it had identified the undercover registrations that GAO submitted. After our last testimony in June of 2006, we received another payment of more than \$3,200 for rental assistance on a property that did not exist. In total, we received six payments on five registrations using falsified information, without receiving any recoupment notices from FEMA.

### **FEMA Cannot Adequately Track Its Property**

We found weak accountability over FEMA property bought for hurricanes Katrina and Rita relief efforts using government purchase cards. Our investigation revealed that DHS overstated the number of items FEMA had actually located on the day of our July 16, 2006, testimony and that additional items are missing. In total, of the 246 laptops, printers, flat-bottom boats, and GPS units that we investigated for this testimony, 85 items are missing and presumed lost or stolen. Moreover, during the course of our investigation, we found that FEMA did not have titles to any of the 20 flat-bottom boats it purchased for hurricanes Katrina and Rita. The fact that FEMA could not locate two of the flat-bottom boats raises additional concerns about DHS's accountable property controls.

### **Missing Items FEMA Purchased for Hurricane Relief**

As part of our July 19, 2006, testimony, we reported that poor controls over property acquired with DHS purchase cards may have resulted in lost or misappropriated assets. Specifically, we reported that FEMA could not account for 143 items purchased in September and October 2005 for Hurricane Katrina and Hurricane Rita relief efforts. On the morning of the testimony, DHS sent your office an e-mail indicating that 87 of the 143 items had been found.<sup>14</sup> At the hearing, DHS's Chief Financial Officer reiterated that most of the missing property had been found, but acknowledged that the items had not yet been physically verified.

Our investigation revealed that DHS's July 19 e-mail overstated the number of items FEMA had located. By October 2006, a year after the property was purchased, we could only account for 79 of the 87 items that FEMA claimed it had found.<sup>15</sup> In addition, of the 143 items that we reported as




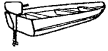
<sup>14</sup>In our testimony, we reported as missing 107 laptop computers, 22 printers, 12 flat-bottom boats, and 2 GPS units. DHS's e-mail claimed that FEMA found 74 of the 107 missing laptops, all 12 missing flat-bottom boats, and 1 of the 2 missing GPS units. The e-mail also stated that FEMA was in the process of locating the missing printers.

<sup>15</sup>Specifically, we found 69 printers and 10 boats.

**Appendix I: Testimony on Continued Findings of Fraud, Waste, and Abuse**

missing in our July testimony, 48 are still missing and presumed lost or stolen. Moreover, 37 of items were missing from an additional 103 new items we investigated. In total, of the 246 items we investigated for this testimony, 85 items (34 percent) are lost or stolen.<sup>16</sup> A November 27 DHS memo supports the results of this investigation, acknowledging that many items purchased for hurricane relief efforts are still missing. Figure 1 details the results of our investigative work as of October 16, 2006.<sup>17</sup>

**Figure 1: Status of Property as of October 16, 2006**

Item	Total number to be verified	Located by GAO during investigation	Lost or stolen
Laptops 	145	103	42
Printers 	57	39	18
GPS 	24	1	23
Boats 	20	18	2
<b>Total</b>	<b>246</b>	<b>161</b>	<b>85</b>

Source: GAO.

<sup>16</sup>We were able to locate eight printers because we discovered that the bar codes FEMA reported as being assigned to the serial numbers on the printers had actually been affixed to different items. Consequently, when FEMA staff tried to locate these printers using their own bar code information, they could not find them—even though the printers actually were in FEMA's possession.

<sup>17</sup>After October 16, FEMA sent us additional photographs of laptops, printers, and GPS units. However, because we received this information after our October 16 deadline, we did not include it as part of our final property count for the purposes of this testimony.



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**Title and Location of Flat-Bottom Boats**

In our July 2006 testimony, we also reported on several issues surrounding the purchase of 20 flat-bottom boats needed for hurricane relief efforts. Specifically, we found that FEMA paid \$208,000—about twice the retail price—to a broker, who in turn obtained the boats (17 new and 3 used) from several different retailers. Further, although the broker billed FEMA and was paid for all 20 of the boats, he failed to pay one retailer that provided 11 of the boats. The retailer subsequently reported the boats as stolen and did not provide FEMA with title to the boats. Consequently, in our testimony, we concluded that FEMA paid for, but did not receive title to, at least 11 of the boats.

However, upon further investigation, we found that FEMA also did not have title to the remaining 9 boats. Thus, FEMA did not have title to any of the boats. Specifically, our searches for boat titles found that no transfer of title and/or registration had taken place on any of the 17 new boats, that is, the serial numbers were “not on file.” Of the remaining 3 used boats, title searches revealed that all 3 remain registered to their previous owners.

Furthermore, FEMA could not provide us with any information about the two boats that are still not in its possession as of October 2006. However, using the serial numbers and manufacturer information on the make and model, local law enforcement located one of the boats in a shed at the house of its previous owner. According to the previous owner, he sold the boat to FEMA and delivered it to the New Orleans Convention Center in September 2005. In March 2006, he received a call from the New Orleans Convention Center requesting that he retrieve his abandoned boat. When he went to retrieve the boat, he found that the tires on the boat’s trailer were flat, the boat’s battery had been removed, and the anchor rope had been cut. This boat is one of the three still registered under its previous owner’s name and no application for transfer of title has been recorded.

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**Conclusions**

Ineffective preventive controls for FEMA’s IHP have resulted in substantial fraudulent and improper payments. The additional examples of potentially fraudulent and improper payments in our testimony today further show that our estimate of \$1 billion in improper and/or fraudulent payments through February is likely understated. With respect to property bought with government purchase cards, items not found 1 year after they were purchased, and over 8 months after we selected them for investigation, shows that ineffective FEMA property accountability controls resulted in lost or stolen computers, printers, and GPS units.

We have provided 25 recommendations to DHS and FEMA to improve management of IHP and the purchase card program. FEMA and DHS had fully concurred with 19 recommendations, and substantially or partially concurred with the remaining 6 recommendations. DHS and FEMA also reported that they have taken actions, or plan to take actions, to implement many of our recommendations; however, we have not determined if these actions adequately address our recommendations. If properly implemented, our prior recommendations should help to address control weaknesses identified in this testimony. As with prior work, we will refer cases we deem to be potentially fraudulent to the Katrina Fraud Task Force for further investigation.

Madam Chairman and Members of the Committee, this concludes my statement. Special Agent Ryan and I would be pleased to answer any questions that you or other Members of the Committee may have at this time.

### Contacts and Acknowledgments

For further information about this testimony, please contact Gregory D. Kutz at (202) 512-7455 or [kutzg@gao.gov](mailto:kutzg@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. The individuals who made major contributions to this testimony were Kord Basnight, Gary Bianchi, Matthew Brown, Norman Burrell, Jennifer Costello, Thomas Dawson, Dennis Fauber, Christopher Forsys, Alberto Garza, Adam Hatton, Christine Hodakievic, Ryan Holden, Jason Kelly, John Ledford, Barbara Lewis, Jonathan Meyer, Andrew McIntosh, Kristen Plungas, John Ryan, Viny Talwar, Tuyet-Quan Thai, and Matthew Valenta.

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## Appendix I: Scope and Methodology

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To assess whether the Federal Emergency Management Agency (FEMA) provided potentially improper and/or fraudulent rental payments to individuals at the same time it was providing the registrant's free lodging in FEMA trailers and rent-free (i.e., FEMA-provided) apartments, we interviewed FEMA officials, reviewed Title 8 of the United States Code, and reviewed the Stafford Act (Pub. L. 93-288) and its implementing regulations. We obtained the FEMA Individuals and Households Program (IHP) databases as of June 2006 and data on individuals residing in FEMA trailers and rent-free apartments. We performed data reliability assessment for these databases. In addition, we validated that the FEMA IHP database was complete and reliable by comparing the total payment against reports FEMA provided to the Appropriations Committee on hurricanes Katrina and Rita disbursements. We then compared FEMA paid housing data to IHP registration data to determine whether FEMA provided duplicate benefits to the same registrants. We also conducted field visits to Texas and Louisiana to view the property and interview individuals who received IHP payments after they had moved into free housing. While we were able to determine the number of individuals staying in FEMA trailers who received duplicate housing assistance, the data related to individuals staying in FEMA-provided apartments were not sufficiently reliable for us to perform the same analysis.

To determine whether FEMA made duplicate payments to individuals who claimed damages for both hurricanes Katrina and Rita using the same damaged addresses, we compared the social security numbers and damaged addresses maintained in the FEMA databases for hurricanes Katrina and Rita, and reviewed National Emergency Management Information System (NEMIS) data on selected individuals.

To determine whether FEMA made potentially improper payments to ineligible foreign students, we contacted officials at four Louisiana and Texas universities and obtained the names and identifying numbers of enrolled foreign students. We compared the listing of students provided by the universities to FEMA payment data. We also interviewed foreign students at those four schools receiving IHP assistance in order to determine what guidance FEMA provided them on eligibility. We also conducted investigative work to determine whether FEMA made improper and potentially fraudulent payments to nonqualified aliens, such as those in the United States on work visas. Because we did not receive data on all foreign students and nonqualified aliens in the United States, we were not able to determine the magnitude of potentially improper and fraudulent payments to these individuals. Further, because of data availability issues, our work was not designed to identify illegal aliens receiving improper

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**Appendix I: Testimony on Continued Findings  
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payments. We also received FEMA data on its recoupment program, but did not validate data on identified overpayments and collections provided to us by FEMA officials.

To conduct our investigation into the Department of Homeland Security (DHS) purchase card program, we traveled to New Orleans and Baton Rouge, Louisiana, and Fort Worth, Texas, in September 2006, to physically inspect selected property. If we could not physically inspect the property during our visit, we requested that DHS, FEMA, or the New Orleans Police Department send us a clear photograph of the property and its serial number as proof of possession. We ultimately requested that photographic evidence be sent to us no later than October 16, 2006, nearly a year after most of the property was acquired.

To obtain information on the case study detailed in appendix II, we reviewed data from the U.S. Department of the Treasury's Financial Management Service, FEMA's NEMIS database, the Texas Department of Motor Vehicles, the Social Security Administration, and the U.S. Postal Service, and we conducted field investigations.

We conducted our audit and investigations from June 2006 through November 2006. We conducted our audit work in accordance with generally accepted government auditing standards and conducted our investigative work in accordance with the standards prescribed by the President's Council on Integrity and Efficiency.

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## Appendix II: Potentially Improper and/or Fraudulent Rental Assistance Payments Case Study

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When Hurricane Katrina came ashore in late August 2005, 15 of the 16 total units in a single Gulfport, Mississippi, apartment building were occupied by tenants. The landlord of this building told us that damage to the apartment building was minimal. Although one apartment had a broken window and some personal property damage, the only real effect of the hurricane was water damage from rain and water seepage from missing roof tiles. The landlord also said that anyone who left after Hurricane Katrina did so voluntarily, and that they were not required (e.g., forced) to leave as a result of damage by the storm.

During a visit to the apartment building, we spoke to the landlord about an individual we identified as receiving potentially improper rental assistance payments. Subsequently, we conducted additional data mining on the apartment address to determine whether other tenants applied for and received FEMA disaster assistance. We found that 8 tenants of this apartment building received FEMA disaster assistance. The remaining 7 tenants did not file any disaster assistance claims, as a result of being displaced because of uninhabitable or inaccessible living quarters as a result of Hurricane Katrina. In addition, we were able to confirm with the building landlord that 6 additional individuals who did not live at the apartment building at the time of hurricane Katrina also made disaster assistance claims. Table 3 lists 14 individuals who improperly received disaster assistance using the apartment building as their hurricane-damaged address.

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**Table 3: Apartment Building Tenants Receiving Disaster Assistance**

Individual	Date applied	Notes	IHP assistance
1	9-6-2005	Lived at apartment during storm	\$4,358
2	9-6-2005	Never lived at address	3,810
3	9-7-2005	Lived at apartment during storm	26,200
4	9-9-2005	Lived at apartment during storm	772
5	9-9-2005	Lived at apartment during storm	1,725
6	9-10-2005	Lived at apartment during storm	7,160
7	9-12-2005	Moved out before storm	4,358
8	9-12-2005	Lived at apartment during storm	4,358
9	9-14-2005	Lived at apartment during storm	2,000
10	9-16-2005	Never lived at address	2,000
11	9-19-2005	Evicted before storm	8,716
12	9-21-2005	Never lived at address	2,000
13	9-24-2005	Moved out before storm	4,358
14	9-24-2005	Lived at apartment during storm	4,358
<b>Total</b>			<b>\$76,173</b>

Source: GAO analysis of FEMA data.

# Appendix II: Comments from the Federal Emergency Management Agency

U.S. Department of Homeland Security  
500 C Street, SW  
Washington, DC 20472



**FEMA**

February 15, 2007

Mr. Gregory D. Kutz  
Managing Director  
Forensic Audits and Special Investigations  
U.S. Government Accountability Office  
441 G. Street, NW  
Washington, DC 20548

Dear Mr. Kutz:

The purpose of this letter is to respond to *Draft GAO Report GAO-07-300: Hurricanes Katrina and Rita Disaster Relief Continued Findings of Fraud, Waste, and Abuse* and provide additional insights on the delivery of disaster assistance for Hurricanes Katrina and Rita and related fiscal accountability.

It is important to note that Hurricanes Katrina and Rita presented unprecedented challenges in the delivery of assistance to those impacted by the disasters. FEMA was faced with striking a fine balance between providing expeditious assistance through all available means to a large number of drastically impacted citizens, and assuming higher risk that some would exploit the system to their undeserved advantage. FEMA's systems may have room for improvement in order to better manage this balance, however, the agency's dedication in implementing lessons learned to provide prompt service while minimizing fraud, waste, and abuse should not be discounted.

It is also important to understand that the Robert T. Stafford Disaster Relief and Emergency Assistance Act gives FEMA broad authorities to provide disaster assistance in keeping with the best interest of disaster victims. While the 2005 Hurricane Season presented unprecedented and unparalleled challenges, FEMA made every effort to optimize its capabilities under the law in order to provide for the continued housing needs of over 720,000 displaced disaster victims.

#### **Response to Findings Detailed in GAO's Testimony to Congress**

##### **Rental Assistance payments to Registrants in Mobile Homes, Travel Trailers, and Apartments**

The GAO contends that FEMA controls did not effectively prevent Individual and Household Program (IHP) registrants from receiving rental assistance payments while residing in FEMA mobile homes, travel trailers and short term apartments. This conclusion does not take into consideration the distinction between housing provided under Section 403 and Section 408 of the Stafford Act.

[www.fema.gov](http://www.fema.gov)

The Stafford Act authorizes FEMA to provide short-term emergency shelter to disaster victims under Section 403 and longer-term temporary housing assistance under Section 408. To ensure maximum flexibility, FEMA is authorized to provide these types of assistance using various forms of shelter and housing. For example, FEMA provided shelter to Hurricane Katrina evacuees under Section 403 utilizing congregate shelters, hotels and motels, as well as short-term apartment leases secured by State and local governments. Under Section 408, FEMA provided assistance to victims of Hurricane Katrina through rental assistance payments, as well as direct housing assistance in the form of mobile homes and travel trailers. As the victims of Hurricanes Katrina and Rita transitioned from shelters to securing temporary housing while their homes could be repaired, it is possible that the date of issuance of the Section 408 assistance overlapped the provision of Section 403 assistance, as disaster victims moved from one source of shelter or housing to another to accommodate their own efforts to recover from the disaster. This would not necessarily constitute a duplication of benefits if the assistance was used to secure continuous, but not overlapping, sources of shelter and housing.

Section 408(b)(2)(B) of the Stafford Act clearly authorizes FEMA to provide multiple – although not overlapping – types of assistance based on the suitability and availability to meet the needs of the individuals in a particular disaster situation.

Applicants may also have received rental assistance payments for a previous month of eligibility at the same time they were living in manufactured housing. FEMA does not consider this a duplication of benefits. For example, an applicant may have received a rental assistance payment on March 14, 2006 after they were leased into a manufactured housing unit on March 3, 2006. However, the rental assistance payment on March 14, 2006 was a reimbursement for previous rent (December 2005 – February 2006). Of note, your staff informed us during their exit interview that they did not consider the number of calendar months per payment, or whether that payment was a reimbursement, when they determined a payment in their sample was inappropriate. Instead, they looked only at the date the payment was approved, and not at the particular situation in which the assistance payment was provided. After several requests, the GAO has refused to provide FEMA the registration numbers of those applicants they believe were improperly paid. Therefore, FEMA is in the process of querying our databases to find the cases that you cite in the *Statement of Facts* provided during the audit exit conference. The examples provided in the *Statement of Facts* are somewhat vague, so finding the particular cases in question is proving to be challenging. Once we believe that we have found the cases in question, FEMA will review them to determine whether the payments were in error or dictated by the unique circumstances of this event.

The draft report and GAO testimony also stated that FEMA controls were not effective in preventing IHP registrants from receiving rental assistance payments while residing in apartments funded by FEMA.

To address the needs of individuals living in congregate shelters, FEMA, with state and local partners, established an apartment program whereby the Agency reimbursed cities and/or states that allowed disaster victims to stay in apartments as emergency sheltering. This was considered



a temporary solution to provide hundreds of thousands of storm victims, many without identification or resources, with shelter while they determined their next step in securing temporary housing.

Your report claims that some of those who were in apartments were also receiving rental assistance payments. The *Statement of Facts*, and subsequent media reports, seem incredulous that FEMA would consider providing a rental payment to someone staying in a FEMA-funded apartment. However, FEMA was also criticized when it suggested that FEMA would be removing people from FEMA-funded apartments *prior* to the arrival of their rental checks. The question was: How can someone leave the FEMA-funded apartment and rent an apartment without first having the financial resources to do so? This situation may very well apply to cases that you have identified as being improperly paid because they only focus on the dates the payments were approved. Until you provide us information on the specific cases in GAO's sample, we cannot make that determination. In this case, FEMA believes that in order to provide a full range of housing options to individuals and provide the tools to set them on the road to recovery and normalcy, it was imperative to ensure that they were equipped with the resources necessary to do so.

#### **Alleged Duplicate Assistance Payments for Both Katrina and Rita**

Your report and testimony contend that FEMA controls were not effective in preventing duplicate benefits from being paid to the same individual for the same damaged address. Hurricanes Katrina and Rita were two separate disasters with different incident periods and geographic areas of impact. FEMA's policy is that individuals whose homes were impacted by each separate event are eligible to apply and receive assistance to address the unique damage incurred by each event. By law, an applicant may receive multiple payments as a result of multiple disasters, as additional damages could and did occur in certain areas struck by both storms, and some individuals experienced additional damage to an already repaired home. An example of this is that a home could have been flooded by Hurricane Katrina, inspected by a FEMA inspector, and processed for assistance to repair the flood damage in the lower floors of the home. Following Hurricane Rita, that same home was impacted, but this time the roof was damaged by the wind and rain. The damage caused by the second event was not covered in the initial payment to the homeowner; therefore, the homeowner is eligible for additional home repair assistance. Some improper payments may have occurred for an individual or household that was affected by both Hurricanes Katrina and Rita, and we welcome the opportunity to review the specific cases you cite to ensure that any overpayments are recouped.

#### **IHP Payments to Nonqualified Aliens**

The GAO report states that eligibility controls were not effective in preventing ineligible international students or non-qualified aliens from receiving IHP payments. FEMA estimates this population to be less than one tenth of one percent of the number of victims that applied for assistance following Hurricanes Katrina and Rita. It would have been impractical to verify the suitability of student visas for federal assistance prior to disbursing assistance without halting the automated eligibility determination processes, which was simply not an option due to the severity of the situation in the Gulf Coast.

During the first two weeks of the disaster event, FEMA coordinated life-sustaining and life-saving measures for millions of storm victims, many of whom left home without essentials needed for survival. After the event, because many areas were still under water, bridges and highways were washed out, and there was widespread displacement of disaster victims, expedited assistance and transitional housing assistance was provided without an inspection and prior to the Declaration and Release form, FEMA Form 90-69B, being signed and returned. This form is the applicant's self-declaration that they are lawfully present in the United States as a citizen or qualified alien.

**Importance of Fraud Prevention**

FEMA's traditional system is dependent on an on-site, in person verification of the applicant and their residency. Given the displacement of residents and the inability to enter many areas due to the degree of devastation, FEMA's principal assistance verification method was not feasible. Adding to this challenge was the knowledge that the people affected by this terrible event would not be returning to their homes and communities for months or years to come. FEMA officials agree that more stringent controls on the front end are always preferable, however, the sheer magnitude of the event dictated that the agency proceed in the manner it did because there simply was no time to develop and test any additional front end controls.

It is important to emphasize that FEMA has already taken steps to implement new controls to improve its ability to serve disaster victims while also limiting fraud and abuse. Most notably, FEMA has implemented an automated identity and occupancy verification system to confirm the identity and residency of applicants who register with FEMA for assistance. FEMA also continues to evaluate and strengthen controls pertaining to identity, residence type, and cross-disaster applicant checking.

Additional controls implemented include:

- o Deployment in October 2005 of a new Internet registration application that disallows any duplicate registrations;
- o Added identity proofing to the call center registration application beginning in February 2006, so that *all* Individual and Households Program (IHP) registrations are subjected to the same stringent criteria, including verification of social security numbers and occupancy requirements;
- o Amended automated scripts to ensure no scripted payments are sent to applicants who fail identity proofing;
- o Sent all applications taken through the call centers from August 2005 until February 2006 to FEMA's data contractor for identity proofing to detect any potentially fraudulent applications and route to the DHS-OIG and/or FEMA recoupment processing as appropriate;

- o Data-marking any applications in FEMA's database that fail identity proofing so they are flagged for manual review and denied automated payment;
- o Real-time interaction between the FEMA Service Representative and the applicant during registration to ensure that the data entered that resulted in a failed identity check is correct before accepting the application;
- o Adding verification of Occupancy and Ownership with a data contractor to the registration process for every disaster victim starting in June 2006. This allows FEMA to ensure that an applicant lives at the address that they claimed before automating any payments to that address;
- o Working with FEMA's data contractor to flag any addresses that are not residential addresses in order to prevent automated payments without an on-site inspection verification of address and residency;
- o Flagging at-risk social security numbers to identify potential fraud; and
- o Developing state of the art software that will maintain data on applicants in mobile homes and communicate real-time data to caseworkers and the auto-determination system in order to prevent potential overpayment.

Further, your report and testimony state that FEMA procedures for recoupment of overpayments are not sufficient to reduce the impact of potentially improper and/or fraudulent IHP payments. The report concludes that these procedures are ineffective, because FEMA has to date collected only \$9.3 million of the \$289 million identified for recoupment as of November 2006. They further conclude that this demonstrates the need to have adequate preventive controls on the front end. FEMA agrees that any measures that can be taken on the front end of a disaster to reduce the amount of disaster fraud are optimal.

However, by balancing the constriction of the avenues of assistance against the need to provide assistance expeditiously, FEMA was able to register more than 2 million disaster victims and process initial assistance for hundreds of thousands of applications after hurricanes Katrina and Rita. The magnitude of these disasters required that all available resources be dedicated toward the provision of initial, emergency assistance. It was not until January 2006 that FEMA could reprioritize resources from delivering immediate disaster assistance to the task of reviewing applications for potential recoupment. Shortly thereafter, FEMA began notifying applicants to return these funds by forwarding applicant information to our Disaster Finance Center for recoupment and sending letters and making phone calls to the applicants to inform them of the need to return all or portions of their disaster assistance monies. The Disaster Finance Center coordinated with the applicants to set up repayment plans that would allow the applicants to return the inappropriately awarded funds as soon as was feasible for the applicant based on their financial status. Recoupment efforts continue to this day.

FEMA's recoupment processes are not new. FEMA routinely reviews disaster assistance cases and conducts random reviews of cases to ensure that disaster assistance has been correctly provided. If during the course of a review, the recoupment process is initiated.

FEMA's process of recoupment is similar to an audit. It is meant to identify incorrect payments and instances of fraud for recoupment, so as to discourage future abuses of the system. It is worth noting that FEMA has been working closely with the Department of Justice (DOJ) in the prosecution of fraud. FEMA has provided case research and testimony in several fraud trials that have facilitated the conviction of persons who attempted to abuse the system and defraud the United States Government.

To date, FEMA has instituted recoupment on 60,511 applicants for Hurricanes Katrina and Rita. The GAO's *Statement of Facts* does not take into account the agreements FEMA has in place to collect future amounts of assistance. For example, FEMA is working with the IRS to enable FEMA to recoup improper assistance payments through garnishing future federal tax refunds. While this is not the preferred method of recouping disaster assistance, it has been an effective one to ensure that individuals repay their debt to the federal government.

**Recommendations for Executive Action**

**Recommendation**

***Develop processes for comparing IHP applicant data with FEMA direct housing assistance data to prevent IHP applicants from receiving payments for rental assistance covering the time they are living in FEMA-provided housing.***

**Response**

FEMA is investigating the cases that are cited in GAO's *Statement of Facts* provided during the audit exit conference to determine whether the payments were in error or dictated by the unique circumstances of this event. If the investigation reveals that applicants were provided payments appropriate to the situation, this would indicate there is not an inherent system problem that requires additional action. If the findings indicate a systemic problem, FEMA will develop options for implementing this recommendation. Note, however, that FEMA is already developing software that will maintain data on applicants in mobile homes and communicate real-time data to caseworkers and the auto-determination system in order to prevent potential overpayment.

**Recommendation**

***Provide clear guidance to IHP payment applicants, including rental assistance applicants, indicating how the payments are to be used.***

**Response**

FEMA is currently conducting a comprehensive review and analysis of existing communications tactics and developing a more effective, research-based strategy to ensure that applicants and stakeholders understand FEMA's Individual Assistance program, its purpose, and requirements.

**Recommendation**

*FEMA should implement and/or enable controls to prevent duplicate payments to the same individual from different disasters for the same damage done to the same address.*

**Response**

FEMA's policy is that individuals whose homes were impacted by separate and distinct events were eligible to apply for and receive assistance to address the unique damage incurred by each event. Some improper payments may have occurred for an individual or household that was affected by both Hurricanes Katrina and Rita. FEMA welcomes the opportunity to review the specific cases cited in the GAO report to ensure that any overpayments are recouped. After this review, if it appears there is a systematic problem, FEMA will develop program options for preventing duplicate payments in these situations.

**Recommendation**

*Provide clear guidance and training to FEMA and contractor employees on the specific types of aliens eligible for financial disaster assistance, and identify nonqualified aliens.*

**Response**

FEMA concurs with this recommendation and believes it is now much better positioned to have well-trained staff in advance. While FEMA found that the population in question is less than one tenth of one percent of the number of victims that applied for assistance, clear guidance and staff training will improve applicant processing. This also is one of the items that will be covered in developing new communications messages and materials mentioned previously.

**Recommendation**

*Develop processes to identify and deny assistance to nonqualified aliens who register for IHP assistance using valid SSNs through data comparisons with agencies who maintain data on legal aliens with SSNs.*

**Response**

FEMA will reach out to appropriate Federal Agencies to identify data comparison and data sharing mechanisms, as appropriate, to enhance its ability to screen applications for non-qualified aliens. FEMA will also consult commercial vendors who may have this capability.

**Recommendation**

*With respect to property purchased with DHS purchase cards, if FEMA cannot locate this property in a reasonable time period, it should work with DHS to reconcile its tracking system data and declare these items lost or stolen.*

**Response**

We concur and a Board of Survey is currently underway. Property tracking systems will be updated accordingly.

Thank you for the opportunity to comment on this draft report. By implementing lessons learned based on reports from the GAO, the DHS Inspector General, and other sources, FEMA has learned how to better respond – and respond with accountability – to catastrophic disasters such as Hurricanes Katrina and Rita. Should an event of such magnitude occur again, FEMA leadership can say with confidence that the Agency will do all it can under relevant authorities to serve disaster victims in their greatest time of need, while ensuring FEMA's fiscal integrity and ability to prevent fraud, waste, and abuse.

Sincerely,



R. David Paulison  
Director

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