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REPORT BY THE
Comptroller General
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OF THE UNITED STATES **RELEASED**

Poor Controls Over Federal Aid In Massachusetts After The 1978 Blizzard Caused Questionable Benefit Payments

When several Massachusetts counties were declared a major disaster area after they experienced the worst blizzard in 100 years, Federal emergency assistance was provided.

GAO projects that as a result of inadequate coordination and other management weaknesses, 913, or 26 percent, of 3,417 cases sampled involved the payment of duplicative or questionable benefits. Benefits were provided based on the submission of apparently false or conflicting information and without adequate evidence that a loss occurred or that the benefits were needed or spent for verified losses.

GAO recommends that because of the large number of problems found, the Small Business Administration and the Federal Emergency Management Agency should identify all persons who received improper benefits and pursue criminal, civil, or recovery actions where appropriate. The Department of Justice agrees, but the agencies do not--citing the high cost of such action.



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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON D.C. 20548

B-197570

The Honorable Norman Y. Mineta
Chairman, Subcommittee on
Oversight and Review
Committee on Public Works
and Transportation
House of Representatives

Dear Mr. Chairman:

In response to the subcommittee's request, we reviewed the adequacy of coordination among the Federal agencies to prevent duplicative and other erroneous payment and delays in the processing of some SBA loans in the February 1978 disaster in Massachusetts. This report summarizes the results of our work.

As arranged with your office, unless you publicly announce its contents earlier, no further distribution of this report will be made until 7 days after the report date. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script, reading "Thomas A. Atwater".

Comptroller General
of the United States

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REPORT BY THE
COMPTROLLER GENERAL
OF THE UNITED STATES

POOR CONTROLS OVER
FEDERAL AID IN
MASSACHUSETTS AFTER
THE 1978 BLIZZARD
CAUSED QUESTIONABLE
BENEFIT PAYMENTS

D I G E S T

In February 1978 the President declared eight Massachusetts counties a major disaster area following the most severe blizzard to strike the Boston metropolitan area in over 100 years. Throughout New England, the storm left 99 dead, 4,587 injured, 336 homes destroyed, and 6,907 damaged. Federal assistance totaled about \$180 million to individuals, businesses, and State and local governments.

GAO reviewed disaster benefits provided to victims by the Small Business Administration (SBA), the Federal Emergency Management Agency, the Department of Housing and Urban Development, the Department of Agriculture (USDA), and the Commonwealth of Massachusetts. This assistance included loans and grants for emergency home repairs and other necessary expenses. Also, emergency food stamps were issued.

GAO's review disclosed that

- inadequate coordination and other management weaknesses resulted in duplicative and questionable benefits (see ch. 2),
- grants were awarded without adequate determination of financial eligibility or in a manner that is not consistent with other disaster programs (see ch. 3), and
- emergency food stamps were issued without evidence of need or sufficient controls (see ch. 4).

GAO recognizes that in a severe disaster situation, tremendous pressure is placed on government agencies to provide assistance in a timely manner and that a certain amount of duplicative or questionable benefits can

be expected. However, GAO believes that the magnitude of the problems discussed in the report casts doubt on whether reasonable safeguards were employed to ensure that only proper disaster benefits were provided.

MANAGEMENT WEAKNESSES

Federal and State agencies that assisted victims of the Massachusetts disaster did not adequately coordinate their activities. GAO projects that duplicative benefits or questionable grants occurred in 913, or 26 percent, of 3,417 cases in a universe sampled. (See pp. 9 to 12.)

The Federal Emergency Management Agency's measures to prevent duplicative payments were inadequate. Similar problems were reported to Agency officials in 1973, 1976, and 1978. GAO also noted that grants were awarded without evidence that the recipients were eligible or that a serious need existed. GAO's review showed that benefits were provided

--based on what appears to have been false or conflicting information (see pp. 12 and 13),

--without adequate evidence that a disaster loss had occurred (see pp. 13 and 14), and

--without requiring substantiation that benefits were spent for verified losses (see pp. 14 and 15).

CHANGES NEEDED IN THE INDIVIDUAL AND FAMILY GRANT PROGRAM

This federally subsidized grant program is designed to meet disaster-related necessary expenses or serious needs of individuals or families who cannot get help elsewhere.

GAO's review showed that some grants were awarded without adequate determination of financial eligibility. Other grant awards did not consider program requirements or used criteria inconsistent with SBA's.

Grant eligibility policies and practices need clarification and strengthening because

- the financial status of grant recipients was not always verified to determine if they should have been given a loan instead of a grant (see pp. 19 and 20);
- the availability of public transportation was not considered, as required, in any of the cases where grants were awarded to replace vehicles claimed as a disaster loss (see p. 20); and
- grants were awarded in some cases in excess of the value of the vehicles claimed as a loss (see pp. 20 to 22).

EMERGENCY FOOD STAMPS WERE ISSUED
WITHOUT EVIDENCE OF NEED OR
SUFFICIENT CONTROLS

In the Massachusetts disaster, safeguards were lacking to ensure that only needy households received emergency food stamps. GAO was told by USDA that virtually everyone who applied for emergency food stamps received them. Overall, about 48,000 households received assistance valued at \$5.4 million.

Other problems included providing duplicative and excessive benefits and a lack of necessary documentation to follow up on certain cases of suspected fraud and abuse. (See pp. 25 to 28.)

RECOMMENDATIONS

GAO recommends that the Director, Federal Emergency Management Agency, collaborate with the Administrator, SBA, and:

- Review the benefits provided to all individuals and identify those persons who received improper payments or submitted fraudulent claims. Criminal or civil actions should be pursued where warranted, and attempts should be made to recover duplicative or improper benefits. (See p. 16.)

--Ensure that benefits are provided and spent only for verified losses or needs. (See p. 16.)

--Eliminate the use of oral declarations that a loan cannot be repaid, as a basis for denying loans, which establishes grant eligibility. (See p. 22.)

GAO also recommends that the Director, Federal Emergency Management Agency,

--issue instructions requiring that, before authorizing grants to purchase replacement vehicles, a determination be made concerning the adequacy of public transportation (see p. 22);

--stop awarding grants for transportation when a disaster victim has already obtained a disaster loan for the same loss (see p. 22); and

--generally base grants to purchase replacement vehicles on the average market value of the vehicles claimed as a loss or on a flat amount, whichever is lower (see p. 23).

AGENCY COMMENTS

The Federal Emergency Management Agency and SBA advised GAO they would not review all benefits provided because of the costs involved. The Department of Justice agrees with GAO that all cases should be reviewed. (See p. 17.)

The Director of the Federal Emergency Management Agency agreed that oral declarations are not suitable evidence upon which to base a grant. SBA will now require individuals to complete a form stating their financial status. The Director also said that reviews done by the State are sufficient to ensure that benefits are provided and spent only for verified losses or needs. An Agency audit determined that these reviews did not address the payment of duplicative benefits, the need for grants, or the verification of losses. (See pp. 17 and 23.)

GAO was advised that an Agency review of grants awarded in the Massachusetts disaster showed no cases where the availability of public transportation was not considered before awarding grants to replace vehicles claimed as a disaster loss. The State official who coordinated the grant program told GAO that public transportation was not considered. The Agency could not provide documentation showing that public transportation had been considered. (See pp. 23 and 45.)

The Director of the Federal Emergency Management Agency advised GAO that awarding a grant for a transportation need when a person has already obtained an SBA loan for a vehicle replacement is a problem which will be addressed. In cases that do not involve an SBA loan, the Agency plans to continue awarding grants that could be in excess of the value of the vehicle. GAO does not agree with this latter decision since it could place a person in a better financial position after the disaster than before. (See p. 23.)

The Federal Emergency Management Agency advised GAO that it is field testing a system which combines the applications of the grant, loan, and housing programs into one application and combines the collection and verification of the separate information functions into one operation. SBA stated that a final pilot project of this system will be used in a smaller disaster than occurred in Massachusetts. Also, in the future, SBA plans to use highly experienced employees--which was not the case in the Massachusetts disaster. The new system, if effectively implemented, could reduce the incidence of duplication in other disasters if there is adequate coordination among those agencies providing assistance. (See pp. 17 and 18.)

USDA advised GAO that it has now resolved most issues relating to eligibility criteria for emergency food stamps; new regulations expected to be published shortly will require the denial of food stamps to households over certain income levels and provide tight controls over the length of time for which recipients receive emergency food stamps. GAO endorses these efforts. (See pp. 28 and 29.)

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ABBREVIATIONS

ATPs	Authorizations to purchase
CAVP	Combined application and verification process
DOJ	Department of Justice
FCO	Federal coordinating officer
FDAA	Federal Disaster Assistance Administration
FEMA	Federal Emergency Management Agency
FNS	Food and Nutrition Service
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
SBA	Small Business Administration
USDA	U.S. Department of Agriculture

CHAPTER 1

INTRODUCTION

On August 17, 1978, the Chairman, Subcommittee on Oversight and Review, House Committee on Public Works and Transportation, requested that we evaluate the effectiveness of disaster assistance provided to Massachusetts victims of a severe winter storm which occurred in February 1978. We were also asked to evaluate the adequacy of State and local preparedness in responding to the disaster. In subsequent conversations, the subcommittee expressed a special interest in the adequacy of coordination among the Federal agencies to prevent duplicative and other erroneous payments, and in whether delays occurred in the processing of some Small Business Administration (SBA) loans.

As a result of our preliminary work, two separate reviews were undertaken. This report discusses the adequacy of coordination and management practices of Federal and State agencies responsible for disaster assistance. Similar matters were also discussed in our previous reports issued to Members of Congress and the agencies. 1/ We also obtained information on SBA's promptness in responding to disaster loan requests. (See app. I.) Our report on the adequacy of State preparedness was issued on March 31, 1980. 2/

1/"Some Improvements Needed in Administration of Minirepair Program" (B-167790, Dec. 11, 1973).

Report to the Administrator of the Federal Disaster Assistance Administration on a GAO Survey of the Administration and Coordination of Federal Disaster Assistance Programs, Sept. 30, 1976.

"The Johnstown Area Flood of 1977: A Case Study for the Future" (CED-78-114, May 5, 1978).

Report to the Administrator, Food and Nutrition Service, U.S. Department of Agriculture, on the Administration of Food Stamp Benefits in Emergency Relief Situations, Mar. 31, 1978.

2/"States Can Be Better Prepared To Respond to Disasters" (CED-80-60, Mar. 31, 1980).

THE DISASTER

The most severe blizzard to strike the Boston metropolitan area in over 100 years began on the afternoon of February 6, 1978. The storm dumped 27.1 inches of snow on the area, setting a State record for the most snow from one storm. High tides were recorded at more than 15 feet above the mean low-water level. Violent, swirling northeast winds, together with full-Moon tides, resulted in severe flooding of the State's coastal communities. Throughout New England, the storm left 99 dead, 4,587 injured, 336 homes destroyed, and 6,907 homes damaged--1,427 sustained major damage and 5,480 sustained minor damage. According to a Commonwealth of Massachusetts report, the storm was the most destructive in State history.

Shortly after the storm began, it became evident that its magnitude was beyond the ability of State and local governments to cope. The Governor of Massachusetts asked the President to declare that a major disaster existed.

FEDERAL DISASTER ASSISTANCE AUTHORIZED

On February 7, 1978, the President made a Federal emergency declaration for snow removal assistance to the State. On February 10 the President declared that a major disaster existed in eight Massachusetts coastal counties. Under the Federal Disaster Relief Act of 1974, the disaster declaration entitled residents of the eight counties to receive Federal aid.

Federal disaster aid includes grants and other assistance to individuals and families and emergency repairs to owner-occupied residences under a temporary housing program. The Small Business Act, as amended, authorizes disaster victims to receive federally subsidized loans. Some victims received payments under the National Flood Insurance Program, or from private insurance companies. Also, the Food Stamp Act of 1964 authorizes the issuance of emergency food stamps to assist households affected by disasters. These are the benefits that we reviewed.

Overall, the Federal Government expended about \$180 million for both individual (private citizens and businesses) and public (State and local government) aid. About 80 percent of the Federal aid went to individuals and businesses. In addition, about \$14 million in federally subsidized flood insurance benefits were paid to policyholders.

The Disaster Relief Act of 1974 (sec. 302(a)) specifically assigned the responsibility for coordinating the delivery of disaster assistance to the President of the United States. The President by Executive order delegated this responsibility to the Administrator of the Federal Disaster Assistance Administration (FDAA) ^{1/} who, in turn, delegated it to a Federal coordinating officer (FCO). The Administrator, however, remained responsible for coordinating the efforts of all Federal agencies operating in the designated disaster area, whether these agencies were operating under their own emergency authorities, under a delegation of authority from the Secretary of HUD, or under a mission assignment from FDAA.

The Federal response to the needs of disaster victims was prompt. Eight days after the blizzard struck, disaster centers were opened and staffed in the affected communities. For about a week the disaster area was virtually snowbound; a driving ban was in effect, and except for essential services, many businesses remained closed.

The Federal agencies' immediate concern was to ensure that people had the basics--food and shelter. SBA alone conducted over 18,000 interviews for disaster loans and employed about 150 temporary workers at the peak of its efforts to process these loans.

FEDERAL BENEFITS PROVIDED TO REPLACE
OR REPAIR HOMES AND PERSONAL PROPERTY

The benefits available to disaster victims included SBA loans, federally assisted individual and family grants, minimal repair assistance under a temporary housing program, and Federal flood insurance benefits. These programs are summarized in the following table and described below.

^{1/}On April 1, 1979, the Federal Emergency Management Agency (FEMA) was established under the President's Reorganization Plan No. 3 of 1978 to improve Federal emergency management and assistance. The plan merged five agencies with various emergency preparedness, mitigation, and response activities into one agency whose Director reports directly to the President. Effective July 15, 1979, FDAA was merged into FEMA. At the time of the disaster, FDAA was an agency in the Department of Housing and Urban Development (HUD).

Loans, Grants, Minimal Repairs,
and Federal Flood Insurance Benefits Provided to
Massachusetts Victims of the February 1978 Blizzard

<u>Program</u>	<u>Number of individuals/families assisted</u>	<u>Value of assistance</u> (000 omitted)
SBA loans	7,888	\$66,300
Individual/family grants	1,657	<u>a</u> /2,900
Minimal repairs to homes	2,532	4,900
Federal flood insurance benefits	(b)	14,000

a/An additional \$1 million was funded by the Commonwealth of Massachusetts as its portion of the grant awards.

b/FEMA advised us that as of July 1980, 1,487 flood insurance claims had been paid.

SBA loans

SBA disaster loan assistance is available to individuals whose real estate and personal property are damaged as a result of a disaster. The individuals are not required to be businessmen. The amount loaned is limited to the amount necessary to restore disaster victims as nearly as possible to their predisaster condition.

The 7,888 individuals who received loans in the Massachusetts disaster were charged 1 percent interest for the first \$10,000 loaned and 3 percent for the amount between \$10,000 and \$40,000. For amounts over \$40,000, the interest rate was 6-5/8 percent. The maximum loan allowed for real estate damages and personal property losses is \$55,000.

Individual and Family Grant Program

This program awards grants of up to \$5,000 to individuals or families to meet necessary expenses or serious needs 1/ for which other government assistance is either unavailable or inadequate or which cannot be met by other means. The Governor of the affected State makes the request for grant assistance to the appropriate FEMA regional director. The State administers the program, which is 75 percent federally funded and 25 percent State funded. Eligibility for grants is based on national criteria developed by FEMA.

As shown on page 4, after the Massachusetts disaster, 1,657 individual and family grants were awarded. Of these, 249 grant recipients also received SBA loans. The average grant awarded was \$2,373.

Minimal Repair Program

This program provides for the repair of owner-occupied residences that can be restored quickly to a habitable condition. Later, owners can complete the restoration with their own or borrowed funds. The program can be especially helpful when private rental units are in short supply in the community or if it is not feasible for eligible applicants to move out of their neighborhoods. Minimal repairs were provided to 2,532 families or individuals. At the time of the disaster the program was administered by HUD.

1/FEMA regulations define "necessary expense" as the cost of an item or service essential to an individual or family to mitigate or overcome an adverse condition caused by a major disaster. "Serious need" is defined as a requirement for an item or service essential to an individual or family to prevent or reduce hardship, injury, or loss caused by a major disaster.

Federal flood insurance

The National Flood Insurance Program provides flood insurance at reduced rates to persons living in communities within designated flood hazard areas. In return, communities must adopt and administer local flood plain management measures aimed at protecting lives and property from future flooding. All insurance proceeds received or to be received must be taken into consideration when determining benefits for disaster victims.

Improper benefits

Section 315(a) of the Disaster Relief Act of 1974 directs the President, in consultation with the head of each Federal agency providing disaster assistance, to assure that no duplication occurs. Through delegations of authority, the FEMA Director is authorized to administer this portion of the act.

The Disaster Relief Act also provides for the imposition of both criminal and civil sanctions in cases where improprieties are found. Specifically, any individual who fraudulently or willfully misstates any fact in connection with a request for disaster assistance under the act, is liable for imprisonment and fine. If an individual violates any order or regulation, a civil penalty consisting of a fine may be imposed. Similar sanctions exist for disaster loans obtained under the Small Business Act. Whoever misapplies the proceeds of a loan, grant, or any other cash benefit shall be subject to repay an amount equal to 1-1/2 times the benefit received. In addition, the False Claims Act provides civil remedies to the United States for false, fictitious, or fraudulent claims made upon the United States. The act permits the Government to recover double the amount of its damages plus \$2,000 for each false claim.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review was primarily concerned with developing the information requested by the subcommittee. We did not make a comprehensive or in-depth analysis of Federal disaster assistance programs.

Our review was made at SBA's region I district office located in Boston, Massachusetts, and at SBA headquarters in Washington, D.C. Conferences about the matters discussed in this report were held at the headquarters offices of SBA, FEMA, and the Food and Nutrition Service (FNS) of the

Department of Agriculture (USDA). We also visited the Boston offices of FEMA and HUD; the FNS office in Burlington, Massachusetts; and the Massachusetts Executive Offices of Human Services and Communities Development, and the Registry of Motor Vehicles.

We reviewed the length of time SBA took to process disaster loan applications. We selected a random sample of 116 recipients of SBA loans and individual and family grants approved through early 1979 to estimate the extent to which duplicative payments or questionable grants were made. Our sample was selected from 3,417 cases where disaster benefits were provided by more than one agency or where grants were awarded. By using generally accepted statistical techniques, we projected our findings to the 3,417 cases; the results are accurate at the 95-percent confidence level plus or minus 8 percent. This finding cannot be projected to any other cases.

In selecting the cases for review, we used a simple random-sample design that provided an equal opportunity of selection to each of the 3,417 cases. This method was chosen because we wanted to estimate the extent of duplicative benefits and questionable grants without reviewing each case.

We mailed questionnaires to the 116 sampled applicants to determine whether any insurance proceeds were received for disaster losses. Ninety-nine responses were returned. We examined official ownership records pertaining to vehicles which were claimed by the sampled applicants as a disaster loss or as otherwise made unusable by the storm. In addition, we visited 23 individuals in their homes and interviewed three contractors who billed some of the applicants for services. The purpose of these visits and interviews was to obtain additional information about the losses that occurred and benefits received.

We analyzed the financial information provided to SBA for 25 individuals who received emergency food stamps. We compared the names of individuals who received them with the records of certain hotels to determine if food stamp recipients also had received meals at Government expense.

CHAPTER 2

INADEQUATE COORDINATION AND OTHER MANAGEMENT WEAKNESSES

RESULTED IN DUPLICATIVE AND QUESTIONABLE BENEFITS

We estimate that 913, or 26 percent, 1/ of 3,417 cases in the universe we sampled involved duplicative payments or questionable grants. Our review of these disbursements showed a lack of adequate coordination between Federal agencies that provided assistance. In many cases both SBA and HUD provided benefits for the same loss because they did not exchange benefit information in a timely manner. Also, grants were awarded when no adequate evidence existed that the money was intended for a serious need or necessary expense, as required by Federal statute.

In addition to reviewing the sampled individuals' benefit records for duplicative payments or questionable grants, we identified additional problems, including cases where incorrect information was submitted to support claims. We found instances where people told SBA that they were employed when they applied for a loan, while they told other agencies that they were unemployed when applying for other benefits. Also, some people received benefits for vehicles which were not destroyed in the disaster.

We recognize that in a severe disaster situation such as occurred in Massachusetts, tremendous pressure is placed on government agencies to provide disaster benefits in a timely manner. Accordingly, a certain amount of duplicative or questionable benefits can be expected. However, the magnitude of the problems discussed in this chapter casts doubt on whether reasonable safeguards were employed to ensure that only proper disaster benefits were provided. We believe our review indicates a need to strengthen procedures and to follow up on recipients' use of benefit proceeds.

1/At the 95-percent confidence level, the 26-percent statistical estimate is accurate to plus or minus 8 percent.

ASSESSMENT OF DUPLICATIVE
AND QUESTIONABLE BENEFITS

We selected a random sample of 116 cases 1/ from a universe of 3,417 cases where duplicative payments or questionable grants could have been provided. 2/ We also sent a questionnaire to the sample recipients to determine whether any disaster losses were paid for by some type of insurance. We received 99 responses. Because the cases sampled were selected randomly, we believe our findings are representative and can be projected to the 3,417 cases in the Massachusetts disaster where benefits were provided by more than one agency or where grants were awarded. Our examination of the 116 cases revealed 31 cases 3/ of duplicative payments or questionable grants, as described below.

Number of cases involving duplicate payments:		
Duplication between SBA loans and Minimal Repair Program	10	
Duplication between SBA loans and insurance benefits or grant program	5	
Other duplication	<u>2</u>	17
Number of cases involving grants:		
Questionable need for grant	8	
Questionable eligibility of grant recipient	<u>6</u>	<u>14</u>
Total		<u><u>31</u></u>

1/Our sample originally included 122 cases. Four cases involving secondary homes were dropped because our review was concerned only with primary homes. Two other cases were dropped because they received benefits from only one program.

2/The 3,417 cases included 2,009 where SBA loans and at least one other Federal benefit were provided and 1,408 where the individual received a grant without a loan.

3/Duplicative payments were scheduled for disbursement in four other cases, but the individuals had not yet obtained the loan proceeds at the time of our review. These cases were excluded from our projection.

Duplicative benefits

Of the 17 cases where duplicative benefits were provided, 15 involved loans; the other 2 involved grants. The primary cause of duplication was the lack of effective coordination between SBA's Disaster Loan Program and HUD's Minimal Repair Program. The amount of duplicative benefits ranged from \$200 to \$1,585, averaging \$780. We reported on this same problem in 1973, 1976, and 1978. (See footnote on p. 1.)

In responding to our 1978 report, HUD acknowledged the potential for duplication. SBA and HUD agreed they would exchange benefit information to resolve this problem. According to SBA's Disaster Branch manager, during the first month after the disaster, no records of the benefits provided under the Minimal Repair Program were received from HUD. During the next 5 months, some benefit records were received, but it was not until August--6 months after the storm--that most of the records were provided to SBA. By this time many loan applications had already been processed.

An additional factor contributing to duplicative benefits was that during the first 2 months, SBA did not routinely ask loan applicants if they expected to receive benefits from private insurance companies.

Three examples of the 17 cases where duplicate benefits were provided are shown below.

Case A. Under the Minimal Repair Program, this individual received emergency services which included a new heating system valued at \$1,660 and \$220 for damaged pipes. He also received a \$10,000 SBA loan which included \$778 to replace the same heating system and \$361 for the same pipe work. In reviewing this case for duplicative payments, we also determined that the \$10,000 loan was \$4,529 more than the verified loss, due to a mathematical error.

Case B. This individual applied for an SBA loan to replace a 1967 Cadillac destroyed during the disaster. On the same day, he applied for a grant to replace the vehicle. On April 14, 1978, the individual received a \$1,300 loan. On May 5, 1978, Massachusetts approved his application for a grant

and he received \$1,680, ^{1/} demonstrating a lack of coordination between the loan and grant programs.

Case C. This individual received a \$9,600 SBA loan which included \$2,600 to replace a 1975 Chevrolet destroyed during the disaster. A \$3,500 insurance settlement was also provided for the loss of the vehicle.

Questionable grant awards

Our examination of benefit records for the grant cases in our sample showed that in 14 instances the need for the award or the applicant's eligibility was questionable. The grants ranged from \$485 to \$5,000, averaging \$2,924.

In eight cases, grant money was awarded even though no adequate evidence existed that it was for a serious need or necessary expense. These included an award of \$5,000, made in September 1978, to repair a seawall allegedly damaged during the disaster. The State official who inspected this property to verify the loss established that no need for a grant existed within the scope of this assistance program. We could not determine the basis for the award of this grant.

The remaining six cases involved the grant recipients' eligibility. For example, in three cases we question whether loans instead of grants should have been made. Our judgment is based on an analysis of financial data submitted to SBA. Under existing eligibility guidelines, denial of an SBA loan application is a valid basis for awarding a grant. However, SBA's chief of Disaster Operations staff informed us that SBA has no uniform financial criteria for determining disaster loan eligibility. He told us that SBA relies on the judgment of loan officers to make the determination. One of these cases is discussed below.

Case D. In April 1978 this individual applied for a loan to make structural and other repairs to his home. On

^{1/}In cases involving grants for transportation, the Commonwealth of Massachusetts awarded \$1,600 plus \$80 (5-percent sales tax) to replace a destroyed vehicle. In cases where an individual received a loan or insurance proceeds for a vehicle, FEMA regulations require the amount to be deducted from the \$1,600.

the same date, he wrote a letter to SBA in which he stated: "I certainly hope that your conclusion will be that we cannot afford this loan." The loan application showed that the individual was employed as a senior analyst for a nationally known insurance company. His monthly income was shown as \$1,300, with monthly debt payments of \$707. He listed real estate owned as a home in which he resided and a cottage used for rental purposes. In September 1978 SBA denied the loan request because it believed the individual could not repay a loan and other obligations from earnings. In late 1978 the individual was awarded a \$5,000 grant based on SBA's loan denial.

Based on other cases in our sample, it appears that the above individual should have received a loan rather than a grant. For example, in one case SBA records show that an individual whose net income was \$600 a month, with monthly expenses of \$350, received a loan of \$16,700. In another case, an unemployed loan applicant with a net monthly income of \$40 from a savings account received an \$800 loan.

QUESTIONABLE CLAIMS MAY HAVE BEEN SUBMITTED

In some of the 116 cases in our sample, strong evidence exists that incorrect information was provided to support claims for disaster benefits. We also found that benefits

--were provided for vehicles and other items that may not have been disaster losses and

--were misapplied by being spent for other than the verified losses, or not spent at all.

In developing this information, we supplemented our review by interviewing 23 of the 116 benefit recipients to resolve questions that arose as a result of reviewing their benefit records. We also interviewed several contractors who supposedly had repaired disaster-damaged property, and reviewed Commonwealth of Massachusetts vehicle ownership records.

Submission of apparently false or conflicting information

In four cases, the submission of apparently false or conflicting information relating to claims for benefits was involved. These are discussed below.

Case E. In June 1978 this individual received a \$4,032 grant based on a denial of SBA assistance because of inability to repay a loan. The individual also received a \$5,000 disaster loan in February 1979 (1 year after the storm). The basis for the loan was a certification provided to SBA in November 1978 that the individual was employed at that time and had been since August 1978. We interviewed the employer. He told us that the individual was paid in cash and that no taxes were withheld or records kept. Also in November 1978, a certification of continuing unemployment was made to another agency which used the information to assess the need for continued temporary housing assistance.

Case F. On February 20, 1978, this family signed an SBA loan application that was approved in the amount of \$3,500. The application showed a monthly income of \$920 from all sources, including employment.

The family certified on February 22, 1978, to being unemployed and a \$1,331 grant was approved.

Case G. In March and September 1978 this individual received SBA loan disbursements totaling \$14,800, which included \$3,150 to replace two automobiles. A review of SBA records showed that a purchase agreement for a new automobile showing a cash outlay of \$4,430 (without a trade) was submitted to SBA in order to obtain the loan proceeds.

Our audit disclosed that this individual did not make a cash outlay of \$4,430 for the purchase of a new car. Instead, cash outlay was reduced by \$2,392, the amount received as trade-in allowance for one of the vehicles that the individual reported as having been lost in the blizzard.

Case H. This family received a \$9,600 SBA loan that included \$4,475 for structural repairs to their home. They advised us that a certain contractor had made these repairs. We interviewed the contractor. He told us he gave this family a \$5,325 estimate for the structural repairs, annotated "Paid in Full." SBA accepted the estimate as evidence that the work was done and made a disbursement based on this evidence. The contractor informed us that he had not done the work. He said the "Paid in Full" notation referred to his receiving \$25 for giving the individual the estimate. Moreover, the contractor said he had given similar receipts to 15 to 20 disaster victims but had done the repair work in only two cases.

Benefits provided for questionable losses

We identified 13 other cases in our sample where benefits were provided for items which may not have been disaster losses. These cases are discussed below.

Our examination of ownership records pertaining to vehicles that were claimed by sampled individuals as either destroyed or made unusable by the storm showed that of 29, 6 were reregistered 1/ by the owners who had claimed them as losses and 5 were registered by new owners. While vehicle registration itself is not evidence that the loss did not occur, it is highly unlikely that a person would register and obtain the required insurance for a destroyed or unusable vehicle.

Likewise, SBA loaned six individuals in one town an average of \$950 to replace their cesspools. As of July 1979--16 months after the storm--they had not been replaced, casting doubt on whether they needed to be replaced at all. Some of these people said that they were unaware that the cesspools had been verified as losses. This may be because the portion of the loss verification form identifying real estate losses is not completed or signed by the benefit recipient.

Possible misuse of disaster benefits

Eight of the 23 individuals we interviewed told us they spent disaster benefit proceeds for other than a verified loss--a possible violation of Federal law. These cases included six loans and two grants. The amount misspent for seven of the cases ranged from \$1,500 to \$5,876. We were unable to determine the amount involved for the remaining case.

SBA disaster loans are limited to the amount necessary to restore disaster victims as nearly as possible to their predisaster condition. Disaster proceeds are to be used for the items established as a loss through an independent SBA verification. 2/ SBA guidelines require that all loan disbursements be supported by receipts. However, in this

1/In Massachusetts, a vehicle is considered "registered" when an owner buys the required insurance and his or her application to operate the vehicle on Massachusetts roads is approved.

2/Generally, the proceeds of a disaster home loan can be used only to replace the lost property in like kind. An exception would be a situation where SBA might permit a renter who is forced to vacate his or her quarters--and is unable to locate comparable rental quarters--to purchase a mobile home.



Edward J. King, Governor
Byron J. Matthews, Secretary

Commonwealth of Massachusetts

**Executive Office of
Communities and Development**

Division of Community Services

100 Cambridge Street 9th Floor Boston, Massachusetts 02202 (617) 727-7001

August 8, 1980

Mr. Henry Eschwege, Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

Your letter of July 10, 1980 to Secretary Byron J. Matthews concerning the review of the 1978 Disaster in Massachusetts has been referred to me.

I have reviewed the material included within the report titled "Control Over Federal Expenditures in The 1978 Massachusetts Disaster Were Lacking."

The portion of the report which refers to the responsibility of the Executive Office of Communities and Development namely, "the meal allowance to individuals while housed in hotels" is reported accurately.

The other portions of the report relate to other programs which were not administered by this Department and, consequently, cannot be commented on by this Department.

If you have any questions, do not hesitate to contact me.

Sincerely,

Edmund Mangini
Deputy Administrator

EM/cr

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(068060)

FEMA's measures to prevent duplicative payments were inadequate. We had reported this problem to agency officials on three other occasions in 1973, 1976, and 1978. We noted that the basis for some grants was questionable because the demonstration of a serious need or necessary expense was disputable or because recipient eligibility was doubtful. We also noted that benefits were provided

--based upon submission of apparently false or conflicting information,

--without adequate evidence that a disaster loss had occurred, and

--without requiring substantiation that benefits were spent for a verified loss.

At the conclusion of our field work, officials of the FEMA and SBA Offices of Inspector General advised us that 7 of the 33 cases we referred to them are being considered for prosecution by State officials. We were also advised that 10 other cases are being reviewed to determine if additional action is necessary.

RECOMMENDATIONS

Based on the high number of duplicative benefits and questionable grants in our sample, we recommend that the Director, FEMA, collaborate with the Administrator, SBA, and review the benefits provided to all individuals and identify those persons who received improper payments or submitted fraudulent claims. Criminal or civil actions should be pursued where the agencies, including the Department of Justice (DOJ), deem it to be warranted. At the least, attempts should be made to recover duplicative or improper benefits.

We also recommend that the Director, FEMA, and the Administrator, SBA, ensure that Federal disaster benefits are provided and spent only for verified losses or needs. This is especially significant because the benefits are provided as grants which do not have to be repaid, or as loans at very low interest rates.

AGENCY COMMENTS AND OUR EVALUATION

In a letter dated August 8, 1980, the FEMA Director raised a number of issues concerning the facts and conclusions in our report. (See app. II.) He also requested a meeting prior to publication of this report. A meeting was held on August 28, 1980.

At that August 28 meeting, FEMA officials stated that they do not intend to review all benefits provided as a result of the disaster because they consider this impractical and not cost beneficial. SBA officials informed us that a case-by-case review is not contemplated because of the costs and time involved. (See app. IV.) DOJ agreed with our recommendation (see app. V) and stated that because of the high number of questionable benefits that were projected, FEMA, SBA, and HUD should meet with the U.S. attorney in Massachusetts, and appropriate divisions of DOJ, to discuss the necessary procedures and standards for processing such cases.

As pointed out in our recommendation, we believe that the high number of duplicative payments and questionable grants in our sample is sufficient reason to review all the benefits provided. It is our view that many of the claims could be fraudulent and that the cost factor mentioned by FEMA and SBA should not stand in the way of pursuing any criminal or civil actions where appropriate. Further support is DOJ's willingness to cooperate with the agencies. We believe that our recommendation should be adopted. Otherwise, the agencies, by virtue of their lack of aggressive followup, could be sending signals to potential disaster victims that the Federal Government will not pursue cases where improprieties may have occurred.

In response to our recommendation that FEMA and SBA ensure that Federal benefits are provided and spent only for verified losses or needs, the FEMA Director advised us in his letter that a postgrant award verification and audit, both made by the State, are sufficient to accomplish this purpose. We disagree. FEMA's Inspector General reviewed the audit work done by the State and determined that it did not address the payment of duplicate benefits, the need for grants, or the verification of losses. In the State audit, samples of grant benefits were reviewed to determine if they were spent for the intended purpose. In cases where deficiencies were noted, no attempt was made to collect the grant funds.

The Director advised us that FEMA is field testing a new combined application and verification process (CAVP). CAVP combines the applications of the State-administered grant program, the Disaster Loan Program, and the temporary housing program into one application and combines the collection and verification of the separate information functions into one operation. The data collection and verification operation is performed for the three programs under the jurisdiction of the Federal coordinating officer. This new

procedure, if effectively implemented, could reduce the incidence of duplication in other disasters if there is adequate coordination among those agencies providing assistance.

The SBA Administrator stated that CAVP thus far has been used as a pilot project in disasters classified as "small." A final pilot project is intended to be used in a disaster involving about half the number of victims that were affected in the Massachusetts disaster. He also stated that in the future, highly experienced employees will be used--which was not the case in the Massachusetts disaster.

CHAPTER 3

CHANGES NEEDED IN THE ADMINISTRATION

OF THE INDIVIDUAL AND FAMILY GRANT PROGRAM

The grant program is designed to meet disaster-related necessary expenses or serious needs of individuals who cannot get help from other sources. The program is 75 percent federally funded.

Our review showed that grant eligibility policies and practices need clarification and strengthening. Some grants were awarded without adequate determination of financial eligibility. Others were awarded without due consideration of program requirements or of consistent application between disaster programs. We found that

- some recipients' financial status was not verified to determine if they should have been given loans instead of grants.
- the availability of public transportation was not considered before awarding grants to replace vehicles claimed as a disaster loss, and
- grants were awarded in some cases in excess of the value of the vehicles claimed as a loss.

GRANTS WERE AWARDED WITHOUT ADEQUATE DETERMINATION OF FINANCIAL ELIGIBILITY

In 14 cases sampled, the grant recipients' financial status was not verified by SBA to determine if they should have been given loans instead of grants. In fact, the individuals were not required to submit financial information. Instead, they made an oral declaration that they could not repay a loan, and grants were awarded on this basis. To be eligible for a grant in these cases, the applicants must have applied for an SBA disaster loan and been declared ineligible. Since loans must be repaid, while grants need not be, it is in the Government's interest to provide loans whenever appropriate.

SBA's Disaster Branch manager told us that between the time of the disaster (Feb. 6, 1978) and late April 1978, applicants were denied loans if they made an oral declaration that they could not repay a loan. Fourteen sample individuals

made the declaration and were then given letters stating that, on the basis of the information provided, their loan requests could not be approved. Based on these loan denials, they were considered eligible for grants.

The grants awarded in the 14 cases ranged from \$428 to \$5,000, averaging \$2,449. In one of these cases, the individual, after receiving a \$4,286 grant, applied for a loan that was approved by SBA. This individual told us that his financial condition had not changed between the first and second times that he requested a loan.

GRANTS WERE AWARDED FOR TRANSPORTATION NEEDS
WITHOUT CONSIDERING THE AVAILABILITY OF
PUBLIC TRANSPORTATION

In 16 sample cases, grants were awarded to purchase vehicles without considering the availability of public transportation, as required by FEMA regulations.

If public transportation is inadequate or unavailable, grants may be authorized to provide private transportation. The State official who coordinated the grant program advised us that the availability of public transportation was not considered in the 450 cases where transportation grants were awarded. Generally, the communities affected by the disaster are served by public transportation.

EXCESSIVE GRANT AMOUNTS WERE AWARDED
FOR TRANSPORTATION NEEDS

In 12 cases, the grant amount awarded was more than the value of the vehicle claimed as a disaster loss. This can be attributed to FEMA guidelines, which encouraged the Commonwealth of Massachusetts to make grant awards of \$1,600 for transportation needs.

FEMA guidelines state that where replacement of a private vehicle is appropriate, the grant amount be based on the approximate cost of a 3-year-old compact car. Accordingly, the State determined that grants of \$1,600 would be awarded as a reasonable amount to replace transportation. An additional \$80 was awarded to cover a 5-percent Massachusetts sales tax. In arriving at a figure of \$1,680, State officials considered the value of the old vehicle as irrelevant. Moreover, in all cases where SBA loaned individuals less than \$1,600, they were eligible to receive a grant which would bring the amount to \$1,600 plus tax.

Of the 12 cases where we question the propriety of the grant amount, 10 vehicles were manufactured in the 1960s and 2 were manufactured in the early 1970s. The following table summarizes the grant and loan benefits provided for these vehicles.

Summary of Benefits Received for Older Vehicles
Claimed to Be Destroyed during the Disaster

<u>Year of manufacture</u>	<u>Make</u>	<u>Amount of grant awarded</u>	<u>Amount of SBA loan</u>	<u>Total</u>
1965	Volkswagen	\$1,680	\$ -	\$1,680
1967	Ford	1,680	-	1,680
1967	Chrysler	1,680	-	1,680
1967	Datsun	1,050	600	1,650
1968	Ford	1,680	-	1,680
1968	Chevrolet	1,680	-	1,680
1969	Pontiac	1,680	-	1,680
1969	Chevrolet	1,470	200	1,670
	(note a)			
1969	Chevrolet	630	1,000	1,630
1969	Chevrolet	840	800	1,640
1970	Plymouth	780	900	1,680
1971	Oldsmobile	551	1,075	1,626

a/This vehicle's owner also received \$500 in insurance proceeds for the loss. The \$200 SBA loan was for the deductible portion of the insurance policy. SBA valued the vehicle at \$700.

The award of a \$1,600 grant without regard to the age of the destroyed vehicle is in accordance with FEMA guidelines. The basis for this amount--the approximate cost of a 3-year-old compact car--differs from SBA's method of arriving at a loan amount for a similar loss.

SBA based its loan amounts on the average retail value as determined by the National Automobile Dealers Association for vehicles manufactured in 1971 and later. For older vehicles, the amount loaned was based on the 1971 value. It would seem that the amount loaned by SBA in these cases would be sufficient to replace the vehicles. This is SBA's view. Yet, six individuals also obtained grants which increased their benefits to at least \$1,600, regardless of their financial condition. This difference in approach results from SBA making loans on a loss indemnification basis,

while grants are awarded on the basis of what is determined as the transportation need--\$1,600 being the amount in the Massachusetts disaster.

CONCLUSIONS

Some individuals received grants without having to present evidence that they could not repay a loan--a criterion that should have been met in these particular cases. In our view, an oral declaration that a loan cannot be repaid is not suitable evidence upon which to base a grant award.

In some cases, grants were awarded to replace vehicles even though no determination was made of the availability of public transportation, as required by FEMA regulations.

Grants were also awarded in excess of the value of the vehicle claimed as a disaster loss. This occurred because the State made awards based on the approximate cost of a 3-year-old replacement compact car--\$1,600 in Massachusetts--without regard to the value of the old vehicle. SBA makes loans to replace destroyed vehicles in amounts that are equivalent to the average retail value of the old vehicle. The State's approach to providing grants for transportation needs, although in accordance with FEMA guidelines, is an uneconomical use of Federal funds. While it might be necessary in some cases to award more than the value of the lost vehicle in order to fill a person's transportation needs, lost vehicle value should not be disregarded in most cases.

RECOMMENDATIONS

We recommend that the Director, FEMA, and the Administrator, SBA, eliminate the use of oral declarations that a loan cannot be repaid as a basis for denying loans, which establishes grant eligibility.

In view of the way that transportation needs were met in the Massachusetts disaster, we recommend that the Director, FEMA:

- Issue instructions requiring that, before authorizing grants to purchase replacement vehicles, a determination be made concerning the adequacy of public transportation.
- Stop awarding grants for transportation when a disaster victim has already obtained a disaster loan for the same loss.

--Generally base grants to purchase replacement vehicles on the average market value of the vehicle claimed as a loss or on a flat amount, whichever is lower.

AGENCY COMMENTS AND OUR EVALUATION

In response to our recommendation that oral declarations not be used, FEMA's Director agreed with us but stated that the initial practice of accepting oral declarations was corrected immediately. This is not the case, and as pointed out on page 19, SBA acknowledged that the practice continued for about 3 months after the disaster struck. On this same matter, SBA advised us it is developing a new "short" loan application which requires individuals to document their financial status. If properly implemented, this solution should eliminate this problem in future disasters.

In commenting on our findings and recommendations concerning transportation grants, the FEMA Director advised us that a FEMA review of grants awarded in the Massachusetts disaster showed no cases where the availability of public transportation was not considered before awarding grants. FEMA officials subsequently could not provide us with documentation showing that public transportation had been considered. Moreover, as pointed out on page 20, the State official who coordinated the grant program advised us that the availability of public transportation was not considered in the 450 cases where transportation grants were awarded.

The Director advised us that awarding a grant for a transportation need when a person has already obtained an SBA loan for a vehicle replacement, is a problem which will be addressed. In cases which do not involve an SBA loan, FEMA plans to continue awarding grants that could be in excess of the value of the vehicle, if such value is below its national standard (\$1,600 in the Massachusetts disaster). We do not agree with the latter decision since it could place a person in a better financial position after the disaster than before.

CHAPTER 4

EMERGENCY FOOD STAMPS WERE ISSUED WITHOUT EVIDENCE OF NEED OR SUFFICIENT CONTROLS

In the disaster, safeguards were lacking to ensure that only needy households received emergency food stamps. In addition, food stamps were issued to some people who were also provided separate meal allowances by the Commonwealth of Massachusetts under another Federal program. In some cases, food stamps exceeded the amounts authorized by USDA. The State audit agency responsible for monitoring the Food Stamp Program could not follow up on suspected cases of fraud and abuse because it could not locate required documents.

AUTHORIZING EMERGENCY FOOD STAMPS

The issuance of emergency food stamps is authorized by the Food Stamp Act of 1964, as amended, and the Disaster Relief Act of 1974. They are intended to assist households affected by Presidentially declared disasters or disasters in which the Secretary of Agriculture authorizes emergency food stamp assistance. USDA's Food and Nutrition Service is responsible for issuing instructions for implementing the food stamp provisions of these acts, while the State usually handles the actual issuance.

A 1971 amendment to the Food Stamp Act provided that the Secretary of Agriculture may establish temporary emergency standards for food stamp eligibility without regard to applicant income or other financial resources. According to FNS implementing instructions, applicants can be certified for emergency food stamp assistance if they

- resided either temporarily or permanently within the disaster area,
- had access to cooking facilities, and
- satisfied the State or local food stamp agency that they needed emergency assistance because of reduction in or inaccessibility of income or cash resources.

A 1977 amendment made several changes intended to strengthen control of food stamp issuances in disaster situations. The income and resources of the applicants are now a consideration. However, regulations to implement this change had not been issued as of October 1980, and in the Massachusetts disaster and according to FNS, almost everyone who requested food stamps got them.

Five days after the blizzard started, State officials started issuing authorizations to purchase (ATPs) emergency food stamps to disaster victims. ATPs were issued at 51 locations. Individuals who received ATPs exchanged them at banks and other redemption centers for a specified amount of food stamps related to household size. Generally, the stamps were issued to meet food needs for a 2-week period. In some coastal communities, a 4-week allowance was made because the disaster was so severe in those areas. Overall, about 48,000 households received assistance at a total value of \$5.4 million.

QUESTIONABLE NEED FOR EMERGENCY FOOD STAMPS

We reviewed records of 25 individuals who applied for emergency food stamps. These persons resided in three communities severely damaged during the blizzard. Our analysis showed that in 14 cases the need for food stamps seemed questionable. We discussed our observations with the FNS regional administrator responsible for administering the program in the Massachusetts disaster who told us that virtually everyone who applied for food stamps received them. He said that if an applicant "stated" that as a result of the storm, income was reduced or that income or resources were inaccessible, emergency food stamps were authorized. We were advised that issuing officials had no recourse but to rely on the applicants' word that they met this criterion.

We discussed the way food assistance was handled with USDA and State officials who were responsible for providing this disaster benefit. We were advised by the director of a State office issuing ATPs that a particular problem existed in the way the public perceived the food assistance program. According to a supervisor in another office, press releases made the program sound like a "giveaway" and implied that food stamps were available to everyone regardless of need. The regional chief of FNS' Program Operations elaborated on how easy it was to get them. He said that a person who had paid to have snow removed from a driveway, became eligible for food stamps. The basis for the eligibility determination was that the individual's cash resources had been reduced as a result of the disaster.

Another factor that affected the determination of need was the atmosphere at the centers where ATPs were issued. The chief supervisor of the Massachusetts Bureau of Welfare Auditing told us that issuing centers were frenzied and chaotic and issuing agents were overwhelmed by applicants, resulting in approval of almost all applications. The administrative assistant to the assistant commissioner for

public assistance, Massachusetts Department of Public Welfare, told us that the issuing agents had been reluctant to find people ineligible for food stamps because of the trouble this might have caused in controlling crowds.

This disaster is not the only one in which we noted the questionable issuance of emergency food stamps. In March 1978 we reported to FNS that as a result of a snowstorm which occurred a year earlier in New York, food stamps valued at over \$23 million were issued. We stated that in that disaster and others, extremely liberal eligibility criteria were applied, resulting in the issuance of food stamps to some households that suffered little or no loss of income and whose need for food stamps seemed highly questionable.

In response to our report, FNS advised us in April 1978 that it was considering a number of alternative regulations designed to eliminate difficulties in the emergency food stamp certification process. As of October 1980, these regulations had not been issued because of difficulties in arriving at acceptable criteria to ensure that applicant income and resources be considered, as required by the 1977 amendment to the Food Stamp Act. This matter was discussed in our May 1980 report to the Congress entitled "Efforts To Control Fraud, Abuse, and Mismanagement in Domestic Food Assistance Programs: Progress Made--More Needed" (CED-80-33, May 6, 1980).

OTHER PROBLEMS REGARDING CONTROLS OVER EMERGENCY FOOD STAMPS

Our analysis of procedures followed in providing food assistance to disaster victims showed that duplicative benefits were provided, excessive amounts were issued, and potential fraud cases could not be pursued.

Duplicative benefits

Under a FEMA grant, approximately 565 families that were provided temporary hotel accommodations as a result of serious damage to their homes received a meal allowance of up to \$12 a day per person. The arrangements to house and feed these victims were handled by a State agency separate from the one responsible for issuing food stamps.

State officials told us that they went to three hotels and issued ATPs to any disaster victims they could locate. About 130 households were accommodated at the three hotels. We were informed that most of these victims received meal allowances as well as ATPs, which were converted to food

stamps. The officials who issued the ATPs were unaware that the victims were also receiving meal allowances.

Excessive benefits

At the time of the disaster declaration, victims who resided in the eight counties involved were authorized a 2-week food stamp allotment. ^{1/} Five days later the authorized allotment was changed to 1 month for residents of communities which suffered extensive damage during the blizzard. Victims who had already received 2-week allotments were given the additional allotment if they requested it.

Due to misinterpretations of issuing instructions and the use of untrained personnel, victims in communities that were eligible for 2-week allotments received 4-week allotments. An FNS audit of 42 issuing offices showed that 18 issued 4-week allotments erroneously. We were unable to determine the value of the excess issuances or the number of families involved.

Lack of followup action

The State audit agency responsible for monitoring the Food Stamp Program could not follow up on many suspected cases of fraud and abuse. According to State officials, investigations could not be pursued because documents needed to support a prosecutive attempt could not be located.

In one instance, the State audit agency was given a listing of 671 individuals suspected of filing duplicate applications. In 26 of these cases, evidence or indication of fraud was found. When inquiries were made about these cases, it was learned that information and documentation were almost completely absent. According to State officials, this ruled out any possibility of taking action in these cases.

FNS officials told us that at the time of the disaster, the State had no incentive to pursue these cases because any amounts recovered would have had to be reimbursed to USDA. Legislation enacted in August 1979 authorizes States

^{1/}The value of the stamps issued for a 2-week period ranged from \$26 for one person to \$197 for nine persons. The value of the 4-week stamps ranged from \$52 for one person to \$394 for nine persons.

to keep half the value of any fraudulent issuances they can recover.

CONCLUSIONS

Emergency food stamps were issued without adequate evidence of need. Other problems included providing duplicative and excessive benefits and a lack of necessary documentation to follow up on certain cases of suspected fraud and abuse. Since 1977 USDA has been attempting to issue regulations requiring that applicant income and resources be considered. We believe these regulations are needed and, once issued, should provide better assurance that emergency food stamps are given only for disaster-related needs. In addition, legislation enacted in August 1979 authorizing States to keep half of any fraudulent issuances recovered, should be helpful.

Because we have previously discussed the need for the timely issuance of implementing food stamp regulations, we are not repeating that matter here. However, we continue to believe that food stamp disaster regulations should be finalized as soon as possible.

AGENCY COMMENTS AND OUR EVALUATION

The FNS Administrator, by letter dated August 11, 1980, provided comments on this chapter. (See app. VIII.) He advised us that the agency has resolved most issues relating to eligibility criteria for emergency food stamps; new regulations expected to be published shortly will require the denial of food stamps to households above certain income levels and provide tight controls over the length of time for which recipients receive emergency food stamps. According to the Administrator, the regulations will also clearly specify that any household residing in a shelter providing meals is ineligible for food stamps. This action should prevent a recurrence of the situation noted in our report.

The Administrator stated that since the Massachusetts disaster, even without the regulations, steps have been taken to make procedures significantly tighter during major disasters. An example cited was the development of a new food assistance application, which includes income and resource limitations, used in Alabama and Mississippi following Hurricane Frederic in September 1979. As a result of this more extensive screening, a number of applicants were denied assistance as they were found not in need. FNS advised us that each applicant was subjected to about a 10-minute interview before being certified or denied.

Regarding the Massachusetts disaster, the Administrator told us that FNS reviewed cases selected from a sample of households that had received State food vouchers to ensure that each household would have been eligible and that the amount of the vouchers issued had not been in excess of normal program benefits nor duplicative. As a result, FNS disallowed \$211,000 out of \$886,618 requested by the Commonwealth of Massachusetts for food assistance reimbursement.

We endorse FNS' efforts to exercise better controls over the issuance of emergency food stamps and, in particular, the interim development of a new food assistance application. We hope that this practice will continue, pending the issuance of new regulations.

The deputy administrator of the Executive Office of Communities and Development, Commonwealth of Massachusetts, stated that the portion of the report dealing with furnishing food stamps to persons receiving meal allowances while housed in hotels was accurate.

SBA's PROMPTNESS IN DISBURSINGDISASTER LOAN PROCEEDS

SBA's responsibility in a declared disaster is to organize and administer an effective loan program that will provide victims with prompt relief in a most expeditious, resourceful, and economical manner. SBA criteria specify that, except for complicated cases or those involving construction, loan applications should be processed and disbursement made in 3 to 4 weeks.

ANALYSIS OF LOAN PROCESSING TIME
IN THE MASSACHUSETTS DISASTER

SBA criteria allow 8 to 10 days for application approval, including time for loss verification, loan processing, and the loan decision. Another 21 days are allowed to make the initial loan disbursement, which involves notifying the applicant of the loan decision and arranging for closing the loan. Our analysis of the time required to make initial loan disbursements for 6,554 loans in SBA's central computer file as of May 24, 1979, is shown in the following table.

<u>Time between application acceptance and initial check disbursement</u>	<u>Number of loans in each category</u>
(weeks)	
0-4	681
5-8	2,000
9-12	1,308
13-16	832
17-20	541
21-24	266
25-28	186
29-32	153
Over 32	245
Unknown	<u>342</u>
Total	<u>6,554</u>

Because many of the disaster loan requests were complicated and most involved construction work, it should be noted that these statistics are not necessarily a meaningful indication of SBA's effectiveness in satisfying the needs of disaster victims. In this regard, 21 out of 31 (or two-thirds) of loan recipients we questioned told us they were satisfied with the time it took to get initial loan proceeds.

CAUSES OF DELAYS

SBA officials attributed the delays in meeting their criteria for making initial disbursements to the magnitude of the disaster. They also advised us that the following factors affected their ability to respond.

Staffing problems

In June 1978, 4 months after the disaster, about 1,500 loan applications had not been approved. Yet, because of budgetary limitations, the temporary staff was reduced from 121 to 87. Cutbacks continued throughout the summer. Also, staff turnover was high. Some staff did not want to work the required long hours and others "just didn't work out."

Insufficient appropriations

SBA said appropriations used to fund disaster loans were exhausted in April 1978. A new appropriation was approved at the end of May 1978. This same problem occurred again in March 1979, and SBA had no loan funds until July 1979.

Victims did not request
loan proceeds

Some victims did not immediately request their loan proceeds. This might be attributed to a lack of urgency, problems in contracting, or difficulty in obtaining necessary permits.



FEDERAL EMERGENCY MANAGEMENT AGENCY

Washington D.C. 20472

AUG 8 1980

Mr. Henry Eschwege
Director
Community and Economic
Development Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

I appreciate the opportunity to review the draft report entitled "Controls over Federal Expenditures in the 1978 Massachusetts Disaster Were Lacking." As the agency charged with responsibility for overall coordination of Federal response and recovery activities following the February 1978 storm, FEMA has an interest in the entire subject matter of the report. Our comments reflect this coordinating role and address specifically the following areas covered in the report: the role of the Federal Coordinating Officer, duplication of benefits, the Combined Application and Verification Process, the Minimal Repair Program, and individual and family grants. While our disaster response and recovery activities are coordinated with those of SBA and USDA, we must defer to those agencies for comments on those portions of the report that deal with eligibility determinations or other program matters under their jurisdiction.

On several occasions since initiation of this GAO study, FEMA staff from our Washington and Boston offices have met with your investigators to discuss the nature, policies, and operating procedures of the Federal Disaster Relief Program and to provide them with detailed information on our response to the Massachusetts disaster. However, despite these frequent contacts and correspondence, it appears that the drafters of this report did not fully understand the intent and nature of some aspects of the program. For this reason, I will preface my comments on specific sections of the report with a review of certain program elements that are germane to the overall study.

[GAO COMMENT: As the Director states, our staff met with FEMA officials on various occasions including a meeting held on August 28, 1980, at his request (see p. 48), attended by FEMA's Assistant Inspector General for Audits, the Director of Individual Assistance, a representative of FEMA's Boston regional office, and other FEMA officials. At all of these meetings, particularly the one held on August 28, FEMA officials explained some of the actions they took in responding to the needs of victims of this disaster. It is not a question of our staff not understanding but, rather, a difference of opinion on certain matters. This will become clearer in our comments on other parts of this letter.]

NOTE: Some page and other references have been changed to agree with the final report.

The responsibility for coordinating the delivery of disaster assistance in Massachusetts (FDAA-546-DR), as in other disasters, was vested in the Federal Coordinating Officer (FCO), not in FDAA.

Section 303 of the Disaster Relief Act of 1974 (PL 93-288) reads in part:

- (a) Immediately upon his declaration of a major disaster, the President shall appoint a Federal Coordinating Officer to operate in the affected area.
- (b) In order to effectuate the purposes of this Act, the Federal Coordinating Officer, within the affected area, shall:
 - (3) Coordinate the administration of relief, including activities of the State and local governments, the American National Red Cross, the Salvation Army, the Mennonite Disaster Service, and other relief or disaster assistance organizations, which agree to operate under his advice or direction...
 - (4) Take such other action, consistent with authority delegated to him by the President, and consistent with the provisions of this Act, as he may deem necessary to assist local citizens and public officials in promptly obtaining assistance to which they are entitled.

The authority to appoint an FCO was delegated to the Administrator, FDAA, and currently resides with the Associate Director, Disaster Response and Recovery, FEMA. However, the authority to effect coordination legally resides with the FCO, not with the appointing official.

The FCO does not make eligibility determinations or program decisions but should ensure that the necessary determinations or decisions are made in a timely manner by those agencies responsible for program implementation. If the FCO believes those decisions are not in the best interests of the Federal Government and the recovery effort, he/she has the responsibility to bring the matter to the attention of the appropriate program manager. The FCO does not have the authority to override those decisions unilaterally.

In the specific case of SBA operations after the Massachusetts declaration, the FCO had both the responsibility and the authority to take what actions were necessary to ensure that loan applications were processed and disbursements made in a timely fashion. The FCO's concerns in this matter were pursued by bringing the problem to the attention of the SBA's field manager, the District Director, and the Regional Director. SBA National Office representatives visited the field operation and were aware of the situation. The FCO, in coordination with SBA and the Department of the Treasury, also arranged for the establishment of a field disbursement unit to speed the delivery of disaster loan checks to the applicants. However, any directive issued to SBA or any other agency to hire additional personnel, change regulations, or take procedural shortcuts to facilitate the delivery of services would not have been consistent with the authority delegated to the FCO, as provided in the Disaster Relief Act of 1974.

[GAO COMMENT: The Disaster Relief Act of 1974 (sec. 302(a)) specifically assigns the responsibility for coordinating the delivery of disaster assistance to the President of the United States. This responsibility, as well as the responsibility to appoint a Federal coordinating officer, was delegated to the Administrator of FDAA. Moreover, in May 1978, in testimony before the Subcommittee on Investigations and Review, House Committee on Public Works and Transportation, the FDAA Administrator stated: "* * * After a (disaster) declaration, I am solely responsible for the administration of those programs, authorized by the Act, for which FDAA holds delegated authority. I am also responsible for coordinating the efforts of all Federal agencies operating in the designated disaster areas, whether these agencies are operating under their own emergency authorities, under a delegation of authority from the Secretary, or under a mission assignment from FDAA. Thus, I am the man in charge." * * *]

Section 315 of PL 93-288, Duplication of Benefits, has been delegated to the FEMA Director and further redelegated to the FEMA Regional Directors. In consultation with the head of each Federal agency administering any program providing financial assistance to persons, business concerns, or other entities suffering losses as a result of a major disaster, the Regional Director is charged with assuring that no such person, concern, or other entity will receive such assistance with respect to any part of the loss for which he/she has received financial assistance under any other program. The Regional Director is also responsible for assuring that no person, concern, or entity will receive Federal assistance for any part of the loss for which he/she has received compensation from insurance or any other source for that part of the loss. However, partial compensation for a loss or a part of a loss resulting from a major disaster shall not preclude additional Federal assistance for any part of the loss not otherwise compensated.

This gives the Regional Director a lead responsibility for preventing duplication of benefits but no authority to question or change the internal procedures or eligibility decisions of other Federal agencies. However, FEMA has issued general guidance to the other agencies on duplication of benefits and seeks to ensure that any apparent cases are brought to the attention of the appropriate agencies.

While the report mentions that duplication of benefits has been reported as a problem by GAO on previous occasions, little note is made of our efforts to keep your staff aware of progress this agency has made in alleviating this problem. On several occasions, FEMA National and Regional office staff have met with GAO representatives to discuss potential fraud cases. As appropriate, these were referred to the Massachusetts Attorney General, SBA, or the U.S. Attorney. Further, GAO has been kept fully apprised of extensive efforts by FEMA, and previously by FDAA, to develop the Combined Application and Verification Process (CAVP).

[GAO COMMENT: All cases discussed with us that involved a potential for fraud were identified by our staff on this assignment, and not by FEMA as implied. On page 16 we point out that we referred 33 sampled cases to the SBA and FEMA Offices of Inspector General.

On pages 17 and 18 we discuss the CAVP.]

The CAVP combines the applications of the State-administered Individual and Family Grant (IFG) Program, the disaster loan program of the Small Business Administration, and the Temporary Housing Program into one application and combines the collection and verification of the separate information functions into one operation. This data collection and verification operation is performed for the three programs under the jurisdiction of the Federal Coordinating Officer.

Once the applications have been taken and the information they contain verified, the agencies in a joint meeting decide what assistance each of them will be able to provide. This joint meeting greatly reduces the chance of duplication of benefits among the program areas.

The CAVP, while reducing the chances of duplication of benefits, also speeds up the delivery of disaster assistance and reduces the number of government employees needed to administer the programs.

The CAVP has been field tested in three disasters since April 1979, with great success, both as a service-oriented delivery system and collaterally as a method to prevent duplication of benefits. FEMA is planning one more field test, awaiting only a suitable disaster. If this field test is successful, we expect to ask OMB for authorization to institute this process on a routine basis.

CAVP, by consolidating the applications and verifications in the three high-use programs--SBA home and personal property loans, temporary housing, and individual and family grants--under the authority of the Federal Coordinating Officer, and by requiring the three program representatives to meet in a joint panel to discuss eligibility and assistance delivery, has eliminated duplication of benefits in those disasters where it has been used. In addition, the voluntary agencies through the Red Cross also participate in the process.

Duplication of benefits has also been drastically reduced or eliminated between the various government agency programs and the private insurance industry. This has been accomplished through the CAVP Office Verification Section by verifying insurance information reported on an application. Information regarding the face value, the purpose, and the settlement amount of the policy is obtained from the companies and reported to the three CAVP participating agencies. The Office Verification Section also coordinates directly with National Flood Insurance Program representatives regarding similar policy information on applicants.

Section 404(c) of the Disaster Relief Act authorizes the provision of minimal repairs to the homes of eligible applicants who require such assistance as a result of a Presidentially declared disaster in lieu of other types of temporary housing. As noted in the GAO report, the Minimal Repair Program provides for the repair of owner-occupied residences that can be restored quickly to a habitable condition. Later, an owner can complete the restoration with his own or borrowed funds.

Section 408 of the Disaster Relief Act authorizes the President to make Federal funds available to a State for the purpose of such State making grants to individuals and families who, as a result of a major disaster, are unable to meet necessary expenses or serious needs. The grants are 75% federally funded and 25% State funded.

This Individual and Family Grant Program is made available only when it is requested by the Governor of the affected State. It is administered by the Governor or his designated representative. The State is authorized to make grants of up to \$5,000 to disaster victims to permit them to meet those necessary expenses or serious needs for which other governmental assistance is either unavailable or inadequate. The IFG program is not intended to indemnify all disaster losses nor to purchase items or services that may generally be characterized as nonessential, luxury, or decorative.

In the course of House hearings on the Disaster Relief Act of 1974, Representative William H. Harsha had this to say, on May 15, 1974, about the Individual and Family Grant Program.

The Individual and Family Grant Program permits the Federal Government and the State to join together in meeting necessary expenses and serious needs which cannot be met otherwise under the law or through other means. Grants under this program will fill that void which may still exist when other assistance programs have been applied. That is the test for eligibility; not level of income, nor ability to obtain a loan which can be partially forgiven, nor loss or damage to real property. The test is simple and direct: that a disaster-related, necessary expense or serious need exists which the individual or family is unable to meet with other assistance authorized in the bill or through other means. (Emphasis added.)

In administering the disaster relief program, FEMA and the States have accepted this statement as a clear and concise expression of the legislative intent behind enactment of the Individual and Family Grant Program.

[GAO COMMENT: We agree, as stated by Representative Harsha, that the test for eligibility for the Individual and Family Grant Program is "that a disaster-related, necessary expense or serious need exists which the individual or family is unable to meet with other assistance authorized in the (law) or through other means."]

The following comments are addressed to the report itself. They start with Chapter 1 and, after completing a review of the main body of the report, focus on the Digest.

1. Title. The title of the report is misleading in that it leads the reader to believe that the report is a complete condemnation of Federal actions. This is not the case, and the report does not support such a contention. We suggest the title be revised to reflect the purpose of the report, which is to evaluate the effectiveness of disaster assistance provided to victims of the February 1978 Massachusetts storm. The current title states a conclusion which is not supported by the report.

[GAO COMMENT: The title has been changed. It describes the basic message of the report. In our view, the title does not lead a reader to believe that the report is a complete condemnation of Federal actions.]

2. Page 1, INTRODUCTION. The first paragraph states that GAO was requested to "evaluate the effectiveness of disaster assistance provided to Massachusetts victims...". The writers of this report have failed to address this stated objective in a positive sense. It appears significant that the report contains no instance where assistance was not provided or was not provided on a timely basis. The writers appear to take the agencies to task because their efforts to provide assistance were geared more toward immediate emergency assistance to the storm victim than toward administrative controls. We recognize a need for careful attention to both aspects in the relief and recovery effort.

[GAO COMMENT: We have clarified the report by stating that the subcommittee requested us to evaluate measures to prevent duplicative and other erroneous payments.]

3. Page 2. FEDERAL DISASTER ASSISTANCE. The first paragraph states that the disaster declaration entitled persons to receive assistance, but then lists only a few of the programs made available. Those programs that are listed are done so incorrectly. We recommend that [this] * * * be corrected to read "The programs with which we concerned ourselves in this review are:

- a. Individual and Family Grant (IFG) program (Sec. 408 of PL 93-288);
- b. Temporary Housing Assistance (Sec. 404 of PL 93-288);
- c. Disaster Loan Program (Small Business Act (PL 85-536));
- d. National Flood Insurance Program (Flood Disaster Protection Act (PL 93-234)); and
- e. Emergency food stamp assistance (Food Stamp Act of 1964 (PL 88-525))."

[GAO COMMENT: The programs were listed correctly. FEMA officials suggested that we identify HUD's Minimal Repair Program as a type of temporary housing. This has been done.]

4. Page 2, last paragraph. The second sentence states that "Most of the Federal assistance went to individuals and businesses." If this is an accurate statement, we suggest that percentages be used in place of "most".

[GAO COMMENT: Changed to about 80 percent.]

5. Page 3, first paragraph. This entire paragraph is misleading. It demonstrates a lack of understanding of the roles of the FDAA Administrator and the Federal Coordinating Officer. To be accurate, it should cite Section 315 of the Disaster Relief Act of 1974 that assigns responsibility for duplication of benefits, and explains all three subsections to ensure an understanding of the roles all agencies play. It should also discuss more completely and accurately the role of the FCO, as we have done in introductory material contained in this letter.

[GAO COMMENT: We do not believe that the paragraph is misleading. Our understanding of the role of the FDAA Administrator is part of our comments shown on p. 34.]

6. Page 3, third paragraph. The immediate concern of Federal agencies was not to restore individuals and communities to their predisaster status, but to ensure that people had the basics--food and shelter. Emergency and mass care services are priorities in disaster relief operations.

[GAO COMMENT: Change made.]

7. Page 3, FEDERAL BENEFITS PROVIDED TO REPLACE OR REPAIR HOMES AND PERSONAL PROPERTY. The introductory statement fails to recognize that minimal repair assistance is a form of temporary housing and, therefore, cannot be compared with the SBA disaster loan program or the IFG program. It is true that some of the repairs made under the Minimal Repair Program (MRP) are permanent and must be considered by both SBA and the State (under the IFG program), in their determinations of eligibility, but most of the repairs are expected to be accomplished with assistance from SBA disaster loans and the State-administered IFG program.

[GAO COMMENT: At the August 28 meeting and in other parts of this letter, FEMA has emphasized that minimal repair assistance to damaged properties is a form of temporary housing. We agree. Moreover, no comparison of this program with other programs was made.]

8. Page 4, Chart. Under the column entitled "Program," change "Federally sponsored" to read "Federally assisted." Under the column listing the number of individuals/families assisted, change "2,649" to "2,532." The figure 2,649 represents the number assisted by MRP in three States, not just in Massachusetts.

Footnote "b" under the chart indicates that 14,000 claims were paid for home and business losses. Correspondingly, the report states that the value of assistance provided under the National Flood Insurance Program was \$18,000,000.

Our most current computer printout, dated July 18, 1980, indicates that 1,487 flood insurance claims have been paid for damages arising from the 1978 Massachusetts disaster. This total includes claims coverage presented under flood insurance policies for building and contents. This number appears to conflict with the number of claim payments established by the draft report. Moreover, the New England Division, Corps of Engineers, prepared and issued the "Blizzard of '78," their study of the Massachusetts disaster. In that study, the total number of structures affected by the storm was 7,032, of which approximately 20% were insured under the National Flood Insurance Program.

With regard to the value of assistance, our insurance data further indicates that \$13,965,388 was paid for claims under flood insurance policies in force at the time of the disaster. This figure is substantially less than the \$18,000,000 amount estimated in the subject report.

9. Page 5, third paragraph. The purpose of the MRP is adequately explained; however, this paragraph should also explain the relationship between MRP and other forms of temporary housing, as we have done earlier in this letter.

10. Page 5, third paragraph. The fourth sentence should be revised to delete "in lieu of temporary housing," and the figure "2,649" should be changed to "2,532."

11. Page 6, Criminal and civil penalties. Change title of section to "Duplication of benefits." The discussion of benefits is only partially complete. (For additional information, see Section 315 of PL 93-288.)

12. Page 6, third paragraph. Add the title "Criminal and civil penalties" prior to the paragraph, and start the paragraph with "Section 317 of the Disaster Relief Act of 1974...".

13. Page 6, SCOPE AND METHODOLOGY. No mention is made here of several visits and discussions in Washington, D.C. with staff of the Disaster Response and Recovery Office as well as the Inspector General's office of FEMA.

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14. Page 7, first paragraph. The second sentence again refers to "Federally sponsored grants." I recommend this be changed to "Commonwealth-administered individual and family grants."

[GAO COMMENT: We have made appropriate changes regarding items 8 through 14.]

15. CHAPTER 2. General comments follow:

a. This chapter includes subjective judgments by the GAO regarding eligibility, expenses, or needs which are the sole responsibility of the Administrative Panel regarding IFG awards.

b. It includes some cases where GAO does not appear to fully understand the legislative history and philosophy of the IFG program. Comparing the SBA loan program, which is for loans to cover physical loss, to the IFG program, which provides grants for necessary expenses or serious needs, is not appropriate.

c. It includes cases in which duplication of benefits may appear to have occurred when in fact the minimal repair assistance acted as a stop-gap remedy pending complete repair or replacement with SBA loans, insurance, or grant assistance.

d. GAO includes cases in which it questions the validity of an IFG grant when, although the individual is unemployed, he/she has a savings account and has been denied a loan. The legislative history clearly indicates that a means test may not be considered in grant determinations. The existence of a savings account or other assets thus is not a factor in grant eligibility.

e. Transportation grants do not take into consideration the value of the transportation which may have been affected by the incident. In the vast majority of cases, the provision of public transportation is not a satisfactory method of meeting the need for transportation. The provision of a reasonable amount of money to purchase a used vehicle (a 3-year-old compact) is a nationally accepted standard. It is not replacement of a lost car that is being addressed; it is the providing of a way to meet the need for private transportation as a direct result of the disaster.

[GAO COMMENT: Our conclusions were based on the facts in each case and resulted in our questioning the awarding of certain grants.

We believe that an individual's assets, including savings accounts, should be a factor in determining grant eligibility. Also, our careful review of the legislative history did not disclose that a means test may not be considered in grant determinations.

The matter of transportation grants is not discussed in chapter 2. It is discussed in chapter 3 where we question the award of grants in excess of the value of vehicles claimed as a loss and the fact that public transportation was not considered. In our opinion, when transportation grants are made, the value of a vehicle that is lost as a result of

a disaster should generally be taken into consideration. FEMA's policy of allowing an amount of money equal to the value of a 3-year-old compact automobile could arbitrarily put an individual in a better financial position than before the disaster. Moreover, it is our view that this practice is also an uneconomical use of Federal funds. These matters are discussed on pages 20 to 22.]

16. Pages 11 and 12, Questionable grant awards. Of the eight cases cited as having insufficient evidence for determining whether a necessary expense or serious need existed, there is little to be said. However, the six cases cited as involving eligibility are not IFG program problems. As is stated, denial of an SBA loan application covering items of a serious need or a necessary expense is a valid basis for awarding a grant; therefore, these six cases should not be listed as "questionable grant awards."

Note: In every case reviewed by GAO since August 1979 for which GAO had a comment or question, a review was made by Region I staff and a comment provided to GAO. In addition, the FEMA National Office reviewed and commented to GAO on each of these cases. Following those reviews, Region I staff met with GAO staff and verbally reviewed each case again. In a very limited number (less than ten), was there a consensus that a possibility of duplication existed or that a grant possibly should not have been approved.

It is agreed that a much more sophisticated process of providing data regarding assistance among temporary housing, loan program, grant program, and volunteer agencies than existed in the Massachusetts disaster is required. This was found wanting at the time and has been improved.

[GAO COMMENT: FEMA officials reiterated that they agreed that the eight grant awards were questionable.]

Regarding the six cases involving eligibility, FEMA agreed that three were IFG program problems. However, FEMA objected to our describing the remaining three cases as questionable grant awards. Its position was that the denial of an SBA loan is adequate justification for a grant--therefore, the grant is not questionable. We disagree. Our position is that the grant awards are questionable because it appears the recipients should have received a loan instead.

In May 1980, FEMA's Inspector General told us that he concurred with an action taken by SBA's Inspector General to refer 10 cases that we brought to their attention to either the U.S. attorney for the District of Massachusetts or the Massachusetts attorney general. (Subsequently, an assistant U.S. attorney advised us that he considered three of the cases as not being officially referred, but instead "discussed".) The FEMA Inspector General also ad-

vised us that another 10 cases would be reviewed by FEMA to determine if additional action is necessary. Moreover, there were nine other cases where FEMA officials agreed with us that the benefits provided were questionable. FEMA's statement concerning the "very limited" number of cases where duplication or improper grants existed is misleading. From the information provided to us by FEMA, a more accurate statement would be that questionable benefits were provided in about 25 percent (the 29 above) of the 116 cases in our sample.]

17. Page 13, Case E. The grant award in this instance was based on a denial of assistance by SBA and not on a statement of unemployment. Recommend deleting "...a self-declared certification of unemployment and...".

18. Page 13, Case F. The fact that someone certified that he/she was unemployed is not the sole basis on which a grant is made. The person must also certify that he/she has suffered only personal property damage, and that 50% or more of his/her income is derived from welfare or social security payments. However, there is a potential for misinformation by the applicant since he/she did receive an SBA loan.

[GAO COMMENT: Change made.]

19. Page 13. Cases G and H are internal SBA matters and should be referred to them for investigation.

20. Page 13. Benefits provided for questionable losses. Re-registration of vehicles is in itself not evidence that the need for a grant did not exist. Damaged cars are often repaired even after being immersed in water. There is nothing to prevent the grant from being used to repair the vehicle in order to obtain the needed transportation. Further, there is no impropriety in selling the vehicle to a third party who may repair it. No right, title, or interest becomes vested in the State or FEMA at any time.

[GAO COMMENT: In our opinion, reregistration of the vehicles is evidence that a loss may not have occurred. It would appear to us that because of the age of the vehicles in our sample (see p. 21), it is highly unlikely that the amounts received would have been spent for repair. In this regard, FEMA officials could not identify any instances where money over and above the amount spent to repair a vehicle, had been returned to the Government.]

21. Page 15, first^{full} paragraph. The paragraph is accurate as far as it goes; however, two checks are required on grant expenditures. The first is a post-grant award verification in which the State is required to conduct a sampling of at least 5% of all grants. The reason for conducting such a verification is to determine whether a person did spend his/her grant for its intended purpose. The second check--an

audit--is also made by the State. Additionally, in many States a Federal audit is conducted. In each of these audits, additional sampling is done. Where misuse of funds is discovered, the State is required to attempt to recover the funds.

[GAO COMMENT: FEMA's Assistant Inspector General for Audits advised us that a review of these State audits disclosed that when misuse of grant funds was found, the State took no action to collect the funds. He advised us that the State audits did not include a review to determine the propriety of the grant awards or if they duplicated other benefits that may have been received under another program.]

22. Page 15. Cases I and J are internal SBA matters and should be referred to them for investigation.

23. Page 15, CONCLUSIONS. There is a definable difference between duplication of benefits and improper grants. This section does not differentiate between the two. These categories are separable and should be so defined. To combine them under a single percentile is misleading.

[GAO COMMENT: As described on page 8 of the report, the 26-percent error rate is an overall projection of the various types of errors found in our combined sample of loans and grants as shown in the table on page 9. We did not make separate projections of each type of error because a larger sample would have been needed to accurately estimate individual error rates. We do not believe the 26-percent rate is misleading since it indicates the overall level of problems, and our methodology is fully explained on page 7.]

24. Page 16, RECOMMENDATIONS. The second paragraph indicates that existing procedures to prevent misuse of funds under the IFG program are inadequate. The steps described under paragraph 21 above are considered sufficient, and are more restrictive than those applied to many other existing programs.

[GAO COMMENT: As stated in our comment to paragraph 21, the steps described are not adequate to prevent the problems discussed in this chapter. If they are more restrictive than those applied to many other existing programs, FEMA's Inspector General needs to consider a review of the other existing programs.]

25. Page 19. The second paragraph on this page and the entire discussion under the heading GRANTS WERE AWARDED WITHOUT ADEQUATE DETERMINATION OF FINANCIAL ELIGIBILITY indicate that despite briefings on the program for GAO staff at both the Regional and National Office levels of FEMA, the writers of this report still do not understand the IFG program. All disaster assistance with the one exception of the loan program is made without regard to a person's financial status. Secondly, the grant program is designed to meet need, not loss.

[GAO COMMENT: In item 29 in this letter, the Director states that the Commonwealth of Massachusetts "is required to obtain a denial of loan assistance prior to making a grant." Since a loan denial is based on the person's ability to repay, financial status is the major factor in obtaining a grant. We agree the grant program is designed to meet need, but we can think of no instance where need could arise without some kind of loss.]

26. Page 20, EXCESSIVE GRANT AWARDS FOR TRANSPORTATION NEEDS. This section presents a valid problem, and one which will be addressed in the rewriting of the IFG program handbook. However, our concern is not with the fact that each eligible applicant was provided a grant of \$1,600 regardless of the type of vehicle he owned before the disaster; our concern must be why SBA failed to make a loan for a like amount. Since SBA will loan only for loss, and since the IFG program addresses need, the problem arises in making those two terms mutually supportive. FEMA will continue working toward a satisfactory solution to this problem.

[GAO COMMENT: Although the FEMA Director agrees that a valid problem exists, FEMA officials at the August 28 meeting could not tell us how the problem would be corrected.]

27. Page 20, last paragraph, 3rd line from end. Suggest replacing "were indemnified by SBA" with "were provided loans by SBA."

28. Page 21, last paragraph. Regarding the differences between IFG assistance and SBA assistance concerning private transportation, the report states that "This difference in approach results from SBA making loans on a loss indemnification basis, while grants are awarded on the basis of presumed need -- \$1,600 being the amount in the Massachusetts disaster." It is here emphasized that there is no grant award made for a "presumed" need but only for a verified serious need or necessary expense.

[GAO COMMENT: Change made.]

29. Page 22, CONCLUSIONS. The first paragraph presents an erroneous conclusion. A State, in its administration of the IFG program, is not required to determine whether an individual has the ability to repay a loan; however, it is required to obtain a denial of loan assistance prior to making a grant. If the Commonwealth of Massachusetts has a copy of such a denial in its case files, it has fulfilled its obligation. However, the report is correct in stating that "...an oral declaration that a loan cannot be repaid is not suitable evidence upon which to base a grant award." In the subject disaster, the initial practice of accepting an oral declaration was corrected immediately and was not a subsequent problem.

[GAO COMMENT: The Director's comment is not correct. We did not report that a State is required to determine whether an individual has the ability to repay a loan.]

The agency did agree with our conclusion that oral declarations are not suitable evidence upon which to base a grant award. However, we disagree that immediate corrective action was taken because, according to SBA (the agency that accepted the oral declarations), it was not until about 3 months after the disaster struck that this practice was stopped.]

30. Page 22, CONCLUSIONS, second paragraph. The IFG program regulations (44 CFR 205.48 (c)(2)(iv)) clearly state that grants may be authorized for private transportation if transportation by public conveyance is either inadequate or unavailable. (Emphasis added.) If there are some cases where grants were awarded to replace vehicles even though no determination was made of the availability of public transportation, then an error in administration was made by the Commonwealth. However, reviews by Region I staff indicate knowledge and implementation of this regulation by Commonwealth personnel, and no such cases were identified.

[GAO COMMENT: In our further discussions with region I officials, they could not support their contention that public transportation was considered.]

31. Page 22, CONCLUSIONS. The third paragraph fails to recognize the difference between the IFG program and the SBA loan program. The IFG program meets needs resulting from a disaster, while the SBA program makes loans to replace losses. As a result of the exit conference held with GAO staff in October 1979, we provided a complete explanation of the rationale used in developing program guidance for grants made for transportation. A copy of a November 7, 1979, letter from FEMA's William H. Wilcox to Nicholas Carbone, GAO, Boston, (Enclosure 2, "Transportation under the Individual and Family Grant (IFG) Program") is attached. It is apparent that the drafters of the GAO report overlooked this explanation when they prepared their conclusions.

[GAO COMMENT: Regarding the Director's comments that we overlooked the explanation provided--this is not true. More correctly, we evaluated these particular comments and used them, in part, as a basis to conclude that excessive grant awards for transportation needs were being made and that this matter needed to be addressed. Rather than state that FEMA's comments were overlooked, it would be more appropriate to state that FEMA's comments showed us that its policy resulted in excessive grant awards being made. Specifically, Mr. Wilcox advised us that FEMA's policy is that disaster victims within a particular State receive the same amount for a transportation grant regardless of their predisaster transportation status.]

32. Page 22, RECOMMENDATIONS. With respect to the first paragraph, FEMA has provided comprehensive instructions, regulations, and program guidance to its Regional Offices and to the States to ensure that verification of eligibility is properly accomplished in both the temporary housing (including MRP) and IFG programs. In addition, continuing reviews of the operation of both programs by the Regional Directors provide checks on program procedures during the response phase of disasters. As to the second paragraph, we believe the current guidance is adequate to prevent misuse of grants for transportation. However, as stated earlier, a revision to the method of computing grant awards for transportation will be included in the rewritten version of the IFG program handbook.

[GAO COMMENT: The first recommendation paragraph has been clarified to show that we were questioning the practice of accepting oral declarations as a basis for loan refusals. In item 29 of this letter the Director agrees that oral declarations are not suitable evidence upon which to base grant awards.]

Regarding our second recommendation about transportation needs, FEMA officials advised us at the August 28 meeting that the comment about "misuse of grants" is inappropriate; what was meant is that present guidance for verifying the availability of public transportation is adequate. In our opinion, what needs to be done is to make sure that the guidance is followed and this is now reflected in our recommendation. Also, FEMA advised us that in cases where SBA has already made a loan for the value of a vehicle, a rewriting of the grant handbook will address this problem.

They plan no changes in cases where SBA has not made a loan, but instead will continue awarding grants that could be in excess of the value of vehicles lost during a disaster.]

33. Chapter 4. General. Executive Order 11795 delegated to the Secretary of Agriculture the authority to implement the emergency food stamp program authorized by Section 409 of PL 93-288. Comment concerning this section of the report should be provided by the Department of Agriculture since these matters are under its jurisdiction. However, continued coordination has been underway between FEMA and USDA concerning problems with the Massachusetts disaster. Within USDA, the Food and Nutrition Service reports that interim final regulations for the emergency food stamp program are currently being circulated for comment.

34. Page 26. OTHER SPECIFIC PROBLEMS REGARDING CONTROLS OVER EMERGENCY FOOD STAMPS. This section refers to the issuance of food stamps to families in temporary hotel accommodations.

The Commonwealth of Massachusetts was authorized to implement an emergency housing program which provided hotel and motel accommodations

because the emergency shelters provided by the American National Red Cross were seriously overcrowded, and the Department of Housing and Urban Development was unable at the time to organize rapidly enough to implement such a program. Displaced families were housed as far as 40 miles from their homes in hotels and motels that provided safe and sanitary accommodations. The issue of feeding arose because of the distance required to get to Red Cross feeding centers. The State conducted a survey to determine a daily food cost estimate. It included input from the Red Cross, the Massachusetts Welfare Agency, and the Food and Nutrition Service. As a result, a food allotment of \$12 per day was authorized for persons who could not get to Red Cross feeding centers and were not eligible for food stamps because they lacked cooking facilities. Moreover, verification of food stamp applications is normally waived in an emergency environment.

This program was discussed daily at FCO/RD meetings with FNS participation.

35. Appendix I. SBA PROMPTNESS IN DISBURSING DISASTER LOAN PROCEEDS. Matters discussed in this appendix are internal SBA concerns and should be referred to that agency for investigation or comment. However, continued coordination has been underway between SBA and FEMA concerning problems with this disaster, and we expect that lessons learned in Massachusetts will help expedite the future processing of disaster loans.

After reviewing the body of the GAO report, I find that we have made comments on all points included in the DIGEST (pages i through v) with one exception. Page iv, RECOMMENDATIONS, indicates that the Director, FEMA, should identify those persons who received improper payments or submitted fraudulent claims and, where warranted, institute criminal or civil actions to attempt to recover funds. Such action has been taken in those cases which have been brought to the attention of either Federal or Commonwealth authorities, and we are prepared to follow up on any other cases as we become aware of them.

[GAO COMMENT: Our recommendation to which the Director refers is on page 16. The recommendation is that the Director of FEMA and the Administrator of SBA review the benefits provided to all individuals for loss or damage to their real estate or personal property. See page 17 for additional comments.]

FEMA has scheduled an audit of the Massachusetts disaster during this quarter of FY 1980. The audit will investigate all cases referred to this agency. In addition, we plan to include other cases that may be discovered as a result of our audit.

[GAO COMMENT: We received a copy of FEMA's audit on October 16, 1980. It did not include a review to determine the propriety of grant awards or if they duplicated other benefits that may have been received under another program.]

I hope that we will have an opportunity for a face-to-face discussion with members of your staff on matters contained in this review prior to publication of the final report.

[GAO COMMENT: A meeting was held on August 28, 1980.]

Sincerely yours,


John W. Macy, Jr.
Director

Enclosures

ATTACHMENT A

C O P Y

7 November 1979

Mr. Nicholas Carbone
General Accounting Office
100 Summer Street
Suite 19707
Boston, Massachusetts 02110

Dear Mr. Carbone:

During the exit conference on the Massachusetts disaster, held with members of my staff on October 24, 1979, you requested that we provide you with clarifying information in two areas: (1) the Agency's responsibilities concerning coordination during the major disaster identified as FDAA-546-DR, and (2) rationale concerning guidance on the provision of transportation as published in the Individual and Family Grant (IFG) Program Handbook (3301.12) on page 2 of Appendix 5. The information you have requested is provided in two enclosures.

Sincerely,

William H. Wilcox
Acting Director

Enclosures

[GAO COMMENT: This attachment is referred to in Item #31 on page 45.]

C O P Y

Enclosure to Attachment A

Transportation under the Individual and Family Grant (IFG) Program

The IFG Program is designed to meet disaster-related necessary expenses or serious needs of individuals or families who are unable to meet such expenses or needs through assistance under the Disaster Relief Act of 1974, or from other means (Sec. 408). To comply with the Act, regulations have been published which define necessary expenses and serious needs. These definitions are sufficiently broad so that any expense or need resulting from a disaster may be met by the program, with six exceptions as listed in the regulations. The regulations clearly state that the IFG Program is not intended to indemnify all losses or to provide assistance for those items that may be characterized as non-essential. Therefore, the question of providing transportation becomes one of meeting four major tests: (1) is the need for transportation a direct result of the disaster; (2) is transportation essential to the applicant in the particular instance; (3) is the applicant unable to meet the need for transportation from another available disaster assistance program; and (4) is transportation an eligible category of assistance. If the answer to all of the above questions is "yes" then the IFG Program should assist the applicant by making a grant for transportation. It should be noted that none of the above questions address the fact as to whether the applicant had either a transportation requirement or a means of transportation prior to the disaster. Since the IFG Program is not a loss indemnification program, such questions are not pertinent.

Given the fact that meeting transportation needs is appropriate, the question next arises as to how much should be allowed to meet those needs. The Act states that the President (i.e., the Administrator) shall promulgate regulations to carry out the IFG Program, and such regulations shall include national criteria, standards and procedures for determination of eligibility. The published regulations concerning transportation states in part "Grants may be authorized to provide private transportation, if the requirement for this was the direct result of the disaster, and transportation by public conveyance is inadequate or unavailable." If a disaster victim's requirement for transportation meets the tests included in the above quote, that person should be determined eligible for assistance to meet his/her transportation needs. Since regulations must address eligibility criteria on a national basis, any program guidance must be sufficiently broad to permit its application by all States. Program guidance must also cover those situations where a newly developed need exists; i.e., a need that is the result of the disaster but did not exist prior to the disaster. This is particularly pertinent in the case of transportation where a physical handicap, a change in occupation or a change in housing location may be the direct result of the disaster and may dictate a need for transportation where such a need did not previously exist.

After approximately two years of experience with the IFG Program it became apparent that a Handbook was required to ensure national consistency in the implementation of the Program. In October 1977 the IFG Program Handbook was completed, and those areas where specific guidance had been found essential to ensure national consistency in determining grant amounts were addressed in Appendix 5. The stated purpose of Appendix 5 is "...to insure that assistance provided under the IFG Program is consistent on a nationwide basis. States are encouraged to utilize this guidance in the development of pricing information used by the Administrative Panel to determine grant amounts..." The guidance developed was based on input by the various Regional Directors involved in monitoring States' programs. It was determined that if public transportation would meet the disaster-related need for transportation, public transportation might be provided for a period not to exceed one year. This period corresponds to the period for which temporary housing may be provided rent-free. Since the need for public transportation might most often be generated as a result of being displaced in mobile home group sites, this determination is considered reasonable. In those instances where the provision of private transportation is the only suitable way of meeting the disaster-related need, and since the cost of private transportation, i.e., an automobile, snowmobile, boat, varies widely depending on the type of transportation required and the State in which it is to be provided, it was determined that the equivalent cost of a three year old compact automobile would be a sound guideline. This guidance has been applied uniformly for several years and, although the amount varies from State to State, all disaster victims within a particular State receive equitable and like treatment regardless of their pre-disaster transportation status.



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

AUG 13 1980

Mr. Henry Eschwege
Director
Community and Economic
Development Division
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

This is in response to your letter of July 10, 1980, requesting our comments on your draft report entitled, "Controls Over Federal Expenditures in the 1978 Massachusetts Disaster Were Lacking."

We have reviewed the report and offer the following comments and actions by the Small Business Administration (SBA) for your consideration with regard to duplication payments:

1. In an effort to avoid future duplication of benefits, this Agency recently met with the Federal Emergency Management Agency (FEMA) officials and discussed implementation of a "Short Form" referral control system to be used in Presidential declarations when SBA applicants are referred to the Individual and Family Grant Program (IFG). A standardized referral form has not been used previously.
2. A Combined Application and Verification Program (CAVP), which is a pilot project at this time, may eliminate many of the potential duplication of benefits. However, this pilot project has been used only three times and in disasters which have been classified as "small". A final pilot project is intended to be used in a Presidential disaster declaration in the magnitude of about one-half the number of victims as in the Massachusetts disaster.
3. SBA has recently been given authority to implement a new delivery system which will provide for the monitoring and evaluation of disaster activity. The delivery system will also provide for the use of permanent disaster cadre employees who are highly experienced in

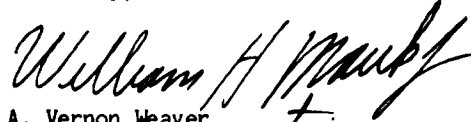
Mr. Henry Eschwege

Page 2

disaster response and recovery operations which was not
the case in the Massachusetts disaster.

We appreciate the opportunity to comment on the report and
if you have any additional information please advise.

Sincerely,


A. Vernon Weaver
Administrator *acting*



U.S. GOVERNMENT
SMALL BUSINESS ADMINISTRATION
 WASHINGTON, D.C. 20416

OCT 7 1980

Mr. Nicholas Carbone, CPA
 Assistant Regional Manager
 U.S. General Accounting Office
 100 Summer Street, Suite 1907
 Boston, Massachusetts 02110

Dear Mr. Carbone:

Subsequent to the Small Business Administration's response of August 13, 1980, to the GAO report entitled, "Controls Over Federal Expenditures in the 1978 Massachusetts Disaster Were Lacking" Mr. John McDonough of your staff telephoned my Office of Disaster Loans (ODL) seeking some additional information related to the Agency's above referenced response.

This letter was requested in order to more fully document telephone discussions which were held by Mr. McDonough during early September with ODL:

1. **INQUIRY:** The Office of Disaster Loans was asked whether SBA planned to examine recipients of SBA disaster loans in the referenced disaster to identify the individuals who received improper payments or submitted fraudulent claims.

RESPONSE: SBA does not plan a case by case review of all recipients of SBA disaster loans in this disaster. This exercise would be both costly and time consuming in terms of available resources and is particularly difficult at this time due to numerous active disasters throughout the country.

Further, these disaster victims received loans which are to be repaid with interest, and most of the loans in this disaster are being repaid promptly as of this date.

SBA understands that the Federal Emergency Management Agency (FEMA) is currently in the process of conducting an audit in this disaster. SBA is prepared to respond appropriately to any cases referred by FEMA or the State of Massachusetts where there is evidence that individuals received improper payments or submitted fraudulent claims.

Mr. Nicholas Carbone

Page 2

Even though SBA does not contemplate a case by case review of loans made in this disaster, steps are being taken to more tightly control SBA referrals to the Individual and Family Grant Program (IFG) in future disasters. Also, SBA is being especially careful to determine the nature and extent of individuals' financial assistance from the IFG program prior to approval of SBA loan assistance.

2. INQUIRY: Additional comments were requested regarding the GAO recommendation that SBA verify the eligibility of grant recipients, and that disaster benefits are provided and spent for only disaster related losses or needs.

RESPONSE: The recommendation intermingles the responsibilities of the IFG and SBA programs in such a way as to infer that they serve the same basic purpose. SBA disaster loans are basically intended to return a disaster victim as nearly as possible to a predisaster condition with upgrading restricted to that required by local building codes.

SBA does not verify the eligibility of grant recipients; instead it determines on a case by case basis whether an individual has the ability to repay a disaster loan. Those who cannot repay such a loan are referred to IFG for the state to determine eligibility for a grant. In order to strengthen this referral process, SBA is presently developing, in conjunction with FEMA, a "Short Form" that we anticipate using in future disasters declared by the President. This form would be used except where the individual meets the established requirements for immediate referral to IFG without processing by SBA. A sample copy of this form will be developed that will fully explain the specific circumstances under which the form will be utilized.

With respect to SBA verification that funds are provided and spent for only disaster related losses and needs, we would point out that "needs" are not eligible under the SBA disaster loan program.

Mr. Nicholas Carbone

Page 3

As provided in existing procedures, SBA disaster loans are disbursed without review of receipts if they are under \$5,000. Loans over that amount are disbursed in progressive steps, normally accompanied by a review of receipts and on-site inspections if appropriate. Borrowers are advised to retain receipts for a period of three (3) years. In all loans, borrowers are instructed in the loan authorization that the loan funds must be used only as outlined in that authorization.

We have already discussed with your office the various penalties that can be applied by SBA where we have confirmation of the use of disaster loan proceeds for purposes other than those specified in the loan authorization.

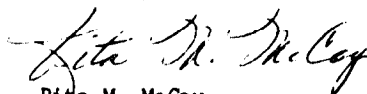
3. INQUIRY: The Office of Disaster Loans was asked to more fully discuss the new delivery system for the disaster program.

RESPONSE: At present, the internal elements of the Agency are drafting the plan for a revised disaster program delivery system. The new system will be staffed by a initial cadre of 100 permanent SBA employees, most of whom have had extensive disaster experience. Later the cadre may be expanded beyond the initial 100 positions.

The key objectives are a more controlled delivery system in terms of program consistency across the country; more efficient use of disaster salaries and expenses; and a more rapid response to the disaster affected public.

In the event you have any further questions regarding this matter, please contact Mr. John E. Moore, Director, Office of Disaster Loans at (202) 653-6879.

Sincerely,



Rita M. McCoy
Associate Administrator
for Financial Assistance

Enclosure



SMALL BUSINESS ADMINISTRATION
APPLICATION FOR DISASTER LOAN - HOME 1/

Name of applicant (First, Middle, Last)				Phone No.	
Address of applicant (Number, Street, City, State, ZIP Code)					
Age	Marital Status <input type="checkbox"/> Single <input type="checkbox"/> Married	Number dependents	Soc. Sec. No.	Full Name of Wife	Soc. Sec. No.
Date & Place of Birth			Date & Place of Birth		
Previous SBA Financing? <input type="checkbox"/> Yes <input type="checkbox"/> No	Type	Status <input type="checkbox"/> applied for but not received yet <input type="checkbox"/> Current <input type="checkbox"/> Delinquent <input type="checkbox"/> Paid in Full			
Purposes of Loan Request					Amount
					\$
					\$
					\$
					\$
Total					\$
Monthly Income from all sources (Identify sources)					Amount
					\$
					\$
					\$
Total					\$
Monthly Payments on debts (Identify creditors)					\$
					\$
					\$
Total					\$
AUTHORITY TO RELEASE INFORMATION					
<p>I/We hereby authorize the SMALL BUSINESS ADMINISTRATION to disclose to an authorized representative of: THE AMERICAN RED CROSS THE GOVERNOR OF ALABAMA all information in my/our case file either provided by me/us, obtained collaterally, or originated by the Agency in conjunction with my/our request for Disaster Loan Assistance resulting from Severe Storms, Tornadoes and Flooding beginning on or about April 12, 1980. SBA Disaster Declaration Number <u>Physical 182606 Economic Injury 548700</u></p> <p>ALL INFORMATION CONTAINED HEREIN AND ANY EXHIBITS ATTACHED HERETO ARE TRUE AND COMPLETE TO MY BEST KNOWLEDGE AND BELIEF AND ARE SUBMITTED FOR THE PURPOSE OF OBTAINING A LOAN FOR THE REPAIR OR REPLACEMENT OF LOSSES AS A RESULT OF A CATASTROPHE HEREIN REFERRED TO.</p>					
Date			Signature of Applicant		
(CONTINUED ON OTHER SIDE)					

1/This is an example of SBA's "short form" disaster loan application. The applicant's signature is witnessed by an IFG caseworker.

U.S. Small Business Administration
 AUTHORITY AND PURPOSE OF DISASTER HOME LOAN APPLICATION INFORMATION
 (PRIVACY ACT)

1. The Authority, Purpose and Routine uses for collecting the information as required on this appropriated SBA Form 5C are:
2. Authority: 5 U.S.C. 301, 15 U.S.C. 634(b)(6), 44 U.S.C. 3101, Sec 7(b)(1) of Small Business Act
3. Principal Purpose: To evaluate application for assistance
4. Routine Uses of the Information Provided for:
 Financial Assistance are:

TO RESPOND TO A REQUEST FROM A MEMBER OF CONGRESS REGARDING THE STATUS OF AN APPLICATION OR LOAN.
 TO PROVIDE INFORMATION TO THE PUBLIC ON AN APPROVED LOAN. SUCH INFORMATION IS LIMITED TO THE NAME AND ADDRESS OF THE RECIPIENT, TERM, AND RATE OF THE LOAN, AND THE APPORTIONED AMOUNT OF THE LOAN FOR REAL AND PERSONAL PROPERTY LOSS.
 IN THE EVENT THAT A SYSTEM OF RECORDS MAINTAINED BY THIS AGENCY TO CARRY OUT ITS FUNCTION INDICATES A VIOLATION OR POTENTIAL VIOLATION OF LAW, WHETHER CIVIL, CRIMINAL, OR REGULATORY IN NATURE, AND WHETHER ARISING BY GENERAL STATUTE OR PARTICULAR PROGRAM STATUTE, OR BY REGULATION, RULE, OR ORDER ISSUED PURSUANT THERETO, THE RELEVANT RECORDS IN THE SYSTEM OF RECORDS MAY BE REFERRED, AS A ROUTINE USE, TO THE APPROPRIATE AGENCY, WHETHER FEDERAL, STATE, LOCAL OR FOREIGN, CHARGED WITH THE RESPONSIBILITY OF INVESTIGATING OR PROSECUTING SUCH VIOLATION OR CHARGED WITH ENFORCING OR IMPLEMENTING THE STATUTE, OR RULE, REGULATION OR ORDER ISSUED PURSUANT THERETO.
 TO REQUEST INFORMATION FROM A FEDERAL, STATE OR LOCAL AGENCY OR A PRIVATE CREDIT AGENCY MAINTAINING CIVIL, CRIMINAL OR OTHER INFORMATION RELEVANT TO DETERMINING AN APPLICANT'S SUITABILITY FOR A LOAN.
 TO PROVIDE DATA TO THE GENERAL ACCOUNTING OFFICE FOR PERIODIC REVIEWS OF THIS AGENCY.
 TO PROVIDE INFORMATION OR DISCLOSE TO STATE AND FEDERAL AGENCIES, IN RESPONSE TO THEIR REQUESTS, IN CONNECTION WITH THE ISSUANCE OF A GRANT, LOAN, OR OTHER BENEFIT BY THE REQUESTING AGENCY TO THE EXTENT THAT THE INFORMATION IS RELEVANT AND NECESSARY TO THE REQUESTING AGENCY'S DECISION ON THE MATTER.
 TO PROVIDE THE INTERNAL REVENUE SERVICE, IN RESPONSE TO ITS REQUEST, WITH ACCESS TO AN INDIVIDUAL'S RECORDS FOR AN OFFICIAL AUDIT TO THE EXTENT THAT THE INFORMATION IS RELEVANT AND NECESSARY TO THE IRS' FUNCTION.
 A RECORD FROM THIS SYSTEM OF RECORDS MAY BE DISCLOSED, AS A ROUTINE USE, IN THE COURSE OF PRESENTING EVIDENCE TO A COURT, MAGISTRATE OR ADMINISTRATIVE TRIBUNAL, INCLUDING DISCLOSURES TO OPPOSING COUNSEL IN THE COURSE OF SUCH PROCEEDINGS OR IN SETTLEMENT NEGOTIATIONS.

5. Failure to provide the requested information may result in:

- Delays in processing of this matter
- Denial of Assistance

EQUAL CREDIT OPPORTUNITY ACT NOTICE

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of sex or marital status. The Federal Agency which administers compliance with this law concerning the U.S. Small Business Administration physical disaster home loans is the Federal Trade Commission, Room 500, 633 Indiana Avenue, Northwest, Washington, D.C. 20580.

"I acknowledge receipt of this notice in a form that I can retain for my records."



U.S. Department of Justice

AUG 11 1980

Washington, D.C. 20530

Mr. William J. Anderson
Director
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

This letter is in response to your request to the Attorney General for the comments of the Department of Justice on your draft report entitled "Controls Over Federal Expenditures In The 1978 Massachusetts Disaster Were Lacking."

The largest portion of the report deals with problems of program administration which are not within the expertise of the Department of Justice. Our concern has accordingly focused on the comments in the draft report relating to fraudulent abuses of the disaster relief efforts. In this regard, we note that page 6 discusses criminal and civil remedies which are available to the United States for violations of Federal disaster relief programs by benefit recipients. The Government would in appropriate instances be entitled to recover double damages and forfeitures under the False Claims Act (31 U.S.C. Sections 231-235) against persons who knowingly made false statements to obtain money or property from the United States. We have in the past pursued this remedy for fraudulent abuses of other disaster relief efforts where there has been an adequate legal and evidentiary basis, e.g., Miller v. United States, 550 F.2d 17 (Ct. Cl. 1977). Accordingly, we suggest the discussion on page 6 be amended to include the following statement:

The False Claims Act (31 U.S.C. Section 231, et seq) also provides civil remedies to the United States for, inter alia, any person who knowingly makes or causes to be made a false, fictitious or fraudulent claim upon the United States Government, a department or officer thereof. The Act permits the Government to recover double the amount of its damages and one forfeiture of \$2,000 for each false claim where there is clear and convincing evidence of knowing falsity.

We agree with the first recommendation on page 16 of the report relating to the pursuit of civil and criminal actions by the agencies and by the Department of Justice, where such actions are deemed warranted, including possible civil actions to recover duplicative or improper benefits. Because of the potentially large number of such matters projected by the General Accounting Office--approximately 913 matters, or 26 percent of the 3,417 instances of grants or benefits received from more than one

NOTE: Some page references have been changed to agree with the final report.

-2-

agency--it is important that the review procedures and any litigation be coordinated with the United States Attorney for the District of Massachusetts and the Criminal and Civil Divisions of the Department of Justice. There are also additional preparatory steps which should be considered, and to ensure that these steps are taken, we suggest that the recommendation be expanded to add that prior to the referral of these matters, officials of the Federal Emergency Management Agency (FEMA) and the Small Business Administration, as well as interested representatives of the Department of Agriculture and the Department of Housing and Urban Development, should meet with the United States Attorney for the District of Massachusetts and officials of the Civil and Criminal Divisions of the Department of Justice in order to discuss the necessary procedures and standards for preparation of such referrals.

We also note that FEMA has established an Office of Inspector General. The Inspector General is a participant in the Executive Group to Combat Fraud and Waste in Government chaired by the Deputy Attorney General in a special project to improve agency coordination and law enforcement response to disasters. The expertise of the Office of the Inspector General should be of valuable assistance to FEMA in the pursuit of criminal or civil actions.

We have no comments to offer regarding the remaining recommendations in Chapters 2 and 3 of the draft report inasmuch as they relate to matters not under the purview of the Department of Justice.

We appreciate the opportunity to comment on the report. Should you desire any additional information, please feel free to contact me.

Sincerely,



Kevin D. Rooney
Assistant Attorney General
for Administration



THE UNDER SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

July 24, 1980

Mr. Henry Eschwege
Director
Community and Economic
Development Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

I am returning the enclosed GAO draft report entitled, "Controls over Federal Expenditures in the 1978 Massachusetts Disaster were Lacking." This draft report was sent to HUD on July 10, 1980, for comment on the portions discussing the Minimal Repair Program which we administered at the time of the disaster.

On April 1, 1979, the Federal Disaster Assistance Administration, which was responsible for administering the Minimal Repair Program, was transferred to the Federal Emergency Management Agency (FEMA) pursuant to the President's Reorganization Plan Number 3. As a result of this transfer there is no staff at HUD who can appropriately comment on the draft report.

I have contacted Mr. Jack McGraw, Director, Office of Individual Assistance at FEMA and have been assured that the aspects of the report on the Minimal Repair Program will be addressed by FEMA.

Please let me know if I can be of any further assistance to you.

Sincerely,

Victor Marrero

Enclosure



CHARLES FRANCIS MAHONEY
SECRETARY

The Commonwealth of Massachusetts
Executive Office of Human Services
State House
Boston, Massachusetts 02133

AREA CODE (617)

August 21, 1980

Mr. Henry Eschwege
Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

I am pleased to be provided the opportunity to comment on the GAO report concerning the Blizzard of 78. The report generally describes the procedures that were in effect during that period of time for establishing and enforcing controls over expenditures in both the IFG program and the food stamp program.

It is noteworthy that the Department was able to account for food stamps issued by location and individual to over 48,000 households. The issuance procedure was quickly added to a food stamp master file which facilitated in determining the number and names of individuals who abused the program. This information was made available to both state and federal authorities for further follow-up.

If you have any further questions please do not hesitate to call.

Sincerely,

A handwritten signature in cursive script, appearing to read "Charles Francis Mahoney".

Charles Francis Mahoney
Secretary

CFM:jo

UNITED STATES DEPARTMENT OF AGRICULTURE
FOOD AND NUTRITION SERVICE

WASHINGTON, DC 20250

AUG 11 1980

•Mr. Henry Eschwege
Director, Community and
Economic Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We welcome the opportunity to comment on the GAO draft report on the 1978 disaster in Massachusetts.

Our comments fall into three major areas: 1) We believe the draft report should recognize the progress that has been made since February 1978 in tightening food stamp issuance procedures during disasters; 2) we also think some actions taken by FNS to control potential overissuance problems during the Massachusetts disaster should be treated in the GAO report, and 3) we have now resolved most issues relating to eligibility criteria during disasters and expect to publish the new disaster regulations shortly.

Progress has been made since the Massachusetts disaster

The GAO draft report correctly notes that new disaster regulations have not yet been published (although they will be shortly). However, the report does not discuss any of the actions we have taken since February 1978 to correct the types of problems found in Massachusetts. As a result, the impression is left by the report that little has happened since 1978 to solve these problems, and that the problems are not likely to be solved to any degree until the new regulations are promulgated.

We agree with GAO that the new regulations are important. However, even without new regulations, we have taken major steps to make procedures significantly tighter in major disaster issuance situations. We request that GAO recognize this in the report.

We have provided Regional Offices with a list of questions to be used by eligibility workers during disaster situations to help determine the actual food need applicants. In addition, we developed and used a special disaster application--that included income and resource limitations--in Alabama and Mississippi following Hurricane Frederic in September 1979. As a result of this more extensive screening a number of applicants for disaster issuance were denied as not being in need.

Each applicant in Alabama and Mississippi was subjected to about a 10 minute interview with an eligibility worker before being certified or denied--a different practice from that used in Massachusetts in February 1978. In fact, the Department was subjected to criticism that its tighter screening procedures in Alabama and Mississippi were causing

long lines and requiring applicants to wait in lines for hours. When asked to drop the form and the income and resource limits in order to expedite service and shorten the waiting lines, we declined to do so. Instead, we helped the States locate more office space and workers to handle the load while keeping our more restrictive procedures in place.

In Puerto Rico, following hurricanes during the summer of 1979, we also put strict controls into effect. FNS sent an eight page telegram to Puerto Rico setting forth stringent conditions under which disaster issuance must be run, with heavy emphasis on deterring any possible fraud or abuse. Puerto Rico was instructed to maintain a master file index to be updated daily, including at least the participant's name, address and social security number. Daily statistics were to be prepared on the number of emergency applications, the number approved, the number of persons receiving benefits and the total value of food stamps issued. Puerto Rico had to verify if current applicants were in the program already to insure that duplicate ATP's were not issued and to issue ID cards to new participants. The Specific amount of loss to a household and the amount of their remaining resources were to be documented on the application. At all points, the consequences for fraudulently obtaining food stamps were to be strongly emphasized, with immediate prosecution should fraud be discovered.

While it is true that new disaster regulations are not out, we believe that loss of program funds in disasters has been substantially reduced since 1978 because the Department has altered procedures and been more vigilant in specific instances of disaster. This has been especially true of our response to disasters over the past year, as we have intensified our efforts in this area.

Our most recent disaster issuance occurred this spring in Grand Island, Nebraska following a tornado. \$325,000 worth of food stamps were issued. Follow-up work found that only three households (about one-tenth of one percent of those served) received duplicate issuances, and claims are being filed against these households.

The differences between the procedures used in recent disasters and those used in Massachusetts are significant. FNS did not wait for new regulations before changing its procedures in these instances. In fact, the experience gained under these alternative procedures has been used to help us design the new regulations.

Comments on the GAO discussion of Massachusetts

The GAO draft report states that "generally, in the Massachusetts disaster, food stamps were issued without considering applicant income." This statement is too strong. While this appears to have been true in some cases, it was not true as a generalization. Our New England Regional Office (NERO) requested that the State, in considering applications, ask six questions relating to income, such as "when were you last paid" and "do you have money available to meet basic food needs for the next two weeks." Also, as part of the monitoring effort, NERO staff verified that workers were in fact asking these questions. In cases where workers were not doing so, they were referred to the State office for corrective action.

[GAO COMMENT: The FNS administrator for the New England region told us that almost everyone who requested food stamps got them.]

In discussions with State officials who administered the program, we were told that there were many instances where the questions were not asked. Also, in a review of policies and actions taken during the disaster, performed by USDA's Office of Audit, an observation was made that only one question dealt with need; and that State administrators viewed five questions as being asked for statistical purposes only. We changed the report to agree with the regional administrator's view.]

The report also states that "FNS Regional officials were 'pleased' that assistance was kept at \$5.4 million." 'Pleased' is much too strong a word. Moreover, we believe the report should more fully recognize FNS actions which contributed to keeping the total issuance down. These actions included: (1) the FNS onsite monitoring effort; (2) requiring the State to issue one-half rather than a full monthly allotment in most areas; and (3) allowing the State to issue emergency stamps for only a relatively short period, and then terminating it.

[GAO COMMENT: It appears to us that a major reason for keeping the assistance at \$5.4 million was FNS' action to limit the issuing period to about 2 weeks. We used the word "pleased" as this is what the FNS officials communicated to our staff. The FNS' basis for this comment was their belief that if food stamps were issued in the Massachusetts disaster for the same period of time that they were issued in New York disaster, the costs could have been as high as \$220 million instead of \$5.4 million. We have dropped the work "pleased".]

In addition, our action in disallowing federal reimbursement for \$211,000 for disaster food expenditures is worthy of note. After the President first declared a major disaster in Massachusetts, the State Department of Welfare began issuing State food vouchers in lieu of food stamp ATP cards in a number of locations designated as disaster areas. Later, all offices began using ATP's. Justification for the use of food vouchers during the interim period was based on the following: (1) the State only maintained a supply of over-the-counter (OTC) ATP's sufficient for use during one month, (2) all offices retained some inventory of food vouchers whereas the number of offices with OTC ATP's was limited, and (3) the State was unable, owing to weather conditions, to produce and distribute additional ATP's.

On April 25, 1978, Massachusetts requested USDA reimbursement for the total value of food vouchers equaling \$886,618.

Our Regional Office conducted a review of households to determine the amount of food vouchers issued. It reviewed cases selected from a sample of households to ensure that each household which was given food vouchers would also have been eligible for emergency food stamps and that the amount of the food vouchers issued to each household would not be in excess of normal program benefits, and to determine if there were duplicate issuances to households.

Based on its review, the Regional Office disallowed \$211,000 from the State's claim of \$886,618. USDA only reimbursed the State of Massachusetts for food vouchers equaling approximately \$675,000. We think this should be mentioned in the report.

Forthcoming regulations

We expect to issue new disaster regulations shortly. The regulations should lead to further improvements in the disaster program.

The regulations will require a State disaster plan to become an attachment to the State Plan of Operation. The plan will include application procedures to deter fraud, coordination with disaster agencies and local government officials, and instruction of caseworkers in procedures for implementing and operating the disaster program.

The regulations will require the denial of food stamps to households over certain income levels and will provide for tight controls over the length of time for which recipients receive emergency food stamps. The regulations will also clearly specify that any household residing in a shelter which is providing its meals is ineligible for disaster food stamps. This will prevent a recurrence of the situation noted in the GAO report.

In addition, we have established FNS national and regional Disaster Task Forces to provide assistance to States in properly implementing and operating the food stamp disaster program and to evaluate the need for disaster food stamps when they are requested by a State.

We appreciate this opportunity to comment on the GAO report.

Sincerely,


ROBERT GREENSTEIN
Administrator



Edward J. King, Governor
Byron J. Matthews, Secretary

Commonwealth of Massachusetts

**Executive Office of
Communities and Development**

Division of Community Services

100 Cambridge Street 9th Floor Boston, Massachusetts 02202 (617) 727-7001

August 8, 1980

Mr. Henry Eschwege, Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

Your letter of July 10, 1980 to Secretary Byron J. Matthews concerning the review of the 1978 Disaster in Massachusetts has been referred to me.

I have reviewed the material included within the report titled "Control Over Federal Expenditures in The 1978 Massachusetts Disaster Were Lacking."

The portion of the report which refers to the responsibility of the Executive Office of Communities and Development namely, "the meal allowance to individuals while housed in hotels" is reported accurately.

The other portions of the report relate to other programs which were not administered by this Department and, consequently, cannot be commented on by this Department.

If you have any questions, do not hesitate to contact me.

Sincerely,

Edmund Mangini
Deputy Administrator

EM/cr

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