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FEMA trailers in transit  
AP/Wide World photo



# FEMA Waste and Fraud

## Poor Controls and Decisions in FEMA Spending

Besides overwhelming many government emergency-response capabilities, Hurricane Katrina severely affected the government's ability to purchase goods and services and properly track and verify its costs when it contracted for them.

It takes money to prepare, respond, and recover from a disaster. As of March 8, 2006, the federal government has committed \$88 billion to the response, recovery, and rebuilding efforts for Katrina.<sup>1</sup> Unfortunately, not all of this money has been wisely spent. Precious taxpayer dollars have been lost to fraud, waste, and abuse.

The Committee did not specifically include pre- and post-Hurricane Katrina spending by FEMA and other federal agencies as part of its investigation. However, almost from the time Katrina hit, the Committee was aware of wasteful, and sometimes fraudulent and abusive, spending practices and fiscal decision making. The Committee carefully followed reports of wasteful spending, conducting a number of oversight activities to understand how funds were being spent and to encourage measures to prevent wasteful spending. The full Committee held two hearings on Hurricane Katrina spending by FEMA, and its Federal Financial Management, Government Information, and International Security Subcommittee held another.<sup>2</sup>

## Wasteful Spending: Nothing New

What is particularly troubling about the wasteful practices in the wake of Katrina is the similarity to wasteful spending examined by this Committee in a May 18, 2005, hearing, "FEMA's Response to the 2004 Florida Hurricanes: A Disaster for Taxpayers?"<sup>3</sup>

In the span of just six weeks in August and September 2004, Florida was hit by four powerful hurricanes: Charley, Frances, Ivan, and Jeanne. Parts of Florida suffered tremendous devastation. More than 10 percent of the state's housing stock was damaged or destroyed by the hurricanes, affecting more than 700,000 residents. Property damage exceeded \$21 billion and 117 Floridians lost their lives. A disaster of this scale required a rapid and substantial response. FEMA distributed more than \$2 billion in immediate relief to Floridians as they rebuilt their battered state.<sup>4</sup>

In the wake of these hurricanes, however, it became clear to the Committee that FEMA's provision of assistance was marred by payments for fraudulent claims, wasteful spending, and ineffective internal and management controls. When scarce resources are wasted, fraudulent claims are paid, and safeguards are ignored, there are new victims – the taxpayers. Then Under Secretary for Emergency Preparedness and Response and Director of FEMA, Michael Brown, said:

Among the many challenges we face when responding to disasters, the most difficult often involves balancing the tradeoff between ensuring a timely and effective response to those in need, and the responsibility to protect the fiscal integrity of the program. It is a classic competing tension between the provision of immediate disaster assistance and administrative perfection. As you move closer to one, you move farther away from the other.<sup>5</sup>

The Committee rejects this argument. Saying that government cannot protect taxpayers while responding effectively to the urgent needs of disaster victims is a false dichotomy.

Subsequent to the May 18, 2005, hearing, the Chairman and the Ranking Member of the Committee, Senator Collins and Senator Lieberman, sent a letter to Brown, urging FEMA to address some of the serious issues revealed by the 2004 Florida hurricanes.<sup>6</sup> In his response, Brown wrote, “FEMA is always seeking to improve upon its successes as well as improve upon other practices to best serve our stakeholders.”<sup>7</sup> This echoed his statement at the hearing that “We take the opportunity after every major disaster to review and analyze our performance so we can institutionalize best practices, identify issues and concerns, and correct problems, all to face the next disaster better prepared.”<sup>8</sup> Unfortunately, the response to Katrina showed that FEMA was still inadequately prepared to exercise good stewardship of taxpayer dollars while carrying out its mission of assisting disaster victims.

### **Hurricane Katrina: Same Story**

On February 13, 2006, the Committee held a hearing, “Hurricane Katrina: Waste, Fraud, and Abuse Worsen the Disaster.”<sup>9</sup> Like the May 18, 2005, hearing, this one revealed that taxpayer dollars intended to help hurricane victims were once again being lost to waste, fraud, and abuse.

The U.S. Government Accountability Office (GAO) testified about its preliminary review of some Hurricane Katrina expenditures, recognizing that it will be many months, and perhaps years, before a complete assessment can be conducted. However, GAO concluded from its initial work that weak controls in the Individuals and Households Program (IHP) that provides temporary help with housing and financial aid for other needs, left FEMA vulnerable to waste, fraud, and abuse.

GAO testified that there were flaws, including weaknesses or outright failures of controls and safeguards, in the process of registering those receiving assistance under the IHP. For instance, GAO found that when applying for benefits over the Internet, applicants were screened by checking for valid Social Security numbers before benefits were approved. When people applied by telephone, however, FEMA did not perform this screening before paying initial IHP benefits, which allowed thousands of false and fraudulent applications. Of the more than 2.5 million registrations recorded in FEMA’s database, 60 percent (more than 1.5 million) were not subject to identity verification because they were submitted via the telephone; some of these registrations were found to be fraudulent.

GAO outlined several other examples of fraud, abuse, or poor management, including the following:

- FEMA made expedited-assistance payments to tens of thousands of individuals whose registrations contained false or duplicative information, including Social Security numbers that had never been issued, or had been issued to another individual, or to an individual since deceased. It is important to note that not all duplicate information was submitted fraudulently. GAO is continuing to investigate both payments resulting from individuals intentionally trying to defraud the government and those resulting from errors in FEMA’s system or registration process.
- GAO found thousands of Social Security numbers that were used on more than one registration associated with the same disaster. A Social Security number is a unique number assigned to an individual. Because individuals are eligible to receive disaster relief only on their primary residence, the same Social Security Number should not be used more than once to receive assistance for the same disaster.

- GAO found that \$10 million in duplicate payments were made when 5,000 registrants received both a debit card and a check worth \$2,000 each, when they should have received either a debit card or a check.<sup>10</sup>

The Inspector General of the Department of Homeland Security (DHS IG) has conducted oversight of Katrina response and recovery activities, and testified about some specific examples of wasteful spending by FEMA. One of the most egregious examples presented, as discussed more fully below, is the purchase of approximately 25,000 manufactured homes that are virtually useless to Katrina victims because FEMA's own regulations prohibit their installation in a flood plain. At the time of the hearing, at least 10,000 of these homes were sitting unused in Hope, AK.<sup>11</sup> Making one bad decision after another, FEMA decided to make sure that no home had better amenities than others, so they removed some equipment, including microwaves and televisions. The DHS IG indicated that in the immediate aftermath of Katrina, decision making was mostly reactive, lacking planning or coordination.<sup>12</sup>

Another area of waste occurred in temporarily housing evacuees in hotels. As evacuees were moved out of shelters, FEMA instructed hotels across the country to allow anyone with a driver's license from the affected areas to check in and then send FEMA the bill. There were virtually no controls in place. The DHS IG found hotels charging for empty rooms, individuals holding multiple rooms, hotel rooms being used as storage units for personal goods, individuals staying at resorts, and hotels charging rates above even the "rack rate" (the maximum or full price the hotel will charge for the room) – at times costing taxpayers up to \$400 per night.<sup>13</sup>

The DHS IG indicated that his investigators had seen more waste in contracts than actual fraud at that point, but attributed this partly to the fact that FEMA was in the very early stages of the major contracting activity. At the time of the February 13, 2006, hearing, DHS had reported awarding contracts valued at over \$5 billion, with other federal agencies reporting an additional \$4.2 billion. The DHS IG indicated that the federal Inspectors General will continue their oversight activities through the life of these contracts.

As government agencies rushed to meet requirements in the immediate aftermath of Katrina, they used expedited contracting methods authorized by the Federal Acquisition Regulations. The DHS IG found cases in which procurement personnel authorized contractors to begin work without a definitive statement of work, sometimes on a sole-source basis with no attempt to independently estimate costs. Some of the contractors performed the work efficiently and in good faith, but some did not. Under some of the most questionable contracts, the government may have little legal recourse to recoup payments made to contractors who did not perform required work or who overcharged for work they did perform.<sup>14</sup>

On September 8, 2005, the Department of Justice established the Hurricane Katrina Fraud Task Force to deter, investigate, and prosecute hurricane-related fraud in the wake of Hurricane Katrina, stating "The message of our collective effort is clear: we will not tolerate this kind of behavior in our compassionate society. Fraud will not go unpunished."<sup>15</sup> U.S. Attorneys have never before implemented a "zero tolerance" policy with respect to disaster-related assistance and contracting fraud. The chair of the Task Force indicated that this policy did have an impact. She reported that individuals returned payments to FEMA or requested to arrange repayment plans, coincident with publicized arrests for fraud.<sup>16</sup>

## The Odyssey of the Ice

In the immediate aftermath of a disaster, some of the commodities most in demand include water, food, and ice. FEMA's problems in moving commodities are well known. In the case of ice, plenty of movement occurred – but not always to places one would expect.

FEMA ordered 182 million pounds of ice to respond to Hurricane Katrina. After a typical hurricane, evacuees soon return to their homes, but may be without electric power for some time. Ice helps keep food and medicine cold until power is restored. After Katrina, however, hundreds of thousands of evacuees were sent to shelters across the country and did not return home for days and weeks after the storm. Thus, the household need for ice was much lower in some areas than anticipated.<sup>17</sup> While there was a severe shortage of ice in some affected areas, and many hurricane victims who remained in the area did not have access to ice,<sup>18</sup> in the end FEMA had excess ice and used less than 50 percent of what it had ordered.<sup>19</sup>

Some of the ice ended up in Portland, ME – 1,600 miles from the disaster area. The cost of handling and storing the 200-plus truckloads of ice that went to Portland was approximately \$275,000.<sup>20</sup> More ice went to other distant locations around the country because FEMA decided it made more sense to move the ice to cold-storage facilities for use in new disasters than to let it melt.<sup>21</sup> It is not clear that this was the most cost-effective choice, given the lack of planning that resulted in trucks being rerouted multiple times, and sometimes sitting idle for days, while costs to the government were mounting.

On September 16, NBC News reported that it had found trucks full of ice in locations such as Maryland, Missouri, Georgia, and Tennessee. Some of the trucks had been driving and/or sitting idle with their full loads for two weeks. One truck driver reported that he had begun his trip in Oshkosh, Wisconsin, traveled to Louisiana, then was sent to Georgia, but was rerouted to South Carolina, before being sent to Cumberland, MD.<sup>22</sup> NBC News later reported that the truck was then sent to Iowa, where the ice was put into cold storage.<sup>23</sup> The driver reported that this cost taxpayers at least an extra \$9,000.<sup>24</sup> When multiplied by hundreds of truckloads that also took circuitous routes to cold storage, the wasted taxpayer dollars begin to add up.

Some of the ice shipped to cold-storage facilities around the country has already been used for other disasters. But one truckload ended up at the Reid Park Zoo in Tucson, AZ, to be enjoyed by the polar bears and other animals. The truck driver who donated the ice to the zoo did so after traveling through 22 states without delivering a single bag of ice to hurricane victims.<sup>25</sup>

## No-Bid Contracts

FEMA typically has a contingency Individual Assistance Technical Assistance Contract (IATAC) in place to assist when disaster strikes. When Katrina hit, FEMA was “competing” this contract – bids had been solicited and evaluated, and contract negotiations had begun, but the process was not complete, so no competitively awarded IATAC was in place. Faced with an overwhelming demand for technical assistance, FEMA contracted with four major engineering firms to provide technical assistance to the Individual Assistance Program, the scope of which included “supporting staging areas for housing units (travel trailers and mobile homes), installation of housing units, maintenance and upkeep, site inspections and preparations, site restoration, group site design, group site construction, site assessments, property and facility management, as well as housing unit deactivation and rehabilitation.”<sup>26</sup>

One of the contracts was awarded on the basis of competition (Fluor had won, but the contract had not yet been negotiated), and the other three contracts (awarded to Shaw Group, Bechtel, and CH2M Hill) were awarded as letter-contracts based on FEMA's critical need

for expedited assistance.<sup>27</sup> Essentially, these were sole-source contracts. Each had an original ceiling value of \$100 million, but this was raised to \$500 million late in 2005.<sup>28</sup> The ceiling on two of the contracts was raised again in early 2006.<sup>29</sup>

On October 6, 2005, Acting FEMA Director R. David Paulison pledged in a Committee hearing to “compete” the requirements covered by the contracts,<sup>30</sup> holding an open competition, as normally required by federal contracting regulations, where all companies can compete for the work. It is generally accepted that only through full and open competition is the government assured of getting the best price for supplies and services. The Committee was disappointed that this was not done. FEMA did compete a subset of the requirements for future work, such as maintenance and deactivation of the travel trailers, but these awards were not made until April 2006.<sup>31</sup> FEMA decided to allow the four contractors to continue work under the sole-source contracts. To respond to future disasters, FEMA officials have said the agency intends to competitively award a number of national IATACs before the 2006 hurricane season.

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## Unusable Manufactured Housing

As part of its Individual Assistance Program, FEMA typically provides travel-trailers to house individuals whose homes have been badly damaged or destroyed while they rebuild or find alternative housing. When Hurricane Katrina hit and FEMA realized the scope of temporary-housing needs, the agency began buying all of the travel trailers it could find. Unfortunately, in this buying frenzy, FEMA purchased approximately \$900 million worth of manufactured homes and modular homes that could not be used because FEMA’s own regulations do not allow for these types of homes to be placed in flood plains. Further, some of the homes purchased did not fit FEMA’s size standards.<sup>32</sup>

The Committee held a hearing on the manufactured housing in Hope, Arkansas, on April 21, 2006, and learned more about FEMA’s poor decision making and wasteful spending. FEMA purchased 24,967 manufactured homes and 1,295 modular homes in response to the need for transitional housing to assist displaced evacuees.<sup>33</sup> However, FEMA seemingly had no plans for how the homes would be used when the purchases were made. FEMA issued a mission assignment to the U.S. Forest Service to set up eight emergency storage sites, including one in Hope, Arkansas.<sup>34</sup> To house some of the manufactured and modular homes, FEMA leased a staging area at the Hope Municipal Airport at a cost of \$25,000 per *month* – equivalent to a rent of \$300,000 per year. The Committee learned that prior to the lease with FEMA, the City of Hope had rented the same site to a hay farmer for \$5,000 per year.<sup>35</sup>

As of the April hearing, there were 15,603 manufactured and modular homes as well as 7,229 travel trailers staged at the eight emergency housing sites. While FEMA was able to use some of the homes in other disasters, and had plans to use more, they still had no plan for thousands of manufactured and modular homes. The Committee learned that FEMA had already hired sales staff to sell the homes as surplus property if they are not eventually used,<sup>36</sup> but typically this type of sale recoups only pennies on the dollar.<sup>37</sup> The manufactured and modular homes purchased represent some of the most serious waste discovered to date.

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## Conclusion

The Committee is not the only organization looking into the fraud, waste, and abuse issues related to Katrina. The DHS IG, GAO, and other federal Inspectors General are investigating these issues as well. It may well be years before the full scope of taxpayer dollars lost



to waste, fraud, and abuse is determined, but the preliminary findings should be noted as the more expensive recovery and rebuilding phases proceed. New natural or man-made disasters are inevitable, but they need not also become fiscal disasters where taxpayer funds meant to provide speedy, effective relief are lost to fraud, waste, and abuse.

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- 2 U.S. Senate, Committee on Homeland Security and Governmental Affairs, hearing on *Hurricane Katrina: Waste, Fraud, and Abuse Worsen the Disaster*, Feb. 13, 2006; U.S. Senate, Committee on Homeland Security and Governmental Affairs, hearing on *FEMA's Manufactured Housing Program: Haste Makes Waste*, Apr. 21, 2006; U.S. Senate, Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, and International Security, hearing on *Katrina and Contracting: Blue Roof, Debris Removal, Travel Trailer Case Studies*, Apr. 10, 2006.
- 3 U.S. Senate, Committee on Homeland Security and Governmental Affairs, hearing on *FEMA's Response to the 2004 Florida Hurricanes: A Disaster for Taxpayers?*, May 18, 2005.
- 4 Written Statement of Sen. Susan M. Collins, for the U.S. Senate, Committee on Homeland Security and Governmental Affairs, hearing on *FEMA's Response to the 2004 Florida Hurricanes: A Disaster for Taxpayers?*, May 18, 2005.
- 5 Written Statement of Michael Brown, then-Director, Federal Emergency Management Agency (FEMA), for the U.S. Senate, Committee on Homeland Security and Governmental Affairs, hearing on *FEMA's Response to the 2004 Florida Hurricanes: A Disaster for Taxpayers?*, May 18, 2005, pp. 5-6.
- 6 Senators Susan M. Collins and Joseph I. Lieberman, letter to Michael Brown, July 8, 2005.
- 7 Michael Brown, letter to Chairman Susan M. Collins and Senator Joseph I. Lieberman, Aug. 4, 2005, p. 1.
- 8 Written Statement of Brown, Senate Committee hearing, May 18, 2005, p. 7.
- 9 U.S. Senate, Committee on Homeland Security and Governmental Affairs, hearing on *Hurricane Katrina: Waste, Fraud, and Abuse Worsen the Disaster*, Feb. 13, 2006.
- 10 Written statement of Gregory D. Kutz, Managing Director, Forensic Audits and Special Investigations, U. S. Government Accountability Office, for the U.S. Senate, Homeland Security and Governmental Affairs Committee, hearing on *Hurricane Katrina: Waste, Fraud, and Abuse Worsen the Disaster*, Feb. 13, 2006.
- 11 Written Statement of Richard L. Skinner, Inspector General, U.S. Department of Homeland Security, for the U.S. Senate, Homeland Security and Governmental Affairs Committee, hearing on *Hurricane Katrina: Waste, Fraud, and Abuse Worsen the Disaster*, Feb. 13, 2006, p. 7.
- 12 Written Statement of Skinner, Senate Committee hearing, Feb. 13, 2006.
- 13 U.S. Department of Homeland Security, Office of the Inspector General, briefing by Richard L. Skinner, Inspector General, U.S. Department of Homeland Security, given to Committee staff, Jan. 31, 2006.
- 14 Written Statement of Skinner, Senate Committee hearing, Feb. 13, 2006.
- 15 Alberto R. Gonzales, "Remarks at the Hurricane Katrina Fraud Task Force Conference," Oct. 20, 2005. [http://www.usdoj.gov/ag/speeches/2005/ag\\_speech\\_0510201.html](http://www.usdoj.gov/ag/speeches/2005/ag_speech_0510201.html). Accessed on Apr. 21, 2006.
- 16 Written Statement of Alice S. Fisher, Assistant Attorney General, Criminal Division, Chairman, Hurricane Katrina Fraud Task Force, U.S. Department of Justice, for the U.S. Senate, Homeland Security and Governmental Affairs Committee, hearing on *Hurricane Katrina: Waste, Fraud, and Abuse Worsen the Disaster*, Feb. 13, 2006.
- 17 "FEMA Responds to Ice Issues," MSNBC, Oct. 11, 2005. <http://www.msnbc.msn.com/id/9665486/from/RL.1>. Accessed on Apr. 19, 2006.
- 18 Matthew Brown, "The Ice Trucks Cometh to the Relief of Many; For Those in Their Homes, the Cubes are 'Like Gold'," New Orleans *Times-Picayune*, Sept. 6, 2006, p. A06; Arnold Lindsay, "Firms Work to Relieve Scarcity of Ice," *The Clarion-Ledger*, Sept. 2, 2006. <http://www.clarionledger.com/apps/pbcs.dll/article?AID=/20050902/NEWS0110/509020352/1260>. Accessed on May 25, 2006.
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- 20 Michael W. Lowder, letter to Senator Susan M. Collins, Nov. 4, 2005, p. 1.
- 21 "FEMA Responds to Ice Issues," MSNBC, Oct. 11, 2005. <http://www.msnbc.msn.com/id/9665486/from/RL.1>. Accessed on Apr. 19, 2006.
- 22 Lisa Myers and the NBC Investigative Unit, NBC News, "The FEMA Ice Follies: How come ice can't efficiently reach those in need?" Sept. 16, 2005. <http://www.msnbc.msn.com/id/9369937/print/1/displaymode/1098>. Accessed on Apr. 19, 2006.
- 23 Lisa Myers and the NBC Investigative Unit, NBC News, "The FEMA Ice Follies Revisited: Agency Opts to store millions of pounds for next disaster," Oct. 11, 2005. <http://www.msnbc.msn.com/id/9665434/print/1/displaymode/1098>.

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24 Lisa Myers and the NBC Investigative Unit, NBC News, "The FEMA Ice Follies: How come ice can't efficiently reach those in need?" Sept. 16, 2005. <http://www.msnbc.msn.com/id/9369937/print/1/displaymode/1098>. Accessed on Apr. 19, 2006.

25 Lisa Myers and the NBC Investigative Unit, NBC News, "The FEMA Ice Follies Revisited: Agency Opts to store millions of pounds for next disaster," Oct. 11, 2005. <http://www.msnbc.msn.com/id/9665434/print/1/displaymode/1098>. Accessed on Apr. 19, 2006.

26 Written Statement of Skinner, Senate Committee hearing, Feb. 13, 2006, p. 12

27 Written Statement of Skinner, Senate Committee hearing, Feb. 13, 2006, p. 12

28 Committee staff interview of Elaine Duke, Chief Procurement Officer, U.S. Department of Homeland Security, conducted on Feb. 24, 2006 (untranscribed).

29 Duke interview, Feb. 24, 2006.

30 Testimony of R. David Paulison, Acting Undersecretary of Homeland Security for Emergency Preparedness and Response and Acting Director, FEMA, before the U.S. Senate, Committee on Homeland Security and Governmental Affairs, hearing on *FEMA Status Report on Recovery Efforts in the Gulf States*, Oct. 6, 2005.

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34 Skinner, Senate Committee hearing, Apr. 21, 2006.

35 Committee staff interview of Mayor Dennis Ramsey, City of Hope, AR, conducted on Apr. 6, 2006 (untranscribed); Andy Davis, "Hope Airport to See 5,000 Homes Go, Rest Stay: FEMA Has Long-Term Emergency Supply Plans for Site," *Arkansas Democrat-Gazette*, Mar. 22, 2006. Accessed on LexisNexis.

36 Written Statement of Skinner, Senate Committee hearing, Apr. 21, 2006, p. 5.

37 Skinner, Senate Committee hearing, Feb. 13, 2006.



