



Department of Homeland Security Office of Inspector General

Final Letter Report: Potential Duplicate Benefits Between FEMA's National Flood Insurance Program and Housing Assistance Programs





Homeland
Security

September 11, 2009

MEMORANDUM FOR: The Honorable W. Craig Fugate
Administrator
Federal Emergency Management Agency

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

SUBJECT: *Final Letter Report: Potential Duplicate Benefits Between
FEMA's National Flood Insurance Program and Housing
Assistance Programs (OIG-09-102)*

This report provides the results of our audit of business processes and supporting systems used by the Federal Emergency Management Agency's (FEMA) National Flood Insurance Program (NFIP) and Individuals and Households Program (IHP) to manage flood insurance and housing assistance for disaster victims.

We contracted with the independent public accounting firm of KPMG LLP (KPMG) to perform this review. The contract required that KPMG perform its review according to guidance from the Office of Management and Budget and the Government Accountability Office. KPMG identified several areas where FEMA's business processes and supporting systems could be improved. Specifically, FEMA's risk of paying duplicate benefits is high because of limitations in how FEMA's business processes and systems collect and maintain disaster assistance data. The process and system limitations reduce FEMA's ability to operate sound management controls to identify and prevent duplicate payments. FEMA should implement improved business processes, procedures, and technology solutions to standardize the data entry for its benefit processing systems. Further, FEMA should correct existing data element inconsistencies in its benefit processing systems. KPMG is responsible for this report and the conclusions expressed herein.

This report contains two recommendations. Your office has concurred with the recommendations and has taken action to resolve the recommendations. Your office also noted some of the improvements FEMA has already made to reduce the potential for duplication of benefits between the National Flood Insurance and Housing Assistance

Programs. In upcoming work, we will review and validate the improvements FEMA has made in these programs. We consider Recommendations #1 and #2 resolved and open and will close them when implementation is complete.

Consistent with our responsibility under the *Inspector General Act*, as amended, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over FEMA. The report will be posted on our website.

Should you have any questions, please call me, or your staff may contact Matt Jadacki, Deputy Inspector General, Office of Emergency Oversight, at (202) 254-4100.

Results of Review

FEMA Needs To Better Mitigate the Risk of Duplicate Payments to Comply With Relevant Laws and Regulations

KPMG reviewed select Federal Emergency Management Agency (FEMA) disaster assistance processes, controls, and systems to determine if duplicate benefits were paid to victims of hurricanes Katrina, Rita, and Wilma during the period of August 29, 2005 to August 31, 2006. Duplication of benefits can occur under multiple scenarios, including:

- Recipients of NFIP benefits also receive insurance benefits for the same disaster-related event. If a recipient's damaged property is insured with homeowner insurance or flood insurance, the benefits paid by FEMA are required to be reduced by the amount of the insurance proceeds.
- Recipients of FEMA IHP temporary housing benefits (e.g., cash grants) also receive government-provided housing units (e.g., trailers, mobile homes, hotel and motel rooms, apartments) or home repair assistance.

Over 7.6 million records, totaling more than \$22.7 billion in benefit claims, were reviewed. A Computer Assisted Audit Techniques (CAATs) software tool was used to identify potential duplication of benefits, and our data extraction and evaluation methodology was consistent with relevant Government Accountability Office (GAO) guidance.¹

Because of limitations in how FEMA's business processes and systems collect and maintain disaster assistance data, we were unable to identify and quantify potential duplicate benefits. More importantly, the process and system limitations reduce FEMA's ability to operate sound management controls to identify and prevent duplicate payments. When a disaster victim applies for benefits, applicant data may be entered into one of several FEMA benefit processing systems. However, these systems are not interfaced and they accept data in different formats, resulting in significant data inconsistencies. Specific examples of limitations we encountered in attempting to identify potential duplicate benefits follow:

- We identified possible duplication of benefits based on the Registration ID and Applicant Name data fields in the Disaster Assistance Directorate's National Emergency Management Information System (NEMIS) and NFIP's Transaction Record Reporting and Processing System (TRRPS). However, we were unable to validate whether the payments were duplicated because payment amounts and

¹ Auditors should not assume that computer-based data are reliable. When using computer-processed data as evidence, staff must take steps to provide reasonable, not absolute or complete, assurance that the data are valid and reliable. GAO-03-273G, *Assessing the Reliability of Computer Processed Data*, dated October 2002.

payment dates did not match. In fact, many NEMIS records did not have payment dates.

- In NEMIS, the recipient names are contained in the LAST_NAME and FIRST_NAME data fields, and in TRRPS the recipient names are captured in one field entitled INS_NAME. When there is a co-applicant (i.e., a husband and a wife whose names are both on the policy), both names appear as one entry in the INS_NAME field (e.g., “John & Jane Doe”). This makes the comparison of the name information cumbersome to perform.
- NEMIS and TRRPS maintain the recipient address data fields differently. For example, in TRRPS the address may be “103 Dueberry DR. apt F,” while in NEMIS the same address may be “103-F Dueberry Drive.” Although these two addresses are the same, they do not result in matches because of the inconsistencies in the way they are captured in the respective systems. Such address inconsistencies are further compounded by the fact that FEMA uses different address correction software in attempts to correct address anomalies.

As a result of these and other process and system limitations, FEMA’s risk of paying duplicate benefits is high. During our audit, FEMA officials voiced similar concerns in identifying and preventing duplicate payments because of these limitations.

FEMA needs to better mitigate the risk of duplicate payments to comply with relevant laws and regulations. For example, the *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (Stafford Act) requires that no person will receive disaster assistance for a loss which they have also received financial assistance from another benefit program or insurance. In addition, the *Improper Payments Information Act of 2002* (IPIA) requires each agency to identify programs and activities that may be susceptible to significant improper payments. The IPIA specifically identifies duplicate payments as an improper payment. Further, the *Clinger-Cohen Act of 1996* requires federal agencies to design an information technology enterprise architecture that facilitates the sharing of data to facilitate program management.

Process and system limitations related to FEMA’s ability to identify and prevent duplicate payments have been reported at least since 2002. For example, prior to the formation of the Department of Homeland Security (DHS), the FEMA Office of Inspector General (OIG) issued the report *Duplication of Benefits: National Flood Insurance Program and the Disaster Housing Program’s Minimal Repair Grants*.² In this report, the OIG identified duplicate benefits as a significant problem for FEMA, and recommended that additional compatibility was needed between FEMA systems to more efficiently identify and prevent duplicate benefits. FEMA responded to the report by stating that it would: (1) work to enhance standardization and automated cross-checking features of the various databases used in management and administration of its programs, and (2) develop consistent data entry and maintenance standards for key data elements maintained in the NFIP and NEMIS databases, as well as develop an automated interface

² I-02-02, dated June 10, 2002.

and data warehouse capability to query key data elements between the systems. However, since the issuance of the June 2002 report, FEMA has taken no substantive action to implement these recommendations. Consequently, the challenges identified in the 2002 FEMA OIG report continue to exist. Further, in December 2006, GAO testified before Congress that FEMA made tens of millions of dollars of potentially improper and/or fraudulent payments associated with both Hurricanes Katrina and Rita.³ In a follow up March 2007 report, GAO recommended that FEMA develop processes for comparing IHP benefit data with FEMA direct housing assistance data to identify and prevent duplicate benefit assistance.⁴

In conclusion, FEMA is at significant risk of not identifying and preventing duplicate benefit payments. These longstanding limitations impact FEMA's ability to comply with relevant federal laws and regulations.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency:

1. Implement improved business processes, procedures, and technology solutions to standardize the data entry capabilities for NEMIS, TRRPS, and other benefit processing systems. Key components of this improvement effort should be the standardization of data elements and the use of consistent address correction software across FEMA.
2. Once the standardization procedures are established as part of Recommendation #1, FEMA should correct existing data element inconsistencies in NEMIS, TRRPS, and other benefit processing systems.

Management Comments and OIG Analysis

We obtained written comments from the Acting Director, Office of Policy and Program Analysis. We have included a copy of the comments in Appendix B. The Acting Director, Office of Policy and Program Analysis concurred with both recommendations and noted some of the improvements FEMA has already made to reduce the potential for duplication of benefits between the National Flood Insurance and Housing Assistance Programs. In upcoming work, we will review and validate the improvements FEMA has made in these programs.

³ GAO-07-252T, *Hurricanes Katrina and Rita Disaster Relief: Continued Findings of Fraud, Waste, and Abuse*, dated December 6, 2006.

⁴ GAO-07-300, *Hurricanes Katrina and Rita Disaster Relief: Continued Findings of Fraud, Waste, and Abuse*, dated March 2007.

Appendix A

Purpose, Scope, and Methodology

The objectives of the audit were to determine whether: (1) disaster victims received duplicative financial assistance from FEMA's NFIP and IHP; (2) cash grants for temporary housing were provided to those already receiving government-provided housing units such as trailers, mobile homes, hotel/motel rooms, and apartments; (3) additional awards of government-provided housing units such as trailers, mobile homes, hotel/motel rooms, and apartments were provided to those already receiving a form of temporary housing assistance; and (4) cash grants for home replacement were provided to recipients who already received home repair assistance.

The independent public accounting firm KPMG LLP (KPMG), under contract with the DHS OIG, performed this audit. The contract required that KPMG perform the audit according to guidance from the Office of Management and Budget and the GAO. The results of the review are based on interviews of relevant agencies, and institutions, direct observations, and a review of applicable data and documents.

The fieldwork for this review was conducted between January 2007 and February 2008. This audit was performed according to generally accepted government auditing standards and pursuant to the *Inspector General Act of 1978*, as amended.

We appreciate the efforts by FEMA management and staff to provide the information and access necessary to accomplish this review.

Appendix B Management Comments to the Draft Letter Report


U.S. Department of Homeland Security
Washington, DC 20472



FEMA

AUG 19 2009

MEMORANDUM FOR: Matt Jadacki
Deputy Inspector General
Office of Emergency Management Oversight
Office of Inspector General

FROM: 
Robert A. Farmer
Acting Director
Office of Policy and Program Analysis

SUBJECT: Comments on OIG Draft Report, *Potential Duplicate Benefits between FEMA's National Flood Insurance Program and Housing Assistance Programs*

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG's) subject draft audit report. As the Federal Emergency Management Agency (FEMA) works toward refining its programs, the OIG's independent analysis of program performance greatly benefits our ability to continuously improve our activities.

While FEMA concurs with the OIG's recommendations, I want to highlight some of the improvements FEMA has already made to reduce the potential for duplication of benefits between the National Flood Insurance and Housing Assistance Programs since the 2005-2006 time frame covered by the report and the conclusion of field work in February 2008. Some of these actions include:

- June 2007 - an audit trail for all disaster survivors verified through ChoicePoint for identity, occupancy, and ownership was developed.
- October 2007 - FEMA added the ability to perform damaged address checks to enhance our Duplication of Benefits checking capabilities.
- November 2007 - FEMA added the ability to perform a duplication check for changes that occur to the damaged dwelling address. Damaged address changes only occur under specific procedural guidelines.
- November 2007 - Business rules enhancements included the restriction of special characters in the name fields for both the registrant and household occupants.
- July 2008 - Search capabilities in the National Flood Insurance Program (NFIP) database were expanded to locate disaster survivors that have Owner or Renter as part of their name, which returns more accurate policy information.

www.fema.gov

Appendix B

Management Comments to the Draft Letter Report

- December 2008 - A Systems of Records Notice was issued for the acquisition and data sharing capabilities with NFIP.

Each of these tasks has added to the system controls and authentication of the disaster survivors' application verification process, enhancing all NFIP data matches.

We also want to dispel any misimpression that FEMA has not made improvements and implemented recommendations relating to overall internal controls to eliminate duplication of benefits. For example, FEMA has made significant improvements since the 2005 hurricane season in terms of preventing payments to registrants who supply invalid or duplicate Social Security Numbers or other duplicate information. These improvements were borne out in the payments FEMA made after the 2008 Midwest floods and Hurricanes Gustav and Ike, and we are confident that they will be reflected in future OIG audit reports.

FEMA concurs with the draft report's two recommendations and has been working diligently to correct the issues identified in your audit. While we will be providing corrective action plans in our 90-day response, we provide the following information relative to the two recommendations:

Recommendation #1: Implement improved business processes, procedures, and technology solutions to standardize the data entry capabilities for NEMIS, TRRPS, and other benefit processing systems. Key components of this improvement effort should be the standardization of data elements and the use of consistent address correction software across FEMA.

Response: FEMA concurs with this recommendation and is actively working towards this end. To address this recommendation with minimal impact on our business practices, we are working with our identity verification and pre-population contractor, ChoicePoint. ChoicePoint will provide identity verification for both NEMIS and TRRPS, thereby ensuring consistency in addresses and address corrections in pre-populated registration fields.

Recommendation #2: Once the standardization procedures are established as part of Recommendation #1, FEMA should correct existing data element inconsistencies in NEMIS, TRRPS, and other benefit processing systems.

Response: FEMA concurs with this recommendation and believes that actions outlined in recommendation #1 will address this concern. In addition, FEMA will continue to monitor for data inconsistencies across internal processing systems and will identify further needed improvements as appropriate.

Thank you again for the opportunity to comment on this draft report and we look forward to working with you on other issues as we both strive to improve FEMA.

Appendix C

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