

September 2006

# HURRICANES KATRINA AND RITA

Unprecedented  
Challenges Exposed  
the Individuals and  
Households Program  
to Fraud and Abuse;  
Actions Needed to  
Reduce Such  
Problems in Future



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# Highlights

Highlights of [GAO-06-1013](#), a report to congressional committees

## Why GAO Did This Study

In 2005, Hurricanes Katrina and Rita caused unprecedented damage. FEMA's Individuals and Households Program (IHP), provides direct assistance (temporary housing units) and financial assistance (grant funding for temporary housing and other disaster-related needs) to eligible individuals affected by disasters. Our objectives were to (1) compare the types and amounts of IHP assistance provided to Hurricanes Katrina and Rita victims to other recent hurricanes, (2) describe the challenges FEMA faced by the magnitude of the requests for assistance following Hurricanes Katrina and Rita, and (3) determine the vulnerability of the IHP program to fraud and abuse. GAO determined the extent to which the program was vulnerable to fraud and abuse, by conducting statistical sampling, data mining and undercover operations.

## What GAO Recommends

GAO is recommending that FEMA address the potential for fraud and abuse in the IHP by ensuring that payments go to recipients at valid addresses; establishing procedures to avoid duplicate lodging payments; increasing accountability over debit cards; and identifying and recouping payments based on improper and potentially fraudulent applications. FEMA substantially agreed with our recommendations; however DHS disagreed with our estimate of the extent of improper and potentially fraudulent payments.

[www.gao.gov/cgi-bin/getrpt?GAO-06-1013](http://www.gao.gov/cgi-bin/getrpt?GAO-06-1013).

To view the full product, including the scope and methodology, click on the link above. For more information, contact William Jenkins (202) 512-5555 [jenkinswo@gao.gov](mailto:jenkinswo@gao.gov) and Greg Kutz, (202)512-7455 [kuntzg@gao.gov](mailto:kuntzg@gao.gov).

# HURRICANES KATRINA AND RITA

## Unprecedented Challenges Exposed the Individuals and Households Program to Fraud and Abuse; Actions Needed to Reduce Such Problems in Future

### What GAO Found

For Hurricanes Katrina and Rita, FEMA received more than 2.4 million applications for IHP assistance and distributed \$7.0 billion as compared to the six hurricanes that hit the United States in the prior two years and totaled about 1.5 million applications and about \$1.5 billion in assistance, respectively. Temporary housing assistance and expedited assistance accounted for much of the increase in IHP expenditures as compared to prior years. Overall, however, although the number of applications was much higher, the percentage approved for non-housing assistance was notably lower for Hurricanes Katrina and Rita than in 2003 and 2004.

The magnitude of Hurricanes Katrina and Rita posed challenges in providing assistance to an unprecedented number of victims many of whom were widely dispersed across the country. To address these challenges, FEMA developed new approaches and adapted existing approaches to quickly provide assistance and improve communication with victims. Despite these efforts, management challenges in staffing and training and program restrictions limited the effectiveness and efficiency of the disaster assistance process. FEMA has proposed a number of initiatives to address these problems, but it is too early to determine whether these efforts will effectively address the problems identified.

GAO identified the potential for significant fraud and abuse as a result of FEMA's management of the IHP in response to Hurricanes Katrina and Rita. Flaws in the registration process resulted in what GAO estimated to be between \$600 million and \$1.4 billion in improper and potentially fraudulent payments due to invalid registration data. In addition, duplicate payments were made and FEMA lacked accountability over \$2,000 debit cards that were given to disaster victims.

**Disaster Recovery Center where disaster victims applied for Individual and Households Program benefits after Hurricane Katrina in St. Bernard Parish, Louisiana.**



Source: GAO.

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## Abbreviations

DHS	Department of Homeland Security
EP&R	Emergency, Preparedness and Response
FEMA	Federal Emergency Management Agency
HUD	Department of Housing and Urban Development
IHP	Individuals and Households Program
NPSC	National Processing Service Center
ONA	Other Needs Assistance
SBA	Small Business Administration
SSN	Social Security Number

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United States Government Accountability Office  
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September 27, 2006

### Congressional Committees

Making landfall in late August 2005, Hurricane Katrina was the costliest hurricane, and one of the deadliest, in U. S. history. In its May 2006 Report, the Senate Committee on Homeland Security and Governmental Affairs estimated Hurricane Katrina was responsible for over \$150 billion in damages and over 1,500 deaths, with thousands more reported missing. Hurricane Katrina devastated much of the Gulf Coast; the storm surge caused major or catastrophic damage along the coastlines of Alabama, Mississippi, and Louisiana. About 80 percent of New Orleans, the largest city affected, was flooded when levees protecting the city broke. Hurricane Katrina ultimately affected 90,000 square miles, an area almost as large as the United Kingdom.

Hurricane Rita caused further devastation, making landfall on the Gulf Coast in September 2005. The most intense Gulf of Mexico hurricane ever recorded, Rita caused an estimated \$9.4 billion in damages—making it the ninth costliest storm in the U.S. history. The storm killed 7 people directly, and at least another 55 during evacuations and from indirect effects, such as carbon monoxide poisoning.

The Robert T. Stafford Disaster Relief and Emergency Assistance Act<sup>1</sup> (“the Stafford Act”) grants the principal authority for the President to provide assistance in mitigating, responding to, and preparing for disasters and emergencies such as earthquakes, hurricanes, floods, tornadoes, and terrorist acts. The mission of the Federal Emergency Management Agency (FEMA), within the Department of Homeland Security (DHS), which administers the Stafford Act, is to reduce loss of life and property and protect the nation from all types of hazards, through a comprehensive, risk-based emergency management program. Section 408 of the Stafford Act, 42 U.S.C. § 5174, is the general authority for the President to provide assistance to individuals and households. This section encompasses housing assistance as well as “other needs” assistance, which includes medical, dental, funeral, personal property, transportation, and other financial assistance for certain needs arising from a major disaster. These

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<sup>1</sup> 42 U.S.C. §§ 5121-5206.

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two types of assistance are administered by FEMA under the Individuals and Households Program (IHP). The IHP provides housing and “other needs” assistance (ONA) in the forms of direct assistance (the provision of temporary housing units) and financial assistance (grant funding for temporary housing and other disaster-related needs) to eligible disaster victims. Before providing assistance, FEMA is to conduct inspections of disaster victims’ homes to verify damage, ownership, and occupancy. As part of the application process, FEMA refers disaster victims who apply for assistance and meet established income levels to the Small Business Administration (SBA). SBA’s Disaster Loan Program is intended to be a primary resource available to aid in disaster victims’ recovery. Applicants who are denied loan assistance by SBA or have remaining unmet needs are sent back to FEMA for an assistance determination of their eligibility for certain types of other needs assistance.

In light of widespread congressional and public interest in U.S. agencies’ performance in providing assistance to hurricane victims, we prepared this report under the Comptroller General’s authority to conduct evaluations on his own initiative to review the events and aftermath surrounding Hurricanes Katrina and Rita. This report discusses (1) how the types and amounts of assistance provided to victims of Hurricanes Katrina and Rita through the IHP compare to other recent hurricanes, (2) the challenges posed by the magnitude of the requests for assistance following Hurricanes Katrina and Rita and FEMA’s response to these challenges, and (3) the vulnerability of the IHP to fraud, and abuse, in the wake of Hurricanes Katrina and Rita.

To describe the types and amounts of benefits FEMA provided to victims of Hurricanes Katrina and Rita through IHP in comparison to assistance provided in other hurricane disasters, we interviewed agency officials and obtained and analyzed data provided by FEMA’s National Processing Service Center in Winchester, Virginia. We compared IHP disaster assistance provided under Hurricanes Katrina and Rita to assistance provided after other hurricane-related disaster declarations occurring in calendar years 2003 through 2005, to the extent data were available. We selected hurricane disaster declarations that occurred either in a single state or in multiple-states simultaneously since IHP was implemented in fiscal year 2003 and determined that the data were sufficiently reliable for the purposes of our review.

To determine the challenges FEMA faced and the actions FEMA took to respond to these challenges, we interviewed FEMA officials and reviewed and analyzed federal legislation and regulations applicable to FEMA

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disaster assistance programs and relevant FEMA policies, guidance, and processes including changes to existing IHP processes, procedures, and assistance during and after the hurricanes. We also analyzed IHP budgets, staffing, and performance measures, and prior audit reports and assessments.

To determine the vulnerability of the program to problems of fraud and abuse, our investigators conducted statistical sampling, data mining<sup>2</sup> and undercover operations. We interviewed FEMA officials and observed contract inspectors assessing damaged residential properties in New Orleans. We reviewed IHP processes and procedures for determining applicant eligibility for specific types of IHP assistance. Although we did identify potentially fraudulent, improper, and abusive IHP applications, our work was not designed to identify, and we cannot determine, the full extent of fraudulent, improper, and abusive IHP registrations. We conducted our audit work between January 2006 and September 2006 in accordance with generally accepted government auditing standards. We conducted our investigative work between October 2005 and September 2006 in accordance with the standards prescribed by the President's Council on Integrity and Efficiency. Our scope and methodology are discussed in greater detail in appendix I.

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## Results in Brief

For Hurricanes Katrina and Rita, FEMA received more than 2.4 million applications for housing and other needs assistance and awarded \$7.0 billion in financial assistance to applicants, as compared to the 2004 hurricane season when FEMA received 1.4 million applications and awarded \$1.4 billion in total grants. Two categories of assistance—temporary housing assistance and expedited assistance accounted for much of the significant increase in IHP expenditures for Hurricanes Katrina and Rita as compared to prior years. FEMA also provided a much greater amount of assistance for Hurricanes Katrina and Rita than in prior years for specific types of ONA benefits that are primarily provided only after applicants apply for and are denied an SBA disaster loan, indicating that the percentage of lower income applicants may have been a significant portion of total applicants. While the approval rate for housing assistance was greater than in previous years, the approval rate for ONA

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<sup>2</sup> Data mining involves obtaining large databases of transactions and related activity and using software to search or “mine” data looking for suspicious transactions or patterns of activity.



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was notably lower for Hurricanes Katrina and Rita than the two previous hurricane seasons; 41 percent as compared to 65 percent in 2003 and 50 percent in 2004.

Hurricanes Katrina and Rita posed numerous, unprecedented challenges to IHP implementation. These challenges related to the sheer volume of applications combined with the temporary relocation of hurricane victims. FEMA responded to the challenges of Hurricanes Katrina and Rita by developing new approaches and adapting existing approaches to implement IHP. For example, FEMA used a new approach to provide Public Assistance funding to transition victims from short-term lodging, including shelters, hotels and motels to travel trailers and mobile homes, and finally to apartments to address longer-term housing needs until it could develop a strategy for implementing its Individual Assistance program. FEMA also provided transitional housing (financial) assistance for the first time that was intended to advance an amount equal to 3 months of housing costs calculated using the national average fair market rent for a two-bedroom apartment. To provide more access to disaster victims dispersed across the United States, FEMA enhanced its existing Internet systems capacity, doubling the number of applicants who could be on line simultaneously and opened additional call centers by working with the Internal Revenue Service and the private sector, among others. Despite these and other initiatives to address challenges in the aftermath of the hurricanes, reported ongoing management challenges and limitations hindered FEMA's implementation of the IHP. We, as well as six federal reports we reviewed, identified a lack of planning and trained staff to process initial applications, respond to applicant questions, and conduct inspections, as well as programmatic restrictions on the uses of funds that limited FEMA's flexibility in using IHP assistance in the most efficient and effective manner. In May 2006, FEMA announced a number of initiatives to address some of its ongoing management challenges, but it is too early to determine whether these efforts will effectively address these concerns.

The unprecedented challenges posed by Hurricanes Katrina and Rita exposed the IHP to fraud and abuse. The results of our investigative work, conducted between October 2005 and September 2006, found that flaws existed in the applications process for disaster victims, which left the federal government vulnerable to potentially significant fraud and abuse of IHP expedited assistance payments. We estimated that, as of February 2006, 16 percent, or approximately \$1 billion, in FEMA IHP payments were improper and potentially fraudulent due to invalid application data such as Social Security Numbers and addresses. The 95 percent confidence interval associated with our estimate of improper and potentially

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fraudulent registrations ranges from a low of \$600 million to a high of \$1.4 billion in improper and potentially fraudulent payments. In addition, duplicate payments were made to individuals in the same household and concurrent payments were made for lodging (i.e., FEMA IHP paid both for rental and hotel lodging for the same household). Furthermore, FEMA lacked accountability over \$2,000 debit cards that were given to disaster victims to provide immediate disaster assistance. FEMA also lacked controls over proper debit card usage. For example, we found that debit cards were used for items or services such as a Caribbean vacation, professional football tickets, and adult entertainment. Finally, FEMA had not developed a comprehensive strategy for identifying and recouping improper payments.

Based on the findings in our testimony of June 14, 2006,<sup>3</sup> we are recommending that the Secretary of DHS direct the Director of FEMA to take a number of actions to address the potential for fraud and abuse in the IHP, including implementing changes to its systems and processes to reject, and immediately inform applicants of, damaged addresses that are PO boxes and to identify damaged addresses that are not primary residences; establishing address verification procedures to validate that the address an applicant claimed as damaged was the applicant's primary residence at the time of the disaster and deal with applications where FEMA or other inspectors have concluded that the damaged address was bogus; establishing procedures to provide reasonable assurance that individuals staying in FEMA or other paid for hotel rooms are not also provided IHP rental assistance payments for the time they are in the paid for hotel rooms; and augmenting procedures for future disasters to provide reasonable assurance of accountability over debit card distribution. FEMA fully concurred with 9 of our 13 recommendations, and responded that it had taken, or is in the process of taking, actions to implement these recommendations. Although FEMA stated that it only partially concurred with the remaining 4 recommendations related to hotel reimbursements to the Red Cross and debit card accountability, FEMA's responses indicate that it substantially agreed with the key objectives of the 4 recommendations.

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<sup>3</sup> GAO, *Hurricanes Katrina and Rita Disaster Relief: Improper and Potentially Fraudulent Individual Assistance Payments Estimated to Be Between \$600 Million and \$1.4 Billion*, [GAO-06-844T](#) (Washington, D.C.: June 14, 2006).

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While FEMA substantially agreed with our recommendations, FEMA questioned the validity of our statistical sampling and resulting projection of fraudulent and improper payments. Specifically, FEMA disagreed with our estimate that \$600 million to \$1.4 billion—or 10 to 22 percent—of individual assistance payments through February of 2006 were associated with potentially fraudulent and improper registrations. FEMA responded that it disagreed with our estimate because it was substantially larger than FEMA’s historical average of 1 to 3 percent of program fraud. However, FEMA’s reported fraud rate of 1 to 3 percent is not based on an independent, comprehensive statistical sample of the entire population of individual assistance payments; instead, the 1 to 3 percent FEMA estimate is simply the amount of overpayments that it identifies based on its own internal processes and procedures. GAO’s estimate of 16 percent—or \$1 billion—was based on an independent, random statistical sample of all 2.6 million claims, totaling \$6.3 billion, through February of 2006.

FEMA’s written comments are presented in appendix II.

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## Background

The purpose of the Stafford Act is to provide an orderly and continuing means of assistance by the federal government to state and local governments in carrying out their responsibilities to alleviate the suffering and damage which results from disasters. The Stafford Act originally was enacted in 1974 and amended in 1988, 1993, and 2000. The Disaster Mitigation Act of 2000<sup>4</sup> established the IHP by combining two previous disaster grant programs - - the Temporary Housing Assistance and Individual Family Grant programs. Under the IHP, these programs were replaced by Housing Assistance and Other Needs Assistance. Looking specifically at the Housing Assistance component of the IHP, section 408 of the Stafford Act authorizes five types of assistance, of which four are relevant to disaster victims of Hurricanes Katrina and Rita:<sup>5</sup>

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<sup>4</sup> Pub. L. No. 106-390.

<sup>5</sup> The fifth form of assistance is permanent housing construction in insular and other remote areas. Section 408 of the Stafford Act authorizes direct assistance to disaster victims to construct permanent housing in insular areas and other remote locations, i.e., the Virgin Islands, American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and in Puerto Rico and other remote locations. This form of housing assistance is explicitly limited to insular and other remote areas where no alternative housing resources are available and the other forms of authorized temporary housing assistance are “unavailable, infeasible, or not cost effective.”

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**(1) Financial assistance to rent temporary housing.** FEMA may provide financial assistance to individuals or households to rent alternative housing accommodations, existing rental units, manufactured housing, recreational vehicles, or other readily fabricated dwellings.<sup>6</sup>

**(2) “Direct” temporary housing assistance.** FEMA may provide temporary housing units (e.g., mobile homes and travel trailers), acquired by purchase or lease, directly to disaster victims, who, because of a lack of available housing resources, would be unable to make use of financial assistance to rent alternate housing accommodations. In other words, direct assistance would be available in situations where rental accommodations are not available. By statute, direct assistance is limited to an 18-month period, after which FEMA may charge fair market rent for the housing unless it extends the 18-month free-of-charge period due to extraordinary circumstances.<sup>7</sup>

**(3) Repair assistance.** Under this authority, FEMA may provide financial assistance for the repair of owner-occupied private residences, utilities, and residential infrastructure damaged by a major disaster. However, the maximum amount of repair assistance provided to a household is limited to \$5,000, adjusted annually to reflect changes in the CPI.<sup>8</sup>

**(4) Replacement assistance.** This form of housing assistance authorizes funding to replace owner-occupied private residences. The amount of replacement assistance FEMA may provide to a household is limited to \$10,000, adjusted annually to reflect changes in the CPI.<sup>9</sup> For a victim to receive this assistance, there

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<sup>6</sup> 42 U.S.C. § 5174(c)(1)(A).

<sup>7</sup> 42 U.S.C. § 5174(c)(1)(B).

<sup>8</sup> 42 U.S.C. § 5174(c)(2)(C). In 2005, the maximum was \$5,200. For 2006, the maximum is \$5,400.

<sup>9</sup> 42 U.S.C. § 5174(c)(3)(B). In 2005, the maximum was \$10,500. For 2006, the maximum is \$10,900.

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must have been at least \$10,000 of damage to the dwelling. The victim may use the assistance toward replacement housing costs.<sup>10</sup>

As of September 25, 2006, proposed legislation was pending before Congress that would, among other things, eliminate the cap on home repair and replacement assistance.<sup>11</sup>

FEMA may provide ONA grant funding for public transportation expenses, medical and dental expenses, and funeral and burial expenses. ONA grant funding may also be available to replace personal property, repair and replace vehicles, and reimburse moving and storage expenses under certain circumstances. The maximum financial amount of housing and other needs assistance that an individual or household may receive is capped at \$25,000, adjusted annually to reflect changes in the Consumer Price Index.<sup>12</sup> Eligibility for IHP assistance is determined when an individual or household applies with FEMA and is based on the amount of property damage resulting from the disaster.

For disaster victims with financial resources, SBA's Disaster Loan Program is intended to be a primary resource available to aid in their recovery. FEMA refers disaster victims who apply for assistance and meet established income levels to SBA. Applicants who are denied loan assistance by SBA or have remaining unmet needs are sent back to FEMA for an assistance determination of their eligibility for certain types of ONA grant funding. (We reported on SBA's efforts to provide disaster loans in response to the 2005 hurricanes in July 2006<sup>13</sup> and expect to issue another report on SBA's response later this year.) Table 1 provides an overview of IHP benefits and identifies the ONA benefits that are subject to SBA disaster loan eligibility.

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<sup>10</sup> 44 C.F.R. § 206.117(b)(3).

<sup>11</sup> On July 27, 2006, the Senate Homeland Security and Governmental Affairs Committee approved and reported a bill (S. 3721) that, among other things, would make amendments to Section 408(c) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5174(c)) to eliminate the maximum amounts of assistance available under the IHP for home repair or replacement. This legislation has not yet been approved by the full Congress.

<sup>12</sup> In 2005, the maximum was \$26,200. For 2006, the maximum is \$27,200.

<sup>13</sup> GAO, *Small Business Administration: Actions Needed to Provide More Timely Disaster Assistance*, [GAO-06-860](#) (Washington, D.C.: July 28, 2006).

**Table 1: IHP Disaster Assistance Benefits**

Individuals & Households Program components	Types of benefits available	Amount (maximum amount of IHP financial assistance is \$27,200, adjusted to reflect changes in the CPI for 2006)
Housing Assistance	Rental Assistance funds Repair Assistance funds Replacement Assistance funds	Based on area fair market rent Maximum: \$5,400 Maximum: \$10,900
	Direct assistance (manufactured housing, mobile homes, or travel trailers provided directly to disaster victims)	Does not apply toward financial assistance limit.
Other Needs Assistance	Moving and Storage <sup>a</sup>  Personal Property Repair or Replacement (furniture, clothing, appliances and essential tools) <sup>a</sup> Transportation <ul style="list-style-type: none"> <li>• Repairing or replacing vehicles<sup>a</sup></li> <li>• Financial assistance for public transportation and any other transportation related costs or services</li> </ul>	Maximums subject to total IHP benefit limit of \$27,200  The state establishes ONA award levels related to vehicle repairs, vehicle replacement, and funeral grants
	Expedited Assistance funds <sup>b</sup>	Maximum \$500 <sup>c</sup>

Source: GAO generated based on FEMA data.

<sup>a</sup>FEMA may provide ONA grant funding for these expenses if an applicant is ineligible for a Small Business Administration (SBA) disaster loan.

<sup>b</sup>The expedited assistance process is not specifically authorized in the Stafford Act. However, FEMA previously has asserted, and we have agreed, that it has legal authority under the Act to implement expedited, or fast track, procedures. On July 24, 2006, FEMA changed the administration of expedited assistance to under the provisions of the ONA component. Prior to the change, expedited assistance was under the provisions of the housing assistance component.

<sup>c</sup>FEMA changed the maximum from \$2,000 to \$500 on July 24, 2006.

FEMA manages the IHP primarily through a decentralized structure of permanent and temporary field offices staffed mostly by contract and temporary employees. The offices include permanent locations at the FEMA Recovery Division in FEMA Headquarters, regional offices, National Processing Service Centers, and temporary locations at Joint Field Offices, Area Field Offices, and Disaster Recovery Centers. Once the President declares a major disaster that is eligible for federal assistance, victims in declared counties must first apply for it with FEMA, by phone, over the Internet, or in person at a disaster recovery center. Figure 1 shows disaster victims waiting to speak with temporary disaster staff in October 2005 at a Disaster Recovery Center in St. Bernard Parish, Louisiana.

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**Figure 1: Disaster Recovery Center Where Disaster Victims Apply for Individual and Households Program Benefits, St. Bernard Parish, Louisiana**



Source: GAO.

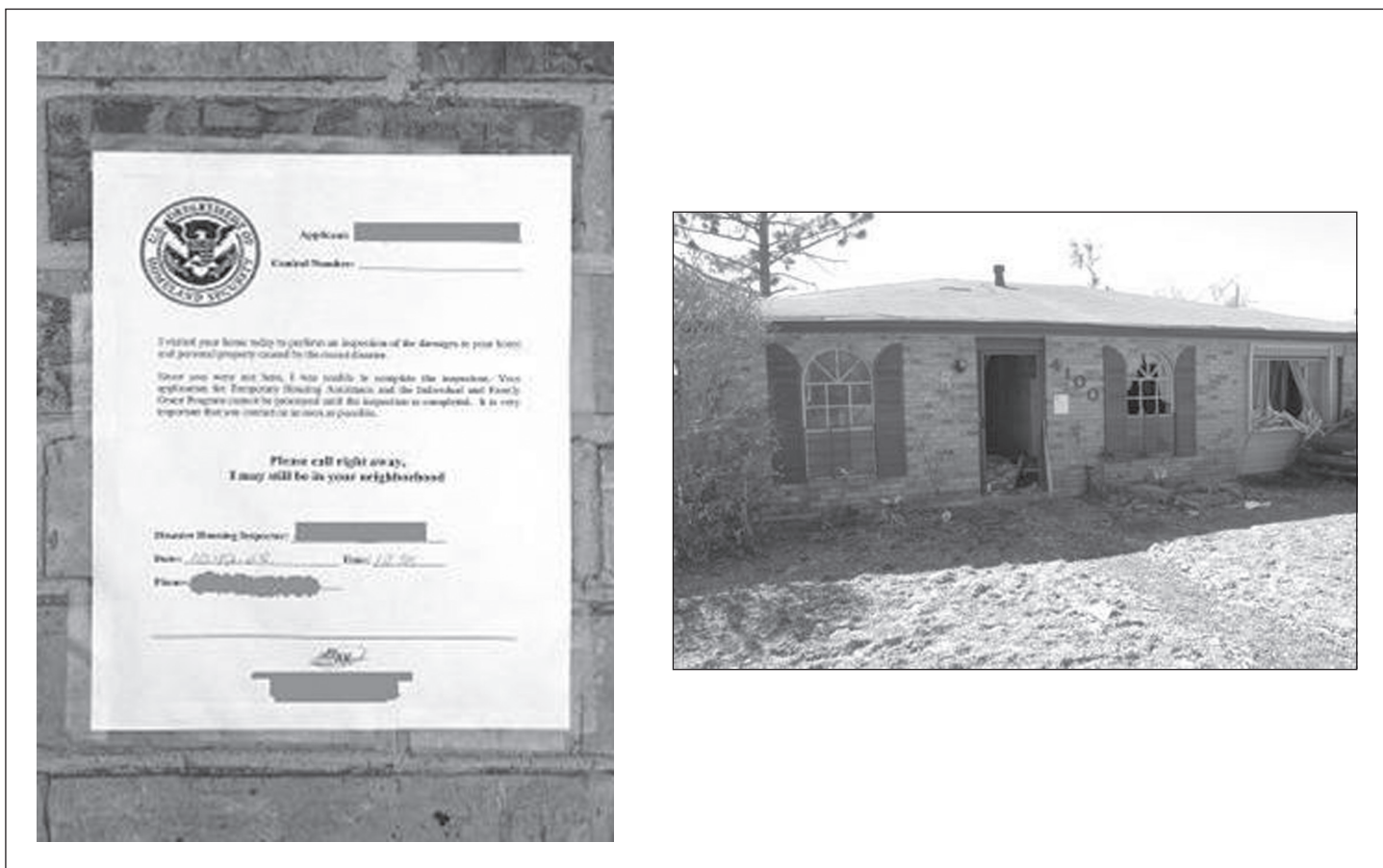
Once a FEMA representative records personal information from a disaster application and provides the applicant with a FEMA application number, FEMA's National Emergency Management Information System automatically determines potential eligibility for designated categories of assistance.<sup>14</sup> FEMA refers disaster victims who apply for moving and storage, personal property repair or replacement, and/or vehicle repair or replacement related grant funding assistance and meet established income levels to SBA. Applicants who are denied loan assistance by SBA or have remaining unmet needs are sent back to FEMA for an assistance determination of their eligibility for certain types of ONA grant funding. To confirm that the home and personal property sustained damages as reported in a disaster assistance application, FEMA is to meet with disaster victims at their homes to conduct individual inspections to verify,

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<sup>14</sup> The National Emergency Management Information System also interfaces with SBA's information systems to refer applicants (based on self-declared income and number of individuals in household) to SBA for loans.

ownership, occupancy, and damage. Figure 2 shows a FEMA inspection notice on a home in St. Bernard Parish damaged by Hurricane Katrina.

**Figure 2: FEMA Individuals and Households Program Inspection Notice on a Home in St. Bernard Parish Damaged by Hurricane Katrina**



Source: GAO.

Based on the results of the inspection and determinations made by staff at the National Processing Service Centers, FEMA approves or denies housing and/or other needs assistance. (Applicants may be eligible for either or both types of assistance.) If the applicant qualifies for a grant, FEMA sends the applicant a check by mail or deposits the grant funds in the applicant's bank account. If an applicant is denied, he or she may appeal the decision by contacting a service center and providing additional information or clarification. Recipients of IHP assistance must recertify their continuing need for assistance every 30 to 90 days, depending on the



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type of assistance. Additional details about federal disaster assistance and IHP including the types of and eligibility for benefits, how the program is structured and implemented and the process for applying for and receiving program assistance are provided in appendix III.

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## IHP Assistance to Victims of Hurricanes Katrina and Rita Far Surpassed Assistance to Victims of 2003 and 2004 Hurricane Seasons

Because of the magnitude of the hurricanes and the extent of the resulting damage, the total number of applications for, and benefits provided through IHP in 2005 for Hurricanes Katrina and Rita far exceeded the combined total of the 2 years since the program was established in 2003.<sup>15</sup> Two categories of assistance—temporary housing assistance and expedited assistance—accounted for much of the significant increase in IHP expenditures for Hurricanes Katrina and Rita as compared to prior years. FEMA also provided a much greater amount of assistance for Hurricanes Katrina and Rita, than in prior years, for specific types of ONA benefits that are primarily provided only after applicants apply for and are denied an SBA disaster loan, indicating that the percentage of lower income applicants may have been a significant portion of total applicants. While the approval rate for housing assistance was greater than in previous years, the approval rate for ONA was notably lower for Hurricanes Katrina and Rita than the 2 previous hurricane seasons; 41 percent as compared to 65 percent in 2003 and 50 percent in 2004. Accordingly, the percentage of applicants FEMA identified as ineligible for housing assistance was lower while the percentage of ineligible applicants for ONA was higher for Hurricanes Katrina and Rita (44 percent) than for named hurricanes that came ashore in 2004 (31 percent). To establish a basis for eligibility, FEMA had to conduct a much greater number of inspections and accordingly, the related cost of those inspections were greater with Hurricanes Katrina and Rita than in 2003 and 2004 combined. Although FEMA referred more applicants to SBA for disaster loans for Hurricanes Katrina and Rita than in the prior 2 years, SBA returned about the same percentage of disaster loan applicants to FEMA for ONA consideration.

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<sup>15</sup> GAO selected hurricane disaster declarations based on the criteria of (1) the disaster occurring since IHP was implemented in fiscal year 2003 and (2) the disaster declaration occurred either in a single state or in multiple-states simultaneously.

**IHP Applications, Benefits and Related Inspection Workload Were Greater for Hurricanes Katrina and Rita than in 2 Preceding Years**

FEMA received far more IHP applications, approved more requests for Housing and Other Needs Assistance, and awarded more grant money in 2005-2006 for Hurricanes Katrina and Rita than for all the hurricanes that resulted in a disaster declaration in 2004 (Ivan, Charley, Frances, and Jeanne) and 2003 (Isabel and Claudette) combined. Table 2 shows the number of applicants approved for both categories of IHP assistance and the grant award totals—as of August 2006, for Hurricanes Katrina and Rita and named hurricanes that came ashore in the United States in 2004.<sup>16</sup> The table also shows the number of applications received by FEMA—as of September 2006. The number of applicants and both categories of IHP assistance for the 2003 named hurricanes were provided by FEMA as of April 2006.<sup>17</sup>

**Table 2: Comparison of Applications (as of September 2006), Approvals and Grant Awards for Hurricanes Katrina and Rita and Named Hurricanes That Came Ashore in the United States in 2004 (as of August 2006) and 2003 (as of April 2006)**

	<b>Total applications for FEMA assistance</b>	<b>Housing assistance approvals<sup>b</sup></b>	<b>ONA approvals<sup>b</sup></b>	<b>Total grant awards</b>
Hurricanes Katrina and Rita <sup>a</sup>	2.4 million	1.3 million	556,000	\$7.0 billion
2004	1.4 million	382,000	495,000	1.4 billion
2003	179,000	45,000	45,000	158 million

Source: GAO analysis based on FEMA data.

<sup>a</sup>In 2005, FEMA authorized Individual Assistance for disaster declarations in Alabama and Florida for Hurricane Dennis; Alabama, Mississippi and Louisiana for Hurricane Katrina; Louisiana and Texas for Hurricane Rita; and Florida for Hurricane Wilma.

<sup>b</sup>Individual IHP applicants can be eligible for more than one type of Housing Assistance or ONA category; therefore, some individuals may be counted under both assistance categories.

<sup>16</sup> Hurricanes Katrina and Rita accounted for about 80 percent of the over 3 million applications received and about 95 percent of the total IHP assistance distributed for all named hurricanes that came ashore in 2005.

<sup>17</sup> FEMA data from its National Emergency Management Information System was provided for the 2003 named hurricanes through April 24, 2006. FEMA data was provided for the 2004 and 2005 named hurricanes through September 6, 2006. According to a FEMA official, changes, if any, to the data for the named hurricanes in 2003 from April to August 2006 would be minor enough to prove statistically insignificant.

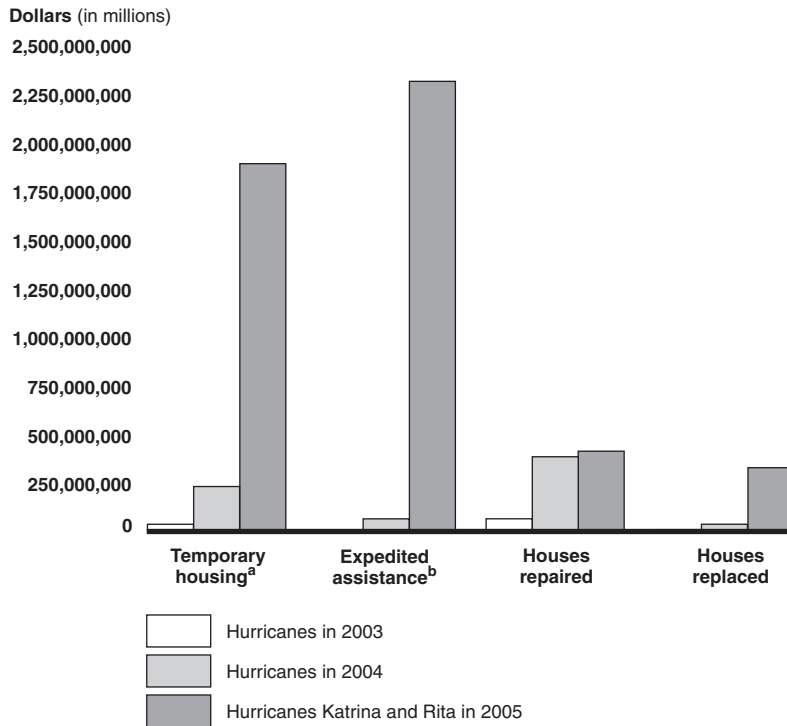
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FEMA data as of August 2006, shows that two categories of assistance—temporary housing assistance and expedited assistance<sup>18</sup> accounted for much of the significant increase in IHP expenditures for Hurricanes Katrina and Rita as compared to prior years, as shown in figure 3. FEMA specifically established a new transitional housing assistance allowance, as part of temporary housing assistance, to advance to Katrina disaster victims an amount equal to the initial 3 months of rental payments based on the national average rent for a 2-bedroom apartment. Expedited assistance is a pre-inspection disbursement of funds to disaster victims based on specific criteria such as the severity of the damage. (See glossary for definitions of all housing and other needs assistance categories.) Transitional housing assistance that was authorized exclusively for Hurricane Katrina, was estimated at about \$1.3 billion while expedited assistance for both Hurricanes Katrina and Rita totaled an about \$2.3 billion. By comparison, about \$59 million was approved for hurricanes in 2004, while no expedited assistance was approved for hurricanes in 2003.

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<sup>18</sup> On July 24, 2006, FEMA changed the administration of expedited assistance to be under the provisions of the ONA component. Prior to the change, expedited assistance was under the provisions of the housing assistance component.

**Figure 3: FEMA's Expenditures for IHP Housing Assistance Grant Awards for Named Hurricanes That Came Ashore in 2003 (as of April 2006), 2004, and Hurricanes Katrina and Rita in 2005 (as of August 2006)**



Source: GAO analysis of NEMIS data.

<sup>a</sup>Temporary housing assistance includes lodging expenses reimbursement and rental assistance. Transitional housing assistance is a component of rental assistance.

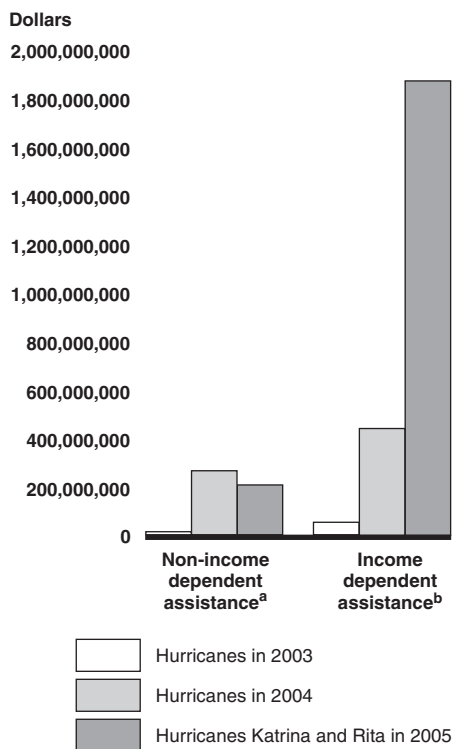
<sup>b</sup>Expedited assistance was not authorized for hurricanes in 2003. On July 24, 2006, FEMA changed the administration of expedited assistance to under the provisions of the ONA component. Prior to the change, expedited assistance was under the provisions of the housing assistance component.

In terms of ONA, figure 4 shows that FEMA provided a much greater amount of income dependent assistance for Hurricanes Katrina and Rita in 2005 than in prior years. Income dependent assistance requires that eligible applicants initially apply for and be denied assistance from the SBA Disaster Loan Program<sup>19</sup> and includes expenses for personal property, moving and storage, and vehicle repair and replacement expenses. For Hurricanes Katrina and Rita, personal property assistance accounted for

<sup>19</sup> SBA applicants may also be referred for ONA if they demonstrate that the SBA assistance provided is insufficient to meet all essential disaster related expenses and needs.

the majority of the income dependent assistance, about \$1.8 billion. In comparison, for the hurricanes in 2003 and 2004, the combined total income-dependent assistance approved was less than \$495 million. Lower income applicants may have made up a significant portion of those receiving ONA benefits because income dependent assistance in the form of personal property assistance was nearly 87 percent of the ONA approved for victims of hurricanes Katrina and Rita.

**Figure 4: FEMA’s Expenditures for IHP Other Needs Assistance Grant Awards for Named Hurricanes That Came Ashore in 2003 (as of April 2006), 2004, and Hurricanes Katrina and Rita in 2005 (as of August 2006)**



Source: GAO analysis of NEMIS data.

<sup>a</sup>Non-Income dependent assistance categories include medical, dental, funeral and other expenses.

<sup>b</sup>Income dependent assistance categories include personal property, moving and storage, and vehicle repair and replacement expenses.

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## Victims of Hurricanes Katrina and Rita Seek Housing Assistance in Numbers Greater than Those for Other Needs Assistance

As of August 2006, FEMA data shows that for Hurricanes Katrina and Rita nearly 2 million applicants applied for Housing Assistance while 1.3 million applicants requested ONA. About 67 percent of applicants for Housing Assistance were approved versus an estimated 41 percent of applicants approved for ONA. Although during Hurricanes Katrina and Rita more applicants were approved for ONA, the percentage of approved applicants was less than for hurricanes in the prior 2 years, whose approval rates were higher than 50 percent in each year. Accordingly, the percentage of applicants FEMA identified as ineligible for housing assistance was lower while the percentage of ineligible applicants for ONA was higher for Hurricanes Katrina and Rita (44 percent) than for named hurricanes that came ashore in 2004 (31 percent).

Table 3 shows, by IHP assistance category, the number and percentage of applicants FEMA considered for IHP assistance as of August 2006 for hurricanes in 2004 and Hurricanes Katrina and Rita, and for hurricanes in 2003 as of April 2006. In addition, the table shows the number and percent of approved, ineligible, and pending IHP applicants. It also shows the number and percent of applicants that appealed FEMA decisions regarding their IHP assistance, for Hurricanes Katrina, Rita and named hurricanes that came ashore in 2003 and 2004. The table does not show the number of IHP applicants who withdrew their application during the evaluation process.<sup>20</sup>

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<sup>20</sup> The number of applicant cases withdrawn from the IHP consideration is not included in the table totals; therefore, the table percentages will not equal 100 percent.

**Table 3: Total Number of IHP Applicants Approved, Ineligible, Pending and Applicant Filing Appeals for Named Hurricanes That Came Ashore in 2003 (as of April 2006), 2004, and Hurricanes Katrina, and Rita in 2005 (as of August 2006)**

	Housing Assistance <sup>a</sup>			ONA Assistance <sup>a</sup>		
	Hurricanes 2003 <sup>b</sup>	Hurricanes 2004 <sup>c</sup>	Hurricanes Katrina and Rita 2005 <sup>d</sup>	Hurricanes 2003 <sup>b</sup>	Hurricanes 2004 <sup>c</sup>	Hurricanes Katrina and Rita 2005 <sup>d</sup>
Number of applicants referred by FEMA to IHP	99,754	1,017,610	1,989,871	91,136	762,786	1,349,865
Number of applicants Approved	45,856	382,069	1,333,738	45,298	495,938	556,109
Percentage of referred applicants approved for assistance	46%	38%	67%	50%	65%	41%
Number of ineligible Applicants	48,243	582,015	520,385	43,055	234,340	595,213
Percentage of referred applicants ineligible for assistance	48%	57%	26%	47%	31%	44%
Number of pending applicants	2	8	70	2	60	2,383
Percentage of referred pending applicants	0.002%	0.001%	0.004%	0.002%	0.008%	0.002%
Number of applicant appeals <sup>e</sup>	23,219	183,338	182,990	4,624	60,941	92,642
Percentage of referred applicants appealing assistance decision	23%	18%	9%	5%	8%	7%

Source: GAO analysis based on FEMA data

<sup>a</sup>Individual IHP applicants can be eligible for assistance from more than one type of IHP category; therefore, some individuals may be counted under both assistance categories.

<sup>b</sup>Calculations based on data for Hurricanes Isabel and Claudette.

<sup>c</sup>Calculations based on data for Hurricanes Ivan, Charley, Frances, and Jeanne.

<sup>d</sup>Calculations based on data for Hurricanes Katrina and Rita.

<sup>e</sup>Applicants who appealed IHP eligibility decisions were counted in approvals, ineligible, or withdrawn application totals but not in the pending application category.

In order to provide the unprecedented level of disaster assistance, FEMA had to significantly increase its number of home inspections. As of August 2006, data reported by FEMA indicates that after Hurricanes Katrina and

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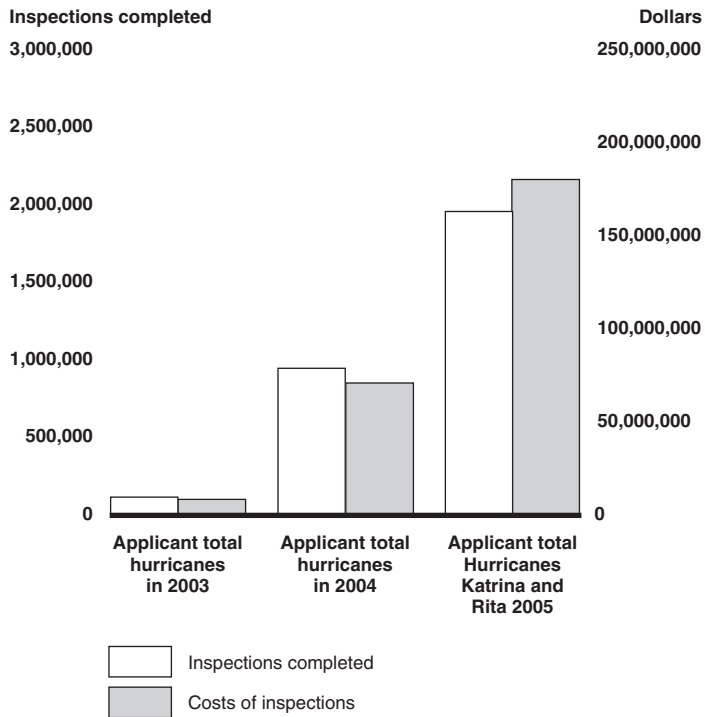
Rita, about 1.9 million inspections<sup>21</sup> were completed at a cost of approximately \$179.6 million, or about \$92 per inspection. For the hurricanes in 2003 and 2004, FEMA completed about 108,000 and 1.0 million inspections at a cost of about \$8.0 million and \$70.3 million or about \$74 and \$75 per inspection, respectively. In August 2006, FEMA reported the average time required for completing inspections—the time between the application for assistance until submission of an inspection report—after Hurricanes Katrina and Rita was about 33 days and 25 days respectively. The average time for completing inspections for the hurricanes in 2003 was 1 to 2 days and in 2004 the average was 4 to 5 days. A FEMA official stated that the goal for conducting inspections is a 3-day turnaround time. Figure 5 compares the number of inspections completed by contractors and the cost of the inspections for the named hurricanes in our review.

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<sup>21</sup> For Hurricane Katrina, about 154, 000 inspections were conducted using geospatial technology. In lieu of standard inspections, FEMA used satellite images and geospatial mapping to determine the depth of water in specific areas in Louisiana and Mississippi.



**Figure 5: Total Number of Inspections Completed and the Total Cost of the Inspections for Named Hurricanes That Came Ashore in 2003 (as of April 2006), 2004, and Hurricanes Katrina and Rita in 2005 (as of August 2006)**



Source: GAO analysis based on NEMIS data.

According to a FEMA official, the following factors had an impact on the higher per inspection costs for Hurricanes Katrina and Rita:

- Both of FEMA’s inspection contractors had automatic annual increases on a per inspection basis built into their contract.
- Automatic annual increases from 2004 to 2005 for maintaining on-call availability were also included in the contracts.
- For 2005, FEMA added a new requirement for inspectors to photograph disaster damage that added to the cost per inspection.
- The contractors increased the per inspection cost in December 2005 when FEMA extended the contract beyond the initial 5-year period of performance.

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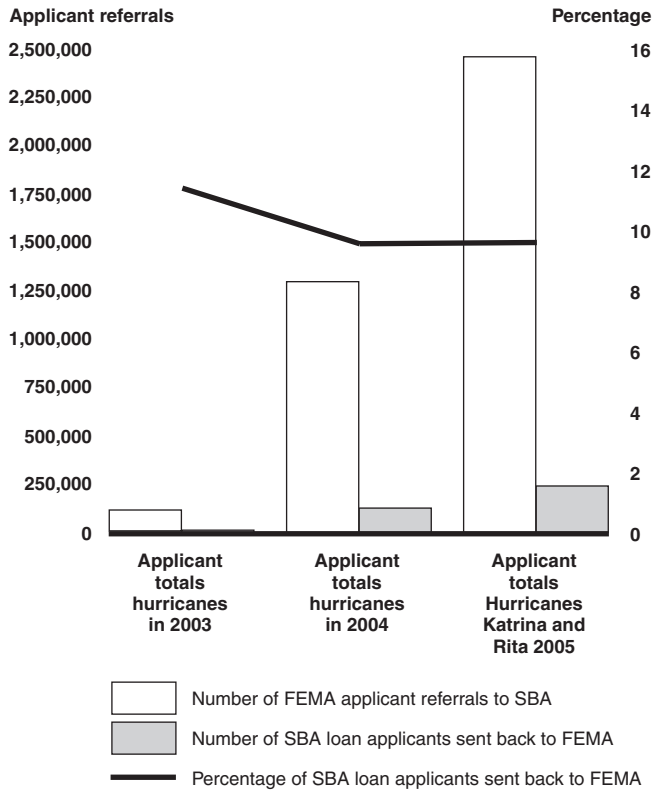
**Percentage of SBA  
Disaster Applicants Sent  
Back to FEMA's ONA for  
Hurricanes Katrina and  
Rita Was Comparable to  
Those after Hurricanes in  
2003 and 2004**

For Hurricanes Katrina and Rita, FEMA referred about 2.5 million applicants to SBA for assistance through its Disaster Loan Program.<sup>22</sup> For hurricanes in 2003 and 2004, FEMA referred fewer applicants—about 107,000 and 1.3 million applicants respectively, to the SBA. As of August 2006, data reported by FEMA show that nearly 10 percent of applicants were sent back to FEMA from SBA for ONA consideration. In comparison, during hurricanes in 2003 and 2004, SBA sent back to FEMA a comparable percentage of applicants—about 12 percent and 10 percent respectively, which indicates that SBA's loan denial rate was relatively consistent although more applicants were referred for Hurricanes Katrina and Rita than in the prior 2 years. Figure 6 shows the number of applicants referred to the SBA for loan assistance and the number of applicants the SBA sent back to FEMA for ONA in 2003, 2004, and for Hurricanes Katrina and Rita in 2005.

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<sup>22</sup> As of June 2006, SBA data shows that about \$7.3 billion in disaster home loans were approved for Hurricanes Katrina and Rita, of which nearly \$6.6 billion was attributable solely to Hurricane Katrina.

**Figure 6: Number and Percentage of FEMA Referrals to SBA for Disaster Loans and the Number of SBA Disaster Loan Applicants Sent Back to FEMA for ONA for the Named Hurricanes That Came Ashore in 2003 (as of April 2006), 2004, and Hurricanes Katrina and Rita in 2005 (as of August 2006)**



Source: GAO analysis of NEMIS data.

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**FEMA Responded to the Challenges of Hurricanes Katrina and Rita with New Approaches, yet Reported Ongoing Management Challenges Hindered Implementing IHP**

Faced with unprecedented challenges in the aftermath of Hurricanes Katrina and Rita, FEMA devised new approaches and adapted pre-existing ones to administer the IHP. However, our work and six federal reports we reviewed pointed to ongoing management challenges which hindered IHP implementation. These management challenges included a lack of planning and trained staff, and programmatic restrictions on the uses of IHP funds that limited FEMA's flexibility in using IHP assistance in the most efficient and effective manner. In May 2006, FEMA announced initiatives to address the problems and recommendations cited in the various reports. However, it is too early to assess the success of these initiatives.

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**FEMA Used New Approaches to Address Hurricanes' Unprecedented Challenges**

Hurricanes Katrina and Rita posed numerous unprecedented challenges for FEMA's administration of the IHP. These challenges arose from the sheer number of victims seeking assistance, including many who had lost key financial, residential, and other documentation in the storms, and the dispersal of these victims throughout the United States. As a result, FEMA was also challenged to conduct an unprecedented number of housing inspections, often with limited or no access to individuals or, in many cases, to the affected homes. To provide benefits quickly to eligible victims, communicate with about 2 million applicants scattered across the country and conduct inspections, FEMA developed a number of new approaches, as summarized in table 4.

**Table 4: IHP Challenges and New Approaches**

Challenge	New Approach
Provide shelter and housing assistance to an unprecedented number of disaster victims quickly	<p>FEMA initially used Public Assistance funding until it could develop a longer term strategy for implementing its Individual Assistance program to transition victims from short-term lodging, including shelters, hotels and motels to travel trailers and mobile homes, and finally to apartments to address longer-term housing needs.<sup>a</sup></p> <p>For Katrina, for the first time, FEMA provided \$2,000 debit cards in a pilot distribution to approximately 11,000 disaster victims in three shelters with large numbers of disaster victims.</p>
Provide assistance to disaster victims dispersed across the United States (to provide application and eligibility information)	<p>FEMA created new IHP procedures to allow multiple household members separated by the disaster to receive rental assistance. As a result of Hurricanes Katrina and Rita, thousands of families evacuated to locations across the country and in some circumstances required families to temporarily separate. As a result, providing assistance to multiple household members was warranted, according to FEMA.</p> <p>For the first time, FEMA established a program to relocate out-of-state disaster victims to find temporary housing or reunite with family members sheltered in another state, according to FEMA.</p> <p>FEMA used new methods such as automated dialing with recorded messages and having disaster assistance employees go door to door to communicate with disaster victims.</p> <p>FEMA worked with the post office to establish mail offices in shelters with large numbers of disaster victims.</p>
Conduct inspections for a large number of homes, with limited or no access, and for homeowners who may not be available during the inspection.	<p>FEMA used remote sensing (satellite technology or airplane flyovers) to complete inspections in areas that were not accessible in five Louisiana Parishes and three Mississippi Counties.<sup>b</sup></p> <p>FEMA established a third party inspection option allowing individuals who could not return home to designate a representative to meet with a FEMA inspector on their behalf.</p> <p>FEMA established a procedure to provide personal property assistance when (1) the exterior damage clearly indicated the residence was uninhabitable (2) the applicant was unable to return to the area to meet with the inspector and (3) there was no available designee for a third party inspection.</p>

Source: GAO analysis of data from FEMA Recovery Division.

<sup>a</sup>FEMA was still providing short-term lodging assistance to some disaster victims in Texas under the Public Assistance program as of August 2006, according to FEMA's Acting Deputy Director for the Recovery Division. In most circumstances, manufactured housing, including mobile homes, travel trailers and modular housing are primarily funded under IHP.

<sup>b</sup>Satellite technology was used to conduct inspections in Orleans, Jefferson, St. Bernard, St. Tammany, and Plaquemines parishes in Louisiana; and Jackson, Harrison, and Hancock counties in Mississippi. This technology was also used in lieu of on-site inspections to expedite payments for about 10 percent of the flood insurance claims for Katrina victims.

In addition, FEMA adapted several of its traditional approaches to respond to Hurricanes Katrina and Rita, according to FEMA, as summarized in table 5.

**Table 5: IHP Challenges and Adaptations of Traditional Approaches**

Challenge	Adaptation to Traditional Approach
Provide shelter and housing assistance to an unprecedented number of disaster victims quickly	<p>FEMA deployed contract inspectors and computer equipment to facilitate the applications of disaster victims in mass shelters, in addition to traditional locations at temporary disaster relief centers.</p> <p>FEMA contracted for expanded mail processing functions to keep pace with the volume of incoming and outgoing mail and to ensure that documents needed to complete case processing were scanned and indexed into applicant files in a timely manner.</p> <p>FEMA revised its procedures to provide financial housing assistance in advance for multiple months (rather than on a month-by-month basis)—referred to as transitional housing assistance—that was intended to represent 3 months of housing costs calculated using the national average fair market rent for a two-bedroom apartment, according to FEMA.</p>
Provide assistance to victims dispersed across the United States (to provide application and eligibility information)	<p>FEMA doubled its existing Internet systems capacity related to the number of applicants that could be on line at the same time.</p> <p>FEMA opened additional call centers by working with Internal Revenue Service and the private sector, among others.</p> <p>FEMA added options to its Interactive Voice Recognition system to allow victims to get information without speaking to a caller agent, according to FEMA.</p> <p>FEMA extended its tele-registration and call center operations for more than 176 days after Hurricane Katrina struck, considerably longer than prior disasters, according to FEMA.</p>
Conduct inspections for a large number of homes, with limited or no access, and for homeowners who may not be available during the inspection.	FEMA doubled its normal contract inspection workforce, using all of its approximate 4,000 contract inspectors for Hurricanes Katrina and Rita.

Source: GAO analysis of data from FEMA Recovery Division.

**Despite New Approaches, Reported Ongoing Management Challenges Hindered Implementing IHP**

Each of the assessments of the federal government’s response to Hurricanes Katrina and Rita we reviewed identified problems in FEMA’s implementation of IHP during and after the storms. Our review and our assessment of these reports showed that the agency’s efforts to implement the IHP were hindered by a lack of planning, trained staff, and program limitations, despite its new and revised approaches for implementing the program. A list of these assessments is provided in table 7. In addition, a summary of Katrina- and Rita-issues related to the IHP addressed in these reports is identified in appendix IV.

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**Table 6: Recent Assessments of FEMA's Performance in Response to Hurricanes Katrina and Rita**

Date	Title	Source
November 15, 2005	Performance and Accountability Report Fiscal Year 2005	Department of Homeland Security
February 13, 2006	DHS/FEMA Initial Response Hotwash: Hurricane Katrina in Louisiana	Department of Homeland Security
February 15, 2006	A Failure of Initiative: Final Report of the Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina	House of Representatives
February 23, 2006	The Federal Response to Hurricane Katrina: Lessons Learned	The White House
March 31, 2006	A Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina	Department of Homeland Security Office of Inspections and Special Reviews
May 2006	Hurricane Katrina: A Nation Still Unprepared	Report of the Committee on Homeland Security and Governmental Affairs

Source: GAO based on cited reports.

Regarding planning, the DHS Inspector General reported in March 2006 that FEMA lacked final plans that specifically addressed the types of challenges the agency could be expected to face in catastrophic circumstances.<sup>23</sup> For example, because FEMA was unable to immediately implement IHP assistance to provide funds to transition victims from short-term lodging, including shelters, hotels and motels to longer-term housing alternatives such as mobile homes or apartments, FEMA officials used Public Assistance funds. Normally, public assistance is provided (under section 403 of the Stafford Act)<sup>24</sup> only for immediate emergency sheltering efforts to get assistance to individuals and households quickly. Under normal circumstances, IHP funds provided under Section 408 of the Act are intended to accommodate the longer-term housing needs of evacuees up to 18 months. FEMA officials said that many applicants would have waited months to receive their initial assistance if FEMA had followed normal IHP processes and procedures under Section 408 and had to wait until inspections were completed and IHP information and assistance could be communicated to disaster victims who were dispersed to all 50 states. However, this use of Public Assistance funds was problematic, according to the DHS Inspector General's report. Because

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<sup>23</sup> Department of Homeland Security Inspector General, *A Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina*, OIG-06-32 (Washington, D.C.: Mar. 31, 2006).

<sup>24</sup> 42 U.S.C. § 5170b.

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application for assistance is not a requirement for the provision of Public Assistance under section 403 of the Stafford Act, FEMA did not know whether disaster victims were actually eligible for assistance as a direct result of the disaster. This increased the potential for duplication with other assistance programs since there was no internal mechanism to determine whether an evacuee had received assistance from the IHP when interim housing may have already been provided. The interim housing assistance funded under section 403 was only phased out after FEMA was able to identify that an evacuee had received IHP funds.

FEMA was aware it needed to plan for large disasters but had problems getting necessary funding, according to the Senate Homeland Security and Governmental Affairs Committee's Katrina Report.<sup>25</sup> FEMA requests for \$100 million for catastrophic planning and an additional \$20 million for catastrophic housing planning in fiscal year 2004 and fiscal year 2005, respectively, were denied by DHS. Our review of FEMA's implementation of IHP showed that FEMA's reactive approach to planning and implementing the IHP on a disaster-by-disaster basis is inadequate to deal with the short-term and long-term needs of affected communities, particularly for catastrophic disasters when the agency's resources and staff are strained. For example, FEMA failed to pre-identify workable sites and land and take advantage of available housing units from other federal agencies, according to a February 2006 White House report.<sup>26</sup> We have ongoing work focusing on the federal role in providing housing assistance in response to Hurricanes Katrina and Rita.

In terms of trained staff, FEMA lacked the surge capacity to effectively manage the disaster assistance process. Specifically, according to the March 2006 DHS Inspector General report, additional trained staff were needed to (1) provide initial application services at Disaster Recovery and Call/Processing Centers, (2) process applications and respond to questions at the National Processing Service Centers, and (3) conduct inspections.<sup>27</sup> First, according to the DHS Inspector General, disaster victims experienced delays when they contacted Call Centers or were not able to speak with anyone. Second, disaster victims experienced delays in

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<sup>25</sup> Senate Homeland Security and Governmental Affairs Committee, *Hurricane Katrina: A Nation Still Unprepared* (Washington, D.C.: May 2006).

<sup>26</sup> The White House, *The Federal Response To Hurricane Katrina: Lessons Learned* (Washington, D.C.: Feb. 23, 2006).

<sup>27</sup> OIG-06-32; 35, 49 and 50.



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obtaining their eligibility determination, according to FEMA officials responsible for managing the IHP. Third, inspections were delayed, in part, because FEMA lacked enough contract inspectors to perform inspections, according to FEMA. Our analysis found, for example, that inspection times for Katrina and Rita took an average of two to five times longer compared to named hurricanes in 2004. FEMA uses inspectors that have a construction, real estate, or appraisal background, but it is not required, according to a FEMA Inspection Services Manager. FEMA requires that each inspector be trained on FEMA standards and policies regarding program eligibility and that new inspectors undergo background checks. In most conventional disasters, experienced inspectors are to accompany new inspectors in the field to ensure that they are meeting FEMA standards before they are allowed to complete inspections on their own. We have work underway assessing trends in FEMA's resources, including staffing, and their impact on FEMA's capacity to conduct operations and plan to report on FEMA's workforce management efforts later this year.

According to the March 2006 DHS Inspector General report,<sup>28</sup> FEMA was not able to dedicate its full staffing strength to Hurricane Katrina for three primary reasons. First, at the time of the disaster, FEMA had personnel assigned to 38 other disasters not related to Hurricane Katrina. For example, Hurricane Ophelia in the Carolinas, Hurricane Rita in the Gulf Coast region, and flooding in the Northeast were declared disasters and required FEMA resources. Second, an average of 30 percent of FEMA Disaster Assistance Employees reported they were unavailable to respond to Katrina or any other disaster during the August 24, 2005 – September 30, 2005 time frame. (Disaster Assistance Employees may be unavailable for such issues as health or family concerns.) Third, FEMA officials said, although FEMA was authorized 2,445 staff in August 2005, 389 positions were vacant and many of these were key leadership positions. The DHS Inspector's report included recommendations that FEMA (1) develop a more comprehensive program to recruit, train, and retain local hires for use in augmenting FEMA's Disaster Assistance Employees and permanent staff, (2) provide training to additional NPSC staff and contractors to enhance FEMA's capability to perform evacuee assistance and case management activities, and (3) develop a disaster workforce plan for permanent, temporary, and reserve staff that is scalable events regardless

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<sup>28</sup> OIG-06-32, 88.

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of cause, size, or complexity.<sup>29</sup> FEMA concurred with the recommendations.

Throughout our review FEMA officials cited their concerns regarding the lack of agency and contractor staffing resources needed to effectively implement the program during a catastrophic event. Concerns regarding training and staffing for disaster response management are long-standing. In 2003, in our report on major performance and accountability challenges for FEMA,<sup>30</sup> we noted that FEMA faced challenges to enhance its disaster assistance training and resource planning. According to the report, FEMA developed a program in 1999 for evaluating the knowledge, skills, and abilities of its staff—both permanent and temporary—who are deployed to respond to a disaster. FEMA expected the program would ensure its employees would have basic qualifications to perform their jobs, but, according to FEMA officials, the program was not implemented because of budget constraints. We also reported that 48 percent of FEMA’s workforce would be eligible to retire in the next 5 years and this would pose a challenge for having staff with the skills needed to perform core functions.

Finally, FEMA officials cited legislative and regulatory limitations that restricted FEMA’s flexibility in implementing the IHP in the aftermath of Hurricane Katrina. For example,

- FEMA’s Federal Coordinating Officer for Louisiana cited the statutory program’s maximum of \$5,000 for home repair as one limitation, noting that if the \$5,000 is not sufficient to fix the home, then FEMA may have to provide a trailer for temporary housing. He testified that manufactured housing is not cost-effective and can cost up to \$90,000 to \$100,000 per mobile home for a group site (including total costs for site preparation, hauling and installation, and cost of home). He suggested that in some situations if FEMA were able to give disaster victims the maximum amount of IHP financial assistance,<sup>31</sup> it would be more cost-effective because it would allow many of these families to find permanent housing. However, the Acting Deputy Director for

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<sup>29</sup> OIG-06-32; 81 and 82.

<sup>30</sup> GAO, *Major Management Challenges and Program Risks: Federal Emergency Management Agency*, [GAO-03-113](#) (Washington, D.C.: Jan. 2003).

<sup>31</sup> The maximum amount of housing and other needs assistance that an individual or household may receive is statutorily capped at \$25,000, and is adjusted annually to reflect changes in the Consumer Price Index (CPI). The 2006 maximum is \$27,200.

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FEMA's Recovery Division told us that FEMA only uses manufactured housing as a last resort, and in the post-Katrina and Rita environment, housing and the infrastructure that supports the community was destroyed. As a result, FEMA did not have any alternative other than to provide manufactured housing.

- FEMA officials were unable to use a large supply of federally controlled housing units that could have been made available for occupancy by disaster victims with only minor repairs because reimbursement for repairs to existing available housing units are not authorized under the current program regulations, according to the White House report on Hurricane Katrina.<sup>32</sup> As a result, FEMA had to provide alternative temporary housing such as trailers and other manufactured housing units, at considerably greater cost, while leaving other potentially available housing vacant.

A bill, the Natural Disaster Housing Reform Act of 2006, was introduced May 16, 2006, in the House of Representatives that would provide the federal government with more flexibility in the provision of short- and long-term housing after a major disaster.<sup>33</sup> For example, the bill would allow the President to offer disaster victims manufactured modular housing under the IHP if it could be provided at a lower cost than other readily fabricated dwellings. It would also extend repair assistance under the IHP, currently available only for owner-occupied residences, so that renters could repair existing rental units to make them habitable as alternate housing accommodations. The bill also proposes that the President may provide financial assistance or direct assistance to individuals or households to construct permanent or semi-permanent housing in any area in which the President declared a major disaster or emergency in connection with Hurricane Katrina of 2005 during the period beginning on August 28, 2005, and ending on December 31, 2007. Under the IHP, permanent housing construction is only available for disaster victims who reside in insular areas or other remote locations.<sup>34</sup>

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<sup>32</sup>White House report (Washington, D.C.: 2006), 117.

<sup>33</sup> H.R. 5393.

<sup>34</sup> See 42 U.S.C. § 5174(c)(4).

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## Initiatives to Improve IHP Are Ongoing, but Their Impact Is Unknown

In an effort to address the problems and recommendations cited in the various reports, FEMA announced plans on May 24, 2006, to implement a number of new approaches to enhance logistics, emergency communications, situational awareness, housing and victim management. According to FEMA, the improvements related to IHP include plans to increase the number of trained staff and revise new policies and procedures. However, at the time of our review, many of these initiatives were in the planning or at the early implementation stage. As a result, it was too early to assess their potential impact on future program implementation. Specifically, FEMA reported plans to:

- Hire a training coordinator to develop a more comprehensive training program to prepare existing and new personnel for Disaster Recovery Center assignments. According to FEMA's Acting Deputy Director for the Recovery Division, they were still searching for qualified applicants for the training coordinator position as of August 2006.
- Train 3,000 disaster "generalist" surge cadre employees for ready deployment during the height of the 2006 hurricane season and increase its capacity to deploy and communicate with the increased number of disaster employees. According to FEMA, these surge employees are to form a "generalist" pool of disaster workers and be trained in a number of basic functions cutting across traditional program areas including Community Relations, Individual Assistance, Public Assistance and Logistics. As of August 2006, FEMA said approximately 1,836 employees had completed the training.<sup>35</sup>
- Develop greater contract and contingency surge capabilities to expand application intake capacity of up to 200,000 per day (during the weeks following Hurricanes Katrina and Rita, FEMA recorded more than 100,000 applications a day) and expand its Internet-based application capability by improving accessibility to reduce application wait times and FEMA Helpline information delays following a major disaster. According to FEMA officials, the objective of expanding its capabilities is to have private-sector contracts in place and resources ready to handle calls within 48 hours of a disaster declaration. In the past, FEMA had to augment its application intake surge capabilities each hurricane season especially during 2004 and 2005 a step usually taken under urgent and compelling needs, through emergency contracts, and

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<sup>35</sup>According to FEMA, approximately 1,000, of the 3,000 disaster employees were lost through attrition, but FEMA was attempting to recruit additional employees.

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by using Internal Revenue Service personnel. FEMA plans to award the contract for this initiative in 2007 and, in the interim period, plans to continue to utilize IRS personnel and redirect existing FEMA staff to augment application intake capabilities.

- Implement a pilot program in the 2006 hurricane season to use Mobile Registration Intake Centers that can be deployed to emergency shelter locations or impacted neighborhoods without power or phone service and provide on-site capability to quickly apply for FEMA assistance. These units would be capable of providing the public access to the FEMA disaster assistance program via phone and the internet. FEMA currently has five vehicles each equipped with 20 telephones and 20 personal computers. As of August 2006, FEMA was in the planning stage of upgrading each vehicle's capacity to support 40 telephones and 40 personal computers and has the ability to expand this effort by using tents with tables and equipment set up near the vehicles. FEMA's intention is to evaluate the pilot program at the end of the 2006 hurricane season to determine if they should expand this capability.
- Increase contractor staffing capacity for housing inspections from 7,500/per day/per contractor to 20,000/per day/per contractor. FEMA anticipates that this added capacity will increase the speed and accuracy of home inspections. FEMA intends to implement the related requirements with the award of its new inspection contracts tentatively scheduled for the end of December 2006.
- Clarify program policies on the appropriate use and authorization of emergency sheltering funds (Stafford Act, section 403 assistance) and individual housing assistance funds (Stafford Act, section 408 assistance) for the disaster victims. As part of this initiative, FEMA plans to have a draft policy in place for issuing authorization codes to evacuees for lodging and hotels for the 2006 hurricane season. In addition, FEMA plans to have a policy for Expedited Assistance that defines the conditions that must be met before initiating the program. FEMA issued a strategy for mass sheltering and housing assistance on July 24, 2006, and plans to develop more detailed policies and procedures to implement the strategy.<sup>36</sup>

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<sup>36</sup> *Federal Emergency Management Agency*, Mass Sheltering and Housing Assistance, July 24, 2006, Recovery Strategy RS-2006-1.

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## GAO Audit and Investigative Work Reveals Potential for Fraud and Abuse Related to IHP Applications and Debit Card Use

As we recently reported,<sup>37</sup> one of the major challenges FEMA faced after Hurricanes Katrina and Rita was balancing the need to quickly deliver benefits and services to needy and eligible victims while minimizing occurrences of fraud and abuse. As we testified in June 2006, an estimated 16 percent, or approximately \$1 billion, in FEMA IHP payments were improper and potentially fraudulent due to invalid application data.<sup>38</sup> (A copy of our testimony is provided in app. IV.) Additionally, we found that FEMA made improper or potentially fraudulent IHP payments to applications containing names and Social Security Numbers of individuals who were incarcerated at the time of disaster, and paid hotel room charges for applicants who were also receiving rental assistance concurrently. We also determined that FEMA had little accountability over debit card distribution and lacked proper controls over debit card usage.

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### Invalid Applications Provide the Potential for \$1 Billion in Potentially Improper Payments

An estimated 16 percent of payments totaling approximately \$1 billion were improper and potentially fraudulent due to invalid applications. The 95-percent confidence interval surrounding the estimate of 16 percent ranges from 12 percent to 21 percent. The 95-percent confidence interval surrounding the estimate of \$1 billion ranges from \$600 million to \$1.4 billion.<sup>39</sup> The estimated amount included payments for expedited assistance, rental assistance, housing and personal property repair and replacement, and other necessary and emergency expenses. These payments were made to (1) applications containing Social Security Numbers (SSN) that were never issued or belonged to other individuals, (2) applicants who used bogus damaged addresses, and (3) applicants who had never lived at the declared damaged addresses or did not live at the declared damaged address at the time of disaster. These payments were

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<sup>37</sup> GAO, *Catastrophic Disasters: Enhanced Leadership, Capabilities, and Accountability Can Improve the Nation's Preparedness, Response, and Recovery*, [GAO-06-618](#) (Washington, D.C.: Sept. 6, 2006).

<sup>38</sup> [GAO-06-844T](#), p. 4

<sup>39</sup> Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval (e.g., plus or minus 5 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. As a result, we are 95-percent confident that each of the confidence intervals in this report will include the true values in the study population. Also, the 16 percent of payments that was improper and potentially fraudulent excluded payments that were returned to the U.S. government by the time of our review.

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also made to applications containing information that was duplicative of other applications already recorded in FEMA's system. The duplicative payment failures refer to instances where FEMA made payments to more than one application with the same damaged property and current addresses, and the payment selected was associated with the second or later application. For example, one applicant submitted an application for the same current and damaged address that was used on another application, and both received payments for \$2,358 of rental assistance on each application in September 2005. Effective preventive controls for duplicate applications would have detected that the two applications shared the same damaged and current address and acted to prevent the duplicate payments.

Our projection likely understated the total amount of improper and potentially fraudulent payments because our work was limited to issues related to misuse and abuse of identity, damaged property address information, and duplicate payments. Our estimate did not account for improper and potentially fraudulent payments related to issues such as identity theft, and whether the applicants received rental assistance they were not entitled to, received housing and other assistance while incurring no damage to their property, and/or received FEMA assistance for the same damages already settled through insurance claims.

Our forensic audit and investigative work found that improper and potentially fraudulent payments occurred mainly because FEMA did not validate the identity of all applicants, the physical location of the declared damaged address, and ownership and occupancy of all applicants at the time of application. For example, in one case an applicant received \$7,328 for expedited and rental assistance even though the applicant had moved out of the house a month prior to Hurricane Katrina. Examples of other improper and potentially fraudulent payments included a FEMA payment of \$2,000 to an individual who provided a damaged address that did not exist, and payment of \$2,358 in rental assistance to another individual who claimed his damaged property was inside a cemetery. We also found that FEMA made approximately \$5.3 million in payments to applicants who provided a post office box address as their damaged residence. For example, FEMA paid an applicant \$2,748 who had listed a post office box in Alabama as the damaged property. Follow-up work with local postal officials revealed that the post office box listed on the application had been used by individuals linked to other potential fraud schemes.

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Our undercover work provided further evidence of the weaknesses in FEMA's management of the disaster assistance process. For example, FEMA provided nearly \$6,000 in rental assistance to one of GAO's undercover applicants who had applications that declared a bogus property as the damaged address. These payments continued to be provided even though verification with third-party records indicated that the GAO undercover applicant did not live at the damaged address, and after the Small Business Administration had reported that the damaged property could not be found. In another example, a FEMA inspector assigned to inspect a bogus property was not able to find the house despite numerous attempts to verify the address through the phone book, the post office, and a physical inspection. Nevertheless, in early 2006 FEMA provided GAO a check for \$2,000 for presumed losses sustained by this property.

Without verifying the identity and primary residence of applicants prior to IHP payments, it is not surprising that FEMA also made expedited and rental assistance payments totaling millions of dollars to over 1,000 applications containing information belonging to prison inmates. In other words, payments were made to applications using the names and SSNs of individuals who were not displaced as a result of the hurricanes, but rather were incarcerated at state prisons of the Gulf Coast states (that is, Louisiana, Texas, Florida, Georgia, Mississippi, and Alabama), or in federal prisons across the United States when the hurricanes hit the Gulf Coast. For example, FEMA paid over \$20,000 to an inmate who had used a post office box as his damaged property.

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## Duplicative Housing Assistance

Our data mining work also found potentially wasteful and improper rental assistance payments to individuals who were staying at hotels paid for by FEMA. In essence, the government paid twice for these individuals' lodging—first by providing a hotel at no cost and, second, by making payments to reimburse these individuals for out-of-pocket rent. For example, FEMA paid an individual \$2,358 in rental assistance, while at the same time paying about \$8,000 for the same individual to stay 70 nights—at more than \$100 per night—in a hotel in Hawaii. In this particular case, the duplicate payments were not only wasteful, but they were improper because the applicant did not live at the damaged property at the time of the hurricane. Another applicant stayed more than 5 months—at a cost of \$8,000—in hotels paid for by FEMA in California, while also receiving three rental assistance payments for the two separate disasters totaling more than \$6,700.



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These instances occurred because FEMA did not require hotels to collect FEMA application numbers and SSNs from residents staying in FEMA-paid for rooms. Without this information, FEMA could not verify if the applicants were staying in government provided hotels before sending them rental assistance. Without the ability to identify all IHP applicants who had already received hotel lodging, FEMA provided duplicate housing benefits to a number of applicants. Because the hotels and FEMA did not collect application identification numbers, we were unable to quantify the magnitude of individuals who received these duplicate benefits. However, the tens of thousands of dollars that were wasted in the previous examples are illustrative of the wasteful spending we found through data mining.

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### Lack of Accountability over Debit Cards

Finally, we found that FEMA did not institute adequate controls to ensure accountability over the debit cards. Specifically, FEMA initially paid \$1.5 million for over 750 debit cards that the government could not determine actually went to help disaster victims. Based on our numerous inquiries, upon identification of several hundred undistributed cards J.P. Morgan Chase refunded FEMA \$770,000 attributable to the undistributed cards. Further, we continued to find that debit cards were used for items or services such as a Caribbean vacation, professional football tickets, and adult entertainment, which do not appear to be necessary to satisfy disaster-related needs as defined by FEMA regulations.<sup>40</sup> In commenting on our draft report, FEMA partially concurred with our recommendation to increase accountability over debit cards, acknowledging the challenges inherent in the use of debit cards and stating that the agency has no current plans to use debit cards. FEMA said the agency will continue to evaluate the report's recommendations to determine whether any further use may be warranted.

Fraud and error in this program is not new and FEMA has struggled for some time with the issue of balancing expeditious assistance with minimizing fraud and improper payments. For example, FEMA's and later DHS Office of Inspector General reported problems with the FEMA's previous disaster assistance program —the Individual and Family Grants

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<sup>40</sup> 44 C.F.R. ¶ 206.111.

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program—in 2001 and 2004.<sup>41</sup> These previous reports identified problems related to a lack of inspections to verify property damage, relaxed requirements to document whether an applicant was eligible for advance payment of a grant, increasing the likelihood of fraud for the program. More recently, in May 2005, DHS's Office of Inspector General reported shortcomings in FEMA's administration of IHP and its oversight of inspections in response to Hurricane Francis.<sup>42</sup> For example, FEMA designated a county eligible for Individual Assistance programs without a proper preliminary damage assessment and FEMA's contractors were not required to review inspections prior to submission.

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## Conclusions

Katrina and Rita were two of the most intense hurricanes ever recorded during the Atlantic hurricane season. The widespread devastation they wrought presented unprecedented challenges to all levels of government and voluntary organizations to help the hundreds of thousands of victims evacuate, relocate, and get food, shelter, medical care, and other assistance. As we and others have reported, the unprecedented geographic scope of the damage, the number of victims who had to be relocated, and the extent of the devastation clearly overwhelmed both government and nongovernment relief agencies, resulting in widespread dissatisfaction with the effectiveness of the preparation and response to the disaster.

FEMA's processes and systems for registering hurricane victims for assistance, determining eligibility for IHP assistance, and managing the IHP were simply overwhelmed, and FEMA was unable to effectively manage the enormous challenge that the disasters posed for the IHP. GAO's audit and that of others found a number of problems with the program, including a lack of appropriately trained personnel that limited FEMA's effective surge capacity, an inability to effectively identify ineligible and duplicate applications, and consequently the payment of millions of dollars of assistance to ineligible persons. GAO's audit and investigative work found that FEMA did not have an effective fraud

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<sup>41</sup> FEMA Office of Inspector General Inspections Division, *FEMA's Delivery of Individual Assistance Programs New York- September 11, 2001* (Washington, D.C.; Dec. 2002); DHS Office of Inspector General Office of Audits, *The Federal Emergency Management Agency's Individual and Family Grant Program Management at the World Trade Center Disaster*, OIG-04-449 (Washington, D.C.: Sept. 2002).

<sup>42</sup> DHS Office of Inspector General Office of Audits, *Audit of FEMA's Individuals and Households Program in Miami-Dade County, Florida, for Hurricane Frances*, OIG-05-20 (Washington, D.C.: May 2005).

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prevention program in place prior to the landfall of Hurricanes Katrina and Rita. The consequences were that tens of thousands of individuals received an estimated \$600 million to \$1.4 billion in potential improper or fraudulent payments through February 2006. The actual amount may be higher because our work excluded such issues as identify theft, insurance fraud, and individuals who had no uninsured losses who may have received benefits.

In any major disaster FEMA faces the demand to get assistance to eligible victims, many of whom may have lost everything, expeditiously while also ensuring that assistance does not go to those who are ineligible. FEMA recognizes that the problems it encountered in managing the IHP in the wake of Hurricanes Katrina and Rita need to be addressed and has announced several initiatives to address those problems. The effect of those efforts cannot yet be determined, and not all of them were scheduled to be in effect for the 2006 hurricane season. We believe it is possible to have effective fraud prevention controls in place while also getting money to eligible victims quickly. Such controls are far more effective in ensuring that IHP funds are used properly than efforts to recoup funds paid to those who were ineligible for assistance. Recoupment actions are expensive and may recover only pennies on the dollar because the assistance has already been spent.

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## Recommendations for Executive Action

We recommend that the Secretary of the Department of Homeland Security (DHS) direct the Director of FEMA to take the following actions to address the improper and potentially fraudulent payments within the IHP based on the findings in our testimony of June 14, 2006. Many of the recommendations below are preventive and thus, are intended for the 2007 hurricane season and other future disasters that include IHP assistance payments. However, whenever appropriate, we have identified recommendations we believe should also be implemented for the remaining aspects of assistance for Hurricanes Katrina and Rita.

For all recommendations below, FEMA should fully field test all changes to provide assurance that all valid applicants are able to apply for and receive IHP payments. Also, for all recommendations, FEMA must ensure that there are adequate manual processes in place to allow applicants who are incorrectly denied assistance to appeal the decision and receive aid. In addition, we are reemphasizing the importance of implementing the six

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recommendations we made previously in our June report.<sup>43</sup> The recommendations in this report are designed to prevent further payments from being made on improper and potentially fraudulent Katrina and Rita applications, to the extent possible recoup Katrina and Rita payments already identified as fraudulent and improper, and address weaknesses so that, in future disasters, FEMA can identify fraudulent and improper applications prior to making payments.<sup>44</sup>

To obtain reasonable assurance that applicants are prevented from receiving assistance based on invalid damaged addresses, we recommend that the Secretary of Homeland Security direct the Director of FEMA to take the following three actions:

- Implement changes to its systems and processes to reject damaged addresses that are PO boxes.
- Provide applicants immediate feedback that PO boxes are not valid damaged addresses.
- Implement a process to identify damaged addresses that are not primary residences, such as commercial mail drops.

To provide reasonable assurance that payments are only made based on a valid damaged address that was the applicant's primary residence, we recommend that the Directors of DHS and FEMA take the following two actions:

- Include, in the design of the address verification process recommended in our prior report, procedures to validate that the address an applicant claimed as damaged was the applicant's primary residence at the time of the disaster.
- Develop and implement processes and procedures to deal with applications where FEMA or other inspectors have concluded that the damaged address was bogus. Within this process, FEMA should
  - Develop timely information sharing procedures between inspectors working for FEMA and other agencies to provide assurance that

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<sup>43</sup> GAO, *Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse*, [GAO-06-655](#) (Washington, D.C.: June 2006).

<sup>44</sup> Because we have not tested all aspects of potential fraud, waste and abuse related to the IHP, the recommendations in this and our prior report do not represent a comprehensive fraud prevention program.

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applicants who submitted damaged addresses that inspectors identified as bogus are not provided disaster assistance.

To prevent and/or detect prisoners from improperly receiving IHP payments in the future we recommend that the Director of FEMA explore information sharing agreements with federal and state officials in charge of maintaining custody over prisoners that could be used to identify ineligible applications.

To reduce duplicate payments, we recommend that FEMA

- Expand the data fields used in the duplicate detection process at the time of application to restrict applications to one per eligible household, unless warranted by other circumstances, such as households displaced to separate locations.

To prevent concurrent payments for lodging (i.e., rental assistance, hotels, etc.) for which FEMA is financially responsible, we recommend that the Director of FEMA take the following two actions:

- Establish procedures requiring that individuals apply with FEMA prior to receiving no cost disaster lodging accommodations from federal agencies or the Red Cross.
- Develop procedures to provide reasonable assurance that individuals staying in FEMA or other no cost lodging are not also provided IHP rental assistance payments for the time they are in the paid for hotel rooms.

To increase accountability over debit cards, we recommend that the Director of FEMA take the following three actions:

- Finalize a full reconciliation to link each issued Katrina debit card recorded by the bank (JP Morgan Chase) to a specific IHP application,
- Require that the bank refunds the government for any unaccounted for funds related to distribution of Katrina-related debit cards, and
- Augment procedures for future disasters to provide reasonable assurance that accountability over debit card distribution occurs at each custody transfer in the distribution process.

To identify and recoup payments based on improper and potentially fraudulent Katrina and Rita applications, we recommend that the Director of FEMA develop a comprehensive strategy—for current and future

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disasters—to identify the types of improper applications discussed in this report and refer them for either collections or additional investigations.

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## Agency Comments and Our Evaluation

On September 18, 2006, FEMA provided written comments on a draft of this report (see appendix II). FEMA fully concurred with 9 of 13 recommendations, and substantially concurred with the remaining 4 recommendations. However, FEMA disagreed with our estimate of fraudulent and improper payments. FEMA noted that our estimate of 16 percent was substantially higher than their historical estimate of 1 to 3 percent. However, FEMA's reported fraud rate of 1 to 3 percent is not based on an independent, comprehensive statistical sample of the entire population of individual assistance payments; instead, the 1 to 3 percent FEMA estimate is simply the amount of overpayments that it identifies based on its own internal processes and procedures.

FEMA fully agreed with 9 of the 13 recommendations, and stated that it had taken or plans to take actions to specifically respond to these 9 recommendations. While we did not evaluate the extent to which the implementation of these changes would address the weaknesses we identified with FEMA's oversight of IHP payments, if they are properly implemented the changes should address our concerns. FEMA also partially concurred with four recommendations related to debit cards and hotel accommodations. Regarding our 3 recommendations on debit cards, FEMA stated that the agency has no current plans to use debit cards and will continue to evaluate the report's recommendations to determine whether any further use may be warranted. In response to our recommendation that FEMA establish procedures requiring that individuals apply with FEMA prior to receiving no cost disaster lodgings accommodations from federal agencies or the Red Cross, FEMA stated that the agency has implemented a protocol to ensure that disaster victims register and obtain an authorization code as a prerequisite for the use of hotels/motels as transition shelters. While FEMA cannot impose this protocol on the Red Cross, FEMA stated that it planned to affirm eligibility prior to reimbursing the Red Cross. Our objective in making this recommendation is to prevent duplicate housing benefits from being provided to registrants. Thus, if FEMA's new process affirms the eligibility of registrants prior to reimbursing Red Cross, FEMA's processes would address the objective of this recommendation.

While FEMA substantially agreed with our recommendations, it disagreed with the methodology we used to conduct our work, which formed the basis for many of the 13 recommendations. Specifically, in light of FEMA's repeated representations that 1 to 3 percent of its IHP payments are

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fraudulent or improper, FEMA took exception to our estimate that 10 to 22 percent of the payments were based on registrations containing fraudulent or inaccurate information. However, it is important to note that FEMA's estimate of 1 to 3 percent fraud is not based on an independent, comprehensive statistical sample of the entire population of individual assistance payments; instead, it is based on the historical amount of IHP payments that FEMA places in its internal recoupment process, which includes overpayments identified through case reviews, system checks, and hotline tips. FEMA officials have acknowledged that their estimate is not based on an in-depth statistical analysis for eligibility or any other type of fraud.

Further, our estimate is likely understated because it only focused on payments made to invalid registrations. Our estimate excluded substantial potential fraudulent and improper payments caused by such actions as identity theft, insurance fraud, duplicate government payments for lodging, or payments without evidence of property damage. In responding to our draft report, FEMA also commingled the results of our statistical sampling with other findings of fraudulent and improper payments that were not included in our estimate. For example, the reported fraudulent and improper payments related to individuals who stayed at FEMA-paid hotels and received rental assistance payments were not included in our statistical sample and resultant estimate of 16 percent of fraudulent and improper payments.

FEMA also questioned whether some payments we categorized in our statistical sample results as potentially fraudulent and improper, such as those relating to separated households, were in fact valid payments. Specifically, FEMA stated that without a "knowledgeable" case by case analysis, our estimate was not accurate. We disagree. We were aware of FEMA's separated household's policy and did not count any payments as duplicates if they related to families that were displaced to different locations. In addition, for our statistical sample we performed a detailed case by case analysis on sample items that included using all available audit and investigative tools, background information, and NEMIS data to ensure conclusions reached were accurate. For example, we visited damaged addresses and spoke with IHP applicants, landlords, neighbors, and postal officials.

FEMA also stated that it has been unable to validate our results because we had not provided evidence related to our estimate for their review. We have not provided details of our sample failures to FEMA because the cases of fraudulent and improper payments are in the process of being referred to the Katrina Fraud Task Force for investigation and potential

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prosecution, as has been the standard process for other fraud cases identified through data mining. Based on agreements with the Katrina Fraud Task Force, which includes the Department of Homeland Security Inspector General, all fraud cases will continue to be referred directly to the Katrina Fraud Task Force to ensure investigations and prosecutions are not jeopardized.

FEMA also raised concerns with the registrants we reported who had received duplicate lodging assistance. FEMA commented that such a determination can only be made after a knowledgeable case by case analysis determined the appropriateness of payments. Our methodology used to identify data mined examples of the duplicate lodging payments consisted of comparing hotel receipt information and FEMA's own payment data to confirm that the subject received multiple rental assistance payments at the same time FEMA paid for their hotel room.

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We are sending copies of this report to the Secretary of the Department of Homeland Security, and the Director of Federal Emergency Management Agency. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>. Please contact either William Jenkins at (202) 512-8757 or [jenkinswo@gao.gov](mailto:jenkinswo@gao.gov) or Greg Kutz at (202) 512-7455 or [kutzg@gao.gov](mailto:kutzg@gao.gov) if you or your staffs have any questions concerning this report. Key contributors to this report are listed in appendix VI. Contact



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points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

A handwritten signature in cursive script that reads "William O. Jenkins, Jr." with a long horizontal flourish underneath.

William O. Jenkins, Jr.  
Director, Homeland Security and Justice

A handwritten signature in cursive script that reads "Gregory D. Kutz".

Greg D. Kutz  
Managing Director  
Forensic Audits and Special Investigations

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*List of Congressional Committees*

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

The Honorable Tom Davis  
Chairman  
The Honorable Henry A. Waxman  
Ranking Minority Member  
Committee on Government Reform  
House of Representatives

The Honorable Michael G. Oxley  
Chairman  
The Honorable Barney Frank  
Ranking Minority Member  
Committee on Financial Services  
House of Representatives

The Honorable Harold Rogers  
Chairman  
The Honorable Martin Olav Sabo  
Ranking Minority Member  
Subcommittee on Homeland Security  
Committee on Appropriations  
House of Representatives

The Honorable Michael McCaul  
Chairman  
The Honorable Bob Etheridge  
Ranking Minority Member  
Subcommittee on Investigations  
Committee on Homeland Security  
House of Representatives

The Honorable Don Young  
Chairman  
Committee on Transportation and Infrastructure  
House of Representatives

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The Honorable Bill Shuster  
Chairman  
Subcommittee on Economic Development, Public Buildings and  
Emergency Management  
Committee on Transportation and Infrastructure  
House of Representatives

The Honorable Michale G. Oxley  
Chairman  
The Honorable Barney Frank  
Ranking Minority Member  
Committee on Financial Services  
House of Representatives

The Honorable Anthony Weiner  
House of Representatives

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# Appendix I: Scope and Methodology

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To evaluate the Federal Emergency Management Agency's (FEMA) disaster assistance provided in response to Hurricanes Katrina and Rita through the Individuals and Households Program (IHP), we assessed (1) how the types and amounts of assistance provided to victims of Hurricanes Katrina and Rita compare to other recent hurricanes, (2) the challenges posed by the magnitude of the requests for assistance following Hurricanes Katrina and Rita, and FEMA's response to these challenges, and (3) the vulnerability of the IHP to fraud and abuse and management issues in the wake of Hurricanes Katrina and Rita and FEMA's reported actions to address any identified problems.

To describe the type and amount of IHP assistance FEMA provided for Hurricanes Katrina and Rita in comparison to assistance provided in other hurricane disasters, we interviewed agency officials. We obtained and analyzed data provided by officials from FEMA's National Processing Service Center in Winchester, Virginia, and compared IHP disaster assistance provided under Hurricanes Katrina and Rita to assistance provided after other hurricane-related disaster declarations occurring in calendar years 2003 through 2005, to the extent information was available from FEMA's National Processing Service Center's National Emergency Management Information System. (FEMA provided data for IHP benefits paid as of August 2006, and for IHP applications received as of September 2006 for both the named hurricanes that came ashore in 2004 and Hurricanes Katrina and Rita. The 2003 named hurricane data was provided by FEMA as of April 2006. A FEMA official told us that changes to the data for named hurricanes in 2003 from April to August 2006 would be minor enough to prove statistically insignificant.) We selected these hurricanes for comparison because they constituted a cross section of disaster declarations that (1) occurred within the period in which IHP was implemented, and (2) represented hurricane disaster declarations that occurred in a single state and those that occurred in multiple states simultaneously. We assessed the accuracy and reliability of the system by interviewing agency officials knowledgeable about the data system and by obtaining from the agency written responses regarding (1) the agency's methods of data collection and quality control reviews, (2) practices and controls over data entry accuracy, and (3) any limitations of the data. We determined that the data were sufficiently reliable for the purposes of our engagement.

To determine the programmatic challenges FEMA faced during Hurricanes Katrina and Rita and agency efforts to address those challenges, we interviewed FEMA headquarters officials from the Recovery Division and staff from the agency's Individual Assistance and Public Assistance

Branches, FEMA staff from the National Processing Service Center and contract Inspection Services located in Virginia, and Joint Field Office officials in New Orleans, Louisiana. We observed contract inspectors assessing damaged residential properties in New Orleans. We also reviewed and analyzed federal legislation and regulations that are applicable to FEMA disaster assistance programs prior to and after the implementation of IHP and relevant FEMA policies, guidance, and processes. We reviewed and analyzed the agency's IHP budget, staffing, and performance measures. We also reviewed prior audit reports and assessments related to FEMA's implementation of the IHP.

To assess the vulnerability of the IHP to fraud and abuse and management issues in the wake of Hurricanes Katrina and Rita and FEMA's reported actions to address any identified problems, we estimated the number of improper and potentially fraudulent payments based on statistical sampling of payments to examine whether the associated applications contained invalid Social Security Numbers (SSN), bogus addresses, invalid primary residence, and duplicate information with another application. Invalid SSNs refer to instances where the SSNs did not match with the name provided; the SSNs belonged to deceased individuals; or the SSNs had never been issued. Bogus addresses refer to instances where audit and investigative work we performed indicate that the damaged address did not exist. Invalid primary residences are related to applications where the applicant had never lived at the damaged address, or did not live at the damaged address at the time of the hurricanes. Duplicate information refers to instances where the applications contained information that is duplicative of another application that received a payment and was earlier recorded in FEMA's system. Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95-percent confidence interval (e.g., plus or minus 5 percentage points). This is the interval that would contain the actual population value for 95-percent of the samples we could have drawn. As a result, we are 95-percent confident that each of the confidence intervals in this report will include the true values in the study population. Also, the 16 percent of payments that was improper and potentially fraudulent excluded payments that were returned to the U.S. government by the time of our review. We also reviewed IHP processes and procedures for determining applicant eligibility for specific types of IHP assistance and analyzed prior audit reports and assessments. We also obtained information from FEMA's Acting Deputy Director of Recovery on the status of FEMA's efforts to address the problems identified. Because

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we have not tested all aspects of potential fraud, waste and abuse related to the IHP, the recommendations in this and our prior report do not represent a comprehensive fraud prevention program.

We conducted our audit work between January 2006 and September 2006 in accordance with generally accepted government auditing standards. We conducted our investigative work between October 2005 and September 2006 in accordance with the standards prescribed by the President's Council on Integrity and Efficiency.

# Appendix II: Comments from the Department of Homeland Security

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



**FEMA**

September 18, 2006

Mr. William Jenkins  
Director  
Homeland Security and Justice Issues Team  
U.S. Government Accountability Office  
441 G Street N.W.  
Washington, DC 20548

Dear Mr. Jenkins:

Re: Draft Report GAO-06-1013, Hurricanes Katrina and Rita – Unprecedented Challenges Exposed the Individuals and Household Program to Fraud and Abuse; Actions Needed to Reduce Such Problems in the Future.

Thank you for the opportunity to review the draft report. We begin our remarks by noting the provocative title of the report itself provides important context to all the findings and recommendations that follow. As some of the most severe disasters in American history, the impact of Hurricanes Katrina and Rita did present unprecedented challenges and imposed unfathomable and long-lasting pain and misery on disaster victims. The overwhelming magnitude of the challenge and graphic impact on disaster victims also presented an unsavory dilemma: constrain the pace and avenues of assistance to ensure absolute verified eligibility, or provide expeditious assistance through available means accepting higher risk that some would exploit the system to their undeserved advantage. While not discounting that FEMA's systems should have had a greater capacity to better manage that dilemma, the FEMA people who employ those systems have nevertheless responded with a determined sense of purpose to employ lessons learned and better position the agency to now provide expeditious service while minimizing fraud and improper payments.

The recommendations in the current report are helpful, and in some cases, FEMA has already been able to implement them in part or in whole. As noted in your report, FEMA's work in many of these areas was current as of one month ago. FEMA now provides the following updates made on each of the recommendations listed.

- **Implement changes to its systems and processes to reject damaged addresses that are P.O. boxes.** FEMA concurs. This change has been accomplished. The

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

NEMIS processing system no longer accepts a Post Office Box as the address for a damaged dwelling.

- **Provide applicants immediate feedback that PO boxes are not valid damaged addresses.** FEMA concurs. This change has been accomplished. When a Post Office Box address is entered for the damaged dwelling, the phone agent collecting the information receives a message that it is not a valid entry, and is able immediately to verify the address with the applicant.
- **Implement a process to identify damaged addresses that are not primary residences.** FEMA concurs. FEMA continues to work on this process improvement. We are engaging with a number of database services in order to identify databases that capture this type of information.
- **Include, in the design of the address verification process recommended in GAO's prior report, procedures to validate that the addresses the applicants claimed as damaged were the applicant's primary residence at the time of the disaster.** FEMA concurs. This change has been accomplished. During the registration process, the damaged dwelling address provided is transmitted to a service that accesses several publicly available databases to confirm that the applicant lives at this address and that it is a valid address in the disaster impacted area.
- **Develop and implement processes and procedures to deal with applications where FEMA or other inspectors have concluded that the damaged address was bogus. Within this process, FEMA should develop timely information-sharing procedures between inspectors working for FEMA and other agencies to provide assurance that applicants who submitted damaged addresses that inspectors identified as bogus are not provided disaster assistance.** FEMA concurs. FEMA will discuss this requirement with the SBA to explore a range of information sharing alternatives.
- **To prevent and/or detect prisoners from improperly receiving IHP payments in the future, GAO recommends that FEMA explore information sharing agreements with federal and state officials in charge of maintaining custody over prisoners that could be used to identify ineligible applications.** FEMA concurs. As a practical matter, FEMA believes an agreement with the Department of Justice on behalf of all federal prisons is achievable. We will consider options for agreements with individual State and local prison authorities as part of our future planning for large disaster events based on the Katrina experience.
- **Expand the data fields used in the duplicate detection process at the time of application to restrict applications to one per eligible household, unless warranted by other circumstances.** FEMA concurs. In addition to the several NEMIS data points already utilized for identifying duplicate registrations in a



household, we are exploring the use of damaged dwelling addresses as a further way of flagging duplicates.

- **Establish procedures requiring that individuals apply with FEMA prior to receiving no cost disaster lodging accommodations from federal agencies or the Red Cross.** FEMA partially concurs. FEMA has implemented a Strategy for Mass Sheltering and Housing Assistance which contains, in part, a Transition Sheltering Protocol. This Protocol will ensure that disaster victims register and obtain an authorization code as a prerequisite for the use of hotels/motels as transition shelters. While FEMA cannot impose this protocol on the Red Cross, we will affirm eligibility prior to reimbursing the Red Cross.
- **Develop procedures to provide reasonable assurance that individuals staying in FEMA or other no cost lodging are not also provided IHP rental assistance payments for the time they are in paid for hotel rooms.** FEMA concurs. This is not an automated process in NEMIS and requires manual casework to transition the applicant from no cost lodging to IHP. However, this casework approach provides reasonable assurance that upon receiving additional rental assistance, the rental assistance will not be provided for the period of time the applicant was in a FEMA-subsidized hotel room. A system change in NEMIS to track this automatically will be incorporated in the future.
- **Recommendations on debit cards.** FEMA partially concurs. FEMA acknowledges the challenges inherent in the use of debit cards and has no current plans to use debit cards. FEMA will continue to evaluate the Report's recommendations to determine whether any further use may be warranted.
- **To identify and recoup payments based on improper and potentially fraudulent Katrina and Rita applications, GAO recommends that FEMA develop a comprehensive strategy – for current and future disasters – to identify the types of improper applications discussed in this report and refer them for either collections or additional investigations.** FEMA concurs. Initiating reviews of assistance provided and recouping improper payments is a standard operating procedure following every disaster. FEMA is continuing to refine this process and will make use of the applications identified and corrective actions recommended in this report as part of that effort.

While we find agreement with many of your findings, we are skeptical of the Report's finding regarding the estimated levels of improper and potentially fraudulent IHP payments. Though certainly headline grabbing, the 95 percent confidence level associated with the estimate of improper and potentially fraudulent registrations that ranges from a low of \$600 million (about 10 percent) to a high of \$1.4 billion (about 22 percent) looms well above the historical average of one to three percent of FEMA's IHP program under past disasters. Since the Report's authors were not able to share with us the identity of the specific cases selected for analysis, FEMA is unable to assess whether those payments were in fact improper. Our experience suggests some number of the

problems cited as questioned payments could easily be eligible for payment. For example, where the Report cited duplicate payments made to individuals in the same household as a potential problem, FEMA's "Separated Households" policy established for hurricanes Katrina and Rita may render these "problems" to be eligible payments. The Report also questioned households receiving duplicate payments for rental and hotel lodging. Yet absent a specific review, it is not possible to determine whether the household received the rental payment in order to obtain housing as the applicant was transitioned out of the hotel accommodations. These are but two of the types of issues that can only be resolved by a knowledgeable case-by-case analysis to determine the appropriateness of payments. Accordingly, we think it unlikely the level of improper payments will actually fall within the Report's estimated range. We expect this view to be validated upon completion of an ongoing FEMA audit of the applicants receiving assistance for these disasters.

As we have noted at some length, FEMA has taken significant strides to address the many issues raised in this Report. In addition to the actions already noted, FEMA will continue to refine the Ongoing Initiatives that are mentioned in the report. These include:

- Hiring a Training Coordinator to develop a more comprehensive training program;
- Training "generalists" within the surge cadre to be ready for deployment;
- Expanding our application intake capacity to accommodate up to 200,000 applications per day;
- Deploying Mobile Registration Units to emergency shelters and impacted communities;
- Increasing staffing to accomplish 20,000 housing inspections per day; and
- Developing detailed policies and procedures to implement the new Strategy for Mass Sheltering and Housing Assistance.

FEMA appreciates the opportunity to comment on this report. Katrina and Rita presented challenges on a massive scale. But the more significant challenge was to the States and people who resided within the communities battered by these storms. It is our collective purpose, FEMA and our partner agencies, that the suffering of these people will motivate a greater level of preparedness to provide assistance to disaster victims while providing sound stewardship of our resources.

Sincerely,



R. David Paulison  
Under Secretary for  
Federal Emergency Management

# Appendix III: Federal Disaster Assistance and Individuals and Households Program Benefits, Structure and Processes

## FEMA's IHP is Part of Overall Federal Disaster Assistance

Federal assistance takes many forms—including the direct provision of goods and services, financial assistance (through insurance, grants, loans, and direct payments), and technical assistance—and can come from various sources. The Individuals and Households Program (IHP) is one of these individual assistance programs funded through the Stafford Act's Disaster Relief Fund, as illustrated in the conceptual framework for federal disaster assistance in the figure 7.

**Figure 7: Conceptual Framework for FEMA's Individuals and Households Program as Part of Federal Disaster Assistance**



Source: GAO.

Congress may provide funding for federal disaster assistance to specific agencies for areas in which they retain expertise. For example, the Department of Housing and Urban Development administers funds for economic redevelopment and infrastructure restoration, the Department of Transportation provides assistance for road restoration, and other agencies provide assistance for activities such as providing small businesses disaster assistance loans and public health or medical services that may be needed in the affected area.

With respect to Stafford Act activities, FEMA administers the Disaster Relief Fund, which provides for three major categories of aid under the Stafford Act—assistance to state and local governments through public and hazard mitigation assistance programs and assistance to individuals and households.

- FEMA's Public Assistance program provides grants to eligible state and local governments and specific types of private nonprofit organizations that provide services of a governmental nature, such as fire departments, emergency and medical facilities, and educational institutions, to help cover the costs of emergency response efforts and work associated with recovering from the disaster. Public Assistance is typically the most costly disaster assistance provided.<sup>1</sup>
- FEMA's Hazard Mitigation Grant Program provides grants to states, local governments, and Indian tribes for long-term hazard mitigation projects after a major disaster declaration. The purpose of the program is to reduce the loss of life and property in future disasters by funding mitigation measures during the recovery phase of a natural disaster.
- FEMA's Individual Assistance Program includes among other things, a crisis counseling program, disaster legal services, and direct and financial assistance through the IHP. The purpose of the crisis counseling program is to help relieve any grieving, stress, or mental health problems caused or aggravated by the disaster or its aftermath. FEMA also provides free legal counseling through an agreement with the Young Lawyers Division of the American Bar Association for low-

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<sup>1</sup> The Stafford Act sets the federal share for the public assistance program at no less than 75 percent of eligible costs of a disaster, with state and local governments paying for the remaining portions. FEMA may determine that a higher federal percentage would be provided, as was the case of Hurricanes Katrina and Rita.

income individuals regarding cases that will not produce a fee.<sup>2</sup> FEMA provides direct (temporary housing units) and financial assistance (grant funding for temporary housing and other disaster-related needs) to individuals and households through the IHP to meet necessary expenses and serious needs of eligible disaster victims who, as a direct result of a major disaster, have uninsured or under insured necessary expenses and serious needs and are unable to meet such needs through other means.

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### FEMA's IHP Provides Housing and Other Needs Assistance to Disaster Victims Who Meet Eligibility Requirements

Under the IHP, there are two programs which are referred to as the Housing Assistance program and the Other Needs Assistance (ONA) program. The Housing Assistance program provides financial assistance for such things as rental housing, home repair assistance (up to \$5,000), and home replacement assistance (up to \$10,000).<sup>3</sup> In addition, for disaster victims for whom rental accommodations are not available under the Housing Assistance program, FEMA may provide "direct assistance" in the form of temporary housing units (e.g., mobile homes and travel trailers), that FEMA has acquired by purchase or lease. The ONA program also includes financial assistance for medical, dental, funeral, personal property, transportation, and other disaster-related expenses that are not compensated by other means. The IHP is not intended to fully compensate disaster victims for all losses from damage to real and personal property that resulted from the disaster or to provide sufficient funds to restore damaged property to its condition before the disaster. Rather, IHP is intended to provide assistance in covering expenses not covered by other means, such as insurance claims and payments or the victim's own savings and resources. The maximum amount that an individual or household may receive is statutorily capped at \$25,000, adjusted annually to reflect changes in the Consumer Price Index.<sup>4</sup> In addition to the financial cap, IHP assistance is also limited to 18 months beginning on the date the President declares a major disaster.<sup>5</sup> However, the President may extend this 18-

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<sup>2</sup> Cases that may generate a fee are turned over to the local lawyer referral service.

<sup>3</sup> These individual statutory caps—\$5,000 for home repair assistance and \$10,000 for home replacement assistance—are adjusted annually to reflect changes in the Consumer Price Index.

<sup>4</sup> In 2005, the maximum was \$26,200. For 2006, the maximum is \$27,200.

<sup>5</sup> 42 U.S.C. § 5174(c)(1)(B)(ii). See also 44 C.F.R. § 206.110(e).

month period if the President determines that due to extraordinary circumstances an extension would be in the public interest.<sup>6</sup>

Eligibility for IHP assistance is determined when an individual or household applies with FEMA and is based on the amount of property damage. To qualify for Housing Assistance, a disaster victim must:

- have experienced losses in an area that has been declared a disaster by the President;
- have uninsured (or underinsured) needs that cannot be met through other means;<sup>7</sup>
- be a citizen of the United States, a non-citizen national, or a qualified alien, or have a qualifying individual who lives with the disaster victim;
- have been living or usually live in the home in the disaster area at the time of the disaster; and
- be unable to live in the home, cannot get to their home due to the disaster, or the home requires repairs because of damage from the disaster.

If a disaster victim is eligible for housing assistance from FEMA based upon the above criteria, grant funds can be used for housing assistance purposes. Individuals or households who receive the assistance may be asked to show receipts to prove that it was used for eligible housing expenses. If an individual is unable to find a rental house or apartment within a reasonable commuting distance of their damaged home, FEMA may provide direct assistance in the form of a travel trailer or mobile home. Direct or financial housing assistance from FEMA does not require that an applicant file for an Small Business Administration (SBA) disaster loan and is 100 percent federally funded and administered by the federal government. While the financial housing assistance is subject to the \$25,000 cap, the cost of direct housing assistance is not subject to the cap.

In contrast, ONA grants are provided in a cost-shared partnership between FEMA and the state. As part of this partnership, FEMA and the state engage in annual coordination efforts to determine how the ONA will be administered in any presidentially-declared disaster in the coming year.

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<sup>6</sup> Ibid.

<sup>7</sup> Loans from the Small Business Administration are considered to be the primary means of disaster assistance for disaster victims who have the financial ability to repay such loans. For some IHP benefits, FEMA may refer applicants above a certain income threshold to first apply to the Small Business Administration for disaster loan assistance.

For example, the state establishes award levels related to vehicle repairs, vehicle replacement, and funeral grants. States may choose the level of involvement of state officials in administering the program and assume complete, partial, or no responsibility for administering the program. Whichever option a state chooses, FEMA provides 75 percent of the grant funds, and the state is obligated to provide the balance of ONA grant funds.

To receive ONA grant funds, an applicant must generally meet the eligibility requirements for housing assistance, must have necessary expenses or serious needs because of the disaster, and must first apply to the SBA Disaster Loan Program and either be declined for assistance, or demonstrate that SBA disaster assistance is insufficient to meet all disaster-related necessary expenses and serious needs. Applicants who do not meet a certain income threshold may be excused from the requirement to complete the SBA disaster loan application. For example, in 2005, a household of four with an income less than \$24,188 would not be required to complete the SBA loan application.

The types of assistance that may be provided depending on the level of the applicant's income are for personal property, transportation, and moving/storage expenses. Eligibility for medical, dental, funeral and other/miscellaneous expenses is not dependent on an applicant's income; for these categories applicants are referred directly to ONA for assistance. Specifically, FEMA may provide ONA grant funding to replace personal property, repair and replace vehicles, and reimburse moving and storage expenses if an applicant is ineligible for an SBA disaster loan. To receive ONA grants, for public transportation, medical and dental, and funeral and burial expenses, disaster victims are not required to apply for an SBA loan to be eligible and income levels are not subject in determining eligibility.

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**FEMA's Decentralized  
Structure for  
Implementing the IHP  
Relies Primarily on  
Contract and Temporary  
Employees**

FEMA manages the IHP primarily through a de-centralized structure of permanent and temporary field offices staffed primarily by contract and temporary employees. The offices include the FEMA Recovery Division in FEMA Headquarters, regional offices, National Processing Service Centers, Joint Field Offices, Area Field Offices, and Disaster Recovery Centers. The Stafford Act authorizes FEMA to draw upon temporary personnel for disaster operations.

FEMA's Recovery Division in Washington, D.C., manages the IHP and as of August 2006 had about 15 people to develop and issue policies and procedures for implementing the individual assistance programs. Eight

members of that staff are specifically responsible for managing the IHP. In FEMA's 10 regional offices, one or two full-time employees manage individual assistance programs. The regional office staff may participate in the preliminary disaster assessment after a disaster to determine what individual assistance is needed.

FEMA's National Processing Service Centers (NPSC) provide centralized disaster application service to FEMA customers and help coordinate with other assistance programs. The centers are to provide an automated "teleregistration" service—a toll-free phone bank through which disaster victims apply for IHP assistance and through which their applications are processed and their questions answered. The NPSCs are also to assist with referrals to other assistance programs, process appeals, recertify existing rental assistance, assist with recovering funds, and respond to congressional inquiries. As of August 2006, a total of 13 permanent FEMA employees were working at the NPSCs in the United States and were supported by several hundred temporary employees (whose numbers can be increased by 2,000 to 3,000 additional temporary employees for application processing after a disaster), as well as contract employees. FEMA operates four NPSCs in Denton, Texas; Puerto Rico; Winchester, Virginia; and Hyattsville, Maryland.

- The Texas NPSC is in charge of caller services including call centers, and the agency's quality control program. (Although all NPSCs have call centers within their offices, the Texas NPSC is in charge of the general policies and procedures for those call centers, and also sets up arrangements with the IRS and private companies when FEMA needs to handle added call volume.)
- The Puerto Rico NPSC is also a call center, with a specialty in handling calls from Spanish speaking applicants. This center has oversight from the Texas NPSC.
- The Virginia NPSC is the central point of contact for the National Emergency Management Information System, the main database/automated processing system for IHP application and benefits determination and processing, the NPSC Coordination Team, and the Inspection Management contracts.
- The Maryland NPSC is responsible for oversight of all mail operations and receives management oversight from the Virginia NPSC.

At FEMA's Inspections Services Section, located in the Virginia NPSC, as of August 2006, one permanent and approximately 35 to 40 temporary FEMA employees oversee the work of two firms with standing contracts to perform inspection services. Each firm has about 2,000 inspectors who



visit applicants' homes to verify disaster-related damages to real and personal property.

Temporary FEMA field locations are established after a disaster occurs. FEMA deploys about 600-700 "reservists" or disaster assistance employees who are deployed at field offices at the state and local levels to augment full time FEMA staff temporarily re-assigned from FEMA headquarters and regional offices.

- The Joint Field Office is to serve as the temporary headquarters for disaster response and recovery efforts and is typically located in the capital of the state where a disaster occurred or in the high impact area. The joint office houses FEMA, state partners, other federal agencies, and voluntary agencies. Two key FEMA joint field office officials direct and coordinate disaster response and recovery operations for program implementation at the local level. The Federal Coordinating Officer is responsible for assessing disaster needs, establishing the joint office and Disaster Recovery Centers and other possible disaster facilities, and coordinating the administration of disaster relief. The FEMA operations section chief's responsibilities include managing the Human Services Branch that oversees provision of mass care and food, individual assistance, the coordination of voluntary agency contributions, and donations. The role of regional coordinating structures varies depending on the situation. Many incidents may be coordinated by regional structures primarily using regional assets. Larger, more complex incidents may require direct coordination between the joint office and the national level, with regional structures continuing to play a supporting role. The focal point for coordination of federal support is the joint field office.
- FEMA may also establish Area Field Offices whose staff and organization is to mirror the joint field office and provide similar coordination and oversight in support of the joint office at the local level. The area office reports to the joint office. The area office's operational responsibilities are to be delineated by the joint office which may establish as many area field offices as deemed necessary and efficient to the response.
- FEMA Disaster Recovery Centers are offices where applicants may go for information about FEMA and other disaster assistance programs. Recovery center locations are usually announced in local newspapers and on local television and radio stations and are established close to the disaster area, often in schools or armories to be readily accessible to those in need of assistance. The centers are temporary facilities

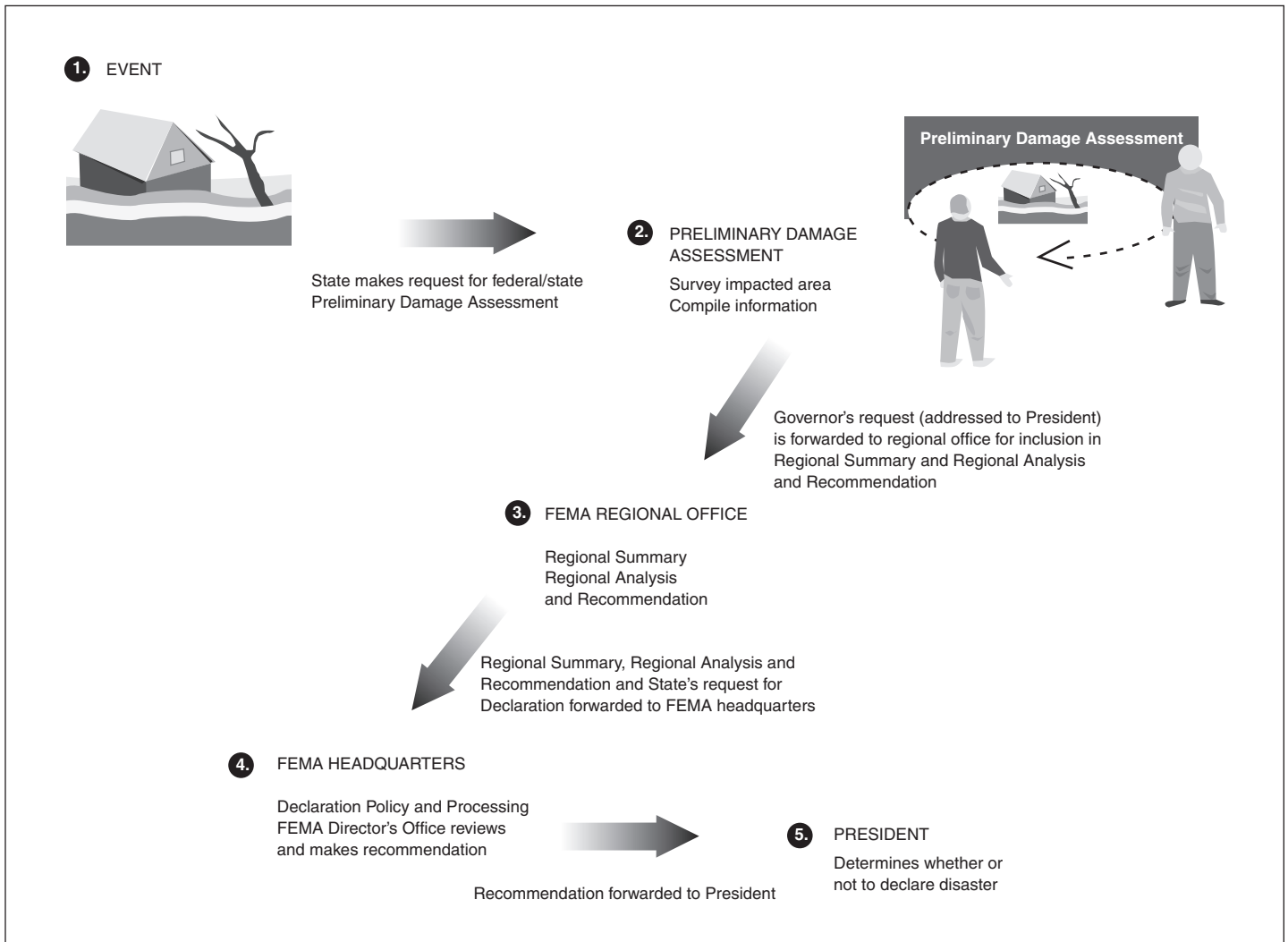
jointly operated by the state and FEMA where representatives of federal agencies, local and state governments, and voluntary relief organizations provide guidance regarding disaster recovery and literature on services available, including housing assistance and individual and household grants information, educational materials, crisis counseling, assistance in completing applications and answers to questions, resolution to problems, and referrals to agencies that may provide further assistance. The number of centers depends on the magnitude of the disaster and the size of the area included in the declaration.

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**FEMA's Process for  
Providing IHP Benefits**

Under the Stafford Act, the federal government provides disaster assistance after a presidential disaster declaration. A presidential disaster declaration results from a legal process involving specific steps taken by local, state, and federal governments as generally shown in figure 8.

**Figure 8: Disaster Declaration Process**



Source: GAO analysis of FEMA information.

After a disaster occurs and the state determines that effective response may exceed both state and local resources, a state is to first request a

preliminary damage assessment.<sup>8</sup> Teams are assembled from individuals from FEMA, the Small Business Administration, state emergency management, and the local jurisdiction who are to (1) assess the types of dwellings affected, (2) assess the probable insurance and income levels of residents, and (3) estimate the number of individuals affected to determine potential funding requirements. After the assessment is complete, the Governor is to determine if federal disaster assistance is needed and, if it is, he or she is to submit a request to the President through the FEMA Regional Director who reviews and communicates the request to FEMA's Headquarters within the Emergency Preparedness and Response Directorate. The Directorate's Undersecretary is to then make a recommendation to the President, who makes the final decision to declare a major disaster, an emergency, or deny the request for federal assistance.

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### **FEMA Provides Disaster Victims with Multiple Means to Apply for Assistance**

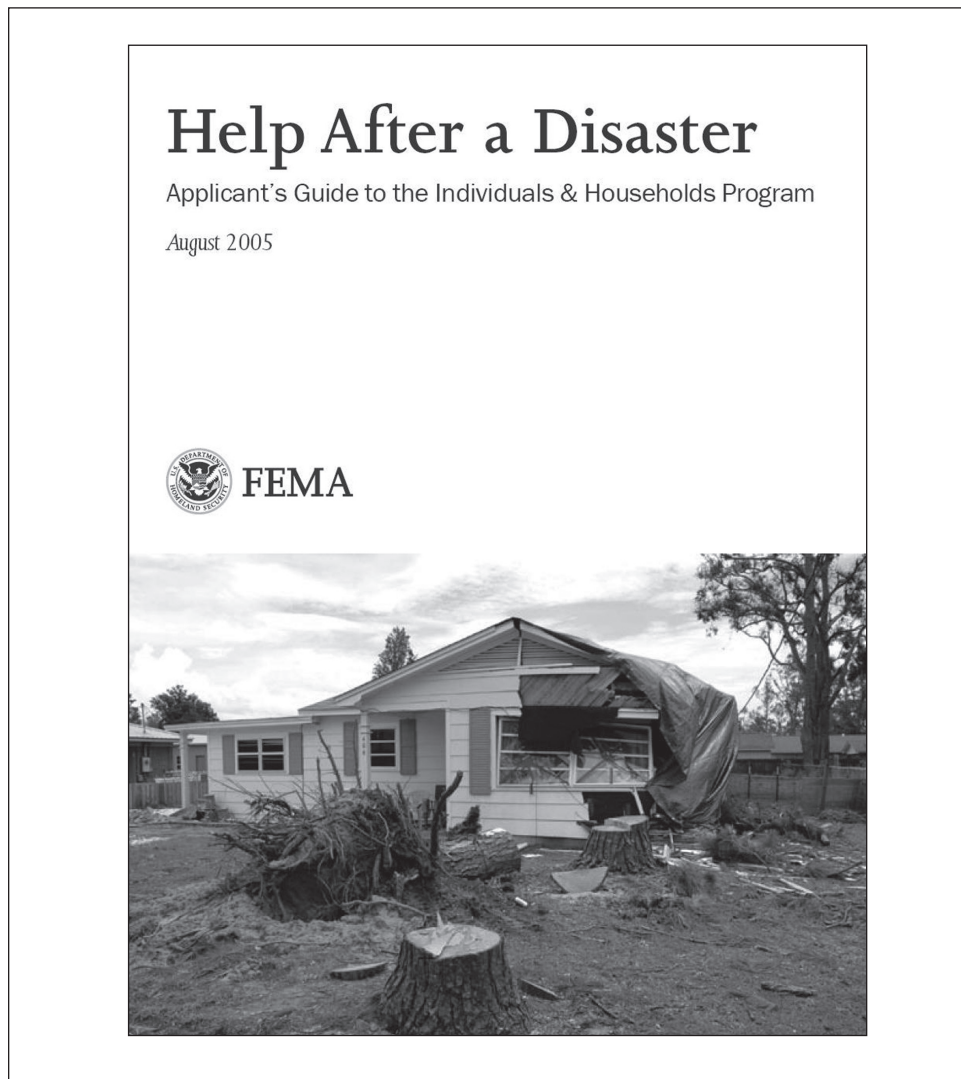
Once the President declares a disaster and decides to provide federal disaster assistance, disaster victims in declared counties must first apply for assistance with FEMA, by phone, in person at a disaster recovery center, or over the Internet. Typically, an application period is closed 60 days following the date of the disaster declaration.<sup>9</sup> During the application process, an individual provides personal information including Social Security number, current and pre-disaster address, a telephone number, insurance information, total household annual income, and a description of losses caused by the disaster. After the submission of an application, FEMA provides applicants with a copy of their application and a program guide, "*Help After a Disaster: Applicant's Guide to the Individuals and Households Program.*" The document, whose cover is shown in figure 9, is also available on the Internet.

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<sup>8</sup> The requirement for a joint preliminary damage assessment may be waived for those incidents of unusual severity and magnitude that do not require field damage assessments to determine the need for supplemental federal assistance under the Stafford Act, or in such other instances determined by the Regional Director upon consultation with the State. It may be necessary, however, to conduct an assessment to determine unmet needs for managerial response purposes.

<sup>9</sup> The Regional Director or his/her designee may extend the application period when the State requests more time to collect applications from the affected population. The Regional Director or his/her designee may also extend the standard application period when necessary to establish the same application deadline for contiguous counties or states.

Figure 9: Cover of FEMA's Applicant's Guide to the Individuals and Households Program



Source: FEMA.

Once a FEMA representative records personal information from a disaster application and provides the applicant with a FEMA application number, FEMA's National Emergency Management Information System automatically determines potential eligibility for designated categories of assistance.

To confirm that damages occurred to the home and personal property as reported in disaster assistance applications, FEMA is to conduct individual inspections to verify damage, ownership, and occupancy. Contract inspectors are to schedule damage inspection appointments with applicants. The inspections usually take about 30 to 60 minutes, according to FEMA. Homeowners are not required to be at home at the time of the inspection, but a designated representative generally must be present and the applicant must be able to provide proof of ownership and occupancy to the inspector. This assessment provides a basis to determine how much assistance an individual/household should receive for housing repair and replacement and for other needs. If an applicant's home or its contents were damaged and the applicant has insurance, they must provide FEMA with a letter from the insurance company regarding the settlement of the claim before FEMA issues its inspection report. (If the damages are caused by flooding and the applicant has flood insurance, FEMA will issue an inspection report before receiving a copy of the applicant's flood insurance decision letter because temporary living expenses are not covered by flood insurance.)

According to FEMA, the system reportedly determines eligibility for about 90 percent of applicants requesting housing assistance, usually within 10 days of application. FEMA caseworkers are to process the remaining applications that cannot be automatically processed, to determine an applicant's eligibility for disaster assistance based on additional documentation, for example, documentation of insurance payment; these applications may take longer to process.<sup>10</sup> If the applicant qualifies for a grant, FEMA sends the applicant a check by mail or deposits the funds granted in the applicant's bank account. FEMA will also send a letter describing how the applicant is to use the money (for example; repairs to their home or to rent another house while the applicant makes repairs). Recipients of IHP assistance must recertify their continuing need for assistance every 30 to 90 days, depending on the individual circumstances. FEMA uses three criteria to recertify the applicant.

- First, FEMA may provide continued housing assistance (travel trailers or rental assistance) during the period of assistance, based on need, and generally only when adequate, alternate housing is not available.

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<sup>10</sup> The National Emergency Management Information System also interfaces with SBA's information systems to refer applicants (based on self-declared income and number of individuals in household) to SBA for loan purposes.

- Second, for rental assistance, the applicant must show that he or she used the previous rental assistance to pay rent by sending copies of receipts.<sup>11</sup>
- Third, the applicant must show he or she is working to find permanent housing that the applicant can afford. For example, FEMA is to require applicants to show they are actively seeking affordable housing, maintain a list of addresses they looked at, including the landlord's name and phone number, and specify the reason(s) for not renting the units. A FEMA Housing Adviser may verify with landlords that a contact was made by an applicant seeking a rental unit.

Conversely, if FEMA determines that the applicant does not qualify for an IHP grant, it is to send the applicant a letter explaining why the applicant was turned down and gives the applicant a chance to appeal the decision. Applicants who are denied housing and other needs assistance under IHP have 60 days from the date that FEMA notifies the applicant to appeal the decision. According to FEMA, common reasons for denial include:

- Adequate insurance coverage.
- Damage to secondary home, not a primary residence.
- Duplicate applications made from the same address.
- Inability to prove occupancy or ownership.
- More information is needed before the analysis can be completed.

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<sup>11</sup> For Hurricanes Katrina and Rita, a process was established to allow the first \$2,358 rental assistance award to be spent on essential needs if the applicant filled out the Declaration of Use of Funds.

# Appendix IV: Issues Reported Related to FEMA's IHP Disaster Assistance Provided for Katrina

Issue	GAO February 2006 <sup>a</sup>	DHS / FEMA February 2006 <sup>b</sup>	House Report February 2006 <sup>c</sup>	White House Report February 2006 <sup>d</sup>	DHS Inspector General March 2006 <sup>e</sup>	Senate Report May 2006 <sup>f</sup>	GAO June 2006 <sup>g</sup>	GAO June 2006 <sup>h</sup>	GAO July 2006 <sup>i</sup>
<b>Planning</b>									
Inadequate planning		X		X	X	X			
Lack of guidance/procedures	X						X	X	
Inadequate internal controls	X				X	X	X	X	X
Inability to track evacuees			X						
Inefficient method for procuring manufactured housing			X			X			
Inadequate contractor oversight					X				
Need to coordinate with other agencies		X	X		X				
<b>Trained staff</b>									
Insufficient staffing		X			X	X			
Inadequate training		X			X				
<b>Program structure</b>									
Reimbursement for repairs to existing housing units not authorized.				X					
Program is cumbersome, confusing, and not easily administered, subject to funding caps, cost share requirements, and time limitations.					X				
Long term needs not addressed					X				

Source: GAO analysis of assessments cited.

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

<sup>b</sup>DHS/FEMA, *Initial Response Hot Wash Hurricane Katrina In Louisiana*, DR-1603-LA (New Orleans, Louisiana: Feb. 13, 2006).



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**Appendix IV: Issues Reported Related to  
FEMA's IHP Disaster Assistance Provided for  
Katrina**

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<sup>6</sup>U.S. House of Representatives, *A Failure of Initiative: Final Report of the Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina* (Washington, D.C.: February 15, 2006)

<sup>7</sup>The White House, *The Federal Response To Hurricane Katrina: Lessons Learned* (Washington, D.C.: Feb. 15, 2006).

<sup>8</sup>Department of Homeland Security Inspector General, *A Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina*, OIG-06-32 (Washington, D.C.: Mar. 31, 2006).

<sup>9</sup>United States Senate Committee on Homeland Security and Governmental Affairs, *Hurricane Katrina: A Nation Still Unprepared* (Washington, D.C., May 2006).

<sup>10</sup>GAO, *Hurricanes Katrina And Rita Disaster Relief: Improper and Potentially Fraudulent Individual Assistance Payments Estimated to Be between \$600 Million and \$1.4 Billion*, [GAO-06-844T](#) (Washington, D.C.: June 14, 2006).

<sup>11</sup>GAO, *Expedited Assistance for Victims of Hurricanes Katrina And Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud And Abuse*, [GAO-06-655](#) (Washington, D.C.: June 16, 2006).

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

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# Appendix V: GAO's June 14, 2006 Testimony on Fraud and Abuse of FEMA's Individual Assistance program

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**GAO**

United States Government Accountability Office

Testimony  
Before the Subcommittee on  
Investigations, Committee on Homeland  
Security, House of Representatives

For Release on Delivery  
Expected at 11:00 a.m. EST  
Wednesday, June 14, 2006

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## HURRICANES KATRINA AND RITA DISASTER RELIEF

Improper and Potentially  
Fraudulent Individual  
Assistance Payments  
Estimated to Be Between  
\$600 Million and \$1.4 Billion

Statement of Gregory D. Kutz, Managing Director  
Forensic Audits and Special Investigations

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



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GAO-06-844T

Appendix V: GAO's June 14, 2006 Testimony  
on Fraud and Abuse of FEMA's Individual  
Assistance program

June 14, 2006



Highlights of GAO-06-844T, a testimony before the Subcommittee on Investigations, Committee on Homeland Security, House of Representatives

## HURRICANES KATRINA AND RITA DISASTER RELIEF

### Improper and Potentially Fraudulent Individual Assistance Payments Estimated to Be Between \$600 Million and \$1.4 Billion

#### Why GAO Did This Study

Hurricanes Katrina and Rita destroyed homes and displaced millions of individuals. In the wake of these natural disasters, Federal Emergency Management Agency (FEMA) responded to the need to provide aid quickly through the Individuals and Households Program (IHP) program, which provides housing assistance, real and personal property assistance, and for other immediate, emergency needs. As of February 2006, FEMA made 2.6 million payments totaling over \$6 billion.

Our testimony today will (1) provide an estimate of improper and potentially fraudulent payments through February 2006 related to certain aspects of the disaster registrations, (2) identify whether improper and potentially fraudulent payments were made to registrants who were incarcerated at the time of the disaster, (3) identify whether FEMA improperly provided registrants with rental assistance payments at the same time it was paying for their lodging at hotels, and (4) review FEMA's accountability over debit cards and controls over proper debit card usage.

To estimate the magnitude of IHP payments made on the basis of invalid registrations, we selected a random statistical sample of 250 payments made to hurricanes Katrina and Rita registrants as of February 2006. We also conducted data mining and investigations to further illustrate the effects of control breakdowns.

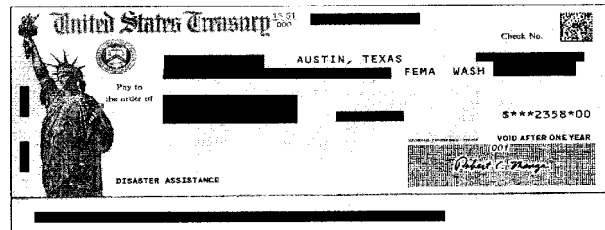
[www.gao.gov/cgi-bin/getrpt?GAO-06-844T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-844T)

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

#### What GAO Found

We estimate that through February 2006, FEMA made about 16 percent or \$1 billion in improper and potentially fraudulent payments to registrants who used invalid information to apply for disaster assistance. Based on our statistical sample, we are 95 percent confident that the range of improper and potentially fraudulent payments is from \$600 million to \$1.4 billion. In our assessment of whether a payment was improper and potentially fraudulent, we did not test for other evidence of impropriety or potential fraud, such as insurance fraud and bogus damage claims. This means our review potentially understates the magnitude of improper payments made. Examples of fraud and abuse include payments to registrants who used post office boxes, United Parcel Service stores, and cemeteries as their damaged property addresses.

Absent proper verification, it is not surprising that FEMA continued to pay fictitious disaster registrations set up by GAO as part of our ongoing forensic audit. In one case, FEMA paid nearly \$6,000 to our registrant who submitted a vacant lot as a damaged address. Below is a copy of a rental assistance check sent to GAO after FEMA received feedback from its inspector that the GAO undercover registrant did not live at the damaged address, and after a Small Business Administration inspector reported that the damaged property could not be found.



Source: GAO

We also found that FEMA provided expedited and housing assistance to individuals who were not displaced. For example, millions of dollars in expedited and housing assistance payments went to registrations containing the names and social security numbers of individuals incarcerated in federal and state prisons during the hurricanes. In addition, FEMA improperly paid individuals twice for their lodging—paying their hotels and rental assistance at the same time. For example, at the same time that FEMA paid \$8,000 for an individual to stay in California hotels, this individual also received three rental assistance payments for both hurricane disasters. Finally, we found that FEMA could not establish that 750 debit cards worth \$1.5 million went to hurricane Katrina victims. We also found debit cards that were used for a Caribbean vacation, professional football tickets, and adult entertainment.

United States Government Accountability Office

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Mr. Chairman and Members of the Subcommittee,

Thank you for the opportunity to discuss our ongoing forensic audit and related investigations of disaster relief assistance provided to individuals and households for hurricanes Katrina and Rita. In a hearing held in February 2006<sup>1</sup> before the Senate Committee on Homeland Security and Governmental Affairs to discuss results of ongoing work, we testified that significant flaws in the process for registering disaster victims left the federal government vulnerable to substantial fraud and abuse related to expedited assistance payments. Due to the magnitude of potential fraud and abuse we observed in our February 2006 testimony, we plan to issue a report containing recommendations to Department of Homeland Security (DHS) and Federal Emergency Management Agency (FEMA) to improve internal controls over the Individuals and Households Program (IHP). This testimony reflects additional findings from the work we have performed since February. We plan to continue reviewing other aspects of IHP.

As we previously reported, expedited assistance—a component of the IHP program for hurricanes Katrina and Rita—took the form of \$2,000 payments provided to disaster victims to help with the immediate, emergency needs for food, shelter, clothing, and personal necessities. Individuals and/or households who received expedited assistance may also be eligible to receive other IHP payments for temporary housing assistance, real and personal property repair and replacement, and other necessary expenses related to a disaster—up to a cap of \$26,200.<sup>2</sup> As of mid-February 2006, FEMA data showed that the agency had delivered about \$6.3 billion in IHP aid for hurricanes Katrina and Rita.<sup>3</sup> Thirty seven percent (approximately \$2.3 billion) of this amount was delivered through expedited assistance (EA) to hurricanes Katrina and Rita registrants. Of the remaining payments, about \$2 billion was delivered through temporary housing assistance, and another approximately \$2 billion was for repair

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

<sup>2</sup> Pursuant to 42 U.S.C. § 5714, assistance for real property repair and replacement is capped at \$5,200 and \$10,500, respectively. There are no financial caps for housing assistance and other necessary expenses.

<sup>3</sup>As of mid-May 2006, FEMA reported that IHP payments for Katrina and Rita totaled slightly over \$6.7 billion. Data we analyzed as of February 2006 represented more than 90 percent of this amount.

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and replacement of real and personal property, and for other miscellaneous categories.

As we previously testified, the need to provide assistance quickly led FEMA to issue payments to hurricanes Katrina and Rita registrants without first validating the identity and damaged property addresses of all registrants and without first verifying that the registrants incurred losses and had needs related to the hurricanes. However, with limited exceptions,<sup>4</sup> FEMA policy required that subsequent payments for temporary housing assistance, real and personal property repair and replacement, and other miscellaneous expenses be made only after FEMA had conducted an inspection and determined that the extent of loss merited further assistance. Addresses that were exempt from inspections had to go through an electronic verification of ownership and occupancy with a third-party contractor prior to FEMA providing registrants in those areas with rental assistance and/or other nonexpedited assistance payments.

Today's testimony summarizes the results from our ongoing forensic audit and investigative work reviewing the type and extent of fraud and abuse for the IHP program. This testimony will (1) provide an estimate of improper and potentially fraudulent payments related to certain aspects<sup>5</sup> of the disaster registrations, (2) identify whether FEMA made improper or potentially fraudulent IHP payments to registrants who were incarcerated at the time of the disaster, (3) identify whether FEMA provided registrants with rental assistance payments at the same time it was paying for their

<sup>4</sup> Exceptions were made for areas in Louisiana and Mississippi where damages were widespread and extensive. For these areas, FEMA exempted properties from an actual inspection prior to providing occupants in these areas with rental assistance. FEMA also used geospatial imaging to determine the level of real and personal property repair and replacement on properties where FEMA could not conduct visual inspections.

<sup>5</sup> For the purpose of this testimony, our estimate of improper and potentially fraudulent payments is based on a statistical sample of payments in which we examined whether the associated registrations contained invalid Social Security Numbers (SSNs), bogus addresses, invalid primary residence, and/or duplicate information. Invalid SSNs refer to instances where the SSNs did not match with the name provided; the SSNs belong to the deceased; or the SSNs had never been issued. Bogus addresses refer to instances where the damaged address did not exist. Invalid primary residences are related to registrations where the registrant had never lived at the damaged address, or did not live at the damaged address at the time of the hurricanes. Duplicate information refers to instances where the registrations contained information that is duplicative of another registration that received a payment and was earlier recorded in FEMA's system.

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lodging at hotelrooms, and (4) review FEMA's accountability over debit cards and controls over proper debit card usage.

To estimate the magnitude of IHP payments made on the basis of invalid registrations, we selected a random sample of 250 payments of the 2.6 million IHP payments made to hurricanes Katrina and Rita registrants as of February 2006. We excluded 3 of the 250 payments from our analysis because these payments had been returned to the U.S. Government at the time of our review, and the U.S. Government was therefore not susceptible to potential fraud for them. We derived our estimate of improper and potentially fraudulent payments by summing the dollars associated with improper and potentially fraudulent payments in our sample and multiplying that sum by a weighting factor to project the total from the sample to the population. The weighting factor we used was the number of payments "represented" by each of our randomly sampled payments, namely, the number of payments in the population divided by the number of payments we sampled. To validate sample registration data, we used a combination of site visits, comparisons with publicly available data and Social Security Administration (SSA) data, interviews with residents and their neighbors, interviews with local postal officials, and duplicate registration analysis. We also data mined IHP registration data to identify case studies of registrants who provided invalid and potentially fraudulent information.

To further illustrate the effects of control breakdowns, we continued our undercover operations with bogus registrations to obtain additional IHP payments beyond the original expedited assistance. To identify IHP registrants who were prisoners, we obtained a database of federal inmates as well as databases of inmates at state prisons in and around the areas affected by hurricanes Katrina and Rita. We then compared prisoner data to IHP registration data to identify registrations containing prisoner names and SSNs. To identify case studies of individuals who received rental assistance at the same time that they were housed in government-paid for hotels, we compared the IHP registration data to information provided by the hotels, e.g. driver's licenses. However, because data provided on hotel residents did not contain FEMA registration numbers, we were unable to determine the magnitude of duplicate payments.

To assess accountability over FEMA debit cards, we interviewed officials from FEMA, Department of Treasury's Financial Management Service (FMS), and JPMorgan Chase. To assess the usage patterns of FEMA debit cards, we data mined debit card purchases and identified transactions that

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appeared to be unrelated to emergency disaster needs. Further details on our scope and methodology can be found in appendix I.

We conducted our audit and investigations from February 2006 through June 8, 2006. We conducted our audit work in accordance with generally accepted government auditing standards and conducted investigative work in accordance with the standards prescribed by the President's Council on Integrity and Efficiency.

**Summary**

We estimate that 16 percent of payments, totaling approximately \$1 billion, were improper and potentially fraudulent because of invalid registrations.<sup>4</sup> This amount includes payments for expedited assistance, rental assistance, housing and personal property repair and replacement, and other necessary and emergency expenses. These payments were made to (1) registrations containing Social Security Numbers (SSNs) that were never issued or belonged to other individuals, (2) registrants who used bogus damaged addresses, (3) registrants who had never lived at the declared damaged addresses or did not live at the declared damaged address at the time of disaster, and/or (4) registrations containing information that was duplicative of other registrations already recorded in FEMA's system. Our projection likely understates the total amount of improper and potentially fraudulent payments because our work was limited to issues related to misuse and abuse of identity, damaged property address information, and duplicate payments. Our estimate does not account for improper and potentially fraudulent payments related to issues such as whether the applicants received rental assistance they were not entitled to, received housing and other assistance while incurring no damage to their property, and/or received FEMA assistance for the same damages already settled through insurance claims.

Our forensic audit and investigative work showed that improper and potentially fraudulent payments occurred mainly because FEMA did not

<sup>4</sup> Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval (e.g., plus or minus 5 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. The 95 percent confidence interval surrounding the estimate of 16 percent ranges from 12 percent to 21 percent. The 95 percent confidence interval surrounding the estimate of \$1 billion ranges from \$600 million to \$1.4 billion.

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validate the identity of the registrant, the physical location of the damaged address, and ownership and occupancy of all registrants at the time of registration. For example, in one case a registrant received \$7,328 for expedited and rental assistance even though the registrant had moved out of the rented house a month prior to hurricane Katrina. FEMA also paid \$2,000 to an individual who provided a damaged address that did not exist, and paid \$2,358 in rental assistance to another individual who claimed his damaged property was inside a cemetery.

Our work also confirmed that the processes that FEMA used to detect and prevent duplicate registrations were not effective. Through sample testing and data mining, we also found that FEMA made about \$5.3 million in payments to registrants who provided a post office box as their damaged residence. For example, FEMA paid a registrant \$2,748 who listed a post office box in Alabama as the damaged property. Follow-up work with local postal officials revealed that the post office box listed on the registration had been used by individuals linked to other potential fraud schemes. While not all payments made to post office boxes are improper or potentially fraudulent, the number of potentially fraudulent payments could be substantially reduced if FEMA put in place procedures to instruct disaster recipients to provide actual street addresses of damaged property when claiming disaster assistance. In addition, our undercover work provided further evidence of the weaknesses in FEMA's management of the disaster assistance process. For example, FEMA provided nearly \$6,000 in rental assistance to one of GAO's undercover registrations using a bogus property as the damaged address. These payments came even though verification with third-party records by FEMA indicated that the GAO undercover registrant did not live at the damaged address, and after the Small Business Administration reported that the damaged property could not be found. GAO has not cashed these checks and plans to return the checks to the Department of Treasury upon the conclusion of our work.

Without verifying the identity and primary residence of registrants prior to IHP payments, it is not surprising that FEMA also made expedited and rental assistance payments totaling millions of dollars to over 1,000 registrations made using information belonging to prison inmates. In other words, payments were made to registrations using the names and SSNs of individuals who were not displaced as a result of the storm but rather were incarcerated at state prisons of the Gulf Coast area (that is, Louisiana, Texas, Florida, Georgia, Mississippi, and Alabama), or federal prisons across the United States at the time of the hurricanes. FEMA criteria specified that expedited assistance be provided only to individuals



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who were displaced due to the disaster and therefore were in need of shelter, and further specified that FEMA may provide additional assistance to individuals for the purpose of renting accommodations.<sup>7</sup> For example, FEMA paid over \$20,000 to an inmate who used a post office box as his damaged property.

We also found potentially wasteful and improper rental assistance payments to individuals who were staying at hotels paid for by FEMA. In essence, the government paid twice for these individuals' lodging—first by providing a hotel at no cost and, second, by making payments to reimburse these individuals for out-of-pocket rent. For example, FEMA paid an individual \$2,358 in rental assistance, while at the same time paying about \$8,000 for the same individual to stay 70 nights—at more than \$100 per night—in a hotel in Hawaii. This registrant did not live at the damaged property at the time of the hurricane. Another registrant stayed more than 5 months—at a cost of \$8,000—in hotels paid for by FEMA in California, while also receiving three rental assistance payments for the two separate disasters totaling more than \$6,700. These instances occurred because FEMA did not require hotels to collect FEMA registration numbers and SSNs from residents staying in FEMA-paid for rooms. Without this information, FEMA did not verify if the registrants were staying in government provided hotels before sending them rental assistance. As a result, FEMA made rental assistance payments which covered the same period of time that the registrant was staying at a FEMA-paid hotel. Because the hotels and FEMA did not collect registration identification numbers, we were unable to quantify the magnitude of individuals who received these duplicate benefits.

We found that FEMA did not institute adequate controls to ensure accountability over the debit cards. Specifically, FEMA initially paid \$1.5 million for over 750 debit cards that the government could not determine actually went to help disaster victims. Based on our numerous inquiries, upon identification of several hundred undistributed cards JPMorgan Chase refunded FEMA \$770,000 attributable to the undistributed cards. Further, we continued to find that debit cards were used for items or services such as a Caribbean vacation, professional football tickets, and

<sup>7</sup> 44 CFR 206.117.

adult entertainment, which do not appear to be necessary to satisfy disaster-related needs as defined by FEMA regulations.<sup>8</sup>

**FEMA Paid About \$1  
Billion to Individuals  
Who Provided Invalid  
Registration Data**

Because of FEMA's failure to establish basic upfront validation controls over registrants' identity and address information, we estimate that FEMA made approximately \$1 billion of improper and potentially fraudulent payments based on invalid registrations.<sup>9</sup> This represents 16 percent of all individual assistance payments for hurricanes Katrina and Rita.<sup>10</sup> The improper and potentially fraudulent payments included cases where individuals and households used invalid SSNs, used addresses that were fictitious or not their primary residence, and for submitted earlier registrations. These improper payments based on phony or duplicate registration data were not only restricted to the initial expedited assistance payments that we previously reported on, but also included payments for rental assistance, housing repair, and housing replacement. For example, rental assistance payments were made to registrants that used a post office box and a cemetery as damaged properties. In fact, as part of our ongoing forensic audit, FEMA continues to provide rental assistance to GAO based on registrations that contained fictitious identities and bogus damaged addresses. In one case, FEMA even sent GAO a check for expedited assistance after an inspector could not confirm that the property existed, and FEMA had decided not to provide housing assistance to this registration. Our projection likely understates the total amount of improper and potentially fraudulent payments since our examination of sample payments focused only on invalid registrations and did not include other criteria, such as insurance policies, which may make registrants ineligible for IHP payments.

<sup>8</sup> 44 CFR 206.112.

<sup>9</sup> All dollar estimates from this sample of FEMA disaster payments have 95 percent confidence intervals of within plus or minus \$400 million of the estimate itself, unless otherwise noted.

<sup>10</sup> All percentage estimates from this sample of FEMA disaster payments have 95 percent confidence intervals of within plus or minus 5 percentage points of the estimate itself, unless otherwise noted.

**Statistical Sample Results  
Indicate About \$1 Billion  
in Potentially Fraudulent  
and Improper IHP  
Payments**

Based on our statistical sample we estimate that 16 percent of all payments were based on invalid registrations. We considered a registration invalid if it contained an invalid identity, invalid address information, or was paid from duplicate registration information. Some registrations failed more than one attribute. We drew our statistical sample from a population of 2.6 million payments made in the wake of hurricanes Katrina and Rita, totaling over \$6 billion through mid-February 2006. Based on these results, we project that FEMA made about \$1 billion in assistance payments based on improper or potentially fraudulent registrations. The 95 percent confidence interval associated with our estimate of improper and potentially fraudulent registrations ranges from a low of \$600 million to a high of \$1.4 billion in improper and potentially fraudulent payments. Table 1 shows the attributes we tested, the estimated failure rate in each attribute, and the overall projected failure amount.

**Table 1: Results of Statistical Sampling and Estimate of Potentially Improper and Fraudulent Payments**

Reason Why Payment Was Not Valid	Number of Failures	Percent Failure/ Estimated Amount
Invalid primary residence (properties which could not be a primary residence and properties that the registrant did not live in at the time of the disaster)	26	
Payments based on duplicate registration data (registration containing same SSN, damaged property address, and/or current address as an earlier registration in FEMA's system)	12	
Bogus properties used* (addresses did not exist)	3	
Invalid SSN used (SSN never issued or belonging to other individuals)	2	
<b>Total failures</b>	<b>39<sup>b</sup></b>	<b>16 percent</b>
<b>Estimate of Improper and Potentially Fraudulent Payments</b>		
Point estimate		\$1.0 billion <sup>c</sup>
95 percent confidence interval		\$600 million to \$1.4 billion <sup>c</sup>

Source: GAO.

\*Registrations containing bogus damaged property addresses also fail the invalid primary residence attribute.

<sup>b</sup>Some registrations failed more than one attribute; therefore, the total number of failures is less than the sum of the attribute totals.

<sup>c</sup>Rounded to the nearest \$10 million.

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As shown in table 1, some registrations failed more than one attribute; therefore the total number of registrations which failed our attribute tests is less than the sum of the failures of each attribute. For example, all payments made to registrations containing bogus damaged property addresses also failed the primary residence test because the registrants could not have lived there at the time of the disaster. Additional details on the 39 registrants in our sample where we found a problem are as follows:

**Payments to Registrants Whose Damaged Property Address Was Not Their Primary Residence** - Twenty six payments failed the primary residence test. These include individuals who had never lived at the damaged property, did not live at the damaged property at the time of the disasters, or used bogus property addresses on their registrations. We made these determinations after reviewing publicly available records, conducting site visits, and interviewing current residents and/or neighboring residents. We provide additional details related to failures in this attribute in table 2.

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**Table 2. Selected Payments in Statistical Sample That Failed the Primary Residence Attribute**

Case	Amount	Case Details
1	\$19,636	<ul style="list-style-type: none"> <li>• Registrant received \$2,000 in expedited assistance, \$2,358 in rental assistance, and more than \$15,000 in personal property replacement.</li> <li>• Registrant originally claimed damage at a street address several houses away from the damaged property address currently in FEMA's database. At some point in the disaster assistance process, the registrant made changes to the damaged property address.</li> <li>• No physical inspection occurred at the damaged property. Personal property payment was based on geospatial data due to the level of devastation in the area.</li> <li>• GAO reviews of publicly available information and credit report data showed that the registrant had never lived at the damaged property address for which she was paid.</li> </ul>
2	14,750	<ul style="list-style-type: none"> <li>• Registrant used valid physical property as damaged address to receive three payments for expedited assistance, rental assistance, and personal property replacement.</li> <li>• GAO audit and investigative work found no evidence that the individual ever lived at the property. After receiving the payments, the registrant withdrew the application without ever having a physical inspection performed or returning the disaster payments to FEMA.</li> </ul>
3	7,328	<ul style="list-style-type: none"> <li>• Registrant used damaged property in Kenner, Louisiana, as primary residence to qualify for one expedited assistance payment and two rental assistance payments.</li> <li>• Registrant did not live at property at the time of disaster.</li> <li>• Owner of the property told us that the registrant had moved out of the damaged property a month prior to hurricane Katrina.</li> </ul>
4	6,161	<ul style="list-style-type: none"> <li>• Registrant used damaged property as primary residence to receive one expedited assistance and two rental assistance payments.</li> <li>• Residents at the property had never heard of the registrant.</li> </ul>
5	2,784	<ul style="list-style-type: none"> <li>• Registrant used post office box in McIntosh, Alabama, as the damaged property address to receive expedited assistance and rental assistance.</li> <li>• The local postal inspector stated that the post office box was linked to other individuals associated with known fraudulent activity.</li> </ul>

Source: GAO analysis and investigation of FEMA data.

**Payments to Duplicate Registrations**—12 other payments in our sample failed because they were made to registrants whose damaged property addresses and current addresses had previously been submitted under other registrations and had received payments on those previous registrations. For example, one sample registrant submitted a registration containing the same damaged and current property addresses as those used previously by another registrant. Both registrations received payments for rental assistance for \$2,358 in September 2005.

**Payments to Registrations with Bogus Property Addresses** – Three payments in our sample were made to registrations containing bogus property addresses. For example, we found that one individual used several pieces of bogus information to receive expedited assistance. Specifically, the registrant used a SSN that was valid but the name did not

match the name in records maintained by the Social Security Administration. The registrant also used a damaged property address in the 3000 block that was determined to be invalid through our on-site inspection, as street numbers on that street only went up to the 1000s. After the initial payment, the registration was withdrawn voluntarily by the registrant. In effect, this registrant was able to use completely bogus information to receive \$2,000 from FEMA and then withdraw the registration to avoid further scrutiny.

**Payments to Registrations Containing Invalid Social Security Numbers** — Two of the payments in the sample were made to individuals that used invalid SSNs (e.g., SSNs that have never been issued or SSNs that did not match the name provided on the registration). For example, one individual used a SSN that had never been issued to receive FEMA payments for expedited and rental assistance.

Overall, we observed that 17 of our sample failures (44 percent) were related specifically to expedited assistance payments. The high level of expedited assistance-related failure was expected because these payments needed to be made quickly and, typically, prior to a physical inspection of the damaged property. However, we found that the other 22 failures (56 percent) were related to rental assistance and personal and real property repair and replacement payments. In its response to a draft GAO report, FEMA represented to us that all nonexpedited assistance payments, including the \$2,358 in housing assistance payments, were subject to much more stringent requirements. Specifically, FEMA represented that the registrants had to demonstrate that they occupied the damaged property at the time of the disaster. However, the 22 failures we found indicate that these requirements were not effective in preventing improper and potentially fraudulent registrations from receiving nonexpedited assistance payments.

**Sample Testing  
Understates Improper and  
Potentially Fraudulent  
Payments**

Our estimate likely understates the total amount of improper and potentially fraudulent payments because we did not test our samples for all potential reasons why a disaster assistance payment could be fraudulent or improper. For example, our testing criteria did not include reviewing whether registrants had insurance policies that covered hurricane damages, which may have made them ineligible for IIP payments. We also did not test whether FEMA inspectors accurately assessed the damage to each sampled damaged property, or whether the registrants were displaced from their homes, an eligibility factor for rental assistance.

During the course of our work, we found that these problems affected some of our sampled payments and, therefore, these payments may be improper or potentially fraudulent. However, because the problems did not relate to identity and address information, they passed our testing criteria. For example, an individual in our statistical sample provided a valid SSN and lived in a declared disaster area. However, the individual informed GAO that he did not incur any hurricane-related damage. Despite this fact, the individual received \$2,000 in expedited assistance. We did not test whether registrants received duplicate benefits from other FEMA programs, such as free hotel lodging and trailers, which would have resulted in FEMA paying duplicate housing benefits to the same registrant. Later in this testimony, we provide examples where registrants received from FEMA free hotel rooms in addition to rental assistance. Finally, our estimate would include payments FEMA has identified for potential recoupment.

**Undercover Investigations  
and Case Study Examples  
of Fraudulent and  
Improper IHP Payments**

Given the considerable amount of potentially fraudulent and improper payments identified in our statistical sample, it is not surprising that FEMA continued to provide rental assistance payments to GAO investigators based on bogus registrations. In one instance, rental assistance was made even after a FEMA inspector was unable to find the damaged property. Similarly, our sample testing and data mining work also identified additional examples of payments made on the basis of bogus information.

In our previous testimony,<sup>11</sup> we reported that we were able to obtain \$2,000 expedited assistance checks from FEMA using falsified identities, bogus property addresses, and fabricated disaster stories. FEMA has continued to provide us with additional disaster-related assistance payments even after FEMA received indications from various sources that our registrations may be bogus. GAO has not cashed these checks and plans to return the checks to the Department of Treasury upon the conclusion of our work. The following provides details of two of our undercover operations:

- Case #1 relates to a registration submitted by GAO for hurricane Rita that cited a bogus address in Louisiana as the damaged property. In October 2005, GAO received notice that the inspector assigned to inspect the property was not able to find the house despite numerous attempts to

<sup>11</sup> GAO-06-403T.

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verify the address with the phone book, post office, and with a physical inspection. The registration was subsequently returned to FEMA by the inspector and coded as withdrawn because no contact was made with the registrant. Even though GAO never met with the inspector to prove that the damaged property existed, FEMA sent GAO a check for \$2,000 in early 2006.

- Case # 2 relates to a GAO disaster registration for an empty lot in Louisiana for hurricane Katrina. Although the damaged property address was bogus, FEMA notified GAO that an inspection was performed and confirmed that the property was damaged.<sup>12</sup> However, FEMA stated that the registration could not be processed because FEMA was unable to corroborate that the GAO lived at the damaged property. GAO subsequently submitted a fictitious driver's license that included the bogus address, which FEMA readily accepted. Based on the fictitious driver's license, FEMA issued GAO a \$2,358 rental assistance check, as shown in figure 1. Subsequent to FEMA issuing the \$2,358 check, a Small Business Administration (SBA) inspector who was responsible for inspecting the damaged property in evaluation of a potential SBA loan<sup>13</sup> reported that the property did not exist. Although SBA discovered that the property was bogus, FEMA issued another rental assistance check to GAO, bringing the total rental assistance on this bogus registration to about \$6,000. We found that the discrepancy between FEMA's result (which confirmed that the property existed), and SBA's result (which showed that the property did not exist) occurred because FEMA did not conduct a physical inspection on the property but instead used geospatial mapping to determine losses.

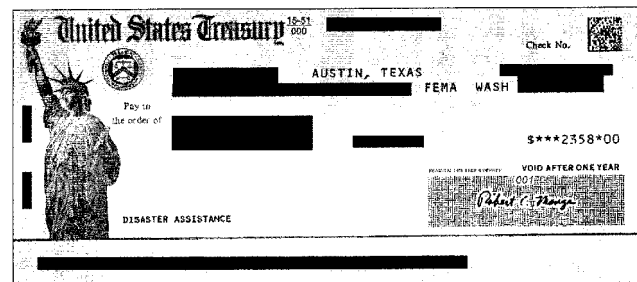
<sup>12</sup> Follow-up work indicates that because the address fell in an area with tremendous devastation, FEMA used geospatial mapping in lieu of a physical inspection to identify the level of damage and calculate the amount of assistance.

<sup>13</sup> Individuals and households who met a certain income threshold were referred to SBA for a loan consideration.



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Figure 1: Rental Assistance Check Issued to GAO



Source: GAO.

Data Mining Continued to  
Find Other Illustrative  
Examples of Improper and  
Potentially Fraudulent  
Payments

We have previously testified regarding potentially fraudulent case studies we uncovered through data mining and investigative techniques. The potential fraud in those cases was hundreds of thousands of dollars. We have continued our data mining work find additional examples where FEMA made payments, sometimes totaling over \$100,000, to improper or potentially fraudulent registrations, including payments made to registrants where cemeteries and post office boxes were claimed as damaged property addresses. Table 3 provides several additional examples of improper and potentially fraudulent payments.

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**Table 3: Examples of Payments Made to Improper and Potentially Fraudulent Registrations**

Case	Amount	Case Details
1	\$109,708	<ul style="list-style-type: none"> <li>8 individuals submitted 8 registrations using their own SSNs.</li> <li>All 24 payments were sent to a single apartment.</li> <li>4 individuals were members of the same household who were displaced to the same location. However, these individuals each received an expedited assistance and a rental assistance payment. According to public records, the other 4 individuals were not living at the damaged property at the time of the hurricane.</li> </ul>
2	139,000	<ul style="list-style-type: none"> <li>Individual received 26 payments using 13 different SSNs—only 1 of which belonged to the person.</li> <li>Public records indicate that the individual did not reside at any of the 13 addresses claimed as damaged property addresses.</li> <li>Public records also indicate that 8 of the 13 addresses did not exist or have public ownership records.</li> </ul>
3	4,358	<ul style="list-style-type: none"> <li>Registrant claimed a UPS store address as damaged property address to qualify for 2 payments for expedited assistance and rental assistance.</li> </ul>
4	2,358	<ul style="list-style-type: none"> <li>Registrant used an address in Greenwood Cemetery, New Orleans, as the damaged property address to qualify for one rental assistance payment.</li> </ul>
5	2,000	<ul style="list-style-type: none"> <li>Registrant used a New Orleans cemetery as the damaged property address to obtain one expedited assistance payment.</li> </ul>

Source: GAO analysis and investigation of FEMA data.

The following provides illustrative information for three of the cases.

- Case number 1 involves 8 individuals who claimed several different damaged property addresses, but the same current address which is a single apartment. Public record searches also determined that only 2 of the 8 individuals actually lived at the current address. Four individuals were members of the same household who shared the same damaged property address. However, the 4 individuals each received one expedited and one rental assistance payment. FEMA criteria specified that members from the same household who were displaced to the same location should be entitled to only one IHP payment. According to public records, the other 4 individuals were not living at the address claimed as damaged at the time of the hurricane.
- Case number 2 involves an individual who used 13 different SSNs—including one of the individual's own—to receive payments on 13 registrations. The individual claimed 13 different damaged property addresses and used one single current address to receive FEMA payments. According to publicly available records, this individual had no established history at any of the 13 properties in Louisiana, Mississippi, and Alabama, which the individual claimed as damaged. The individual received approximately \$139,000 consisting of 8 expedited assistance payments, 4 rental assistance payments, and 14 other payments, including 3 payments of \$10,500 each, and 3 payments ranging from over \$12,000 to over \$17,000

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for personal property replacement. Further audit and investigative work indicates that 8 of the 13 addresses did not exist or do not have public ownership records.

- Case number 4 involves a registrant who used the address of a cemetery to make an IHP claim. Specifically, the registrant used a damaged property address located within the grounds of Greenwood Cemetery, in New Orleans, Louisiana, to request disaster assistance from FEMA. Public records show no record of the registrant ever living in New Orleans. Instead, public records indicate that for the past five years, the registrant has resided in West Virginia at the address provided to FEMA as the registrant's current address.

As discussed previously, one statistical sample item we tested related to an improper and potentially fraudulent payment FEMA made to an individual who received expedited and rental assistance as a result of using a post office box as a damaged property address. According to the Postal Inspector, this post office box was also linked to individuals that are associated with fraudulent activity. In total, we found that FEMA made over 2,000 payments totaling about \$5.3 million to registrants who provided a post office box as their damaged residence. While not all payments made to post office boxes are improper or potentially fraudulent, the number of potentially fraudulent payments could be substantially reduced if FEMA put in place procedures to instruct disaster recipients to provide actual street addresses of damaged property when claiming disaster assistance.

### Registrants Using Prisoner Identities Received Millions in Disaster Assistance Payments

FEMA paid millions of dollars to over 1,000 registrants who used names and SSNs belonging to state and federal prisoners for expedited and housing assistance.<sup>14</sup> FEMA guidelines specify that eligibility for disaster assistance is predicated on the registrant being displaced from their primary residence due to the disaster, thus having need for shelter. These eligibility criteria should have generally excluded prisoners incarcerated throughout the disaster period. Given the weaknesses we identified earlier related to the number of individuals who claimed damages based on invalid property addresses, we can not ascertain whether FEMA properly verified that these registrations were valid, and therefore deserving of IHP payments. The following are three cases where prisoner identities were used to improperly receive IHP payments.

- Case 1 involves a convicted felon, housed in a Louisiana prison from April 2001 to the present, who registered for IHP assistance by telephone. The registrant made a FEMA claim using a post office box address in Louisiana as his damaged property address to qualify for IHP payments for expedited assistance, rental assistance, and personal property replacement. Two of these payments were made via checks sent to the address he falsely claimed as his current residence, and the final payment was sent via electronic funds transfer (EFT) to someone who also listed the same current address on the checking account. FEMA paid over \$20,000 to the registrant even though the damaged property address on the registration was a post office box address and the registrant was incarcerated throughout the disaster period.
- Case 2 involves a registrant who has been incarcerated in a Louisiana state penitentiary since February 2005. Several weeks after the disaster, the registrant applied by telephone for individual disaster relief assistance claiming a Louisiana address. Based on his registration information, FEMA paid the inmate over \$14,000 in checks mailed to an address in Texas that he listed as his current address, and an EFT was sent to his checking

<sup>14</sup> FEMA paid registrants who used names and SSNs belonging to inmates in the Gulf Coast region (that is, Louisiana, Texas, Alabama, Mississippi, Georgia, and Florida) or federal prison institutions and whose application was made at the time of incarceration. Most of these prisoners are still incarcerated. These numbers do not include prisoners who submitted false identities or false addresses on their registrations, prisoners who were free at the time of the hurricanes, received rental assistance, and were later incarcerated (meaning they received rental assistance covering periods of incarceration) or prisoners who used other schemes to collect FEMA benefits, such as identity theft. The average amount FEMA paid to a prisoner for expedited assistance and rental assistance was over \$3,000.

account. Payments included expedited assistance, rental assistance, and personal property replacement funds.

- Case 3 involves a registrant who has been incarcerated in a Mississippi correctional facility since 2004. The registrant used his name and SSN over the telephone to apply for and receive \$2,000 in expedited assistance and \$2,358 in rental assistance. The individual listed his correct current address, at the prison, to receive these payments.

### Rental Assistance Payments Sent to Individuals Living in FEMA-Paid-For Hotels

Following hurricane Katrina, FEMA undertook massive efforts to house individuals and households who were displaced by the hurricane. Among other efforts, FEMA provided hotel accommodations to individuals who were at that time displaced across the United States.<sup>15</sup> We found that although FEMA was responsible for paying hotel costs, FEMA did not require hotels to collect registration information (such as FEMA registration identification numbers or SSN) on individuals to whom it provided hotel accommodations. Without this information, FEMA was unable to identify individuals who were housed in hotels, and, thus, FEMA was unable to determine whether rental assistance should be provided to individuals to whom the federal government was providing free lodging. As a result, FEMA made rental assistance payments which covered the same period of time that the registrant was staying at a FEMA-paid hotels.<sup>16</sup> Table 4 provides examples of some of these cases.

<sup>15</sup> Immediately after hurricane Katrina, the Red Cross moved to provide hurricane victims with housing in hotels through its Special Transient Accommodations Program. On October 25, 2005, FEMA took over the management of this program. FEMA subsequently reimbursed Red Cross for expenditures Red Cross incurred for its program.

<sup>16</sup> On November 23, 2005, FEMA issued a policy memo for Katrina stating that rental assistance payments for the first 3 months (\$2,358) are not considered a duplication of benefits for individuals staying at FEMA paid hotels. FEMA made the policy retroactive and applied it to all rental assistance payments provided prior to the policy being issued. We do not believe that this retroactive policy determination eliminates the fact FEMA effectively provided some evacuees with two forms of lodging benefits at the same time, resulting in a waste of government funds.

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**Table 4: FEMA Registrants Receiving Rental Assistance and FEMA Paid Hotels**

Case	Hotel Name (Location)	Rental Assistance Payments	Total Hotel Payments*	Details
1	Quality Inn (Carson, Calif.) Extended Stay America (Sacramento, Calif.)	\$6,734	\$ 8,000	<ul style="list-style-type: none"> <li>Registrant stayed at two hotels from September 2005 to February 2006 at a cost of \$50 to \$60 per night.</li> <li>FEMA paid registrant rental assistance for both Katrina and Rita in October 2005 and again in December 2005 for Katrina.</li> </ul>
2	Motel 6 (Port Allen, La.)	5,602	7,000	<ul style="list-style-type: none"> <li>Registrant stayed at hotels from October 2005 to February 2006 at cost of \$36 to \$56 per night.</li> <li>While at the hotel, registrant submitted self-certification forms stating he required housing assistance as a result of both disasters.</li> <li>FEMA paid registrant two rental assistance payments for Rita in November 2005 and two rental assistance payments for Katrina in December 2005 and January 2006.</li> </ul>
3	Marriott Courtyard (Lafayette, La.)	5,208	18,000	<ul style="list-style-type: none"> <li>Registrant stayed at hotel from September 2005 to February 2006 at a cost of \$109 to \$122 per night.</li> <li>FEMA paid registrant two rental assistance payments in September 2005 and December 2005.</li> </ul>
4	Marriott Cypress Harbour (Orlando, Fla.)	4,386	12,000	<ul style="list-style-type: none"> <li>Registrant stayed at the vacation resort hotel from September to November 2005 at a cost of \$154 to \$249 per night.</li> <li>In November 2005, the registrant moved to a FEMA-paid trailer.</li> <li>FEMA made two rental assistance payments to the registrant in October 2005.</li> </ul>
5	Days Inn (Monroe, La.)	4,386	8,000	<ul style="list-style-type: none"> <li>Registrant stayed at hotel from October 2005 to January 2006 at a cost of \$69 to \$79 per night.</li> <li>FEMA paid registrant two rental assistance payments in September 2005 and December 2005.</li> <li>FEMA inspector notes indicate registrant did not live at the damaged address at time of the hurricane.</li> </ul>
6	Intercontinental (New Orleans, La.) Days Inn (Metairie, La.) Best Western French Quarter Landmark (New Orleans, La.)	4,056	14,000	<ul style="list-style-type: none"> <li>Registrant stayed at three hotels from November 2005 to February 2006 at a cost of \$119 to \$260 per night.</li> <li>FEMA paid registrant rental assistance payments in November 2005 and January 2006.</li> </ul>
7	Ramada Plaza Hotel (Corona, N.Y.)	2,358	31,000	<ul style="list-style-type: none"> <li>Registrant stayed at hotel from September 2005 to March 2006 at a cost of \$149 per night.</li> <li>FEMA paid registrant rental assistance in September 2005.</li> </ul>

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<b>Case</b>	<b>Hotel Name (Location)</b>	<b>Rental Assistance Payments</b>	<b>Total Hotel Payments*</b>	<b>Details</b>
8	Pagoda Hotel (Honolulu, Hawaii)	2,358	8,000	<ul style="list-style-type: none"> <li>• Registrant stayed at hotel from October to December 2005 at a cost of \$110 to \$115 per night.</li> <li>• FEMA paid the registrant rental assistance in November 2005 and another rental assistance payment for \$2,988 in January 2006.</li> <li>• Our investigation and public records indicate that the registrant did not live at the damaged property address in New Orleans at the time of the hurricane but instead resided in North Carolina.</li> </ul>
9	French Quarter Suites (New Orleans, La.) Old Towne Inn (New Orleans, La.)	2,358	8,000	<ul style="list-style-type: none"> <li>• Registrant stayed at two hotels from November 2005 to January 2006 at a cost of \$100 to \$136 per night.</li> <li>• FEMA paid registrant rental assistance in November 2005.</li> <li>• Registrant was evicted from second hotel for violating hotel rules.</li> </ul>
10	Days Inn (Monroe, La.)	2,028	8,000	<ul style="list-style-type: none"> <li>• Registrant stayed at hotel from October 2005 to January 2006 at a cost of \$61 to \$79 per night.</li> <li>• FEMA paid the registrant rental assistance in December 2005.</li> </ul>

Source: GAO analysis and investigation of FEMA and hotel data.

\*Rental assistance payments were made prior to February 13 while these recipients were staying in the FEMA-paid hotels. Total hotel payments are rounded to the nearest \$1,000.

Because the hotels were not required to collect identification numbers, we were unable to determine the magnitude of individuals who received these duplicate benefits. However, as illustrated in table 4, our data mining identified a number of individuals housed in FEMA-paid for hotels who have received more than one rental assistance payment. Without an effective means of reconciling individuals in FEMA hotels with those individuals receiving rental assistance payments, FEMA may have wasted taxpayer dollars by paying twice for housing assistance to hurricane victims.

**FEMA Lacked  
Controls over  
Accountability and  
Use of Debit Cards**

FEMA did not establish proper accountability for debit cards. As a result, FEMA disbursed about \$1.5 million of taxpayer money for over 750 debit cards that FEMA cannot establish went to disaster victims. In addition, as reported previously, we continued to find cases where recipients purchased goods and services that did not meet serious disaster related needs as defined by federal regulations.<sup>17</sup>

<sup>17</sup> 44 CFR 206.110.

**Control Weaknesses over  
Accountability of FEMA  
Debit Cards**

FEMA lacked controls for accounting for debit cards issued, resulting in the loss of accountability for over 750 debit cards valued at about \$1.5 million. The lack of controls over debit cards is particularly troubling given that debit cards are, in essence, cash that can be used to purchase goods and services. In September 2005, JPMorgan Chase was initially paid approximately \$22.7 million for about 11,374 cards that the bank believed were issued to FEMA registrants. However, prior to our inquiries beginning in November 2005, we found that neither FEMA nor the bank had reconciled the actual number of cards distributed with the number of cards for which payment was made. From our numerous inquiries, both JPMorgan Chase and FEMA began to reconcile their records to the debit cards issued. As a result,

- JPMorgan Chase performed a physical count of cards remaining to identify the number of cards distributed. This resulted in JPMorgan Chase determining that it distributed 10,989 cards, not 11,374 cards. Upon identification of the 385 undistributed debit cards, JPMorgan Chase refunded to FEMA \$770,000 attributable to these undistributed debit cards.
- FEMA attempted to perform a reconciliation of the distributed cards to the cards recorded in its disaster recipient database. As of May 26, 2006, FEMA can only account for 10,608 cards of the 10,989 cards JPMorgan Chase claimed that it has distributed.<sup>18</sup> As a result, FEMA cannot properly account for 381 debit cards, worth about \$760,000.

**Lack of Guidance for  
Proper Use of Debit Cards**

Since initially paying JPMorgan Chase \$22.7 million, FEMA has expanded the use of debit cards as a payment mechanism for future IHP payment for some registrants. Through this process, FEMA made about \$59 million in additional payments of rental assistance and other benefits. As of March 2006, over 90 percent of money funded to the debit cards has been used by recipients to obtain cash and purchase a variety of goods and services. Our analysis of data provided by JPMorgan Chase found that the debit cards were used predominantly to obtain cash<sup>19</sup> which did not allow us to

<sup>18</sup> Based on the electronic data provided to us, we were not able to corroborate 400 of the 10,608 cards FEMA stated that they were able to identify. According to a FEMA official, FEMA identified these recipients utilizing data mining activities and a manual review process of the recipient files. However, the FEMA official stated that no hard copies of the recipient files were made and, thus, we are not able to conclude whether these additional cards were, in fact, linked to a recipient who received a debit card.

<sup>19</sup> Over 70 percent of debit card dollars were cash withdrawals.



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determine how the money was actually used. The majority of the remaining transactions was associated with purchases of food, clothing, and personal necessities.

Similar to findings in our February 13, 2006, testimony, we continue to find some cases where cardholders purchased goods and services that did not appear to meet legitimate disaster needs. In this regard, FEMA regulations provide that IHP assistance be used for items or services that are essential to a registrant's ability to overcome disaster-related hardship. Table 5 details some of the debit cards activities we found that are not necessary to satisfy legitimate disaster needs.

**Table 5: Examples of Questionable Use of Debit Cards**

Vendor	Location	Nature of Transaction	Amount
Jewelz	Arlington, Tex.	Diamond jewelry including watches, earrings, and a ring	\$3,700
Vacation Express	Atlanta, Ga.	All inclusive 1 week Caribbean vacation resort in Punta Cana, Dominican Republic	2,200
Lesea Broadcasting	South Bend, Ind.	Donations to a faith based charity	2,000
New Orleans Saints	New Orleans, La.	5 New Orleans Saints football season tickets	2,000
Mark Lipkin	Houston, Tex.	Divorce lawyer services	1,000
Legends	Houston, Tex.	Gentleman's club	600
The Pleasure Zone	Houston, Tex.	Adult erotica products	400
Hooters	San Antonio, Tex.	Alcoholic beverages including \$200 bottle of Dom Perignon champagne	300
GGW Video	Santa Monica, Calif.	Girls Gone Wild videos	300
Alamo Fireworks	San Antonio, Tex.	Fireworks	300

Source: GAO analysis of debit card transactions and additional investigations.

Note: Total transaction amounts are rounded to the nearest \$100.

**Concluding  
Comments**

FEMA faces a significant challenge in ensuring that IHP relief payments are only sent to valid registrants while also distributing those relief payments as fast as possible. To ensure the success of the program, FEMA must build the American taxpayers confidence that federal disaster assistance only goes to those in need, and that adequate safeguards exist to prevent assistance from going to those who submit improper and potentially fraudulent registrations. To that effect, FEMA must develop and strengthen controls to validate information provided at the registration stage. As we have stated in prior audit work, and as FEMA had learned from prior experience, pursuing collection activities after disaster relief payments have been made is costly, time-consuming, and ineffective. Upfront controls are all the more crucial given the estimated \$1 billion

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dollars that had gone to improper and potentially fraudulent registrations related to hurricanes Katrina and Rita. It is key that FEMA address weaknesses in its registration process so that it can substantially reduce the risk for fraudulent and improper payments before the next hurricane season arrives.

In addition, to help deter future fraudulent registrations, FEMA must ensure there are consequences for those who commit fraud. We plan to refer potentially improper payments to FEMA for further review, and hope that FEMA will take the necessary recoupment actions. Further, we have referred, and plan to refer additional cases of potential fraud to the Katrina Fraud Task Force for further investigations and, if warranted, indictments. Finally, we plan to issue a report in the future with recommendations for addressing problems identified in this testimony.

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Mr. Chairman and Members of the Committee, this concludes our statement. We would be pleased to answer any questions that you or other members of the committee may have at this time.

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### Contacts and Acknowledgement

For further information about this testimony, please contact Gregory Kutz at (202) 512-7455 or [kutzg@gao.gov](mailto:kutzg@gao.gov), John Kelly at (202) 512-6926 or [kellyj@gao.gov](mailto:kellyj@gao.gov).

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## Appendix I: Objectives, Scope and Methodology

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Our objectives were to (1) provide an estimate of improper and potentially fraudulent payments related to certain aspects of the disaster registrations, (2) identify whether FEMA made improper or potentially fraudulent IHP payments to registrants who were incarcerated at the time of the disaster, (3) identify whether FEMA provided registrants with rental assistance payments at the same time it was paying for their hotel rooms, and (4) review FEMA's accountability over debit cards and controls over proper debit card usage.

To provide an estimate of improper and potentially fraudulent payments related to certain aspects of the disaster registrations, we drew a statistical sample of 250 payments from the Federal Emergency Management Agency (FEMA)'s Individuals and Households Program (IHP) payments. Three of the 250 were considered out of scope for our study because the payment has been returned to the U.S. government by the time of our review. Therefore, our review examined 247 payments for which the government was subject to financial loss. Potentially fraudulent and invalid payments are claims that contained (1) bogus identities, (2) addresses that did not exist, (3) addresses where there was no evidence that the address was the primary residence of the registrant at the time of the disaster, and (4) addresses that had been previously registered using duplicate information (such information would include same SSNs, same damaged address, and/or same current address). We conducted searches of public records, available FEMA data, and/or made physical inspections of addresses to determine if registrations were improper and/or potentially fraudulent.

Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval (e.g., plus or minus 5 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. As a result, we are 95 percent confident that each of the confidence intervals in this report will include the true values in the study population.

To identify whether FEMA made improper or potentially fraudulent IHP payments to registrants who were incarcerated at the time of the disaster, we obtained the FEMA IHP database as of February 2006. We obtained databases containing state prisoner data since August 2005, including releases and new incarcerations, from the states of Louisiana, Texas, Mississippi, Alabama, Georgia, and Florida. We also obtained federal prisoner data since August 2005, including releases and new

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incarcerations, from the Department of Justice. We validated the databases were complete by comparing totals against available public information on prisoner populations. We compared these databases against the population of IHP payments to identify prisoner SSN/name combinations that received payments from FEMA. We restricted this comparison to prisoners who were in state or federal prisons at the time of the disasters. We also interviewed prisoners who registered for disaster relief and prison officials to determine if prisoners were incarcerated at the time of the disaster.

To identify whether FEMA improperly provided registrants with rental assistance payments at the same time it was paying for their hotel rooms, we reviewed FEMA policies and procedures to determine how FEMA administered its hotel program, and obtained FEMA data on its hotel registrants. We also used data mining and forensic audit techniques to identify registrants who stayed in hotels paid for by FEMA who also received rental assistance payments through the IHP program. To determine whether registrations from our data mining resulted in duplication of housing benefits, we used a selection of 10 case studies for further investigation. We obtained documentation from hotel officials to substantiate that case study registrants stayed at hotels paid for by FEMA. We also gathered available FEMA data on case study registrations that received multiple rental assistance payments to determine what information they had provided FEMA in order to receive additional rental assistance.

To review FEMA's accountability over debit cards and controls over proper debit card usage, we reviewed databases of transactions and accounts provided by JPMorgan Chase, the administering bank for the debit cards, as well as FEMA's database of debit card accounts. We interviewed bank, FEMA, and Treasury officials regarding the reconciliation of debit card accounts against IHP registrants and reviewed documentation related to the payment flow of debit cards. We also performed data mining on debit card transactions to identify purchases that did not appear to be indicative of necessary expenses as defined by the Stafford Act's implementing regulations.

During the course of our audit work, we identified multiple cases of potential fraud. For cases that we investigated and found significant evidence of fraudulent activity, we plan to refer our cases directly to the Hurricane Katrina Fraud Task Force. We performed our work from February 2006 through June 8, 2006 in accordance with generally accepted

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government auditing standards and quality standards for investigations as set forth by the President's Council on Integrity and Efficiency.

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### Data Reliability

To validate that the National Emergency Management Information System database was complete and reliable, we compared the total disbursements against reports FEMA provided to the Senate Appropriations Committee on Katrina/Rita disbursements. We also interviewed FEMA officials and performed electronic testing of the database on key data elements.

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# Appendix VI: GAO Contact and Staff Acknowledgments

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## GAO Contacts

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## Acknowledgments

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# Glossary

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Dental Expenses	Financial assistance to address the dental costs.
Direct Assistance	Financial assistance to address the cost of funeral services, burial, cremation, and other funeral expenses related to a death caused by the disaster.
Expedited Assistance	Expedited assistance provides fast track money in the form of \$2,000 in expedited payments to eligible disaster victims to help with immediate, emergency needs of food, shelter, clothing and personal necessities. FEMA changed the maximum amount from \$2,000 to \$500 on July 24, 2006.
Funeral Expenses	Money to address the cost of funeral services, burial, cremation, and other funeral expenses related to a death caused by the disaster.
Home Replacement Grant	Financial assistance provided to replace the primary residence of an owner-occupied dwelling if the dwelling was damaged by the disaster and there was at least \$10,000 of damage (as adjusted annually to reflect changes in the CPI). The applicant may either replace the dwelling in its entirety for \$10,000 (as adjusted annually to reflect changes in the CPI) or less, or may use the assistance toward the cost of acquiring a new permanent residence that is greater in cost than \$10,000 (as adjusted annually to reflect changes in the CPI).
Home Repair Grant	Financial assistance provided for the repairs of uninsured disaster-related damages to an owner's primary residence. The funds are to help return owner-occupied primary residences to a safe and sanitary living or functioning condition. Repairs may include utilities and residential infrastructure damaged by a major disaster.
IHP Other Needs Assistance Categories	The ONA Program is designed for those with serious needs who have no other source of assistance. The program covers necessary expenses such as uninsured personal property, medical and dental expenses and funeral expenses.
Lodging Expenses	

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Expenses for reasonable short-term accommodations that individuals or households incur in the immediate aftermath of a disaster. Lodging expenses may include but are not limited to the cost of brief hotel stays.

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**Medical Expenses**

Financial assistance to address the cost of medical treatment or the repair or replacement of medical equipment required as a result of the disaster.

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**Moving & Storage Expenses**

Financial assistance to address necessary expenses and serious needs related to moving and storing personal property to avoid additional disaster damage.

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**Necessary Expense**

The cost associated with acquiring an item or items, obtaining a service, or paying for any other activity that meets a serious need.

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**Other Needs Expenses**

Financial assistance to address the cost of other specific disaster-related necessary expenses and serious needs of individuals and households.

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**Personal Property Expenses**

Financial assistance to address the cost of repairing and/or replacing disaster damaged items, such as furniture, bedding, appliances, and clothing.

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**Preliminary Disaster Assessment**

A mechanism used to determine the impact and magnitude of damage and the resulting unmet needs of individuals, businesses, the public sector, and the community as a whole.

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**Rental Assistance**

As part of IHP housing assistance, rental assistance funds address the cost renting another place to live. For homeowners, this money may be provided in addition to home repair, if needed.

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**Serious Need**

The requirement for an item, or service, that is essential to an applicant's ability to prevent, mitigate, or overcome a disaster-related hardship, injury or adverse condition.

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**Transitional Housing Assistance**

Transitional Housing Assistance is a cash grant of up to \$2,358 per household intended to cover an initial 3 months of rental payments for eligible applicants. Transitional Housing Assistance is a form of rental assistance and was implemented for the first time in selected disaster areas in Louisiana and Mississippi during Hurricane Katrina.

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**Transportation Expenses**

Financial assistance for public transportation and any other transportation related costs or expense and the cost of repairing and/or replacing a disaster damaged vehicle that is no longer usable because of disaster-related damage.

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# Related GAO Products

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*Small Business Administration: Actions Needed to Provide More Timely Disaster Assistance.* [GAO-06-860](#). Washington, D.C.: July 28, 2006.

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