

June 2006

**EXPEDITED
ASSISTANCE FOR
VICTIMS OF
HURRICANES
KATRINA AND RITA**

**FEMA's Control
Weaknesses Exposed
the Government to
Significant Fraud and
Abuse**



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Highlights

Highlights of [GAO-06-655](#), a report to congressional committees

Why GAO Did This Study

In the wake of Hurricanes Katrina and Rita, the Federal Emergency Management Agency (FEMA) faced the challenge of providing assistance quickly while having sufficient controls to provide assurance that benefits were paid only to those eligible under the Individuals and Households Program (IHP). On February 13, 2006, GAO testified on the initial results of its ongoing work related to whether (1) controls are in place and operating effectively to limit assistance to qualified applicants, (2) indications exist of fraud and abuse in the application for and receipt of assistance payments, and (3) controls are in place and operating effectively over debit cards to prevent duplicate payments and improper usage.

What GAO Recommends

GAO recommends that the Department of Homeland Security direct FEMA to take six actions, including establishing both an identity and address verification process, entering into agreements with other agencies to authenticate information on IHP registrations, establishing procedures to collect duplicate payments, and providing assurance that future distribution of debit cards includes instructions on the proper use of IHP funds. DHS and FEMA concurred fully with four of the six recommendations, and partially concurred with the remaining two. In addition, FEMA reported that it has instituted corrective actions to remedy the weaknesses we identified.

www.gao.gov/cgi-bin/getrpt?GAO-06-655.

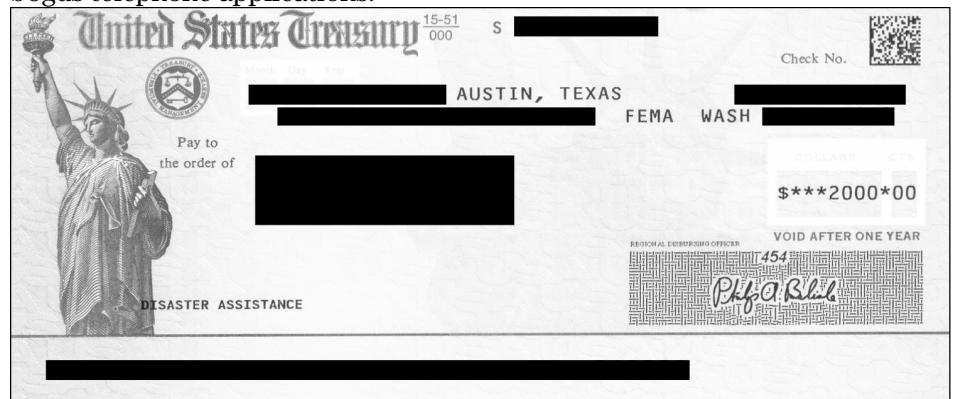
To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz at 202-512-7455 or kutzg@gao.gov.

EXPEDITED ASSISTANCE FOR VICTIMS OF HURRICANES KATRINA AND RITA

FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse

What GAO Found

GAO identified significant flaws in the process for registering disaster victims that leave the federal government vulnerable to fraud and abuse of expedited assistance (EA) payments. For Internet applications, limited automated controls were in place to verify a registrant's identity. However, there was no independent verification of the identity of those who applied for disaster assistance via the telephone. GAO demonstrated the vulnerability inherent in the call-in applications by using falsified identities, bogus addresses, and fabricated disaster stories to register for IHP. Below is a copy of one of the \$2,000 checks that GAO received in response to its bogus telephone applications.



Source: GAO.

FEMA's automated system frequently identified potentially fraudulent registrations, such as multiple registrations with identical social security numbers (SSN) but different addresses. However, the manual process used to review these flagged applications did not prevent EA and other payments from being issued. Other control weaknesses include the lack of any validation of damaged property addresses for both Internet and telephone registrations.

Given these weak or nonexistent controls, it is not surprising that GAO's data mining and investigations showed substantial potential for fraud and abuse of EA. Thousands of registrants misused IHP by applying for assistance using SSNs that were never issued or belonged to deceased or other individuals. GAO's case study investigations of several hundred registrations also indicate the use of bogus damaged property addresses. Visits to over 200 of these damaged properties in Texas and Louisiana showed that at least 80 of these addresses were bogus—including vacant lots and nonexistent apartments. FEMA also made duplicate EA payments to about 5,000 of the nearly 11,000 debit card recipients—once through the distribution of debit cards and again by check or electronic funds transfer. In addition, while debit cards were used predominantly to obtain cash, food, clothing, and personal necessities, a small number were used for adult entertainment, bail bond services, and weapons purchase, which do not appear to be items or services required to satisfy disaster-related needs.

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United States Government Accountability Office
Washington, D.C. 20548

June 16, 2006

Congressional Committees

On February 13, 2006, we testified before the Senate Committee on Homeland Security and Governmental Affairs on the initial results of our ongoing forensic audits and related investigations of assistance provided by the Federal Emergency Management Agency (FEMA) to individuals and households affected by Hurricanes Katrina and Rita.¹ The Individuals and Households Program (IHP), a major component of the federal disaster response efforts established under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act),² is designed to provide financial assistance to individuals and households who, as a direct result of a major disaster, have necessary expenses and serious needs that cannot be met through other means. In the wake of Hurricanes Katrina and Rita, FEMA provided \$2,000 in IHP payments to affected households via its Expedited Assistance (EA) program. Victims who received EA may qualify for up to \$26,200 in IHP assistance. As of mid-December 2005, IHP payments totaled about \$5.4 billion, with \$2.3 billion provided in the form of EA. These payments were made via checks, electronic fund transfers, and a small number of debit cards. Our initial work focused on whether (1) controls are in place and operating effectively so that expedited assistance payments are only made to qualified registrants, (2) indications exist of fraud and abuse in the registration for and receipt of expedited assistance and other payments, and (3) controls are in place and operating effectively over debit cards to prevent duplicate payments and improper usage. This report summarizes our testimony, which is reprinted in Appendix I, and makes specific recommendations for corrective actions. These recommendations relate only to the limited scope of work completed for our testimony and will therefore not prevent all improper and fraudulent IHP payments. In the future, we will continue to audit and investigate the assistance provided by FEMA in the aftermath of hurricanes Katrina and Rita, and we will issue further recommendations designed to create a more comprehensive fraud prevention program for IHP.

¹GAO, *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).

²42 U.S.C. §§ 5121-5206.

Overview of Testimony

In our testimony, we stated that weaknesses in the process that FEMA used to review registrations for disaster relief and approve assistance payments left the government vulnerable to fraud and abuse. Our work indicated that FEMA put in place limited procedures designed to prevent, detect, and deter certain types of duplicate and potentially fraudulent disaster registrations. Specifically, individuals could apply for disaster assistance via the Internet or telephone. FEMA subjected the Internet registrations to a limited verification process whereby a FEMA contractor used credit and other information to validate the identity of registrants. Those who failed the Internet verification process were advised to contact FEMA via telephone to reregister. However, FEMA did not apply the identity validation process to telephone registrations. Of the more than 2.5 million registrations recorded in FEMA's database as of mid-December 2005, 60 percent (more than 1.5 million) were exempt from any identity verification because they were submitted via the telephone. Our data mining and investigations confirmed FEMA's representation. For example, using falsified identities, bogus addresses, and fabricated disaster stories, we applied for disaster assistance over the telephone and obtained \$2,000 expedited assistance payments.

Other control weaknesses further increased the government's exposure to fraud and abuse. For example, we found that FEMA instituted automated checks that flagged hundreds of thousands of potentially duplicate registrations in the computer system FEMA used to process and approve IHP registrations for payments. FEMA officials informed us that these flagged registrations were subjected to additional reviews to conclude whether they were, in fact, duplicates. However, while the additional review process may have prevented some potentially fraudulent and improper payments, it did not prevent other potentially fraudulent and improper payments based on duplicate registrations. We also found that FEMA did not implement procedures to validate whether damaged addresses used to register for assistance were bogus, for either Internet or telephone registrations.

With limited or nonexistent validation of registrants' identities and damaged addresses, it is not surprising that our data mining and investigations found substantial indicators of potential fraud and abuse related to false or duplicate information submitted on disaster registrations. For example, according to Social Security Administration (SSA) data, FEMA made millions of dollars in payments to thousands of registrants who submitted Social Security Numbers (SSN) that have not

been issued or belonged to deceased individuals. Our data mining also detected that FEMA made tens of thousands of payments to registrants who provided other false or duplicate information on their registrations. Specifically, we investigated 20 case studies with multiple registrations.³ A majority of these registrations—165 of 248—contained SSNs that, according to the SSA, were never issued, belonged to deceased individuals, or did not match the name provided. In addition, about 80 of the over 200 alleged disaster addresses that we attempted to validate were bogus addresses. Also, our case study registrants did not live in many of the remaining valid addresses. In one specific case example, 17 individuals, some of whom shared the same last name and current addresses, used 34 different SSNs that did not belong to them and addresses that were either bogus or were not their residences to receive more than \$103,000 in FEMA payments. In addition, because the hurricanes had destroyed many homes, we could not determine if approximately 15 of the alleged disaster addresses had ever existed.

Similar to the control weaknesses over expedited assistance payments distributed through checks and electronic funds transfers, we found that FEMA did not validate the identities of debit card recipients at three relief centers in Texas who registered via the telephone. Consequently, FEMA issued \$2,000 debit cards to over 60 registrants who provided SSNs that were never issued or belonged to deceased individuals. We also found that FEMA made multiple expedited assistance payments to over 5,000 of the 11,000 debit card recipients. That is, FEMA provided the registrant both a \$2,000 debit card and a \$2,000 check or electronic fund transfer. Further, at the time of debit card issuance, unlike the recipients who received expedited assistance payments via checks or EFTs, FEMA did not issue specific instructions to debit card recipients on the use of the cards. We found that debit cards were used predominantly to obtain cash and thus are unable to determine how the money was actually used. The majority of the remaining debit card purchases were for food, clothing, and personal necessities. However, in isolated instances, a few debit cards were used to pay for items or services that, on their face, do not seem essential to satisfy disaster related needs. For example, these debit cards were used in part to

³We used various indicators such as identical names, SSNs, damaged addresses, and current addresses to link multiple registrations together in the 20 case studies.

purchase adult entertainment, a .45 caliber hand gun, jewelry, bail bond services, and to pay for prior traffic violations.⁴

Conclusions

FEMA has a substantial challenge in balancing the need to get money out quickly to those who are actually in need and sustaining public confidence in disaster programs by taking all possible steps to minimize fraud and abuse. Nevertheless, FEMA could reasonably be expected to have mature, fully tested processes, along with business partners in the federal, state, and private sector, that can provide it with real time access to the data required to validate identities and addresses for those seeking disaster assistance. Once fraudulent registrations are made and money is disbursed, detecting and pursuing those who committed fraud in a comprehensive manner is costly and may not result in recoveries. Further, many of those fraudulently registered in the FEMA system already received expedited assistance and will likely receive more money, as each registrant can receive as much as \$26,200 per registration.

Another key element to preventing fraud in the future is to ensure there are consequences for those that commit fraud. We are referring the fraud cases that we are investigating to the Katrina Fraud Task Force for further investigation and, where appropriate, prosecution. We believe that prosecution of individuals who have obtained disaster relief payments through fraudulent means will send a message for future disasters that there are consequences for defrauding the government.

Recommendations for Executive Action

We recommend that the Secretary of the Department of Homeland Security (DHS) direct the Director of the Federal Emergency Management Agency to take six actions to address the weaknesses we identified in the administration of IHP. These six recommendations relate only to the limited scope of work that we have completed to date and will not prevent all types of improper and fraudulent IHP payments. Consequently, we will continue to audit and investigate the assistance provided by FEMA in the aftermath of hurricanes Katrina and Rita and we will issue further recommendations designed to create a more comprehensive fraud

⁴Under the Act's implementing regulations, FEMA may recover funds that it determines were provided erroneously, that were spent inappropriately, or were obtained through fraudulent means. 44 C.F.R. § 206.116 (b).

prevention program for IHP. To address the concerns raised in our February 13, 2006, testimony, we recommend that DHS and FEMA do the following:

- Establish an identity verification process for Individuals and Households Program (IHP) registrants applying via both the Internet and telephone, to provide reasonable assurance that disaster assistance payments are made only to qualified individuals. Within this process
 - establish detailed criteria for registration and provide clear instructions to registrants on the identification information required,
 - create a field within the registration that asks registrants to provide their name exactly as it appears on their Social Security Card in order to prevent name and Social Security Number (SSN) mismatches,
 - fully field test the identity verification process prior to implementation,
 - ensure that call center employees give real-time feedback to registrants on whether their identities have been validated, and
 - establish a process that uses alternative means of identity verification to expeditiously handle legitimate applicants that are rejected by identity verification controls.
- Develop procedures to improve the existing review process of duplicate registrations containing the exact same SSN and to identify the reasons why registrations flagged as invalid or as potential duplicates have been overridden and approved for payment.
- Establish an address verification process for IHP registrants applying via both the Internet and telephone, to provide reasonable assurance that disaster assistance payments are made only to qualified individuals. Within this process
 - create a uniform method to input street names and numbers and apartment numbers into the registration,
 - institute procedures to check IHP registration damaged addresses against publicly available address databases so that payments are not made based on bogus property addresses,

-
- fully field test the address verification process prior to implementation,
 - ensure that call center employees can give real time feedback to registrants on whether addresses have been validated, and
 - establish a process that uses alternative means of address verification to expeditiously handle legitimate applicants that are rejected by address verification controls.
 - Explore entering into an agreement with other agencies, such as the Social Security Administration, to periodically authenticate information contained in IHP registrations.
 - Establish procedures to collect duplicate expedited assistance payments or to offset these amounts against future payments. Such duplicate payments include
 - the payments made to IHP recipients who improperly received the \$2,000 debit cards and an additional \$2,000 EA check or Electronic Funds Transfer (EFT) and
 - the thousands of duplicate EA payments made to the same IHP registration number.
 - Ensure that any future distribution of IHP debit cards includes instructions on the proper use of IHP funds, similar to those instructions provided to IHP check and EFT recipients, to prevent improper usage.

Agency Comments and Our Evaluation

In written comments on a draft of this report, which are reprinted in appendix II, DHS and FEMA made a number of observations that were not related to any specific recommendation, concurred fully with four of our six recommendations, and partially concurred with the remaining two recommendations. In general comments, FEMA and DHS stated that they could benefit more from the report if information sharing between GAO and FEMA had been reciprocal. We believe that we employed such an arrangement throughout this engagement. We regularly briefed DHS and FEMA concerning the progress of the audit. For example, we notified FEMA management immediately after we detected that duplicate EA payments were made to individuals who had received debit cards, and worked closely with FEMA's Disaster Finance Center to resolve other

issues related to payments that appeared to exceed the \$26,200 limit for specific recipients.

DHS and FEMA also expressed concern over the objectivity and fairness of our report. Specifically, DHS and FEMA noted that our selection of 248 registrations was not a representative sample and was geared specifically toward identifying and reporting on registrations that had problems. Our testimony clearly states that the case studies we used were intended to demonstrate the type of fraud and abuse that occurred because of weak or nonexistent controls over the registration process and did not represent a statistical sample of registrations. The primary findings of our work relate to weak or nonexistent controls that leave the government vulnerable to substantial fraud and abuse in the IHP. Furthermore, as represented at the February 13, 2006, hearing, we are continuing our work in this area. Specifically, we have taken a statistical sample of IHP payments so that we can statistically estimate the magnitude of improper and potentially fraudulent claims. We have nearly completed this work and plan to report our findings later this month.

FEMA and DHS also found problems with our assertion that EA payments were the gateway to future IHP payments. Specifically, FEMA and DHS noted that future IHP payments are subjected to additional scrutiny. We did not test this additional scrutiny as part of our February 13, 2006, testimony. However, we continue to believe that accepting registrations for individuals using invalid identity and damaged property information subjects the federal government to a high risk of fraud and abuse beyond EA payments. We believe that our ongoing audit and investigative work sheds further light on whether the additional scrutiny that FEMA asserts does in fact prevent fraudulent and improper payments related to rental assistance and other covered losses.

FEMA and DHS further noted that we made several references to isolated incidents where debit cards were used for purchases that did not appear to be for disaster needs, and FEMA questioned whether highlighting those examples was appropriate. We specifically noted in each reference to these purchases that they were isolated and were not representative of the general breakdown of known debit card usage. We also clearly stated that over 60 percent of debit card transactions were used to obtain cash and could not be tracked further to identify the final use of the IHP funds. We identified the non-disaster-related purchases to highlight the fact that FEMA did not provide any instruction to debit card recipients on the appropriate use of IHP funds.

With regard to specific recommendations, FEMA and DHS concurred fully that FEMA (1) improve procedures to review registrations containing the same SSNs and other duplicate information; (2) subject all registration addresses to verification during the registration process; (3) explore entering into agreements with other agencies, such as the Social Security Administration, to periodically authenticate IHP information; and (4) issue proper instructions to any future debit card recipients. FEMA and DHS stated that they have already taken actions to address these recommendations. These actions include instituting an Internet application process that will prevent all duplicate registrations from the Internet, implementing procedures so that call centers will no longer accept duplicate registrations with the same SSN in the same disaster, and conducting conference calls and conducting data sharing tests with SSA. In addition, DHS and FEMA stated that, starting in June 2006, all registration addresses (even phone-in) will be subjected to an online verification during the registration process. While these are steps in the right direction, we will follow up on whether the actions taken fully address our recommendations.

FEMA and DHS partially concurred with our recommendation concerning duplicate payments. FEMA and DHS took exception with our categorization of some payments as being potential duplicates, and with our assessment that they should initiate actions to collect duplicate EA payments or offset these amounts in the future, stating that it was unclear whether some of the of the payments were in fact valid due to the “separated households” policy instituted for hurricanes Katrina and Rita. With respect to duplicate registrations, we maintain that these registrations are very likely duplicates because the payments were made to several individuals with the same last names, same damaged addresses, and the same current addresses; FEMA’s own database clearly indicates that these were not separated households. For all our case study examples, we conducted further investigative work to confirm that the payments were made to actual duplicates, not covered by the separated household policy, and were therefore improper payments.

As for initiating actions to collect duplicate payments, DHS and FEMA stated that they had processed for recoupment nearly all the payments they believed were duplicates as of April 1, 2006. While we have not assessed the effectiveness of FEMA’s recoupment process, we continue to believe that FEMA should attempt to recoup as many dollars of improper payments as possible, including those duplicate payments that we identified that FEMA questioned.

FEMA also stated that many of what we identified as duplicate payments effectively will be offset because the registrant will ultimately be eligible for more than the amount of the duplicate payments, up to a maximum of \$26,200 that a single household can receive. We believe that FEMA's position is shortsighted because it does not reflect the likelihood that some individuals are not entitled to, and will not receive, additional funds regardless of the cap limitations. Thus, FEMA should not use \$26,200 as the aggregate dollar test. Rather, FEMA should follow its own policy of limiting EA to \$2,000; adhere to the statutory caps that are allowed for specific categories of aid; and promptly recover the amounts that exceed the category limits. Therefore, we continue to believe that FEMA should review all the registrations we identified as potential duplicates to assess whether collection is necessary.

We also disagree with FEMA's statement that its "management was keenly aware" that a recipient could receive more than one EA payment, and that it knowingly issued these duplicate payments partly because individuals in shelters did not have access to their banking institution (and thus their EA payments) and therefore were in need of immediate assistance in the form of debit cards. While we recognize that providing individuals access to immediate funds was a priority following the hurricanes, FEMA's data and its representations made to us months ago do not support its claim that it knowingly made those payments. For example, when we questioned the official responsible for managing FEMA's national disaster assistance processing center about the more than duplicate 5,000 EA payments to individuals who had already received debit cards, he told us that he was unaware of the magnitude of the duplicate payments. After researching the issue, he informed us that the duplicate payments in question were made as a result of a "system glitch" and not as a result of a deliberate action on the part of FEMA management. In addition, the more than 5,000 duplicate payments in question were all made within the span of several hours roughly a week after FEMA completed issuing all the debit cards. An analysis of the more than 5,000 duplicate payments indicates that there was no apparent reason why only about half of the roughly 10,000 debit card recipients received the duplicate payments. Using FEMA's rationale, all 10,000 registrants who received a debit card should have received a duplicate EA payment.

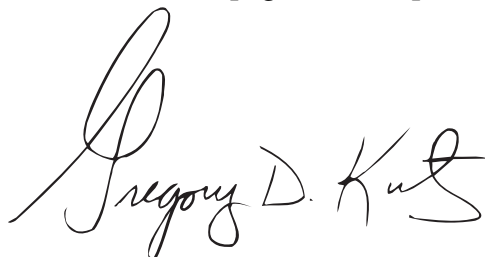
FEMA and DHS partially concurred with our recommendation to establish identity verification processes for IHP registrants applying via the phone and Internet. FEMA and DHS stated that they had implemented identity proofing on call center applications. As noted in our report, FEMA

instituted identity proofing for Internet registrants at the time of the two hurricanes, and FEMA and DHS response to our report indicates that FEMA instituted identity proofing for call center registrants. In future work, we will follow up on whether these actions fully address our recommendations. FEMA and DHS additionally commented that they did not see the necessity of requiring registrants to also provide their name exactly as it appears on their Social Security Card, noting that their data contractor is able to use logic to find aliases and nicknames. While we do not object to FEMA collecting the nicknames or aliases of registrants applying for disaster assistance, we continue to believe that registrants should be instructed to provide their name as it appears on their Social Security Card to prevent name and social security mismatches. Instructing registrants to provide the name that appears on their Social Security Card can only help—not hinder—the registrant verification process.

FEMA and DHS's responses indicate that they are attempting to address some of the systemic problems we identified in the IHP program. Going forward it will be important for FEMA to establish effective controls to prevent fraudulent and improper payments before they occur, because fraud prevention is a far more effective control than detecting improper and potentially fraudulent payments after they are made. Our experience with organizations that rely on a process that attempts to detect improper and potentially fraudulent payments after they are made is that the organization recovers only a fraction of the payments that should not have been made.

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 me at (202) 512-7455 or kutzg@gao.gov if you or your staffs have any questions concerning this report. Contact

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

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

Gregory D. Kutz
Managing Director
Forensic Audits and Special Investigations

List of 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 Harold Rogers
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The Honorable Martin Olav Sabo
Ranking Minority Member
Subcommittee on Homeland Security
Committee on Appropriations
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The Honorable Michael McCaul
Chairman
The Honorable Bob Etheridge
Ranking Minority Member
Subcommittee on Investigations
Committee on Homeland Security
House of Representatives

Testimony on FEMA's Control Weaknesses over Expedited Assistance for Victims of Hurricanes Katrina and Rita

GAO

United States Government Accountability Office

Testimony
Before the Senate Committee on
Homeland Security and Governmental
Affairs

For Release on Delivery
Expected at 10 a.m. EST
Monday, February 13, 2006

EXPEDITED ASSISTANCE FOR VICTIMS OF HURRICANES KATRINA AND RITA

FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse

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



GAO-06-403T

**Appendix I
Testimony on FEMA's Control Weaknesses
over Expedited Assistance for Victims of
Hurricanes Katrina and Rita**



Highlights of [GAO-06-403T](#), a testimony before the Senate Committee on Homeland Security and Governmental Affairs

Why GAO Did This Study

As a result of widespread congressional and public interest in the federal response to hurricanes Katrina and Rita, GAO conducted an audit of the Individuals and Households Program (IHP) under Comptroller General of the United States statutory authority.

Hurricanes Katrina and Rita destroyed homes and displaced millions of individuals. In the wake of these natural disasters, FEMA faced the challenge of providing assistance quickly and with minimal "red tape," while having sufficient controls to provide assurance that benefits were paid only to eligible individuals and households. In response to this challenge, FEMA provided \$2,000 in IHP payments to affected households via its Expedited Assistance (EA) program. Victims who received EA may qualify for up to \$26,200 in IHP assistance. As of mid-December 2005, IHP payments totaled about \$5.4 billion, with \$2.3 billion provided in the form of EA. These payments were made via checks, electronic fund transfers, and a small number of debit cards.

GAO's testimony will provide the results to date related to whether (1) controls are in place and operating effectively to limit EA to qualified applicants, (2) indications exist of fraud and abuse in the application for and receipt of EA and other payments, and (3) controls are in place and operating effectively over debit cards to prevent duplicate EA payments and improper usage.

www.gao.gov/cgi-bin/getrpt?GAO-06-403T.

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.

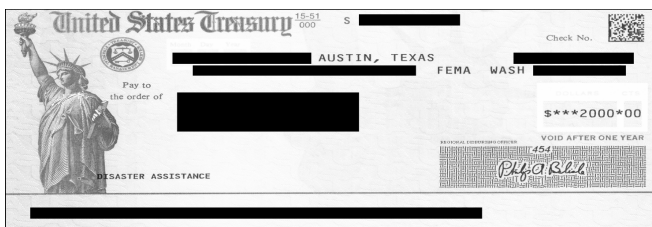
February 2006

**EXPEDITED ASSISTANCE FOR VICTIMS
OF HURRICANES KATRINA AND RITA**

**FEMA's Control Weaknesses Exposed
the Government to Significant Fraud and
Abuse**

What GAO Found

We identified significant flaws in the process for registering disaster victims that leave the federal government vulnerable to fraud and abuse of EA payments. For Internet applications, limited automated controls were in place to verify a registrant's identity. However, we found no independent verification of the identity of registrants who registered for disaster assistance over the telephone. To demonstrate the vulnerability inherent in the call-in applications, we used falsified identities, bogus addresses, and fabricated disaster stories to register for IHP. Below is a copy of one of the \$2,000 checks that we received to date for our bogus telephone applications.



Source: GAO.

We also found that FEMA's automated system frequently identified potentially fraudulent registrations, such as multiple registrations with identical social security numbers (SSN) but different addresses. However, the manual process used to review these registrations did not prevent EA and other payments from being issued. Other control weaknesses include the lack of any validation of damaged property addresses for both Internet and telephone registrations.

Given the weak or non-existent controls, it is not surprising that our data mining and investigations to date show the potential for substantial fraud and abuse of EA. Thousands of registrants misused SSNs, i.e., used SSNs that were never issued or belonged to deceased or other individuals. Our case study investigations of several hundred registrations also indicate significant misuse of SSNs and the use of bogus damaged property addresses. For example, our visits to over 200 of the case study damaged properties in Texas and Louisiana showed that at least 80 of these properties were bogus—including vacant lots and nonexistent apartments.

We found that FEMA also made duplicate EA payments to about 5,000 of the nearly 11,000 debit card recipients—once through the distribution of debit cards and again by check or electronic funds transfer. We found that while debit cards were used predominantly to obtain cash, food, clothing, and personal necessities, a small number were used for adult entertainment, bail bond services and weapons purchase, which do not appear to be items or services that are essential to satisfy disaster related essential needs.

United States Government Accountability Office

Appendix I
Testimony on FEMA's Control Weaknesses
over Expedited Assistance for Victims of
Hurricanes Katrina and Rita

Chairman and Members of the Committee:

Thank you for the opportunity to discuss our ongoing forensic audit and related investigations of assistance provided to individuals and households related to hurricanes Katrina and Rita. The Individuals and Households Program (IHP), a major component of the federal disaster response efforts established under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act),¹ is designed to provide financial assistance to individuals and households who, as a direct result of a major disaster, have necessary expenses and serious needs that cannot be met through other means. As of mid-December 2005, the Federal Emergency Management Agency (FEMA) had distributed nearly \$5.4 billion in IHP assistance on more than 1.4 million registrations. Hurricanes Katrina and Rita destroyed homes and displaced individuals across the gulf coast region. In the wake of these massive natural disasters, FEMA faced the formidable challenge of providing at least some initial assistance to over a million registrants quickly with minimal “red tape,” while having sufficient controls in place to provide assurance that benefits were paid only to eligible individuals and households.

Disaster relief covered by IHP includes temporary housing assistance, real and personal property repair and replacement, and other necessary expenses related to a disaster. IHP assistance is generally delivered after an inspection has been conducted to verify the extent of loss and determine eligibility. Because of the tremendous devastation caused by hurricanes Katrina and Rita, FEMA activated expedited assistance to provide fast track money²—in the form of \$2,000 in expedited assistance payments—to eligible disaster victims to help with immediate, emergency needs of food, shelter, clothing, and personal necessities. This swift response was vital in helping victims of hurricanes Katrina and Rita. FEMA specified that expedited assistance payments were to be provided only to individuals and households who, as a result of hurricanes Katrina and Rita, were displaced from their predisaster primary residences and

¹Pub. L. 93-288, 88 Stat. 143 (1974) (amended 2000).

²The 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. *Disaster Assistance: Guidance Needed for FEMA's "Fast Track" Housing Assistance Process*, GAO-RCED-98-1 (Washington, D.C.: Oct. 1997).

**Appendix I
Testimony on FEMA's Control Weaknesses
over Expedited Assistance for Victims of
Hurricanes Katrina and Rita**

were in need of shelter. Typically a household³ can only receive one expedited assistance payment. Exceptions are made in situations where household members are displaced to separate locations, in which case more than one member of the household may be eligible for payments. FEMA provided expedited assistance payments related to hurricanes Katrina and Rita predominantly through electronic funds transfer (EFT) and checks sent to the registrants' current addresses.⁴ In addition, FEMA provided a limited amount of expedited assistance via debit cards⁵ distributed at three locations in Texas.

As of mid-December 2005, FEMA data showed that the agency had delivered 44 percent (\$2.3 billion) of the \$5.4 billion in IHP aid through expedited assistance to hurricane Katrina and Rita registrants across at least 175 counties in 4 different states. Almost \$1.6 billion went to individuals with damaged addresses in Louisiana, more than \$400 million to individuals in Texas, and over \$300 million to individuals in Alabama and Mississippi. Registrants determined to be eligible for expedited assistance may also be eligible to receive additional IHP payments up to the overall IHP cap of \$26,200.

Our current audit and investigation is being performed under the statutory authority given to the Comptroller General of the United States. Our audit and investigation is conducted under the premise that while the federal government needs to provide swift and compassionate assistance to the victims of natural disasters, public confidence in an effective disaster relief program that takes all possible steps to minimize fraud, waste, and abuse needs to be preserved. Today, we will summarize the results from our ongoing forensic audit and related investigations of the IHP program.⁶

³The Act's implementing regulations define a household as all persons (including adults and children) who lived in the predisaster residence, as well as any other persons not present at the time but who are expected to return during the assistance period. 44 C.F.R. § 206.111.

⁴Current address refers to the address at which the disaster victim is currently residing. Damaged addresses are the addresses which were affected by the hurricanes.

⁵The debit card program is a pilot program implemented primarily to provide expedited assistance to individuals and households housed at three Texas shelters. The debit cards, which resemble credit cards and bear the MasterCard logo, can be used at ATMs and at any commercial outlet that accepts MasterCard.

⁶We are also releasing today the results of our limited investigation into allegations that Military Meals, Ready-To-Eat rations intended for use in the hurricane relief efforts were instead sold to the public on the Internet auction site eBay. See GAO, *Investigation: Military Meals, Ready-To-Eat Sold on eBay*, GAO-06-410R (Washington, D.C.: Feb. 13, 2006).

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This testimony will provide the results of our work related to whether (1) controls are in place and operating effectively to limit expedited assistance to qualified registrants, (2) indications exist of fraud and abuse in the registration for and receipt of expedited assistance and other payments, and (3) controls are in place and operating effectively over debit cards to prevent duplicate payments and improper usage. We plan to issue a detailed report with recommendations on the results of our audit.

Thus far, our work has focused primarily on the IHP registration process because individuals whose registrations are approved have access to expedited assistance payments and subsequently the full range of IHP benefits. To assess the design of controls, we performed walkthroughs of FEMA's processes for accepting registrations and awarding expedited assistance funds. To determine whether indications existed of fraud and abuse in expedited assistance and other disbursements, we provided FEMA data to the Social Security Administration (SSA) to verify against their records of valid social security numbers (SSNs), and reviewed the FEMA database of IHP registrations for other anomalies using data mining techniques. To determine whether registrations resulted in potentially fraudulent or improper payments, we selected a nonrepresentative selection of 248 registrations from our data mining results for further investigations. The 248 registrations represented 20 case studies—some involving multiple registrants—that we linked together through identical names, SSNs, damaged addresses and/or current addresses. Our analysis of potentially fraudulent use of SSNs and other data mining efforts are ongoing, and we plan to report on additional results in the future. For purposes of this testimony, we did not conduct sufficient work to project the magnitude of potentially fraudulent and improper IHP payments. We also proactively tested the adequacy of controls over the registration process for disaster assistance by submitting claims for relief using falsified identities, bogus addresses, and fabricated disaster stories. These tests were performed before FEMA provided us any information related to the processes used to screen IHP registrations and preclude some fraudulent registrations. Additional details on our scope and methodologies are included in appendix I.

In the course of our work, we made numerous written requests for key documents and sets of data related to the IHP, most dating back to October 2005. While FEMA officials promptly satisfied one key part of our request—databases of IHP registrants and payments—the majority of what

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we requested has not been provided. On January 18, 2006, the Department of Homeland Security (DHS)' Office of General Counsel did provide us with well less than half of the documents that were requested. While the database and other data provided by FEMA enabled us to design procedures to test the effectiveness of FEMA's system of internal controls, it did not enable us to fully determine the root causes of weak or non-existent controls and formulate detailed recommendations. For example, as will be discussed later, FEMA and the DHS had not provided us documentation to enable us to conclusively determine the reason that FEMA submitted some registrations, and did not submit other registrations, to identity validation prior to issuing expedited assistance payments.

We conducted our audit and investigations from October 2005 through January 2006. Except for restrictions discussed previously related to the limitations that DHS placed on the scope on our audit work, 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. Our findings today focus primarily on the results to date from of our data mining and investigative techniques.

Summary

We found weaknesses in the process that FEMA used to review registrations for disaster relief and approve assistance payments. These weaknesses leave the government vulnerable to fraud and abuse. Our work indicates that FEMA put in place limited procedures designed to prevent, detect, and deter certain types of duplicate and potentially fraudulent disaster registrations. However, FEMA did not apply these limited procedures to most registrations, thus leaving a substantial number of registrations without any protection against fraud and abuse. Specifically, individuals could apply for disaster assistance via the Internet or telephone. FEMA subjected Internet registrations to a limited verification process whereby a FEMA contractor used credit and other information to validate the identity of registrants. Those who failed the Internet verification process were advised to contact FEMA via telephone to reregister. However, FEMA did not apply the identity validation process

⁷In 2002, FEMA became part of the Department of Homeland Security (DHS). DHS officials required GAO to submit written requests for all documentation to DHS Office of General Counsel.

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to any of the 1.5 million registrants who contacted FEMA and applied for assistance over the telephone. Our data mining and investigations confirmed FEMA's representation. For example, using falsified identities, bogus addresses, and fabricated disaster stories, we applied for disaster assistance over the telephone and obtained \$2,000 expedited assistance payments.

Other control weaknesses further increased the government's exposure to fraud and abuse. We found that FEMA instituted automated checks that flagged hundreds of thousands of potentially duplicate registrations in the computer system FEMA used to process and approve IHP registrations for payments. FEMA officials informed us that these flagged registrations were subjected to additional reviews to conclude whether they were, in fact, duplicates. However, while the additional review process may have prevented many potentially fraudulent and improper payments, it did not prevent what appear to be other potentially fraudulent and improper payments based on duplicate registrations. We also found that FEMA did not implement procedures to validate whether damaged addresses used to register for assistance were bogus, for either Internet or telephone registrations.

With limited or nonexistent validation of registrants' identities and damaged addresses, it is not surprising that our data mining and investigations found substantial indicators of potential fraud and abuse related to false or duplicate information submitted on disaster registrations. For example, according to SSA data, FEMA made millions of dollars in payments to thousands of registrants who submitted SSNs that have not been issued or belonged to deceased individuals. Our data mining also detected that FEMA made tens of thousands of payments to registrants who provided other false or duplicate information on their registrations. Specifically, in the 20 case studies we investigated, a majority—165 of 248—of registrations contained SSNs that according to the SSA were never issued, belonged to deceased individuals, or did not match the name provided. In addition, about 80 of the over 200 alleged disaster addresses that we attempted to validate were bogus addresses. Also, our case study registrants did not live in many of the remaining valid addresses. In one specific case example, 17 individuals, some of whom shared the same last name and current addresses, used 34 different SSNs that did not belong to them and addresses that were bogus or not their residences to receive more than \$103,000 in FEMA payments. In addition, because the hurricanes had destroyed many homes, we could not determine if approximately 15 of the alleged disaster addresses had ever existed.

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Similar to the control weaknesses over expedited assistance payments distributed through checks and electronic funds transfers, we found that FEMA did not validate the identities of debit card recipients at three relief centers in Texas who registered via the telephone. Consequently, FEMA issued \$2,000 debit cards to over 60 registrants who provided SSNs that were never issued or belonged to deceased individuals. We also found that FEMA made multiple expedited assistance payments to over 5,000 of the 11,000 debit card recipients. That is, FEMA provided the registrant both a \$2,000 debit card and a \$2,000 check or electronic fund transfer. Further, at the time of debit card issuance, unlike the recipients who received expedited assistance payments via checks or EFTs, FEMA did not issue specific instructions to debit card recipients on the use of the cards. We found that debit cards were used predominantly to obtain cash and thus are unable to determine how the money was actually used. The majority of the remaining debit card purchases were for food, clothing, and personal necessities. However, in isolated instances, a few debit cards were used for to pay for items or services that, on their face, do not seem essential to satisfy disaster related needs. For example, these debit cards were used in part to purchase adult entertainment, a .45 caliber hand gun, jewelry, bail bond services, and to pay for prior traffic violations.⁸

**FEMA's Controls to
Prevent Potentially
Fraudulent Payments
Were Not Effective**

We found weak or nonexistent controls in the process that FEMA used to review disaster registrations and approve assistance payments that leave the federal government vulnerable to fraud and abuse. In the critical aftermath of hurricanes Katrina and Rita, FEMA moved swiftly to distribute expedited assistance payments to allow disaster victims to mitigate and overcome the effects of the disasters. In this context, the establishment of an effective control environment was a significant challenge. Specifically, we found that FEMA had implemented some controls prior to the disaster to provide automated validation of the identity of registrants who applied for assistance via the Internet. Our work thus far indicates that this resulted in FEMA rejecting some registrants who provided names and SSNs that did not pass the validation test. However, FEMA did not implement the same preventive controls for those who applied via the telephone. Our use of fictitious names, bogus addresses, and fabricated disaster stories to obtain expedited assistance

⁸Under the Act's implementing regulations, FEMA may recover funds that it determines were provided erroneously, that were spent inappropriately, or were obtained through fraudulent means. 44 C.F.R. § 206.116 (b)

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payments from FEMA demonstrated the ease with which expedited assistance could be obtained by providing false information over the telephone. Because expedited assistance is a gateway to further IHP payments (up to \$26,200 per registration), approval for expedited assistance payments potentially exposes FEMA, and the federal government, to more fraud and abuse related to temporary housing, home repair and replacement, and other needs assistance.

Pressure to Swiftly Deliver Aid Led to Approval of Expedited Assistance Payments with Minimal Verification

During the course of our audit and investigation, FEMA officials stated that they did not verify whether registrants had insurance and whether registrants were unable to live in their home prior to approving expedited assistance payments. According to FEMA officials, the unprecedented scale of the two disasters and the need to move quickly to mitigate their impact led FEMA to implement expedited assistance. Expedited assistance differs from the traditional way of delivering disaster assistance in that it calls for FEMA to provide assistance without requiring proof of losses and verifying the extent of such losses. Consequently, FEMA implemented limited controls to verify eligibility for the initial expedited assistance payments. According to FEMA officials, these controls were restricted to determining whether the damaged residence was in the disaster area and limited validation of the identity of registrants who used the Internet. Registrants who FEMA thought met these qualifications based on their limited assessments were deemed eligible for expedited assistance.

FEMA Did Not Validate Identity of Registrants Who Applied for Assistance via Telephone

FEMA implemented different procedures when processing disaster registrations submitted via the Internet and telephone calls. Of the more than 2.5 million registrations recorded in FEMA's database, i.e., registrations that were successfully recorded—60 percent (more than 1.5 million) were exempt from any identity verification because they were submitted via the telephone. Prior to sending out expedited assistance payments, FEMA did not have procedures in place for Internet or telephone registrations that screened out registrations where the alleged damaged address was a bogus address. The lack of identity verification for telephone registrations and any address validation exposed the government to fraud and abuse of the IHP program.

For registrations taken through FEMA's Web site, registrants were required to first provide a name, SSN, and date of birth. This information was immediately provided (in electronic format) to a FEMA contractor to compare against existing publicly available records. While registrants were

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waiting on the Internet, the FEMA contractor took steps to verify registrants' identities. The verification steps involved confirming that the SSN matched with a SSN in public records, that the name and SSN combination matched with an identity registered in public records, and that the SSN was not associated with a deceased individual. The FEMA contractor was responsible for blocking any registrations for which any of these three conditions was not met. Additionally, registrants who passed the first gate had to provide answers to a number of questions aimed at further corroborating the registrants' identities. Registrants who were rejected via the Internet were advised to contact FEMA via telephone. Our audit and investigative work indicated that this verification process helped deter obviously fraudulent Internet registrations using false names and SSNs. However, FEMA kept no record of the names, SSNs, and other information related to the rejected registrations, and no record of the reasons that the FEMA contractor blocked the registration from going forward. FEMA acknowledged that it was conceivable that individuals who were rejected because of false information submitted via the Internet could get expedited assistance payments by providing the same false information over the telephone.

Although the identity verification process appeared to have worked for most Internet registrations, it did not identify a small number of registrations with invalid SSNs. According to information we received from the SSA, nearly 60 Internet registrants who received FEMA payments provided SSNs that were never issued or belonged to individuals who were deceased prior to the hurricanes. Results indicate that these individuals may have passed the verification process because public records used to verify registrants' identities were flawed. For example, one credit history we obtained indicated that a registrant had established a credit history using an invalid SSN.

Unlike the Internet process, FEMA did not verify the identity of telephone registrants who accounted for over 60 percent of disaster registrations recorded in FEMA's system. For registrants who registered only via telephone, or registrants who called FEMA subsequent to being denied on the Internet, FEMA did not have controls in place to verify that the SSN had been issued, that the SSN matched with the name, that the SSN did not belong to a deceased individual, or whether the registrants had been rejected on prior Internet registrations. Because the identity of telephone registrants was not subjected to basic verification, FEMA did not have any independent assurance that registrants did not falsify information to obtain disaster assistance. According to FEMA officials, FEMA had a request in place to modify its computer system to allow for identity

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Control Weaknesses Enabled
GAO to Obtain \$2,000
Expedited Assistance Checks

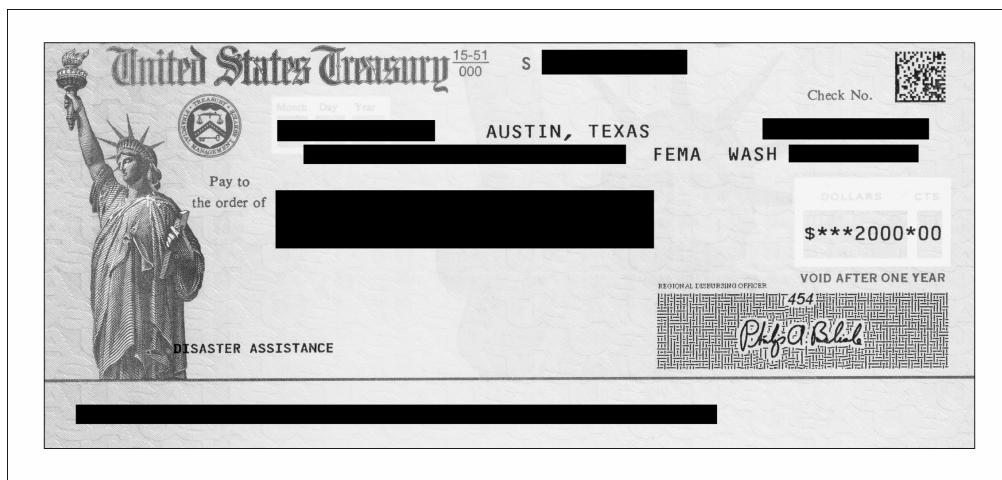
verification for telephone registrations similar to those used for the Internet. FEMA also represented to us that due to budget constraints and other considerations, the change was not implemented in time to respond to hurricanes Katrina and Rita. However, to date we have not received documentation to validate these representations.

The lack of identity verification of phone registrants prior to disbursing funds makes FEMA vulnerable to authorizing expedited assistance payments based on fraudulent information submitted by registrants. Prior to obtaining information on the control procedures FEMA used to authorize expedited assistance payments, we tested the controls by attempting to register for disaster relief through two portals: (1) the Internet via FEMA's Web site and (2) telephone calls to FEMA. For both portals, we tested FEMA's controls by providing falsified identities and bogus addresses. In all instances, FEMA's Web site did not allow us to successfully finalize our registrations. Instead, the Web site indicated that there were problems with our registrations and advised us to contact the FEMA toll-free numbers if we thought that we were eligible for assistance. This is consistent with FEMA's representation that Internet registrations were compared against third-party information to verify identities.

Our investigative work also confirmed that the lack of similar controls over telephone registrations exposed FEMA to fraud and abuse. Specifically, in instances where we submitted via the telephone the same exact information that had been rejected on the Internet, i.e., falsified identities and bogus addresses, the information was accepted as valid. Subsequently, the claims were processed and \$2,000 expedited assistance checks were issued. Figure 1 provides an example of an expedited assistance check provided to GAO.

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Figure 1: \$2,000 Expedited Assistance Check Provided to GAO Based on Bogus Registration



Source: GAO.

Additional case study investigations, which we discuss later, further demonstrated that individuals not affected by the disasters could easily provide false information to obtain expedited assistance and other IHP payments from FEMA. Convictions obtained by the Department of Justice also show that others have exploited these control weaknesses and received expedited assistance payments. For example, one individual in a College Station, Texas relief center pleaded guilty to false claims and mail fraud charges related to IHP and expedited assistance. Despite never having lived in any of the areas affected by the hurricane, this individual registered for and received \$4,358 (\$2,000 in expedited assistance and \$2,358 in rental assistance) in hurricane Katrina IHP payments.

**Other Control Weaknesses
Exacerbated Government
Exposure to Fraud and
Abuse**

We also found that FEMA instituted limited pre-payment checks in the National Emergency Management Information System (NEMIS) to automate the identification of duplicate registrations. However, the subsequent review process used to resolve these duplicate registrations was not effective in preventing duplicate and potentially fraudulent payments. We also found that FEMA did not implement procedures to

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provide assurance that the disaster address was not a bogus address, either for Internet or telephone registrations.

FEMA's controls failed to prevent thousands of registrations with duplicate information from being processed and paid. Our work indicates that FEMA instituted limited automated checks within NEMIS to identify registrations containing duplicate information, e.g., multiple registrations with the same SSNs, duplicate damaged address telephone numbers, and duplicate bank routing numbers. Data FEMA provided enabled us to confirm that NEMIS identified nearly 900,000 registrations—out of 2.5 million total registrations—as potential duplicates. FEMA officials further represented to us that the registrations identified as duplicates by the system were “frozen” from further payments until additional reviews could be conducted. The purpose of the additional reviews was to determine whether the registrations were true duplicates, and therefore payments should continue to be denied, or whether indications existed that the registrations were not true duplicates, and therefore FEMA should make those payments. It appeared from FEMA data that the automated checks and the subsequent review process prevented hundreds of thousands of payments from being made on duplicate registrations. However, FEMA data and our case study investigations also indicate that the additional review process was not entirely effective because it allowed payments based on duplicate information.

We also found that FEMA did not implement effective controls for telephone and Internet registrations to verify that the address claimed by registrants as their damaged address existed. As will be discussed further below, many of our case studies of potential fraud show that payments were received based on claims made listing bogus damaged addresses. Our undercover work also corroborated that FEMA provided expedited assistance to registrants with bogus addresses.

**Potentially Fraudulent
Activities Resulting
from Weak or
Nonexistent FEMA
IHP Controls**

With limited or nonexistent validation of registrants' identities and the reported damaged addresses, it is not surprising that our data mining and investigations found substantial indicators of potential fraud and abuse related to false or duplicate information submitted on disaster registrations. Our audits and investigations of 20 cases studies comprising 248 registrations that received payments, and the undercover work we discussed earlier, clearly showed that individuals can obtain hundreds of

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thousands of dollars of IHP payments based on fraudulent and duplicate information.⁹ These case studies are not isolated instances of fraud and abuse. Rather, our data mining results to date indicate that they are illustrative of the wider internal control weaknesses at FEMA—control weaknesses that led to thousands of payments made to individuals who provided FEMA with incorrect information, e.g., incorrect SSNs and bogus addresses, and thousands more made to individuals who submitted multiple registrations for payments.

**Case Study Examples
Show That Control
Weaknesses Have Been
Exploited**

Our audits and investigations of 20 case studies demonstrate that the weak or nonexistent controls over the registration and payment processes have opened the door to improper payments and individuals seeking to obtain IHP payments through fraudulent means. Specifically, a majority of our case study registrations—165 of 248—contained SSNs that were never issued or belonged to deceased or other individuals. About 20 of the 248 registrations we reviewed were submitted via the Internet. Further, of the over 200 alleged damaged addresses that we tried to visit, about 80 did not exist. Some were vacant lots, others turned out to be bogus apartment buildings and units. Because the hurricanes had destroyed many homes, we were unable to confirm whether about 15 additional addresses had ever existed. We also identified other fraud schemes unrelated to the weak and nonexistent validation and prepayment controls previously discussed, such as registrants who submitted registrations using valid addresses that were not their residences.

In total, the case study registrants of whom we conducted investigations have collected hundreds of thousands of dollars in payments based on potentially fraudulent activities. These payments include money for expedited assistance, rental assistance, and other IHP payments. Further, as our work progresses, we are uncovering evidence of larger schemes involving multiple registrants that are intended to defraud FEMA. We found these schemes because the registrants shared the same last names, current addresses, and/or damaged addresses—some of which we were able to confirm did not exist. While the facts surrounding the case studies provided us with indicators that potential fraud may have been perpetrated, further testing and investigations need to be conducted to determine whether these individuals were intentionally trying to defraud

⁹We used various indicators such as identical names, SSNs, damaged addresses, and current addresses to link multiple registrations together into the 20 case studies.

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the government or whether the discrepancies and inaccuracies were the results of other errors. Consequently, we are conducting further investigations into these case studies. Table 1 highlights 10 of the 20 case studies we identified through data mining that we investigated. In addition, some individuals in the cases cited below submitted additional registrations but had not received payments as of mid December 2005.

Table 1: Examples of Potential Fraudulent and Duplicate Registrations That Received FEMA Payments

| Case | Number of Registrations with Payments/ SSNs | Payments Received* | Number of Bogus Properties Used to Receive Payments* | Case Details |
|------|---|--------------------|--|--|
| 1 | 36/36 | \$103,000 | At least 10 | <ul style="list-style-type: none"> Seventeen individuals received payments on 36 registrations using 34 SSNs that were not theirs. Of the 17 addresses we visited, 13 were from the same apartment building, of which 6 did not exist. 4 additional addresses were also invalid. Payments included 31 expedited assistance payments totaling \$62,000, and 18 in other payments, including rental payments. |
| 2 | 15/15 | \$41,000 | At least 8 | <ul style="list-style-type: none"> One individual received payments on 15 different SSNs—only one of which belonged to that person. Investigative work also showed that 3 addresses were valid but were not addresses of the registrant. Payments included 13 expedited assistance payments totaling \$26,000 and \$15,000 in other assistance, including housing. The individual may have committed bank fraud by using an invalid SSN to open an account. The individual had established credit using 2 SSNs that did not belong to the individual. |
| 3 | 8/1 | \$16,000 | None | <ul style="list-style-type: none"> One individual received 8 expedited assistance payments using the same name, SSN, and current address. Of the 8 addresses declared as damaged, two appeared to belong to the individual. FEMA's automated edits identified at least 7 registrations as duplicates, nevertheless payments were issued. |
| 4 | 23/23 | \$46,000 | At least 14 | <ul style="list-style-type: none"> Two individuals received expedited assistance payments on 23 SSNs – 21 of which were not theirs. Public records indicate that the individuals did not live at any of the 9 valid addresses. Payments included 22 expedited assistance payments and 1 housing assistance payment. |

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| Case | Number of Registrations with Payments/ SSNs | Payments Received ^a | Number of Bogus Properties Used to Receive Payments ^b | Case Details |
|------|---|--------------------------------|--|---|
| 5 | 38/38 | \$76,000 | At least 10 | <ul style="list-style-type: none"> Six individuals received 38 payments on different SSNs—only 1 of which was traced back to them. Payments included 37 expedited assistance payments totaling \$74,000 and over \$2,000 in other assistance. |
| 6 | 18/18 | \$36,000 | At least 12 | <ul style="list-style-type: none"> Individual received 18 expedited assistance payments using the same name and 18 different SSNs—only 1 of which belonged to the person. Investigative work and public records also indicate that the individual had never lived at any of the 6 remaining valid addresses. |
| 7 | 31/30 | \$92,000 | At least 22 | <ul style="list-style-type: none"> A group of 8 individuals received payments on 31 registrations using 26 SSNs that did not belong to them. 22 of the registrations were for addresses that did not exist. The remaining addresses were not validated. Payments include 32 payments for expedited assistance and over \$28,000 for other assistance including housing assistance. |
| 8 | 6/6 | \$23,000 | None | <ul style="list-style-type: none"> Six apparent members of the same household registered 6 times using the same damaged addresses. Five of the 6 individuals also shared the same current address. Payments included 5 expedited assistance payments and \$13,000 in other payments including housing assistance. |
| 9 | 7/7 | \$15,000 | None | <ul style="list-style-type: none"> Seven apparent members of the same household received payments using the same damaged address. One family member used a SSN that did not belong to the family member. Six of the 7 individuals also shared the same current address. Payments included 7 payments for expedited assistance. |
| 10 | 7/7 | \$80,000 | None | <ul style="list-style-type: none"> Seven apparent members of the same household registered using the same damaged address. Payments included 6 expedited assistance payments and \$68,000 in other assistance. |

Source: GAO analysis and investigation of FEMA data.

^aAmount reflects total payments for IHP, which includes expedited assistance, temporary housing assistance, payments for repair and replacement of real and personal property, and payments for other needs such as medical, transportation, and other necessities.

^bOne address could be associated with multiple registrations.

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The following provides illustrative detailed information on several of the cases.

- Case number 1 involves 17 individuals, several of whom had the same last name, who submitted at least 36 registrations claiming to be disaster victims of both Katrina and Rita. All 36 registrations were submitted through the telephone, using 36 different SSNs and 4 different current addresses. These individuals used their own SSNs on 2 of the registrations, but the remaining 34 SSNs were never issued or belonged to deceased or other individuals. The individuals received over \$103,000 in IHP payments, including \$62,000 in expedited payments and \$41,000 in payments for other assistance, including temporary housing assistance. Our analysis shows that the individuals claimed 13 different damaged addresses within a single apartment building, and 4 other addresses within the same block in Louisiana. However, our physical inspection of these addresses revealed that 10 of the addresses were bogus addresses. Further audit and investigative work also shows that these individuals may not have lived at any of the valid disaster addresses at the time of hurricanes Katrina and Rita. We are conducting additional investigations on this case.
- Case number 2 involves an individual who used 15 different SSNs—one of which was the individual's own—to submit at least 15 registrations over the telephone. The individual claimed a different damaged address on all 15 registrations, and used 3 different current addresses—including a post office box, where the individual received payments. The individual received 16 payments totaling over \$41,000 on 15 of the registrations. In all, the individual received 13 expedited assistance payments, 2 temporary housing assistance payments, and another payment of \$10,500. Further investigative work disclosed that the individual may have committed bank fraud by using a false SSN to open a bank account. Other publicly available records indicate that the individual had used 2 SSNs that were issued to other people to establish credit histories.
- Case number 3 relates to a group of 8 registrations that resulted in 8 payments totaling \$16,000. According to FEMA data, an individual registered for Rita disaster assistance at the end of September 2005. About 10 days later, the same individual submitted at least 7 additional registrations claiming 7 different disaster addresses, 2 of which we were able to confirm belonged to the individual and may be rental properties that the individual owns. However, because the FEMA database showed that these addresses were entered as the individual's primary residence—a primary requirement for IHP—the individual received 8 expedited assistance payments instead of just the one that he may have qualified for. We also found that the automated edits established in NEMIS identified

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these registrations as potential duplicates. In spite of the edit flags, FEMA cleared the registrations for improper expedited assistance payments.

- Case number 4 involves 2 individuals who appear to be living together at the same current address in Texas. These 2 individuals received payments for 23 registrations submitted over the telephone using 23 different SSNs—two of which belonged to them—to obtain more than \$46,000 in disaster assistance. The information the registrants provided related to many of the disaster addresses appeared false. The addresses either did not exist, or there was no proof the individuals had ever lived at these addresses.
- Case number 8 relates to 6 registrants with the same last name who registered for disaster assistance using the same damaged address, with 5 of the 6 using the same current address. FEMA criteria specify that individuals who reside together at the same address and who are displaced to the same address are entitled to only one expedited assistance payment. However, all 6 possible family members received 12 payments totaling over \$23,000—\$10,000 in expedited assistance and more than \$13,000 in other assistance, including rental assistance.

**Data Mining Indicates
Potential Fraud and Abuse
Beyond Our Case Studies**

The case studies we identified and reported are not isolated instances of potential fraud and abuse. Rather, our data mining results show that they are indicative of fraud and abuse beyond these case studies, and point directly to the weaknesses in controls that we have identified. The weaknesses identified through data mining include ineffective controls to detect (1) SSNs that were never issued or belonged to deceased or other individuals, (2) SSNs used more than once, and (3) other duplicate information.

**Misuse of Social Security
Numbers on Registrations**

Our data mining and case studies clearly show that FEMA's controls over IHP registrations provided little assurance that registrants provided FEMA with a valid SSN. Under 42 U.S.C. § 408, submitting a false SSN with the intent to deceive in order to obtain a federal benefit or other payment is a felony offense. Based on data provided by the SSA, FEMA made expedited assistance payments to thousands of registrants who provided SSNs that were never issued or belonged to deceased individuals. Further, SSA officials who assisted GAO in analyzing FEMA's registrant data informed us that tens of thousands more provided SSNs that belonged to other individuals. This problem is clearly illustrated in case 2, where FEMA made payments totaling over \$41,000 to an individual using 15 different SSNs. According to SSA records, the individual received payments on 4 SSNs that belonged to deceased individuals and 10 SSNs that did not

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**Same Social Security Numbers
Used on Multiple Registrations**

match with the names provided on the registrations. As previously discussed, further testing and investigations need to be conducted to determine whether this individual was intentionally trying to defraud the government or whether the discrepancies and inaccuracies were the results of other errors.

Our data mining and case studies clearly show that FEMA's controls do not prevent individuals from making multiple IHP registrations using the same SSN. We found thousands of SSNs that were used on more than one registration associated with the same disaster. Because an individual can receive disaster relief only on his or her primary residence and a SSN is a unique number assigned to an individual, the same SSN should not be used to receive assistance for the same disaster. This problem is illustrated in case 3 above, where an individual registered for IHP 8 times using the same name, same SSN, and same current address—and thus could have qualified for only 1 expedited assistance payments—but instead received expedited assistance payments of \$2,000 for 8 different registrations.

**Multiple Payments Made to
Different Registrations
Containing the Same Key
Information**

Our data mining and case studies also show that the IHP controls to prevent duplicate payments did not prevent FEMA from making payments to tens of thousands of different registrants who used the same key registration information. FEMA's eligibility criteria specify that individuals who reside together at the same address and who are displaced to the same address are typically entitled to only one expedited assistance payment. FEMA policy also provides for expedited assistance payments to more than one member of the household in unusual circumstances, such as when a household was displaced to different locations. However, both our investigations and data mining found thousands of instances where FEMA made more than one payment to the same household that shared the same last name and damaged and current addresses. As illustrated in case 8, 5 of 6 individuals with the same last name, the same damaged address, and the same current address received multiple expedited assistance payments, instead of just one for which they qualified. While not all of the registrations that used the same key information were submitted fraudulently, additional investigations need to be conducted to determine whether or not the entire family was entitled to expedited and other IHP assistance.

Similarly, our data mining also determined that FEMA made payments to tens of thousands of IHP registrants who provided different damaged addresses but the same exact current address. As shown in case study 4 above, some registrations that fell into this category contained bogus addresses or addresses that were not the registrants' residences. Under 18

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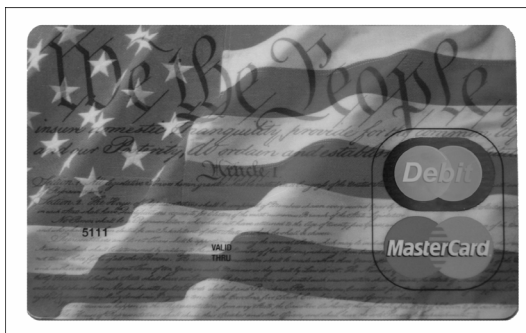
U.S.C. § 1001, a person who knowingly and willfully makes any materially false, fictitious, or fraudulent statement or representation shall be fined or imprisoned up to 5 years, or both.

Our data mining also found that FEMA made duplicate expedited assistance payments to tens of thousands of individuals for the same FEMA registration number. FEMA policy states that registrants should only receive one expedited assistance payment. However, in some cases, FEMA paid as many as four \$2,000 expedited assistance payments to the same FEMA registration number. As discussed later, we also found that FEMA issued expedited assistance payments to more than 5,000 registrants who had already received debit cards. FEMA officials represented to us that they traced some of these obviously duplicate payments to a computer error that inadvertently caused the duplicate payments. However, they provided no supporting documentation.

**Controls over Debit
Cards Were
Ineffective in
Preventing Duplicate
Payments and
Improper Use**

In the days following hurricane Katrina, FEMA experimented with the use of debit cards to expedite payments of \$2,000 to about 11,000 disaster victims at three Texas shelters¹⁰ who, according to FEMA, had difficulties accessing their bank accounts. Figure 2 is an example of a FEMA debit card.

Figure 2: FEMA Debit Card



Source: JP Morgan Chase.

¹⁰The shelters were located in Dallas, Houston, and San Antonio.

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The debit card program was an effective means of distributing relief quickly to those most in need. However, we found that because FEMA did not validate the identity of debit card recipients who registered over the telephone, some individuals who supplied FEMA with SSNs that did not belong to them also received debit cards. We also found that controls over the debit card program were not effectively designed and implemented to prevent debit card recipients from receiving duplicate expedited assistance payments, once through the debit card and again through check or EFT. Finally, unlike the guidance provided to other IHP registrants, at the time FEMA distributed the debit cards, FEMA did not provide instructions informing them that the funds on their cards must be used for appropriate purposes.

**Debit Cards Issued to
Individuals Providing
Invalid Social Security
Numbers**

As discussed previously, FEMA did not verify the identity of individuals and/or households who submitted disaster registrations over the telephone. This weakness occurred in the debit card program as well. FEMA required the completion of a disaster registration prior to a household or individual being able to receive a debit card. According to FEMA officials, registrants at the three centers applied for assistance via the telephone and Internet. Therefore, to the extent that registrations for the debit card were taken over the telephone, FEMA did not subject the identity of the registrants to a verification process. Consequently, we identified 50 debit cards issued to registrants listing SSNs that the SSA had no record of issuing, and 12 cards issued to registrants using SSNs belonging to deceased individuals. For example, one registrant used an invalid SSN to receive a \$2,000 debit card and used about \$500 of that money to pay prior traffic violations to reinstate a driver's license. In another case, a registrant used the SSN of an individual who died in 1995 to receive a \$2,000 debit card. FEMA subsequently deposited an additional \$7,554 in IHP payments to that debit card account for additional claims submitted by that individual. This registrant withdrew most of the \$9,554 deposited into the debit card account by obtaining ATM cash withdrawals.

**Thousands of Debit Card
Recipients Received
Multiple Expedited
Assistance Payments**

Based on a comparison of FEMA's IHP payments and the list of debit card recipients, we found that over 5,000 of the 11,000 debit card recipients received more than one \$2,000 expedited assistance payment because they received a debit card and another form of payment (check or EFT). According to FEMA officials, they were aware that several individuals had already registered for IHP assistance and that some payments had already been made prior to issuance of a debit card. However, FEMA officials stated that individuals in the three shelters in Texas would not have access

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to their home addresses or bank accounts and therefore needed immediate assistance in the form of debit cards. Our review of FEMA data disproved FEMA's belief that only a few individuals who received debit cards also received other disaster assistance payments. Instead, thousands, or nearly half, of the individuals who received debit cards also received checks or EFTs that were made several days after the debit cards had been issued. The result was that FEMA paid more than \$10 million dollars in duplicate expedited assistance payments to individuals who had already received their \$2,000 of expedited assistance.

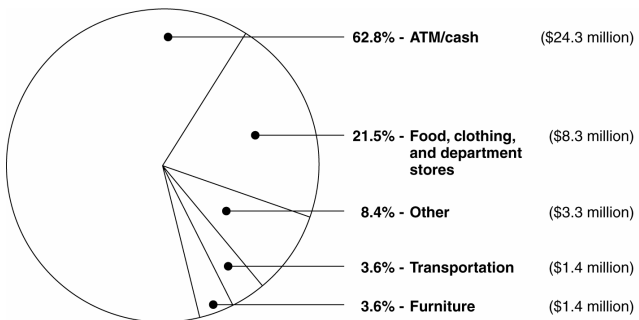
**FEMA Debit Card
Transactions**

In general, once FEMA receives a disaster registration, FEMA sends a package containing IHP information and detailed instructions, including instructions on how to follow up on benefits, how to appeal if denied benefits, and the proper use of IHP payments. However, FMS and FEMA officials informed us that FEMA did not specifically provide instructions on how the debit cards should only be used for necessary expenses and serious needs related to the disasters at the same time the debit cards were distributed. We found that in isolated instances, debit cards were used for adult entertainment, to purchase weapons, and for purchases at a massage parlor that had been previously raided by local police for prostitution.

Our analysis of debit card transaction data provided by JP Morgan Chase found that the debit cards were used predominantly to obtain cash which did not allow us to determine how the money was actually used. The majority of the remaining transactions was associated with purchases of food, clothing, and personal necessities. Figure 3 shows a breakdown of the types of purchases made by cardholders.

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Figure 3: Breakdown of Purchases Made with FEMA Debit Cards



Source: GAO analysis of JP Morgan Chase debit card transactions.

We found that in isolated instances, debit cards were used to purchase goods and services that did not appear to meet serious disaster related needs as defined by the regulations. In this regard, FEMA regulation provides that IHP assistance be used for housing-related needs and items or services that are essential to a registrant's ability to overcome disaster related hardship. Table 2 details some of the debit cards activities we found that did not appear to be for essential disaster related items or services.

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Table 2: Purchases that Did Not Appear Necessary to Satisfy Immediate Emergency Needs

| Vendors | Location | Nature of Transaction | Amount |
|-----------------------------|-----------------|--|---------|
| Elliot's Gun Shop | Jefferson, LA | .45 caliber pistol | \$1,300 |
| D Houston | Houston, TX | Gentlemen's club | 1,200 |
| Friedman's Jewelers | Plano, TX | Diamond engagement ring | 1,100 |
| Argosy Casino | Baton Rouge, LA | 7 ATM withdrawals within one day at a gambling institution | 1,000 |
| Tim Fanguy Bail Bonds | Houma, LA | Partial bail bond payment | 1,000 |
| Department of Public Safety | Baton Rouge, LA | Payment of prior traffic violations for driver's license reinstatement | 700 |
| Cat Tattoo | Addison, TX | Tattoo on arm | 450 |
| Swedish Institute | Irving, TX | Massage parlor | 400 |
| Tiger Beer and Wine | Dallas, TX | Alcohol beverages | 200 |
| Condoms To Go | Dallas, TX | Adult erotica products | 150 |

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

Conclusions

FEMA has a substantial challenge in balancing the need to get money out quickly to those who are actually in need and sustaining public confidence in disaster programs by taking all possible steps to minimize fraud and abuse. Based on our work to date, we believe that more can be done to prevent fraud through validation of identities and damage addresses and enhanced use of automated system verification intended to prevent fraudulent disbursements. Once fraudulent registrations are made and money is disbursed, detecting and pursuing those who committed fraud in a comprehensive manner is more costly and may not result in recoveries. Further, many of those fraudulently registered in the FEMA system already received expedited assistance and will likely receive more money, as each registrant can receive as much as \$26,200 per registration.

Another key element to preventing fraud in the future is to ensure there are consequences for those that commit fraud. For the fraud cases that we are investigating, we plan to refer them to the Katrina Fraud Task Force for further investigation and, where appropriate, prosecution. We believe that prosecution of individuals who have obtained disaster relief payments through fraudulent means will send a message for future disasters that there are consequences for defrauding the government.

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

**Contacts and
Acknowledgements**

For further information about this testimony, please contact Gregory D. Kutz at (202) 512-7455 or kutzg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony.

Appendix I: Objectives, Scope, and Methodology

To assess controls in place over the Federal Emergency Management Agency (FEMA)'s Individuals and Households Program (IHP), we interviewed FEMA officials and performed walkthroughs at the National Processing Service Center in Winchester, Va. We reviewed the Stafford Act, Pub. L. 93-288, the implementing regulations, and FEMA's instructions to disaster registrants available via the Internet. In addition, to proactively test controls in place, we applied for assistance using falsified identities, bogus addresses, and fictitious disaster stories to determine if IHP payments could be obtained based on fraudulent information. Because of several key unanswered requests for documentation from the Department of Homeland Security (DHS), information needed to fully assess the expedited assistance program was limited. For example, FEMA and DHS had not provided us documentation to enable us to conclusively determine the reason that FEMA submitted some registrations, and did not submit other registrations, to identity validation prior to issuing expedited assistance payments. Consequently, our work was limited to our analysis of the FEMA databases, investigations we conducted, data widely available to the public via the Internet, and information FEMA officials orally provided to us.

To determine the magnitude and characteristics of IHP payments, we obtained the FEMA IHP database as of December 2005. We validated that the database was complete and reliable by comparing the total disbursements against reports FEMA provided to the Senate Appropriations Committee on Katrina/Rita disbursements. We summarized the amounts of IHP provided by type of assistance and by location of disaster address.

To determine whether indications existed of fraud and abuse in expedited assistance and other disbursements, we provided FEMA data to the Social Security Administration (SSA) to verify against their records of valid social security numbers (SSNs). We also used data mining and forensic audit techniques to identify registrations containing obviously false data, such as multiple registrations containing the same name, same current or damaged address, but different SSNs, and registrations containing duplicate information, such as duplicate names and SSNs. To determine whether registrations from our data mining resulted in potentially fraudulent and/or improper payments, we used a nonrepresentative selection of 248 registrations representing 20 case studies (case studies included multiple individuals and registrations) for further investigation. We restricted our case studies to registrations that received payments as of mid-December 2005, and noted that some registrants within our case studies also submitted additional registrations—for which they may receive future

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payments. We also identified instances where groups of registrants may have been involved in schemes to defraud FEMA. We found these schemes because the registrants provided the same SSNs, last names, current addresses, and/or damaged addresses on their registrations. Our macro analysis of potentially fraudulent use of SSNs and other data mining are ongoing, and we plan to report additional results at a future date. For purposes of this testimony, we did not conduct sufficient work to project the magnitude of potentially fraudulent and improper payments of IHP. We also visited over 200 of the claimed damaged addresses related to our case studies to determine whether or not the addresses were valid.

To assess the types of purchases made with FEMA debit cards distributed at relief centers, we reviewed a database of transactions provided by JP Morgan Chase, the administrating bank for the debit cards. SSA also assisted us to compare cardholder data with SSA records to determine whether registrants receiving debit cards had provided valid identities. We 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. Finally, we validated specific transactions identified in the database by obtaining information on actual items purchased from the vendors.

In the course of our work, we made numerous written requests for key documents and sets of data related to the IHP, most dating back to October 2005. While FEMA officials promptly complied with one key part of our request—that is FEMA made available databases of IHP registrants and payments—the majority of items requested have not been provided. On January 18, 2006, the Department of Homeland Security Office of General Counsel provided us with well less than half of the documents that were requested. For example, FEMA and the DHS had not provided us documentation to enable us to conclusively determine the reason that FEMA submitted some registrations, and did not submit other registrations, to identity validation prior to issuing expedited assistance payments. While the database and other data provided by FEMA enabled us to design procedures to test the effectiveness of the FEMA's system of internal controls, it did not enable us to comprehensively determine the root causes of weak or non-existent controls.

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. Except for scope limitations due to a lack of documentation provided by DHS, we performed our work from

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October 2005 through January 2006 in accordance with generally accepted government auditing standards and quality standards for investigations as set forth by the President's Council on Integrity and Efficiency.

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Comments from the Federal Emergency Management Agency

U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

May 19, 2006

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

Dear Mr. Kutz:

Re: Draft Report GAO-06-655 "Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse."

Thank you for the opportunity to review the draft report. The GAO report gives great detail as to the amount of work their staff did in order to uncover weaknesses in FEMA's issuance of Expedited Assistance. It is useful also to note that some of the findings were already uncovered by FEMA's internal review and FEMA's review with the Office of Inspector General of potentially fraudulent cases. FEMA is going to great lengths to ensure that it is a good steward of taxpayer dollars; allowing applicants who are in serious need of assistance to get it quickly and appropriately, while deterring or eliminating fraud. FEMA has already made significant improvements in this arena and is already well into the recoupment phase of the disaster response for hurricanes Katrina and Rita. Below are a collection of comments from FEMA following a careful review of the GAO report and recommendations.

It should be noted that the GAO utilized a non-representative sample of 248 registrations from the NEMIS system. The sample seems to have been geared specifically towards those applications that were duplicates and did get multiple payments. Additionally it seems that the sample was geared towards those applicants with more than one duplicate registration associated with them. Since the majority of our applicants were not duplicates with other applicants, this is obviously not a representative sample of the implementation of the IHP or the Expedited Assistance program. It's worth noting that for Hurricane Katrina, FEMA took more than 1.7 million registrations.

Also of note, it is unclear whether what may appear to GAO as duplicative payments under the IHP program, were instead payments authorized under the "Separated Households" policy for hurricanes Katrina and Rita. In general, without access to the GAO case studies, we cannot comment fully on what FEMA could have done better to

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prevent duplication or fraud in these instances. Specifically, we were unable to locate the applicant they claimed received four Expedited Assistance (EA) payments under a single registration ID (page 28) via our reporting mechanisms. This applicant does not exist in our files.

In several places in the document, GAO contends that all applicants eligible for \$2,000 are eligible for up to \$26,200 for the IHP, describing "expedited assistance" as a gateway to further IHP payments (see page 17). This is simply untrue. Expedited Assistance was given to individuals applying for assistance under hurricanes Katrina and Rita, based on a damaged address located in the disaster area and the answers to specific questions concerning their disaster-related needs. *All other payments*, including the \$2,358 scripted Transitional Housing payments, scripted Geospatial payments, and traditional IHP payments were subject to much more stringent requirements. In all instances, applicants had to demonstrate that they occupied the damaged dwelling at the time of the disaster.

This could be done in several ways, including:

- Automated verification of primary residence (and therefore validation that an address exists) via a FEMA data contractor
- Traditional, on-site inspection verification of both address and primary residency
- Submitted, verifiable primary residency documentation submitted from the applicant via mail or fax

For those that received EA, and for this disaster only, "Transitional Housing Assistance" (THA) of \$2,358 was provided to those registrants that lived in one of the five hardest hit Louisiana parishes or three counties in Mississippi. Verification of occupancy at a valid address was established utilizing a FEMA contractor. Many people were found ineligible for this THA because a contractor (Myriad) was unable to verify occupancy at the presented address and additional verification documents were required to be submitted prior to providing assistance.

Any additional 408 assistance was provided only after an in-person inspection was performed at an actual address, and additional documents were verified by FEMA and signed by the applicant.

Since the 2005 hurricane season began, FEMA has been proactively implementing more stringent controls concerning fraud and identity verification. Controls already implemented include:

- Deployment in October 2005 of a new Internet registration application that disallows *any* duplicate registrations
- Adding identity proofing to the call center registration application in February 2006 so that *all* IHP registrations are subjected to the same stringent criteria that includes verification that the SSN exists, that the SSN belongs to the name, and that the SSN is not for a deceased person
- Amending automated scripts to ensure no scripted payments are sent to applicants who failed identity proofing

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- Sending, via batch, all applications taken on the call center application from August 2005 until February 2006 to FEMA's data contractor for identity proofing
- Data-marking any applications in NEMIS that fail identity proofing so they may be flagged for review and denied automated payment later
- Real-time interaction between the FEMA Service Representative and the applicant to ensure that the data entered that resulted in a failed identity check is correct before accepting the application.

With these new processes in place, we still need to need to take into consideration those families and individuals that may not have traditional means of identity and occupancy verification so that assistance is not delayed to the population that may have the greatest immediate need. For those registrations sent to a "duplicate investigation queue" for additional review and resolution, there were significant delays (sometimes additional months) in FEMA providing them with "emergency expedited" assistance. FEMA must strike the delicate balance of providing timely assistance to disaster victims in need while taking the necessary precautions to ensure against fraud, waste and abuse.

The following changes are being made to the NEMIS software and will be available by the start of the 2006 hurricane season on June 1:

- NEMIS will no longer allow *any* registration to be accepted when that registrant has the same SSN as another registrant in the same disaster
- NEMIS will conduct verification of ownership and occupancy through FEMA's data contractor during the application process

All software changes and data scripts are functionally tested before being implemented in the production environment. Before deployment, a software change must pass a developer test, an end-user test, a throughput test, and be approved by the IT Technical Review Committee (TRC).

The report also notes what it refers to as "isolated incidents" where EA Debit cards were used to purchase goods and services that did not appear to meet serious disaster-related needs. Though "isolated", these purchases did make their way to the first highlight page of the draft report and apparently warranted their own chart on page 32, though totaling just under \$8,000. While such purchases may represent questionable judgment on the part of the recipient, highlighting those expenditures in the midst of this report, and this event, is similarly questionable. The real issue here is providing appropriate guidelines for the use of the assistance received. FEMA continues to develop guidance and control measures to prevent the inappropriate use of these funds.

Response to GAO Recommendations:

Recommendation:

Establish an identify verification process for Individuals and Households Program (IHP) registrants applying via both the Internet and telephone, to provide reasonable assurance that disaster assistance payments are made only to qualified individuals.

Response:

FEMA has already implemented identity proofing on the call center application, including verification that the SSN is valid, verification that the SSN matches the name, and verification that the SSN does not belong to a deceased individual.

When a registration fails identity proofing, the FEMA registrar is instructed to verify the data entered with the applicant. If the data is correct, the registrar continues with the application. At this time, it is considered unwise to have a registrar get into a potentially difficult situation with the applicant pertaining to failed identity verification. Instead, applicants will not be eligible for any scripted payments and will be subjected to additional review before payment. These applicants will have to substantiate their identities via other means before receiving FEMA assistance. The applicants receive a letter telling them what information they need to provide in order to verify their identity.

It is not necessary to ask a registrant to enter their name as it appears on their social security card. Unlike the SSA, FEMA's data contractor is able to use logic to find aliases and nicknames associated with an SSN. This includes married and maiden names, as well as the typical "Bill vs. William" scenario.

Recommendation:

Develop procedures to improve the existing review process of duplicate registrations containing the exact same Social Security Numbers (SSN) and to identify the reasons why registrations flagged as invalid or as potential duplicates have been overridden and approved for payment.

Response:

FEMA deployed a new Internet application in October 2005 that does not accept any duplicate applications. The majority of duplicate applications in Katrina and Rita came from the Internet application, usually because an applicant was not sure if their registration had been accepted and re-registered immediately after submitting their first registration. The closing screens on the Internet application have also been amended to help assure applicants that their application has been received and is being processed. Elimination of duplicate applications up front helps eliminate errors on the back end of processing. Additionally, the call center application will no longer accept duplicate

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applications with the same SSN in the same disaster. These changes eliminate duplicate SSN applications and greatly reduce the fraud potential in the IHP.

Recommendation:

Establish an address verification process for IHP registrants applying via both the Internet and telephone, to provide reasonable assurance that disaster assistance payments are made only to qualified individuals.

Response:

Although Expedited Assistance (\$2,000) payments in 2005 were not subject to address verification, all subsequent payments for the IHP were. Before becoming eligible for additional payments, applicants had to validate primary residence at the damaged address via one of three mechanisms detailed above. Starting June 1, this process will occur during registration (at the same time as the identity verification process). Therefore, all Expedited Assistance payments will go only to those applicants who pass identity proofing and who verify occupancy at the address provided.

With respect to the uniform method of inputting addresses, the NEMIS software has an address standardization component built in. Based on the address provided, NEMIS will "correct" it to the most acceptable form based on USPS data. Addresses are coded in the system with a degree of accuracy from being accurate to the street and number; to only being accurate to the zip code (the address could not be found, but the zip code and state match). FEMA management could consider limiting Expedited Assistance payments to those addresses with a high degree of confidence to alleviate this concern.

When an address is not recognized by the address correction software, NEMIS provides a pop-up with a corrected address (if any) or a null address if the address provided simply cannot be found. FEMA registrars then verify the address with the applicant, and proceed with the address the applicant claims is correct. Additional instruction could be provided to the registrars to ensure they are using the NEMIS-provided address whenever possible. At this time, NEMIS records which addresses were over-ridden by the registrar and which were accepted with the USPS data in the registrant's record.

During traditional processing, an inspector performs an on-site inspection. If the address is not valid or cannot be found, the inspection is withdrawn and returned to FEMA. No awards are made to applicants in these circumstances. If the address is valid, but the data is slightly incorrect, the inspector makes the appropriate changes to the address and returns it to FEMA. FEMA accepts the data into the NEMIS system and uses that address for processing.

Recommendation:

Explore entering into an agreement with other agencies, such as the Social Security Administration, to periodically authenticate information contained in IHP registrations.

Response:

FEMA has already conducted a conference call with the SSA and is in the process of sharing data in order to explore a real-time verification relationship. FEMA has also been interested in exploring data available from other agencies or commercial vendors pertaining to income and insurance, though this data has proven difficult to obtain at best. This research is ongoing.

Recommendation:

Establish procedures to collect duplicate expedited assistance payments or to offset these amounts against future payments.

Response:

GAO contends that allowing applicants to receive both a debit card and another form of expedited assistance was an error. To the contrary, FEMA management was keenly aware that this "duplication" could exist but was compelled to allow the debit cards to go to applicants in spite of their EA status. FEMA felt that these applicants would certainly be eligible for more than \$4,000 through the 18 month assistance period, and that these applicants did not have access to their banking institution since they were homeless and living in shelters for extended periods following the event.

Although applicants received more than one type of Expedited Assistance payment in approximately 5,000 cases, this does not mean that all applications should be subject to recoupment. If any application was eligible for the maximum IHP grant, their grant was offset by any Expedited Assistance already received. Therefore, an applicant who was eligible via the traditional program for \$26,200 but already received both a debit card and a \$2,000 check would only receive another \$22,200 in assistance.

For any applicant that was not eligible for a max grant and did not have other payments offset by expedited assistance, FEMA is conducting recoupments. A detailed recoupment process has been put into place and has been vetted with the senior officials in FEMA, DHS, and DOJ, and the process has been shared with the OIG and GAO. As of April 2006, nearly all duplicative EA payments have been processed for recoupment, and debit card collection is pending. FEMA is using its long-standing Recovery of Funds procedures for the 2005 hurricane season as it has in previous years.

Recommendation:

Ensure that any future distribution of IHP debit cards includes instructions on the proper use of IHP funds, similar to those instructions provided to IHP check and EFT recipients, to prevent improper usage.

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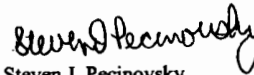
Response:

FEMA agrees with this recommendation and also suggests that debit cards not be pre-loaded, but be given to applicants and then filled only when the applicant is determined eligible for assistance rather than presuming eligibility based on being located in a shelter.

Just as with our own staff, we appreciate the time and effort the GAO staff has put into this project. Their suggestions have helped both to underline the value and to sharpen some of the work already underway in this area. But we could also have found more benefits from the report if the information-sharing inherent in such a process had been reciprocal.

Thank you for the opportunity to review the report and provide comments.

Sincerely,



Steven J. Pecinovsky
Director
Departmental GAO/OIG Liaison Office

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