OFFICE OF INSPECTOR GENERAL

FEMA Has Paid Billions in Improper Payments for SBA Dependent Other Needs Assistance since 2003

Homeland Security

August 12, 2020

OIG-20-60

August 12, 2020

MEMORANDUM FOR: The Honorable Peter T. Gaynor
Administrator
Federal Emergency Management Agency

FROM: Joseph V. Cuffari, Ph.D.
Inspector General

JOSEPH V CUFFARI

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Date: 2020.08.07 12:51:29 -04'00'

SUBJECT: *FEMA Has Paid Billions in Improper Payments for SBA Dependent Other Needs Assistance since 2003*

Attached for your action is our final report, *FEMA Has Paid Billions in Improper Payments for SBA Dependent Other Needs Assistance since 2003.* We incorporated the formal comments provided by your office.

The report contains three recommendations that identify actions the Federal Emergency Management Agency can take to enhance the program's overall effectiveness. Your office did not concur with any of the three recommendations. Based on information in your response to the draft report, we consider recommendations 1, 2, and 3 open and unresolved. As prescribed by the Department of Homeland Security Directive 077-01, *Follow-Up and Resolutions for the Office of Inspector General Report Recommendations*, within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Please send your response or closure request to OIGAuditsFollowup@oig.dhs.gov.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Sondra McCauley, Assistant Inspector General for Audits, at (202) 981-6000.

Attachment

DHS OIG HIGHLIGHTS

FEMA Has Paid Billions in Improper Payments for SBA Dependent Other Needs Assistance since 2003

August 12, 2020

Why We Did This Audit

FEMA provides funds through its IHP ONA program to qualified applicants for necessary expenses and serious needs caused by a disaster. FEMA has expended $6.4 billion in Federal funds through its IHP ONA since 2003. Of this amount, about $5.3 billion, or 83 percent, went to the SBA Dependent ONA category — based on applicants' self-reported income and dependent information. We performed this audit to determine to what extent FEMA verifies the accuracy of IHP applicants' self-certified income.

What We Recommend

We made three recommendations that, when implemented, will improve program controls within IHP SBA Dependent ONA.

For Further Information:
Contact our Office of Public Affairs at (202) 981-6000, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The Federal Emergency Management Agency (FEMA) Individuals and Households Program (IHP) has no assurance of applicants' eligibility for Small Business Administration (SBA) Dependent Other Needs Assistance (ONA) payments. According to Office of Management and Budget (OMB) Circular A-123, Appendix C, when documentation or verification is non-existent to support an eligibility payment decision it must be considered improper.

FEMA did not collect sufficient income and dependent documentation or verify self-reported information to determine whether applicants below the income threshold, known as Failed Income Test (FIT), were eligible for SBA Dependent ONA payments. FEMA believed requiring documentation or verification would delay the disbursement of assistance and relied on an honor system to make eligibility and payment decisions. We determined, according to FEMA-provided data, it has paid, and we are questioning, the more than $3.3 billion in improper payments to applicants deemed as FIT for SBA Dependent ONA since 2003.

Additionally, FEMA has not evaluated the program risk associated with not collecting or verifying income information. Per Federal requirements, agencies must conduct risk assessments to determine whether programs are susceptible to improper payments. Rather, FEMA assessed IHP at the overall program level and did not specifically evaluate each IHP form of assistance, such as SBA Dependent ONA. These weaknesses have allowed applicants self-certifying income and dependent information to receive less oversight, despite posing the greatest risk for improper payments. As such, FEMA cannot assure Congress and taxpayers it is a prudent steward of Federal resources and adequately assesses the risks of improper payments.

FEMA Response

FEMA strongly disagreed with our methodology and resulting conclusions. In addition, FEMA did not concur with any of the three recommendations in this report.

Background

The *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, constitutes the statutory authority for most Federal disaster response activities. One such program is the Federal Emergency Management Agency's (FEMA) Individuals and Households Program (IHP), which provides up to $34,900, as of fiscal year 2019, in housing assistance for disaster-related expenses from damages to an individual's primary home resulting from a declared disaster. In addition, the program provides money to qualified applicants for necessary expenses and serious needs caused by the disaster, which is referred to as Other Needs Assistance (ONA). This includes assistance for funeral, medical, dental, childcare, personal property, moving and storage, and transportation expenses, along with other expenses that FEMA approves. According to FEMA-provided data, the program provided approximately $6.4 billion in ONA from 2003 to 2018.

Eligibility for some types of ONA depends on eligibility with the U.S. Small Business Administration's (SBA) disaster loan program. SBA provides low-interest, long-term loans to help individuals and households with personal property, transportation, and moving and storage expenses incurred due to a declared disaster. ONA is divided into two categories that are either non-dependent or dependent on an individual's or a household's ability to qualify for a SBA disaster loan.

<u>Non-SBA Dependent ONA</u> – An applicant may be awarded assistance (e.g., for help with funeral, medical, dental, childcare expenses) regardless of whether the household is eligible for an SBA disaster loan. Of the $6.4 billion in ONA, FEMA reported it paid $1.1 billion in Non-SBA Dependent ONA (17 percent of total ONA) from 2003 to 2018.

<u>SBA Dependent ONA</u> – An applicant is awarded assistance (e.g., for help with personal property, moving and storage, and transportation expenses) depending on whether the household income, along with the number of dependents, falls below a threshold provided by SBA (SBA's Income Test Tables). Qualified applicants whose income and number of dependents fall below the threshold are classified as Failed Income Test (FIT) and automatically receive from FEMA, SBA Dependent ONA, without being referred to SBA for a disaster loan. Applicants who fall above the threshold are referred to SBA for disaster loans because their income makes them more likely to qualify for a loan. If denied SBA-disaster loans, applicants become eligible for SBA Dependent ONA given that their credit, debt, or income histories make them ineligible to receive disaster assistance from SBA.

Of the $6.4 billion in ONA, FEMA reported it paid approximately $5.3 billion for SBA Dependent ONA (83 percent of total ONA) from 2003 to 2018. Further, FEMA paid $3.3 billion of the $5.3 billion in SBA Dependent ONA to applicants who were deemed FIT. The remaining $2 billion went to applicants who had been referred to SBA for loans, but were denied and became eligible to receive SBA Dependent ONA.

In keeping with FEMA's responsibility to safeguard taxpayer funds, it evaluates its programs based on risk. Specifically, FEMA management conducts risk assessments to evaluate agency operations that may contribute to significant improper payments. Improper payments fall into three broad categories: intentional fraud and abuse, unintentional payment errors, and instances when documentation supporting a payment is so insufficient that the agency is unable to discern whether the payment is proper.

In disaster situations, fraud risk is greater because the need to provide services quickly can negatively affect existing internal control processes, creating greater opportunities for fraud or improper payments. Agencies are required to conduct risk assessments to determine whether the program is susceptible to improper payments. According to Federal requirements, agencies must consider the program complexity to determine correct payment amounts and the volume of annual payments as risk factors. As such, risk assessments take into account vulnerabilities associated with internal control deficiencies and risks highlighted in prior audits. If the risk assessment indicates that the program is susceptible to significant improper payments, the agency is subject to annual improper payments estimation and reporting. Effective risk management practices help prevent Federal agencies' susceptibility to improper and fraudulent payments. In doing so, it achieves payment integrity in core programs and mission, ensures payments are made to eligible recipients, and ensures data integrity risks are managed by reporting results to paymentaccuracy.gov.

We conducted this audit to determine to what extent FEMA verifies the accuracy of IHP applicants' self-certification of income.

Results of Audit

FEMA Paid Billions in Improper Payments for IHP SBA Dependent ONA

According to OMB Circular A-123, Appendix C, when supporting documentation or verification does not exist to support eligibility decisions resulting in a payment, it must be considered improper. FEMA did not collect sufficient income and dependent documentation or verify self-reported information to ensure applicants classified as FIT were eligible for SBA Dependent ONA payments. According to FEMA officials, collecting such documentation would delay the disbursement of assistance, and the agency relied on an honor system to make eligibility and payment decisions. As a result, FEMA paid, and we are questioning, the more than $3.3 billion in improper IHP SBA Dependent ONA payments from 2003 to 2018.

FEMA Did Not Collect Sufficient Documentation to Support Eligibility and Payment Decisions

According to OMB Circular A-123, Appendix C, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must be considered an improper payment. Although not all improper payments are fraudulent, agencies should collect documentation to support an applicant's eligibility for a benefit.

FEMA's National Emergency Management Information System (NEMIS) did not have sufficient documentation to support SBA Dependent ONA payments for applicants deemed FIT. Specifically, all 300 FIT applicant entries in NEMIS from our statistical sample for 2017 did not contain any documentation to support the applicants' self-reported income or dependent information. Based on our analysis, we infer that during 2017 as many as 309,664 applicants received $554 million in improper payments.

Source: DHS Office of Inspector General (OIG)

FEMA officials do not collect documentation because they believe doing so would delay the disbursement of assistance to disaster applicants. Rather, they accept the risk of not collecting documentation to expedite the transmittal of assistance to low-income applicants and reduce the administrative burden on FEMA, SBA, and disaster applicants. In contrast, FEMA does collect documentation to support income and dependent information for other IHP assistance, such as Childcare and Continued Rental Assistance. For these forms of assistance, FEMA collects current paystubs, W-2 forms, or tax returns from the most recent tax year. Collecting these similar types of documentation would help to support eligibility decisions for FIT applicants to receive SBA Dependent ONA payments.

FEMA Did Not Verify Self-Reported Information

OMB Circular 123, Appendix C notes a failure to verify data is a situation when an agency (Federal, state, or local) or another party administering Federal dollars fails to verify appropriate data to determine whether a recipient should be receiving a payment, even though such data exists in government or third-party databases. FEMA does not verify self-reported income and dependent information for applicants determined to be FIT. If an applicant has unmet needs (unsatisfied necessary expenses and serious needs), FEMA uses the individual's self-reported income and dependent information to determine qualification for SBA Dependent ONA. Once FEMA classifies the applicant as FIT, the individual becomes eligible to obtain SBA Dependent ONA with no verification. This occurs because FEMA relies on an honor system consisting of applicants self-certifying their household income and number of dependents without verification.

We collaborated with the Treasury Inspector General for Tax Administration (TIGTA) to measure the truthfulness of the self-reported income and dependent information for those deemed FIT during 2017. TIGTA found inconsistencies in applicant self-reported income and dependent information when compared against 2017 Internal Revenue Service (IRS) records. Specifically, TIGTA identified the following issues for 71,090 of 309,664 (23 percent) SBA Dependent ONA applicants who filed tax returns.[1]

- Income Inconsistencies. 97 percent of applicants (68,785) did not accurately report their household income within a 5 percent deviation;[2]
- Dependent Inconsistencies. 60 percent of applicants (42,744) had discrepancies in the numbers of dependents they reported; and
- Income and Dependent Inconsistencies. 58 percent of applicants (41,370) had discrepancies in both gross household income and the number of dependents reported. (See Appendix B for the results of TIGTA's data match against tax records.)

These issues show the extent to which FEMA relies on inaccurate and unverified self-reported information for making disaster assistance payments. The inaccuracies in reported income are especially significant because income and dependent information are the main determinants as to whether applicants are deemed FIT. As a result, we question the eligibility of applicants

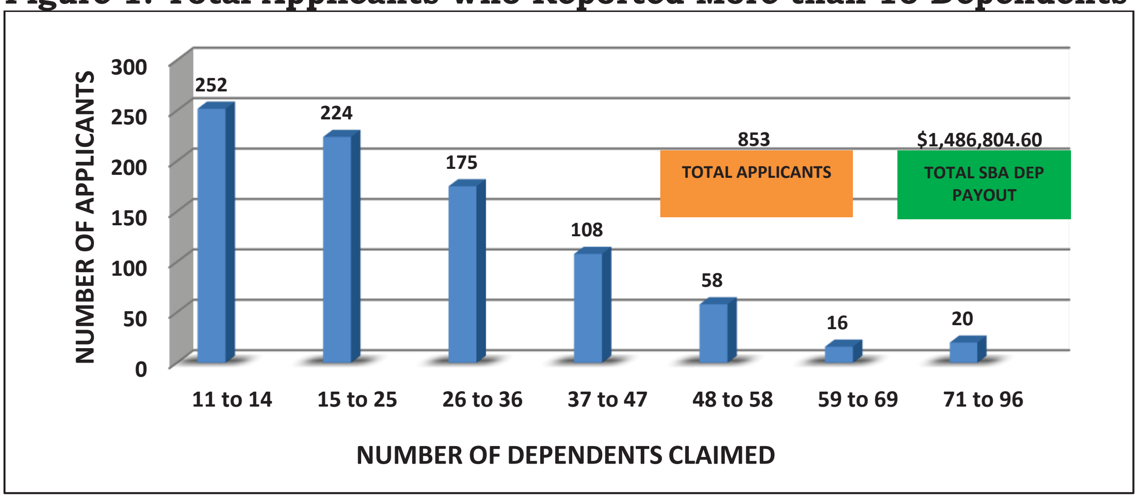
[1] We could not identify these applicants due to privacy restrictions of Internal Revenue Code Section 6103, which generally prohibits the disclosure of tax return information to parties outside of the IRS.
[2] We used a 5 percent deviation in accordance with generally accepted accounting principles, which is common for establishing financial materiality.

who collectively received more than $554 million in SBA Dependent ONA payments during 2017.

Furthermore, we conducted our own comparison of applicants' reported information using SBA's income tables. We determined 526 of 309,664 applicants were incorrectly classified as FIT and received more than $1.2 million for SBA Dependent ONA. Of the 526 applicants, 521 reported income and dependent information above the SBA threshold and should have been referred to the SBA for disaster loans. Further, 5 of the 526 applicants reported no income, which should have led to an automatic referral to SBA. However, these five applicants were still deemed FIT and received assistance.

Additionally, the more dependents an applicant claims, the more likely the applicant will be eligible for SBA Dependent ONA. Our analysis found that 853 of 309,664 applicants deemed FIT received more than $1.4 million. Each of these applicants reported more than 10 dependents, ranging to as many as 96 dependents. Although not a requirement, FEMA officials stated applicants reporting 10 or more dependents should be further reviewed as a best practice. However, FEMA did not verify each applicant's number of dependents or flag applicants reporting more than 10 dependents for further review. Figure 1 shows the number of applicants who reported more than 10 dependents.

Figure 1. Total Applicants Who Reported More than 10 Dependents



Source: DHS OIG analysis of FEMA-provided data

By verifying information on income and number of dependents for these applicants, FEMA can better assess SBA Dependent ONA eligibility.

Unsupported and Unverified Eligibility Determinations Resulted in Improper Payments

Without collecting documentation and verifying its accuracy, FEMA is unable to justify its payment decisions for applicants deemed FIT, as required. FEMA officials stated this practice of not collecting supporting documentation or verifying eligibility decisions for applicants deemed FIT to receive SBA Dependent ONA has been in place since 2003. According to FEMA's data from 2003 to 2018, approximately 1.4 million applicants received disaster assistance totaling more than $3.3 billion. These payments were improper because the eligibility determination was unsubstantiated and unverified.

FEMA Did Not Conduct Improper Payment Risk Assessments for SBA Dependent ONA

According to OMB Circular A-123, Appendix C, Federal agencies must conduct improper payment risk assessments for all programs and activities to determine whether the program is susceptible to improper payments. In conducting these assessments, agencies should consider various risk factors, such as the inherent risks of improper payments due to the nature of agency operations and significant deficiencies from audit reports of the Inspector General or the Government Accountability Office (GAO). Although FEMA evaluated certain forms of assistance within IHP, it did not assess improper payment risks for SBA Dependent ONA.

FEMA's fiscal year 2017 improper payments reduction program comprehensive risk assessment for IHP noted frequent assessments of internal controls are conducted through numerous internal and external audits and any identified deficiencies are handled promptly. However, the 2017 assessment for IHP did not include SBA Dependent ONA. Moreover, our review of 13 internal FEMA audits conducted from 2014 through 2018 disclosed that FEMA did not assess the risk of accepting applicants' self-reported income and dependent information to determine SBA Dependent ONA eligibility. Rather, FEMA evaluated IHP at the overall program level for improper payment risks and did not look at the program's individual forms of assistance to determine how well risk was managed.

In addition, the SBA Dependent ONA application process should have been continuously reviewed for IHP reporting, as annual disbursements from 2003 to 2018 were greater than $10 million. In all, these disbursements totaled more than $3.3 billion in improper payments. According to OMB Circular A-123, Appendix C, FEMA's unjustified payments exceeding both 1.5 percent of program outlays and the $10 million threshold identify IHP SBA Dependent ONA as susceptible to significant improper payments. Not assessing SBA Dependent ONA for risks leaves the IHP program exposed to a significant amount of improper payments.

Further, in a prior related report,[3] we identified significant weaknesses in FEMA's IHP for home repair, including absence of internal controls and more than $3 billion in improper payments for home repair. As a result, we recommended the FEMA Administrator include IHP as susceptible to significant improper payments, subject to annual improper payments estimation and reporting. By identifying significant weaknesses in FEMA's SBA Dependent ONA program, this report increases total IHP risk to more than $6.3 billion in improper payments. Without assessing and mitigating risks related to SBA Dependent ONA, FEMA is highly vulnerable to significant improper payments and IHP remains a high-risk program.

Recommendations

Recommendation 1: We recommend the FEMA Administrator, due to the more than $3.3 billion in questioned costs throughout a 16-year period, implement a process to collect income and dependent documentation on SBA Dependent ONA applicants to ensure payments are proper.

Recommendation 2: We recommend the FEMA Administrator, due to the questioned costs in recommendation 1, implement a verification process to ensure accuracy of income and dependent information provided by SBA Dependent ONA applicants.

Recommendation 3: We recommend the FEMA Administrator include SBA Dependent ONA as susceptible to significant improper payments subject to annual improper payments estimation and reporting.

Management Comments and OIG Analysis

FEMA strongly disagreed with our methodology for determining the total dollar amount of improper payments made from 2003 to 2018 and the resulting conclusions in this report. Specifically, FEMA disagreed with our assessment that, because some applicants' income varied from income tax records submitted to the IRS, all applicants would have been ineligible for assistance. FEMA claimed it cannot verify to what extent these applicants may have incorrectly reported income or had changes in income between applying for FEMA assistance and filing tax returns. According to FEMA, without detailed

[3] *FEMA Has Made More than $3 Billion in Improper and Potentially Fraudulent Payments for Home Repair Assistance since 2003*, OIG-20-23, April 6, 2020

data, it is not possible to accurately assess the economic impact of the income reporting deviations.

Although FEMA strongly disagreed with the draft report, our underlying premise remains that FEMA did not develop a process to document and verify SBA Dependent ONA applicants' income — it is not about whether some applicants' income varied from income tax records submitted to the IRS, and that all applicants would have been ineligible for assistance. Without a process to document and verify applicant eligibility, FEMA has no assurance that applicants qualified for assistance, but instead relied on the self-certified information applicants provided. This has resulted in more than $3.3 billion in improper payments since FEMA's inception in DHS. Rather than questioning our methodology and approach, we strongly urge FEMA to implement a process to validate and substantiate its disaster assistance for SBA Dependent ONA.

Appendix A contains FEMA's management comments in their entirety. We also received technical comments to the draft report and revised the report as appropriate.

FEMA Comments to Recommendation 1: Non-concur. FEMA disagreed with the necessity to collect income and dependent documentation to ensure application accuracy. In a disaster application, FEMA requires, under penalty of perjury, applicants to self-report their income and dependent information. SBA also considers additional income factors for loan eligibility.

In January 2020, FEMA and the SBA created a working group to strengthen the SBA Dependent ONA process in which the IRS and the Federal Deposit Insurance Corporation also provide feedback. Once the working group completes its process review, FEMA will determine which options and actions recommended by the workgroup are feasible, and will establish a schedule for implementation, as appropriate. However, FEMA believes that any process implementation will take several years. Therefore, FEMA requested we consider this recommendation resolved and closed.

OIG Analysis of FEMA Comments: Under Federal requirements, the absence of a documentation-based process to determine SBA Dependent ONA eligibility results in improper payments. As cited in our report, IRS testing determined applicants incorrectly reported their income and dependent information despite penalty of perjury. Although SBA may consider other factors beyond income for loan eligibility, FEMA solely determines SBA Dependent ONA eligibility based on applicants' self-reported income and dependent information. Without strengthening its eligibility determination process, FEMA will continue to make improper payments to SBA Dependent ONA applicants. Implementing our recommendation will ensure FEMA takes swift action to adhere to Federal requirements so improper payments do not continue to occur. Therefore, this recommendation will remain unresolved and open until FEMA implements a process to collect documentation to determine the eligibility of SBA Dependent ONA applicants.

FEMA Comments to Recommendation 2: Non-concur. FEMA Recovery Programs Technology Division does not believe it is necessary to verify income and dependent documentation. As referenced in the response to recommendation 1, SBA considers more factors than income alone for loan eligibility. In addition, FEMA and SBA have initiated a working group to strengthen the SBA Dependent ONA process. However, this process implementation could take several years. FEMA requested we consider this recommendation resolved and closed.

OIG Analysis of FEMA Comments: Under Federal requirements, the absence of a verification process to determine SBA Dependent ONA eligibility results in improper payments. As noted in our preceding response, FEMA bases SBA Dependent ONA determinations solely on applicants' self-reported income and dependent information. Without a verification process, FEMA will continue to make improper payments to applicants. Since the inception of the program, FEMA has paid more than $3.3 billion in improper payments. Considering this amount, we recommend FEMA adhere to Federal requirements so improper payments do not continue to occur. As such, this recommendation will remain unresolved and open until FEMA implements a process to verify SBA Dependent ONA eligibility.

FEMA Comments to Recommendation 3: Non-concur. FEMA's Office of Chief Financial Officer (OCFO) reported current risk assessments and other testing of IHP already meet the intent of this recommendation and requiring additional reporting would place an undue burden on FEMA. IHP also conducted *Improper Payments Elimination and Recovery Act of 2010* (IPERA) testing for hurricanes Harvey, Irma, and Maria for fiscal years 2018 and 2019. This testing will continue until disbursement amounts are less than $10 million dollars. IHP was tested under IPERA, and FEMA reported IHP to have sound internal controls in place. As a result, FEMA received a test waiver, which is continuous until FEMA OCFO considers the program a high risk. FEMA requested that we consider this recommendation resolved and closed.

OIG Analysis of FEMA Comments: Previous IHP risk assessments performed by FEMA never assessed SBA internal controls or its associated risks for processes to document and verify SBA Dependent ONA eligibility. The SBA Dependent ONA application process should be continuously reviewed for IHP reporting, as annual disbursements from 2003 to 2018 were greater than

$10 million. In all, these disbursements totaled more than $3.3 billion in improper payments. According to OMB Circular A-123, Appendix C, FEMA's unjustified payments exceeding both 1.5 percent of program outlays and the $10 million threshold identify IHP SBA Dependent ONA as susceptible to significant improper payments. In addition, we also previously reported[4] significant internal control weaknesses in FEMA's IHP. As such, this recommendation will remain unresolved and open until FEMA reports SBA Dependent ONA as susceptible to significant improper payments subject to annual improper payments estimation and reporting.

Objective, Scope, and Methodology

Department of Homeland Security Office of Inspector General was established by the *Homeland Security Act of 2002* (Public Law 107−296) by amendment to the *Inspector General Act of 1978*. Our audit objective was to determine to what extent FEMA verifies the accuracy of IHP applicants' self-certification of income.

We conducted interviews with officials from the FEMA Headquarters Recovery Directorate, the Fraud and Internal Investigations Division; FEMA's Disaster Assistance Improvement Program; FEMA's Policy & Doctrine Unit; and the Recovery Programs Technology Division. We met with representatives of FEMA's Individual Assistance Division, as well as program officials from the Application Processing Section, the Audit Section, the Office of Counsel, the Program Management Section, and the Individual Assistance, Innovations and Technology Solutions Program Management Office. We also conducted interviews with FEMA and SBA officials with oversight of IHP SBA Dependent ONA.

We reviewed and analyzed IHP ONA guidance, policies, procedures, and applicable laws and regulations. We identified and reviewed prior audits and reports related to the audit objective, including DHS OIG audits, GAO reports, FEMA audit reports, and congressional testimony. We also reviewed and analyzed applicable Federal requirements regarding management's responsibility for internal control and managing the risks for fraud and improper payments in Federal agencies. Specifically, we reviewed the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*; *OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments,* October 20, 2014; Revised version of *OMB Circular A-123, Appendix C, Requirements for Payment Integrity Improvement*, June 26, 2018; and *OMB Circular A-123*, *Management's Responsibility for Enterprise Risk Management and Internal Control,* July 15, 2016.

[4] *FEMA Has Made More than $3 Billion in Improper and Potentially Fraudulent Payments for Home Repair Assistance since 2003*, OIG-20-23, April 6, 2020.

The scope of our review included all Presidentially declared disasters in calendar year 2017 that resulted in applicants receiving ONA payments. We focused our analysis on applicants FEMA deemed FIT, because we identified weaknesses in the SBA Dependent ONA eligibility process. As such, we reviewed a population of 309,664 FIT applicants who received $554 million in SBA Dependent ONA. We conducted a data reliability assessment to ensure the completeness and accuracy of the data in our population.

We conducted a statistical sample using a 90 percent confidence interval, 5 percent sampling error, and 50 percent population proportion for all 309,664 FIT applicants. This resulted in a statistically valid sample size of 300 applicants deemed FIT for 2017.

To ensure applicants in our population had received payments for SBA Dependent ONA, the 300 applicants were vetted through FEMA's Integrated Financial Management Information System — IFMIS — and determined to have received payment for SBA Dependent ONA.

To evaluate FEMA's documentation in NEMIS, we reviewed records for the 300 applicants to ensure there was no supporting documenting or verification performed by FEMA of this information Since none of the applicants reviewed had sufficient income or dependent supporting documentation or verification, we inferred our statistical results to the 309,664 applicants in 2017.

To verify the accuracy of applicant income and dependent information, we collaborated with TIGTA to conduct a data match using 2017 tax information provided to the IRS. TIGTA compared applicants' household income and number of dependents against tax records to determine the truthfulness of their self-reported income and dependent information. We also replicated SBA Income Tables and performed a comparison of all 309,664 applicants deemed FIT during 2017 to assess decisions made in NEMIS. Based on our data reliability testing, we concluded the data to be sufficiently reliable to support our conclusions.

According to FEMA officials, its SBA Dependent ONA process has been the same since 2003. We did not conduct data reliability testing; rather we relied on FEMA's data from 2003 to 2018 to determine the total dollar amount and total number of applicants who were deemed FIT without supporting documentation and verification.

We conducted this performance audit between April 2018 and July 2019 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.

Appendix A
FEMA Comments to the Draft Report

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

FEMA

June 26, 2020

MEMORANDUM FOR: Joseph V. Cuffari, Ph.D.
Inspector General

FROM: Cynthia Spishak
Associate Administrator
Office of Policy and Program Analysis

CYNTHIA SPISHAK Digitally signed by CYNTHIA SPISHAK Date: 2020.06.26 12:38:35 -04'00'

SUBJECT: Management Response to Draft Report: "FEMA Has Paid Billions in Improper Payments for SBA Dependent Other Needs Assistance since 2003" (Project No. 18-090-AUD-FEMA)

Thank you for the opportunity to comment on this draft report. The Federal Emergency Management Agency (FEMA) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

FEMA strongly disagrees with the methodology the OIG used to determine the dollar amount of improper payments made from years 2003 to 2018, and the resulting conclusions in the draft report. Specifically, FEMA does not agree that because the income of some of FEMA's applicants varied from income tax records submitted to the Internal Revenue Service (IRS), that all applicants would have been ineligible. Indeed, even for the applicants where a variance was found, the reported income at the time of application with FEMA may have been correct.

The OIG's analysis, for example, notes that in 2017, 22 percent (68,785) of 309,664 Small Business Administration (SBA) Dependent Other Needs Assistance (ONA) applicants who filed tax returns reported to FEMA incomes outside a five percent deviation from what the applicants reported to the IRS that same year. This potentially leads readers of OIG's report to assume that these individuals under-reported their income to FEMA to meet the SBA referral threshold, which is not necessarily correct. In addition, FEMA cannot verify to what extent these applicants may have inadvertently incorrectly reported income to FEMA or had a change in income between applying for FEMA assistance and filing a tax return. Without detailed data demonstrating the number of applicants with reported income outside other percent deviations, it is not possible to accurately assess the economic impact or scale of the income reporting deviation.

FEMA does not agree that a five percent deviation in income reporting necessarily indicates an error on FEMA's part. The U.S. Census Bureau reported that the U.S.

median household income during 2017 was $60,336, five percent of which is $3,017. FEMA does not regard a $3,000 reporting differential to automatically indicate error or malintent. A multitude of reasons could explain why an applicant's reported income immediately after a disaster is $3,000 less or more than what they report at the end of the year, such as income fluctuation. Many applicants—US citizens, noncitizen nationals, or qualified aliens—do not have a standard and predictable annual salary, so comparing reported income at different points in the same year could produce discrepancies that are not attributable to the applicant purposefully misrepresenting their income in an attempt to qualify for disaster aid.

FEMA believes that it is unlikely that all these income reporting differentials were incorrect and not, at least in some cases, due to actual income differences between the time reported to FEMA and the time reported to the IRS. However, even if all applications had a reporting differential due to an error on the part of the applicant, FEMA does not believe it warrants slowing the delivery of potentially life-saving disaster assistance for the other nearly 80 percent of applicant's in order to eliminate that reporting error.

FEMA takes its responsibility to be a good steward of taxpayer dollars very seriously. However, FEMA must constantly strike an appropriate balance between minimizing the burden placed on devastated disaster survivors when applying for assistance with measures necessary to guard against fraud, waste, and abuse. While FEMA regularly evaluates and manages risk, some risk must be assumed if disaster survivors are to receive assistance quickly enough when it is needed. FEMA remains committed to managing the risk in accepting self-certification of income and is partnering with SBA to explore options for strengthening the process to determine which applicants will be referred to SBA.

The draft report contained three recommendations, with which FEMA non-concurs. Attached find our detailed response to each recommendation. FEMA previously submitted technical comments under a separate cover for OIG's consideration.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions.

Attachment

Attachment: Management Response to Recommendations Contained in OIG 18-090-AUD-FEMA

OIG recommended that the FEMA Acting Administrator:

Recommendation 1: Due to the more than $3.3 billion in questioned costs throughout a 16-year period, implement a process to collect income and dependent documentation on SBA Dependent ONA applicants to ensure payments are proper.

Response: Non-concur. FEMA does not agree that it is necessary to collect income and dependent documentation to ensure accuracy of information provided by disaster applicants. During the application process for assistance, FEMA requires disaster survivors to provide information on income and dependents under penalty of perjury. All income information is evaluated against criteria developed by the SBA, which may include further evaluation and verification, when necessary. Most importantly, eligibility is determined by the applicant's ability to repay a loan and income is only one factor in making that evaluation. Instead of narrowly focusing on income and dependent information, FEMA is exploring options to verify an applicant's eligibility for an SBA loan.

In January 2020, FEMA's Individual Assistance Division, in collaboration with the SBA, created a working group to develop joint written recommendations from FEMA and the SBA on potential courses of action to strengthen the process for determining an applicant's likelihood to qualify for an SBA loan. The workgroup conducted outreach to multiple external agencies which also use income, dependent information and loan repayment worthiness as eligibility criteria for their programs and services. As of May 2020, the workgroup had received initial feedback from the IRS and the Federal Deposit Insurance Corporation on the processes they utilize to verify applicant information. Outreach efforts are still ongoing.

Once the workgroup completes their review and provides recommendations, FEMA's Recovery Directoriate leadership will determine which options and actions recommended by the workgroup are feasible, and will establish a schedule for implementation, as appropriate. Implementing the proposed processes will likely take several years, especially if the solution requires information technology (IT) system updates for either agency.

We request the OIG consider this recommendation resolved and closed.

Recommendation 2: Due to the questioned costs in recommendation one, implement a verification process to ensure accuracy of income and dependent information provided by SBA Dependent ONA applicants.

Response: Non-concur. FEMA Recovery does not believe it is necessary to collect and then subsequently verify income and dependent documentation as the information provided to us from disaster survivors is done so under penalty of perjury. It is also again worth noting that an applicant's eligibility is determined by the applicant's ability to repay a loan and income is only one factor in making that evaluation.

As referenced in the response to Recommendation #1, FEMA and the SBA have initiated a workgroup to strengthen the process for determining an applicant's likelihood to qualify for an SBA loan. Implementing any proposed process changes will likely take several years, especially if the solution requires IT system updates for either agency.

We request the OIG consider this recommendation resolved and closed.

Recommendation 3: Include SBA dependent ONA as susceptible to significant improper payments subject to annual improper payments estimation and reporting.

Response: Non-concur. FEMA OCFO believes that current risk assessments and other testing of IHP already meet the intent of this recommendation and requiring additional reporting would place an undue burden on the program without substantial evidence of improper payments. For example, IHP undergoes a risk assessment through FEMA's Office of the Chief Financial Officer (OCFO) every three years. Furthermore, a significant change in the program or increase (20 percent or more) in disbursements in any given year triggers an additional DHS OCFO Risk Management & Assurance Division-driven risk assessment.

IHP also continues to undergo Improper Payments Elimination and Recovery Act of 2010 (IPERA) testing for hurricanes Harvey, Irma, and Maria related disbursements for Fiscal Years 2018 and 2019. These funds will continue to be tested until such time as the amounts disbursed are less than $10 million dollars. IHP has been tested under IPERA and was found to have sound internal controls in place and, in part because of this FEMA received a test waiver which is continuous until FEMA OCFO considers the program high risk.

We request the OIG consider this recommendation resolved and closed.

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Appendix B
Results of TIGTA's Data Match

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20005

INSPECTOR GENERAL
FOR TAX
ADMINISTRATION

April 15, 2019

MEMORANDUM FOR ACTING ASSISTANT INSPECTOR GENERAL FOR AUDITS, DEPARTMENT OF HOMELAND SECURITY

FROM: Russell P. Martin
Assistant Inspector General for Audit (Returns Processing and Account Services)

SUBJECT: Closing Memorandum – Results of Data Match

This memorandum presents the results of the data match your office requested. On January 29, 2019, your office requested our assistance in performing a data match of Federal Emergency Management Agency (FEMA) Individuals and Households Program (IHP) disaster assistance records to individual tax records. The purpose of the data match was to determine whether FEMA IHP recipients inaccurately reported their Tax Year 2017 total gross household income and number of dependents.

On December 10, 2018, your office provided us an electronic file with records associated with 309,664 applications (DHS-OIG File). The file included each applicant's full name, Social Security Number, number of dependents, and total gross household income. Our match of the Social Security Numbers associated with the 309,664 applications identified:

- 71,090 (23 percent) of the 309,664 applications filed a Tax Year 2017 tax return[1]. We identified these applications by matching the Social Security Number listed in the DHS-OIG File to the Social Security Numbers listed on Tax Year 2017 returns processed by the Internal Revenue Service in Calendar Year 2018. For the 71,090 applications, we identified:
  - 68,785 (97 percent) had a discrepancy (within a 5 percent threshold) between the total gross household income reported on the return and the total gross household income listed in the DHS-OIG File.
  - 42,744 (60 percent) had a discrepancy between the number of dependents reported on the return and the number of dependents reported in the DHS-OIG File.
  - 41,370 (58 percent) had a discrepancy (within a 5 percent threshold) between the total gross household income reported on the return and the total gross household income listed in the DHS-OIG File. There was also a discrepancy in the number of dependents reported on the return and the number of dependents reported in the DHS-OIG File.

If you have questions or need additional information, you may contact me at (978) 809-0296 (e-mail: Russell.Martin@tigta.treas.gov) or Allen Gray, Director, Customer Service, at (214) 548-9723 (e-mail: William.Gray@tigta.treas.gov).

[1] Internal Revenue Code Section 6103 generally prohibits the disclosure of tax return information to parties outside of the IRS

Appendix C
Report Distribution

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