



Department of Homeland Security Office of Inspector General

Assessment of FEMA's Fraud Prevention Efforts





Homeland Security

May 19, 2011

Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report addresses the strengths and weaknesses of the Federal Emergency Management Agency's efforts to prevent fraud. It is based on interviews with employees and officials of relevant agency units, direct observations, and a review of applicable documents.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink that reads "Charles K. Edwards".

Charles K. Edwards
Acting Inspector General

Table of Contents/Abbreviations

Executive Summary	1
Background.....	2
Results of Review	5
Identifying and Reporting Potential Fraud	5
Recommendations.....	9
Management Comments and OIG Analysis	9
Fraud Prevention Awareness	11
Recommendations.....	19
Management Comments and OIG Analysis	19
Developing and Maintaining Internal Controls	20
Recommendations.....	24
Management Comments and OIG Analysis	24
Improper Payment Recoupment Process	25
Recommendation	30
Management Comments and OIG Analysis	31

Appendixes

Appendix A: Purpose, Scope, and Methodology.....	32
Appendix B: Management Comments to the Draft Report.....	33
Appendix C: Fraud Prevention and Investigation Branch Case Flowchart.....	38
Appendix D: January 2011 Administrator Fraud Prevention Memorandum	39
Appendix E: Major Contributors to this Report.....	40
Appendix F: Report Distribution	41

Abbreviations

CFO	Chief Financial Officer
CORE	Cadre of On-Call Reserve Employees
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FLTRO	Florida Long-Term Recovery Office
FPIB	Fraud Prevention and Investigation Branch
FTE	full-time equivalent
FY	fiscal year
GAO	Government Accountability Office
IHP	Individuals and Households Program
INV	Office of Investigations of DHS OIG

IPIA	<i>Improper Payments Information Act</i>
IT	information technology
NEMIS	National Emergency Management Information System
NPSC	National Processing Service Center
OCSO	Office of the Chief Security Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
P.L.	Public Law
RAT Board	Recovery Accountability and Transparency Board
<i>Recovery Act</i>	<i>American Recovery and Reinvestment Act</i>
<i>Stafford Act</i>	<i>Robert T. Stafford Disaster Relief and Emergency Assistance Act</i>
TXNPSC	Texas National Processing Service Center

OIG

*Department of Homeland Security
Office of Inspector General*

Executive Summary

This report provides our assessment of the Federal Emergency Management Agency's fraud prevention efforts. Through its Individuals and Households Program, FEMA quickly disburses billions of dollars to disaster survivors. The program's susceptibility to fraud, waste, and abuse requires increased vigilance in order for the agency to be a better steward of taxpayer money.

The Federal Emergency Management Agency's Fraud Prevention and Investigation Branch assists in identifying and reporting potential fraud in agency programs. However, more can be accomplished with an agency-wide mandate, a reallocation of resources and staff, and access to the latest fraud prevention tools.

The agency strives to provide assistance to disaster survivors quickly, but also needs to ensure that assistance is provided only to eligible recipients and for the proper amount. Agency leaders must take visible, substantive, and continual steps to demonstrate the importance of fiscal responsibility and program integrity. Increasing the visibility of the Fraud Branch and mandating fraud prevention training for all employees will help the agency increase attention to fraud prevention and deterrence.

The agency has improved its internal controls since hurricanes Katrina and Rita. However, the Office of Inspector General and Government Accountability Office reviews, as well as agency assessments, continue to identify needed improvements in internal controls in assistance programs. Implementation of these controls will deter fraud and reduce the risk of issuing improper payments.

Approximately \$643 million in potential improper Individuals and Households Program payments have been identified since Hurricane Katrina. Recently, the agency restarted a recoupment process that had been halted since 2007. The recoupment process should continue until all cases are resolved.

This report contains eight recommendations that, when implemented, will improve fraud prevention efforts.

Background

In responding to natural or manmade emergencies, current policy provides that the government agencies and organizations most local to the situation act as first responders. When state and local governments become overwhelmed by the size or scope of a disaster, state officials may request assistance from the federal government, so federal agencies must always be prepared to provide support when needed. In 1979, President Carter issued an Executive Order that created the Federal Emergency Management Agency (FEMA) and merged many of the federal government's separate disaster-related functions. Following the terrorist attacks of September 11, 2001, the *Homeland Security Act of 2002* (Public Law [P.L.] 107-296) realigned FEMA and made it part of the newly formed Department of Homeland Security (DHS).

FEMA's statutory authority to provide disaster assistance comes from the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended (P.L. 100-707) (Stafford Act), which was signed into law in 1988 and amended the *Disaster Relief Act of 1974* (P.L. 93-288). To access federal assistance under the Stafford Act, generally, states must make an emergency or major disaster declaration request that FEMA reviews for presidential approval. Section 408 of the Stafford Act permits the President to provide financial assistance and, if necessary, direct services, to individuals and households in the state who, as the direct result of a major disaster, are unable to meet necessary expenses and serious needs through other means.¹ Figure 1 shows the devastation brought on by the North Dakota flooding in 2009.

Figure 1. North Dakota Flooding, 2009



Source: FEMA Photo Library; photographer, Patsy Lynch.

¹ Section 408, Federal Assistance to Individuals and Households (42 U.S.C. 5174).

Immediately after the President declares a disaster, affected individuals may apply for assistance from the Individuals and Households Program (IHP) in person, by calling a toll-free telephone number, or through the Internet. Registrants provide FEMA with a variety of information, including name, Social Security number, address and telephone number of the damaged property, current address and telephone number, insurance information, and a description of losses incurred. IHP assistance may include temporary housing (rent and lodging expenses) and home repair or replacement.

FEMA administers IHP disaster assistance through the National Emergency Management Information System (NEMIS), and uses a contractor to validate identity, occupancy, ownership, and other information provided by registrants during the registration process. The contractor validates this information by comparing the registrant's name with the Social Security number, address, and other information provided. In addition, FEMA uses edit checks in NEMIS to identify duplicate registrations and to prevent duplicate payments to registrants who have provided invalid or fraudulent information when registering for assistance.

As part of the registration process, a FEMA contractor performs a physical inspection of the residence. The inspector:

- Meets with a registrant and reviews documentation to validate the registrant's identity, occupancy of the damaged address, and if applicable, the registrant's ownership of the damaged address;
- Inspects the address to determine what physical damage was sustained during the disaster;
- Records the validation of a registrant's documentation and the damage caused by the disaster on a FEMA-provided computer; and
- Uploads this information to NEMIS.

Once these tasks are completed, FEMA determines the type and amount of assistance for which the registrant is eligible.

In 2004, Florida was hit by four hurricanes, and FEMA disbursed nearly \$209 million in IHP assistance. Concerned with an increase in fraudulent claims for assistance, a DHS Office of Inspector General (OIG) proposal resulted in the establishment by the director of the Florida Long-Term Recovery Office (FLTRO)

of a fraud prevention unit.² (A recent FEMA reorganization placed the unit under the Fraud and Internal Investigation Division in the Office of the Chief Security Officer (OCSO) in FEMA headquarters and renamed the unit the Fraud Prevention and Investigation Branch (FPIB).) FPIB’s mission includes identifying, mitigating, and preventing fraudulent losses of federal funds and assets through agency fraud awareness training and recoupment of losses in partnership with the DHS OIG. (It is important to note that although FPIB has “Investigations” in its name, it does not conduct criminal investigations.)

One of FPIB’s responsibilities is to identify best practices to prevent and deter fraud, waste, and abuse in FEMA’s delivery of disaster assistance. Agencies such as FEMA seek ways to better achieve their missions and program results; a key factor in achieving such outcomes is implementing appropriate internal controls. Figure 2 illustrates the objectives of internal control.

Figure 2. Internal Control Objectives

Internal Control

An integral component of an organization’s management that provides reasonable assurance that the following objectives are achieved:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

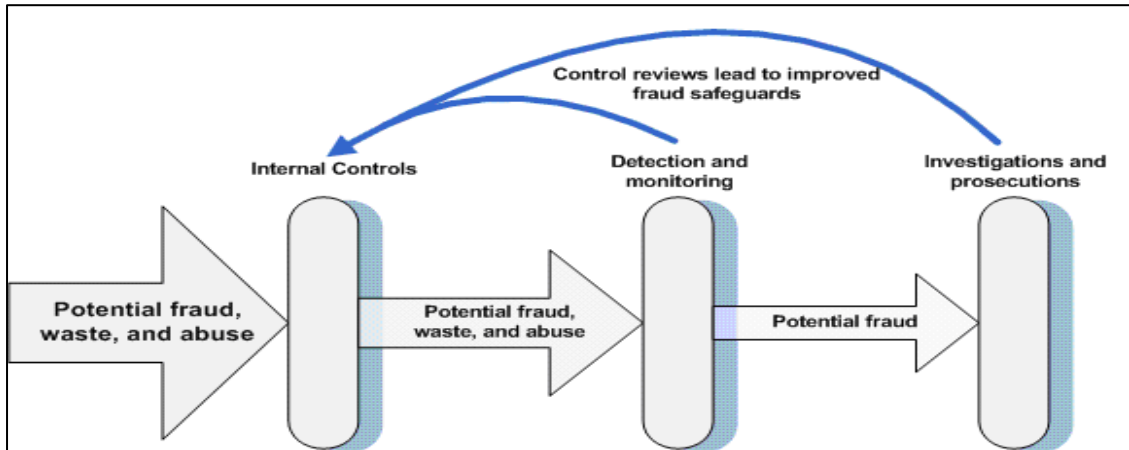
Source: Government Accountability Office (GAO).

Internal controls are the plans, methods, and procedures that an agency uses to meet missions, goals, and objectives that support performance-based management and serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.³ Figure 3 illustrates the important role of internal controls in fraud prevention.

² Instruction Number 1251, *Operations of the Florida Long-Term Recovery Office Fraud Prevention and Investigation Unit*, Florida Long-Term Recovery Office, November 16, 2007.

³ *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1), November 1999.

Figure 3. Using Internal Controls to Prevent Fraud



Source: GAO.

Results of Review

FEMA has identified and reported potential fraud to OIG, but more can be done with additional staffing and analytical tools, and by providing FPIB with agency-wide authority to change program processes and procedures. FEMA has made progress in preventing fraudulent losses of federal funds, but challenges remain in developing, establishing, and enhancing proper internal controls and recouping improper disaster assistance payments.

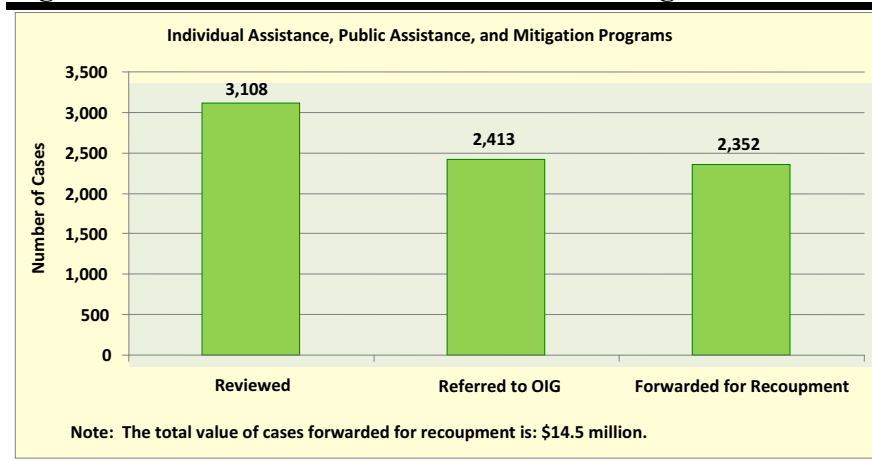
Identifying and Reporting Potential Fraud

FPIB was created to assist in identifying and reviewing potentially fraudulent and otherwise improper disaster assistance payments. Although FPIB has identified and reported potential fraud to OIG, its impact has been limited because of the branch's insufficient authority and resources.

Potential Fraud Identified and Reported to OIG

FPIB has identified and reported to OIG potential fraud in FEMA's individual assistance programs, including IHP (see Figure 4). It has also reported cases of potential fraud in FEMA's Public Assistance and Mitigation programs.

Figure 4. FPIB Activities From FY 2007 Through FY 2010



Source: OIG analysis of FEMA data.

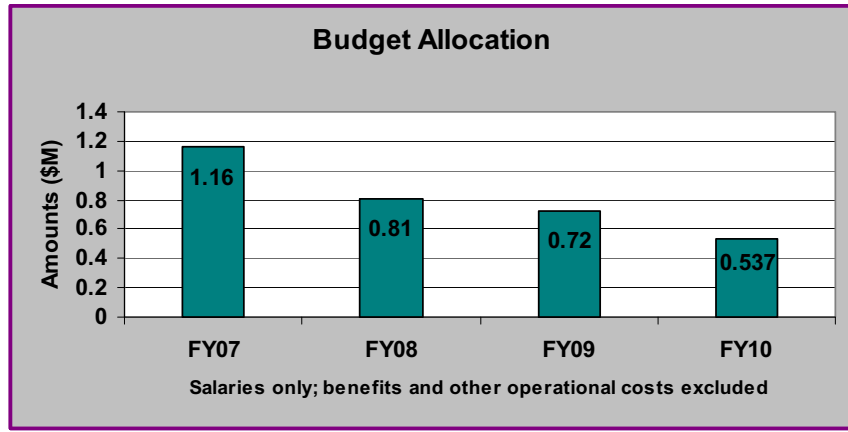
FPIB conducts data analysis to examine information contained in disaster assistance applications to identify and prevent losses of federal disaster funds. FPIB reports evidence of fraudulent FEMA assistance claims to DHS OIG for investigation. Based on lessons learned from its review of disaster assistance applications and data analysis, FPIB has made suggestions to lessen fraud, waste, and abuse. Appendix C depicts FPIB’s case flowchart.

FPIB assesses and validates allegations and claims referred from the Office of Investigations of DHS OIG (INV), developed in-house, or received from external parties. From January 2010 to February 2011, INV referred 292 FEMA fraud complaints to FPIB, 141 (48%) of which contained evidence of fraud, which INV opened for investigation.

FPIB Resources and Authority

FPIB’s impact on fraud prevention activities in FEMA is limited by inadequate resources and insufficient authority over program staff and processes. In FY 2010, FPIB’s budget for salaries totaled \$537,000. Figure 5 reflects FPIB’s declining budget.

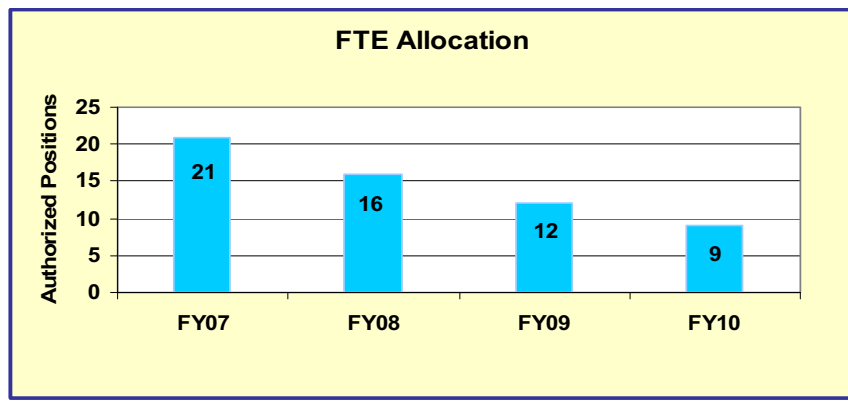
Figure 5. Fraud Prevention and Investigation Branch Budgets



Source: FEMA.

In FY 2010, FPIB was authorized nine full-time equivalents (FTEs), but only six are on board.⁴ Figure 6 shows how the staffing level has declined over the past 3 years. This is an additional indication of FEMA’s need to improve its commitment to fraud prevention and awareness efforts.

Figure 6. Fraud Prevention and Investigation Branch FTEs



Source: FEMA.

With greater resources, FPIB will be able to review more of the hundreds of thousands of applications for assistance that FEMA services annually in its Individual Assistance, Public Assistance, and Mitigation programs, including the National Flood Insurance Program.

⁴ The current FPIB employees are FTE Cadre of On-Call Reserve Employees (CORE). CORE positions are temporary, excepted service appointments with specific “Not to Exceed” dates. The appointments are 2- and 4-year terms and are typically renewed if there is ongoing disaster work and funding is available.

As important as the need for additional resources is the need to establish FPIB as a FEMA-wide organization with authority to require changes in program processes and procedures across FEMA. Instruction Number 1251 established FPIB to focus its attention on activities in Florida. FPIB review activities are limited to—

- Complaints and reports of reviews referred to FLTRO from the OIG;
- Complaints of fraud, waste, and abuse sent directly to FLTRO; and
- Fraud, waste, and abuse uncovered by FPIB and FLTRO employees during FLTRO operations.

A FEMA management directive should be issued establishing FPIB as a FEMA-wide entity with authority to review all FEMA-funded programs nationwide and recommend improvements to internal controls to deter and prevent fraud, waste, and abuse. FPIB's scarce resources also limit its ability to obtain and use the latest fraud prevention tools and sources to identify and report potential fraud.

The Recovery Accountability and Transparency Board

The Recovery Accountability and Transparency Board (RAT Board) was established in 2009 to ensure transparency in the expenditure of *American Recovery and Reinvestment Act of 2009* (Recovery Act)⁵ funds. To minimize fraud, waste, and abuse in Recovery Act activities, the board established the Recovery Operations Center, which uses numerous data sources and cutting-edge technology to ensure proper accountability and transparency in the expenditure of government funds. Contracts with third parties provide the center with access to millions of public records that are updated daily, as well as law enforcement databases.

In June 2010, Vice President Biden announced the RAT Board's expansion of a cutting-edge fraud-mapping tool that gathers large quantities of information in real time, analyzes the data, and helps "connect the dots" to identify indicators of possible fraud or error. FPIB should adopt the precedent-setting measures used by the RAT Board, such as the fraud-mapping tool, to foster accountability and transparency of FEMA programs and improve internal controls.

⁵ P.L. 111-5.

In November 2010, FEMA’s Disaster Operations & IT Section posted a Request for Information as part of market research for a “systematic solution to strengthen controls for prevention of improper payments as a result of fraud, waste, and abuse in government financial and other forms of assistance programs.” We hope that FEMA is able to acquire this type of advanced technological tool to assist the assistance programs and FPIB.

Conclusion

The Fraud Prevention and Investigation Branch has identified and reported to OIG potential fraud in FEMA’s Individual Assistance, Public Assistance, and Mitigation programs. However, its activities have been hampered by insufficient resources, limited authority over FEMA program offices and staff, and the unavailability of the latest technology to detect and deter fraud.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency:

Recommendation #1: Reallocate resources to increase the staff and budget of the Fraud Prevention and Investigation Branch.

Recommendation #2: Issue a Federal Emergency Management Agency Directive that establishes the Fraud Prevention and Investigation Branch as the agency-wide office with the authority to: (1) review all claims of potential fraud, waste, and abuse for fact-finding and referral to appropriate entities for action; (2) proactively review disaster assistance payments; and (3) recommend improvements to internal controls.

Recommendation #3: Adopt cutting-edge technology similar to that used by the Recovery Accountability and Transparency Board.

Management Comments and OIG Analysis

FEMA provided written comments. Below is a summary of the agency’s responses to our recommendations and our analysis of those responses. After a review of FEMA’s response, we agreed to withdraw what was labeled Recommendation #7 in our draft

report, which dealt with FEMA's information technology systems. We note in the conclusion of our recently released report, *Federal Emergency Management Agency Faces Challenges in Modernizing Information Technology* (OIG-11-69), that the agency's existing information technology (IT) systems do not support disaster assistance response activities effectively. A copy of the agency's response to the draft recommendations is included in Appendix B.

FEMA concurs with Recommendation #1 and states that, as a result of a review of FPIB staffing levels, it plans to increase the CORE staffing levels by 50% in FY 2011 and another 50% in FY 2012. We consider this recommendation resolved and open. At the close of FYs 2011 and 2012, we will verify the FPIB staffing levels.

FEMA concurs with Recommendation #2, but we are concerned with the specifics of its concurrence. FEMA states that the Office of the Chief Security Office will draft an agency-wide directive on FPIB and its *responsibilities*. However, we would like assurance that this directive will be signed by the Administrator and provide FPIB with the *authority* to: (1) review all claims of potential fraud, waste, and abuse; and (2) require changes in program processes and procedures across FEMA. The directive should reference the FPIB/INV collaboration, which can then be formalized in a cooperative agreement between the parties. We consider this recommendation unresolved and open until the necessary directive is issued.

We also take this opportunity to respond to a portion of the second paragraph of FEMA's comment letter (Appendix B). FEMA implies that the objectivity of this report is in question because FPIB has a "close, direct working relationship" with OIG. The opinions, conclusions, judgments, and recommendations in this report are impartial and solely based on the information gathered during this review. The audit organization and individual auditors were independent. They exercised professional judgment in the performance of their work and preparation of this report, as required by government auditing standards.

FEMA concurs with Recommendation #3, but says that it needs to do a more detailed review of the RAT Board technology before a final position on the recommendation can be reached. FEMA states that it has already deployed a new IT system for FPIB that is designed to, among other things: (1) integrate with the agency

IT systems, and using internal and external data, conduct data mining; (2) provide a risk-mapping tool to identify risk; and (3) serve as a case management system for collecting and tracking investigative activities and analysis involving disaster fraud.

We are not recommending that FEMA adopt the exact technology used by the RAT Board, but rather that FEMA adopt technology that uses the latest tools for detecting and deterring fraud. We are unclear as to what new IT system FEMA refers. FEMA has a pilot program using VANTOS, which was described to us as a case management system. Although VANTOS has some data-gathering capability, it appears to emphasize record-keeping and reporting.

Additionally, FEMA issued a Request for Information in late 2010 as part of market research for a systematic solution to strengthen internal controls for prevention of improper payments as a result of fraud, waste, and abuse. This market research appears to be the first step in acquiring technology capable of conducting data mining, risk mapping, and other fraud prevention activities. We consider this recommendation unresolved and open.

Fraud Prevention Awareness

FEMA's disaster assistance programs are susceptible to fraud, waste, and abuse. The agency culture promotes prompt assistance to disaster survivors, without an equal emphasis on financial responsibility. To emphasize the importance of fraud prevention in FEMA's mission, the Fraud Branch should report directly to the Office of the Administrator, and all employees should receive annual fraud prevention training.

FEMA's Programs Susceptible to Fraud, Waste, and Abuse

Despite a history of abuse in its disaster assistance programs, FEMA has not established an environment in which employees understand fraud prevention to be an integral part of the agency's mission.

The *Federal Managers' Financial Integrity Act of 1982* requires that each executive agency establish internal accounting and administrative controls that safeguard funds against waste, loss, unauthorized use, or misappropriation.⁶ Office of Management and Budget (OMB) Circular A-123 states, "Management has a

⁶ P.L. 97-255 (codified as amended at 31 U.S.C. §3512).

fundamental responsibility to develop and maintain effective internal control. The proper stewardship of Federal resources is an essential responsibility of agency managers and staff.... Programs must operate and resources must be used consistent with agency missions, in compliance with laws and regulations, and with minimal potential for waste, fraud, and mismanagement.”⁷

Despite these requirements, FEMA’s programs remain susceptible to waste, fraud, and abuse. The GAO testified in June 2006 that as of February 2006, about 16% of FEMA payments to applicants for individual assistance following hurricanes Katrina and Rita were improper and potentially fraudulent.⁸ DHS’ in-house analysis reported an estimated improper payment rate of 8.56% through March 1, 2006, and could not explain the discrepancy between its and GAO’s assessments.⁹ In December 2006, GAO testified that “FEMA continued to lose tens of millions of dollars through potentially improper and/or fraudulent payments” and that “FEMA’s difficulties in identifying and collecting improper payments further emphasized the importance of implementing an effective fraud, waste, and abuse prevention system.”¹⁰ DHS and FEMA stated in the DHS Annual Financial Report for FY 2008 that the IHP was known to be at “high risk” for improper payments.

Improper payments did not begin with catastrophic storms that struck the Gulf Coast in 2005. The U.S. Senate Committee on Homeland Security and Governmental Affairs (Senate Committee) uncovered payments for fraudulent claims, wasteful spending, and ineffective management and internal controls following the four hurricanes that struck Florida in 2004.¹¹

FEMA staff said that individual assistance is a complicated program, made more difficult by pressures imposed by politics and senior officials. Business rules are set for each disaster, and fraud is minimized when these rules and normal procedures are followed. However, staff told us that after disasters strike, they often receive instructions from senior management to change the

⁷ OMB Circular A-123, *Management’s Responsibility for Internal Controls*, I. Introduction.

⁸ *Hurricanes Katrina and Rita Disaster Relief: Improper and Potentially Fraudulent Individual Assistance Payments Estimated to Be Between \$600 Million and \$1.4 Billion* (GAO-06-844T), June 2006.

⁹ DHS Performance and Accountability Report, FY 2006.

¹⁰ *Hurricanes Katrina and Rita Disaster Relief: Continued Findings of Fraud, Waste, and Abuse* (GAO-07-252T), December 2006.

¹¹ *Hurricane Katrina: A Nation Still Unprepared*, Special Report of the Committee on Homeland Security and Governmental Affairs, United States Senate, S. Rept. 109-322, 2006.

agreed-upon rules for the event or establish new procedures, resulting in employee mistakes and an increased risk of fraud.

Improper payments result from fraud, human error (e.g., data entry errors by FEMA employees), mistake (e.g., recipient is ineligible because of insurance, or the damaged home is not the recipient's primary residence), and inadequate internal controls (e.g., recipient's ownership of home is not verified).

Agency Culture Promotes Assistance

We interviewed more than 20 mid-level and senior managers at FEMA. They uniformly described the "FEMA culture" as one in which the mission was to get assistance to people as quickly as possible. Staffers told us:

- "The focus is to get money out to people who need it;"
- "The culture is to tout how many dollars have been given out;"
- "The FEMA attitude is to simply pay the people;"
- "The FEMA philosophy is to accept and encourage all applicants;" and
- "FEMA begs people to call and apply, even if they are not sure they are eligible."

Employees involved in the individual assistance programs have not been instructed to be alert to fraud. One employee who assisted applicants for assistance sometimes made telephone calls to verify suspicious information provided by applicants. Her supervisor told her to stop looking for fraud. Other interviewees confirmed that it was not the caseworker's job to look for fraud when reviewing information provided by applicants.

Some senior officials assert that FEMA cannot quickly assist disasters survivors *and* be fiscally responsible. The Senate Committee quotes Michael Brown, then the Director of FEMA, saying in 2005, "Among the many challenges we face when responding to disasters, the most difficult often involves balancing the tradeoff between ensuring a timely and effective response to those in need, and the responsibility to protect the fiscal responsibility of the program. It is a classic competing tension between the provision of immediate disaster assistance

and administrative perfection. As you move closer to one, you move farther away from the other.”¹²

When we were engaged in fieldwork on another report in early 2010, a senior Individual Assistance official told us that there were three ways to do things—“quick, right, and cheap”—and that FEMA could do only two at a time.

In its report, the Senate Committee rejected the position that the government cannot both protect taxpayers and respond effectively to the urgent needs of disaster victims. We agree with the Senate Committee’s assessment.

Fraud Prevention Must Become Part of FEMA’s Mission

FEMA’s leaders must take visible, substantive, continual steps to demonstrate the importance of fiscal responsibility and program integrity. “Instilling a strong ethical culture and setting the correct tone at the top are essential elements in preventing fraud.”¹³

FEMA’s Chief Financial Officer (CFO) told us that “the test for success shouldn’t be ‘get the money out the door.’” He stated that the Administrator does not believe that mission focus and financial accountability are mutually exclusive, and asserted that senior leadership understand the importance of financial accountability. The challenge will be to communicate this message throughout FEMA, which will require a sustained, long-term effort.

According to one official, a July 2009 memo from the FEMA Administrator to senior management emphasizing the need to improve internal controls had no tangible effect on disaster assistance programs, but did lead to placing FPIB under the Office of the Chief Security Officer.

Senior officials advised us that another memorandum was being prepared for the Administrator’s signature that would stress the importance of FEMA-wide antifraud efforts. This memo was

¹² Written statement of Michael Brown, then-Director, FEMA, for the U.S. Senate, Committee on Homeland Security and Government Affairs, hearing on *FEMA’s Response to the 2004 Florida Hurricanes: A Disaster for Taxpayers?*, May 18, 2005, pp. 5–6. (The title of the head of FEMA was changed from “Director” to “Administrator” in the *Post-Katrina Emergency Management Reform Act of 2006*, 6 U.S.C. §701.)

¹³ Institute of Internal Auditors, *International Professional Practices Framework*.

presented to us as an important piece of an effort to increase fraud prevention throughout the agency. However, the brief memo, issued on January 7, 2011, fails to mention FPIB, FEMA's history of improper payments, or the susceptibility of FEMA's programs to fraud. The memorandum is attached as Appendix D.

FEMA fraud prevention activities to date include:

- A briefing for the Administrator on fraud prevention plans;
- A briefing by the Administrator to regional directors about FPIB;
- The reorganization of the Office of the Chief Security Officer, which now includes a Fraud & Internal Investigation Division; and
- Weekly Administrator briefings by the Chief Security Officer, which include discussions of fraud issues.

FY 2011 FEMA fraud prevention plans include:

- Meeting with division directors about the importance of combating fraud in their programs;
- Meeting with National Processing Service Center (NPSC) leaders on increasing fraud prevention and deterrence activities;
- Increasing the visibility of fraud prevention efforts; and
- Carrying out an initiative to evaluate each FEMA program to enhance antifraud measures.

Alignment of the Fraud Branch

FPIB now reports to the OSCO; however, the Chief Security Officer does not report directly to the Administrator. Figure 7 depicts the current FEMA organizational chart and FPIB's placement within the agency. Other federal agencies that provide direct benefits to individuals have established offices with the task of preventing fraud in their agency's programs that report directly to the program administrator. FEMA should follow their example.

For example, the Department of Health and Human Services has established a Center for Program Integrity that reports directly to the office of the Administrator of the Centers for Medicare and Medicaid Services, and whose head is a deputy administrator and director. The Center for Program Integrity is the focal point for all Medicare and Medicaid program integrity, fraud and abuse issues, and performs the following functions:

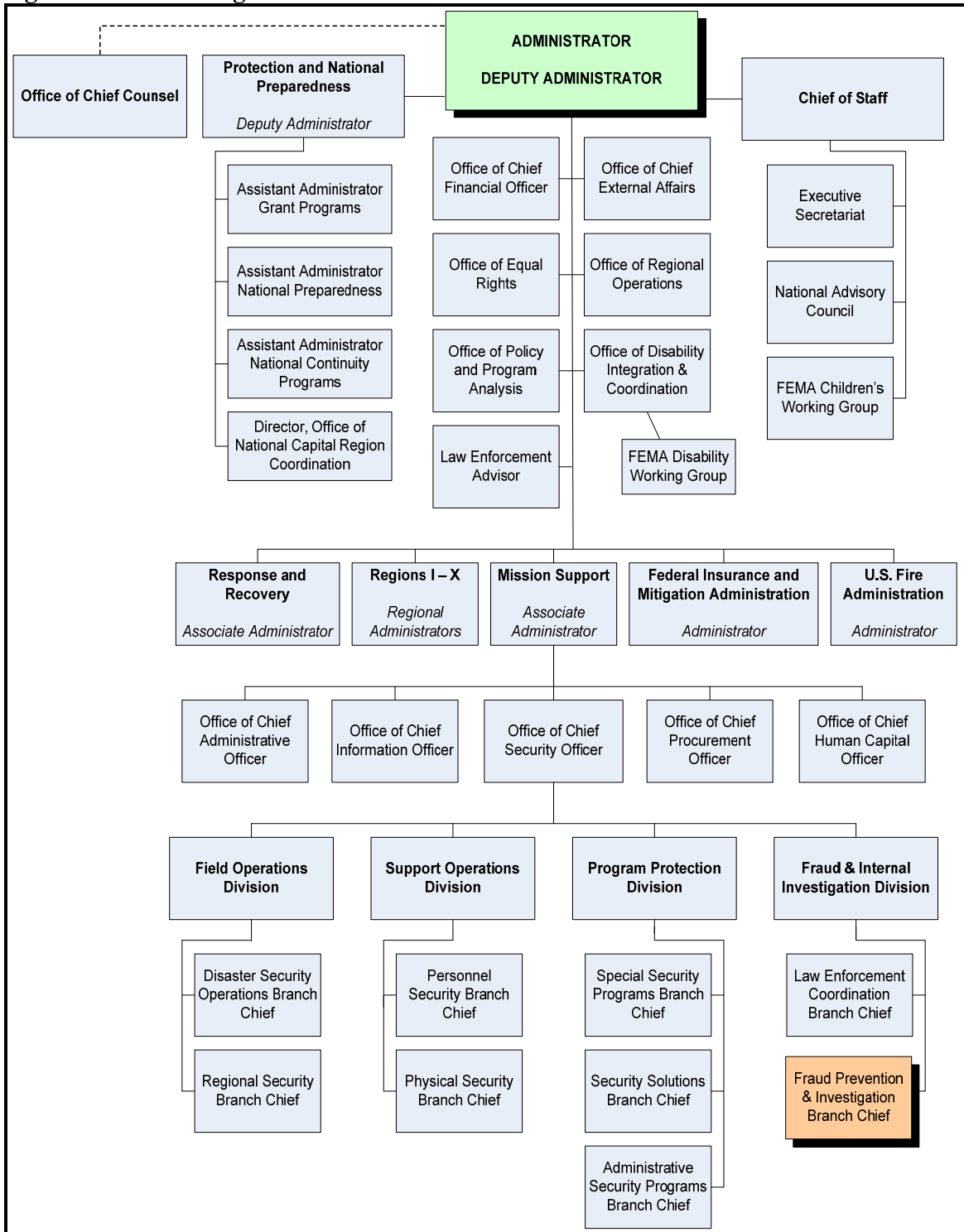
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- Identifies and monitors program vulnerabilities;
 - Recommends modifications to programs and works with program officials to affect changes;
 - Collaborates with the legislative office on the development and advancement of initiatives and improvements to deter, reduce, and eliminate waste, fraud, and abuse;
 - Oversees all interactions and collaboration with key stakeholders relating to program integrity for the purposes of detecting, deterring, monitoring, and combating fraud and abuse; and
 - In collaboration with others in the Department of Health and Human Services, develops and implements a strategic plan to carry out the program integrity mission and ensure that program vulnerabilities are identified and resolved.

At the Department of Labor, an Internal Control Office, which reports directly to the Deputy CFO, performs annual assessments of internal controls for financial systems, and reports on improper payments. At the Small Business Administration, the Offices of Internal Control and Performance Management report to the CFO.

The Social Security Administration Office of Quality Performance reports to the Office of the Administrator, and the Office of Quality Review within the Office of Quality Performance evaluates the quality of Social Security Administration operations with emphasis on preventing program and systems abuse, eliminating waste, and increasing efficiency.

FEMA officials have been resistant to program changes because changes may interfere with their ability to promptly provide assistance to disaster survivors. Though we acknowledge their concerns, FEMA must do more to deter and prevent fraud and reduce the risk of improper payments. Realigning FPIB to report directly to the Office of the Administrator will demonstrate a renewed commitment to fraud prevention agency-wide.

Figure 7. FEMA Organizational Chart



Source: OIG analysis of FEMA data.

Fraud Prevention Training Program Needed

The *Post-Katrina Emergency Management Reform Act of 2006* states, “The Administrator shall develop and implement a program to provide training on the prevention of fraud, waste, and abuse of Federal disaster relief assistance relating to the response to or recovery from natural disasters and acts of terrorism or other man-made disasters and ways to identify such potential waste, fraud, and abuse.”¹⁴ Four years have passed, and FEMA has not planned or implemented a program to train employees on the prevention of fraud, waste, and abuse in disaster assistance programs. Only ad hoc training has occurred.

The FPIB branch chief has provided fraud prevention training to some Individual Assistance personnel and External Affairs officials deployed in the field, as well as field office and law enforcement personnel, but this training has generally been limited to the Florida area (where FPIB is located). Additionally, NPSC employees are being taught how to identify fraud. The DHS OIG Office of Investigations is working with NPSC management to identify fake documents, such as leases that contain rental dates after occurrence of the applicable disaster. These lessons are then passed on to employees who work directly with applicants. Supervisors are alerted when an employee has made an improper payment so the employee can be counseled, avoiding a repeat of the mistake. The Office of the Chief Security Officer is considering putting fraud prevention training online, making it available to all FEMA employees.

Conclusion

FEMA needs to better balance mission focus and fiscal responsibility. Agency employees’ duty to provide prompt assistance to disaster survivors should include a duty to pay eligible individuals in the proper amounts. Instilling fraud prevention awareness through an organizational change that elevates the authority of the Fraud Prevention and Investigation Branch and mandating annual fraud prevention training for all employees should result in fewer instances of improper disaster assistance payments.

¹⁴ 6 U.S.C. §797.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency:

Recommendation #4: Realign the Fraud Prevention and Investigation Branch to report directly to the Office of the Administrator.

Recommendation #5: Require annual fraud prevention training for all employees commencing with fiscal year 2011.

Management Comments and OIG Analysis

FEMA does not concur with Recommendation #4. The agency does not believe that realigning FPIB will increase its visibility or operational efficiency. We recommended this realignment because:

- A fraud prevention office reporting directly to the Administrator would symbolize the importance FEMA places on fraud prevention efforts;
- FEMA managers not directly involved with FPIB were unaware of its existence or responsibilities;
- FPIB is located outside any FEMA facility;
- Offices of security in the government generally focus on personnel badging and facility and IT security matters rather than program integrity; and
- Other federal benefit agencies have internal control and program integrity offices reporting directly to agency leaders.

Throughout this report, we have recommended other actions that officials should take in order to make agency-wide fraud prevention efforts more visible, meaningful, and effective. FEMA has concurred with these recommendations. Specifically, FEMA has agreed to: (1) increase the staff and budget of FPIB; (2) train employees annually to identify and prevent fraud; (3) issue a FEMA management directive establishing the authority of FPIB; (4) acquire the latest technological tools to assist FPIB in preventing, detecting, and deterring fraud; and (5) continue to improve internal controls. (Additionally, the Office of the Chief Security Office, to which FPIB reports, is now led by a Senior Executive Service official.) When these actions have begun to be

implemented, we will reassess the need to realign FPIB. Until such reassessment, this recommendation is unresolved and open.

FEMA concurs with Recommendation #5, but provided no timetable for completion. This recommendation is unresolved and open until a fraud awareness training course is created and all FEMA employees are mandated to take such course annually.

Developing and Maintaining Internal Controls

FEMA needs to further develop and maintain proper internal management controls to prevent and detect fraud, waste, and abuse. Prior OIG and GAO reviews have shown that FEMA has made some improvements in internal controls but that challenges remain.

Prior Reviews of FEMA Internal Controls

In June 2009, GAO reported that FEMA had significantly improved its fraud prevention controls regarding disaster assistance. For example, FEMA conducted identity and address verification on all applications and required inspections before approving rental assistance for hurricanes Ike and Gustav. FEMA also had taken steps to flag and cancel duplicate registrations for the same disaster. However, GAO identified flaws in FEMA's controls by submitting fabricated documents to prove identity or address, and as a result, obtained housing assistance. GAO also received duplicate payments for bogus hotel expenses. FEMA failed to properly inspect a false address GAO used to apply for assistance, and as a result, GAO received multiple checks for thousands of dollars in rental assistance. FEMA officials commented that they would establish random checks to assess the validity of supporting documentation submitted by applicants to verify identity and address.¹⁵

In September 2009, we reported that FEMA showed substantial improvements in internal controls, resulting in fewer instances of payments made to registrations with duplicate and invalid key data. However, FEMA was not fully using its validity checks for key registration data, and payments were made to thousands of registrants who failed key checks for identity, occupancy, or

¹⁵ *FEMA Strengthened Its Fraud Prevention Controls, but Customer Service Needs Improvement* (GAO-09-671), June 2009.

ownership. FEMA officials indicated that corrective actions would be initiated to resolve the recommendations.¹⁶

Suggestions to Enhance Internal Controls and Combat Fraud

The FEMA Administrator is required to develop and maintain proper internal management controls to prevent and detect fraud, waste, and abuse in disaster assistance relief programs.¹⁷

Various FEMA groups with responsibility to lessen instances of fraud, waste, and abuse in the IHP have made recommendations to further enhance internal controls. For example, FPIB officials have suggested:

Improper Payment Case Study

Jane Doe applied for assistance after Hurricane Katrina. A FEMA caseworker noticed a link between Doe and other applicants, who listed Doe as the owner or property manager of their rented properties. An FPIB review determined that Doe and 12 cohorts, in applying for assistance after hurricanes in Florida and Louisiana, a tornado in Kansas, and a fire in California, provided nonexistent addresses, falsely claimed to have lived at certain addresses, supported residency at these addresses with fake documents, and directed assistance to go to bank accounts controlled by Doe. These schemes netted more than \$130,000 in assistance.

- Expanding the capability of NEMIS to identify duplicate registrations to include slight variations in disaster addresses;
- Requiring follow-up with applicants who claimed to have insurance to ensure that they reimburse FEMA after their insurance settlement;
- Adding a red fraud warning banner to the top of FEMA’s disaster assistance registration website to alert applicants that committing fraud is a federal offense;
- Having NEMIS send an alert to FPIB when certain fraud indicators are encountered; and
- Including a telephone “hold” fraud warning message when applicants seeking assistance are on hold.

After incidents of employee fraud and applicant fraud were brought to the attention of senior management, FEMA established an internal Fraud Task Force to make recommendations to protect FEMA from similar incidents in the future. Its 2010

¹⁶ *Improvements to Internal Controls for FEMA’s Individuals and Households Program Registration Process* (OIG-09-110), September 2009.

¹⁷ 6 U.S.C. §795(a)(1).

recommendations were forwarded to the Response and Recovery Directorate and include the following:

- In coordination with FPIB, begin development of analytical reports on activity that is suspicious, using NEMIS data;
- Increase fraud briefings for all employees who have access to personally identifiable information; and
- Include fraud awareness scenarios in the existing Internal Control Awareness training module.

The Office of the CFO, in partnership with DHS' Office of Management, conducted an annual assessment on IHP payments in compliance with the *Improper Payments Information Act of 2002* (IPIA).¹⁸ A sample of FY 2009 IHP payments was tested, resulting in an estimate of improper payments of \$22.9 million or an error rate of 2.72%. Identified improper payments included the following:

- Duplication of benefits – a second inspection review resulted in a caseworker paying for the same line item twice;
- Overlapping assistance – applicants received improper payments resulting from payments that fully or partially overlapped with other payment types;
- Ineligible applicant – applicant did not meet all eligibility qualifications;
- Case processing errors – applicants received payments where they did not supply necessary documentation (e.g., receipts) or owing to inaccurate analysis of the case; and
- Calculation errors – applicants received improper payments resulting from incorrect calculations or applications of the fair market value formula.

The FY 2010 IPIA assessment made the following recommendations to address these errors:

- FEMA should work to improve caseworker guidance for types of payments identified as being at a higher risk for improper payments;
- FEMA should perform follow-up internal audits of manually approved home repair assistance; and

¹⁸ P.L. No. 107-300, 116 Stat. 2350 (November 26, 2002), as amended by the *Improper Payments Elimination and Recovery Act of 2010*, P.L. No. 111-204, 124 Stat. 2224 (July 22, 2010).

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- FEMA should develop better tools to ensure accurate processing of awards generated by multiple inspections.

The 2010 assessment also noted that some recommendations from the FY 2009 IPIA assessment were not implemented.

Additionally, our Forensics Division recently performed a limited review of NEMIS eligibility and insurance data from hurricanes Gustav and Ike for evidence of assistance paid to individuals who indicated they had homeowners insurance during the registration process. FEMA approved more than \$23 million in non-flood-related IHP assistance that exceeded the likely insurance deductible to about 6,400 registrants who claimed they had insurance and whose homes suffered damage caused by something other than flooding. As FEMA does not track whether these registrants ultimately received a settlement from their insurance company, it is likely that some or all of them received assistance from FEMA and an insurance settlement for the same damages.

Even if a recommendation to enhance internal controls is approved for implementation, changes to NEMIS typically take up to 2 years; however, a high-priority change can be made in 6 months. Normally, FEMA officials told us it can take 6 months to finalize change requirements; the change request is then put in a queue with other recommendations, subject to funding limits and higher-priority changes. Then, system testing takes an additional 6 months. During this 2-year period, a “workaround” is established to immediately curtail the automatic process that is allowing improper payments.

FEMA Internal Control Board

In a July 2009 memorandum, the FEMA Administrator established the FEMA Internal Control Board, co-chaired by the Deputy Administrator and the CFO, to assess and govern internal controls across FEMA, and to identify and implement improvements on a continuous basis.

In the memorandum, the Administrator expressed dissatisfaction with the state of FEMA’s internal controls. He indicated that he is committed to establishing a necessary level of financial stewardship and program accountability within FEMA. However, the Internal Control Board has not assessed and governed internal controls across FEMA. Instead, in the three meetings held to

date, its focus has been on grants, and the intent is to focus on specific rather than enterprise-wide issues.

Conclusion

Although FEMA has made some improvements to internal controls, more needs to be done. We, as well as GAO and FEMA itself, continue to identify needed improvements in internal controls. Various FEMA groups have suggested ways to combat fraud and enhance internal controls. FEMA needs to strengthen internal controls in its IHP program to ensure that only eligible applicants receive assistance. FEMA is at high risk for issuing improper payments if internal controls are not strengthened and corrective actions are not implemented in a timely manner.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency:

Recommendation #6: Develop, implement, and maintain proper internal management controls to prevent and detect fraud, waste, and abuse in disaster assistance relief programs as required by statute.

Recommendation #7: Require the Internal Control Board to assess and govern internal controls across the Federal Emergency Management Agency, including all Individual Assistance, Public Assistance, and Mitigation Programs, and to identify and implement improvements on a quarterly basis.

Management Comments and OIG Analysis

FEMA concurs with Recommendation #6, but its response does not make clear that it understands that additional internal controls are needed. In its response to Recommendation #7, FEMA cites a GAO report that “FEMA has significantly improved its fraud prevention controls over disaster assistance.” However, that same report notes that fraudsters can bypass FEMA’s controls using fabricated documents, and FEMA has begun recouping improper assistance payments made only months ago in connection with a 2010 flood event in Chicago. Thus, it is clear that more can be done to improve internal controls. FEMA also states that assistance is based on *verifiable documentation* provided by the applicant. But FEMA does not verify the documentation by

calling landlords, checking banking records, reviewing property records, or the like. FEMA also resists adding inexpensive controls such as a fraud prevention banner on the webpage containing its online application for financial assistance and an anti-fraud message applicants applying by telephone would hear. This recommendation is unresolved and open.

FEMA concurs with Recommendation #7, but the response does not clearly state that the Internal Control Board will assess internal controls across the agency or ensure that improvements are implemented quarterly, where possible. This recommendation is unresolved and open.

Improper Payment Recoupment Process

From June 2007 through January 2011, FEMA had not attempted to recoup improper disaster assistance payments, and past and current Administrators have been hesitant to restart the recoupment process. As a result, \$643 million in potentially improper payments disbursed since Hurricane Katrina had gone uncollected for several years.

FEMA Debt Goes Uncollected for Years

Executive agencies are required by law to collect debts of the U.S. government.¹⁹ If a nontax debt owed to the United States is delinquent for a period of 180 days, the head of the agency that administers the program that gave rise to the debt transfers the debt to the Secretary of the Treasury for collection.²⁰

As of October 2006, FEMA reported it had disbursed approximately \$7 billion in IHP disaster assistance payments related to hurricanes Katrina and Rita.²¹ Figure 8 illustrates assistance being provided to applicants as a result of Hurricane Ike.

¹⁹ 31 U.S.C. §3711(a)(1).

²⁰ 31 U.S.C. §3711(g)(1)(A).

²¹ *Hurricanes Katrina and Rita Disaster Relief: Prevention Is the Key to Minimizing Fraud, Waste, and Abuse in Recovery Efforts* (GAO-07-418T), January 2007.

Figure 8. Hurricane Ike Disaster Recovery Center



Source: FEMA Photo Library; photographer, Greg Henshall.

According to FEMA records, more than \$621.6 million of potentially improper IHP disaster assistance payments have been identified in response to hurricanes Katrina and Rita, and an additional \$21.7 million of potentially improper IHP payments have been identified in response to subsequent disasters.

FEMA officials involved in the recoupment process believe the main reasons for the potentially improper payments were (1) overpayment for damages, (2) payments made despite unproven residency or payments made for secondary residences, (3) inadequate identification verification of the recipient, and (4) expedited payments (\$2,000 each) sent to ineligible parties. Prior to 2008, FEMA had a recoupment process to collect improper payments, but it was complex and difficult to apply consistently.

Recoupment Stopped

In 2007, as a result of a lawsuit challenging, among other things, FEMA's process for recouping improper disaster assistance payments made in the aftermath of hurricanes Katrina and Rita,²² a federal district court judge issued an injunction ordering FEMA to discontinue its debt collection activities until certain changes were made in its recoupment process. FEMA was prohibited from terminating or discontinuing Section 408 assistance without—

²² *Ridgely v. FEMA*, 2007 U.S. Dist. LEXIS 43002 (E.D. La. June 13, 2007).

-
- Prior written notice of the reasons for the termination or discontinuance;
 - An opportunity for an appeal hearing;
 - A written decision on the appeal; and
 - Adequate written notice of the basis for any demand for repayment of disaster relief assistance.

This court order, along with regulations established by DHS in 2007, led FEMA to suspend the recoupment process. FEMA suspended the process in a September 2008 *Federal Register* notice, where it announced that it was terminating its recoupment of all Section 408 assistance payments made to Katrina and Rita applicants, and that previous notices sent to applicants were withdrawn.²³ This announcement did not cancel the valid debts; it terminated the procedure under which the debts were recouped. FEMA also announced that it would reexamine the files of every applicant, and where such review determined that recoupment was still warranted, a new recoupment proceeding and a new notice of debt would be initiated. Based on this announcement, the court dissolved the preliminary injunction as it related to recoupment.

New Recoupment Process Drafted

FEMA's Office of Chief Counsel, in cooperation with the Individual Assistance Office and the FEMA Finance Center, developed a new recoupment process which, in the Counsel's opinion, meets the district court's concerns and complies with DHS' debt collection standard. (Figure 9 is a flowchart of the new recoupment process.) The new process had existed in draft form and awaited approval by the Administrator since late 2008.

The Training, Applicant Support, and Communication unit at the Texas National Processing Service Center (TXNPSC) is responsible for carrying out the new recoupment process. As agreed, a *de novo* review of the approximately 167,000 cases began in November 2010. A review strategy is in place; cases in which the debt was already paid in full, the debtor has since died, or applicants returned or never received checks will be dealt with first. If a reviewer agrees with the original decision to recoup and agrees with the recoupment amount, the recoupment process may begin.

²³ FEMA stopped attempting to recoup *all* improper payments that resulted from hurricanes Katrina and Rita and subsequent disasters until the new recoupment process was approved.

New Process Awaits Approval

Discussions about restarting the process were held with a previous Administrator and administration. More recently, presentations regarding the debt were made to the current Administrator and administration.

FEMA officials are concerned about collecting this debt. Memories of FEMA's inadequate response to hurricanes Katrina and Rita will be revived, and people struggling in a sluggish economy will be asked to return money they spent years ago. Suggestions to "forgive" the debts resulting from hurricanes Katrina and Rita, or to establish a threshold below which the debt would be forgiven, were made in the past. However, OMB has advised FEMA that it has no authority to forgive debts.

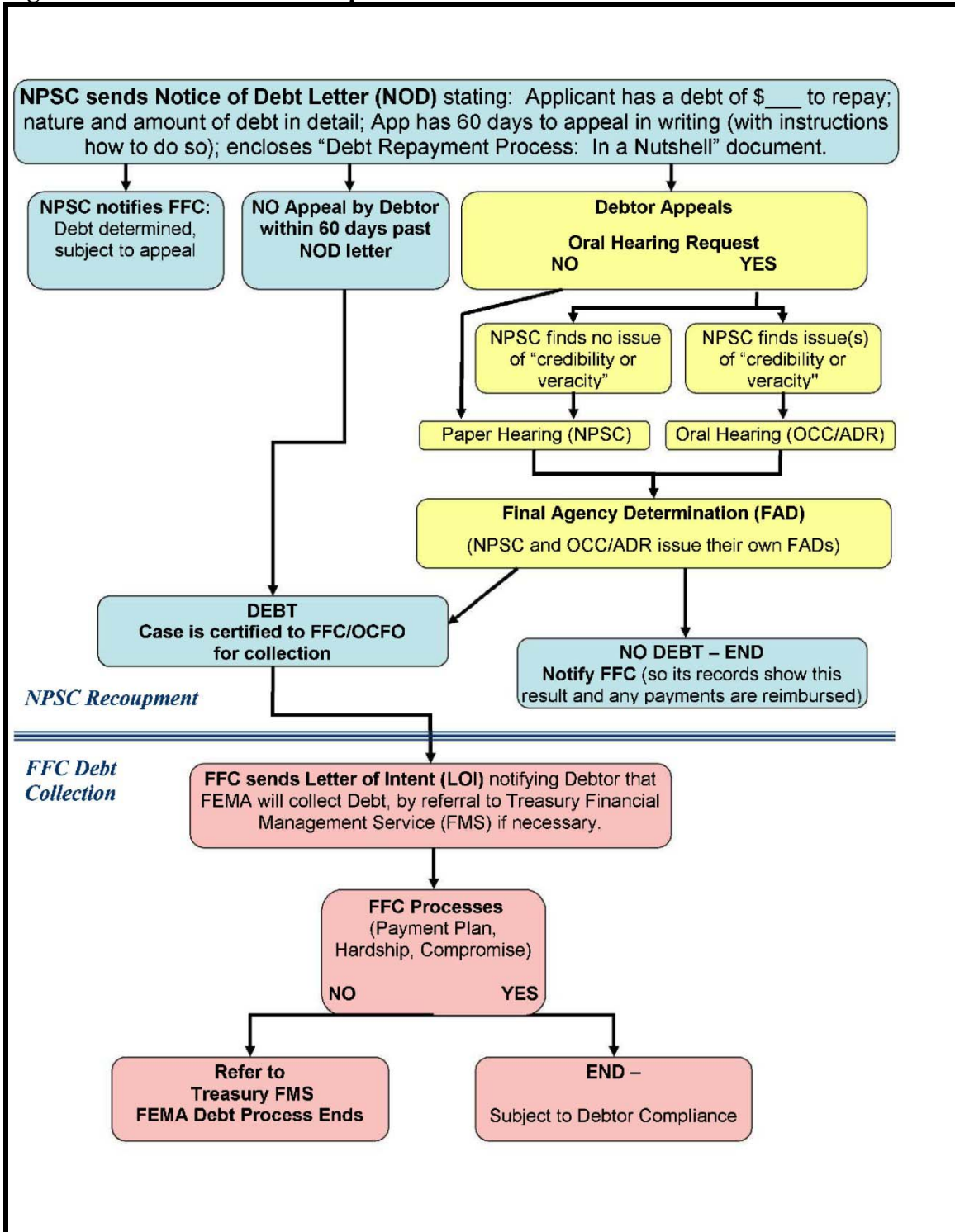
TXNPSC personnel are ready to proceed. Fourteen staffers are assigned to the recoupment process, and when a go-ahead is received, the other available employees of TXNPSC will be asked to assist. FEMA intends to collect the more recent debt first, then pursue debts of \$10,000 and more related to hurricanes Katrina and Rita, and last collect Katrina and Rita debt less than \$10,000.

Challenges will arise once the process begins. Some debtors provided false names, and some addresses will no longer be valid, or debtors may be able to provide documentation to resolve their debts. TXNPSC staff must be alert to fake documents that may be presented to prove eligibility for assistance. The staff is working with OIG's Office of Investigations on this issue and will validate submitted documentation.

The FEMA Finance Center's antiquated IT systems continue to slow productivity. Currently, TXNPSC has 100,000 cases with no payment information because the IT system the FEMA Finance Center uses to track recoupment cases does not integrate with the data system used by TXNPSC.²⁴ Updated IT systems for the FEMA Finance Center have been requested, but necessary funding has not been provided.

²⁴ 6 U.S.C. §795(a)(4) says that, "The Administrator shall ensure that the databases used to collect information from applications for such assistance must be integrated with disbursement and payment records."

Figure 9. FEMA’s New Recoupment Process Flowchart



Source: FEMA. (FFC refers to the FEMA Finance Center.)

OIG Management Advisory Published

After determining the size of the uncollected debt, the delay in attempting to recoup it, and FEMA's legal obligation to collect it, OIG issued a three-page management advisory report directed to the FEMA Administrator, *Recoupment of Improper Disaster Assistance Payments* (OIG-11-21), on December 10, 2010. The report recommended that the FEMA Administrator promptly take action to initiate the recoupment process.

In December, a knowledgeable FEMA official told us the current plan was to restart the process in February 2011; in January 2011, a FEMA spokeswoman, in response to the management advisory report, reportedly told CNN that FEMA did not yet have a date for restarting the recoupment process.

Recent Activity

At a congressional hearing on March 17, 2011, 1 day after a draft of this report was transmitted to FEMA for comment, a FEMA official testified that the agency had published a notice in the *Federal Register* announcing the restart of the agency's recoupment process, and mailings of Notices of Debt had begun, starting with the most recent debt first.

Conclusion

FEMA has a legal obligation to collect debts resulting from improper disaster assistance payments. The Administrator should ensure that the recoupment process continues until all cases are resolved through collection, suspension, termination, or transfer of debt to the Department of the Treasury.

Recommendation

We recommend that the Administrator, Federal Emergency Management Agency:

Recommendation #8: Ensure that the process to recoup \$643 million in potentially improper Individuals and Households Program payments continues until all cases are resolved.

Management Comments and OIG Analysis

In the draft report, Recommendation #8 called on the Administrator to order the recoupment of improper payments that had been on hold for several years. In its response, FEMA concurred with this recommendation and asked that it be closed because the Administrator had ordered the recoupment in the interim. However, we have revised the recommendation in this final report to ensure that FEMA pursues collection of the improper payments. This recommendation is resolved and open. We will seek periodic progress reports on the status of the recoupment process and will close this recommendation when FEMA has made significant progress toward resolving the approximately 167,000 cases.

Appendix A

Purpose, Scope, and Methodology

We performed an inspection of FEMA's Fraud Prevention and Investigation Branch. The objectives of the inspection were to determine the effectiveness of the Fraud Branch by assessing whether this organization has (1) achieved the desired outcomes of identifying and reporting to Inspector General officials potentially fraudulent disaster payments; (2) worked across FEMA to develop, maintain, and enhance proper internal management controls to prevent fraud, waste, and abuse; and (3) prevented fraudulent losses of federal funds through agency awareness, comprehensive research, coordination, and internal investigation.

We interviewed FEMA headquarters officials; the chief of the Fraud Branch; employees of the Winchester, VA, and Denton, TX, National Processing Service Centers, and the FEMA Finance Center; and a FEMA employee with experience as a disaster assistance agent. Our fieldwork was conducted in the District of Columbia, Florida, and Virginia.

We reviewed federal laws, regulations, executive guidance, published reports, and other information related to FEMA's Fraud Prevention and Investigation Branch.

We conducted our review between September 2010 and January 2011 pursuant to the *Inspector General Act of 1978*, as amended, and according to the Quality Standards for Inspections issued by the Council of the Inspectors General on Integrity and Efficiency. Major OIG contributors to the review are identified in Appendix E.

FEMA's technical comments have been incorporated, as appropriate.

Appendix B Management Comments to the Draft Report

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



FEMA

APR 18 2011

MEMORANDUM FOR: Charles K. Edwards
Acting Inspector General
Department of Homeland Security

FROM: *6-87* David J. Kaufman *DK*
Director, Office of Policy and Program Analysis

SUBJECT: FEMA Response to OIG Draft Report: *Assessment of FEMA's Fraud Prevention Efforts*
OIG Project No. 10-146-EMO-FEMA

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG's) subject draft audit report. As the Federal Emergency Management Agency (FEMA) works toward refining its programs, the OIG's independent analysis of program performance greatly benefits our ability to continuously improve our activities. FEMA has reviewed this report and concurs with recommendations 1,2,3,5,6,8, and 9, and non-concurs with recommendations 4 and 7. In addition, we are requesting closure for recommendation 9 as the recoupment of improper disaster assistance payments has already started.

FEMA has one overarching concern with the subject report. OIG maintains a close, direct working relationship with FEMA's Fraud Prevention and Investigation Branch (FP&IB). FP&IB staff members often function as an extension of OIG's investigative workforce, enabling OIG to reduce its own investigative workload. FEMA is concerned that the close, direct working relationship may have affected the analytical objectivity of the subject report, specifically with respect to Recommendation 4. OIG recommends that FP&IB be elevated to a higher profile within the Agency, while not articulating a probable direct linkage between the desired substantive impact and the recommended action. FEMA contends that the desired substantive impact, specifically demonstration of "renewed commitment to fraud-prevention agency-wide," is not solely achievable through the recommended structural change, as other mechanisms can be used to elevate its profile.

FEMA's response to each of the report's nine recommendations follows:

Recommendation 1: Reallocate resources to increase the staff and budget of the Fraud Prevention and Investigation Branch.

FEMA response: FEMA concurs with the recommendation. FEMA has conducted a review of its FP&IB staffing levels, and, as a result of this review, FEMA plans to increase FP&IB Cadre of On-Call Reserve Employee (CORE) staffing levels by 50 percent in FY11, and another 50 percent in FY12. This increase will significantly enhance FEMA's investigative operations, analysis of disaster fraud, and further agency-wide fraud awareness training initiatives.

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Appendix B Management Comments to the Draft Report

Page 2

Recommendation 2: Issue a Federal Emergency Management Agency Directive that establishes the Fraud Prevention and Investigation Branch as the agency-wide office with the authority to investigate all claims of potential fraud, waste, and abuse, proactively review disaster assistance payments, and recommend improvements to internal controls.

FEMA response: FEMA concurs with the recommendation. The Office of the Chief Security Officer will draft, coordinate, and issue an agency-wide directive on FP&IB and its responsibilities to investigate all claims of potential fraud, waste and abuse, proactively review disaster assistance payments, and recommend improvements to internal controls.

Recommendation 3: Adopt similar cutting-edge technology used by the Recovery Accountability and Transparency (RAT) Board.

FEMA response: Concur, but before FEMA can issue a final position on this recommendation, a more detailed review of the specific technologies used by the Recovery Accountability and Transparency Board will need to be conducted. As such, FEMA has scheduled a meeting with the RAT Board to review and evaluate the software tools, government databases, and open-source information systems they employ to ensure proper accountability and transparency in the expenditure of Government funds. If it appears that the capabilities offered by these cutting-edge technologies (or variations thereto) will help FEMA better identify and/or prevent the disbursement of improper and/or fraudulent disaster assistance payments, FEMA will explore those opportunities. However, please note that FEMA has already deployed a new IT system for the FB&IB that is designed to:

- Integrate with agency IT systems and, using internal and external data, develop filters and algorithms for data mining of disaster claims to search for and detect anomalies.
- Provide a risk-mapping tool to help identify risk and document appropriate risk-interdiction strategies.
- Serve as a case management system for collecting and tracking investigative activities and analysis involving disaster fraud.
- Provide FEMA with a consistent, repeatable, auditable, defensible system of records to support FEMA's response to disaster fraud.
- Be portable, integrative, and expandable.
- Provide FEMA with the flexibility and tools to address current FEMA disaster fraud investigations and anticipated disaster fraud schemes.

Recommendation 4: Realign the Fraud Prevention and Investigation Branch to report directly to the Office of the Administrator.

FEMA response: FEMA non-concurs with the recommendation. While FEMA certainly shares the OIG's appreciation for the important role exercised by the FP&IB, that role is no more or less critical than any other of numerous key functional activities assigned to units within our Agency. FEMA contends that the desired substantive impact, specifically demonstration of "renewed commitment to fraud-prevention agency-wide," is not solely achievable through the recommended structural change. FEMA feels the FP&IB is properly situated within the Office of the Chief Security Officer (the principal of which was recently upgraded to a Senior Executive Service position) and changing its location would in no way improve its operational efficacy.

Appendix B Management Comments to the Draft Report

Page 3

Recommendation 5: Require annual fraud prevention training for all employees commencing with fiscal year (FY) 2011.

FEMA response: FEMA concurs with the recommendation. The Office of the Chief Security Officer will collaborate with FEMA's Emergency Management Institute to implement an agency-wide web based employee-training program on Fraud Prevention Awareness.

Recommendation 6: Develop, implement, and maintain proper internal management controls to prevent and detect fraud, waste and abuse in disaster assistance relief programs as required by statute.

FEMA response: FEMA concurs with this recommendation. We have established proper internal management controls and use a variety of tools to prevent fraud, waste and abuse during our routine business practices. These controls include:

- All applicants will go through our identity verification process and are restricted from receiving assistance until they verify their identity.
- All rental, repair, replacement and personal property assistance is currently based on an on-site verification, by a field inspector, of all claimed losses.
- All other types of assistance are based on verifiable documentation provided by the applicant, and scanned and stored in National Emergency Management Information System (NEMIS).
- The National Processing Service Center (NPSC) Operations Audit Section assesses random samples of cases throughout the year to identify and recommend process improvements to further limit waste.
- The Enterprise Coordination and Information Management (ECIM) Section maintains the ability to mine data and provide reports on potentially improper payments, and provides exception ("Cleanup") reports to the National Coordination Team on a regular basis.
- The Appeals/Recoupment Department in the Training, Applicant Support and Communications Section was established in 2010 to process claims for additional assistance in a consistent and controlled process. Those assigned to Recoupment are responsible for identifying recoupment cases and beginning collection of improper payments.
- The Individual and Households Program (IHP) Assistance Group was established in 2008 to provide an internal helpline for our casework staff who may have questions regarding IHP case processing procedures, thereby driving increased consistency on even more complicated casework.
- In 2010, our caseworker guidance was collected into the Processing Procedures Manual (PPM). The PPM is a website organized to provide guidance and job aids to caseworkers for all standard cases. The PPM is extensively version-controlled and managed in order to ensure that the latest guidance is always available.
- Our Housing Inspection Services Contract Management Section has achieved ISO (International Organization for Standards) 9001-2000 certification for their quality management system and the National Coordination Team is in the process of receiving such certification. These certifications indicate that the NPSC enterprise is committed to ensuring that our quality systems are designed to prevent waste, fraud and abuse in delivery of IHP assistance.

Appendix B Management Comments to the Draft Report

Page 4

Recommendation 7: Require implementation of internal control improvements to the National Emergency Management Information System on a quarterly basis to prevent potential fraud, waste, abuse, and improper payments.

FEMA response: FEMA non-concurs with this recommendation. A quarterly schedule for implementation improvements to the National Emergency Management Information System (NEMIS) is not appropriate. Extensive experience with developing additional controls within NEMIS had led to the development of a bi-annual schedule for major releases as the most efficient and least disruptive deployment approach. The reasons for this approach are as follows:

Time and overhead associated with NEMIS releases

NEMIS is a complicated set of databases and applications. Each NEMIS release is a costly endeavor involving coordination across numerous Directorates and Divisions within the Agency. This includes Public Assistance, Mitigation, OCFO, and OCIO in addition to NPSC staff. Even partial NEMIS changes that involve delivery of IHP assistance require module testing from other groups such as Public Assistance or Mitigation to ensure their systems are not affected by changes in the Individual Assistance module. Other offices or Divisions within the Agency do not have dedicated full time staff to test the system, and must rely on staff diverted from other projects. Moreover, many changes within IHP to control fraud or waste are highly complicated, particularly when changes deal with our automation business rules. It is not feasible or cost effective to develop, test and deploy many business rules or other processing changes more often than twice a year.

Disruption of disaster processing activities

Due to the complexity of NEMIS, each release usually requires significant downtime (at least a weekend) during which all disaster processing activity ceases. In order to minimize disruptions, FEMA attempts to schedule releases in December or January, and June, in order to avoid our peak activity periods. Historically, August through mid November (hurricanes) and February through May (flooding and tornadoes) are high activity periods. Quarterly releases would naturally occur during those active times. Bi-annual releases allow us to avoid those peak periods, ensuring disaster survivors are served as quickly as possible.

NEMIS provides a great deal of flexibility in preventing fraud without implementing upgrades

Although we agree that FEMA should act as quickly as possible to remedy weaknesses that potentially expose IHP assistance to fraud, waste and abuse, NEMIS already offers a number of tools that make it flexible, even without a major release. In the NEMIS administrative module, we have the ability to implement 'special handling' queries, which remove cases that meet certain criteria from our automated business rule processing. For instance, if we were to find an error in a business rule, we can readily implement special handling to ensure that a caseworker reviews the case to fix it manually. This can be done within hours of identifying a potential issue. This special handling capability can also be used to flag cases that present a special risk for fraud, waste or abuse.

NEMIS also allows us to add "data markings" to applicants meeting a certain criteria. For example, if we learned that a group of applicants were being assisted by another agency, we can quickly add a data marker to them, and subsequently use the marker to prevent potentially duplicative assistance. Additionally, we have the ability to implement emergency fixes to implement new programs or provide critical updates outside of the typical six month schedule, particularly when such changes do not alter existing rules and processes. For instance, during Hurricanes Gustav and Ike, we deployed a technical solution to implement the new Transitional Sheltering Assistance program in a matter of weeks. The technical solution included (1) business rule logic to determine program eligibility, (2)

Appendix B Management Comments to the Draft Report

Page 5

procedures for adding information to NEMIS for caseworkers to view, (3) procedures to export data to our vendor, (4) import procedures for data returning from the vendor, and (5) changes to our Interactive Voice Response (IVR) system to help applicants through our self service module. Because these processes were largely done outside of the existing NEMIS architecture, we were able to deploy the changes rapidly and without the disruptions noted above.

Based on the above factors, we believe the implementation of quarterly releases would be unnecessarily disruptive and would add costs without significantly improving our already strengthened position to prevent waste, fraud and abuse. Since Hurricanes Katrina and Rita, we have implemented a significant number of controls, as noted by GAO in Final Report 09-671 on Fraud Prevention Efforts in Hurricanes Gustav and Ike, in which GAO stated that '*FEMA has significantly improved its fraud prevention controls over disaster assistance.*'

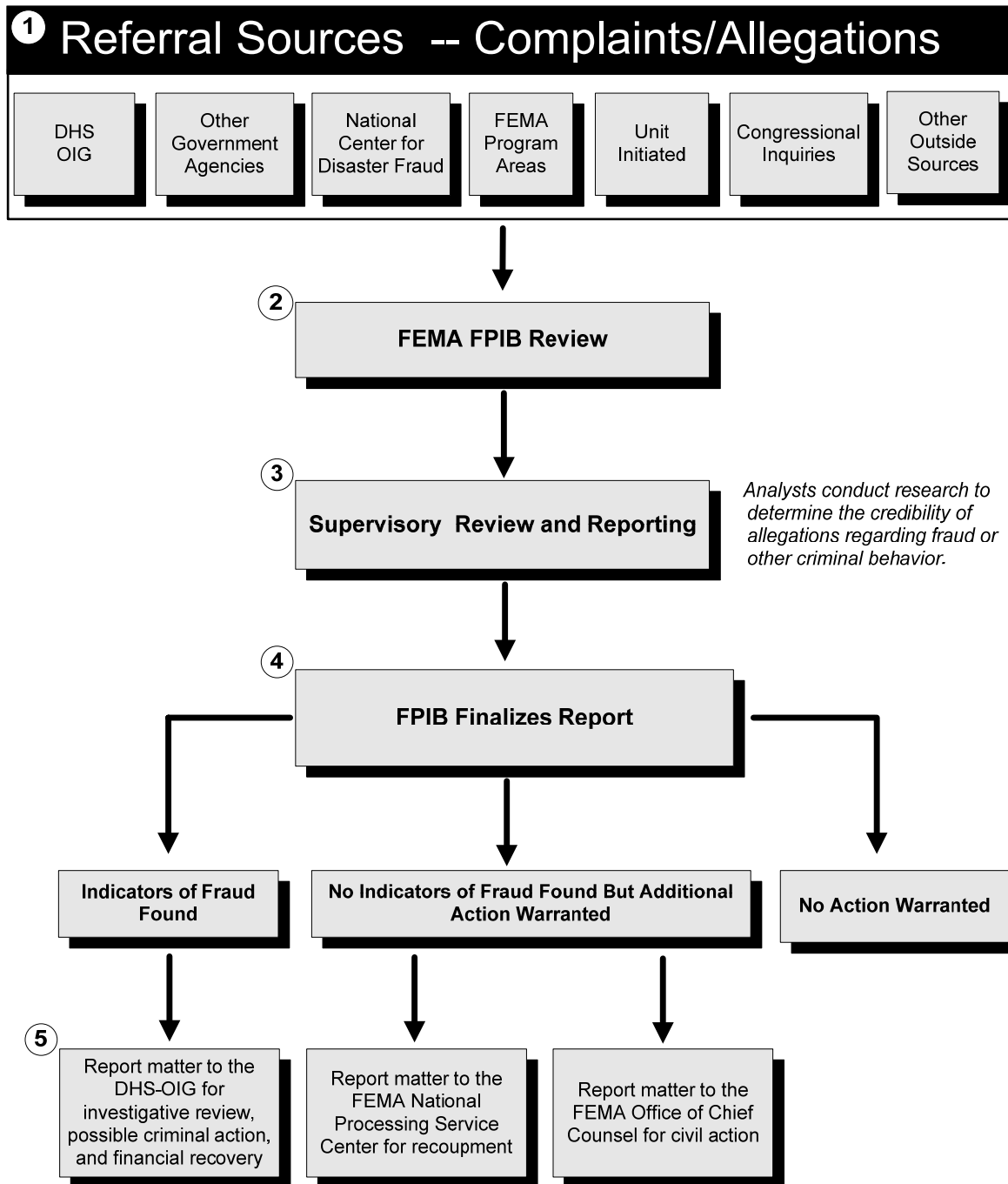
Recommendation 8: Require the Internal Control Board to assess and govern internal controls across FEMA, including all Individual Assistance, Public Assistance, and Mitigation Programs, and to identify and implement improvements on a quarterly basis.

FEMA response: FEMA concurs with the recommendation. The Internal Control Board (ICB) co-chaired by the Deputy Administrator and the CFO is scheduled to meet quarterly in FY 2011. The ICB has focused on Grant Management. Additionally, the ICB has discussed and been provided updates on the Improper Payment Information Act (IPIA) requirements which test improper payments. The IPIA testing is beginning to move towards quarterly testing of several of its programs and will eventually test all payments quarterly. The ICB has also been updated on CFO efforts to establish a consistent Internal Control process that supports the Agency's Assurance Statement memorandum.

Recommendation 9: Order the recoupment of improper disaster assistance payments to begin no later than April 1, 2011.

FEMA response: FEMA concurs with the recommendation and requests that it be closed. FEMA has started its new recoupment process. On March 15, 2011 FEMA published the intent to proceed with recoupments in the Federal Register at <http://edocket.access.gpo.gov/2011/2011-6036.htm>. On March 16, 2011, FEMA commenced recoupment by sending out notices of debt letters (NODs), starting with the most recent debt first.

FEMA Fraud Prevention and Investigation Branch (FPIB)
 Case Flowchart



Source: DHS-OIG analysis of FEMA provided data.

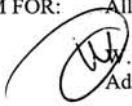
Appendix D
January 2011 Administrator Fraud Prevention Memorandum

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



FEMA

January 7, 2011

MEMORANDUM FOR: All FEMA Employees
FROM:  J. Craig Fugate
Administrator
SUBJECT: FEMA's Efforts to Combat Disaster Fraud

On July 22, 2010, President Obama signed into law the *Improper Payment Elimination and Recovery Act*, which is aimed at intensifying efforts to eliminate payment error, waste, fraud, and abuse in major programs administered by the Federal Government by \$50 billion between now and 2012. The Federal Emergency Management Agency (FEMA) provides disaster relief to families and communities to rebuild from a disaster; however, it must be limited to those who have truly suffered losses. Fraudulent claims take taxpayer money away from those truly in need of assistance and weaken the Federal Government's ability to provide support.

As an Agency, we are making progress in detecting and preventing disaster fraud through our fraud prevention training and strengthening of our program controls. However, we still have more work to do. It is the responsibility of every member of the FEMA team to be vigilant in preventing and reporting improper payments and other forms of waste, fraud, and abuse. Our good stewardship of taxpayer dollars will ensure that we can be fully responsive to the needs of the American people before, during, and after a disaster.

Information on additional fraud prevention training will be forthcoming.

For additional information or to report fraud, waste, or abuse, email stopfemafrad@dhs.gov or call FEMA's Fraud Hotline number at 1.866.223.0814.

Appendix E
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Appendix F
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- Email us at DHSOIGHOTLINE@dhs.gov; or
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DHS Office of Inspector General/MAIL STOP 2600,
Attention: Office of Investigations - Hotline,
245 Murray Drive, SW, Building 410,
Washington, DC 20528.

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