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HURRICANE KATRINA: STOPPING THE FLOOD OF FRAUD, WASTE, AND ABUSE

HEARING

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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WITNESS

WEDNESDAY, DECEMBER 6, 2006

Gregory D. Kutz, Managing Director, Forensic Audits and Special Investigations, U.S. Government Accountability Office, accompanied by John J. Ryan, Special Agent, Forensic Audits and Special Investigations, U.S. Government Accountability Office:	
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HURRICANE KATRINA: STOPPING THE FLOOD OF FRAUD, WASTE, AND ABUSE

WEDNESDAY, DECEMBER 6, 2006

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:01 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senators Collins, Coleman, Lieberman, Carper, and Pryor.

OPENING STATEMENT OF CHAIRMAN COLLINS

Chairman COLLINS. The Committee will come to order.

Today the Committee holds its fourth hearing investigating the loss of taxpayer dollars to waste, fraud, and abuse in the wake of Hurricane Katrina. I would like to begin by thanking our two witnesses, Greg Kutz and John Ryan of GAO's Forensic Audits and Special Investigations Unit, for their dedicated work, and I welcome them back to the Committee.

It has now been more than 15 months since Hurricane Katrina devastated our Gulf Coast and since this Committee launched an investigation into the failures at all levels of government that came to light in that disaster. Hurricane Katrina revealed how unprepared the Nation was for a natural disaster that was long predicted and specifically forecast and raised serious concerns about our ability to respond effectively to a terrorist attack.

Although the initial focus of our investigation was to identify ways to expedite relief to the stricken region, most of our work examined the many flaws in our Nation's emergency preparedness and response structure.

No flaw has been more persistent and more damaging to effective relief for disaster victims and to public confidence in their government than the rampant waste, fraud, and abuse that have plagued Federal relief and recovery programs.

To be sure, the majority of the billions of dollars of assistance provided to more than 2.6 million applicants in the wake of Hurricanes Katrina and Rita was necessary and warranted. But FEMA has yet to strike a proper balance between expedited assistance and good stewardship of taxpayer funds. Current practices invite and enable fraud, harming the very people these programs are designed to help.

Today's hearing provides a follow-up to three previous hearings: Our February hearing that focused on FEMA's Individuals and Households Program, known as IHP; the field hearing held in April at the request of Senator Pryor, examining FEMA's purchase of thousands of manufactured homes that sat unused in Hope, Arkansas; and the July hearing investigating the Department of Homeland Security's use of purchase cards.

At these hearings, our GAO witnesses testified that weak or nonexistent controls left the IHP program vulnerable to widespread misuse. They testified further that fraudulent or improper payments could total more than $1 billion. Just think of the additional relief and reconstruction and rebuilding that could have been accomplished with that $1 billion that was lost to fraud, mismanagement, and poor decisionmaking.

Today our witnesses will discuss their continuing investigation, and their findings are truly alarming. I will cite a few.

Nearly $20 million in potentially improper or fraudulent disaster assistance payments went to some 7,000 individuals who appear to have registered the same damaged property for compensation under both Hurricane Katrina and Hurricane Rita.

FEMA paid nearly $3 million to more than 500 ineligible foreign students. In several cases, payments were made even after the students informed FEMA of their international student status and, thus, their ineligibility for aid.

Our witnesses will also testify that FEMA has collected only about $7 million of the estimated $1 billion in fraudulent and improper payments. FEMA has informed me that it has repayment plans in place to collect another $8 million. While FEMA is attempting to recover assistance obtained by some ineligible individuals, even if you add what is in the pipeline, the recovery still amounts to only pennies on the dollar and is happening far too slowly. The fact is that once the money is out the door, it is very difficult for FEMA to recover it.

In our July hearing, the GAO also found excessive prices, duplicative payments, wasteful purchases, and substantial missing property. Equipment was simply not tracked effectively and may have been stolen or lost.

My Committee colleagues may remember that barely 2 hours before our hearing convened on July 19, we received an e-mail from DHS telling us that they had located some 80 percent of the missing purchases identified by the GAO, ranging from electronics to flat-bottomed boats. They disputed the GAO testimony before it could be delivered.

At that time, Special Agent Ryan told the Committee that he was skeptical of DHS's claims. We now have concrete evidence that the skepticism was warranted. We will hear today that 48 items that the Department claimed it had located in that early morning prehearing announcement are, in fact, still missing. The GAO witnesses will describe their efforts to verify the location of items purchased by DHS for hurricane relief. I remember Mr. Ryan telling us that he wanted to actually go touch the property. Well, the fact is that I understand that 34 percent of the items that they tried to locate are still missing, whether they are lost or stolen.

I should add that one of those infamous flat-bottomed boats reported missing in July has, in fact, been located—but not by DHS personnel, rather by GAO investigators. I will be interested to hear why DHS was not able to locate this boat and where GAO investigators found it.

This Committee performed an extensive investigation in response to the Hurricane Katrina debacle. Our work has gone beyond merely uncovering problems and has extended to crafting remedies. Our legislation to rebuild FEMA into a more effective entity and, indeed, to strengthen our entire national emergency management structure provides a clear road map to improvement, but this Committee must remain committed to see that it is followed and that administrative and other reforms are, in fact, implemented.

Throughout our Hurricane Katrina investigation, I was concerned that another major natural or manmade catastrophe would strike while a structure that has so utterly failed was still in place. In some sense we got lucky. The 2006 hurricane season has passed without another major storm coming ashore, and we have been spared other disasters as well.

We have been given the luxury of time to get this right. We must use that time wisely. The American people are generous and willing to open their hearts and their wallets to the victims of disasters. But they expect that their tax dollars will be spent carefully to help storm victims, not be lost in a hurricane of waste, fraud, and abuse.

[Lights failed for a few moments.]

Senator Lieberman, there are those who say that this Committee often operates in the dark. [Laughter.]

Senator LIEBERMAN. You may be interested to know I have been informed that the power is out in the whole building, so we have to operate the emergency system.

Chairman COLLINS. Please proceed.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Madam Chairman, it is good to know that under your leadership, which I will aspire humbly to emulate, not even a power outage could stop this Committee from going forward.

Madam Chairman, I thank you for convening today's hearing on the GAO's ongoing efforts to identify waste, mismanagement, and fraud in FEMA's administration of the Individuals and Households Program (IHP), as well as DHS's use of purchase cards for goods and services during the responses to both Hurricane Katrina and Hurricane Rita.

I think we are back on. Welcome. Nice to see the outside, too. [Laughter.]

The record will note that neither of the witnesses nor anyone else in the room moved during the power outage, and we thank you for that. [Laughter.]

Testimony we will hear from the GAO's Forensic Audits and Special Investigations Unit on this Individuals and Households Program I would describe as not only powerful but maddening to me personally.

The GAO's investigations over the past year, as well as FEMA's own data on overpayments, show that the agency squandered hun-

dreds of millions of dollars in improper payments to individuals and households that our government may never recover. Some people who were not eligible for assistance abused the process, and FEMA had no effective mechanisms to stop them. And some ineligible people who had no intent of gaming the government but thought they might be eligible for assistance were granted payments, even though FEMA should have known that they were not eligible and should have explained to them that they were not eligible.

On the other hand, as is well known, last week we heard that a Federal judge ruled that FEMA wrongfully cut off housing assistance to thousands of Hurricane Katrina and Hurricane Rita evacuees without properly documenting why, making it difficult for applicants to appeal FEMA's decision.

So we have this bizarre situation where FEMA apparently doled out millions of dollars to people who did not deserve it, but denied assistance to many people with potentially legitimate needs without using proper procedures.

During our Committee's investigation of Hurricane Katrina earlier this year, the GAO provided an extensive look into flaws in FEMA's processing of these Individuals and Households Program applications. The GAO's investigation revealed significant breakdowns in the IHP registration system that resulted in payments to individuals and households who were not qualified for assistance or who received duplicate payments.

Today's testimony further confirms the gross inadequacies of FEMA's control systems. Chairman Collins has documented some of the specifics. I will not repeat them.

FEMA's low success rate in recovering payments also makes abundantly clear the need to implement proper controls up front. FEMA has collected only $7 million in improper payments out of the $290 million of such payments that FEMA itself has identified. The GAO estimates FEMA's total improper payments, as the Chairman said, to be $1 billion through February 2006. We do not know yet what FEMA's plans are for recouping this money or the extent to which it can recover the money. Clearly, the better solution for the future is not to chase after improper payments once they are made but to prevent those improper payments from being made in the first place.

GAO's testimony on this program to this Committee in February, as well as more detailed reports issued in June and September, I hope you know, Mr. Kutz and Mr. Ryan, provided the basis for a series of corrective actions that Senator Collins and I proposed and that were included in the FEMA reform package that passed into law as part of the fiscal year 2007 DHS Appropriations Act.

This law mandates that FEMA institute verification procedures that minimize the risk of unauthorized and duplicative payments under the IHP program, while providing an expedited review and appeals process for individuals or households who believe that their applications were wrongfully denied.

Having conducted a major investigation of the immediate response to Hurricane Katrina and having enacted significant reform legislation, our Committee's task now is to continue our oversight and to ensure that the reforms are fully implemented.

Today we are also going to hear testimony from the GAO on the efforts of DHS to locate missing items, and I will look forward with anticipated exasperation to hearing that result.

In a November 27 letter to Senator Collins and me, the DHS Chief Financial Officer conceded that the Department is still having difficulty tracking down those assets, and Mr. Kutz, I hope you will share with the Committee your assessment of the efforts of the Department of Homeland Security to improve its property management.

So, bottom line, the record here is clear and disconcerting. The fact is that, going forward, FEMA has a lot of work to do before we can be confident and the taxpayers can be confident that FEMA is providing assistance to those who are eligible and who need it, while denying it to those who do not. The reforms that we have adopted should make a difference, and Senator Collins and I are committed to being especially vigilant in the months ahead to make sure that they do.

Thank you very much.

Chairman COLLINS. Thank you. Senator Coleman.

OPENING STATEMENT OF SENATOR COLEMAN

Senator COLEMAN. Thank you, Madam Chairman.

Before I touch on this hearing, first I want to thank you and the distinguished Ranking Member for having this hearing. I also just want to take the time to thank you for your leadership.

Chairman COLLINS. Thank you.

Senator COLEMAN. I think you have provided extraordinary leadership. We have passed major legislation: Intelligence reform, chemical security, lobbying reform, port security, postal reform, FEMA reform, and enhancement of homeland security grants. I think we have accomplished an incredible amount of important work not just for the Senate, but for the Nation. I just want to personally express my appreciation for the kind of leadership that you have offered. We talk a lot today about bipartisanship. I don't know if there is a better operating Committee in the Senate in terms of working together. As I look at my colleagues who are seated here today, people for whom I have the most respect for, just the most respect for, from the Ranking Member, and a former local official, governor, Senator Pryor and I have worked together, the prayer breakfast. This is an extraordinary group of people, but your leadership has really pulled it together, and I just want to personally at this moment—probably our last time that we will get together with the gavel in your hand—say thank you and tell you what a pleasure it has been for me to be part of this Committee.

I look forward to working with you and the new Chairman in the same tone and attitude and hopefully measure of accomplishment.

Chairman COLLINS. Thank you so much.

Senator COLEMAN. Let me just turn to the matter before us today. First, I want to thank the dynamic duo, Mr. Kutz and Mr. Ryan. We have worked together on this Committee and our Subcommittee. Thank you for your work. It is important. It makes a difference.

What we see here today are unauthorized payments, improper and fraudulent payments, duplicate payments, inadequate recoup-

ment. We still have work to do. We have work to do with FEMA, and I think it is important to bring it to the table. It is important for us to look at it and say that this is unfair to American taxpayers, it is not the way government should operate, and we are going to clean it up. And I think we have the opportunity. This is part of a process. It is an ongoing process.

You gentlemen have done extraordinary work. We have our work to do, and this is the kind of oversight that we need to be doing. And I am certainly proud to be part of it.

So I look forward to the testimony, look forward to discussing what new measures we need to implement, look forward to making sure that we are doing a better job for American taxpayers.

Thank you, Madam Chairman.

Chairman COLLINS. Thank you so much, and I very much appreciate your kind comments.

Senator Pryor.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Thank you, Madam Chairman. I would like to echo Senator Coleman's comments about your leadership here. Your competence is just overwhelming. You have been able to get so many things done in a very bipartisan way, and you have really been a great role model for newer Senators to see how the Senate can work and should work. In fact, a lot of times when I go back to Arkansas, people say, "What is wrong with you people in Washington? Why do you just not get along? Why are you always at each other's throats?" And I tell folks, "Well, there is hope. There is the Homeland Security and Governmental Affairs Committee, and if you look at how that Committee works, it really works the way it should work."

As you well know, if there has ever been a question about which committee some bill should go to, I always argue for Homeland Security because it has just been a great Committee with your leadership. And I know Senator Lieberman and you have an extraordinarily good working relationship. Like I said, it has really been a role model for all of us.

Chairman COLLINS. Thank you.

Senator PRYOR. So I thank you for being such a great Chairman, and I really don't have any further comments. I look forward to hearing from our witnesses today, but I did want to thank you for your leadership.

Chairman COLLINS. Thank you so much. Senator Carper.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Thank you, Madam Chairman. I was not going to say anything, but I am moved to say something. [Laughter.]

Chairman COLLINS. You mean you have no choice. [Laughter.]

Senator CARPER. It is what we affectionately call in Delaware "piling on." We were putting together orientation for new Senators a couple of weeks ago, and we were looking for a couple of Committee Chairs and Ranking Members to invite to come and speak to our new Senators about bridging the partisan divide. And the very first recommendation that I made was that, Madam Chairman, you and Senator Lieberman be invited to attend. I think be-

cause of scheduling problems you were not able to come, but I think the relationship that the two of you enjoy is just an example for the rest of us in the Congress, in the Senate, and in the House, and I think in the Administration as well.

Our friend Senator Pryor is from Arkansas, and they actually have a place there, I am told, called Hope. And I think he mentioned the word in his remarks. When I think of a place called Hope, I don't think of Arkansas. I think of the kind of relationship that you have had and the way that it has sort of permeated this Committee, the trust that you enjoy and the way that it has inspired the rest of us to work on a whole host of issues that Senator Coleman has mentioned. And my hope is that before we leave here at the end of this week, we can add one more to that list, and that would be good not just for this Committee, but I think that would be very good for our country. And I applaud both of you for your efforts in that regard. And welcome to our love fest here this morning. [Laughter.]

Chairman COLLINS. Thank you.

Senator LIEBERMAN. Madam Chairman, if I may, if I remain silent in the midst of this spontaneous eruption of appreciation for you, people may wonder about how good our relationship is. [Laughter.]

I had been thinking I would do this later, but I appreciate that my colleagues did it. It has been an extraordinary honor and pleasure to work with you on this Committee, and it really is what I think all of us came to the Senate to do, and somehow we have been able to do it. But you have been the Chair, so you have set the tone. The record of accomplishment in your chairmanship has been extraordinary, and I don't know how I am going to build on it. But we are going to do it together. That is the important thing.

I said to Senator Collins when we talked about the transition that will occur that, as far as I am concerned, the only thing that is going to change is our titles because we are going to have the same partnership that we have had over the years here. And it has worked just so well.

The bottom line is that we have common goals and I have total trust in Senator Collins in ways that I will document at some point in a book that will not sell any copies but really will be worth reading. [Laughter.]

It is the trust that reaches across the not unimportant but ultimately not most important party identifications that we hold, to the values that we hold in common, and our shared interest in making our government work better and our country be better. So you are the best. Thank you.

Chairman COLLINS. Thank you very much.

While I would love to continue with further tributes to myself, I do believe we should turn to our panel. [Laughter.]

But let me just thank you all for your very kind comments. This Committee does have a wonderful tradition of bipartisan accomplishment, and I do think that is what the American people want. And I am confident that it will continue under your leadership, Senator Lieberman, and I look forward to being your partner.

Senator LIEBERMAN. Thank you.

Chairman COLLINS. I hope the only difference will be instead of bills being Collins-Lieberman, they will now be Lieberman-Collins. But it would not be possible without the Members of the Committee who have taken exactly that same constructive approach.

Senator LIEBERMAN. That is true.

Chairman COLLINS. So I very much appreciate the opportunity to work with all of you, and remember, I may be back in 2 years. [Laughter.]

I would now like to welcome our witnesses today: Greg Kutz, who is accompanied by Special Agent John Ryan. They have appeared before us many times, so I am not going to go through a lengthy introduction other than to thank you both for continuing your exceptionally good work.

Mr. Kutz, we will start with you. Thank you.

TESTIMONY OF GREGORY D. KUTZ,[1] MANAGING DIRECTOR, FORENSIC AUDITS AND SPECIAL INVESTIGATIONS, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, ACCOMPANIED BY JOHN J. RYAN, SPECIAL AGENT, FORENSIC AUDITS AND SPECIAL INVESTIGATIONS, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. KUTZ. Chairman Collins and Members of the Committee, thank you for the opportunity to discuss fraud, waste, and abuse related to Hurricanes Katrina and Rita. Our testimony relates to the completion of our work on individual assistance and the use of government purchase cards. Previously, I testified that $1 billion, or 16 percent, of individual assistance payments were fraudulent and improper. I also testified that weak controls resulted in lost or stolen government property, bought using government purchase cards. The bottom line of my testimony today is that our work shows additional fraud, waste, and abuse related to Hurricanes Katrina and Rita.

My testimony relates to FEMA and has two parts: First, individual assistance payments; and, second, lost or stolen property bought with credit cards.

First, our work across the government has shown that fraud prevention, as you mentioned, is the most efficient and effective means to minimize fraud, waste, and abuse. Our $1 billion estimate of fraudulent and improper payments related to individual assistance clearly shows the consequences of the lack of an effective fraud prevention program.

The posterboard supports my point. Next to the $1 billion estimate, you can see that through November, FEMA has detected $290 million of improper payments. However, only $7 million of this $290 million has actually been collected. Absent effective fraud prevention, once money is improperly disbursed, the government can only hope to collect a few pennies on the dollar.[1]

It is important to note that our $1 billion estimate is likely understated because it related only to the application process and disbursements through February 2006. Today's testimony supports that point, as we found at least tens of millions of dollars of addi-

[1] The prepared statement of Mr. Kutz appears in the Appendix on page 23.
[2] The poster appears in the Appendix on page 51.

tional fraudulent and improper payments. These problems result from FEMA's lack of an effective fraud prevention program.

For example, FEMA made $17 million of rental assistance payments to individuals staying in trailers and mobile homes, also paid for by FEMA. The posterboard shows that for these individuals the government paid twice for their lodging—first by providing them free housing and second by sending them rental assistance money.[1]

FEMA also improperly paid rental assistance to individuals staying in apartments paid for by FEMA. For example, FEMA paid $46,000 to 10 individuals staying in a FEMA-paid apartment complex in Plano, Texas. Many of these are fraud cases, as seven of these individuals represented to FEMA that they were entitled to rental assistance. We cannot estimate fraud and abuse in this area because of limitations in FEMA's data.

FEMA also made $20 million of improper payments to thousands of individuals who used the same address to get benefits for both Hurricane Katrina and Hurricane Rita. FEMA policy is that victims of both disasters are generally entitled to only one set of payments for the same damaged address. It appears that some of these individuals were paid twice for the same television, refrigerator, washer, and dryer.

Finally, FEMA made millions of dollars of improper payments to non-qualified aliens. Non-qualified aliens include foreign students and temporary workers. For example, FEMA paid $3 million to over 500 students at four universities. This substantially understates the magnitude of this problem because there are many colleges and universities in the region.

FEMA also paid $156,000 to 25 individuals claiming to be foreign workers on temporary visas. We believe these 25 individuals worked at a crab house in Louisiana. We also identified several illegal aliens who received disaster assistance in Texas. Total payments to non-qualified legal and illegal aliens could be substantial.

Moving on to my second point, FEMA has substantial problems accounting for property bought with government credit cards. For example, 85 of 246 items that we investigated, or 34 percent, are lost or stolen. The posterboard shows one of these missing items: A flat-bottom boat. As the posterboard shows, this boat is actually in possession of the original owner in a shed in Texas.[2]

In conclusion, our work shows that for individual assistance payments, at least tens of thousands of individuals took advantage of the opportunity to commit fraud. That is right—tens of thousands. I am hopeful that FEMA has learned from these costly lessons and will make fraud prevention a focus for future disasters.

With respect to lost property, there is no valid reason for FEMA's inability to account for over a third of the property bought with government credit cards. I think the posterboard on my right says it all.

We have enjoyed the opportunity to work with this Committee on fraud, waste, and abuse related to Hurricanes Katrina and Rita. Our work has resulted in 25 recommendations for FEMA with

[1] The poster appears in the Appendix on page 50.
[2] The poster appears in the Appendix on page 48.

which they generally concur. My hope, Special Agent Ryan's hope, and all of our staff's hope is that our work will bear fruit in future disasters. And, Chairman Collins, I will just say, too, we have really enjoyed working with you and your leadership on this Committee. It goes back quite a long ways, even to PSI, Senators Coleman and Levin, and we look forward to working with the Committee going forward under both of your leadership.

Thank you.

Chairman COLLINS. Thank you very much.

Mr. Ryan, do you have anything you would like to add now?

Mr. RYAN. I would just add that it was a real pleasure working with Senator Lieberman's staff and your staff, very professional. Mr. Bopp was a great leader of yours and pushed your work, and we really enjoyed working with the staff and with all the members here.

Thank you.

Chairman COLLINS. Thank you.

Mr. Kutz, whenever I bring concerns about the alarming and widespread fraud and improper payments plaguing FEMA's assistance programs, I hear the response that it is a choice between getting out assistance quickly to the victims or carefully safeguarding taxpayer dollars.

Isn't that a false choice? Isn't it possible for FEMA to deliver assistance to the right people quickly without compromising the integrity of these programs?

Mr. KUTZ. Yes, we agree it is not a choice. We believe that you can do both and that the technology and the processes exist that they could have done a substantially better job here. For example, they had ChoicePoint under contract, who has some of the technology necessary to deny invalid applications. They just did not effectively use the tools that were available for these two disasters.

Chairman COLLINS. And, in fact, did you find any examples where FEMA actually disabled software that would have allowed duplicative payments to be caught?

Mr. KUTZ. Yes, in many cases there were hundreds of millions of dollars, I believe, that their systems had flagged as questionable, duplicative, improper—whatever the right word—and they sent the money out, for whatever reason. I think there was a rush to get the money out. And we do not disagree with getting money quickly to legitimate victims. That is the primary focus of FEMA. But, again, I believe that if they had field tested their controls ahead of time and were ready for these disasters, which is what our recommendations have been going forward, to take whatever controls you are going to implement, field test them, make sure you have a safety net for legitimate people who get kicked out when you tighten up the fraud prevention controls, we believe that they can be much more successful, not only getting money quickly to people, but preventing fraud, waste, and abuse.

Chairman COLLINS. Because, in fact, every dollar that is lost to fraud or frittered away in wasteful purchases is a dollar lost that could have been directed to helping the victims rebuild their lives and communities. That to me is the true tragedy of this. The needs are so great. And when we hear your testimony that more than $1 billion has been lost to waste, fraud, and abuse, to poor decisions,

wasteful purchases, outright fraud, it is just an outrage given that the needs are so great.

I realize we are dealing with a large volume of claims—but is this a case where the internal controls simply are too sophisticated or too difficult to implement to prevent this massive fraud?

Mr. KUTZ. No. I have called it Fraud Prevention 101. Basic building blocks of an application are: Does the person exist? Does the property exist? Did that person live at the property at the time of the disaster? Those are things that the technology is there to determine almost instantaneously, and they did not use that effectively. And that is just one of many things that they can do.

So it is basic fraud prevention, and, again, we are very hopeful that they will do a better job for future disasters. At this point, the horse is out of the barn right now. The money has been spent. You are going to get maybe a couple pennies back on the dollar, so the taxpayers have become the new victims here. The issue is, going forward, can we actually put effective fraud prevention in place, and we believe the technology is there, and with your oversight and some good management, they can get it done.

Chairman COLLINS. Mr. Ryan, tell me more about this flat-bottom boat? How was it found? Did FEMA have title to the boat? Did FEMA or DHS officials find it? Tell us a little more about the boat that was found in possession of the original seller?

Mr. RYAN. This boat is one of 20 boats that FEMA purchased. When we initiated our——

Chairman COLLINS. At an exorbitant price, if I recall.

Mr. RYAN. It was $208,000. They paid for 20 boats.

Mr. KUTZ. Twice retail price, yes.

Mr. RYAN. This boat, as part of our work that we did on the property in July, was missing. We did an investigation, and we determined that the security director at the New Orleans Convention Center actually had the boat. It took him some time, but he researched it and found that the boat was titled to an individual in Texas. He contacted that individual, and he said, "Hey, I sold that boat to FEMA. It was a used boat." They said, "Well, you are still the titled owner, so you need to come and get it."

So the individual went to New Orleans, got the boat, had to buy new tires for the trailer because the tires were gone, and he carted it back, and he put it in his shed in Texas. As part of an ongoing investigation that we had with the Hurricane Katrina Task Force, the FBI, and local law enforcement, they were able to determine that the boat was parked in the shed of the original owner, and they took a photograph of it.

None of the 20 boats as of October are titled to the government. There is still an ongoing investigation in which the owner of 11 of the boats has filed a complaint indicating that the boats were stolen, so the government does not have title to any of the 20 boats.

Chairman COLLINS. So let me get this straight. The government paid twice what the market price should have been for these 20 boats and yet does not have legal title to a single one of the boats, and at least one of the boats is not even in possession of FEMA. Is that correct?

Mr. RYAN. That is correct. And I will add that there is another boat still missing, and no one really knows where that is at. So we

know that they have—based on going down, touching, and looking, we know they have 18 boats.

Chairman COLLINS. Thank you. Senator Lieberman.

Senator LIEBERMAN. Thanks, Madam Chairman.

Mr. Kutz, one of the examples in your testimony that is maddening is the duplicate payments for 10 residents of an apartment complex. According to your report, these 10 residents were receiving rental assistance, and at the same time, FEMA was providing rent-free housing at the apartment in Plano, Texas. The report states that over $46,000 in duplicate payments were made.

How could that have happened?

Mr. KUTZ. I believe it happened because you have stovepiped programs within FEMA. You have the individual payment program, and you have different people managing the apartment program. They have different databases. All they would have had to do—and, again, the data was limited there.

Senator LIEBERMAN. Right.

Mr. KUTZ. But at least if they had talked and coordinated, they could have done a better job of getting information on who the actual people living in the apartments were and determining whether or not those people had received these apartments before they sent them rental assistance. So, again, I think it is a matter of coordinating two programs. We found the same thing for the hotel program, the trailer program, the mobile home program. They are all stovepiped programs within FEMA, and these people do not appear to talk very well.

Senator LIEBERMAN. So this is a pretty simple thing to coordinate, isn't it?

Mr. KUTZ. Yes.

Senator LIEBERMAN. With modern information technology.

Mr. KUTZ. Yes, and that is how we came up with our estimates, for example, for the trailers, the mobile homes, and prior work for the hotels is because we just took the two sets of data and matched them together and did some analysis.

Senator LIEBERMAN. Every time we hear from you, it builds on the conclusion that we reached in our overall investigation of the government's response to Hurricane Katrina, which was that we were a Nation unprepared. In this case, this was an agency unprepared in the most fundamental ways, almost simplistic ways, to deal with basic distribution of assistance payments that did not waste taxpayer money.

Let me ask you, it is my understanding that FEMA has generally, if not fully, concurred with your recommendations. Do you believe that they have begun to make the necessary adjustments, for instance, in breaking the stovepipes that you have just described?

Mr. KUTZ. They have represented that they have. We have not actually tested it in a live environment, nor do we know if they have actually tested it doing a desktop or some sort of a practice test, because one of the recommendations we have with all of these improved fraud prevention program processes is to test them before a major disaster. Because once a disaster hits, if you have not tested them, you could deny legitimate victims assistance, and none of us wants to see that either.

So we are hopeful they have agreed with most of our recommendations. They have stated they have taken progress. We have not been able to follow up on all of them yet, and some of them we will have to actually test in a live environment and see if they work.

Senator LIEBERMAN. Right. But in the normal course of your work, you will follow up on those?

Mr. KUTZ. Yes.

Senator LIEBERMAN. All right. Have you performed any investigations or analysis of FEMA payments in disasters that have happened since Hurricanes Katrina and Rita?

Mr. KUTZ. No.

Senator LIEBERMAN. So there is at this point no comparison.

Mr. KUTZ. And the reason we have not is because there has not been many individual assistance payments. There have not been that many larger disasters to test, so there has not been that much to test.

Senator LIEBERMAN. I want to go back to the foreign students applying for aid and the findings that FEMA's files actually contained documentation showing that the students were not qualified. Were you able, again, to determine in your investigation how FEMA could, having seen that in the file, gone ahead and made the payments to self-evidently unqualified aliens? And if you would, I want to ask the broader question about whether FEMA has a problem with training their employees or contractors in the simple processing of these applications.

Mr. KUTZ. It certainly appears that, whether it was FEMA employees or contractors—and it is probably some of both—they either did not understand or they did not care, one of the two. Because if you look in the files, there are pictures of the student visas and there are even FEMA fliers that say foreign students are not eligible for these benefits.

Senator LIEBERMAN. Right.

Mr. KUTZ. Right in the same file. It is scanned into the FEMA databases saying this, yet they paid them anyway. Again, training is a very important point here. I think because there are so many contractors—FEMA has to staff up to do these major disasters, and it appears that the training was not effective in this case.

Senator LIEBERMAN. Let me ask you about this in a somewhat different way because we all know that in the first days after Hurricane Katrina hit, when we all watched the suffering of the people in New Orleans in particular, there was a lot of embarrassment, and FEMA came under great pressure. Mr. Brown resigned. Did you find any evidence that part of the problem here might have been that somebody high up in FEMA said, in response to the public and congressional, political anger at FEMA's actions, "Get out the checks. If there is a mistake, we will come and deal with it later, but let's not get criticized for not making payments"?

Mr. KUTZ. It is very possible. We did not see any documented evidence of that, but it is very possible because, again, when they first started making the disbursements, they identified hundreds of millions of dollars of potential duplicate and improper payments, and someone somewhere—we cannot tell exactly where—made a decision to let them go. And, again, I think some of it was manpower.

They were overwhelmed by the sheer volume of the edits that had identified these improper payments, and so they would have had to hold up those payments for potentially months. And so the choice at that point was—again, because you had not pre-tested your controls—shoot the money out the door and try to come back and collect it later.

Senator LIEBERMAN. OK. Thanks very much. Again, the two of you have really done an important public service here.

Thank you.

Chairman COLLINS. Thank you. Senator Coleman.

Senator COLEMAN. Thank you, Madam Chairman.

I want to follow up on the system checks here, the National Emergency Management Information System. They have an edit check system that was kind of a first line of defense. Is there any data, any information as to what the delay might have been? And, again, what I understand, we have been told that the National Emergency Management Information System edit check system was disabled apparently to facilitate a more expeditious processing of some of these claims and some of this money. But do we have any information on, if the system had been kept running, what the delay would have been?

Mr. KUTZ. It would have been many months. Again, I seem to remember it was about $900 million that had been flagged at some point in time, which would have been a substantial number of applications, and they just did not have the people to work those cases. So I anticipate it would have been many months to get that money out.

Senator COLEMAN. Had there ever been another instance that you are aware of in which the National Emergency Management Information System edit check had been disabled?

Mr. KUTZ. We are not aware of any.

Senator COLEMAN. No experience with it?

Mr. KUTZ. No experience with it, so we do not know.

Senator COLEMAN. At a press conference on November 30, FEMA Director Paulison stated that they had established an identity verification system to confirm displaced residents who are who they say they are and where they have lived. His indication was that it would cut down on waste, fraud, and abuse. Have you had a chance to review the system at this point in time?

Mr. KUTZ. We have met with ChoicePoint. I believe they are using ChoicePoint still, and so we are aware—ChoicePoint has a whole menu, Senator, of various fraud prevention controls that they can put in place. Again, FEMA did not effectively use ChoicePoint the first time. So if they better use ChoicePoint—I am not saying they can eliminate fraud, but they can make a significant dent in fraud, waste, and abuse by implementing many of those controls that FEMA or the other ones that do what ChoicePoint does implementing those controls.

Senator COLEMAN. Mr. Ryan.

Mr. RYAN. Senator, I still go back to the point that you can talk about controls, you can write them down on a piece of paper, but somebody needs to test these controls because, quite honestly, it is like everything else. You can say you found the property, but until you touch it, you really don't know if you have it. In this particular

case, you can talk about the controls, but I really do think there has to be some type of an agreement where someone will actually come in and test what you are actually putting on a piece of paper. And until that is done, I am not real happy that it is going to be satisfactory.

Senator COLEMAN. What I am hearing then is that until you have really had a chance to review this, you are not in a position to say whether it meets the kind of specification, the standards that you want to see to prevent further waste, fraud, and abuse.

Mr. KUTZ. You really have to test it in a live environment to know.

Mr. RYAN. Yes, not only review it, but you have to test it. There are going to be so many different circumstances that come up, we have so many different citizens that needed assistance that they are going to have different stories and different situations. You have to be able to test your program, find out where you are going to have an overflow of problems, and make sure that you can plan for your manpower so that you can handle those situations to make sure that the people that need the assistance get it as quickly as they possibly can.

Mr. KUTZ. Senator, can I just add, we did test—with this disaster we tested, and that is one of the results of the test is them sending us money. I mean, because we went in with bogus information, we tested the system various ways to see if we could beat it, and that is one of the results. We did it right down the hall from our offices.

Senator COLEMAN. In terms of testing, some of the scenarios, let's say there were two back-to-back disasters. Do we have a sense of how the system would operate under those circumstances?

Mr. RYAN. Well, they have an edit that can actually identify people making claims for both disasters. In this particular case, based on the work that we did, we found out that they turned that edit off.

Senator COLEMAN. Right.

Mr. RYAN. Therefore, if the edit was in place, they would have been able to identify potential targets. We are not saying that all of the individuals who got duplicate payments are fraud cases, but we have talked to the task force in Louisiana, Mr. Dugas in Justice, and we believe that these cases are worthy of referring to them for further investigation.

Senator COLEMAN. I want to focus again on at least the system that appears to be established and in place regarding identity verification. One of the concerns that you raised was they used Social Security numbers, and people used Social Security numbers that were not their own to get disaster assistance. Do you have any sense of whether this system would be able to identify folks using improper Social Security numbers or whether this system would identify someone who is not a U.S. citizen, the parameters of whether this problem would be addressed under the system in place right now?

Mr. KUTZ. The ChoicePoint system could have identified if one person tried to get in with bad information in most cases. There are exceptions to that. I think the foreign students could have gotten through if they had Social Security numbers. There is no way to tell that they were ineligible foreign students.

One of the other problems was if people were using the same Social Security number 20 times, they were also able to get through. So hopefully they have put in something, even after ChoicePoint says that is a real Social Security number, that someone is making sure that they are not registering 20 times with the same Social Security number.

Senator COLEMAN. I would hope that you would do what needs to be done to figure out ways to ensure that—or maybe that is our responsibility that this system is tested and that it is checked. I would hate to have to come back after the next disaster with similar problems and the response was, well, we thought it worked but we did not know, and in the end it did not work.

Thank you, Madam Chairman.

Chairman COLLINS. Thank you. Senator Carper.

Senator CARPER. Thank you, Madam Chairman.

Could you ask someone to put up the very first poster that was up?[1]

Just tell us again what we have here, starting from the left. It looks like $1 billion was the GAO estimate of improper payments, as of what?

Mr. KUTZ. February 2006. And that was based upon a statistical sample we did of every payment and registration that was made.

Senator CARPER. And as of about a month ago, it looks like FEMA had identified roughly 30 percent——

Mr. KUTZ. As improper payments, yes, that is their identification of improper payments.

Senator CARPER. And they have gone out and collected $7 million.

Mr. KUTZ. Right.

Senator CARPER. Which is about 2 to 3 percent of the amount. Would you say the $7 million or the 2 or 3 percent is about what you would expect? Is that a bit low? I cannot imagine it is a bit high. But how would you characterize that?

Mr. KUTZ. I would expect a couple pennies on the dollar. I do not expect a lot more. Maybe over time they will get more. I mean, that gets into the other issue, and I think Senator Collins mentioned it, that FEMA also has maybe $8 million of receivables now, so now FEMA is becoming a debt collection agency. And that is not really the purpose you want FEMA doing.

But certainly they could potentially get more, but it is not going to be much at the end of the day.

Senator CARPER. Are there others, other entities, public or private, to whom they could dispatch or turn over the responsibility for debt collection? Maybe they have already done that. I do not know.

Mr. KUTZ. The way this is supposed to work, once they have issued the letters—I think they sent letters out for the $290 million, so they have sent letters saying, "You owe us this money back," etc. After a certain period of time, the way the government process works, they are supposed to refer that to the Treasury Department, who has an offset program, and ultimately this will end

[1] The poster appears in the Appendix on page 51.

up with collection agents, possibly, and they may actually offset it against things like refunds, tax refunds, or other things.

So there is a certain process that FEMA should be following that, after a certain age, it goes to Treasury and then collection agents, and they offset against other government disbursements.

Senator CARPER. Are you aware of anything that we should be doing on this Committee or in Congress to increase that number from $7 million to something higher than that, to make that $290 million that FEMA identified closer to the $1 billion that you had identified in your earlier work?

Mr. KUTZ. Well, they have not showed us this yet, but we understand they have shared with some of the Committee staff that there are hundreds of millions more of recoupments that will make that $290 million grow. So they are going to continue to be sending more letters out. The question is how effective can you be collecting that from people. If they are fraudsters, they are gone. They have disappeared. You are never going to find them. If it is people who just got an improper payment that might not be fraudulent, you have got a chance to get the money. And I will use the students as an example. A lot of the students apparently had spent the money, and now they were saying to our people when we interviewed them, "We are going to have a hard time paying that money back."

Again, if you have spent the money, it is kind of hard to pay it back sometimes. So it is going to be—again, I think good management, they can get several percent, but it is going to be hard to imagine them getting a lot. But what you can do, I think, is provide oversight of FEMA to try to hold them accountable, make sure they are at least following the right processes, because, again, the more effective way is fraud prevention. But now that you are here where you are, we do want to see that people recover as much as possible.

Senator CARPER. OK. I think what you just said there is really critical. The important thing is for us to do the job at the front end and for FEMA to do the right job at the front end because when the money is out, for the most part it looks like it is gone, it is out of here.

Could we look at the second poster that you had up there, please? Explain this one again for us, if you would, just briefly.[1]

Mr. KUTZ. Yes, this is individuals that are staying at FEMA-provided housing, and in this particular case, it is mobile homes and trailers. It could be a hotel. The hotels have the same issue. Apartments have the same issue. They are entitled to free housing under the program if they are legitimate victims. What the problem is here is at the same time they got free housing, FEMA sent them a check reimbursing them for rental that they were not incurring. So the government basically paid twice for these individuals' housing.

Now, again, whether this is fraud or not, it depends on certain cases. Some of it might just be people who said, "Hey, I got a check from FEMA for rental assistance even though I am staying at a free FEMA hotel," or in this case a mobile home or trailer. So that

[1] The poster appears in the Appendix on page 50.

is what that represents. Again, you are paying twice for the same thing.

Senator CARPER. The courts recently ruled, a Federal district court recently ruled that FEMA needed to continue providing housing assistance for a number of people who have been displaced. How does that fit into this situation? Or does it?

Mr. KUTZ. It may. I think one of the issues is: Is FEMA making sure people are alerted as to what they are supposed to spend the money on? It gets back to the same thing we found with the debit cards. FEMA was not telling people how they were supposed to spend the money, so that got into certain issues. But I am not sure exactly how it relates to this. There may be some overlap with this issue.

Senator CARPER. What kind of assurances can you give us, looking ahead to the next disaster, the next hurricane, the next flood, that FEMA has learned lessons so that we will not replicate these problems in the future? Because as you pointed out, once the money is gone, it is gone.

Mr. KUTZ. Well, one of the frustrating parts of where we sit is we cannot actually do it. We can only recommend it. But certainly we have given them what we think are practical, implementable recommendations that, again, do not necessarily harm legitimate victims but help us to reduce fraud, waste, and abuse. So certainly our follow-up and maybe this Committee's follow-up would be useful in holding FEMA's feet to the fire and making sure that they do better next time. We certainly would be willing to work with the Committee on that point.

Senator CARPER. Good. That is one that our Subcommittee may want to take a look at in the next year as well. Our thanks to both of you for your continued service.

Chairman COLLINS. Thank you.

I would like to return to the posterboard of the disaster assistance check received by GAO.[1] Mr. Ryan, first, explain to me how someone from GAO received this?

Mr. RYAN. We tested the system to see if the up-front controls were in place to stop a person like myself and the agents that sit behind me from stealing the money. We created identities. We used Social Security numbers that were not linked to those identities. We went online first to try to register. We were not successful because the online verification process stopped us because it identified us as not real people.

However, the system said, "If you don't get through, call us." Well, we called, used the same information, and we were able to register. We provided documentation, which we counterfeited, manufactured. They accepted it and in the process proceeded to send us this check along with other checks.

Chairman COLLINS. Isn't it pretty easy to verify an identity and a Social Security number to make sure that they match? Wouldn't it be pretty easy to prevent this kind of blatant fraud?

Mr. RYAN. I think that FEMA, in using the Internet system, had the right idea. I think it was a great start. But the problem was that you went down two different paths and they did not follow the

[1] The poster appears in the Appendix on page 49.

same process. If you are going to do it on the left, you should do it on the right. And there is where the vulnerability existed.

Mr. KUTZ. We tried to get in through the Internet, through the Web, and we got kicked back. So we went to the phone calls, and the very same people who got kicked out—so they did not even keep track of who got kicked out either to make sure that if they called, they would say, "Yes, you already tried, and we rejected you." They did not even have that in place.

Chairman COLLINS. And while there were controls if you applied via the Internet, those same controls did not exist if you called up and applied, which is why you were successful when you used the telephone application process, correct?

Mr. RYAN. Correct.

Chairman COLLINS. What is stunning about this is it is not a very sophisticated fraud to make up an identity and a Social Security number, and yet it was successful. But you first testified about doing this back in February, if memory serves me correctly. So this raises another interesting question. Has FEMA tried to recoup this money?

Mr. RYAN. We have not received a recoupment letter, and we have not cashed the checks, which is kind of a clue that maybe you need to be looking at who is spending the money.

Mr. KUTZ. We are probably the only people that have not cashed the checks, Senator. [Laughter.]

Chairman COLLINS. That I would guess.

Mr. Kutz, based on the review and investigations you have done, what do you think the real likelihood is of FEMA being able to recover a substantial amount of the improper or fraudulent payments, let's say 50 percent?

Mr. KUTZ. Almost zero percent chance.

Chairman COLLINS. Because in many cases, as you have pointed out, if someone deliberately committed fraud, they are not going to stick around to be caught.

Mr. KUTZ. Right.

Chairman COLLINS. But, second, if someone received a check and thought, "Gee, what good fortune that I got this payment," or "Maybe I am allowed to collect twice because it was two different hurricanes," isn't it very likely that money is long gone?

Mr. KUTZ. Yes, and, again, they have spent it. Again, like our recent examples of the students, many of them had spent the money already. What they spent it on we did not follow up on. But, yes, they are going to have a hard time paying it back now.

Chairman COLLINS. Mr. Ryan, I understand that you investigated the case of the crab house where the 25 temporary workers received over $150,000 in assistance, despite the fact that they were clearly ineligible. Should FEMA have known that the workers should not receive this assistance? Did you find any evidence that FEMA had documents that should have raised red flags about the eligibility?

Mr. RYAN. In this particular case, the individuals were here on work visas. They were working at the crab house. When the hurricane came, the owner took the employees and went to Florida. While they were in Florida, the owner of the business made sure that they had all their working visas, took them down to FEMA

and provided the visas—provided the location for the worker to go to and the evidence that they had a working visa. It was presented to FEMA. Some of that documentation was recorded in the database. And when we reviewed it, we found it.

What I would like to bring out is that in the application process, the question is asked: Are you a legal alien? And in these particular cases, without a further explanation or an understanding by the FEMA employee, these people were legal aliens. They were here on proper work visas.

What needs to be done is that if you are going to ask that question, you need to have either a dropdown screen or you need to ask the appropriate follow-up question: Are you here on a student visa? Are you here on an H–1 or H–2 type visa? So that there is a better understanding of the person who is presenting the information so they can determine whether or not they are entitled or not entitled.

So in this particular case, I will say that these 25 people who got money, I cannot tell you if they were legal or not legal. I cannot tell you if the visas were valid or invalid. I cannot tell you if they should have gotten benefits or they shouldn't. However, I will tell you that we referred it to the task force, and we believe that these people ought to be interviewed and a criminal case started against them.

Mr. KUTZ. Well, some of them provided fictitious information, and so some of them are suspicious fraud cases. The ones that had the visas scanned into the system were all from Mexico, and the other ones, there was nothing in the system basically. And when we checked their Social Security numbers, there were problems with a number of them. Some had never been issued before. So, again, some of these could be fraud cases.

Chairman COLLINS. And I think that is an important point because in some of these cases what you are finding is outright fraud—manufactured Social Security numbers, false identities, other indicators of deliberate fraud. But in some of these cases, the individuals—I suspect the international students may be examples of this—presented legitimate documentation to FEMA that should have led FEMA to say you are not eligible for assistance, and there was not fraud on behalf of the claimant in some of these cases, but FEMA, through sloppy procedures, issued checks even though they had information that should have led them to disqualify the individual. Is that fair?

Mr. KUTZ. Yes. And, in fact, representatives from the four universities said that FEMA representatives told the students to apply even knowing that they were not eligible. We could not validate all of that, but certainly we had multiple sources of evidence that the FEMA people knew these people were not eligible and that they let them apply anyway—or they encouraged them to apply. And so, again, like you said, in the FEMA system there appears to be valid student visas in the system, and even right next to that is a copy in the system of the FEMA flier saying foreign students are not eligible. They got money anyway.

Chairman COLLINS. This shows me that, in addition to having better internal controls that are consistently applied and not suspended just because there is a large volume of applicants, we also need better training, better systems for ensuring that FEMA work-

ers understand the eligibility rules, which was Senator Lieberman's point as well.

I just have one final question for you, and it has to do with FEMA's attempts to recoup this money. Mr. Ryan, you made a very good point that FEMA is not a collection agency. This is not an area where FEMA has expertise, and, clearly, resources are being diverted to collecting on these cases. And FEMA really does not have that as its mission.

To me, the lesson from that is you have to have good controls up front to prevent this fraud in the first place. But what is your general assessment—I would like to hear from both of you on this issue—of FEMA's system for triggering recoupment, going after obviously improper or fraudulent payments? Mr. Ryan, we will start with you.

Mr. RYAN. My experience is that when the money gets out the door, it is gone, and you are chasing it down the street trying to find it. We are wasting almost as much money chasing it as what we are trying to recover.

I cannot really give you my opinion because I really did not work on the recoupment process that they have. But I can tell you that based on testifying four times, five times in regard to FEMA, we really at your direction, the Committee's direction and some of the other committees in Congress, looked at what really fraud is. How does fraud exist in these programs? In the past, we were told it was 1 or 2 percent. When we are identifying from a statistical sample 16 percent fraud, it appears that you have to do a better job up front because I do not know if you are going to be able to recover the money in the back.

I cannot really comment as to the process that they are using for recoupment because I have not looked at it. Maybe Mr. Kutz has and the staff has. I have not.

Mr. KUTZ. No, we have not systematically looked at it, but the interesting thing is that they have characterized recoupments or the $290 million as the fraud rate or the fraudulent or improper rate. Well, as you know, that does not make any sense. And they tried to compare that to the way we did a random statistical sample of the entire population.

So it just almost seemed like they didn't really understand what fraud, waste, and abuse is, and that kind of was a bit discouraging. But, again, the fact that they are identifying hundreds of millions of dollars is not a bad thing; if they can try to collect it, it is good. But you are right. If we get bogged down in FEMA doing debt collection and another disaster hits, that is not a good thing.

Chairman COLLINS. I guess what is most disturbing to me, as I mentioned in my opening comments, is this is money that is desperately needed by the real victims to rebuild devastated communities and to rebuild their lives. The American people are very generous, but there is a limit to their generosity if they believe that substantial amounts of money are being lost to waste, fraud, and abuse. And that is clearly what happened in this case.

It is particularly frustrating to me because in 2004 this Committee held oversight hearings looking at waste, fraud, and abuse in the wake of the Florida hurricanes, and we identified some of the exact same problems that you have testified about today. At

that time, I remember telling Michael Brown that he had to ensure that controls were in place before the next major disaster hit. Regrettably, he did not do so, and when a disaster of the magnitude of Hurricane Katrina hit, the magnitude of the waste, fraud, and abuse was that much greater.

We cannot wait for yet another disaster to hit and for yet another round of investigations and hearings to spotlight once again the lack of basic safeguards and internal controls that any agency that is providing public assistance should have as a matter of course. This is not rocket science. It is not something where it requires technology that has not yet been developed. It is basic verification of eligibility, identity, address, and damage. And I for one am going to continue to push FEMA and the Department of Homeland Security to prove that they have those systems in place.

The FEMA reform legislation that this Committee advanced and which was signed into law as part of the appropriations bill requires the development of those standards. It is not something, frankly, that we should have had to put in law to ensure that it was going to happen. It is basic management. But I hope that you will continue to work with us to probe and test the system to ensure that true progress has been made.

We have asked DHS to respond to your testimony and to these latest findings and recommendations. They are still working on their response, and I look forward to seeing their response to these very troubling findings.

We all know that lessons can be learned and applied in the wake of a disaster, and we have seen some progress being made in other parts of FEMA. And I realize there is a lot of progress that needs to be made. But the American people are not going to be willing to keep writing checks for disaster relief and assistance unless they are assured that the money is being wisely spent to benefit the true victims. And your work is vitally important in helping us achieve that goal.

I very much appreciate all of your assistance to the Committee. It has been a great pleasure to work with you. I am certain that this Committee's fight against wasteful spending will continue, and I look forward to working with you further.

I also want to thank my staff for their diligent work on this hearing and, indeed, on all of the Hurricane Katrina investigation. It was the most extensive investigation ever undertaken by this Committee. I believe that this is our 25th Hurricane Katrina hearing, and I think we have learned a lot. We have issued a major report. We have enacted legislation. But it is clear that continued oversight will be necessary. So I want to thank the staff for their good work as well.

The hearing record will remain open for 15 days to receive questions for the record, other materials, and I hope DHS's written formal response.[1]

Thank you again for your good work.

This hearing is now adjourned.

[Whereupon, at 11:17 a.m., the Committee was adjourned.]

[1] FEMA/DHS response appears in the Appendix on page 54.

APPENDIX

United States Government Accountability Office

GAO

Testimony
Before the Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery
Expected at 10:00 a.m. EST
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HURRICANES KATRINA AND RITA DISASTER RELIEF

Continued Findings of Fraud, Waste, and Abuse

Statement of Greg Kutz, Managing Director
Forensic Audits and Special Investigations

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

GAO-07-252T

December 6, 2006

GAO
Accountability·Integrity·Reliability
Highlights

Highlights of GAO-07-252T, a testimony to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

HURRICANES KATRINA AND RITA DISASTER RELIEF

Continued Findings of Fraud, Waste, and Abuse

Why GAO Did This Study

Hurricanes Katrina and Rita destroyed homes and displaced millions of individuals. While the Federal Emergency Management Agency (FEMA) continues to respond to this disaster, GAO's previous work identified significant control weaknesses—specifically in FEMA's Individuals and Households Program (IHP) and in the Department of Homeland Security's (DHS) purchase card program—resulting in significant fraud, waste, and abuse.

Today's testimony will address whether FEMA provided improper and potentially fraudulent (1) rental assistance payments to registrants at the same time it was providing free housing via trailers and apartments; (2) duplicate assistance payments to individuals who claimed damages to the same property for both hurricanes Katrina and Rita; and (3) IHP payments to non-U.S. residents who did not qualify for IHP. This testimony will also discuss (1) the importance of fraud identification and prevention, and (2) the results of our investigation into property FEMA bought using DHS purchase cards.

To address these objectives, GAO data mined and analyzed FEMA records and interviewed city officials, university officials, and foreign students. GAO also traveled to Louisiana and Texas to inspect selected property items and to investigate improper housing payments to individuals living in FEMA-provided housing.

www.gao.gov/cgi-bin/getrpt?GAO-07-252T.

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

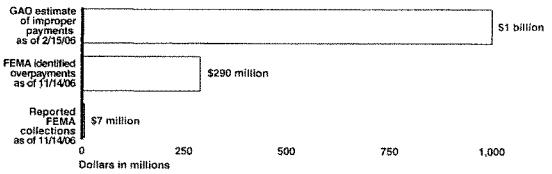
What GAO Found

FEMA continued to lose tens of millions of dollars through potentially improper and/or fraudulent payments from both hurricanes Katrina and Rita. These payments include $17 million in rental assistance paid to individuals to whom FEMA had already provided free housing through trailers or apartments. In one case, FEMA provided free housing to 10 individuals in apartments in Plano, Texas, while at the same time it sent these individuals $46,000 to cover out-of-pocket housing expenses. In addition, several of these individuals certified to FEMA that they needed rental assistance.

FEMA made nearly $20 million in duplicate payments to thousands of individuals who claimed the damages to the same property from both hurricanes Katrina and Rita. FEMA also made millions in potentially improper and/or fraudulent payments to nonqualified aliens who were not eligible for IHP. For example, FEMA paid at least $3 million to more than 500 ineligible foreign students at four universities in the affected areas. This amount likely understates the total payments to ineligible foreign students because it does not cover all colleges and universities in the area. FEMA also provided potentially improper and/or fraudulent IHP assistance to other ineligible non-U.S. residents, despite having documentation indicating their ineligibility.

Finally, FEMA's difficulties in identifying and collecting improper payments further emphasized the importance of implementing an effective fraud, waste, and abuse prevention system. For example, GAO previously estimated improper and potentially fraudulent payments related to the IHP application process to be $1 billion through February 2006. As of November 2006, FEMA identified about $290 million in improper payments and collected about $7 million.

GAO Improper Payment Estimate and FEMA Reported Overpayments and Collections



Source: GAO analysis and FEMA data.

GAO's previous work on the DHS purchase cards also showed significant problems with property accountability. Of 246 items we investigated that FEMA purchased for hurricane relief efforts using DHS's purchase cards, 85 items—or 34 percent—are still missing and presumed lost or stolen.

Chairman and Members of the Committee:

Thank you for the opportunity to discuss our forensic audit and related investigations into the Federal Emergency Management Agency's (FEMA) response to hurricanes Katrina and Rita. In several prior hearings, we testified that significant control weaknesses in FEMA's Individuals and Households Program (IHP) and in the Department of Homeland Security's (DHS) purchase card program have left the government vulnerable to significant fraud, waste, and abuse. In February 2006,[1] we testified before this Committee that specific control weaknesses in the IHP program resulted in improper expedited assistance payments and nonexistent controls left the government vulnerable to substantial fraud and abuse related to IHP. Several months later, in June 2006,[2] we testified on additional work performed whereby we projected that the weak or nonexistent controls resulted in an estimated $1 billion dollars in potentially fraudulent and improper IHP payments.[3] Most recently, in July 2006,[4] we testified before this Committee that control weaknesses in DHS's purchase card program had resulted in fraud, waste, and abuse, including activity by FEMA related to hurricanes Katrina and Rita. Our purchase card work also showed that poor controls over property acquired primarily for hurricanes Katrina and Rita operations, including laptops, printers, global positioning system (GPS) units, and flat-bottom boats, resulted in lost, missing, or stolen assets. We have issued companion

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

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

[3] To reach this estimate we followed a probability procedure based on random selections. Therefore, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we expressed our confidence in the precision of our particular sample's results as a 95 percent confidence interval. The 95 percent confidence interval surrounding the estimate of $1 billion ranges from $600 million to $1.4 billion.

[4]GAO, *Purchase Cards: Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity*, GAO-06-957T (Washington, D.C.: July 19, 2006). This work was performed jointly with the DHS Office of Inspector General.

reports[5] following each of these testimonies that included numerous recommendations on how to address the weaknesses identified by our audit and investigative work.

As we previously reported, the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act)[6] provides the basis for IHP. IHP is a major component of the federal disaster response efforts designed to provide financial assistance to individuals and households that, as a direct result of a major disaster, have necessary expenses and serious needs that cannot be met through other means. The Stafford Act allowed registrants to receive financial assistance up to a cap of $26,200 for disasters occurring in 2005. In early October 2006, FEMA reported to Congress that it had delivered approximately $7 billion in IHP aid for hurricanes Katrina and Rita. This IHP amount included expedited assistance, temporary housing assistance, repair and replacement of real and personal property, and other miscellaneous categories.

Today's testimony reflects new findings related to additional work we have performed since June 2006. The testimony will address whether FEMA provided potentially improper and/or fraudulent (1) rental assistance payments to registrants at the same time it was providing free housing via trailers and apartments; (2) duplicate assistance payments to individuals who claimed damages to the same property for both hurricanes Katrina and Rita; and (3) IHP payments to non-U.S. residents who did not qualify for IHP. This testimony will also discuss (1) the importance of fraud prevention, and (2) the results of our investigation into property bought by FEMA using DHS purchase cards, which was subsequently lost or stolen. For purposes of this testimony, potentially improper and/or fraudulent payments refers to payments made by FEMA based on potentially improper and/or fraudulent registration data submitted by IHP registrants.

[5]GAO, *Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse*, GAO-06-655 (Washington, D.C.: June 16, 2006); GAO, *Hurricanes Katrina and Rita: Unprecedented Challenges Exposed the Individuals and Households Program to Fraud and Abuse; Actions Needed to Reduce Such Problems in Future*, GAO-06-1013 (Washington, D.C.: Sept. 27, 2006); and GAO and DHS Inspector General, *Purchase Cards: Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity*, GAO-06-1117 (Washington, D.C.: Sept. 28, 2006).

[6]42 U.S.C. §5121-§5206.

To address these objectives, we compared information included in FEMA databases; performed data mining on FEMA databases; and interviewed officials in selected cities and universities, and foreign students. We also traveled to Louisiana and Texas to physically inspect selected items FEMA purchased for hurricane relief efforts. For details on our scope and methodology, see appendix I. We conducted our audit and investigations from June 2006 through November 2006. We conducted our audit work in accordance with generally accepted government auditing standards and conducted our investigative work in accordance with the standards prescribed by the President's Council on Integrity and Efficiency.

Summary

Our audit and investigative work on controls over FEMA disaster relief payments associated with hurricanes Katrina and Rita identified additional potentially improper and/or fraudulent payments, including the following:

- Nearly $17 million in potentially improper and/or fraudulent rental assistance payments to individuals while they were living in trailers also paid for by FEMA. For example, after FEMA provided a trailer to a household—in January 2006—FEMA provided rental assistance payments to the same household in late January, February, and April of 2006 totaling approximately $5,500.

- FEMA provided potentially improper and/or fraudulent rental assistance payments to individuals living in FEMA-paid apartments. For example, FEMA made nearly $46,000 in rental assistance payments to at least 10 individuals living in apartments at the same time that the apartments were being paid for by FEMA through the city of Plano, Texas. Seven of 10 in this group self-certified to FEMA that they needed rental assistance, despite the fact that they were living in rent-free housing. Because of limitations in FEMA data, we were not able to identify the full extent of potentially improper rental assistance payments made to individuals in FEMA-paid apartments.

- Nearly $20 million in potentially improper and/or fraudulent payments went to individuals who registered for both hurricanes Katrina and Rita assistance using the same property. With few exceptions, FEMA officials explained that victims of both disasters are entitled to only one set of IHP payments for the same damaged property. However, FEMA officials told us that they turned off the system edits that should have identified these types of duplicate payments to increase the speed with which FEMA could distribute disaster assistance. Consequently, FEMA paid over 7,000 individuals IHP assistance twice for the same property—once for Hurricane Katrina and once for Hurricane Rita.

These individuals received double payments for expedited assistance, rental assistance, and/or housing replacement. For example, FEMA records showed that one registrant received two housing replacement payments of $10,500 each, despite the fact that he had only one property to replace.

- Millions of dollars of improper and potentially fraudulent payments to nonqualified aliens, including foreign students and temporary workers. For example, FEMA improperly paid at least $3 million in IHP assistance to more than 500 ineligible foreign students at four universities. Further, FEMA provided IHP payments that included expedited assistance and personal property totaling more than $156,000 to 25 individuals who claimed to be foreign workers on temporary visas. FEMA made these payments despite having copies of the work visas for several individuals, which should have alerted FEMA that the temporary workers were not eligible for financial assistance. Because we did not obtain information from all universities in the Gulf region and because of unavailability of detailed data on other nonqualified legal aliens, we were not able to determine the magnitude of potentially improper and/or fraudulent payments in this area.

- The small amount of money that FEMA has been able to collect from improper payments further demonstrates the need to have adequate preventive controls. We previously reported that inadequate preventive controls related to the IHP application process resulted in an estimated $1 billion of potentially improper and/or fraudulent payments through February 2006. In contrast, as of November 2006, FEMA had detected through its own processes about $290 million in overpayments. This overpayment amount, which FEMA refers to as recoupments, represents the improper payments that FEMA had detected and had issued letters requesting repayments. However, through November FEMA had only collected nearly $7 million of the about $290 million identified for recoupment. Collection of only $7 million of an estimated $1 billion of fraudulent and improper payments clearly supports the basic point we have previously made[7] that fraud prevention is far more efficient and effective than detection and collection.

- Regarding the DHS purchase card program, we found overall problems with property items bought for hurricanes Katrina and Rita relief efforts using government purchase cards. For example, FEMA is still

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

unable to locate 48 of the143 missing items (e.g., laptop and printers) identified in our July 2006 testimony. Moreover, 37 items were missing from an additional 103 items that we investigated. Thus, over a year after being purchased, FEMA could not locate 85 of the 246 items (34 percent) that we investigated, and are presumed lost or stolen.

- Our investigation also revealed that although FEMA was in possession of 18 of the 20 flat-bottom boats it had purchased for hurricane relief efforts, FEMA had not received the title to any of these boats. Further, FEMA could not provide any information about the location of the remaining two boats, although local law enforcement officials informed us that they found one of the boats in a shed at the house of its previous owner.

Potentially Improper and/or Fraudulent Housing Assistance Payments Related to Trailers and Apartments

We found that FEMA provided nearly $17 million in potentially improper and/or fraudulent rental assistance payments to individuals already housed in other accommodations that FEMA provided through other disaster assistance programs. The Stafford Act prohibits FEMA from providing rental assistance payments under IHP to an applicant if temporary housing has been provided by any other source.[8] Despite this prohibition, FEMA neither had an effective process in place to compare IHP registrant data with data on individuals already housed in FEMA-purchased trailers and FEMA-provided apartments. FEMA also failed to adequately advise victims that they were prohibited from receiving rental assistance for the same period they occupied rent-free housing. Consequently, FEMA improperly paid nearly $17 million to over 8,600 registrants after they had already moved into FEMA trailers. While the quality of FEMA data did not allow us to make similar calculations for the amount and number of individuals receiving rental assistance payments after they had been housed in FEMA-provided apartments, the amount could be substantial.

In the aftermath of hurricanes Katrina and Rita, FEMA used various programs to house displaced victims, including financial assistance for rent and rent-free housing. Rent-free housing included trailers that FEMA purchased and apartments that FEMA either paid for directly or reimbursed state and local governments for after they paid landlords on behalf of the disaster victims. According to a FEMA official, to expedite

[8] 42 U.S.C. §5155, C.F.R. §206.101.

apartment rental assistance, FEMA provided payments to over 100 different state and local governments for the provision of rent-free apartments.

By comparing information in two of FEMA's databases—the FEMA Response and Recovery Applicant Tracking System (FRRATS) and the National Emergency Management Information System (NEMIS)—we calculated that FEMA improperly made rental assistance payments—intended to cover out-of-pocket rental expenses—totaling nearly $17 million to over 8,600 individuals after they had moved into FEMA-provided trailers.[9] Some received multiple rental assistance payments even after they moved into free FEMA-provided housing. In some instances, the payments were made based on potentially fraudulent claims because recipients typically have to certify to FEMA that they continued to need IHP rental assistance.

Limitations in FEMA apartment data did not allow us to determine the magnitude of potentially duplicate rental assistance payment to individuals housed in rent-free apartments. In contrast to trailer data, which FEMA maintains in the FRRATS database, we could not validate accuracy or completeness of apartment data. According to FEMA officials, the accuracy of apartment data was questionable because it came from the over 100 state and local authorities who assisted in delivering housing aid for FEMA. The completeness of data was also at issue because FEMA did not ask states to collect registration data from individuals in rent-free apartments until well after the aid was provided, and therefore individuals who may have left the rent-free apartments were not included in the data. Table 1 provides illustrative examples of duplicate rental assistance payments to registrants in FEMA trailers and rent-free apartments.

[9]FEMA officials stated that they did not believe that the initial rental assistance payment, provided to cover the first few months of rental housing, should be considered a duplication of benefits if it was provided to trailer residents. FEMA officials argued that this amount is designed to assist disaster victims in moving from temporary emergency housing into a normal apartment or home lease situation. The United States District Court for the Eastern District of Louisiana expressed approval when FEMA permitted claimants to reapply for three months of IHP rental assistance even though they had already received IHP rental assistance for that period where the claimants certified that the first IHP rental assistance was used for essential needs other than lodging and/or that they had not been notified the money could only be used for lodging. *McWaters v. FEMA*, Civ. Action. No. 05-5488 (Order and Reasons dated 12/12/05 and 6/16/06). The court also permitted short term lodging program participants to remain in their rent free lodging two weeks after receiving their rental assistance or the disapproval of their claim. *Id.*

Table 1: Examples of Duplicate and Potentially Improper and/or Fraudulent Housing Assistance Payments Related to FEMA Trailers and Apartments

Case	Amount of duplicate and improper payment	Type/ location of FEMA-provided unit	Details
1	$46,000	Apartment/ Plano, TX	• 10 residents of an apartment complex applied and received rental assistance. • At the same time, FEMA provided rent-free housing at the apartment in Plano, Texas. • FEMA records indicated that seven registrants certified to FEMA that they needed rental assistance, despite the fact that they lived in rent-free apartments.
2	3,600	Apartment/ Austin, TX	• Registrant received free housing in September 2005 when the registrant moved into an apartment the city of Austin paid for on behalf of FEMA. • FEMA made rental assistance payments in September 2005, February 2006, and May 2006 totaling more than $3,600 at the same time that it paid $705 per month for the apartment.
3	1,700	Apartment/ Houston, TX	• Registrant received assistance in February and a smaller payment in May 2006 covering rent from February through May 2006. • Registrant received a rent-free apartment for the months of February, April, and May 2006. We were unable to confirm whether the registrant received rent-free housing in March 2006 due to incomplete data.
4	5,400	Trailer/ Slidell, LA	• Registrant received trailer in mid-March 2006. • Registrant received two rental assistance payments totaling more than $5,400 in April and May 2006 for the time the registrant lived in the trailer.
5	5,500	Trailer/ Lacombe, LA	• Five members of the same household registered and received IHP assistance using the same damaged address. • FEMA delivered a trailer to the damaged property in January 2006, but continued to provide rental assistance to four members of the same family in January, February, and April 2006. • One interviewee informed us that the rental receipt that a family member provided to FEMA was fictitious. • In addition to the $5,500 in improper duplicative payments for trailer and rental assistance, the family also received over $6,000 in potentially improper and/or fraudulent payments by submitting multiple registrations.

Source: GAO analysis of FEMA's IHP trailer data and apartment data from selected cities.

- Case 1 relates to a series of potentially improper and/or fraudulent IHP rental assistance payments totaling $46,000 made to 10 registrants already housed in rent-free housing. In this case, FEMA paid nearly $46,000 in rental assistance to 10 residents of an apartment complex in Plano, Texas, from September 2005 through June 2006. However, at about the same time period (October 2005 through March 2006), the city of Plano made payments totaling more than $74,000 directly to the apartment, for which it received reimbursements from FEMA. Of the total amount paid, $46,000 was duplicative and therefore potentially improper and/or fraudulent. Our review of FEMA records indicated

that 7 of the 10 individuals certified to FEMA that they were in need of rental assistance, even after they had been provided with free housing. Further, FEMA records showed that 7 provided rental receipts and/or leases that clearly indicated that the rent was paid by the city of Plano.

- Case 5 relates to a family of five, all of whom registered for IHP using the same damaged address. Four registrations were duplicative and therefore payments on those registrations are potentially improper and/or fraudulent. Further, despite the fact that FEMA had installed a trailer on the damaged property in January 2006, FEMA continued to send rental assistance payments in late January, February, and April 2006 totaling approximately $5,500. Further, a family member informed us that the family had moved back into the damaged home prior to the trailer being delivered. Consequently, when the trailer was delivered, it simply increased the living space for the household, and it was used by a family member who lived in the house prior to the hurricane. Further, evidence we gathered during the course of the investigation indicated that a rental receipt provided to FEMA to justify continued need for rental assistance was fictitious, and that the family member who submitted the receipt had never paid rent to the supposed landlord. In addition to the $5,500 in improper duplicative rental assistance payments, we found that the family members also received at least $6,000 in other potentially improper and/or fraudulent IHP payments arising from the duplicate registrations.

In the course of apartment-related audit and investigative work, we also identified 14 individuals who improperly received more than $75,000 in disaster assistance using one apartment building as their hurricane-damaged address, even though the building had minimal damage and residents were not forced to evacuate. We provide further details in appendix II.

Potentially Improper and/or Fraudulent IHP Assistance Payments to Individuals Claiming Damages from Both Hurricanes

FEMA made nearly $20 million in duplicate payments to thousands of individuals who submitted claims for damages to the same primary residences from both hurricanes Katrina and Rita. With few exceptions, FEMA officials explained that victims of both disasters should not receive duplicate benefits for the same necessities and/or damages to the same property. However, in order to process disaster claims more quickly, FEMA disabled a system edit check in NEMIS that could have alerted FEMA officials when the same individual applied for both disasters using the same identifying information. This system change resulted in nearly $20 million in duplicate payments being made based on duplicate registrations for hurricanes Katrina and Rita.

In October 2005, FEMA officials informed us that the small amount of time between the impact of hurricanes Katrina and Rita had necessitated the issuance of new policy to prevent duplicate claims for the same damaged property for both hurricanes. FEMA officials said that, with few exceptions, the new policy specified that registrants were entitled to one payment for the same damage and/or need. FEMA explained to us that this was necessary because most individuals did not have an opportunity to replace and/or repair damages they incurred from Hurricane Katrina before Hurricane Rita struck, and because their displacement was likely caused by both hurricanes. At the time, FEMA officials informed us that they had available a system edit check in NEMIS intended to alert FEMA system administrators when the same individual applies for assistance for both disasters, so that FEMA personnel could perform a manual review prior to payments being made.

Despite having a control available, we identified through our review of FEMA's NEMIS that FEMA made payments to about 7,600 individuals who used the same social security number (SSN) and hurricane-damaged addresses for their Hurricane Katrina registration that they used for their Hurricane Rita registration. Subsequently, FEMA officials informed us that these duplicate payments occurred because FEMA disabled the system edit check feature. FEMA stated that they deactivated the system edit check in order to process disaster claims more quickly, because the manual review process that they had intended for these duplicate registrations would have held up many eligible payments. Because of this, FEMA paid nearly $20 million in duplicate payments to individuals who submitted duplicate registrations using the same SSNs and damaged addresses. The nearly $20 million includes duplicate payments for all areas of IHP assistance, including expedited assistance, rental assistance, housing replacement payments, or a combination of these. In five of the six cases where we performed investigative work, the same individual received duplicate payments to replace the same damaged property. The individuals also failed to provide FEMA with evidence that they had replaced the items or conducted repair work after Hurricane Katrina, only to have those items or that work destroyed again by Hurricane Rita. In all cases, FEMA performed its first physical inspection of the damaged property after the passing of both hurricanes.

In addition to other IHP payment types, all six individuals we investigated also received IHP personal property payments to compensate them for lost or destroyed household items, twice—once for Hurricane Katrina and again for Hurricane Rita. In one case, an individual received multiple payments for more than $27,000—over the $26,200 cap—for personal

property replacement alone. In total, this individual received more than $51,800 in IHP assistance, of which at least $25,000 is potentially improper and/or fraudulent. According to FEMA records, another registrant received two housing replacement payments of $10,500 each, despite the fact that the individual had only one property to replace.

Potentially Improper and/or Fraudulent Payments to Non-U.S. Residents

FEMA made at least $3 million of dollars of improper and potentially fraudulent payments to nonqualified aliens who were not eligible for IHP financial assistance. U.S. law specifically prohibits nonqualified aliens, such as foreign students and workers on temporary visas, from receiving financial assistance in case of disaster.[10] However, FEMA did not have implementing controls in place, such as an agreement in place with other government agencies, such as the Social Security Administration (SSA), to identify nonqualified aliens and prevent them from receiving such assistance. Consequently, FEMA paid at least $3 million to foreign students from four selected universities. FEMA also made payments to other nonqualified aliens, such as workers on temporary visas. However, because of a lack of data on other nonqualified aliens, we were unable determine the magnitude of any such improper payments. FEMA made such payments even in cases in which FEMA received information indicating that the alien applying for assistance was not qualified to receive financial disaster assistance.

IHP Payments to Ineligible International Students

The destruction caused by hurricanes Katrina and Rita affected thousands of college students in the fall of 2005. As with other U.S. citizens and qualified aliens, college students who were able to demonstrate losses were eligible to receive IHP payments to assist them in recovering from the disaster. However, U.S. law[11] and FEMA policy specifically prohibits students in the United States on student visas from receiving IHP assistance. By comparing data provided by four universities in Louisiana and Texas against registrant information in NEMIS, we determined that FEMA improperly provided at least $3 million in financial assistance, in the form of IHP payments, to more than 500 students in the United States on student visas. This amount could understate the total payments to

[10] 8 U.S.C. §1611 allows the U.S. government to provide nonfinancial, in kind emergency disaster relief, including short term shelter to temporary legal aliens (nonqualified aliens) after a disaster, but prohibits them from receiving financial assistance.

[11] 8 U.S.C. §1611.

ineligible foreign students because we requested information on international students from only four of the colleges and universities in the areas affected by hurricanes Katrina and Rita.

Our interviews of school officials and several of the ineligible students stated that they received misleading information from FEMA personnel. Specifically, officials at several universities informed us that FEMA personnel actively encouraged all students—including international students—to register for IHP assistance. Despite being ineligible for financial disaster assistance, many international students with whom we spoke stated that FEMA officials told them they were eligible to receive IHP payments and should apply for aid.

We found that FEMA made these payments despite evidence provided to FEMA by students—specifically their student visas—that indicated that they were not eligible for cash assistance. Further, consistent with a finding we reported on previously, FEMA could have identified these students if it had validated their identities with SSA prior to issuing IHP payments. In fact, more than 400 of the students reported as foreign by the four universities were also identified by SSA as non-U.S. citizens. Table 2 displays some examples of ineligible students and payments they received.

Table 2: Improper Payments Made to Ineligible International Students

Case	Location	Number of payments/ amount	Type of payments
1	Louisiana	6/$25,500	Expedited assistance, rental assistance, transportation assistance, and personal property replacement
2	Louisiana	6/$22,500	Expedited assistance, rental assistance, housing repair, and personal property replacement
3	Louisiana	3/$17,700	Rental assistance and personal property replacement
4	Louisiana	4/$16,400	Expedited assistance, rental assistance, and housing repair
5	Louisiana	3/$17,000	Rental assistance and personal property replacement
6	Louisiana	4/$10,900	Expedited assistance, rental assistance, and transportation replacement
7	Texas	3/$7,700	Expedited assistance, rental assistance, and personal property replacement
8	Louisiana	3/$6,500	Expedited assistance, rental assistance, and personal property replacement

Source: GAO analysis of university data and FEMA IHP data.

- Case 4 concerns a student in New Orleans who received more than $16,000 in FEMA payments, including payments for expedited assistance, rental assistance, and personal property replacement. According to NEMIS data, the student's damaged property was in the hardest-hit area of the city, and therefore the student's qualification for IHP was performed through geospatial mapping, while his identity was also validated through a third-party contractor. The student told us that he repeatedly informed FEMA personnel that he was an international student on an F1 visa, and was told each time that he qualified for assistance. In addition to receiving rental payments from FEMA, the student also received a trailer in April 2006. The student stated that he received a letter from FEMA in August 2006 asking for the money back. Further, he is concerned because a FEMA representative informed him that he was not immune to legal action for receiving payments he was ineligible for, despite the fact that he had informed FEMA of his status all along.

- Case 6 involves an international student in New Orleans who received nearly $11,000 in FEMA payments. The student had a student visa from Brazil, and stated on his IHP registration that he owned a home in the New Orleans area. The registrant informed us that he applied via phone, and that he took care to inform the FEMA personnel that he was an international student. According to this student, in this and subsequent conversations with FEMA employees (one of whom was a supervisor at a relief center he visited), he was repeatedly told that he qualified for assistance despite his international student status. Our review of FEMA records confirmed the student's assertion that he provided FEMA with a copy of his visa. In fact, a copy of his visa was scanned into NEMIS and had a note next to it stating "Proof of Qualified Alien," despite the fact that the visa clearly showed he was an international student and therefore ineligible.

- In case 8, a student in New Orleans at the time of Hurricane Katrina received three payments totaling $6,500 covering expedited assistance, rental assistance, and personal property replacement even though he repeatedly told FEMA representatives that he was an international student. The student registered for aid via FEMA's Web site using a valid SSN. The student told us that the SSN was given to him because he was allowed to work in the United States. He stated that during the registration process, he did not find any information that made him aware that he was not eligible for assistance. After registering online, he stated that he also contacted FEMA call center employees and made them aware that he was not a U.S. citizen and was in the country on a student visa, and said he was told by call center employees that he was eligible. The student informed us that during an inspection process, the inspector certified that he was a qualified alien even after he showed the inspector his visa. He subsequently received more than $2,000 for property replacement based on the inspection. However, because the student's visa was not scanned into FEMA's system, we could not corroborate his statement that he repeatedly informed FEMA of his status.

Payments to Other Nonqualified Aliens

We also found that weaknesses in FEMA's controls resulted in improper and/or potentially fraudulent IHP payments being made to other nonqualified aliens, such as workers in the United States on temporary work visas. Because of the unavailability of detailed data on other nonqualified aliens, we were unable to calculate the magnitude of this problem. However, our investigative work uncovered 25 cases where FEMA provided improper payments to nonqualified temporary workers. Specifically, we found that FEMA provided 50 disaster assistance

payments totaling nearly $156,000 to 25 individuals who worked at a crab processing facility, despite the fact that FEMA records clearly showed that 11 individuals were in the United States on temporary work visas, and were therefore ineligible for IHP assistance.[12] These payments included expedited assistance payments of $2,000 and payments of over $10,000 for replacement of property. Some registrants received as much as $15,000 in IHP payments. In one instance, the registrant's file at FEMA contained a copy of a FEMA flier specifically indicating that aliens in the United States on work visas were not eligible for IHP. Next to the flier was a copy of the registrant's temporary work visa. Despite clearly having evidence that he was ineligible for IHP payments, FEMA paid this registrant more than $15,000 in IHP assistance.

Although we were not able to validate that all 25 registrants possessed work visas, we were informed by the registrants' employer that all 25 employees brought their work visa documents with them to FEMA when they filed the disaster claims. However, data from SSA indicated that only 14 of the 25 employees used valid SSNs on their FEMA application.[13] The remaining 11 individuals provided SSNs to FEMA that were never issued or belonged to other individuals in order to get IHP assistance. Payments made to the 11 workers who submitted fictitious information to FEMA are therefore potentially fraudulent.

Ineffective Detective Controls Point to Need for Better Preventive Controls

We previously reported that inadequate preventive controls related to the IHP application process resulted in an estimated $1 billion of potentially improper and/or fraudulent payments through February 2006. As of November 2006, FEMA had detected through its own processes about $290 million in overpayments and had collected nearly $7 million of the about $290 million identified as improper. Collection of only $7 million of an estimated $1 billion of potentially improper and/or fraudulent payments clearly supports the basic point we have previously made, that fraud prevention is far more effective and less costly than detection and monitoring.

[12]According to the owner of the crab processing facility, the remaining 14 individuals were also in the United States as temporary workers, a fact that we were unable to validate. We have referred the 25 individuals to the Katrina Fraud Task Force for further investigation.

[13]Foreign workers who are admitted legally into the United States are issued SSNs.

FEMA's Detection Controls Are Not Effective at Identifying All Potentially Improper and/or Fraudulent Payments

In June 2006, we testified that an estimated $1 billion was potentially improper and/or fraudulent. We derived this estimate from statistical sampling work we conducted on registrations submitted to FEMA as of mid-February 2006. We also reported that this estimate potentially understates the total potentially improper and/or fraudulent payments because the scope of our statistical sampling work did not include verifying for insurance or actual property damage, among others things.

As of November 2006, FEMA reported that it had identified about $290 million in overpayments to nearly 60,000 registrants. This overpayment, which FEMA refers to as recoupments, represents the improper payments that FEMA reported it had detected and for which it had issued collection letters. According to FEMA officials, the payments identified as improper were based on cases referred to the fraud hotlines and registrations that met specific criteria of being more likely improper.

Although FEMA had identified about $290 million in overpayments, to date FEMA had collected nearly $7 million. We did not validate the potential collection amount. However, the amount that FEMA had collected on overpayments related to hurricanes Katrina and Rita supports our prior statements that detective controls, while an important element of a fraud prevention program, are more costly and not as effective as preventive controls. As FEMA's historical experience demonstrated, once a payment had been disbursed because of weak preventive controls, it is difficult to identify individuals who received the improper payments, contact those individuals, and collect on those payments. As discussed previously, when system edit checks that should occur during the processing of disaster registration are circumvented, significant improper payments occur that require extensive data mining and follow-up actions to identify and recover improper payments.

In addition to the difficulties in collecting overpayments, there are limitations to the ability of detective controls in identifying all instances of overpayments. For example, our conversations with several foreign students indicate that although some have received recoupment letters, others have not.

FEMA Had Not Issued Recoupment Notice to GAO Registrations

The limitations of detective controls are demonstrated through GAO's own experience with the FEMA registration, payment, and recoupment processes. As we testified previously, GAO submitted a number of registrations using false identities and fictitious addresses to test the effectiveness of FEMA's internal controls. We also testified that we

received payments on registrations we submitted. However, to date, we had not received recoupment notices from FEMA indicating that it had identified the undercover registrations that GAO submitted. After our last testimony in June of 2006, we received another payment of more than $3,200 for rental assistance on a property that did not exist. In total, we received six payments on five registrations using falsified information, without receiving any recoupment notices from FEMA.

FEMA Cannot Adequately Track Its Property

We found weak accountability over FEMA property bought for hurricanes Katrina and Rita relief efforts using government purchase cards. Our investigation revealed that DHS overstated the number of items FEMA had actually located on the day of our July16, 2006, testimony and that additional items are missing. In total, of the 246 laptops, printers, flat-bottom boats, and GPS units that we investigated for this testimony, 85 items are missing and presumed lost or stolen. Moreover, during the course of our investigation, we found that FEMA did not have titles to any of the 20 flat-bottom boats it purchased for hurricanes Katrina and Rita. The fact that FEMA could not locate two of the flat-bottom boats raises additional concerns about DHS's accountable property controls.

Missing Items FEMA Purchased for Hurricane Relief

As part of our July 19, 2006, testimony, we reported that poor controls over property acquired with DHS purchase cards may have resulted in lost or misappropriated assets. Specifically, we reported that FEMA could not account for 143 items purchased in September and October 2005 for Hurricane Katrina and Hurricane Rita relief efforts. On the morning of the testimony, DHS sent your office an e-mail indicating that 87 of the 143 items had been found.[14] At the hearing, DHS's Chief Financial Officer reiterated that most of the missing property had been found, but acknowledged that the items had not yet been physically verified.

Our investigation revealed that DHS's July 19 e-mail overstated the number of items FEMA had located. By October 2006, a year after the property was purchased, we could only account for 79 of the 87 items that FEMA claimed it had found.[15] In addition, of the 143 items that we reported as

[14]In our testimony, we reported as missing 107 laptop computers, 22 printers, 12 flat-bottom boats, and 2 GPS units. DHS's e-mail claimed that FEMA found 74 of the 107 missing laptops, all 12 missing flat-bottom boats, and 1 of the 2 missing GPS units. The e-mail also stated that FEMA was in the process of locating the missing printers.

[15]Specifically, we found 69 printers and 10 boats.

missing in our July testimony, 48 are still missing and presumed lost or stolen. Moreover, 37 of items were missing from an additional 103 new items we investigated. In total, of the 246 items we investigated for this testimony, 85 items (34 percent) are lost or stolen.[16] A November 27 DHS memo supports the results of this investigation, acknowledging that many items purchased for hurricane relief efforts are still missing. Figure 1 details the results of our investigative work as of October 16, 2006.[17]

Figure 1: Status of Property as of October 16, 2006

Item	Total number to be verified	Located by GAO during investigation	Lost or stolen
Laptops	145	103	42
Printers	57	39	18
GPS	24	1	23
Boats	20	18	2
Total	**246**	**161**	**85**

Source: GAO.

[16]We were able to locate eight printers because we discovered that the bar codes FEMA reported as being assigned to the serial numbers on the printers had actually been affixed to different items. Consequently, when FEMA staff tried to locate these printers using their own bar code information, they could not find them—even though the printers actually were in FEMA's possession.

[17]After October 16, FEMA sent us additional photographs of laptops, printers, and GPS units. However, because we received this information after our October 16 deadline, we did not include it as part of our final property count for the purposes of this testimony.

Title and Location of Flat-Bottom Boats

In our July 2006 testimony, we also reported on several issues surrounding the purchase of 20 flat-bottom boats needed for hurricane relief efforts. Specifically, we found that FEMA paid $208,000—about twice the retail price—to a broker, who in turn obtained the boats (17 new and 3 used) from several different retailers. Further, although the broker billed FEMA and was paid for all 20 of the boats, he failed to pay one retailer that provided 11 of the boats. The retailer subsequently reported the boats as stolen and did not provide FEMA with title to the boats. Consequently, in our testimony, we concluded that FEMA paid for, but did not receive title to, at least 11 of the boats.

However, upon further investigation, we found that FEMA also did not have title to the remaining 9 boats. Thus, FEMA did not have title to any of the boats. Specifically, our searches for boat titles found that no transfer of title and/or registration had taken place on any of the 17 new boats, that is, the serial numbers were "not on file." Of the remaining 3 used boats, title searches revealed that all 3 remain registered to their previous owners.

Furthermore, FEMA could not provide us with any information about the two boats that are still not in its possession as of October 2006. However, using the serial numbers and manufacturer information on the make and model, local law enforcement located one of the boats in a shed at the house of its previous owner. According to the previous owner, he sold the boat to FEMA and delivered it to the New Orleans Convention Center in September 2005. In March 2006, he received a call from the New Orleans Convention Center requesting that he retrieve his abandoned boat. When he went to retrieve the boat, he found that the tires on the boat's trailer were flat, the boat's battery had been removed, and the anchor rope had been cut. This boat is one of the three still registered under its previous owner's name and no application for transfer of title has been recorded.

Conclusions

Ineffective preventive controls for FEMA's IHP have resulted in substantial fraudulent and improper payments. The additional examples of potentially fraudulent and improper payments in our testimony today show that our estimate of $1 billion in improper and/or fraudulent payments through February is likely understated. With respect to property bought with overnment purchase cards, items not found 1 year after they were purchased, and over 8 months after we selected them for investigation, shows that ineffective FEMA property accountability controls resulted in lost or stolen computers, printers, and GPS units.

We have provided 25 recommendations to DHS and FEMA to improve management of IHP and the purchase card program. FEMA and DHS had fully concurred with 19 recommendations, and substantially or partially concurred with the remaining 6 recommendations. DHS and FEMA also reported that they have taken actions, or plan to take actions, to implement many of our recommendations; however, we have not determined if these actions adequately address our recommendations. If properly implemented, our prior recommendations should help to address control weaknesses identified in this testimony. As with prior work, we will refer cases we deem to be potentially fraudulent to the Katrina Fraud Task Force for further investigation.

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

Contacts and Acknowledgments

For further information about this testimony, please contact Gregory D. Kutz at (202) 512-7455 or kutzg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. The individuals who made major contributions to this testimony were Kord Basnight, Gary Bianchi, Matthew Brown, Norman Burrell, Jennifer Costello, Thomas Dawson, Dennis Fauber, Christopher Forys, Alberto Garza, Adam Hatton, Christine Hodakievic, Ryan Holden, Jason Kelly, John Ledford, Barbara Lewis, Jonathan Meyer, Andrew McIntosh, Kristen Plungas, John Ryan, Viny Talwar, Tuyet-Quan Thai, and Matthew Valenta.

Appendix I: Scope and Methodology

To assess whether the Federal Emergency Management Agency (FEMA) provided potentially improper and/or fraudulent rental payments to individuals at the same time it was providing the registrant's free lodging in FEMA trailers and rent-free (i.e., FEMA-provided) apartments, we interviewed FEMA officials, reviewed Title 8 of the United States Code, and reviewed the Stafford Act (Pub. L. 93-288) and its implementing regulations. We obtained the FEMA Individuals and Households Program (IHP) databases as of June 2006 and data on individuals residing in FEMA trailers and rent-free apartments. We performed data reliability assessment for these databases. In addition, we validated that the FEMA IHP database was complete and reliable by comparing the total payment against reports FEMA provided to the Appropriations Committee on hurricanes Katrina and Rita disbursements. We then compared FEMA paid housing data to IHP registration data to determine whether FEMA provided duplicate benefits to the same registrants. We also conducted field visits to Texas and Louisiana to view the property and interview individuals who received IHP payments after they had moved into free housing. While we were able to determine the number of individuals staying in FEMA trailers who received duplicate housing assistance, the data related to individuals staying in FEMA-provided apartments were not sufficiently reliable for us to perform the same analysis.

To determine whether FEMA made duplicate payments to individuals who claimed damages for both hurricanes Katrina and Rita using the same damaged addresses, we compared the social security numbers and damaged addresses maintained in the FEMA databases for hurricanes Katrina and Rita, and reviewed National Emergency Management Information System (NEMIS) data on selected individuals.

To determine whether FEMA made potentially improper payments to ineligible foreign students, we contacted officials at four Louisiana and Texas universities and obtained the names and identifying numbers of enrolled foreign students. We compared the listing of students provided by the universities to FEMA payment data. We also interviewed foreign students at those four schools receiving IHP assistance in order to determine what guidance FEMA provided them on eligibility. We also conducted investigative work to determine whether FEMA made improper and potentially fraudulent payments to nonqualified aliens, such as those in the United States on work visas. Because we did not receive data on all foreign students and nonqualified aliens in the United States, we were not able to determine the magnitude of potentially improper and fraudulent payments to these individuals. Further, because of data availability issues, our work was not designed to identify illegal aliens receiving improper

payments. We also received FEMA data on its recoupment program, but did not validate data on identified overpayments and collections provided to us by FEMA officials.

To conduct our investigation into the Department of Homeland Security (DHS) purchase card program, we traveled to New Orleans and Baton Rouge, Louisiana, and Fort Worth, Texas, in September 2006, to physically inspect selected property. If we could not physically inspect the property during our visit, we requested that DHS, FEMA, or the New Orleans Police Department send us a clear photograph of the property and its serial number as proof of possession. We ultimately requested that photographic evidence be sent to us no later than October 16, 2006, nearly a year after most of the property was acquired.

To obtain information on the case study detailed in appendix II, we reviewed data from the U.S. Department of the Treasury's Financial Management Service, FEMA's NEMIS database, the Texas Department of Motor Vehicles, the Social Security Administration, and the U.S. Postal Service, and we conducted field investigations.

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

Appendix II: Potentially Improper and/or Fraudulent Rental Assistance Payments Case Study

When Hurricane Katrina came ashore in late August 2005, 15 of the 16 total units in a single Gulfport, Mississippi, apartment building were occupied by tenants. The landlord of this building told us that damage to the apartment building was minimal. Although one apartment had a broken window and some personal property damage, the only real effect of the hurricane was water damage from rain and water seepage from missing roof tiles. The landlord also said that anyone who left after Hurricane Katrina did so voluntarily, and that they were not required (e.g., forced) to leave as a result of damage by the storm.

During a visit to the apartment building, we spoke to the landlord about an individual we identified as receiving potentially improper rental assistance payments. Subsequently, we conducted additional data mining on the apartment address to determine whether other tenants applied for and received FEMA disaster assistance. We found that 8 tenants of this apartment building received FEMA disaster assistance. The remaining 7 tenants did not file any disaster assistances claims, as a result of being displaced because of uninhabitable or inaccessible living quarters as a result of Hurricane Katrina. In addition, we were able to confirm with the building landlord that 6 additional individuals who did not live at the apartment building at the time of hurricane Katrina also made disaster assistance claims. Table 3 lists 14 individuals who improperly received disaster assistance using the apartment building as their hurricane-damaged address.

Table 3: Apartment Building Tenants Receiving Disaster Assistance

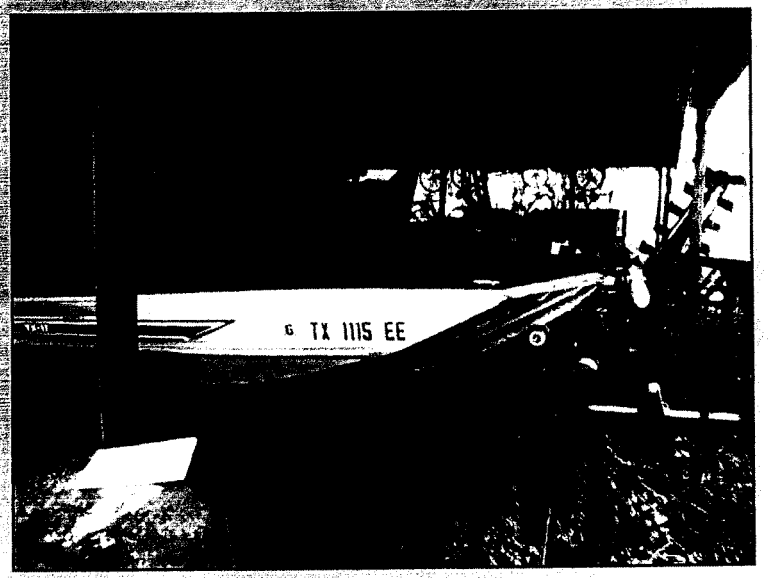
Individual	Date applied	Notes	IHP assistance
1	9-6-2005	Lived at apartment during storm	$4,358
2	9-6-2005	Never lived at address	3,810
3	9-7-2005	Lived at apartment during storm	26,200
4	9-9-2005	Lived at apartment during storm	772
5	9-9-2005	Lived at apartment during storm	1,725
6	9-10-2005	Lived at apartment during storm	7,160
7	9-12-2005	Moved out before storm	4,358
8	9-12-2005	Lived at apartment during storm	4,358
9	9-14-2005	Lived at apartment during storm	2,000
10	9-16-2005	Never lived at address	2,000
11	9-19-2005	Evicted before storm	8,716
12	9-21-2005	Never lived at address	2,000
13	9-24-2005	Moved out before storm	4,358
14	9-24-2005	Lived at apartment during storm	4,358
Total			**$76,173**

Source: GAO analysis of FEMA data.

Committee on Homeland Security and Governmental Affairs
EXHIBIT #1

GAO

Missing FEMA Boat Found in Possession of Original Seller



Source: FBI.

Committee on Homeland Security and Governmental Affairs

EXHIBIT #2

GAO

Disaster Assistance Check Received by GAO

United States Treasury

A 443,330,289

06 08 06 46 AUSTIN, TEXAS 2221 76990974
2221 76990974 70070002 M1 FEMA WASH 00NC004195

Pay to the order of [redacted]

$***3240*00

REGIONAL DISBURSING OFFICER VOID AFTER ONE YEAR

1001

Robert C. Nunge

DISASTER ASSISTANCE

76990974

530000

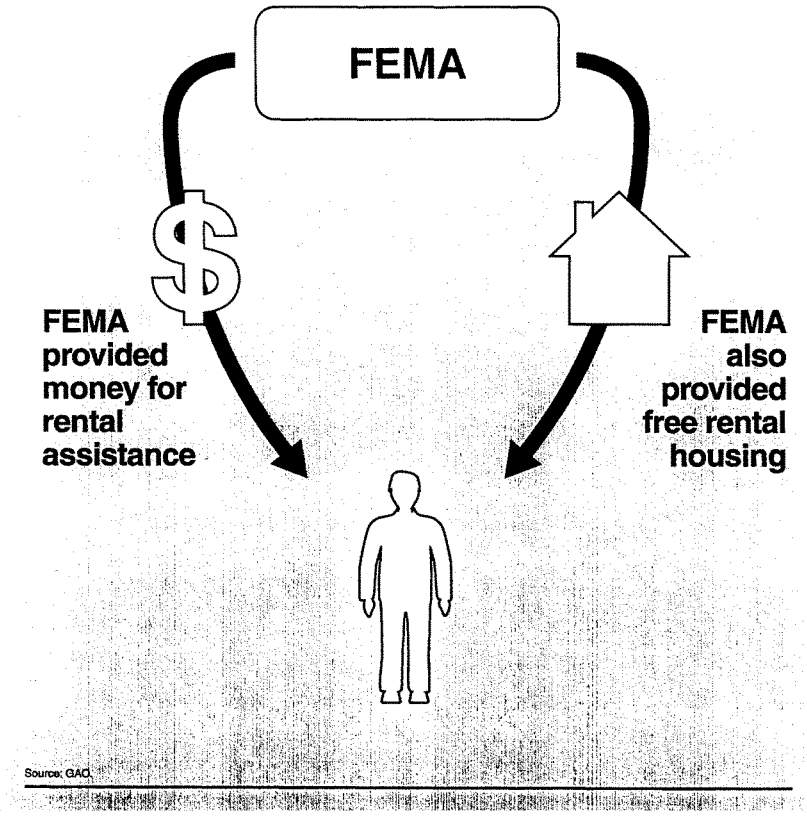
⑈2221⑈ ⑆000000518⑆ 76990974⑈ 010606

Source: GAO

Committee on Homeland Security and Governmental Affairs
EXHIBIT #3

GAO

FEMA Paid Twice For Recipient Housing



Source: GAO

Committee on Homeland Security and Governmental Affairs
EXHIBIT #4

GAO

Comparison of GAO Improper Payments Estimate with FEMA Overpayments and Collections

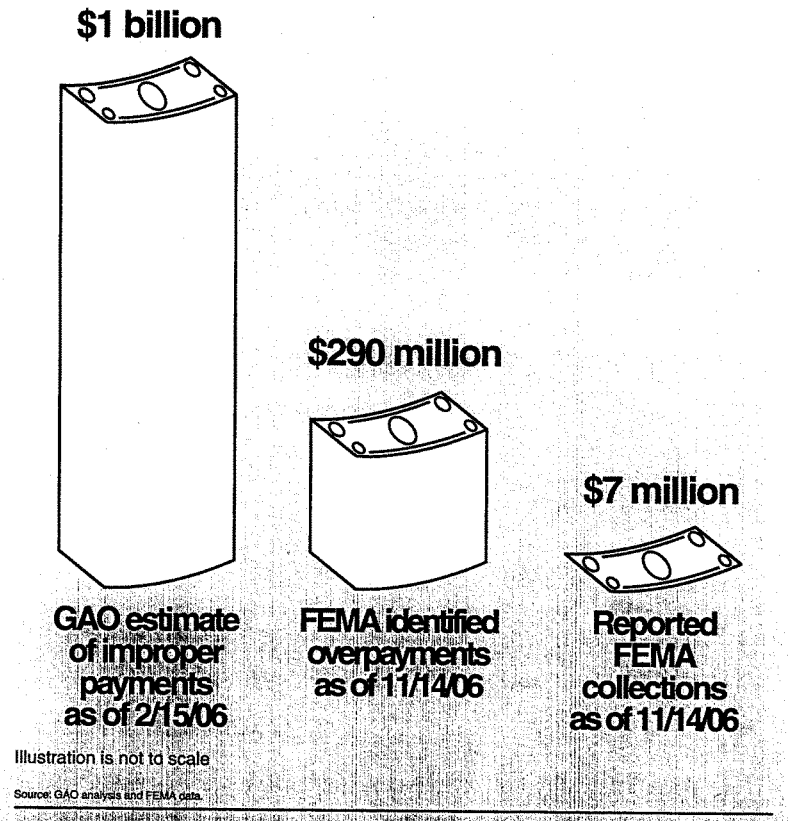
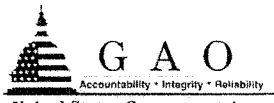


Illustration is not to scale

Source: GAO analysis and FEMA data.



United States Government Accountability Office
Washington, DC 20548

January 12, 2007

The Honorable Joseph I. Lieberman
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: *Response to a post hearing question related to GAO's December 6, 2006 testimony on continued findings of fraud, waste, and abuse associated with Hurricanes Katrina and Rita relief efforts.*

Dear Chairman Lieberman and Ranking Member Collins:

On December 6, 2006, I testified before your committee on the results of our audit and investigation of hurricanes Katrina and Rita disaster relief efforts. This letter provides our response to your supplemental question for the record. Your question and our response follows.

Question

Your testimony indicates that FEMA distributed $20 million under the Individuals and Household Program to individuals who claimed damages for both Hurricane Katrina and Hurricane Rita. Some press reports have jumped to the conclusion that all of the $20 million was improperly paid. I want to be clear about the facts of your investigation because in some instances FEMA's regulations and policies do permit separate payments for damages resulting from separate disasters. Is it your conclusion that the *entire* $20 million was paid improperly or is the $20 million the amount that *potentially* was paid improperly? Did you investigate each payment comprising the total $20 million?

Response

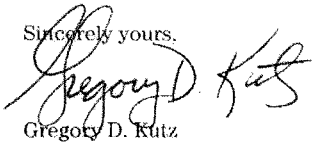
In December, we testified that about 7,600 individuals submitted duplicate registrations for disaster relief using the same social security numbers and damaged property addresses—once for Hurricane Katrina and once for Hurricane Rita. Through data mining we identified that FEMA paid those individuals nearly $20 million in potentially improper and/or fraudulent payments based on duplicate registrations for the same damaged address.

We did not conduct investigations of all payments associated with the approximately 7,600 individuals who submitted disaster relief registrations for both hurricanes. Such investigations would be necessary to determine the extent to which the apparent duplicate payments identified through our data mining represented potentially improper and or fraudulent payments. However, we did select 12 registrations made by 6 individuals for further investigations. Based on those investigations we found that FEMA made duplicate payments to all 6 individuals for damage to the same residence for both hurricanes. For example, in one case the same individual received two payments of $10,500 each to replace the same house, once for Hurricane Katrina and once for Hurricane Rita.

It is important to note that our estimate of potentially improper and/or fraudulent assistance payments associated with hurricanes Katrina and Rita is likely understated because it included only those registrations containing the same social security number and damaged address. Our $20 million estimate would be understated to the extent to which there are any duplicate payments made to members of the same household using different social security numbers. According to FEMA, in most cases, payments made as a result of these registrations would also be duplicate—and therefore potentially improper and/or fraudulent—because their policy states households are entitled to one payment for the same damage and/or need. Finally, as we stated in December, the problems we identified in our December testimony, and those that we identified in our earlier testimonies, further emphasize the need for FEMA to put preventive controls in place to minimize fraudulent and improper payments, and to reduce the need for collection actions after the fact.

If you have any further questions or would like to discuss our response, please contact me at (202) 512-7455, or kutzg@gao.gov.

Sincerely yours,



Gregory D. Kutz
Managing Director
Forensic Audits and Special Investigations

(192242)

Written Testimony of the

Federal Emergency Management Agency

Department of Homeland Security

Before the

Homeland Security and Governmental Affairs Committee

United States Senate

December 6, 2006

Chairman Collins, Ranking Member Lieberman and Members of the Committee, we at the Federal Emergency Management Agency (FEMA) appreciate the opportunity to provide this statement as part of the hearing titled, "Hurricane Katrina: Stopping the Flood of Fraud, Waste and Abuse."

We begin our remarks by noting that the impact of Hurricanes Katrina and Rita presented unprecedented challenges and imposed unfathomed and long-lasting pain and misery on disaster victims. The overwhelming magnitude of the challenge and graphic impact on disaster victims also presented an unsavory dilemma: constrain the pace and avenues of assistance to ensure absolute verified eligibility, or provide expeditious assistance through available means accepting higher risk that some would exploit the system to their undeserved advantage. While not discounting that FEMA's systems should have had a greater capability to better manage this dilemma, the FEMA people who employ those systems have nevertheless responded with a determined sense of purpose to employ lessons learned and better position the agency to now provide expeditious service while minimizing fraud and improper payments.

In the immediate aftermath of the 2005 Hurricane Season, the Government Accountability Office (GAO) was asked to determine if the controls that FEMA uses, in providing disaster assistance to individuals, were effective in preventing and detecting fraud, waste and abuse. In July 2006, GAO issued their initial *Statement of Facts* which outlined several areas of weaknesses in FEMA controls. We are skeptical of GAO's finding regarding the estimated levels of improper and potentially fraudulent payments under the Federal assistance to Individuals and Households Program (IHP). Though certainly headline-grabbing, the 95 percent confidence level associated

with the estimate of improper and potentially fraudulent registrations that ranges from a low of $600 million (about 10 percent) to a high of $1.4 billion (about 22 percent) looms well above the historical average under past disasters. Since the Report's authors chose not to share with us the identity of the specific cases selected for analysis, FEMA was, and remains, unable to assess whether those payments were in fact improper. Our experience, and understanding of the program, suggests some number of the problems cited as questionable payments could easily be eligible for payment.

In fact, in the wake of the GAO report, FEMA contracted with a third-party to assess the Individuals and Households Program and determine the level of improper payment. This assessment was conducted on a sample population and resulted in an extrapolation estimate of total gross improper payments of approximately $450 million, or 8.6 percent of the $5.25 billion in total payments. While still finding a significant level of improper payments, this assessment reflects interactive engagement with FEMA and a learned understanding of the IHP program. Thus, this assessment provides a more balanced context for an informed discussion of the reasons for improper payment and the need for corresponding corrective action than the GAO report. As will be addressed, FEMA has taken a number of significant steps that will improve performance in future disaster events.

During the recent exit conference, the GAO provided FEMA its updated December 2006 *Statement of Facts*. We have reviewed this statement and will attempt to address GAO's conclusions. It is important to understand that the Robert T. Stafford Disaster Relief and Emergency Assistance Act grants broad authorities to provide disaster assistance in keeping with

the best interest of disaster victims. While the 2005 Hurricane Season presented unparalleled challenges, FEMA made every effort to maximize its capabilities under the law in order to ensure the continued housing needs of the thousands of victims.

The GAO contends that FEMA controls did not effectively prevent IHP registrants from receiving rental assistance payments while residing in FEMA mobile homes and trailers. This conclusion does not take into consideration the distinction between housing provided under Section 403 and Section 408 of the Stafford Act.

The Stafford Act authorizes FEMA to provide short-term emergency shelter to disaster victims under Section 403 and longer-term temporary housing assistance under Section 408. FEMA is authorized to provide these types of assistance using various forms of shelter and housing. For example, FEMA provided shelter to Hurricane Katrina evacuees under Section 403 utilizing congregate shelters, hotels and motels, as well as short-term apartment leases secured by state and local governments. Under Section 408, FEMA provided assistance to victims of Hurricane Katrina through rental assistance payments as well as direct housing assistance in the form of mobile homes and travel trailers. As the victims of Hurricanes Katrina and Rita found shelter after being displaced because of the storms and began the process of securing temporary housing while their homes could be repaired, it is possible that the issuance of the assistance overlapped as disaster victims moved from one source of shelter or housing to another. This would not necessarily constitute a duplication of benefits if the different forms of shelter and housing assistance were used to secure continuous sources of shelter and housing.

Section 408(b)(2)(B) of the Stafford Act also clearly authorizes FEMA to provide multiple types of assistance based on the suitability and availability of the types of assistance to meet the needs of the individuals in a particular disaster situation.

Applicants may have received rental assistance payments for a previous month of eligibility at the same time they were living in manufactured housing. We do not consider this a duplication of benefits. For example, an applicant may have received a rental assistance payment on March 14, 2006 after they were leased into a manufactured housing unit on March 3, 2006. However, the rental assistance payment on March 14, 2006 was a reimbursement for previous months' rent (December 2005 – February 2006). Of note, the GAO informed us during their exit interview that they did not consider the calendar months of payment, or whether that payment was a reimbursement when they deemed a payment in their sample was inappropriate. Instead, they only looked at the date the payment was approved, and not at the particular situation in which the assistance payment was provided. After several requests, the GAO has refused to provide FEMA the registration number of those applicants they believe were improperly paid. Therefore, FEMA is in the process of querying our databases to find the cases GAO cites in its *Statement of Facts.* The examples provided in the *Statement of Facts* are somewhat vague, so finding the particular cases in question is proving to be a challenge. Once we believe that we have found the cases in question, FEMA will review them to determine whether the payments were made in error.

Similarly, the GAO feels that FEMA controls were not effective in preventing IHP registrants from receiving rental assistance payments while residing in apartments funded by FEMA. To

address those individuals living in congregate shelters, FEMA, with our state and local partners, established an apartment program where the Agency reimbursed cities and states that had allowed disaster victims to stay in apartments as emergency sheltering. This was considered a temporary solution to provide hundreds of thousands of storm victims, many without identification or resources, with shelter while they determined their next step in locating housing.

The GAO claims that those who were in apartments were also receiving rental assistance payments. The *Statement of Facts*, and subsequent media reports, seem incredulous that we would consider providing a rental payment to someone staying in a FEMA-funded apartment. However, FEMA was also criticized when it suggested people would be removed from FEMA-funded apartments *prior* to the arrival of their rental checks. The question was: How can someone leave the FEMA-funded apartment and rent an apartment without first having the financial resources to do so? This situation may apply to cases that the GAO has identified as being improperly paid because they only focus on the dates the payments were approved. Until the specific cases in GAO's sample are made known to us, we cannot make that determination. In this case, FEMA felt that in order to provide other options of housing to individuals, and set them on the road to recovery and normalcy, we needed to ensure that they were equipped with the resources necessary to do so.

The GAO contends that FEMA controls were not effective in preventing duplicate benefits from being paid to the same individual for the same damaged address. Hurricanes Katrina and Rita were two separate disasters with different incident periods and geographic areas of impact. Individuals whose homes were impacted by each separate event were eligible to apply and

receive assistance to address the unique damage incurred by each event. An applicant may receive payments in multiple disasters, as additional damages could and did occur in certain areas as a result of each storm, and some individuals experienced additional damage to an already-repaired home. An example of this is that a home could have been flooded by Hurricane Katrina, inspected by a FEMA inspector, and processed for assistance to repair the flood damage in the lower floors of the home. Following Hurricane Rita, that same home was impacted, but this time the roof was damaged by the wind and rain. The damage caused by the second event was not covered in the initial payment to the homeowner; therefore, they are eligible for additional home repair assistance. We acknowledge that some improper payments may have occurred for an individual or household that was affected by both Hurricanes Katrina and Rita, and we welcome the opportunity to review the specific cases GAO cites in an effort to recoup any overpayments. We also agree that current controls to prevent duplicate payments for near simultaneous disasters can be improved and we will explore using a technology solution for resolving double damages for real and personal property. The proposed processes will ensure an award from a previous disaster is taken into consideration when assistance is rendered for a current disaster.

Expedited Assistance is an example of where FEMA exercised additional controls for those impacted by both Hurricanes Katrina and Rita. In rare cases, when a disaster event is severe, FEMA has the authority to activate a policy under the Individual and Household Program to provide Expedited Assistance (EA) to meet immediate, emergency needs. EA is only provided for a short period of time following the disaster to meet critical needs when traditional forms of assistance (including insurance or voluntary agency support) are not available in a timely

manner. EA is not an additional benefit or separate grant on top of FEMA's traditional IHP. Instead, EA is an accelerated method of disbursing some IHP disaster assistance to meet immediate emergency needs. If an individual received EA funding, it counts against their maximum IHP assistance cap.

In order to ensure that EA payments were not made to the same applicant in both Hurricanes Katrina and Rita, FEMA implemented a cross-disaster EA check in each event to determine whether the applicant had received assistance in another disaster. FEMA checked the Social Security Number, Electronic Funds Transfer banking information, and telephone number of each new registrant before paying EA. If it found a match on any of these elements, the applicant was marked as having previously received assistance in another disaster, and EA was not paid again. We believe that these controls reduced the number of fraudulent and improper overpayments.

The GAO *Statement of Facts* further states that eligibility controls were not effective in preventing ineligible international students or non-qualified aliens from receiving IHP payments. FEMA estimates this population to be less than one-tenth of one percent of the number of victims that applied for assistance following Hurricanes Katrina and Rita. It would have been impractical to verify the suitability of student visas for federal assistance prior to disbursing assistance without halting our automated processes, which was simply not an option due to the severity of the situation in the Gulf Coast. During the first two weeks after the storm, FEMA coordinated life-sustaining and life-saving measures to potentially millions of victims. Many left home without essentials needed for survival (e.g., clothing, food, medicine, formula, diapers, and the funds to purchase those necessary items). FEMA saw a need to provide an initial cash

payment to applicants so these essential needs could be taken care of as longer-term solutions were being considered. Thus, each applicant that had a valid registration, a primary residence damaged by the event, identified emergency needs for shelter, and who was displaced from their home, was provided with $2,000 to meet the emergency needs of their family.

Because some areas were still under water, bridges and highways were washed out, and there was still widespread displacement of disaster victims, expedited assistance and limited transitional housing assistance was provided without an inspection, and prior to the applicant's declaration that he/she is lawfully present in the United States as a citizen or qualified alien.

FEMA's traditional system is dependent on an on-site, in person verification of the applicant and their residency. Given the displacement of residents and the inability to enter many areas due to the devastation, this removed our principal verification method for the assistance. Adding to this challenge was our knowledge that the people affected by this terrible event would not be returning to their homes and communities for months or years. We agree that more stringent controls on the front end are always preferable, however, the sheer magnitude of the event dictated that we proceed in the manner we did as there simply was no time to develop and test any additional front end controls. We want to emphasize that we have already taken steps to implement new controls to improve our ability to serve disaster victims while also limiting fraud and abuse. FEMA has implemented an identity and occupancy verification system to confirm the identity and residency of applicants who register with FEMA for assistance. FEMA also continues to evaluate and strengthen controls pertaining to identity, residence type, and cross-disaster applicant checking.

Further, the GAO states that FEMA procedures for recoupment of overpayments are not sufficient to reduce the impact of potentially improper or fraudulent IHP payments. They conclude that, because FEMA has collected only $9.3 million of the $289 million identified for recoupment as of November 2006, these procedures are ineffective. They further conclude that this demonstrates the need to have adequate preventive controls on the front end. Again, FEMA agrees and has implemented controls appropriately.

Balancing the need to provide assistance expeditiously against fulfilling bureaucratic controls, FEMA was able to provide critical, immediate assistance to more than 75 percent of the households affected by Hurricane Katrina. The huge numbers of people registering for assistance during the 2005 Hurricane Season gave way to some errors in FEMA processing of applicants by rendering traditional controls unusable. In addition, there were cases where individuals fraudulently misrepresented their eligibility and needs to obtain money meant for disaster victims. It was not until January 2006 that FEMA could reprioritize resources dedicated to delivering immediate disaster assistance to focus on the huge task of identifying the cases of applicants who had been overpaid through processing errors and fraud. Shortly thereafter, FEMA began notifying applicants who were being asked to return these funds. Ongoing recoupment efforts continue to this day.

Our recoupment processes are not new. FEMA routinely reviews disaster assistance cases and conducts random reviews of cases to ensure that disaster assistance has been correctly applied. If, during the course of a review, an incorrect payment is found, the recoupment process is initiated.

FEMA's process of recoupment is similar to an audit. It is meant to identify incorrect payments and instances of fraud, and to discourage future abuses of the system. FEMA has been working closely with the Department of Justice (DOJ) in the prosecution of those cases identified as committing fraud. We have provided the case research and testimony in several fraud trials that facilitated the conviction of persons who attempted to abuse the system and defraud the government. Further, while working with DOJ, we are advised not to pursue recoupment against individuals where doing so might hamper an ongoing investigation.

To date, we have instituted recoupment proceedings against 60,511 applicants for Hurricanes Katrina and Rita. The GAO's *Statement of Facts* does not take into account the agreements that FEMA has in place to enhance recoupment efforts. For example, FEMA is working with the IRS to enable FEMA to recoup assistance through garnishing future federal tax refunds to disaster victims. Recouping disaster assistance in this manner has historically been effective to ensure that individuals repay their debt to the federal government.

While we have tried to explain how the authorities FEMA operates under affect the delivery of our processes and programs and the GAO's perceived lack of controls, we welcome the GAO's report, because without external review, we may miss opportunities to shore up the controls already in place and identify areas of weakness. We have taken this *Statement of Facts*, and previous reports and lessons-learned projects, and have worked tirelessly to proactively implement more stringent controls concerning fraud and abuse. These additional controls include:

- Deploying a new Internet registration application disallowing *any* duplicate registrations;
- Adding identity proofing to the call center registration application in February 2006 so that *all* Individual and Households Program registrations are subjected to the same stringent criteria, including the verification of Social Security Numbers;
- Any applications that fail identity proofing or those where the occupancy and ownership could not be verified will be denied for any automated payment. Applicants will have to submit appropriate documentation to FEMA before becoming eligible for assistance.
- Sending all applications taken on the call center application to FEMA's data contractor for identity proofing to identify any potentially fraudulent applications;
- Marking any applications in FEMA's database that fail identity proofing so they may be flagged for review and denied automated payment;
- Real-time interaction between the FEMA Service Representative and the applicant during telephone registration to ensure identity verification prior to accepting the application;
- Working with FEMA's data contractor to flag any addresses that are not residential addresses in order to prevent automated payments without an on-site inspection verification of address and residency;
- Flagging questionable Social Security Numbers, such as Social Security Numbers associated with multiple or deceased persons, to identify potential fraud; and
- Developing state-of-the-art software that will maintain data on applicants in mobile homes and communicate real-time data to caseworkers and the agency's information management system, in order to prevent potential overpayment.

In addition, FEMA is continuing to identify and process recoupment of improper payments and has improved its system to make it much more resistant to future fraud by the unscrupulous few, while being careful not to create an undue burden on the deserving victims of disasters. Through the challenges presented from Hurricanes Katrina and Rita, FEMA has learned how to better respond to such catastrophic disasters. Should such an event occur again, the lessons learned will enable us to say with more confidence that we are doing all we can under our authorities to

serve disaster victims in their greatest time of need, while ensuring the confidence of the American taxpayers of FEMA's fiscal integrity.

Again, thank you for the opportunity to testify on FEMA's continued efforts to provide critical assistance to disaster victims at the same time as we serve as good stewards of taxpayer funds.

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