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WASTE AND FRAUD IN THE AFTERMATH OF HURRICANE KATRINA

HEARING

BEFORE THE

SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON HOMELAND SECURITY
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

JUNE 14, 2006

Serial No. 109–82

Printed for the use of the Committee on Homeland Security

Available via the World Wide Web: http://www.gpoaccess.gov/congress/index.html

U.S. GOVERNMENT PRINTING OFFICE

37–291 PDF WASHINGTON : 2007

For sale by the Superintendent of Documents, U.S. Government Printing Office
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WASTE AND FRAUD IN THE AFTERMATH OF HURRICANE KATRINA

Wednesday, June 14, 2006

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON HOMELAND SECURITY,
SUBCOMMITTEE ON INVESTIGATIONS,
Washington, DC.

The subcommittee met, pursuant to call, at 11:19 a.m., in Room 311, Cannon House Office Building, Hon. Michael T. McCaul [chairman of the subcommittee] presiding.

Present: Representatives McCaul, Shays, Reichert, Brown-Waite, Etheridge, Pacrell, Christensen, Thompson (Ex Officio), Pearce, Dent, Jackson-Lee and Taylor.

Mr. MCCAUL. The Homeland Security subcommittee on investigations will come to order. With the concurrence of the ranking minority member, pursuant to committee rule 2(d)1, I ask unanimous consent to waive the notice requirement for the announcement of this hearing. Hearing no objection, so ordered.

I also ask unanimous consent that Congressman Pearce, who sits on the full committee, be permitted to sit and question during the hearing today. Hearing no objection, so ordered.

Good morning. I want to thank all of you for being here today for this important Homeland Security Investigations Subcommittee hearing. The purpose of today's hearing is to examine the fraud, waste and abuse in the Federal disaster assistance programs administered by FEMA in the aftermath of Hurricanes Katrina and Rita.

The Government Accountability Office is conducting an ongoing investigation into these crimes and the Individual and Household Program. The GAO first testified before the Senate in February of this year where they stated that the full extent of the fraud was unknown but may reach tens to hundreds of millions of dollars.

The GAO testified that this disaster assistance money was used to purchase items such as a $450 tattoo, $400 massages, a $1,100 engagement ring, a $1,300 handgun, $150 of products at Condoms To Go, gambling, bail bond services and adult entertainment, just to name a few.

The GAO also testified that FEMA paid for hotel rooms for $438 per night in New York City and $375 per day for beachfront accommodations in Panama City, Florida.

I have spent the last six months working with Federal investigators through this subcommittee to uncover waste, fraud and abuse at the Federal level. As part of this investigation, the GAO conducted undercover tests on FEMA's disaster assistance application

systems to determine the adequacy of their fraud prevention controls. The GAO found no meaningful controls to detect or prevent fraud.

What is most troubling is that this lack of protection has exposed the FEMA programs to substantial waste, fraud and abuse. The GAO's investigation determined there was little if any verification of the names, addresses or Social Security numbers of applicants registering for Federal assistance. This resulted in thousands of benefit checks being issued to applicants with duplicate or false information.

Today the GAO will testify that 173 Federal prisoners received expedited and rental assistance in payments that totaled $800,000, and that more than a thousand State prisoners received expedited and rental assistance payments that totaled $10 million; $5.5 million was paid on applications using a P.O. box as the damaged address. Benefits were paid on an application where a cemetery was used as a damaged address.

As the GAO dug further, investigators continued to find purchases which were far from essential to disaster assistance. Such purchases included a $200 bottle of Dom Perignon purchased at a Hooters restaurant, adult entertainment, tax payments, a $2,000 Caribbean vacation, $5,000 for a divorce attorney, season tickets for the New Orleans Saints and a down payment on a house in Georgia.

Furthermore, the GAO uncovered and found that FEMA continued to pay for deluxe accommodations and rental assistance totaling $20,000 for resort accommodations in Hawaii and Orlando.

Applicants registered for the Federal disaster assistance and used damaged property addresses which did not exist, including addresses where they did not live at the time of the hurricanes. Likewise, Social Security numbers were used which were never issued or belonged to deceased individuals.

Yet FEMA's fraud detection and prevention controls were so weak or nonexistent that these fraudulent applications were never detected, let alone prevented. Unfortunately, the situation has gotten worse. The GAO now estimates that the extent of the fraud in the Individual and Household Program exceeds $1 billion, not the original estimate of tens to hundreds of millions. The bad news continues as we realize investigators are only in the beginning stages of their ongoing comprehensive investigation.

This is an affront to the American taxpayer who has been fleeced by the actions of these criminals and by lack of FEMA fraud prevention. It is my intention today to make sure that this never happens again, particularly as we enter into another hurricane season.

While I appreciate Acting Deputy Director Dannels being here, I invited FEMA Director Paulison to testify before this committee, yet he is not here today. Given the lack of management controls at FEMA and the obvious need for reform, it is unfortunate that he is not here to help us fix this problem. He is the leader of this agency and the only one with the power to mandate the changes needed which can end this obscene squandering of the taxpayers' money.

I pledge to continue to hold FEMA accountable for this unacceptable mismanagement of taxpayer funds and to continue to conduct

hearings into this waste, fraud and abuse until FEMA has adequate fraud prevention and detection controls in place.

To date, as a result of this investigation conducted by these Federal investigators and this subcommittee, more than 7,000 cases have been referred to the Justice Department for prosecution, and I expect this number to increase as these investigations continue.

Furthermore, this hearing is a clear message to potential criminals and fraudsters looking to exploit any future natural disaster and steal from the American taxpayers. Several Federal investigative agencies will be watching you closely. Criminals will be detected, they will be prosecuted and punished to the full extent of the law.

As a former Federal prosecutor, I will not stand by and allow this situation to persist. I am currently working on legislation from this committee to address these egregious flaws in the FEMA disaster assistance registration process and plan to introduce legislation to make sure that these mistakes never happen again.

The Chair now recognizes the ranking minority member of the committee, the gentleman from North Carolina, Mr. Etheridge, for any statement he may have.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Let me thank the witnesses for being here today. Even as we have the first tropical storm of the season approaching or actually on the east coast right now and probably pounding my home State of North Carolina, the people of my State of North Carolina as well as those in the southeast in the gulf coast await each year the hurricane season with a mixture of trepidation and resolve. They have been through it before. We know that one or more storms will affect our State sometime during the 6-month period of hurricane season. We know that one or more of these storms will cause storm surge, flooding, beach erosion and wind damage. And we know that, as individuals and families, we must be protected or be prepared to protect our families, our homes and our property as best we can.

Unfortunately, after witnessing the horrors of Hurricane Katrina as it wrought its damage on the Gulf Coast and FEMA's bungling response which accelerated the danger and misery of storm victims, the people of my State and the rest of the country do not know if this Federal Government will be ready to provide the support and resources our States may need in the event of a bad storm this year.

Every hurricane, natural disaster or terrorist attack provides an often tragic lesson to local, State and Federal emergency responders, and we rely on them to learn from those experiences. In North Carolina, Hurricane Hugo, Fran, Floyd and others taught us that storms don't always stop at the beach's edge, but they quickly come inland and wreak havoc on towns and villages hundreds of miles inland.

Hurricane Floyd is an example. It provided a stark reminder that the majority of the casualties and the damages and deaths from a hurricane are wrought hundreds of miles inland, and this is true across the gulf coast. Last year, we saw that even in a minor hurricane like Ophelia in North Carolina that wrecked homes and destroyed businesses.

In North Carolina our State department of emergency management uses every storm to identify weaknesses, and they use every storm to further improve their preparedness and their response capabilities. However, despite years of experiences and many storms, it appears that FEMA never learns and at least can't remember what they do one year from the next.

Today we are going to focus on the waste, fraud and abuse that occurred in the aftermath of Hurricane Katrina and Rita. I fully understand that it was a chaotic time and the storms effects and scopes were unprecedented in American history. I also understand that FEMA, the Red Cross and other support organizations were under tremendous pressure to register storm victims as quickly as possible so that they could receive assistance. However, that is no excuse for the lack of preparation, the lack of internal controls and the lack of decisive and professional leadership at all levels of the Federal Government.

Between 1991 and 2004, 23 hurricanes struck the United States mainland, including the top 11 most costly storms in the history of this country that affected millions of people. Last May, the Department of Homeland Security Inspector General released an audit report of FEMA individuals and household programs problems in Florida after Hurricane Francis.

Let me just show what that report said. That report outlined a number of problems with fraud and abuse that permeated the Federal assistance programs. Specifically, on page 4 of that report, it reported, and I quote, funds provided for repair and replacements of household items were not based on actual disaster related damages or loss.

We are revisiting it again today.

A south Florida newspaper, Sun Sentinel, reported that FEMA paid $31 million in Hurricane Francis aid to residents of Miami even though Francis never hit south Florida.

This past week, we received the GAO report on FEMA's control problems with the expedited assistance program that has cost taxpayers now we are learning hundreds of millions of dollars. Let me just quote from that report. The Office of Inspector General for the Department of Homeland Security in regard to DHS's fiscal 2005 financial statements, and I quote, unfortunately, the Department made little or no progress in improving its overall financial reporting during fiscal year 2005. JPMT, the audit firm, was unable to provide an opinion on the Department's balance sheet. The taxpayers of America are appalled and should be when a Federal agency can't have their report audited.

Unfortunately, these are the people who take advantage of catastrophic events to exploit FEMA's weaknesses and internal controls to steal funds that should rightfully go to true disaster victims as we have talked about. Some of these people fraudulently registered for individual assistance and other fraudulent things that affected the taxpayers of America. We need to find out all—who all these thieves and prosecute them to the full extent of the law.

But, more importantly, FEMA and the other assistance groups need to learn from these experiences and institute robust internal controls, verification systems that dissuade would-be criminals and

ensure that legitimate victims receive assistance as quickly as possible and the taxpayers' funds are protected.

I hope our witnesses will be able to show that we have learned something from these past disasters and all the mistakes. I also ask the Chairman that we continue this line of questioning with more hearings that focus on the larger, more expansive problems of fraud, waste and abuse as it relates to contracting. I hope, Mr. Chairman, that will be the subject of another hearing because it is a critical hearing that we need to get into.

I hope I never see Americans trapped, hungry and fearing for their lives in the aftermath of a disaster because local, State and Federal officials did not learn from past mistakes, and they have to suffer.

Thank you and I yield back.

Mr. MCCAUL. Let me say, we do intend to have hearings in the future on this issue.

The Chair now recognizes the ranking member of the full committee, the gentleman from Mississippi, Mr. Thompson, for any statement he may have.

Mr. THOMPSON. Thank you very much, Mr. Chairman. I appreciate the opportunity to participate in these hearings.

I thank the ranking member for also making the hearings happen.

We are here today to talk about fraud, waste and abuse. After every disaster, there are some who seek to turn a national catastrophe into personal gain. Katrina was no different. Some of these people wore jeans and sneakers and cheated the government out of thousands of dollars, and some of these people wore suits and dress shoes and cheated the government out of millions of dollars.

Mr. McCaul was dead on when he said that this kind of fraud is an assault on the American taxpayer, which is why I am glad we are here today. That is why it is important that we understand that our work is not done today because the fraud in the individual assistance program pales in comparison to FEMA's contracting follies.

It is important that we realize that what happened after Katrina was not itself a disease. Instead, the frauds we will talk about were symptoms of a much larger illness. The lack of controls that allowed some individuals to fraudulently receive individual assistance was just a symptom. The hundreds of millions of dollars of trailers that FEMA bought and cannot use was just a symptom. The layered contracts where subcontractor upon subcontractor takes a cut while the men and women who do the actual work on the ground got paid less than $0.07 on the dollar was just a symptom. The rush to rent massive cruise ships that ultimately went largely unused by actual hurricane victims was just a symptom.

We are going to talk about symptoms, but I want to talk about the diseases, too. The disease is an agency that for 5 years was weakened by poor leaders, leaders who were chosen based on who they knew and not what they knew. The disease is an agency that had only 36 employees in its procurement office while senior leadership at the Department of Homeland Security knew that the office needed as many as 125 to carry the workload.

The disease is an agency that issues sole source contracts to politically connected companies instead of using competition to get the best deals and the best products. The disease is an agency that for years could not get the administration to fund a Hurricane Pam exercise and then only got part of it funded.

In short, the disease is an administration that for years short-changed FEMA and short-changed catastrophic planning. So while I want to talk about the things that happened after Katrina, I also want to talk about why they happened. I don't want to do too much over the symptoms without looking to the disease.

But, Mr. Chairman, before I yield back, I want to take a moment to thank the countless first responders, emergency managers, line level FEMA employees and volunteers on the ground who worked tirelessly and often on their own to help Katrina's victims.

I want to make clear that my comments should in no way be taken to disparage their efforts; that they performed heroically in the face of leadership vacuums at all levels in Washington is a testament to their dedication and professionalism.

Some of these people made tough decisions during an impossibly tough time. We do not want to second guess tough decisions made on the ground, chest deep in water, with thousands in need and in the face of unprecedented devastation.

Today we will hear some harsh truths about their leaders and the policies of the administration, but we should never forget or diminish their efforts. Nothing we say here today should stop them from making the tough decisions necessary when the next disaster happens.

Mr. Chairman, I also want to say I was happy to hear you say that we will have additional hearings broadening the scope of this review. This is just the beginning, and I look forward to this hearing, and I yield back the balance of the time.

Mr. MCCAUL. The ranking member is recognized.

Mr. ETHERIDGE. I ask unanimous consent Ms. Jackson-Lee be able to sit in. She is a member of the full committee.

Mr. MCCAUL. Without objection, so ordered.

Let me remind members that under our committee rules, opening statements are limited to the Chair and ranking members. However, all members are entitled to submit written opening remarks for the record, and due to our time constraints today, we will need to move immediately to the testimony from our witnesses.

Mr. MCCAUL. The chair now recognize Mr. Greg Kutz, Managing Director, Forensic Audits and Special Investigations for the GAO to testify. Mr. Kutz is accompanied by Special Agent John Ryan, Forensic Audits and Special Investigations, Government Accounting Office.

Mr. KUTZ.

STATEMENT OF GREGORY D. KUTZ

Mr. KUTZ. Mr. Chairman and members of the subcommittee, thank you for the opportunity to discuss fraud and abuse related to Hurricanes Katrina and Rita. In February, I testified that weak or nonexistent controls left the government vulnerable to substantial fraud and abuse for individual assistance payments. At that

hearing and subsequently, I frequently have been asked, how big is this problem? My testimony is intended to answer that question.

The bottom line of my testimony today is that we estimate $1 billion of fraudulent and improper payments related to Hurricanes Katrina and Rita.

My testimony has three parts: first, our estimate of fraud and abuse; second, examples of fraud and abuse; and third, usage of debit cards.

First, we estimate that 16 percent or $1 billion of individual assistance payments were fraudulent and improper. Our estimate is based on a statistical sample of the 2.6 million payments made totaling $6.3 billion through February of 2006. A statistical sample means that we randomly selected 247 payments from this population of 2.6 million payments.

We believe our estimate understates the magnitude of the problem because it includes only issues related to the application process.

Out of 247 sample items, at least 39 represent invalid claims. Any cases that were not clearly invalid, we gave the benefit of the doubt. For each sample item, we used all of the audit and investigative tools that we had available. Our work included visiting damaged property addresses, speaking to the neighbors, visiting the post office and reviewing credit reports.

The 39 sample failures related to the following four problems: first, use of invalid Social Security numbers; second, bogus damaged property addresses; third, invalid primary residence, meaning the individual did not live there at the time of the hurricane; and fourth, duplicate registrations.

As my second point, I would like to highlight examples of the fraud and abuse starting with our own undercover operation. In prior testimony, I highlighted the $2,000 expedited assistance checks we received for applications using false identities and bogus property addresses. We have continued to test the system.

The poster board to my left shows the $2,358 rental assistance payment that we received. The next poster board shows the bogus damaged property address that we used to receive this check. It also shows a letter from FEMA saying that their inspection showed damage to our home and personal property. However, the picture clearly shows this is a vacant lot.

Other people were more creative than we were. The next poster board shows an example of this. As you can see, FEMA paid this fraudster from West Virginia for an address that was actually an above-ground cemetery in New Orleans.

FEMA also paid millions of dollars to prisoners incarcerated at the times of Hurricane Katrina and Rita. Given that State and Federal Governments are already paying for these prisoners' housing, the $4 million paid to them for expedited and rental assistance is clearly improper.

The poster board shows one of the inmates who was willing to pose for this picture. We blurred the picture to protect his identity. Notice that he is holding in his hands his $2,000 expedited assistance check and his $2,358 rental assistance check.

FEMA also made rental assistance payments to individuals staying at hotels paid for by FEMA. Similar to paying for the inmates

twice, the government paid twice for these individuals' lodging, first, by paying for their hotel and, second, by sending them rental assistance money. This happened because FEMA did not collect registration information for people staying at these hotels. Thus, FEMA dispersed rental assistance without first checking to see who was staying at the FEMA-paid hotels.

Let me give you a few examples of what we found. One individual stayed at a vacation resort in Orlando from September 05 to November of 05. The total cost to FEMA was $12,000 or up to $249 per night. This individual also received rental assistance of over $4,000.

Another individual stayed at a hotel in Honolulu, Hawaii, from October to December of 05. The total cost to FEMA was $8,000 or up to $115 per night. This individual also received over $5,000 of rental assistance. Another indication of fraud for this case is that the individual appears to have actually lived in North Carolina at the time of the hurricane.

Moving on to my third point, thousands of debit cards were handed out for disaster assistance at three relief centers in Texas. I have one of these debit cards in my hand that was used by FEMA for these hurricanes. The poster board also shows you an example of what these debit cards look like.

Most of the debit card money was withdrawn at ATM machines, and thus we cannot tell you how it was spent. The remainder was used primarily for food, clothing and personal necessary items. However, we continue to find purchases that are clearly not essential to meet serious disaster needs. Examples include an all-inclusive vacation trip to a Caribbean beach resort in July—that is next month—of 2006; five New Orleans Saints 2006 season tickets; a $200 bottle of Dom Perignon champagne purchased at Hooters Restaurant; and Girls Gone Wild videos.

In conclusion, the good news is that the vast majority of individual assistance money did go to qualified individuals. However, our testimony shows that a substantial number of individuals took advantage of the opportunity to commit fraud. Their victim, the American taxpayer.

We believe that FEMA should have an effective fraud prevention program that protects all taxpayers at the same time that it provides assistance quickly to those that are truly in need.

Mr. Chairman, this ends my statement. Special Agent Ryan and I are happy to answer your questions.

[The statement of Mr. Kutz follows:]

United States Government Accountability Office

GAO

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

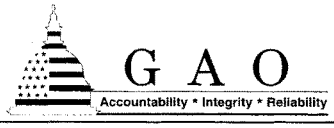
For Release on Delivery
Expected at 11:00 a.m. EST
Wednesday, June 14, 2006

HURRICANES KATRINA AND RITA DISASTER RELIEF

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

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

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



GAO-06-844T

June 14, 2006

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Highlights

Highlights of GAO-06-844T, a testimony before the Subcommitee on Investigations, Committee on Homeland Security, U.S. House of Representatives

HURRICANES KATRINA & RITA DISASTER RELIEF

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

Why GAO Did This Study

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

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

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

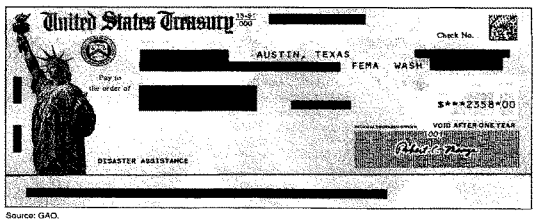
www.gao.gov/cgi-bin/getrpt?GAO-06-844T.

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

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

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



Source: GAO.

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

Mr. Chairman and Members of the Subcommittee,

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

As we previously reported, expedited assistance—a component of the IHP program for hurricanes Katrina and Rita—took the form of $2,000 payments provided to disaster victims to help with the immediate, emergency needs for food, shelter, clothing, and personal necessities. Individuals and/or households who received expedited assistance may also be eligible to receive other IHP payments for temporary housing assistance, real and personal property repair and replacement, and other necessary expenses related to a disaster—up to a cap of $26,200.[2] As of mid-February 2006, FEMA data showed that the agency had delivered about $6.3 billion in IHP aid for hurricanes Katrina

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

and Rita.[3] Thirty seven percent (approximately $2.3 billion) of this amount was delivered through expedited assistance (EA) to hurricanes Katrina and Rita registrants. Of the remaining payments, about $2 billion was delivered through temporary housing assistance, and another approximately $2 billion was for repair and replacement of real and personal property, and for other miscellaneous categories.

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

Today's testimony summarizes the results from our ongoing forensic audit and investigative work reviewing the type and extent of fraud and abuse for the IHP program. This testimony will (1) provide an estimate of improper and potentially fraudulent payments related to certain aspects[5] of the disaster

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

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

[5] For the purpose of this testimony, our estimate of improper and potentially fraudulent payments is based on a statistical sample of payments in which we examined whether the associated registrations contained invalid Social Security Numbers (SSNs), bogus

registrations, (2) identify whether FEMA made improper or potentially fraudulent IHP payments to registrants who were incarcerated at the time of the disaster, (3) identify whether FEMA provided registrants with rental assistance payments at the same time it was paying for their lodging at hotelrooms, and (4) review FEMA's accountability over debit cards and controls over proper debit card usage.

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

addresses, invalid primary residence, and/or duplicate information. Invalid SSNs refer to instances where the SSNs did not match with the name provided; the SSNs belong to the deceased; or the SSNs had never been issued. Bogus addresses refer to instances where the damaged address did not exist. Invalid primary residences are related to registrations where the registrant had never lived at the damaged address, or did not live at the damaged address at the time of the hurricanes. Duplicate information refers to instances where the registrations contained information that is duplicative of another registration that received a payment and was earlier recorded in FEMA's system.

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

To assess accountability over FEMA debit cards, we interviewed officials from FEMA, Department of Treasury's Financial Management Service (FMS), and JPMorgan Chase. To assess the usage patterns of FEMA debit cards, we data mined debit card purchases and identified transactions that appeared to be unrelated to emergency disaster needs. Further details on our scope and methodology can be found in appendix I.

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

Summary

We estimate that 16 percent of payments, totaling approximately $1 billion, were improper and potentially

fraudulent because of invalid registrations.[6] This amount includes payments for expedited assistance, rental assistance, housing and personal property repair and replacement, and other necessary and emergency expenses. These payments were made to (1) registrations containing Social Security Numbers (SSNs) that were never issued or belonged to other individuals, (2) registrants who used bogus damaged addresses, (3) registrants who had never lived at the declared damaged addresses or did not live at the declared damaged address at the time of disaster, and/or (4) registrations containing information that was duplicative of other registrations already recorded in FEMA's system. Our projection likely understates the total amount of improper and potentially fraudulent payments because our work was limited to issues related to misuse and abuse of identity, damaged property address information, and duplicate payments. Our estimate does not account for improper and potentially fraudulent payments related to issues such as whether the applicants received rental assistance they were not entitled to, received housing and other assistance while incurring no damage to their property, and/or received FEMA assistance for the same damages already settled through insurance claims.

Our forensic audit and investigative work showed that improper and potentially fraudulent payments occurred mainly because FEMA did not validate the identity of the registrant, the physical location of the damaged address, and ownership and occupancy of all registrants at the time of registration. For example, in one case a registrant received $7,328 for expedited and rental assistance even though the registrant had moved out

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

of the rented house a month prior to hurricane Katrina. FEMA also paid $2,000 to an individual who provided a damaged address that did not exist, and paid $2,358 in rental assistance to another individual who claimed his damaged property was inside a cemetery.

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

Without verifying the identity and primary residence of registrants prior to IHP payments, it is not surprising that FEMA also made expedited and rental assistance payments totaling millions of dollars to over 1,000 registrations made using information belonging to prison inmates. In other words, payments were made to registrations using the names and SSNs

of individuals who were not displaced as a result of the storm but rather were incarcerated at state prisons of the Gulf Coast area (that is, Louisiana, Texas, Florida, Georgia, Mississippi, and Alabama), or federal prisons across the United States at the time of the hurricanes. FEMA criteria specified that expedited assistance be provided only to individuals who were displaced due to the disaster and therefore were in need of shelter, and further specified that FEMA may provide additional assistance to individuals for the purpose of renting accommodations.[7] For example, FEMA paid over $20,000 to an inmate who used a post office box as his damaged property.

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

[7] 44 CFR 206.117

We found that FEMA did not institute adequate controls to ensure accountability over the debit cards. Specifically, FEMA initially paid $1.5 million for over 750 debit cards that the government could not determine actually went to help disaster victims. Based on our numerous inquiries, upon identification of several hundred undistributed cards JPMorgan Chase refunded FEMA $770,000 attributable to the undistributed cards. Further, we continued to find that debit cards were used for items or services such as a Caribbean vacation, professional football tickets, and adult entertainment, which do not appear to be necessary to satisfy disaster-related needs as defined by FEMA regulations.[8]

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

Because of FEMA's failure to establish basic upfront validation controls over registrants' identity and address information, we estimate that FEMA made approximately $1 billion of improper and potentially fraudulent payments based on invalid registrations. [9] This represents 16 percent of all individual assistance payments for hurricanes Katrina and Rita.[10] The improper and potentially fraudulent payments included cases where individuals and households used invalid SSNs, used addresses that were fictitious or not their primary residence, and for submitted earlier registrations. These improper payments based on phony or duplicate registration data were not only restricted to the initial expedited assistance payments that we previously reported on, but also included payments for rental assistance, housing repair, and housing replacement. For

[8] 44 CFR 206.112

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

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

example, rental assistance payments were made to registrants that used a post office box and a cemetery as damaged properties. In fact, as part of our ongoing forensic audit, FEMA continues to provide rental assistance to GAO based on registrations that contained fictitious identities and bogus damaged addresses. In one case, FEMA even sent GAO a check for expedited assistance after an inspector could not confirm that the property existed, and FEMA had decided not to provide housing assistance to this registration. Our projection likely understates the total amount of improper and potentially fraudulent payments since our examination of sample payments focused only on invalid registrations and did not include other criteria, such as insurance policies, which may make registrants ineligible for IHP payments.

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

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

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

Reason Why Payment Was Not Valid	Number of Failures	Percent Failure/ Estimated Amount
Invalid primary residence (properties which could not be a primary residence and properties that the registrant did not live in at the time of the disaster)	26	
Payments based on duplicate registration data (registration containing same SSN, damaged property address, and/or current address as an earlier registration in FEMA's system)	12	
Bogus properties used[1] (addresses did not exist)	3	
Invalid SSN used (SSN never issued or belonging to other individuals)	2	
Total failures	39[2]	16 percent
Estimate of Improper and Potentially Fraudulent Payments		
Point estimate		$1.0 billion[3]
95 percent confidence interval		$600 million to $1.4 billion[3]

Source: GAO.

[1]Registrations containing bogus damaged property addresses also fail the invalid primary residence attribute.

[2]Some registrations failed more than one attribute; therefore, the total number of failures is less than the sum of the attribute totals.

[3]Rounded to the nearest $10 million.

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

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

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

Case	Amount	Case Details
1	$19,636	• Registrant received $2,000 in expedited assistance, $2,358 in rental assistance, and more than $15,000 in personal property replacement. • Registrant originally claimed damage at a street address several houses away from the damaged property address currently in FEMA's database. At some point in the disaster assistance process, the registrant made changes to the damaged property address. • No physical inspection occurred at the damaged property. Personal property payment was based on geospatial data due to the level of devastation in the area. • GAO reviews of publicly available information and credit report data showed that the registrant had never lived at the damaged property address for which she was paid.
2	14,750	• Registrant used valid physical property as damaged address to receive three payments for expedited assistance, rental assistance, and personal property replacement. • GAO audit and investigative work found no evidence that the individual ever lived at the property. After receiving the payments, the registrant withdrew the application without ever having a physical inspection performed or returning the disaster payments to FEMA.
3	7,328	• Registrant used damaged property in Kenner, Louisiana, as primary residence to qualify for one expedited assistance payment and two rental assistance payments. • Registrant did not live at property at the time of disaster. • Owner of the property told us that the registrant had moved out of the damaged property a month prior to hurricane Katrina.
4	6,161	• Registrant used damaged property as primary residence to receive one expedited assistance and two rental assistance payments. • Residents at the property had never heard of the registrant.
5	2,784	• Registrant used Post office box in McIntosh, Alabama as the damaged property address in order to receive expedited assistance and rental assistance. • The local postal inspector stated that the post office box was linked to other individuals associated with known fraudulent activity.

Source: GAO analysis and investigation of FEMA data.

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

Payments to Registrations with Bogus Property Addresses – Three payments in our sample were made to registrations containing bogus property addresses. For example, we found that one individual used several pieces of bogus information to receive expedited assistance. Specifically, the registrant used a SSN that was valid but the name did not match the name in records maintained by the Social Security Administration. The registrant also used a damaged property address in the 3000 block that was determined to be invalid through our on-site inspection, as street numbers on that street only went up to the 1000s. After the initial payment, the registration was withdrawn voluntarily by the registrant. In effect, this registrant was able to use completely bogus information to receive $2,000 from FEMA and then withdraw the registration to avoid further scrutiny.

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

Overall, we observed that 17 of our sample failures (44 percent) were related specifically to expedited assistance payments. The high level of expedited assistance-related failure was expected because these payments needed to be made quickly and,

typically, prior to a physical inspection of the damaged property. However, we found that the other 22 failures (56 percent) were related to rental assistance and personal and real property repair and replacement payments. In its response to a draft GAO report, FEMA represented to us that all nonexpedited assistance payments, including the $2,358 in housing assistance payments, were subject to much more stringent requirements. Specifically, FEMA represented that the registrants had to demonstrate that they occupied the damaged property at the time of the disaster. However, the 22 failures we found indicate that these requirements were not effective in preventing improper and potentially fraudulent registrations from receiving nonexpedited assistance payments.

Sample Testing Understates Improper and Potentially Fraudulent Payments

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

During the course of our work, we found that these problems affected some of our sampled payments and, therefore, these payments may be improper or potentially fraudulent. However, because the problems did not relate to identity and address information, they passed our testing criteria. For example, an individual in our statistical sample provided a valid SSN and lived in a declared disaster area. However, the individual informed GAO that he did not incur any hurricane-related

damage. Despite this fact, the individual received $2,000 in expedited assistance. We did not test whether registrants received duplicate benefits from other FEMA programs, such as free hotel lodging and trailers, which would have resulted in FEMA paying duplicate housing benefits to the same registrant. Later in this testimony, we provide examples where registrants received from FEMA free hotel rooms in addition to rental assistance. Finally, our estimate would include payments FEMA has identified for potential recoupment.

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

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

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

- Case #1 relates to a registration submitted by GAO for hurricane Rita that cited a bogus address in Louisiana as the damaged property. In

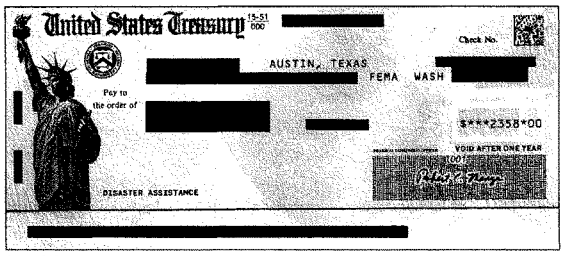
[11] GAO-06-403T.

October 2005, GAO received notice that the inspector assigned to inspect the property was not able to find the house despite numerous attempts to verify the address with the phone book, post office, and with a physical inspection. The registration was subsequently returned to FEMA by the inspector and coded as withdrawn because no contact was made with the registrant. Even though GAO never met with the inspector to prove that the damaged property existed, FEMA sent GAO a check for $2,000 in early 2006.

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

[12] Follow-up work indicates that because the address fell in an area with tremendous devastation, FEMA used geospatial mapping in lieu of a physical inspection to identify the level of damage and calculate the amount of assistance.
[13] Individuals and households who met a certain income threshold were referred to SBA for a loan consideration.

Figure 1: Rental Assistance Check Issued to GAO



Source: GAO.

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

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

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

Case	Amount	Case Details
1	$109,708	• 8 individuals submitted 8 registrations using their own SSNs. • All 24 payments were sent to a single apartment. • 4 individuals were members of the same household who were displaced to the same location. However, these individuals each received an expedited assistance and a rental assistance payment. According to public records, the other 4 individuals were not living at the damaged property at the time of the hurricane.
2	139,000	• Individual received 26 payments using 13 different SSNs—only 1 of which belonged to the person. • Public records indicate that the individual did not reside at any of the 13 addresses claimed as damaged property addresses. • Public records also indicate that 8 of the 13 addresses did not exist or have public ownership records.
3	4,358	• Registrant claimed a UPS store address as damaged property address to qualify for 2 payments for expedited assistance and rental assistance.
4	2,358	• Registrant used an address in Greenwood Cemetery, New Orleans, as the damaged property address to qualify for one rental assistance payment.
5	2,000	• Registrant used a New Orleans cemetery as the damaged property address to obtain one expedited assistance payment.

Source: GAO analysis and investigation of FEMA data.

The following provides illustrative information for three of the cases.

- Case number 1 involves 8 individuals who claimed several different damaged property addresses, but the same current address which is a single apartment. Public record searches also determined that only 2 of the 8 individuals actually lived at the current address. Four individuals were members of the same household who shared the same damaged property address. However, the 4 individuals each received one expedited and one rental assistance payment. FEMA criteria specified that members from the same household who were displaced to the same location should be entitled to only one IHP payment. According to public records, the other 4 individuals were not living at the address claimed as damaged at the time of the hurricane.

- Case number 2 involves an individual who used 13 different SSNs—including one of the individual's own—to receive payments on 13 registrations. The individual claimed 13 different damaged property addresses and used one single current address to receive FEMA payments. According to publicly available records, this individual had no established history at any of the 13 properties in Louisiana, Mississippi, and Alabama, which the individual claimed as damaged. The individual received approximately $139,000 consisting of 8 expedited assistance payments, 4 rental assistance payments, and 14

other payments, including 3 payments of $10,500 each, and 3 payments ranging from over $12,000 to over $17,000 for personal property replacement. Further audit and investigative work indicates that 8 of the 13 addresses did not exist or do not have public ownership records.

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

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

Registrants Using Prisoner Identities Received Millions in Disaster Assistance Payments

FEMA paid millions of dollars to over 1,000 registrants who used names and SSNs belonging to state and federal prisoners for expedited and housing assistance.[14] FEMA guidelines specify

[14] FEMA paid registrants who used names and SSNs belonging to inmates in the Gulf Coast region (that is, Louisiana, Texas, Alabama, Mississippi, Georgia, and Florida) or federal prison institutions and whose application was made at the time of incarceration.

that eligibility for disaster assistance is predicated on the registrant being displaced from their primary residence due to the disaster, thus having need for shelter. These eligibility criteria should have generally excluded prisoners incarcerated throughout the disaster period. Given the weaknesses we identified earlier related to the number of individuals who claimed damages based on invalid property addresses, we can not ascertain whether FEMA properly verified that these registrations were valid, and therefore deserving of IHP payments. The following are three cases where prisoner identities were used to improperly receive IHP payments.

- Case 1 involves a convicted felon, housed in a Louisiana prison from April 2001 to the present, who registered for IHP assistance by telephone. The registrant made a FEMA claim using a post office box address in Louisiana as his damaged property address to qualify for IHP payments for expedited assistance, rental assistance, and personal property replacement. Two of these payments were made via checks sent to the address he falsely claimed as his current residence, and the final payment was sent via electronic funds transfer (EFT) to someone who also listed the same current address on the checking account. FEMA paid over $20,000 to the registrant even though the damaged property address on the registration was a post office box address and the registrant was incarcerated throughout the disaster period.

- Case 2 involves a registrant who has been incarcerated in a Louisiana state penitentiary since February 2005. Several weeks after the disaster, the registrant applied by telephone for individual disaster relief assistance claiming a Louisiana address. Based on his registration information, FEMA paid the inmate over $14,000 in checks mailed to an address in Texas that he listed as his current address, and an EFT was sent to his checking account. Payments included expedited assistance, rental assistance, and personal property replacement funds.

Most of these prisoners are still incarcerated. These numbers do not include prisoners who submitted false identities or false addresses on their registrations, prisoners who were free at the time of the hurricanes, received rental assistance, and were later incarcerated (meaning they received rental assistance covering periods of incarceration) or prisoners who used other schemes to collect FEMA benefits, such as identity theft. The average amount FEMA paid to a prisoner for expedited assistance and rental assistance was over $3,000.

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

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

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

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

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

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

Case	Hotel Name (Location)	Rental Assistance Payments	Total Hotel Payments[1]	Details
1	Quality Inn (Carson, Calif.) Extended Stay America (Sacramento, Calif.)	$6,734	$ 8,000	• Registrant stayed at two hotels from September 2005 to February 2006 at a cost of $50 to $60 per night. • FEMA paid registrant rental assistance for both Katrina and Rita in October 2005 and again in December 2005 for Katrina.
2	Motel 6 (Port Allen, La.)	5,602	7,000	• Registrant stayed at hotels from October 2005 to February 2006 at cost of $36 to $56 per night. • While at the hotel, registrant submitted self-certification forms stating he required housing assistance as a result of both disasters. • FEMA paid registrant two rental assistance payments for Rita in November 2005 and two rental assistance payments for Katrina in December 2005 and January 2006.
3	Marriott Courtyard (Lafayette, La.)	5,208	18,000	• Registrant stayed at hotel from September 2005 to February 2006 at a cost of $109 to $122 per night. • FEMA paid registrant two rental assistance payments in September 2005 and December 2005.
4	Marriott Cypress Harbour (Orlando, Fla.)	4,386	12,000	• Registrant stayed at the vacation resort hotel from September to November 2005 at a cost of $154 to $249 per night. • In November 2005, the registrant moved to a FEMA-paid trailer. • FEMA made two rental assistance payments to the registrant in October 2005.
5	Days Inn (Monroe, La.)	4,386	8,000	• Registrant stayed at hotel from October 2005 to January 2006 at a cost of $69 to $79 per night. • FEMA paid registrant two rental assistance payments in September 2005 and December 2005. • FEMA inspector notes indicate registrant did not live at the damaged address at time of the hurricane.

Case	Hotel Name (Location)	Rental Assistance Payments	Total Hotel Payments[1]	Details
6	Intercontinental (New Orleans, La.) Days Inn (Metairie, La.) Best Western French Quarter Landmark (New Orleans, La.)	4,056	14,000	• Registrant stayed at three hotels from November 2005 to February 2006 at a cost of $119 to $260 per night. • FEMA paid registrant rental assistance payments in November 2005 and January 2006.
7	Ramada Plaza Hotel (Corona, N.Y.)	2,358	31,000	• Registrant stayed at hotel from September 2005 to March 2006 at a cost of $149 per night. • FEMA paid registrant rental assistance in September 2005.
8	Pagoda Hotel (Honolulu, Hawaii)	2,358	8,000	• Registrant stayed at hotel from October to December 2005 at a cost of $110 to $115 per night. • FEMA paid the registrant rental assistance in November 2005 and another rental assistance payment for $2,988 in January 2006. • Our investigation and public records indicate that the registrant did not live at the damaged property address in New Orleans at the time of the hurricane but instead resided in North Carolina.
9	French Quarter Suites (New Orleans, La.) Old Towne Inn (New Orleans, La.)	2,358	8,000	• Registrant stayed at two hotels from November 2005 to January 2006 at a cost of $100 to $136 per night. • FEMA paid registrant rental assistance in November 2005. • Registrant was evicted from second hotel for violating hotel rules.
10	Days Inn (Monroe, La.)	2,028	8,000	• Registrant stayed at hotel from October 2005 to January 2006 at a cost of $61 to $79 per night. • FEMA paid the registrant rental assistance in December 2005.

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

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

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

have wasted taxpayer dollars by paying twice for housing assistance to hurricane victims.

FEMA Lacked Controls over Accountability and Use of Debit Cards

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

Control Weaknesses over Accountability of FEMA Debit Cards

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

- JPMorgan Chase performed a physical count of cards remaining to identify the number of cards distributed. This resulted in JPMorgan Chase determining that it distributed 10,989 cards, not 11,374 cards.

[17] 44 CFR 206.110.

Upon identification of the 385 undistributed debit cards, JPMorgan Chase refunded to FEMA $770,000 attributable to these undistributed debit cards.

- FEMA attempted to perform a reconciliation of the distributed cards to the cards recorded in its disaster recipient database. As of May 26, 2006, FEMA can only account for 10,608 cards of the 10,989 cards JPMorgan Chase claimed that it has distributed.[18] As a result, FEMA cannot properly account for 381 debit cards, worth about $760,000.

Lack of Guidance for Proper Use of Debit Cards

Since initially paying JPMorgan Chase $22.7 million, FEMA has expanded the use of debit cards as a payment mechanism for future IHP payment for some registrants. Through this process, FEMA made about $59 million in additional payments of rental assistance and other benefits. As of March 2006, over 90 percent of money funded to the debit cards has been used by recipients to obtain cash and purchase a variety of goods and services. Our analysis of data provided by JPMorgan Chase found that the debit cards were used predominantly to obtain cash[19] which did not allow us to determine how the money was actually used. The majority of the remaining transactions was associated with purchases of food, clothing, and personal necessities.

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

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

[19] Over 70 percent of debit card dollars were cash withdrawals.

5 details some of the debit cards activities we found that are not necessary to satisfy legitimate disaster needs.

Table 5: Examples of Questionable Use of Debit Cards

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

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

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

Concluding Comments

FEMA faces a significant challenge in ensuring that IHP relief payments are only sent to valid registrants while also distributing those relief payments as fast as possible. To ensure the success of the program, FEMA must build the American taxpayers confidence that federal disaster assistance only goes to those in need, and that adequate safeguards exist to prevent assistance from going to those who submit improper and

potentially fraudulent registrations. To that effect, FEMA must develop and strengthen controls to validate information provided at the registration stage. As we have stated in prior audit work, and as FEMA had learned from prior experience, pursuing collection activities after disaster relief payments have been made is costly, time-consuming, and ineffective. Upfront controls are all the more crucial given the estimated $1 billion dollars that had gone to improper and potentially fraudulent registrations related to hurricanes Katrina and Rita. It is key that FEMA address weaknesses in its registration process so that it can substantially reduce the risk for fraudulent and improper payments before the next hurricane season arrives.

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

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

Contacts and Acknowledgement

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Appendix I: Objectives, Scope and Methodology

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

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

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

intervals in this report will include the true values in the study population.

To identify whether FEMA made improper or potentially fraudulent IHP payments to registrants who were incarcerated at the time of the disaster, we obtained the FEMA IHP database as of February 2006. We obtained databases containing state prisoner data since August 2005, including releases and new incarcerations, from the states of Louisiana, Texas, Mississippi, Alabama, Georgia, and Florida. We also obtained federal prisoner data since August 2005, including releases and new incarcerations, from the Department of Justice. We validated the databases were complete by comparing totals against available public information on prisoner populations. We compared these databases against the population of IHP payments to identify prisoner SSN/name combinations that received payments from FEMA. We restricted this comparison to prisoners who were in state or federal prisons at the time of the disasters. We also interviewed prisoners who registered for disaster relief and prison officials to determine if prisoners were incarcerated at the time of the disaster.

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

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

During the course of our audit work, we identified multiple cases of potential fraud. For cases that we investigated and found significant evidence of fraudulent activity, we plan to refer our cases directly to the Hurricane Katrina Fraud Task Force. We performed our work from February 2006 through June 8, 2006 in accordance with generally accepted government auditing standards and quality standards for investigations as set forth by the President's Council on Integrity and Efficiency.

Data Reliability

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

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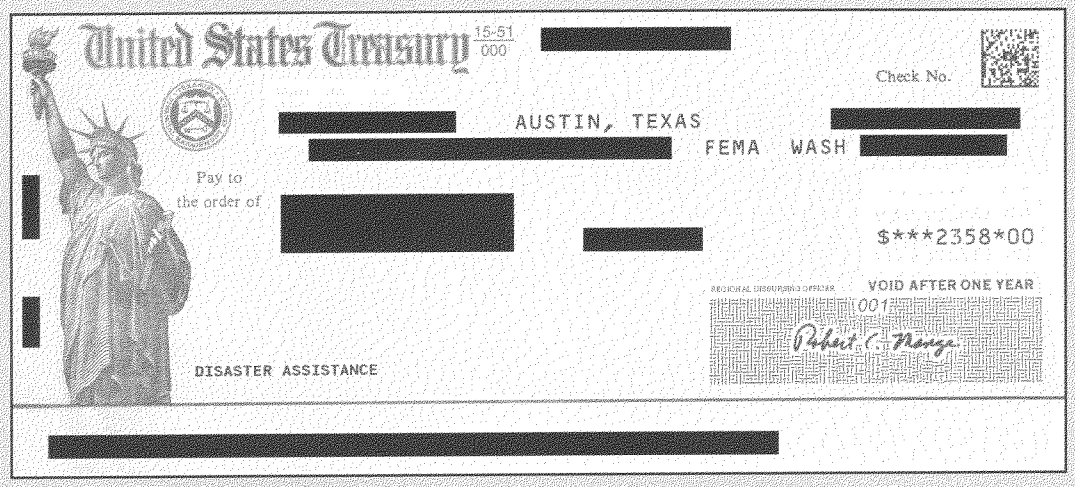
GAO

$2,358 FEMA Rental Assistance Check Sent To GAO



Source: GAO.

GAO
Accountability * Integrity * Reliability

Bogus Address Used By GAO To Obtain FEMA Assistance

FEMA

R. David Paulison
Acting Director
Emergency Preparedness and Response

Kathleen Babineaux Blanco
Governor
State of Louisiana

FEMA excerpt: "An inspection (outside only) was done on your home. The inspection showed damage to your home and personal property."

Source: GAO.

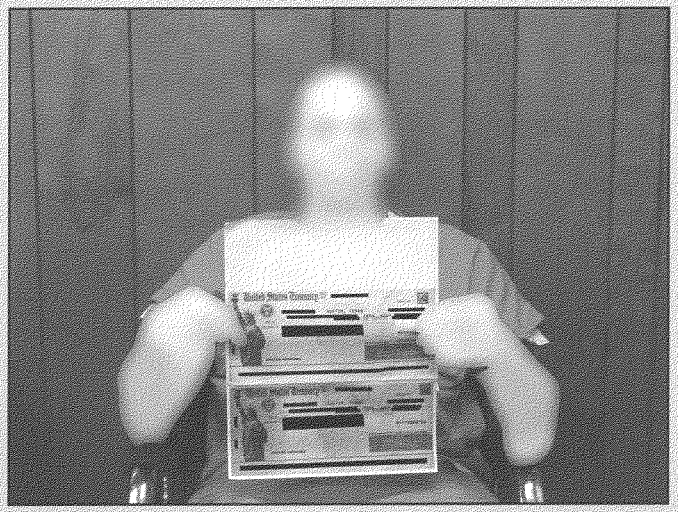
GAO

Bogus Address Associated With Potentially Fraudulent Case Study

Source: GAO.

GAO

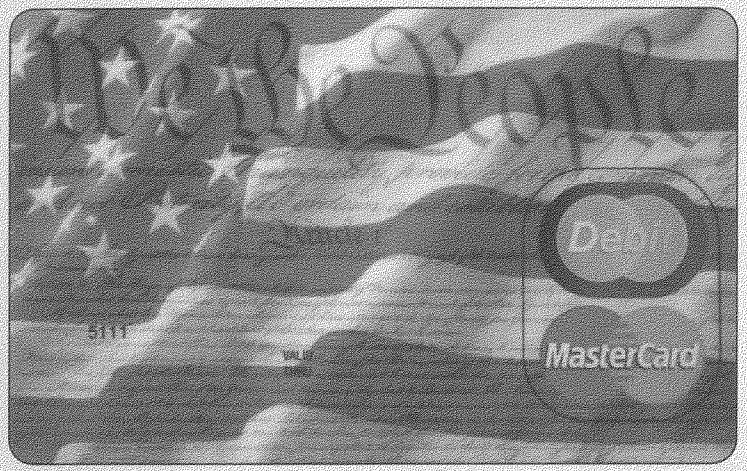
Inmate Posing With Images of His $2,000 Expedited Assistance and $2,358 Rental Assistance Checks



Source: GAO (digitally altered).

GAO

Individuals and Households Program Debit Card



Source: JP Morgan Chase.

Mr. MCCAUL. Thank you, Mr. Kutz.

The Chair now recognizes Ms. Donna Dannels, Acting Deputy Director, Office of Recovery for FEMA.

STATEMENT OF DONNA M. DANNELS

Ms. DANNELS. Good morning, Chairman McCaul, Ranking Member Etheridge, and committee members. My name is Donna Marie Dannels, and I am the acting deputy director of recovery at FEMA. I am here representing Secretary Chertoff and Director Paulison.

It is an honor to appear before this subcommittee to discuss our individual assistance program and FEMA's efforts to provide assistance to individuals and families affected by Hurricanes Katrina and Rita.

Before I begin, may I request that my entire statement be added to the record?

Mr. MCCAUL. Without objection, so ordered.

Ms. DANNELS. FEMA appreciates the opportunity presented by this subcommittee to discuss the changes which FEMA has already implemented in delivering grant assistance. Like the suggestions of the Inspector General, our own reviews and those which came out of a similar hearing 4 months ago in the Senate, several issues have been raised which should be addressed to strengthen the individual assistance program.

FEMA identified many of these issues soon after the implementation of expedited assistance and has already taken steps to correct them. While the Government Accountability Office is just releasing its final report on expedited assistance, the issues are not new. FEMA, as the program owner, is extremely concerned about the issues in providing expedited assistance which is why we have initiated and are currently carrying out a number of improvements.

Katrina and Rita tested our programs and processes as never before. Yet these same programs and processes have provided nearly $7.3 billion to over 3 million victims of the 2005 hurricane season.

Even as we prepare for the upcoming hurricane season and respond to the over 40 declared major disasters that have impacted the country since last September, FEMA continues to fund and facilitate an aggressive recovery strategy and work with our partners to rebuild the gulf coast.

FEMA appreciates the efforts of the Inspector General and GAO to help us identify control weaknesses so that we can continue to improve delivery of our programs while remaining effective stewards of taxpayer funds. While we welcome having this dialog, it is important that we remember the situation we faced in the days immediately following landfall.

In the immediate aftermath of Hurricane Katrina, hundreds of thousands of people were displaced from their homes. Family members were separated or missing, and an entire metropolitan area had suffered from one of the greatest natural disasters in the history of the United States.

It was in this environment that FEMA was faced with providing assistance to individuals to meet their basic emergency needs for lodging, clothing, medication and fuel, while at the same time working with our Federal, tribal, State and local private sector partners to meet longer-term needs.

In Katrina, we were presented with a population that had in a matter of hours lost nearly everything. People were being rescued from rooftops and showing up in shelters sometimes without even a shirt on their back and without identification of any kind.

In Rita, we were presented with a geographic area that had just suffered through two massive hurricanes.

The primary focus of GAO's report is expedited assistance or EA. EA is an accelerated method of dispersing initial individual and household disaster assistance programs to meet immediate emergency needs. EA has previously only been used in a very limited number of disaster situations, primarily where the need for immediate assistance surpassed the capabilities to provide that assistance and when it was clear victims could not return to their homes immediately following the disaster.

One of FEMA's top priorities is the quick and efficient delivery of assistance to as many eligible victims as possible. However, in meeting that goal, we realize that some individuals may receive assistance in error or, unfortunately, because they have intentionally tried to defraud the American people.

As part of our recruitment process, FEMA and in this case the Inspector General review grant awards. FEMA makes every effort to recover overpayments, and if fraud is suspected, FEMA refers the case to the appropriate authorities for prosecution.

In reviewing the GAO report on EA, it is significant to note that many of GAO's findings were already uncovered by FEMA's internal review and our review at the Office of Inspector General. FEMA in fact has gone to great lengths to ensure that it is a good steward of the taxpayers' dollars by deterring fraud while still allowing applicants who are in serious need of assistance to receive it quickly and appropriately. That is the balance we have to strike.

Our efforts of proper stewardship of public funds continue this day. FEMA has already made significant improvements in our delivery processes to prevent fraud, waste and abuse and is well into the recruitment phase for the improper payments made to Hurricanes Katrina and Rita victims. Because of the immediacy of the crisis caused by Katrina and Rita, time was of the essence in getting emergency assistance to victims. For all other payments, however, FEMA took more time to ensure that eligibility requirements were made, including verifying occupancy of the damaged dwelling at the time of the disaster. Any additional IHP assistance was then provided only after an in-person inspection was performed and an actual address or the applicant's occupancy was verified by a data verification contractor and additional documents were verified by FEMA and signed by the applicant.

Even though these measures were intended to minimize overpayments due to fraud and errors, we are aware they were not successful in every case. We continue to evaluate the systems and processes put in place for the very first time in this unprecedented event in order to make further improvements.

The GAO report references isolated incidents where EA debit cards were used to purchase goods and services that did not appear to meet serious disaster-related needs. While we are similarly concerned by the inappropriate use of these funds, these purchases represent a fraction of the overall assistance provided.

These questionable purchases in GAO's review total just under $8,000 or two one-hundredths of a percent of nearly $39 million in debit card transactions.

Through effective planning, enhanced internal controls and a more systematic use of technology, FEMA can limit waste, fraud and abuse. FEMA recognizes that even with the controls in place, there is room for improvement.

During the 2005 hurricane season, FEMA was proactively implementing more stringent controls concerning fraud and identity verification. With these new processes in place, we still need to take into consideration those families and individuals that may not have traditional means of identity and occupancy verification. For those applicants that required additional review and resolution, there were significant delays in FEMA providing any assistance. Such delays of course can seriously impact victims who have lost all possessions.

FEMA's challenge is again to find the appropriate balance of providing timely assistance while taking the necessary precautions to ensure against fraud, waste and abuse.

We appreciate the time and the effort that GAO staff has put into this report. The investigative research they conducted and the resulting suggestions not only serve as a guide to us to continue to improve our processes but have also helped to highlight the value and types of assistance FEMA provides to applicants following disasters.

FEMA remains committed to ensuring fiscal integrity and will do all we can to ensure the effective and efficient use of the taxpayers' dollars and protect against fraud while performing our agency's critical missions to our citizens at their time of need. Thank you again for opportunity to appear. I am prepared to answer any questions you might have.

[The statement of Ms. Dannels follows:]

PREPARED STATEMENT OF DONNA M. DANNELS

Good morning Chairman McCaul, Ranking Member Etherege, and Committee Members.

My name is Donna Marie Dannels, and I am the Acting Deputy Director of Recovery at FEMA. I am here representing Secretary Chertoff and Director Paulison. It is an honor to appear before this subcommittee to discuss our individual assistance program and FEMA's efforts to provide assistance to individuals and families affected by Hurricanes Katrina and Rita.

FEMA appreciates the opportunity presented by this subcommittee to discuss the changes which FEMA has already implemented in delivering grant assistance. Like the suggestions of the Inspector General, our own reviews, and those which came out of a similar hearing four months ago in the Senate, several issues have been raised which should be addressed to strengthen the Individual Assistance program.

FEMA identified many of these issues soon after the implementation of expedited assistance, and has already taken steps to correct them. While the Government Accountability Office (GAO) is just releasing its final report on Expedited Assistance, the issues are not new. FEMA, as the program owner, is extremely concerned about the issues in providing expedited assistance, which is why we have initiated and are currently carrying out a number of improvements. These include the implementation of identity verification for phone registrations, a reduction of the dollar amount of expedited assistance, and an elimination of the use of debit cards.

Katrina and Rita tested our programs and processes as never before. Yet, these same programs and processes have provided nearly $7.3 billion to over 3 million victims of the 2005 hurricane season. Even as we prepare for the upcoming hurricane season and respond to the over 40 declared major disasters that have impacted the

country since last September, FEMA continues to fund and facilitate an aggressive recovery strategy and work with our partners to rebuild the Gulf Coast.

FEMA consistently strives to assess and improve its performance and delivery of assistance in disasters. We appreciate the efforts of the Inspector General and GAO to help us identify control weaknesses, so that we can continue to improve delivery of our programs, while remaining effective stewards of taxpayer funds.

While we welcome having this dialogue it is important that we remember the situation we faced in the days immediately following landfall. In the immediate aftermath of Hurricane Katrina, hundreds of thousands of people were displaced from their homes, family members were separated or missing and an entire metropolitan area had suffered from one of the greatest natural disasters in the history of the United States.

It was in this environment that FEMA was faced with providing assistance to individuals to meet their basic emergency needs for lodging, clothing, medication, and fuel, while at the same time, working with our Federal, tribal, State, local and private sector partners to meet longer-term needs. In Katrina, we were presented with a population that had, in a matter of hours, lost nearly everything. People were being rescued from rooftops and showing up in congregate shelters, sometimes without even a shirt on their back, and without identification of any kind. In Rita, we were presented with a geographic area that had just suffered through two massive hurricanes that overwhelmed our nation's disaster response system.

As was the case with these hurricanes, when the magnitude of a disaster is so severe that normal recovery processes cannot immediately get underway, FEMA can activate a policy under the Individual and Households Program (IHP) to provide emergency assistance to accelerate the disbursement of disaster assistance for immediate sheltering and emergency needs.

Expedited assistance provided under the IHP is made available only for a short period of time following the disaster to meet immediate needs. This emergency assistance allows for a pre-inspection disbursement of funds to an individual household, based on information gathered from the applicant during the registration process that meets the following criteria:

- the registration must be for the primary residence only;
- the registrant must be displaced due to the disaster; and
- the registrant is in need of shelter.

If these criteria are met, emergency assistance is provided when the magnitude of the event demands it. It is normally not implemented under the Individual and Households Program. Hurricanes Katrina and Rita, however, were catastrophic events that prompted FEMA to authorize $2,000 in assistance to eligible households to be used for emergency purchases until normal recovery programs became operable. This amount of assistance was authorized for all eligible households that met the criteria within the declared states where EA was implemented. For Hurricane Katrina, EA was activated in the States of Louisiana on September 7, 2005, Mississippi on September 8, 2005, and Alabama on September 9, 2005. It was deactivated in all states on September 26, 2005. As of June 9, 2006, 47 percent of Hurricane Katrina registered households received EA. Following Hurricane Rita, EA was activated in the States of Louisiana and Texas on September 27, 2005, and deactivated on October 21, 2005. As of June 9, 2006, 42 percent of the registered Hurricane Rita households received EA. Applicants receiving EA in Hurricane Katrina were ineligible for EA in Hurricane Rita. In total, 45 percent of the Hurricane Katrina and Rita applicants received expedited assistance.

EA is an accelerated method of dispersing initial IHP disaster assistance to meet immediate emergency needs. When an individual or household receives EA funding, it counts against the maximum IHP cap of $26,200 that they may receive.

EA has previously only been used in a very limited number of disaster situations, where the need for immediate assistance surpassed the in-place and surge capabilities to provide assistance, and when it was clear victims could not return to their homes immediately following the disaster. It was first used in 1992 in response to Hurricane Andrew and was also implemented during the 1994 Northridge earthquake, which, prior to the hurricanes of 2004, had been FEMA's largest disaster in terms of the number of applicants.

One of FEMA's top priorities is the quick and efficient delivery of assistance to as many eligible victims as possible. However, in meeting that goal, we realize that some individuals may receive assistance in error, or unfortunately, because they have intentionally tried to defraud the American people. As a part of our "recoupment" process, FEMA, and in this case, the Inspector General review grants awards. FEMA makes every effort to recover overpayments and if fraud is suspected FEMA refers the case to the appropriate authorities for prosecution.

At this point, excluding prosecutions carried out by the Department of Justice, FEMA has determined that 6,110 Katrina and Rita applications are undergoing recoupment actions, although not all of these are based on fraud. Additionally there are another nearly 40,000 cases under review for potential recoupment. In reviewing the GAO report on EA, it is significant to note that many of GAO's findings were already uncovered by FEMA's internal review and our review with the Office of Inspector General. FEMA, in fact, has gone to great lengths to ensure that it is a good steward of the taxpayers' dollar by deterring fraud, while still allowing applicants who are in serious need of assistance to receive it quickly and appropriately. Our efforts at proper stewardship of public funds continue to this day. FEMA has already made significant improvements in our delivery processes to prevent fraud, waste and abuse and is well into the recoupment phase for the improper payments made to Hurricanes Katrina and Rita victims.

In addition, to put GAO's report on Expedited Assistance into context, the committee must understand that GAO utilized a non-random sample of 248 registrations from applicants with duplicate registrations and those that received multiple payments. Since the vast majority of our applicants were not duplicates, GAO's sample is not representative of the implementation of the IHP or the EA program. It is also worth noting that for Hurricane Katrina and Rita, FEMA took more than 2.5 million registrations; therefore, GAO's sample of 248 is only .01 percent of the total applications received. Further, what may appear to GAO as duplicative payments under IHP, may in fact be authorized payments under the "separated households" policy for Hurricanes Katrina and Rita. Because of the widespread dispersion of individuals and families across many states, FEMA instituted the separated household policy where more than one member of the household could receive expedited and or rental assistance to meet their needs while they were separated. In our view, this was a more humane way of treating these victims and ensuring that individuals who had lost everything were not penalized simply because they could not be geographically situated with their immediate family members.

The GAO report indicates that all applicants eligible for the $2,000 in EA are also eligible for up to $26,200 under IHP. GAO describes expedited assistance as a "gateway to further IHP payments". This is an overstatement.

Applicants for EA had to provide answers to specific questions concerning their disaster-related needs, as well as state that their damaged residence was located in the disaster area and damaged by the disasters in accordance with State and Federal laws. Because of the immediacy of the crisis caused by Katrina and Rita, time was of the essence in getting emergency assistance to the victims. For all other payments, however, including the $2,358 transitional housing payments, geospatial payments, and traditional IHP payments, FEMA took more time to ensure that eligibility requirements were met including verifying occupancy of the damaged dwelling at the time of the disaster. Any additional IHP assistance was then provided only after an in-person inspection was performed at an actual address or the applicant's occupancy was verified by a data verification contractor, and additional documents were verified by FEMA and signed by the applicant. Even though these measures were intended to minimize overpayment due to fraud and errors, we are aware they were not successful in every case. We continue to evaluate the systems and processes put in place for the first time in this unprecedented event in order to make further improvements.

The GAO report references "isolated incidents" where EA debit cards were used to purchase goods and services that did not appear to meet serious disaster-related needs. While we are similarly concerned by the inappropriate use of these funds, these purchases represent a fraction of the overall assistance provided. These questionable purchases in the GAO review total just under $8,000, or 0.02%, of nearly $39 million in transactions processed by one bank. These purchases represent questionable judgment on the part of the recipient; however, by highlighting those limited expenditures, GAO suggests flaws in FEMA's controls in providing expedited assistance. In fact, FEMA continues to develop guidance and control measures to prevent the inappropriate use of all of its funds, including expedited assistance. Efforts to completely prevent misuse should be properly balanced against the need to provided assistance to the truly needy.

Through effective planning, enhanced internal controls and a more systematic use of technology, FEMA can limit waste, fraud, and abuse. FEMA recognizes that even with the controls in place, there is room for improvement. During the 2005 hurricane season, FEMA was proactively implementing more stringent controls concerning fraud and identity verification, including:

- in October 2005, launching a new internet registration application that disallows **any** duplicate registrations;

• in February 2006, adding identity proofing to the call center registration application that will insure that **all** IHP
registrations are subjected to the same criteria as the online application. This includes social security number verification.
• amending systems to ensure no automated payments are sent to applicants who failed the identity proofing process;
• sending all applications taken over the phone, from August 2005 until February 2006 to FEMA's data contractor for identity proofing and reviewing those that failed for possible recoupment or referral to the Office of the Inspector General;
• data-marking any applications in NEMIS that fail identity proofing so they may be flagged for review and denied automated payment;
• introducing real-time interaction between the FEMA service representative and the applicant during registration to ensure that the data are entered correctly before accepting the application.

With these new processes in place, we still need to take into consideration those families and individuals that may not have traditional means of identity and occupancy verification. For those registrations sent to a "duplicate investigation queue" for additional review and resolution, there were significant delays in FEMA providing expedited assistance. Such delays, of course, can seriously impact victims who have lost all possessions. FEMA strives to find the appropriate balance of providing timely assistance while taking the necessary precautions to ensure against fraud, waste, and abuse.

Additional changes were and continue to be made to the NEMIS software, that include:

• not allowing any registration to be accepted when a registrant has the same social security number as another registrant in the same disaster, and
• in addition to identity verification, verifying ownership and occupancy through FEMA's data during the registration process.

We appreciate the time and effort the GAO staff has put into this report. The investigative research they have conducted and the resulting suggestions not only serves as a guide for us to continue to improve our processes, but have also helped to highlight the value and the types of assistance FEMA provides to applicants following disasters. FEMA remains committed to ensuring fiscal integrity and will do all we can to ensure the effective and efficient use of the taxpayer's dollar and protect against fraud, while performing our agency's critical missions to our citizens at their time of need.

Thank you again for the opportunity to appear before you. I am prepared to answer any questions you may have.

Mr. MCCAUL. Thank you, Ms. Dannels.

The chair now recognizes Mr. Joseph Becker, senior vice president for preparedness and response, American Red Cross.

STATEMENT OF JOSEPH BECKER

Mr. BECKER. My name is Joe Becker, and I lead the American Red Cross's disaster relief. I thank you for the invitation to be here. I appreciate the chance to share with you some of our experience of Hurricane Katrina.

I was asked to speak on three topics: to provide an overview of what we do for victims of disasters; to share what we did during Hurricane Katrina, what problems we encountered and what we learned from that experience; and to discuss what improvements we have put in place going forward.

My written testimony submitted for the record outlines these topics in detail. I will speak to each of these three briefly now.

What does the Red Cross do in times of disaster? We serve victims of disaster every day, about 70,000 a year, from a house fire to today and yesterday's flooding, from Alberto to the largest disasters. We meet people's immediate emergency needs. We shelter, that is giving people a place to stay out of danger. We feed. We partner with a lot of other organizations to feed people with fixed

sites, and we drive meals through neighborhoods. We distribute. We give out the supplies that people need; water, toiletries, things to clean up their houses. We provide a small amount of financial assistance to help people with things, with needs that are better met with cash instead of things, that next set of clothes or a pair of shoes, gas for the car. We provide mental health counseling, and we help families with information to unite them with lost family members.

Your focus today is on one part of what I just described, our providing financial assistance. We have provided this assistance in one form or another since our earliest days. Mr. Etheridge spoke about the Florida storms, the four storms that hit Florida in 2004. That was the largest natural disaster the Red Cross had ever responded to. We fed millions, sheltered hundreds of thousands, but we gave that financial assistance to about 73,000 families, one at a time, with a volunteer typically in a high school gym serving the family.

After the storms of 2004, we then tested our systems to a capacity of a 100,000 families. We wanted to make sure we were ready for something even bigger. And then Katrina hit. In the days after the storm, we knew we didn't have 73,000; we knew we didn't have 100,000. Our earliest data said that we could have a million families that would require Red Cross assistance. We knew our current systems would not work. If we had volunteers in high school gyms providing financial assistance, we would be there for months trying to meet immediate emergency needs. So we created new ways to provide that financial assistance as we went.

We created call centers for financial assistance. We used a software company. When the client called the call center, they were asked a series of questions that the call agent new the answer to: Where did you live before this? What's your rent payment? And if they answered the questions correctly, then we knew that they were who they said they were.

We used Western Union. We thought, who could move money around the country on a scale like nobody else, and we worked with them to partner where people would call the call center and then go to their local Western Union with an ID number to receive funds.

We used a lot of other methods. We used Wal-Mart gift cards, preloaded debit cards. But the system that we were putting that data into was a common system to keep track of who we gave what to.

We had a tough choice in those earliest days of the disaster: Do we delay helping people until we can build entirely new ways to do this to a scale where we could take care of everybody, or do we proceed with what we had and serve people and build it as we went?

We chose to serve quickly. Yes, we had long lines. We had very long waits on the phone. Our biggest problem, frankly, was that our IT system couldn't handle the volume that we were dealing with. After about a 100,000 or 120,000 cases, our IT system started to bog down. At that point, we knew that people could game our system. They could go to more than one place to receive financial assistance, and they might be able to get it. But we knew that we

could find out who they were. It might take us weeks, might take us months, but we would find out who they were.

Mr. BECKER. We ended up serving about 1.4 million families with financial assistance at an average of about $1,000 a family. It cost us about $1.5 billion.

Before Katrina, we had developed good technology, but Katrina was about 20 times the number of families that we had served in our biggest disaster. We failed to think big enough with our systems. As I said, we had a tension at the beginning. Do we wait until the systems are built, or do we move quickly? And we decided to move quickly.

I mentioned that people could game the system if they figured out that there was a lag time between when we gave them assistance and when we entered their case into our data files, but we also knew that we could find out who they were, and that is what we have done since last fall.

We have had a team of paralegals and investigators dedicated to uncovering fraud in our financial assistance. They have gone through case by case, and where appropriate, they worked with law enforcement to prosecute the folks who did wrong. They look at all the allegations. They have also studied the data. The addresses that we served, all the different ways you could give your name to the Red Cross. To quantify it, we have about 7,100 cases that might be fraud out of our 1.4 million families we served. If they all end up being fraud, that is about $9.5 million. As of May, we have received back about $2.3 million from people who took advantage of us, and where necessary, we are referring those matters to law enforcement for prosecution, and we have had great cooperation from law enforcement to prosecute even though the dollars involved are below their thresholds to prosecute.

So what we have put in place going forward, we have a long list of projects completed or nearing completion, covering a lot of aspects of how we respond to disasters. But to this specific issue, we have rebuilt our IT systems that are now able to handle 2 million families. A year from now, it may be able to handle 10 million families. And we will know if we have served you before we talk to you. We have over a million debit cards in stock and ready to go, and we have call centers ready to go that can handle a 100,000 families a day or serve a million families over 10 days.

And we are moving very quickly to have all of our chapters adopt this technology. By July 1, we will have almost all of our chapters there. We only anticipate using these call centers in the very catastrophic disasters. We still want our primary way of serving to be a volunteer in a community building, not just bringing money to a client but all the other services, the mental health services, our nurses with health services. We bring other nonprofits together to make sure we are all there offering our assistance to the client.

We will not be perfect this fall. The system will continue to develop, but we will have a much greater capacity to serve, and we will have even higher level of controls around the service. Unscrupulous people will always take advantage of disasters. Our job is to have the best systems in place and to keep a vigilant eye out for those who might do wrong. We learned a lot last fall. We saw again that our volunteers can do amazing work. This year we are

ready to support them with systems on a scale that Katrina taught us that we need. We don't want to fail to think big enough again. Thank you very much.

[The statement of Mr. Becker follows:]

PREPARED STATEMENT OF JOSEPH C. BECKER

Good morning Mr. Chairman, Members and staff of the Committee. The topic of this hearing—waste, fraud and abuse—is a very serious topic for the American Red Cross and for those who support our charitable mission. We appreciate the opportunity to share our story with you this morning.

It is appropriate to begin by giving you some background of our individual assistance efforts over the last years, including the recent evolution of our client assistance program.

After that, I can speak to our most recent experiences in the 2004 Florida hurricanes and the important lessons that guide our improvements after the 2005 season.

I will conclude by sharing the latest news on the controls and procedures that we have already implemented that will assist us in guarding against waste, fraud and abuse as we move deeper into the 2006 hurricane season.

But before I start, on behalf of my colleagues and friends at the American Red Cross, allow me to begin by saying this:

The American Red Cross is ready for the 2006 hurricane season. Over the past six months, we have reviewed the things we did well in the 2004 and 2005 seasons and improved upon those successes. We have also taken a hard look at those areas where we must improve our response and we've addressed our shortcomings.

The American people can continue to rely upon the Red Cross to deliver our promise of neighbor helping neighbor. Our legendary corps of volunteers is ready. We are working closer today with our colleagues in the nonprofit, charitable and faith-based communities to improve our reach. We are better coordinating with Federal, state and local officials. And, we are pre-positioning more supplies and building greater capacity in key states before the storms hit.

I am very pleased to share with you today our plans for the coming season as we address our goals. For as we all know, the next disaster may not show up with advance warning on our weather radar screens. We do not simply wait for June 1 to be ready for disaster response. For the American Red Cross, we respond each day, every day.

The Red Cross and Individual Assistance: A Background

First and foremost, it is important to understand the elements of Red Cross assistance and how they work together to serve our clients as well as integrate with the assistance of state and federal programs. Our first priority is to ensure that those affected by disaster have a safe shelter and are provided with the basic necessities of life. In addition to shelter, we strive to provide first aid and nursing support, food, toiletries, bedding and other essential items of health and welfare.

The next priority is to then assist families to take the first steps toward recovery. This is the purpose and concern that individual client assistance is designed to serve. It has long been the case that while shelter, feeding and the distribution of critical items are sufficient to stabilize individuals and families, it is not sufficient to meet all short term emergency needs necessary for disaster victims to begin their individual road to recovery. Critical items of assistance such as resources for food, changes of clothing and bedding bridge the gap between mass care activities and the receipt of state and federal recovery assistance. This allows a family a modicum of independence and a flexible resource for the types of essential items mentioned above. Ultimately, within the framework of disaster assistance provided by other agencies, as well as state and federal programs, individual client assistance helps bridge the gap between mass care activities and loans, temporary housing, and other needs assistance.

To properly understand the challenges and successes of individual client assistance, it may be necessary to review a bit of the background.

Individual assistance to disaster victims is one of the cornerstones of the American Red Cross Disaster Services program, beginning with Clara Barton at the Michigan Forest Fires of 1881. Throughout history, individual assistance has evolved to meet the ever changing needs of those affected by disaster events. The fundamental drivers of change in this program have been consistent over time and include the needs of victims, the existence of or changes to state and federal programs, and the evolving nature of disaster (such as terrorism and mass casualty events). However, certain principles have remained consistent—that disaster relief is based on verified need; that such assistance should mitigate suffering; that simi-

lar needs should be met with similar resources; and that clients are ultimately responsible for their own recovery. Red Cross programs are fundamentally based on these principles.

Historically, Red Cross individual assistance consisted of items to repair homes, furniture, clothes, etc. Prior to the advent of governmental programs, the Red Cross often dealt with the entire range of response and recovery needs—food, clothing, and other essential items to home repair, occupational supplies, medical needs, and income-related support such as cloth, sewing machines, seed, and livestock.

The ongoing need for flexibility to adapt continues. More recently, the Oklahoma City Bombing and Terrorist Attacks of 9/11 found victim's verified needs related to loss of loved ones and economic survival pending receipt of benefits, not loss of their personal possessions. Individual assistance was quickly adjusted to ensure survivors emotional needs were met with extensive mental health support and continued financial assistance, in order to enable them to maintain their homes pending receipt of government and personal assistance.

While individual needs change over the years or by the type of disaster, standardization of assistance to meet the verified basic needs of disaster victims remains constant. In essence, similar needs are addressed with similar assistance. This application of the intent of the policy and charter are applied daily, disaster by disaster. Assistance has continually been updated to avoid duplication as government assistance and assistance from partner agencies and organizations has increased. In fact, referral to the programs of other organizations and assistance in connecting with these providers is a fundamental part of the Red Cross program.

Assistance has been provided in multiple ways, depending on what is needed and available in the area of the disaster event. Individual assistance for essential items was originally provided in cash or a credit with a store. This was followed by checks, and then by disbursing orders (which are similar to purchase orders). Today, financial assistance is most often provided with debit cards. Other vehicles such as gift cards, disbursing orders, and checks, are used as back up mechanisms or when power is out for extensive periods of time. How the individual assistance is actually provided is based on the infrastructure in the disaster area and the conditions of merchants and stores. If electricity is not available, debit cards are not a viable option.

To enhance the dignity of our clients, reduce administrative costs occurred by the organization, and provide for greater oversight, debit cards are now used as the primary form of assiststance. These cards are easy to use, can be replenished, carry no stigma, and make disaster clients indistinguishable from other consumers. These cards are intended for food, clothing, bedding and other essential items, and they allow clients to take responsibility for their recovery.

While our fundamental commitment to meeting the emergency needs of disaster victims remains constant, the range of events to which we respond demands that we have more than a single model of service delivery. Given that our organization has now experienced the differing demands of terrorist / mass casualty type events (9/11) as well as catastrophic natural disasters (Katrina) and is currently challenged by the possibility of pandemic disaster (Avian Flu), it is clear that a single service delivery model or program is no longer sufficient to meet the demands and risks of our current environment. A large part of the Red Cross success in Katrina was the ability to adapt and adjust our assistance to meet individual and basic needs immediately. Moving forward, the American Red Cross will continue to develop a small number of standard models for use in our most likely scenarios, and will prepare ourselves to execute the model or models most appropriate to the event.

Katrina: Lessons Learned

Mr. Chairman, the Red Cross provided aid and comfort to over 1.4 million families after the storms of last year.

Thanks to the generosity of the American people, we provided an average $1019.00 per family in emergency financial assistance. This is not money provided to replace all that was lost—but to address urgent need.

We provided shelter to nearly 500,000 hurricane survivors (3.4 million shelter nights) in nearly 1,100 shelters in 27 states and the District of Columbia. And we served 68 million meals and snacks.

A Herculean challenge was getting financial assistance as quickly as possible to an unprecedented number of people who left their homes with little or nothing and in many cases would have no homes to which they could return. As stated previously, the largest number of families to which the Red Cross had ever provided assistance was approximately 73,000—those served during the four back-to-back hurricanes in 2004. By contrast, demographic and census information from the area affected by Katrina led us to estimate that more than one million families, most of

whom were bereft of all of their traditional social support systems, would need financial assistance.

The challenge of raising enough money to provide assistance to an estimated one million families was, frankly, daunting. Initial disaster assessments and demographic information led us to estimate that, with average assistance of about $1,000 per family, we were facing financial assistance expenses of approximately $1 billion. We had to make the difficult determination whether we would—or could—provide this magnitude of financial assistance. Red Cross leadership, together with our Board of Governors, rapidly decided that the tremendous needs of the evacuees demanded that we act. Soon, it became clear that dollars were going out at a fast rate. We had to either suspend our emergency financial assistance or borrow funds. We chose to borrow the money—over $300 million—with the confidence that the American public would see our efforts as worthy and support the work we were doing. This has proven to be the case.

The mechanisms for getting the financial assistance to the people who needed it without delay posed an additional set of challenges. During traditional responses, trained American Red Cross volunteers and staff, conduct disaster damage assessments, meet with survivors to determine their needs and provide assistance accordingly. We often do home visits to confirm damage and determine necessary assistance. This type of detailed assessment would clearly be impossible for many months after Katrina and Rita. We had to choose between two options: we could attempt to verify damage house by house and thereby delay assistance to those who so urgently needed it, or we could utilize the best information available regarding damaged areas and speed the provision of our assistance. By choosing the latter option, we knew that we ran the risk of putting assistance in the hands of potentially unscrupulous individuals not affected by the hurricanes; we concluded that it was a reasonable business risk and mitigated the risks as possible. We considered the need to help the vast numbers of families in desperate and legitimate need without delay. Using satellite images and fly-over photographs, we determined specific ZIP codes where the devastation was obvious and began to disburse the maximum assistance to these families based on family size. It was our goal to get money in the hands of survivors as quickly as possible. The fact that fraudulent claims for assistance could occur was to be addressed with an aggressive "no tolerance" fraud enforcement policy which we discussed with federal and state law enforcement authorities.

Another hurdle was the logistics of getting cash into the hands of so many people spread across so many states. Methods used in the past would not accommodate the unique aspects of this epic disaster. We set up an 800 number and call centers around the country and partnered with Western Union to provide immediate cash assistance. A critical moment came when we realized that it could take days and weeks to bring these systems up to a scale that could accommodate the number of families in need of assistance. That left us with another difficult choice: delay assistance to every disaster victim until we had the capacity to effectively serve them all, or proceed with the capacity we had, getting funds into the hands of thousands of families right away and working diligently to add to those numbers as quickly as we could scale up our systems. We chose to help those whom we could without delay, while striving to serve all who needed us. We sincerely regret that there were long lines and a lot of busy signals, but we believe that we made the right choice. In the six weeks following landfall, the Red Cross put over one billion donated dollars into the hands of families who desperately needed it without delay.

As part of our lessons learned process, we are striving to ensure that we will eliminate long lines and mitigate fraud and abuse moving forward. Our Client Assistance System (CAS) software has been modified to provide a single system of record to support the deliver of assistance to those in need. Enhancements to CAS and an upgraded information technology infrastructure will allow the Red Cross to speed emergency assistance to one million affected families within a 10-day period, with the capacity to process a total of two million cases over the long term. We have pre-stocked one million cash enabled client assistance cards (CAC) so that the cards can be efficiently distributed to families displaced by large-scale disasters.

Soon after Katrina's landfall, the Red Cross expanded an existing Special Transient Housing Accommodations Program, in cooperation with the Federal Emergency Management Agency (FEMA) and Corporate Lodging Consultants (CLC). This program covered the cost of storm victims requiring emergency assistance staying in motels or hotels where other accommodations were not available. Over its duration, this program housed more than 700,000 evacuees in every state in the nation. This innovation alone provided critical and immediate shelter in addition to the hundreds of traditional congregate care shelters established across the nation. As

agreed at the inception of the program, the Red Cross transferred administration of the program to FEMA on October 24, 2005.

The American public is the client to whom the Red Cross ultimately delivers services. The monumental challenge of providing immediate relief and initial recovery assistance in the wake of the devastating 2005 hurricane season tested the spirit, determination and cooperation of America. In the face of incredible demands, the American Red Cross and the American people rose to the occasion and provided care and comfort to millions of people with nowhere else to turn.

Fraud, Waste and Abuse

The Red Cross treats its obligation to deter and detect fraud or abuse with the utmost seriousness and where appropriate seeks prosecution of fraudulent activity to the fullest extent of the law. To stop those that attempt to cheat the system, the Red Cross participates in the Department of Justice's Hurricane Katrina Fraud Task Force, which also includes members from the FBI, the United States Secret Service, the Federal Trade Commission, the Postal Inspector's Office, and the Executive Office of the United States Attorneys, among others. The Red Cross is assisting in hundreds of investigations now in progress. Every resource, whether in-kind, financial or people, is precious to the Red Cross and we are taking every measure to aggressively pursue any illegal activity. To date, there have been 76 indictments and 55 convictions.

At this time, we are investigating 7,109 cases of suspected and actual fraud. These represent a combination of cases turned over to law enforcement and cases being investigated internally. We estimate the potential of some $9.5 million in cases stemming from this fraud. While we recognize that these numbers are very high, it is important that we put them into context. While no misuse or waste of donated dollars can be tolerated, fraudulent activity will likely be less than one-half of one percent (0.5%) of total operational costs. It is important, however, that this is put in the appropriate context. To add further context, a 2005 report by the Association of Certified Fraud Examiners entitled "National Occupational Fraud and Abuse" cited the industry fraud average at 6% of revenue collected.

Additionally, there were instances where individuals or families received duplicative assistance that was neither fraud nor abuse on behalf of our clients, but rather a simple oversight or human error. I am pleased to report to this Committee today that as of May 1, 2006, the American Red Cross had collected $2.3 million in returned assistance from clients who had received duplicate payments.

American Red Cross: Ready for 2006

To better prepare for the coming season, and to mitigate fraud, waste and abuse, we have undertaken a long list of projects. For this hurricane season, we have created:

- Client Assistance System (CAS) software and reporting enhancements to provide a single system of record to support the delivery of assistance to those in need. Enhancements to CAS and an upgraded information technology infrastructure will allow the Red Cross to speed emergency assistance to one million affected families within a 10-day period, with the capacity to process a total of two million cases over the long term.
- Cash-enabled client assistance cards (CAC), which can be used as a vehicle for providing emergency assistance. One million National Headquarters CAC cards will be pre-stocked so that the cards can be efficiently distributed to families displaced by large-scale disasters.
- Emergency assistance call centers that can be used during large-scale events to handle a capacity of one million cases in 10 days, or 100,000 completed cases per day.
- A web-based shelter management application based on the Coordinated Assistance Network (CAN), developed in conjunction with FEMA and the Department of Homeland Security. When fully implemented, we will have the ability to track shelter inventory, facility survey data, and population counts of the shelter population nationwide.
- Fourteen dedicated Red Cross staff to coordinate closely with state emergency management agencies in high-risk areas, including the states of Louisiana, California, Mississippi, Alabama, Florida, Tennessee, Georgia, Maryland, Virginia, North Carolina, South Carolina, New York, Arkansas, and Texas.
- Increased stockpiling of supplies (food, cots, blankets, comfort kits, etc.) in key risk states to enable the Red Cross to serve one million meals a day and to shelter 500,000 people per day in the initial days after a disaster strikes.
- Improvements to the Disaster Services Human Resources (DSHR) system to track in real-time staff assigned to relief operations and strengthen the process used for registering spontaneous volunteers. The DSHR system software is also

being modified to accommodate DSHR ID Smart Card technology. These improvements will provide better information about available resources.

• Addition of six on-staff disaster relief operation directors to provide leadership to major relief operations as well as mentor and coach chapter and multi-chapter relief operation directors. This will improve the skill sets of administrators and managers in the DSHR system.

• Development of national partnerships that chapters can implement on a local level to engage underserved groups in their communities.

• Delivery of "Introduction to Disaster" training to over 400 members across six NAACP conferences.

• A "Disaster Welfare Information" system for chapters to provide "safe and well" status information to the families and loved ones of disaster victims.

• Response Center Network expansion for a group of chapters that staff the 1–866–GET–INFO line. We will have 250 simultaneous workers in chapters nationwide supporting the information center's work.

• An enhanced Volunteer Match Portal to help manage expectations of large numbers of spontaneous volunteers and provide updated guidance.

• Improved chapter advance procedures and new monitoring and control processes to support the use of the CAC.

• A national Disaster Field Supply Center warehousing system with increased capacity and more critical supplies. We are greatly expanding our warehouse space from about 300,000 square feet to over 1,000,000 square feet (new warehouses are located in Montgomery, AL; Reserve, LA; Charlotte, NC; Pensacola, FL; Reno, NV; Atlanta, GA; Richmond, VA; and Hattiesburg, MS).

• Pre-positioned redundant communications equipment such as phones, computers, radios, and satellite equipment in 21 cities in nine coastal states.

Closing Remarks

In summary, despite the problems that challenged us all last year, I am extremely proud of the actions of the more than 225,000 American Red Cross workers in responding to the devastating effects of Katrina, Rita, and Wilma.

I am confident that the actions we have taken internally and in conjunction with our federal, state, local, other NGO, and private sector partners will result in an even better response for the next disaster.

Thank you for your time and attention.

APPENDIX A: High-level Chronology of Events

Year	Event	Outcome/Results
1881	Michigan Forest Fires	Clara Barton provides food, clothing, medical supplies, and lumber for disaster victims.
1905	Congressional Charter	Charter recognized the role of the Red Cross in disaster relief "to continue and carry on a system of national and international relief in times of peace and apply same in mitigating the sufferings caused by pestilence, famine, fire, floods, and other great national calamities, and to devise and carry on measures for preventing the same."
1906	San Francisco Earthquake	ARC provides loans to victims. Court decision found against the Red Cross stating that loaning money which had been donated for relief was "improper". BoG adopted a policy making only grants, not loans to disaster victims.

APPENDIX A: High-level Chronology of Events—Continued

Year	Event	Outcome/Results
1906–1913	50 domestic disasters	ARC assisted with emergency needs, repairing and rebuilding homes, providing household furniture and rehabilitating small businesses. Policies and program guidance continued to evolve and included: • Whatever is done to meet family needs advance the welfare of both the individual and the community. • Relief is proportioned to need, not loss. • The Red Cross should make greatest possible use of community resources.
1918	Influenza Epidemic	ARC adjusted the disaster program and recruited 18,000 nurses, furnished equipment and supplies for hospitals, convalescent homes and convalescent kitchens.
1919+	Local disasters	Disaster preparedness committees formed and program expands to chapters providing assistance to local calamities. Affected chapters established local advisory committees to help ARC carry out its relief obligations.
1930–1933	Depression	ARC responds to President's request and participates in drought relief by distributing excess government foods and supplies and acting as a government agent through the signing of the Agency Service Agreement.
1964	Alaskan Earthquake	First individual government assistance provided to disaster victims.
1965	Hurricane Betsy	Government individual assistance expanded. ARC chapters authorized to provide relief assistance during civil disorders, if necessary.
1968	Civil Disorders	NHQ suggested that chapters plan for civil disorders as part of their emergency relief function.
1969	Hurricane Camille	Disaster Relief Act of 1969 expands the scope of federal individual assistance, adds grants, food stamps, unemployment compensation.
1976	E. Mississippi Tornadoes and Typhoon Pamela	ARC resumes its additional assistance role (rehabilitation work) as federal individual assistance is not timely. BoG establishes a special Disaster Services program review subcommittee to determine if the program was adequate for the immediate future and how it would be financed.
1982–1983	Unprecedented disaster activity	$33 million exhausts Disaster Services budget and Disaster Revolving Fund.
1995	Oklahoma City Bombing	Red Cross response includes creation of a long term mental health counseling and referral program for victims' families and local residents. In addition, we created an off-site mental health recovery zone for workers and first-responders.

APPENDIX A: High-level Chronology of Events—Continued

Year	Event	Outcome/Results
2001	September 11 Terrorist Attacks	Provided financial assistance to victims families and to those affected economically. Post-event review led to establishment of greater transparency in accounting practices and changes in our fundraising approach to communicate needs more clearly and immediately to the public.

Mr. MCCAUL. Thank you, Mr. Becker.

The chair now recognizes the ranking member.

Mr. ETHERIDGE. Mr. Chairman, I ask unanimous consent that Mr. Taylor, whose State was hard hit in this, be allowed to sit in the panel with us.

Mr. MCCAUL. Without objection, so ordered.

Let me say, first, I recognize the magnitude of the challenges these hurricanes presented, and I applaud the good work that was done in terms of assistance. My home State of Texas was indirectly impacted by Katrina and directly impacted by Rita, and I understand the need that was there to respond quickly with assistance. Where I have an issue is the accountability in the system and the lack of controls.

I think one of the points of this hearing is, looking forward, what can we do to prevent this from happening again as we enter into another hurricane season? So I do applaud you for what was done, the Red Cross and FEMA.

At the same time, I want to applaud Mr. Kutz and Special Agent Ryan for the work that they did. In working with me and the subcommittee, they disclosed and uncovered something that may never have been uncovered, and that is a billion dollars, possibly more, of these benefits were fraudulently obtained, and I think that is important for the American people to know that.

I agree with you, Mr. Kutz, the ultimate victim in this case was the taxpayers. At a time where we are cutting Homeland Security grants by 50 percent, we can't afford as a Nation to have a billion dollars of fraud, and then we don't even know how much more, just the magnitude of the fraud that is out there. So it is important that we in the Congress fix this problem. It is important that FEMA fixes this problem.

And when I look at, you know, these—this FEMA letter from the director and from Governor Blanco saying, inspection was done on their home, the inspection showed damage to your home and personal property, and I see a vacant lot, and then I see a check from my hometown of Austin, Texas, going to the applicant for this empty lot—worse yet, when I see a Federal prosecutor—a Federal prisoner holding benefit checks that he received and applied for while he was in prison at the time of Katrina, I am appalled at this. And I want something done about it, and I think the American people do as well. And then when I look at a cemetery that was used as a damaged property, when the person didn't even live in the State of Louisiana, and he is receiving money at the taxpayers' expense; I have got to tell you, this has to stop. I don't even know where to start with all this. I think I have done a fairly succinct job giving you an overview of my concerns with this.

And Ms. Dannels, I want to hear from you directly. First, how did this happen? And what are you doing to prevent this from happening again? Because if you don't fix it, if FEMA doesn't fix it, Congress will.

And then I would like to hear from the GAO and their response.

Ms. DANNELS. Thank you. And I do want to talk about some of the specific things that we have done and that were in process when Hurricane Katrina struck. First, though, I would like to say that every organization, whether it is private industry, Federal Government, whether it is producing a product or delivering a service, is designed to a particular level of capability, and that principle agrees to us as well. There is no question that the hurricanes of 2004 tested and in some instances overwhelmed our systems and processes and clearly, in 2005, overwhelmed our processes in many, many, many respects. Because of that, we were in a position—and it again goes back to my statement of striking a balance of how—between having complete accuracy and fraud prevention, and having expediency and delivering assistance. We were in the position, I think, as Mr. Thompson said, of making some very tough decisions during some impossible times, and we were faced with our capabilities, our systems and processes, how we traditionally do business, not being able to meet the catastrophic event that we experienced, and we did in fact put in place never before used and untested processes and methodologies that clearly, because they were untested, were more subject to error and fraud. We are in the process of reviewing them. We welcome the GAO reviewing them.

I would also say that, because we knew what we were facing, we had the Office of Inspector General embedded with us from nearly day one, looking at these situations with us so that we could have the benefit of their advice and expertise in determining how best to try to approach the impossible situations that we found ourselves in.

Mr. MCCAUL. Thank you. If I could just comment, as we in the Congress appropriate billions of dollars towards this disaster relief assistance, and as we, even this week, look at this issue, we and the American taxpayer want to know that it is being spent wisely. And I think, anytime you have that kind of money thrown out there, there are people who are going to milk the system. There are bad actors, but I don't think it has to be a choice between fraud prevention and expediting claims. I don't think it has to be either/or. I think we can have both, and I think that is what the American people deserve, and that is what we want to get after this hearing.

I would like to hear from Special Agent Ryan if that would be okay.

Mr. RYAN. That is fine. Thank you, Mr. Chairman.

In this particular case, when we started looking at this problem, we wanted to know what had been done prior to us getting involved. We wanted to know if they did in-depth audits, in-depth investigations. We didn't find a lot of that. So we decided to test the system. We wanted to see what upfront controls were going to be in place to stop us from being able to get into the system and have an opportunity to commit fraud. Fraud is a crime of opportunity. If given the opportunity and the upfront controls aren't in place,

you are going to have people that are going to take advantage of the situation. And that is what we did to test the system. I believe that if you are going to go ahead and deal with the taxpayers' money, you have to learn from your mistakes. You need to debrief as to what went right, what went wrong, and you have to prepare going forward. You have to practice what you are going to put into place if you don't have something to fall back on, and know where the weaknesses are and where you need your manpower if you have a problem going forward. And I think that is exactly what happened in this situation.

Mr. MCCAUL. Mr. Kutz, do you have any comments?

Mr. KUTZ. Yes, I would agree with you on the choice issue. I don't think our Nation's fiscal condition allows us a choice between allowing a billion or so dollars in fraud and getting money out quickly. I think FEMA needs to protect all taxpayers at the same time as they take care of disaster victims. We are very sympathetic to that issue.

A couple of points, I don't think Ms. Dannels' opening statement addressed anything from my testimony today. Her opening statement addresses a report we are issuing related to our February testimony before Senator Collins and Lieberman related to expedited assistance. I think our testimony today shows the problems are much, much broader than what she discussed in her opening statement. So I would be interested in knowing what they are going to do about the new issues today. I think putting in place—she mentioned putting in place untested methods, and some of the recommendations we have related to our prior work talk about—I think Mr. Ryan alluded to this—is that you have to field test these controls and not wait until a disaster happens to test them because that is a recipe for disaster.

So whatever fraud prevention controls they put in place for this disaster season related to identities and damaged property addresses and other types of upfront controls do need to be tested before they are implemented to see if they work because the other risk here of tightening controls is legitimate victims not getting disaster assistance.

Mr. MCCAUL. Thank you. And I think what I was most appalled with is not only the magnitude of the amount of money, the fraud, but where it was spent, and it would be the goal of this subcommittee and the full committee to get recommendations as to how to fix the system.

The Chair now recognizes the Ranking Member.

Mr. ETHERIDGE. Thank you Mr. Chairman. You know, as has already been stated, everyone here today is focused on waste, fraud and abuse, which, unfortunately, as we have heard today is a problem after every disaster. But I want you to know that the career employees of FEMA and the Red Cross and the thousands of volunteers that help out in every disaster, they do a magnificent job. They did a magnificent job with Katrina and Rita, and we thank them for that.

But that being said, that is no excuse for the people who steal, whoever they are, whether they wear suits and ties or blue jeans. And I think the most tragic aspect of this disaster is the effort of the career employees of FEMA and all the volunteers of the Red

Cross, a lot of their good effort got frittered away because of a few political appointees who had no experience in disasters. And then they want to pass it down to career employees who come before this committee and answer the questions.

I hope, Mr. Chairman, we get the political appointees to come before this committee and answer the questions, because I think that is important.

Ms. Dannels, I understand that you are a career employee with FEMA, and many of your coworkers praise your experience and your dedication, and we thank you for that.

And as you know, fraud, in the aftermath of this disaster or other disasters, is nothing new. However, as I said before, there is no excuse for having it. The Department of Homeland Security's Inspector General has reported that, as I have said earlier, the south Florida residents got millions of dollars, and they weren't even in the hurricane's path and weren't affected by it. Today you have told us about some of the steps FEMA has taken to address those issues for the 2006 hurricane season. What I want to know is: steps, number one, taken sooner, and was it a leadership issue? Was it a budgetary issue? Or was it a staffing issue?

Ms. DANNELS. Thank you. And there are a number of questions on the table for me to address, and I will try to get to all of them.

I appreciate your comments about the career employees. In fact, I have been with FEMA for 23 years, and I have been through several pendulum swings, and I have a great deal of history and perspective on what has happened before and what we are going through now.

I would like to also address Mr. Kutz. You are correct, my testimony has to do with the expedited assistance which was what we were under the impression this hearing was about. We received your statement of fact on Thursday afternoon. Our testimony was due prior to that, and we, of course, since Friday, have been involved with Tropical Storm Alberto. However, I am more than happy in my questions and answers to address your statement of fact.

On the Florida situation, 2004, Mr. Etheridge, in fact, we have implemented a great number of the recommendations in that IG report, and we were in the process of continuing that when Hurricane Katrina struck. That report was issued in May 2004—2005. And we had accomplished a number of those recommendations, and they in fact did strengthen a lot of the processes that had been identified as weak during the 2004 hurricane. That does not—and I understand, and in no way do I mean to imply that FEMA is asking for a pass on any fraud that took place, in no way am I suggesting that. But I think that we do have to put this in some sort of context that we have systems and resources in place, and I, as a career person, can't debate whether they are at the appropriate level, why they are, or why they are not, but the fact remains that we have a certain level of capability in place. And when that is exceeded, as it was this year, we are faced with doing things and going back.

And I also would suggest, Mr. Ryan, that he is saying that at the point that they started looking to see if we were doing anything about some of those new technologies and processes we used, we

were operating 24/7 until March; we were—I worked seven days a week until May 1. We have been very operational with the size of this event, and we are now looking at a great number of those things and have been working with EIG in looking at these things. Again, we welcome those reviews. We find them very valuable, and we will continue to make process improvements.

We have in place now one of the recommendations that the IG or that the GAO made back in their earlier expedited assistance report. We, in fact, did put in place the identity verification not only on their online registration but also on our 1–800 registration so that many of the things that occurred that they have talked about in their report cannot happen now; those Social Security numbers that were invalid would be caught.

We are not doing debit cards this year. We did that in a very—I don't want to call it a pilot, but we did it in a very confined fashion last year because we knew that we were at risk and that it was vulnerable that we had not tested it, and we only distributed I believe 10,000 of those cards out of those—of the number of people who had registered, and we did it on a very small scale. We will go back and look at that. We are not going to do debit cards this year. We also, on expedited assistance, we have used them on six occasions—

Mr. ETHERIDGE. That is good.

Ms. DANNELS. Six occasions, and it was never at $2,000. It had always been at $500. We will go back to a more conservative amount. However, again, our systems were overwhelmed. People could not get through on our 1–800 number, much of what was occurring with Joe Becker and the Red Cross. So we just made the calculated decision that we were going to help as many people as we could, and that we would have to go back and identify those people who we either paid in error or that were—defrauded us and deal with that.

I would also mention, in the 2004 hurricane season, we were concerned that some of what we had done, what the IG had uncovered, had put us at risk, and we implemented under the Improper Payments Act a review and found out that in fact our overpayments still fell below that threshold that was acceptable. We have already implemented this year a review under the Improper Payments Act via a contractor to come in and look at all of those payments, identify in our systems where were the weaknesses and vulnerabilities, make those recommendations so that we can mitigate future risks.

Mr. ETHERIDGE. Thank you.

Thank you, Mr. Chairman. I have a follow up if we have another round. I just want to get my question in before—

Mr. MCCAUL. Chair now recognizes the sherriff from Washington State, my colleague, Mr. Reichert.

Mr. REICHERT. Thank you, Mr. Chairman.

First, I want to talk about what we are going to do. I think we are going to try and help you. We are from the Federal Government, and we are here to help. Last month, Chairman McCaul and I and our friends on the other side of the aisle, Mr. Thompson, Mr. Pascrell and Mr. Etheridge, have been working on a bill. We passed this bill through the full committee, and this legislation deals with waste, fraud and abuse, and some of the things that we

are going to be helping you with are developing and maintaining proper internal management controls, mandates that databases collect information from applicants. And I understand from today's testimony that that is a process that has already started, but now it will be a part of legislation.

We will have the security inspector general review such databases and payment systems, evaluate the existence of and implementation of internal controls. Directs the Secretary to certify annually to Congress that proper internal controls are in place and operating. I just wanted to throw that out there. This is the National Emergency Management Reform Enhancement Act of 2006. It has been passed through the full committee, and hopefully, in the next 2 weeks, you will see this on the floor of the House of Representatives so that we can be of some help to you.

I want to focus—I was the sheriff of Seattle for 8 years and 33 years in law enforcement prevention. I mean, that is just the bottom line on anything, prevention and then enforcement. Who has the primary—this is my first question. Who has the primary responsibility for enforcement in this area, investigative authority for waste, fraud and abuse when it comes to FEMA?

Mr. Ran.

Mr. RYAN. Under the situation that we are presently in right now, there was an agreement that they would form a task force which the Attorney General was going to head. Alice Fisher was put in charge of it. David Dugas, who is the U.S. Attorney from Louisiana, is someone that I speak to on a regular basis about him heading up the task force.

There is a multi-agency task force, which we are dealing with on a regular basis. I might add that the postal inspectors have been absolutely wonderful in regard to pursuing cases. The DHSIG is involved, the Social Security IG, and along with a lot of other inspector generals. So it is something that Justice has recognized. They have identified a zero tolerance policy, and also being in law enforcement for 30 years, I understand exactly what you are saying, who is going to do what?

Mr. REICHERT. Gets you fired up a little bit; doesn't it?

Mr. RYAN. It does primarily because law enforcement gets blamed for not doing enough at the end when people are stealing it. And my problem is, I think there needs to be more done with the upfront controls.

Mr. REICHERT. Yes.

Mr. RYAN. If you take away the opportunity to commit fraud, you are going to cut down the number of cases you have to refer.

Mr. REICHERT. Right.

Mr. RYAN. If you talk about the money that's going to prosecute somebody for $2,000 when you could have put controls in place to stop that, I think we could utilize the law enforcement personnel in a different way.

Mr. REICHERT. So we are following up on these cases that these crooks ripped off the American public.

Mr. RYAN. Yes, sir.

Mr. REICHERT. We are also looking at some employees?

Mr. RYAN. I think that is a question that needs to be addressed in regards to being able to get the data on employees.

Mr. REICHERT. Okay. I just want to ask another question about what—what happened prior to September 11? Did you have these sorts of things happening, on a much smaller scale obviously, but were these things happening, fraud, abuse and waste, before September 11? And the answer is—

Ms. DANNELS. Are you addressing me, sir?

Mr. REICHERT. Yes, ma'am.

Ms. DANNELS. Our fraud rate and, what I would say, our overpayment rate is typically very low. We do a review process after every single disaster. I would say it ranges between 1 and 3 percent. That is not just fraud. That is simply overpayments.

Mr. REICHERT. But you have experienced the fraud, waste and abuse prior to September 11. It happens when you go into an area and you try to help people. Some people are there to take advantage of the system.

Ms. DANNELS. I think it is inevitable. Our job is to minimize it.

Mr. REICHERT. Have you ever experienced bad Social Security numbers being presented to your office before? Have you ever experienced bogus addresses before? Have you ever experienced invalid primary addresses before? Have you ever experienced duplicative registrations before? I imagine the answer would be yes. I compare this to—and I know this is an extreme, extreme situation when you look at Katrina. I was involved in an investigation. The largest serial murder investigation in this Nation's history. We had things in place before this investigation began that we broadened out and used and knew could support a larger event. We knew these things might happen as we went into this investigation. Did you not know that as you went into Katrina, as you went into Rita, that these things that you had experienced before—because you talked about, we had a choice to make? Did you not know already those things were going to happen and you could build that system around what you already did pre-September 11?

Ms. DANNELS. Sir, I don't think that we did know that the levies would break, and there would be hundreds of thousands of people who would be airlifted from rooftops without any identification and would be displaced and living all over the country and not be able to return to their homes for months at a time. That, in fact, had we had the opportunity and the time to develop—

Mr. REICHERT. The question that I wanted answered, please, was, you had systems in place before September 11, is that not true, to address some of the issues that we just talked about? Bogus addresses, the Social Security numbers.

Ms. DANNELS. We have those systems in place. They continue to be improved upon, and they generally work very well. Again, the level of overpayments is 1, 2 or 3 percent in a disaster.

Mr. KUTZ. Congressman, can I clarify something there? Because you have a big reconciliation problem. She is saying 1 to 2 to 3 percent, which is what they have testified before, as their fraud rate for this disaster, not prior ones. I am talking about this disaster. I have just testified to you that the rate is 16 percent. There is a huge reconciliation problem we have to explain here. We did a random statistical sample of the entire population and projected our sample items to the population. So ours is a valid fraud projection. I don't believe this is an apples and apples discussion. They are

talking about recoupment after the fact. Not going out and doing systemically—

Mr. REICHERT. Yes.

Mr. KUTZ. So I think we need to clarify the prior fraud rates if we are talking about the same things for prior disasters. That would not represent a fraud rate for prior disasters.

Mr. REICHERT. Mr. Chairman, if I could just follow up very quickly.

Sir, you mentioned call centers and Western Union and new innovative ideas and new ways you wanted to help individuals. Did you not think, though, as you put these systems in place some of the issues that might occur regarding fraud, waste and abuse, before you put these systems in place, and begin to work on solving those problems before they even occurred?

Mr. BECKER. Yes, sir, we did, and the conversations that we had in the earliest days to deliver service, we were focused on that issue. And we knew that for us to move as fast as those people expected us to move, we had some exposure. Our exposure was a little bit different. Our exposure was, you might be able to go to multiple places and receive assistance before we figured out that you did that, and what we knew at the earliest was that was a possibility where people could take advantage of us, so we would put a robust system in place to comb the data, and we had each client sign, I have only received this assistance for the first time; I understand that I received assistance to meet these needs. And what we then did was put a team together of paralegals and investigators to go back and go through all the cases and figure out who actually got assistance that shouldn't have, and we have had pretty good success with that.

And we have also had great success working with the task force that Mr. Ryan referred to in getting prosecutions where people did take advantage of us.

Mr. REICHERT. Thank you.

Mr. MCCAUL. Thank you.

I would say, the submitted 16 percent equals $1 billion or more dollars to the taxpayers, 7,000 cases referred for prosecution. Out of this investigation, and we are just getting started, I submit we could have a more robust system.

I now would like to recognize the gentleman from Mississippi, the Ranking Member, Mr. Thompson.

Mr. THOMPSON. Thank you very much, Mr. Chairman.

Ms. Dannels, I personally think you have been put under the bus by being brought here. We absolutely need, at a minimum, the FEMA director, and optimally, we need the Secretary to answer these questions. They absolutely are the ones who should be made accountable for this.

You made the point that, up until May 1, you worked 7 days a week. Last week, I met with the chief human capital officer, who, by the way, is gone. And he said that FEMA is still only up to 82 percent staffing. How can we adequately respond to the issues of waste, fraud and abuse or anything else with only 82 percent of our staff in place, or do you think we can adequately respond to waste, fraud and abuse being short-staffed?

Ms. DANNELS. I think that we are making great strides on—I am sorry. I don't remember who made the comment about lack of internal controls. We have had a contract, looking at all of our internal controls; again, making recommendations. There is a matrix that is developed with follow up where we are implementing corrective actions, and so we are taking many steps—

Mr. THOMPSON. I recognize you are under the bus. So now you know—

Ms. DANNELS. So now you are going to drive a little faster. I understand.

Mr. THOMPSON. Yes. Do you think we can do it with 82 percent staffing? Yes or no?

Ms. DANNELS. I don't know the answer to that question.

Mr. THOMPSON. Well, I am going to have to speed up on the bus then.

Ms. DANNELS. You are going to put it in reverse. I can tell.

Mr. KUTZ. Congressman, can I make one point on that just—and I think Ms. Dannels could probably add to this. A lot of the fraud prevention efforts are also provided for by contracts.

Mr. THOMPSON. I am coming to that.

Mr. KUTZ. All right.

Mr. THOMPSON. We have a contract. Did you participate in the contracting that is presently in force?

Ms. DANNELS. We have a great number of contracts.

Mr. THOMPSON. ChoicePoint.

Ms. DANNELS. ChoicePoint, yes.

Mr. THOMPSON. You did.

Ms. DANNELS. Yes.

Mr. THOMPSON. Any reason that was a sole source contract?

Ms. DANNELS. That was my understanding while I participated—

Mr. THOMPSON. What was the reaction now for it being a sole source contract rather than competitively bid?

Ms. DANNELS. My understanding is we accessed that from a schedule where DHS already had that under contract. So we were leveraging something that was already in place, and it was not a sole source contract, is my understanding, but we can certainly get—

Mr. THOMPSON. How is it not a sole source contract? Was it competitively bid?

Ms. DANNELS. The Department of Homeland Security used a schedule that was in place that allows—my understanding is that there is qualifying that is done in advance, and it is there specifically so that we can make—

Mr. THOMPSON. Why did we pick ChoicePoint if—were there any other people on the schedule?

Ms. DANNELS. That was already in place in DHS. We simply used what was in place. FEMA used what was in place at DHS, so I don't know the answer as to how DHS selected ChoicePoint.

Mr. THOMPSON. So you see—you are still under the bus. Can you tell me if it is in place with this contract that if they perform poorly and we identify a 16 percent fraud rate, can we recoup our money based on this contract?

Ms. DANNELS. I don't know the answer to that question, but the 16 percent doesn't relate back to ChoicePoint either.

Mr. THOMPSON. You mean to tell me, if we hire a contractor—

Ms. DANNELS. That was not—that contract was not completely in place. It was in place only on Internet registrations and not those on the 800 number at the time that they had done this work.

Mr. KUTZ. Congressman, I think that is an important point because ChoicePoint had a menu of options for them to pick that included many more comprehensive controls than just the Internet validation of identities, and they did not pick all of them. Again, I don't know who is responsible for deciding to pick one small aspect of a bigger menu, but one of the fundamental problems here is they didn't effectively use ChoicePoint. So that is one of the key issues.

Mr. THOMPSON. Can you tell me why we didn't exercise the menu before us, Ms. Dannels?

Ms. DANNELS. I have to ask Mr. Kutz for clarification on the menu. Are you referring to not doing it on the 800 number?

Mr. KUTZ. No. Also, they have, address validation is another menu item. The identity validation, she is correct; I mean, they have hired them to do it just on the Internet, not for the call-ins, but they also have services where they have postal addresses, information and other things that they purchased; they have a database of insurance information so they can check for insurance fraud. So there is a whole choice of things ChoicePoint actually sells.

Ms. DANNELS. We now have home ownership occupancy with ChoicePoint also in place. The reason we did not before is because we accomplished that at the point of an onsite inspection, and so we felt that we didn't need it. Clearly, we have learned that we cannot always do an onsite inspection, as was the case with hundreds of thousands of homes in inundated areas last year.

Mr. THOMPSON. Last question, Mr. Chairman.

Ms. Dannels, can you tell me how many people have been terminated for approving vouchers for payment or anything like that consistent with what has been exposed here today?

Ms. DANNELS. Are you talking about Federal employees? People terminated—

Mr. THOMPSON. Well, if somebody inspected a cemetery and said that that cemetery met the criteria for payment, somebody should have been fired.

Ms. DANNELS. First of all, I can't address the specific situations that are in their statement of fact. Again, we received it just Thursday. What I would go back to, again, is that the—some of the new processes and technologies we used opened us up to this. This may have done—been done through geospatial work and satellite imagery that we use where we could not go in and inspect. So we identified, those five parishes in three counties in Mississippi, those most affected areas, identified those addresses. We matched them with the registrations that we had, and then we ran them through a verification like ChoicePoint to validate their identity. Clearly, some of those failed. So this may not be an inspector went out and did something wrong.

Mr. THOMPSON. Well, the only thing I am saying is, we have testimony that somebody certified that an inspection had occurred, that approved the payment.

Ms. DANNELS. That may have been done through technology and not an inspector onsite, which we do not normally do. That is a new technology we used this year, and we are reviewing that, looking for improvements.

Mr. THOMPSON. And if you would bear with me, Mr. Chairman, can the GAO people explain?

Mr. KUTZ. There may not have been a physical inspection of that cemetery. I think one of the cemeteries received expedited assistance. Another one received rental assistance. So there should have been, for rental assistance, some additional validation, and obviously, it was not effective.

Ms. DANNELS. We will go back and look at each and every one of these cases with them to determine what went wrong and improve those processes.

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. MCCAUL. Thank you.

I would also like to indicate to the ranking member that we did invite Director Paulison to testify, and he declined.

As a former career guy, I respect what you are doing, and understand the notion of not wanting to be thrown under the bus.

So, having said that, I would like to ask unanimous consent that my colleague from Pennsylvania, Mr.Dent be allowed to participate in this hearing. Without objection, so ordered.

Mr. SHAYS. He has a right to object.

Mr. MCCAUL. So ordered.

The Chair now recognizes the gentlelady from Florida, Ms.Ginny Brown-Waite.

Ms. BROWN-WAITE. Thank you very much.

Ms. Dannels, when I first heard your testimony, I was a little concerned that maybe your staff hadn't properly briefed you on what this meeting was all about. And you certainly have a very, very difficult task. But if I read this correctly, you are acting deputy. Is that correct?

Ms. DANNELS. That would be of the recovery programs, not the agency.

Ms. BROWN-WAITE. Okay. Well, this hearing has been noticed as a hearing on fraud, waste and abuse in the aftermath of Katrina, and my concern is that you really weren't addressing that, but rather the February report. I mean, clearly, the GAO presentation was about rental assistance and hotel costs and repairs. Knowing that the GAO report was out there, it almost seems like you were a day late and a dollar short, with all due respect. And I keep hearing that we are reviewing that.

As somebody whose district dodged the bullet again because of the hurricane that came onshore yesterday at Cedar Key, I have many, many concerns about what is going on in the agency, and can you help me to understand why you didn't know this hearing was about fraud, waste and abuse?

Ms. DANNELS. Yes. I did know it was about fraud, waste and abuse. What was just shared with us on Thursday was the statement of fact, GAO statement of fact, which has been the basis of their testimony. We did not have that until Thursday afternoon. So I was not aware that they had another preliminary report of find-

ings they were releasing. They met with us and delivered that to us Thursday.

Ms. BROWN-WAITE. Did you have a draft of what they were doing before that?

Ms. DANNELS. No.

Ms. BROWN-WAITE. Well, knowing what—

Ms. DANNELS. However, I am prepared to talk about more of what is in that statement of fact. I welcome the opportunity to talk about some of their conclusions and concerns on the hotels.

Ms. BROWN-WAITE. Well, submitted your testimony in advance, it just seems to me, as if knowing it is really about fraud, waste and abuse, the entire testimony that you had prepared could have been submitted to the record, and then you could have updated it. And I think the lack of responsiveness to the topic of waste, fraud and abuse should be of concern to every member here.

Let me ask a question. When any checks are sent out or debit cards, is there any sort of accompanying warning in the application process even that, if any sort of fraudulent information is submitted, that restitution and/or prosecution will be pursued? And I don't care who answers it.

Ms. DANNELS. I will gladly answer that question. Before I do, we will gladly update the testimony. Again, we were busy with Tropical Storm Alberto this weekend and really didn't have the time or opportunity to update it.

Your question is that, yes, people are told. They are told in a number of fashions, and they have to—they are advised of that in writing, and they have to sign something to us that also states that they have to be truthful and what they are saying is correct and use the funds appropriately, and if they don't, that we will take action against them. So the answer to that is, yes.

On the debit cards, again, I would say that that was one of those things that we did that was not used before. It was untested. We had—it was not well developed. I think that we will gladly acknowledge that. We are not going to use it this year, and it did not work particularly well in some respects. Apparently, there was not guidance that was provided to people when they received those debit cards.

However, we don't intend to use them this year, and we do think the debit cards are a valuable tool to have in our toolbox, but we will not use them until we develop a well thought out program that will ensure that we don't have some of the errors that we had last year.

Ms. BROWN-WAITE. Thank you.

Mr. Kutz, how long ago did FEMA meet with you about your report?

Mr. KUTZ. The final testimony meeting was last week. But we have ongoing discussions with them about various aspects of what we are doing. They grant us access to their database which is where we look for examples on all of the statistical samples, so they have known from the beginning we were going to do a statistical sample. We didn't have time to get it done by February of 2006, so this was the earliest we could actually do a comprehensive statistical sample. So, again, we have tried to do ongoing briefings,

which is the biggest part of this testimony that is new, and so they got the final results last week.

Ms. BROWN-WAITE. But they were aware that it was ongoing?

Mr. KUTZ. I believe they were, yes, and they may have been confused about what that was, but yes, we have told them very clearly we were going to do a statistical sample, it was ongoing, and they did grant us access to the system for us to look at all 247 of our sample items.

Ms. BROWN-WAITE. Two other quick questions. WhoRt those checks away from this convicted person in prison?

Mr. RYAN. Actually, those checks were cashed. Those are copies. In order for us to find out exactly where the funds went, we needed to go to Financial Management Services Treasury to get copies of those checks and then track down where those checks were cashed and who signed them. So those are actually copies of checks that have already been cashed and negotiated.

Ms. BROWN-WAITE. So will the person who is in jail get additional jail time for this fraudulent act?

Mr. RYAN. It will be 1 of 6,000 to 7,000 cases we will be referring to the Department of Justice for action, yes.

Ms. BROWN-WAITE. My understanding is there was also fraud at the call centers where there was collusion between some of the employees at the call center and people who were calling in. What steps were taken to ensure that that doesn't happen again?

Ms. DANNELS. GAO has not shared those findings with us. So I am not sure that we can respond specifically to what you have an understanding from them on.

However, last year, as with other systems that were overwhelmed, our security background check process was as well. We have in place this year requirements on all contracts that fingerprints be done through the FBI process and do a full background check before anyone has access to a FEMA facility or a FEMA information system. Last year, because there was the desire to have people available to take registrations, we used the—and I am sorry I don't remember what the acronym stands for NCIC, national agency—

Ms. BROWN-WAITE. NCIS?

Mr. RYAN. Yes.

Ms. DANNELS. Check first to give them limited access, and then after the fingerprint check was adjudicated, we would make a final determination. We will not be doing that this year, which I am assuming will address some of what they have expressed to you. Again, I am not aware of the details. They have not discussed it with me.

Ms. BROWN-WAITE. Ms. Dannels, please do update your response to the GAO report. I yield back the balance of my time.

Mr. MCCAUL. I would like to make a correction to the record that I know personally that FEMA was not blindsided last Thursday, but rather, there has been an ongoing dialogue between the GAO investigators and FEMA on this issue. And I believe that the response is to the February report, not to this report that just came out, and I would hope that the director would see the magnitude of this issue and the importance of it and attend and testify during the next hearing.

With that, I am going to go ahead and yield to the gentleman from New Jersey, Mr. Pascrell.

Mr. PASCRELL. Mr. Chairman, from what I have heard so far today, reinforces my thoughts about this being a pervasive situation not only in FEMA but beyond. There is a pattern here. In many instances, we talk about a lack of preparation and a lack—we have poor intelligence of what is coming, what is happening. And I am thinking of all those people who have been hurt down in the gulf area, either because we did not prepare properly or I can imagine them listening to this hearing. I can picture it. It is clear.

And Mr. Chairman, you have done a great thing bringing us together today. I believe we are going to have to use subpoena powers on this issue. We are talking about a lot of money here. We are not even talking about contractual fraud yet. Wait until we get into that. We contracted out, the Federal Government, if I am not mistaken—Mr. Kutz, I mean, I am looking at your testimony. These are estimates here. We are dealing with individuals. What about all the fraud dealing with the contracts that were let by FEMA before and after Katrina hit? Am I correct in saying that?

Mr. KUTZ. You are correct.

Mr. PASCRELL. Correct.

Mr. KUTZ. We're not addressing fraud today on the contracts.

Mr. PASCRELL. Thank you.

The GAO reports, your agency, that four of the 24 Federal agencies have issued disclaimers on their agency's fiscal year 2005 financial statements. The Inspector General of the Department of Homeland Security, for the Department of Homeland Security, in regard to that fiscal year 2005 financial report, financial statement, stated this: Unfortunately, the Department of Homeland Security made little or no progress to improve its overall financial reporting in fiscal year 2005. KPNG, contractor, was unable to provide an opinion on the Department of Homeland Security's balance sheet, unquote.

Is that accurate, Mr. Kutz?

Mr. KUTZ. Yes. They are one of the four agencies that have disclaimers.

Mr. PASCRELL. We have not only a pervasive mix with the entire Department but many other Departments we are not discussing today. We are not just talking about FEMA here because FEMA is under an umbrella—

Mr. KUTZ. Correct.

Mr. PASCRELL. Put there by yours truly around this table, and that is a fact of life. We are talking about the inability of the Federal Government to stay on top of those people who had the authority to give out checks and to pay other people. That is what we are talking about. Not very good in terms of accountability here. Who is accountable?

Ms. Dannels, we know and with all due respect, "you" did cause this mess, but it is a mess, but it goes far beyond you, and it goes far beyond the entire Department of Homeland Security. This is not just a FEMA issue. But I have some questions to ask you, if I may.

Fraud in the aftermath of a disaster is deplorable. We saw it after the four Florida hurricanes in 2004, and we have seen it after other disasters. Yet when Katrina struck, FEMA did not have appropriate safeguards in place even to do the most basic checks on telephone applicants.

Today you have told us about some of the steps that FEMA is taking for this hurricane season. In fact, you gave me the impression that you were making improvements. I must tell you, I believe you, but I don't believe there is any improvement. So I don't know who is telling you there is improvement.

First of all, why weren't these steps taken sooner? And was it a leadership issue? Was it a budgetary issue? Yes, this is like the question, did you stop beating your wife? But I would like the response. What is it? Is it a leadership issue? Is it a budgetary issue, or is it a staffing issue? I've covered the gamut of folks. I have asked you already. Which is it?

Ms. DANNELS. I would say it has now become a fleet of buses. I would say that there are a large number of things that contribute.

Mr. PASCRELL. Ms. Dannels, which is it, a leadership issue, a budgetary issue or a staffing issue?

Mr. Chairman, the question is clear.

Ms. DANNELS. Sir, I think that is a very difficult question to ask a career person.

Mr. PASCRELL. I think you have answered the question. My final question, if I may—Mr. Chairman, do I have time?

Mr. MCCAUL. Well, you don't, but I will give it to you.

Mr. PASCRELL. Thank you. Very good.

Mr. MCCAUL. Keep it short.

Mr. PASCRELL. I want to finish with this point by GAO. I like GAO. I like the work you do. We don't follow up because we don't really mean what we say. Twenty five billion—billion dollars of taxpayer money went unaccounted for in fiscal year 2004. That would fund the entire Department of Justice. What did we do, Mr. Lutz, what did the government do? I know what you did. What did the government do to act upon your findings?

Mr. KUTZ. Could you explain the $25 billion? Is that related to the financial statements of the Federal Government? Is that what you are talking about?

Mr. PASCRELL. Yes.

Mr. KUTZ. Yes, that is a problem with the government not being able to reconcile its checkbook, basically. That would be an example, if your checkbook was, in fact, out by $25 billion.

Mr. PASCRELL. Minor problem.

Mr. KUTZ. Minor problem, yes. You know, with a budget of $1.6 trillion, you could say that is still significant.

Mr. PASCRELL. Well, these things contribute to the $8.3 trillion debt we have, too.

Mr. KUTZ. True.

Mr. MCCAUL. The Chair now recognizes the gentleman from Connecticut, Mr. Shays.

Mr. SHAYS. Thank you all for being here. In my capacity as Chairman of the National Security Subcommittee of Government Reform, we have oversight over Defense, State Department and the

Department of Homeland Security. And this obviously is an issue that a lot of committees are looking at. Also, I was on the Select Committee to look at FEMA and the Department of Homeland Security and the White House—and, and, and—about Katrina. We determined that the White House was in a fog as it related to Katrina. We determined that DHS, particularly Mr. Chertoff, was missing in action. And we determined that Mr. Brown was derelict. I mean, that was our conclusion.

And there is no way that you, Ms. Dannels, should have to take the heat for a storm of almost biblical proportions. I will tell you, though, where I am getting troubled—and I also realize that there is no way that it is fair to ask a career employee whether their political appointees have done their job. I mean, we can ask it, but it is just not something that you can be honest about because you, in fact, have to let us come to that conclusion. That is not your conclusion. But what troubles me is that I feel like you are—because of this and because no one should take the burden of what happened with Katrina. I mean, it was an absolute disaster all the way around. I am troubled that you haven't readily agreed with GAO's report, because it is accurate; that you haven't said, we have a huge challenge to deal with. And I feel like there is an effort to try to minimize it.

My understanding is, the GAO continually interacts with the Department—that 19 years of seeing them operate, and they warn you, and they tell you, this is what we are concluding and so on. Was there anything about their report you found shocking or surprising?

Ms. DANNELS. First, let me tell you, if I in any way have given the impression that I am trying to minimize it or the agency is, that is not the case at all. I have said more than once, we welcome their involvement. We are.

Mr. SHAYS. That is not—welcoming involvement doesn't go half the way.

Ms. DANNELS. We are anxious to have their recommendations.

Mr. SHAYS. That doesn't cover it either.

Let me ask you this, do you believe the GAO report is accurate?

Ms. DANNELS. While you can say that they have interacted with us over a period of months, that may be true, but they have also interacted with probably 200 different people.

Mr. SHAYS. Finish your sentence. The statement of fact.

Ms. DANNELS. The statement of fact I received on Thursday. We have not had an opportunity—

Mr. SHAYS. That is not what I am even asking you about.

Ms. DANNELS. I don't know whether 16 percent is reasonable not, whether a billion dollars is accurate or not. Any amount is unacceptable.

Mr. SHAYS. That is true, but that doesn't get at it. My view is you would be way up here with me if you basically said the report is accurate because it is—secondly, it is accurate logically because we don't have any mechanism to prevent the fraud, which you don't. We just gave out checks all the way around.

So there is nothing surprising about this report. It is just kind of distasteful for us to have to come to grips with the amount. You

don't have in FEMA the kind of controls that would have prevented this.

Ms. DANNELS. I will go back to an earlier statement, that some of the untested technologies and processes that we used this time because our systems were exceeded absolutely did not have those controls in place.

Mr. SHAYS. Is that a yes?

Ms. DANNELS. I knowledge that. However, I think it is also apparent—and Mr. Kutz himself said that he can't testify that that cemetery had an eyes-on inspection, that eyes-on inspection and adequate control.

Mr. SHAYS. I am giving you an opportunity to not have to take the blame for this. All I am asking you is the following: You are acknowledging—I don't want you to sound like a bureaucrat, and a bureaucrat is I am going to go to my last statement and so on. I would feel better and I would be willing as a Member of Congress, because I think we take some blame here as well, to share in this blame. But, to me, if we haven't reached you, who is in charge, then we have further to go than we need to.

The GAO report is pretty basic. It is pretty clear. There aren't many refutable facts to it. They are saying it is statistical. It could, in fact, be more.

So it would strike me what you would say is the GAO report is alarming but not surprising. We don't have the kinds of controls in place to prevent it, and we all know we need to get on with it and deal with it. That, to me, would be the most comforting thing.

Is there anything that I just said that you would find untrue?

Ms. DANNELS. Absolutely not. We have been completely cooperative with them; and, again, we look forward to the recommendation so we can make those improvements.

Mr. KUTZ. Congressman, can I say one thing? I think you came in after we had the discussion. FEMA has also testified, Mr. Paulison, that the actual fraud rate is 2 to 3 percent. That is their own numbers, and they represent that on

Mr. SHAYS. I was here.

Mr. KUTZ. I think there is a real problem with them digesting and understanding the bigger number, because they have always gone out and said it is 2 to 3 percent, and they did not do a representative, statistical sample to come to that conclusion.

Mr. SHAYS. You just gave my summary point. It might have been more effective if I had done it, since you are basically talking about yourself. I was here when you made the point, and I think that is the point I want to leave. I am less comfortable than when I came because the report still stands, it is valid, but I still see push-back from FEMA, and until we stop getting the push-back, then we will start to see that we are going to solve this problem.

Ms. DANNELS. Could I just say that I don't know what context Director Paulison said the 2 to 3 percent for this particular event. In my opinion, we don't yet know what it is. And the real indication, initial indication that we have had was the statement of fact that we had Thursday as far as the magnitude of it.

From my perspective, I think we absolutely expected it to be higher than traditionally it has been because of the untested technologies that we did use. So I am not surprised by it. I am certainly

displeased by it. And we are committed to following up, doing our evaluations, working with the IG and GAO to take corrective actions.

Mr. SHAYS. I am going to conclude by saying that I still don't think you are hearing me. The amount of fraud that was outlined in this report is pretty, pretty clear. I don't think it is refutable. I think that you had been notified before that this report had these kinds of numbers, and I would just say that what would have been most comforting is to say the report stands.

The issue is how we deal with it, and we will work with GAO to make sure that we do our best to prevent it in the future. That, to me, is the comment that should be made.

Thank you.

Mr. MCCAUL. To exercise the privilege of the Chair and follow up on the gentleman's comments, I think you are absolutely on point. The problem I see with this hearing is there has been absolutely—FEMA has wholly failed to respond to the GAO report that just came out. And last Thursday—your testimony about last Thursday, in my view, my personal view, based on experiences, that is incorrect, as they had been working with FEMA since February on this. Perhaps we need another hearing to hear what FEMA's response is to the report.

With that, I will—the Chair will recognize the gentlelady from Texas, Ms. Jackson-Lee.

Ms. JACKSON-LEE. Let me thank the chairman and the ranking member, Mr. Etheridge, very much for this hearing and the opportunity to participate in this hearing as well.

To all of the panel, you might recognize that Congress tries not to use the words angry and frustrated, but there is a great deal of anger and frustration and concern, and, obviously, there is also a great deal of recognition of the responsibilities of Congress.

Tomorrow, we will be debating the question of the Iraq war; and I frankly think that many will accept the fact that Congress in some instances failed there as well. With that in mind, it means that there is a heavy burden for Congress to try and fix some of these problems.

I will say to you, Ms. Dannels, that I worked alongside of some very dedicated and committed FEMA workers. Most people don't realize a lot of these people are, if you will, part-time or hurricane by hurricane and leave their families and go to places way beyond their home residence to try to be of help. Coming from Houston, I saw a lot of that; and I applaud it.

At the same time, you have to accept the complete outrage on a billion dollars, as the GAO has determined. So to give us a sense that you are going to get to it is what really causes the rising tide.

I just want to, in addition to the billion dollars, just put into the record something that—because I saw the desperation. Because in walking through the Reliant Arena, where I saw thousands of evacuees, I know that you could argue that the bulk of your work treated people who did leave without any means of identification and were sincerely devastated. At the same time, you seem to be defending ChoicePoint and maybe some others that were on the list, and I don't think we need to do things the same way when we are in the midst of the crisis.

I would associate myself with my colleagues to say more so than Director Paulison, who was interim for a period of time, but Secretary Chertoff was right at the seat of action; and I would hope that he would get a message that we need to have the Secretary front and center to respond directly to the GAO's work. You can't, because policy determines whether or not we begin to overhaul the financial structure of FEMA.

So let me just say that some poor soul was at the Pagoda Hotel in Honolulu, Hawaii; and no one could find the fact that they were not legitimate from October to December. That is a good time to be in Hawaii. I guess my question is, desperate as this person is, they were able to get across oceans of water to Hawaii, desperate as they were. And not only that, they stayed not weeks but months.

So there is either a basic disregard—and October to December, albeit we were still in crisis with dealing with people, it was after the immediacy of the moment. So we should have been getting our thoughts together and our orderly process together.

Let me just ask Mr. Kutz, what do you think about that? Was there a moment that they could have gotten themselves together? You realize the hurricane came at the end of August, the levees broke. I see my good friend from Mississippi. There is no detailing how enormous the disaster was.

This person lived in North Carolina. Was there a moment they could have begun to look toward not only serving but making sure that these abuses were not happening?

Mr. KUTZ. There are two things I would say. There was probably moments after the immediate crisis, but the real effective way to do fraud prevention is before the storm. So I think the real issue is, FEMA has been around for a while. Why weren't these controls in place in 2004, 2003, 2002? Some of it is very, very basic. Making sure that the people that register have valid Social Security numbers, that is really, as I said in the Senate, that is Fraud Prevention 101. That seems so basic, but that is something that they were not doing.

Same thing with addresses. Is the address in the affected area and did the person live there? That is very, very basic.

So I think there was probably a time after the immediate issues they could have done better.

I will use the hotels as an example, because I think they inherited some of the hotel issues from the Red Cross or took it over from the Red Cross at some point in time. But they could have started requiring people to give Social Security numbers or registrations so they could have been able to check to make sure that the people that got the free hotels didn't also get money for out-of-pocket rental that they weren't incurring.

Ms. JACKSON-LEE. My last question, Mr. Chairman.

Ms. Dannels, would more money have helped you?

Mr. Becker, could you have used more local people rather than what you came and did as a Red Cross, which you know is one of the arguments we have made, that the Red Cross did not work with the local community as it should have.

Ms. Dannels, could you have used more money, as Mr. Kutz has said, beforehand? Even at your level, could you have used more money to put systems in place?

Ms. DANNELS. Systems were not in place.

Ms. JACKSON-LEE. Would that have taken some resources?

Ms. DANNELS. It would have.

There is something very important, a point to make here, and that is the Red Cross—and I am not throwing my good friend, Mr. Becker, here under the bus, but the Red Cross did in fact place the people in hotels. It did not go through any of FEMA systems.

Then we assumed responsibility for that contract in October. We were, in fact, trying to end that program and assure we did not duplicate that assistance and identify every person that was in every hotel room so that we could get exactly to these points when a class action lawsuit was filed against the agency and we were compelled by the court to suspend all of our activities to, A, identify people in those hotels and, B, end any of that assistance.

Ms. JACKSON-LEE. I understand that you said you needed more resources, and I understand that it was a contract with Red Cross. I have already said to Mr. Becker—one of his issues was that he came in on the national level and didn't engage in any of the local entities, any of the local organizations, at least initially. We now know that you are reassessing what your situation is.

More resources, and I don't know—Mr. Becker, this is my last question.

Mr. BECKER. I would agree with your assessment. One of the big learnings we had in Hurricane Katrina was partnerships can't happen in the middle of a disaster. They need to be there, solid and done well in advance.

One of our big organizational-changing strategies going forward is not just partnering but reaching out to the right community partners, offering to train, offering to equip, and in fact, in time of disaster, offering to financially support them if they are feeding and sheltering and doing our work. That is what we have been about since last fall, try to, with our local chapters, create those partners. People from another community serving here don't know the people as well as the people right here in the community, and we need to become better at that.

Ms. JACKSON-LEE. Mr. Chairman, I hope you will persist, and the ranking member, on securing the Secretary of Homeland Security if we are to go forward and fix what I think is an embarrassment. Not because they haven't tried to serve people, not because people in Houston are still suffering and need your services, but because we want to do better at this.

I thank you very much. I yield back.

Ms. DANNELS. May I also just quickly add for the record that we do have a process in place now that would prevent that from happening again. The people, before they go into a hotel, they have to go through us. They have to register with us. We have to validate their identity, and the hotel will not be paid unless they have that authority from us in advance. So we have this in place right now, all of the processes and systems to prevent that from happening again.

Ms. JACKSON-LEE. Taking into consideration that some people may not have identification because they have been so devastated, you do have that part in place as well?

Ms. DANNELS. Yes.

Ms. JACKSON-LEE. Thank you. Thank you very much.

Mr. MCCAUL. We may have votes as early as 1:30, so I would like to move forward.

Recognizing the gentleman from New Mexico, Mr. Pearce.

Mr. PEARCE. Thank you, Mr. Chairman.

Mr. Kutz, FEMA has testified that they think the fraud is in the range of 2 to 3 percent. You all are saying basically 16 percent. Just a yes or no, because I have got a lot of questions. Is it a possibility that your method of sampling and the attributing of fraud across different classes of payments has contributed to an overestimation on y'all's part? Are you willing to get in front of the railroad train and lay on the tracks based on your 16 percent?

Mr. KUTZ. I have done dozens of samples before. I am pretty confident that the statistics are—

Mr. PEARCE. Thank you. You are embedded from day one, GAO. That is what Ms. Dannels testified.

Ms. DANNELS. That would have been the OIG, Inspector General.

Mr. PEARCE. I am sorry. Did the OIG ever bring to your attention, Ms. Dannels, there are things that are happening that maybe should not be happening?

Ms. DANNELS. I am sure—we spent hours together. I am sure that there were many things brought to our attention.

Mr. PEARCE. They didn't send formal memos?

Ms. DANNELS. I can't guarantee that, because I can't guarantee I would have necessarily seen them all. They have brought things to our attention, and we have started taking action on them, yes. There is an ongoing process with the IG, yes.

Mr. PEARCE. So if we looked at a continuum of problems from the beginning to the end, that continuum of problems, Mr. Kutz, started out huge and decreased down. Or some of the more offensive things that you testified today, were they occurring deep into the timeline?

Mr. KUTZ. Yes, they were deep in the timeline.

Mr. PEARCE. So, Ms. Dannels, with all due respect, you testified that many of your problems came because you were kind of overwhelmed with the flood and overwhelmed. At some point, the system should begin to catch up. Mr. Kutz is saying that the system was not catching up, that the mistakes were just as deep right at the end of the measurement period as early on. Is that something you would affirm?

Ms. DANNELS. I would say that it does take more time than a matter of 1 month, 2 months or 3 months to make some of the systems corrections that are required.

Mr. PEARCE. What systems corrections are required, Ms. Dannels, for— doesn't someone have to approve or disapprove payments? You have got this—

Ms. DANNELS. A lot of that is done via automated business rules. Those are the systems I am talking about. The system that is in place had to go through a complete acceptance testing process that at that time included general counsel, financial folks.

Mr. PEARCE. I understand that, but my question is a little bit different. You get someone who has got to key in things for the computer to even measure it, for the automation to measure, is that right? Somebody has got to key in these requests. For that pay-

ment for the Dom Perignon at the Hooter's, it has got to be keyed in by somebody.

Mr. KUTZ. That was a preloaded card. Once they got the card, they could spend the money however they wanted.

Mr. PEARCE. Are there any instances where things are not preloaded, where they had to request a payment?

Mr. KUTZ. Yes, everything else. The debit cards were preloaded, but all the rental assistance, personal property repair—

Mr. PEARCE. So people were keying in rental assistance from the guys from prison, and I suspect somebody—

Ms. DANNELS. Actually, I suspect that the rental assistance—again, we need to go back and look at these specific cases, but the rental assistance for the prisoners and I suspect for the people with the cemetery addresses were done not with on-site inspections but were done all with technology which was the geospacial imagery. I suspect that is what we would find. That was a brand-new, untested technology that we acknowledged did not have adequate controls; and we are addressing that.

Mr. PEARCE. Do you think there is any sloppy work on the behalf or have you detected any sloppy work on the behalf of people or is it all systems?

Ms. DANNELS. No, I suspect there is sloppy work, also.

Again, we hired people and put them into doing jobs that ideally would have had more training than they would have had the opportunity to receive. Again, a matter of our systems and resources being overwhelmed; and we are taking corrective actions.

Mr. RYAN. If I could add something to this. We talked about these up-front controls. The problem is that they were not applied equally. You have a situation in which we attempted to use the Internet. Once we couldn't get into the Internet, the system told us to go by phone. So we used the same information that we were going to put on the Internet, and we used it on the phone and got through. As a result, we were able to get EA payments. We were able to get rental payments. Even after we received a letter from the SBA asking us to apply for a loan, in which we filled out the documents, we gave them permission to look at our tax records, which we obviously knew they weren't going to find any because we never filed, we actually got a call from the SBA inspector that says, hey, we can't find your property. It doesn't exist.

Shortly thereafter, we get a letter from FEMA saying that they inspected our property and that everything is fine. Got not only one rental check but two rental checks.

So the point is that if you are going to put controls in place, they have to apply both ways. You can't have a weakness at one end. You talk about up-front controls, these up-front controls of Social Security numbers, using P.O. boxes as damage addresses, these should be system changes that don't allow to you do that. I don't think anything of this was done or thought of; and I don't even know, based on the previous audits, if they did any—if these things were even taken into consideration.

Mr. PEARCE. Thank you, Mr. Chairman. I see my time has expired.

Mr. MCCAUL. The Chair recognizes the gentleman who knows more about this subject matter than any Member, the gentleman from Mississippi Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Chairman, for letting me participate today.

I do appreciate the panel. I appreciate the Red Cross's generosity. I very much regret that people misused it. I appreciate FEMA's generosity and, again, I regret that there were some people who misused it, but that includes corporate America.

I was wondering if, in the course of your investigation, you looked into the whole FEMA trailer fiasco, where one company, Bechtel, was given a noncompete cost plus contract for 38,000—I am sorry, 35,000 trailers. Every mistake they made, the taxpayer paid for; every new cost they wanted to throw in there, the taxpayer paid for.

I am still wondering—I remember one day walking on their property and finding 50 what had been brand-new trailers that had been cannibalized. You pull a window out of this one to fix that one; you leave the trailer open to the elements. You pull the air conditioner off, which is rooftop, take it off to stick it on another one; you leave that space open. Within a couple of rain storms, that particle board floor in the travel trailer is now a piece of sponge and that approximately 14 to $19,000 trailer is a piece of junk.

The first question is, did you look into that?

Mr. KUTZ. That was Inspector General Skinner, so that was the DHS Inspector General.

Mr. TAYLOR. I would very much like to see that report, because I think we as a Nation were taken for a lot of money on that.

The second one is even bigger fraud, though; and it goes back to the National Flood Insurance Program, what is referred to as the Write Your Own Insurance. We as a Nation when we started the National Flood Insurance Program turned the day-to-day activities of that over to the private sector. We were going to back those claims, but we count on Allstate or State Farm and Nationwide to write the policy. But, much more foolishly, we count on that same company to adjudicate the claim.

Now let's walk through this. Mr. Dent is not a Member of Congress but an upcoming executive with one of these three insurance companies, and we sent him out as a claims adjuster. He is going to walk into what is now a slab close to Mississippi or Louisiana. There is nothing left. And he is in a position to say, well, it could be wind damage, which means it might not look good on my next promotion. My employee stock owner plan will be hit for that claim. The shareholders who pay my salary may not be happy with my performance. Or I can say it was all flood and stick it to the taxpayer.

Now two things happen there. In thousands of instances, claims adjusters who were shown bits of roof up in trees that flew there or bits of roofs a quarter of a mile from a person's house that flew there ignored all that evidence and assigned all of the claim to flooding. That does a couple of things. For the individual, most individuals had a lot more wind insurance than flood insurance. You are maxed out at $250,000 on your flood insurance. Even if you had a million dollar house, you can only insure it up to $250,000. But

you can buy all the wind insurance you wanted, up to the value have your home.

So if they blame it all on flooding, they have told the individual you are only going to get part of your money back. So that hurt the individual. But they stuck it to the taxpayer.

Mr. Chairman, I truly believe that we as a Nation will have let the citizens of this Nation down if we don't have an Inspector General of Homeland Security look into that whole process of letting a private-sector company decide whether their company is going to pay this claim or whether they are going to stick it to the taxpayer.

Mr. Ryan, I am going to quote you a thousand times in the next year. When you say fraud is a crime of opportunity, I agree entirely. We have created an opportunity where the insurance industry can create a fraud of a billion dollar level and stick it to the taxpayer, hurt the individual and walk away from it. Because, at the moment, it is apparently perfectly legal; and we as a Nation don't even bother to look over their shoulder. We don't even, as a Nation, look over that claims adjuster's shoulder and say, wait a minute, maybe there was some wind damage. Maybe half of this ought to be paid by the insurance company and half of it by the flood company.

We assume those guys are shooting straight with us every single time, and—correct me if I am wrong—there is no one in our Nation that bothers to check to see if even one of those claims was wrong. Now something is weird here.

You have got a U.S. Senator by the name of Trent Lott, five Federal judges who are suing their insurers just in south Mississippi—I don't even know what is going on in Louisiana—because they feel like they were abused by their insurance industry when they assigned all the blame to water, when we know from the Navy Oceanographic Lab there was 6 to 8 hours of hurricane-force winds before the water ever got there. But because the water destroyed the evidence, they were in a position to say it was all water.

Mr. Chairman, again, you are very kind to even let me sit in here. You are particularly kind to let me say my piece. But I would really hope if we are sincere—

I do appreciate these guys going after the people who bilk the citizens out of 1,000 or 15,000 or 20,000. That is wrong. But if you want to look into the biggest fraud of all in Hurricane Katrina, look into that. Because we will find that the taxpayers got stuck for not thousands, not hundreds of thousands, not millions, my gut tells me the taxpayers were stuck for billions of dollars.

The next couple of weeks we are going to have a vote on the House floor to pump about 20 additional billion dollars into the National Flood Insurance Program because we had that many more claims than what the premiums are going to pay for. And I am convinced, having seen what I saw of the insurance industry in south Mississippi, that one of the reasons we have to pump so much taxpayer money into this is because of claims that should have been paid by State Farm, by Allstate, by Nationwide, by other companies out there were stuck to the taxpayer.

Thank you very much.

Mr. MCCAUL. The Ranking Member and I visited your State on a delegation and saw the devastation, which was horrible, and the

lack of coverage, which ultimately the taxpayer does have to pick up the tab. I appreciate your comments; and I would like to now recognize the gentleman, from Pennsylvania Mr. Dent.

Mr. DENT. Thank you, Mr. Chairman; and I thank you for holding this hearing.

Sometimes—I have been in the political business now for a long time, and it can make you a little cynical, and I thought nothing would ever surprise me anymore. But as I was brushing my teeth this morning I had the TV on, and I heard on the news talk show people talking about somebody had used Katrina relief dollars for a sex change operation, for going to Hooters and buying—I guess it was—Dom Perignon and things like; and I almost swallowed my toothbrush.

My point is this, these FEMA recovery problems are not new. The Tribune did an extensive series on waste, fraud and abuse with respect to the aftermath of various hurricanes over the past several years and other weather incidents. I recall one up in Michigan, in Detroit, where there was all kind of fraud. I remember reading stories about communities or counties not declared a state of emergency where somehow claims were being made.

So this is not a new problem, and I guess my first question to GAO would be that I suspect you had done reports on these previous weather incidents in the past, is that true?

Mr. KUTZ. Not with respect to this program. This is the first time we have looked at this program.

Mr. DENT. I guess the question that I have for the GAO is that I would like you to discuss the recommendations that I believe you will be making very shortly with respect to the massive amounts of fraud that has occurred down there. And I guess what really bothers me is, when you see somebody like Mr. Taylor over here who, along with thousands of his constituents who have suffered terribly—that every dollar that is wasted, that is spent for something it ought not to be spent on, is one less dollar going to somebody who is truly out there in need and in dire need of assistance.

So I guess the question is, could you please discuss those recommendations and what do you recommend that we do about this problem? Because it is not a new problem, and with Katrina I suspect it is a bigger problem because there is more damage and more false claims than we have seen in recent years.

Mr. KUTZ. The primary recommendations relate to the up-front validation process, the identity validation and damaged property address validation and a combination of making sure that the person actually lived at that address at the time of the hurricane. That is what I think Ms. Dannels' has talked about. They have taken some action to try to improve that and have a broader swath of Internet and telephone coverage and damage address coverage.

I do think, though, that this is going to take some time. Because the depth and breadth of the problem is significant, and there are a lot of people that are going to get through regardless. So they probably have to take a top-to-bottom look at all the aspects of control, whether it be inspection process, the phone centers or whatever the case may be.

Our recommendation is primarily identity validation, damaged property, looking into arrangements to have data sharing with So-

cial Security and the Postal Service. And I think they have said they are not going to hand out debit cards, but if they do—and, again, I want to clarify I don't see anything wrong with the debit card. It is how it was managed. The debit card has some effective way to disperse money, and they have used it for other things like the census, so it has been used effectively before.

So that is the kind of nature of some of the recommendations we have on record.

Also, she has addressed one of the other ones as part of additional recommendations in the future, keep track of who is actually checking into the hotels and making sure you don't send them rental assistance payments if you are already paying for their hotel room. That is something she has talked about they are trying to put in place for the next set of disasters.

Ms. DANNELS. We have put in place.

Mr. DENT. I guess I would like to see what changes we have made or are making now in response to Katrina versus what changes we made in response to the previous weather incidents. I realize that we are using new technologies and methods of distributing money that you probably didn't use in previous situations, but I think we need to understand that as a committee.

Finally, I don't know what you can say about this, but it really irks me. How could somebody pay for a sex change operation? There has got to be some kind of control. Can anybody comment on that?

Ms. DANNELS. What I would say and one of the reasons we are not doing debit cards again this year is we don't have a program that has enough adequate controls. When we do roll it out, which will be sometime in the future, not in the immediate future, we will block certain codes. He tells me MCC codes. We will block certain purchases so that people simply can't have those things.

Mr. DENT. Was that purchase made out of housing assistance or IHP program?

Ms. DANNELS. That would have been out of IHP. That is correct.

Mr. DENT. That would have been considered a medical service, clearly not hotel or some kind of temporary residence. I just don't understand how this could have happened.

Mr. RYAN. When they get these checks, they can spend it for whatever they want as long as they cash it. They can use it for that. They can use it to go on vacations. They can use it to gamble. It is a matter that the Government has dispersed the funds. FEMA has determined that they are entitled to the funds. They can either get a check or EFT transfer; and, after that, there is no visibility what they are doing with the spending of the cash.

In a lot of the cases that we are talking about, in the fraud cases, they use multiple names, multiple Social Security numbers, multiple damage addresses. But one of the common denominators is they all have the money sent to the same place. So it was a good start for us to work on these investigations.

But in interviewing the people or talking to the people on the street that are actually doing the investigations, a lot of the postal inspectors, the money is spent on almost anything. So that is what they are doing.

Ms. DANNELS. Mr. Dent, I would like to also mention to you and the rest of the committee that the hearing that we had with the GAO before the Senate in February, they had some initial findings there. We acted on those and had implemented many of the recommendations of their report which was issued in June, prior to their report ever having been issued.

If you go back and look at the IG—you asked if they had done other investigations with us, and they have not on natural disaster events. The IG has done many. I think if we go back and look at those reports and the recommendations you will see an excellent track record of FEMA taking those recommendations very seriously, following up and implementing them. We are committed to this.

Mr. DENT. Thank you.

It gets a little depressing. Because, on the one hand, we want to be compassionate and help the people like Mr. Taylor and his constituents. When you hear these stories, it just makes you question what you are doing sometimes.

Thank you, and I yield back.

Mr. MCCAUL. Thank you.

I want to thank the witnesses for your testimony. We are going to keep this hearing open for 10 days, allow the members to ask questions in writing.

I have a request to make as Chairman, that FEMA provide a full, fair and honest response to the GAO report.

I would also like from all the panelists recommendations for legislation on the issue of waste, fraud and abuse so this will never happen again.

Thank you so much; and, without objection, the committee stands—

Mr. ETHERIDGE. Mr. Chairman, I think the issue that Mr. Taylor raised is important to this committee; and I would hope in the near future we invite the IG of Homeland Security here so we can talk about that. Because that is a huge transfer of dollars from the taxpayer to somebody else, and we ought to at least get an answer on it.

Mr. MCCAUL. Without objection, the committee stands adjourned.

[Whereupon, at 1:32 p.m., the subcommittee was adjourned.]

APPENDIX

FOR THE RECORD

QUESTIONS FROM THE HONORABLE MICHAEL MCCAUL FOR DONNA DANNELS
RESPONSES

Question: 1. Describe the forensic audits conducted by FEMA in order to determine internal control weaknesses in benefit disbursement systems.

In the aftermath of Hurricane Katrina, DHS and FEMA undertook an effort to conduct an internal controls assessment related to processes surrounding certain areas of the Disaster Relief Fund (DRF) and the National Response Plan (NRP) Financial Management Support Annex. The purpose was to perform an analysis to determine if the design of the stated controls addressed significant risks as well as complied with Federal regulations surrounding the Individuals & Households Program (IHP). The assessment was conducted by a contractor from November 16, 2005 to January 19, 2006, in accordance with OMB Circular A–123, Management's Responsibility for Internal Controls. As a result of this assessment FEMA is implementing corrective action plans designed to fix weaknesses in its benefit disbursement systems.

Question: 2. What process is FEMA using to detect and prevent fraud in benefit disbursement systems?

In order to effectively respond to the unprecedented disaster activity and severity of the 2004 and 2005 hurricane seasons, FEMA revised its existing disaster assistance processing procedures. The importance of verifying applicants? identities outside the traditional method of an on-site inspection became a priority.

Identity Proofing: In June 2005, FEMA implemented Identity Proofing for its Internet registration intake application. Identity verification is intended to guarantee that the individual applying for assistance is a 'real' person. FEMA employs the following checks of an individual's Social Security Number (SSN) during the identity verification process:

- The submitted SSN is valid based on SSA algorithms.
- The submitted SSN matches the applicant name.
- The submitted SSN does not belong to a deceased individual.
- The submitted SSN is not associated with multiple individuals.

In February 2006, FEMA implemented identity verification for applicants registering via the FEMA call centers, thereby subjecting ALL FEMA disaster assistance applicants to the identity verification process. Additionally, all applicants from the Hurricane Katrina disaster forward who had not previously been subjected to identity verification were subsequently verified.

Owner / Occupancy Verification: Traditional FEMA processing involves an inspector visiting an applicant's damaged home or residence address and verifying ownership and occupancy first hand. For many Katrina and Rita victims, on site inspections were not possible. For the 2005 hurricane season, FEMA implemented an interface with an outside vendor to verify ownership and occupancy for identified groups of applicants whose residences could not be inspected. In June 2006, a real time interface with FEMA's identity verification vendor was implemented for ALL disaster applicants to confirm owner / occupancy status making the information available for any necessary future award decisions.

In addition, FEMA continues to strengthen its internal controls and work closely with the DHS Office of Inspector General and other Government oversight/investigative elements to limit the risk of fraud in its benefit disbursement systems. TThis past spring, FEMA engaged a contractor to conduct a formal assessment of the Hurricane Katrina DRF IHP payments to identify improper payments, assess the reasons for them, and to develop corrective action plans to mitigate the risk of future occurrences of erroneous payments. This effort is ongoing and includes DRF

IHP payments valued at approximately $5.3 billion made during the time period September 1, 2005 through March 1, 2006.

Duplicate Payment Prevention: During hurricanes Katrina and Rita, the NEMIS system cross checked for registrations with the same SSN, EFT, or Damaged Phone between Katrina and Rita to prevent EA from going to the same person for both events. Traditional NEMIS controls to prevent duplication within the same disaster check for these same matching data points in order to prevent payment without a manual case review to determine which person(s) in the household is eligible for payment. In October of 2005, the Internet registration application was updated so that applications with any duplicate criteria listed above would be refused. In June of 2006, FEMA removed the manual override feature in the call center application for applicants applying with the same SSN, thereby eliminating duplicate applications in the same disaster with the same SSN. In August of 2006, the call center application was updated to also show the registrar when an applicant was using the same damaged address as another applicant in the same disaster. The registrar is still able to accept the new application based on additional interview questions with the potential applicant.

Question: 3. What internal controls have historically been in place to prevent fraud? What controls have been put in place in the aftermath of Katrina and Rita?

In the past, FEMA controls on fraud included—

- Duplicate application checks (within the same disaster) on applicant social security number, co-registrant social security number, electronic funds transfer information, and damaged dwelling phone number. Duplicate applications identified during the registration process generated advisory popup messages to attempt to guide registrars to not complete exact duplicate applications. Additionally, an application could not be processed for payment until a caseworker reviewed the case and determined that the application was not an exact duplicate with another application and was potentially eligible for payment.
- An automated check against National Flood Insurance Program data to identify insured applicants who did not report flood insurance when they registered.
- Inspector onsite verification of losses including photographic evidence of damage.
- Verification of receipts for reimbursement of disaster related expenses.
- Applicant identity verification on Internet registrations.

Since Katrina and Rita, the following additional steps have been implemented:

- Applicant identity verification is applied to all call center registrants.
- External vendors are used to assist the agency in verifying ownership and occupancy claims of applicants.
- Enhanced checks for duplicate applications have been implemented. Exact duplicates on registrant social security, banking information or phone numbers are now blocked on the Internet (as of October 2005) and call center (as of June 2006). Warning "pop-ups" during the call center registration process will allow the registrars to prevent more duplicate registrations.

Question: 4. Does Choice Point capture data on Internet registrations that fail?

No. ChoicePoint stores the inquiry and the input data provided to process the transaction. The information is accessed for customer service purposes by authorized personnel only according to ChoicePoint's information security and privacy policies. This information is not stored on the FEMA side for Internet registrations. ChoicePoint has indicated that they have the capability to incorporate advanced analytics and "alerts" to notify FEMA of any fraudulent patterns associated with the use of identity information. This capability is under consideration.

Question: 5. What field tests were run or are being run to verify the accuracy/efficacy of Choice Point?

FEMA staff tested the identity verification process by entering accurate personal information to confirm whether they were identified as valid. Fictional information was also entered to confirm that the registration was identified as invalid. Information for deceased individuals was also entered to validate that portion of the ChoicePoint check. Additionally, field inspectors are instructed to confirm the identity of individuals who receive a housing inspection. This information then can be compared to ChoicePoint verifications. Some analysis has been done to compare the Ownership and Occupancy verification rates between the on-site inspectors and FEMA's data vendor on those applications that had both verifications performed. The overall accuracy rate between the two verification mechanisms exceeds 90%.

Question: 6. What data points are used by Choice Point to verify identity of applicants for federal disaster assistance?

FEMA sends ChoicePoint the following applicant information: **First Name, Last Name; Social Security Number; Phone Number; Address: Street, City, State, Zip; Date of Birth (DOB)(month, day, year).** ChoicePoint uses a broad range of sources to verify identity, including *credit headers, driver's license records, vehicle registration records, real property records, utility records, phone records and others.* Credit header information is the single most comprehensive source of identity verification information. Credit headers do not contain credit information. In addition to being used for identity verification and authentication, credit headers are used to prevent and detect fraud and in law enforcement investigations.

Question: 7. In the aftermath of Katrina did Choice Point or FEMA capture registrations that failed on the internet? Were these failures used to reject phone registrations?

No, this information from online registrations was not able to be cross referenced with registrations taken by phone on the 800#. The intent was to deploy the identify verification capability to registrations taken by phone which would have rendered such a cross reference unnecessary. The information technology (IT) development resources required to build the cross reference capability into the system would have detracted from other high priority system changes. Unfortunately, the volume from Hurricanes Katrina and Rita created demands on the processing system for several months, which prevented the deployment of several system changes (such as ID proofing on the 800#).

Identity verification failure is not used to block or reject registrations altogether, since individuals who fail identity proofing may fail for valid reasons not related to fraud. For example, someone who just turned 18 years old and has had very few public records created may not have sufficient information available to verify his or her identity. Another example is someone who recently married and may not have sufficient information available under the new last name. Rather than block these types of applications, they are sent for inspection and a field inspector performs an "eyes on" identity verification. Applicants who fail identity verification are not eligible for payment without documentation and manual review.

Question: 8. What was the fraud percentages of applications taken through the internet as compared to the fraud experienced with applications taken over the phone?

FEMA receives raw data from the OIG on fraud cases, but has not conducted an analysis to determine the percentage of fraud committed via internet versus telephone registration. The lack of front-end identity verification controls on telephone registrations contributing to fraud was apparent. Analysis was not necessary to understand what actions needed to be taken. FEMA has implemented a number of improved identity and occupancy verification controls.

The GAO has produced a number of reports and statements of fact on the Individual and Household Program. In May of 2006, GAO conducted a broad data sweep of NEMIS Katrina and Rita payments and provided FEMA with an extensive list of potential duplicate and/or improper payments. GAO did not, however, indicate which of these payments represented the fraudulent cases cited as part of GAO Report 07–300. Although FEMA has made several requests for more specific information related to GAO 07–300, GAO has refused to provide FEMA with additional information. If FEMA had received the requested data, it may very well have proven to be helpful in conducting post-disaster analysis to determine what improvements could be made to our systems and processes to minimize fraudulent disaster claims.

Question: 9. How are duplicate registrations for federal disaster assistance being prevented? Describe how this has been field tested.

Registrants that match a previous registrant's social security number in the same disaster are prevented altogether. If, during registration, a co-registrant is entered, and their social security number matches a previous registrant or co-registrant, the registration intake agent taking the call is directed to identify the possible duplicate, and to determine whether the application should be completed. Even if the agent does continue, the completed registration will be flagged for further investigation and resolution prior to provision of any financial assistance. Duplications of social security numbers, banking information, and telephone numbers are rejected on the Internet application altogether and the person must register by phone.

Regarding field testing, FEMA is testing hardware, software, and re-engineered procedural processes prior to their release and implementation to end-users in the production environment to ensure effectiveness. Additionally, we are completing val-

idation analysis throughout the course of testing to confirm that requirement compliance is fulfilled and is traceable to system specifications.

Question: 10. Describe the background checks in place, during the aftermath of Katrina, on those taking registrations over the phone. Describe the background checks in place now.

During Katrina, the individual's information was submitted to the National Crime Information Center (NCIC) for a preliminary background check. At the same time, fingerprints were obtained and FEMA then processed the fingerprints through the FBI Criminal History system.

For contractors, should negative information or history come back from the NCIC check, the contractor was advised that access to FEMA facilities or information systems could not be granted. Only favorable NCIC checks would allow these individuals to receive FEMA contractor badges and begin working. Fingerprints returned from the FBI would be adjudicated and a favorable or unfavorable decision for continued employment was made.

NCIC checks are no longer being used as an interim step. The contractor is required to have fingerprints taken, sent to the FBI Criminal History system, returned and adjudicated by FEMA Security prior to beginning work with the Agency.

Question: 11. Provide the following background information on the Expedited Assistance program.

When was it created? "Fast Track", the predecessor to Expedited Assistance, was first used in 1992 in response to Hurricane Andrew and was also implemented during the 1994 Northridge earthquake, which prior to the hurricanes of 2004 and 2005 had been FEMA's largest disaster in terms of the number of applicants. In 1998, FEMA issued Response and Recovery Directorate Policy No. 4430 A/C which formally codified Expedited Assistance.

What is the legal basis for the program? Expedited Assistance (EA) is simply the name given to supplying assistance otherwise available under Section 408 of the Stafford Act (42 U.S.C. § 5174) in an expedited manner. It is not a separate program. In our view, this provision of the Stafford Act is sufficiently flexible to permit the provision of EA in a situation such as Katrina and Rita where FEMA is unable to provide shelter as quickly as it is needed and where impacted individuals and households are able to find housing on a temporary basis themselves. EA may also be used to provide Other Needs Assistance (ONA) under section 408(e) for "other expenses."

What was the programmatic justification for the program? The General Accountability Office (GAO) concluded in its October 1997 report (GAO/RCED–98–1) that the legal authority for expediting disaster assistance is implicit in the Stafford Act and that FEMA has the discretion to expedite the delivery of disaster assistance in order to "assist the largest number of disaster victims in the shortest possible amount of time." FEMA issued the EA policy in January 1998, in coordination with FEMA's Office of General Counsel. FEMA's Inspector General also endorsed the need for an expedited approach of this nature in the review of the Federal response to Hurricane Andrew in 1992 in its January 1993 report titled FEMA's Disaster Management Program: A Performance Audit After Hurricane Andrew (H–01–93).

Provide the legal memo authorizing its creation; please provide any documents in support of your answers. A copy of the 1997 GAO report and 1998 FEMA original EA policy is attached.

Question: 12. How many times has EA been used historically? Please provide: the number of disasters and description of each; the disaster location; the total amount of the Expedited Assistance paid; the number of recipients of Expedited Assistance; description and information on forensic audits of the program each time it was used.

Following is the EA Report for specific disasters.

Dstr	mon/yy of Decl	ST	Incident	EA Recipients	EA Amount Per Recipient	EA Award Amt	Valid Registrations	% of EA Recipients to Total Valid Registrations
1401	Feb '02	OK	Ice	2,472	$300	$741,600.00	26,786	9.2%
1402	Feb '02	KS	Ice	1,065	$300	$319,500.00	10,457	10.2%
1403	Feb '02	MO	Ice	3,128	$300	$938,400.00	19,422	16.1%
1422	Jun '02	AZ	Fire	60	$503	$30,180.00	8,207	0.7%
1545	Sep '04	FL	Hurricane	38,233	$569	$21,772,274.60	457,010	8.4%
1548	Sep '04	LA	Hurricane	744	$530	$394,515.00	9,345	8.0%
1549	Sep '04	AL	Hurricane	16,007	$418	$6,694,064.34	165,332	9.7%
1551	Sep '04	FL	Hurricane	20,715	$472	$9,774,234.76	146,317	14.2%
1552	Sep '04	PR	Hurricane	4,021	$384	$1,542,894.20	196,429	2.0%
1553	Sep '04	NC	Hurricane	757	$398	$301,121.00	7,696	9.8%
1554	Sep '04	GA	Hurricane	297	$653	$193,928.00	2,674	11.1%
1555	Sep '04	PA	Svre Storm	69	$435	$30,002.00	1,440	4.8%
1556	Sep '04	OH	Svre Storm	1,405	$381	$534,652.00	8,986	15.6%
1557	Sep '04	PA	Svre Storm	3,549	$494	$1,752,276.00	37,105	9.6%
1558	Sep '04	WV	Svre Storm	1,143	$367	$418,916.00	7,240	15.8%
1561	Sep '04	FL	Hurricane	36,073	$551	$19,889,827.60	356,506	10.1%
1563	Oct '04	NJ	Hurricane	48	$909	$43,644.00	734	6.5%
1565	Oct? 04	NY	Hurricane	41	$512	$20,990.00	1,151	3.6%
1603	Aug '05	LA	Hurricane	618,754	$2,020	$1,249,575,377.00	1,077,673	57.4%
1604	Aug '05	MS	Hurricane	161,555	$2,001	$323,229,566.00	515,808	31.3%
1605	Aug '05	AL	Hurricane	22,856	$2,000	$45,715,296.40	112,702	20.3%
1606	Sep '05	TX	Hurricane	210,131	$2,000	$420,278,933.00	476,206	44.1%
1607	Sep '05	LA	Hurricane	141,391	$2,000	$282,804,839.00	316,689	44.6%

The above chart does not include statistics on "fast track" housing assistance that was used on a limited basis in the aftermath of Hurricane Andrew and the Northridge Earthquake. Both disasters displaced hundreds of thousands of people, compelling FEMA to expedite housing assistance (termed fast track at the time) to individuals to meet their emergency housing needs, as the traditional methods for providing such assistance were inadequate to meet such a high demand. At this time applications for disaster assistance were taken on paper, and the average time to complete and process an inspection in many cases was 21 to 30 days.

FEMA targeted the highest impacted areas and provided one month of rental assistance to individuals applying from zip codes located in these areas. This assistance was tagged and paid from the rental assistance funds allocated in each of these disasters. The system used for processing disaster assistance during each of these events (ADAMS) is a legacy DOS based program that would only give us information as to the number of individuals paid rental assistance. As a result, it is not possible to separate out "fast track" payments from standard rental assistance paid post housing inspection. The only historical information we were able to find in reference to "fast track" assistance was in relation to Northridge. Specifically, a 1997 FEMA OIG memo to Senator John McCain, which indicated that 48,302 Northridge applicants received "fast track" payments totaling $143 million.

Provide description and information on forensic audits of the program each time it was used.

Regarding information on audits of the EA program, there is no distinction between program close-out for an individual disaster and EA. As a result, no specific audit information on EA is available.

13. How many people received EA during Katrina?

803,165 Katrina registrants received EA.

14. Questions regarding FEMA's recoupment efforts. . .

Please provide an overview of FEMA's recoupment effort.

As part of its mission to maintain close oversight on the distribution of disaster assistance, FEMA is performing a detailed review of applications and awards, and where appropriate, notifying individuals by letter about necessary repayments, payment plan options and the appeals process.

FEMA's recoupment effort begins with the identification of applicants that need additional review to determine if a recoupment action is appropriate. This identification of applications comes from a wide range of sources to include but not limited to referrals from other Agencies, caseworker identification upon additional review of an individual's case, and performing searches for overpayments through NEMIS reports.

Upon identification that an applicant may need additional review for possible recoupment action, the case is reviewed by a caseworker trained to process these types of cases. Additionally, if the determination is made that a recoupment is appropriate for the individual, the case is forwarded to a secondary review for concurrence. Once the determination is made that the applicant has to return funds, the recoupment letter is sent to the applicant and the case is referred to Disaster Finance.

As in all housing determinations, individuals who have been notified that they are in recoupment status have the right to contact FEMA to further discuss their case, request information from their file, or appeal FEMA's determination. Instructions are provided to individuals in their letter outlining the recoupment and appeals process, as well as information on setting up repayment plans.

How much money has been recouped to date for Hurricanes Katrina and Rita? As of 6/9/2006, over $770,000 has been recouped.

How many recoupment actions have been initiated for Katrina and Rita? As of 5/11/2006, 5,450 Katrina and Rita applicants have been approved for recoupment; in each of these, the Collection Disaster Housing (CDH) letter was sent and their files were transmitted to FEMA's Disaster Finance Center.

How many recoupment letters have been sent? As of 5/11/2006, 5,450 CDH letters have been sent.

What is the response rate of the effort?—Response rate data is unavailable at this early stage in the recoupment effort. FEMA could provide a status update in the coming months as it becomes available.

How many recoupments have been initiated in relation to EA? A total of 1,457 recoupment actions (Katrina only) have been initiated due to either multiple payments or overpayments of EA for.

How much money has been recouped? As of 6/9/2006, over $770,000 has been recouped.

15. Please provide any and all historical data on recoupment efforts, by disaster.

	Apps Assisted	APPS Recoup Initiated
• DR–1539–FL (2004)	139,392	1,422
• DR–1545–FL (2004)	277,537	2,054
• DR–1551–FL (2004)	100,447	1,268
• DR–1561–FL (2004)	227,732	3,170

For additional information, please reference FEMA recoupment reports which are currently submitted to the IG, GAO, and DOJ on a monthly basis.

16. Questions related to FEMA work with other departments with regard to background/identity verification checks. . .

Describe the work FEMA is doing to work with other Departments/ agencies with regard to background/identity verification checks.

FEMA continues to work closely with Federal agencies to detect fraud. We have put in place a Memorandum of Agreement (MOA) with the Katrina Fraud Task Force (Fraud Task Force), headed by the U.S. Department of Justice's (DOJ) Criminal Division and the Assistant United States Attorneys, which consists of numerous Federal agency Offices of Inspector General (OIGs). FEMA has trained and granted authorized Fraud Task Force employees limited access to FEMA's Privacy Act "Disaster Recovery Assistance Files" ("Disaster Assistance") system of records for the purpose of identifying and investigating fraud cases. FEMA is also currently working closely with the U.S. Department of Housing and Urban Development (HUD) and has entered into a Matching Agreement that has been published in the Federal Register to help identify FEMA applicants who may also be receiving a duplication of disaster housing benefits from both FEMA and HUD and for fraud purposes. Because the information and the records sought by other Federal agencies are "individually identifiable information" of applicants to FEMA for Disaster Assistance protected by the Privacy Act of 1974, FEMA is obligated to protect the privacy of each Katrina and Rita disaster victim. In addition, FEMA is required to follow all of the Privacy Act requirements, as mandated by the Office of Management and Budget and can therefore release records only as permitted by the Privacy Act. FEMA is permitted to share each disaster victim's personal information only to other parties who demonstrate a legitimate, statutory need to obtain FEMA's information that conforms with the Privacy Act. Because all Federal agencies are charged with this responsibility, most understand the Privacy Act's requirements and the necessity to articulate their legitimate need and legal authority to obtain FEMA's information on Katrina and Rita disaster victims.

When did FEMA begin this work?

FEMA began working with these agencies in the immediate aftermath of the 2005 Hurricane season; however, the agreements with these agencies were formalized on—

March 1, 2006—for the Katrina Fraud Task Force
June 21, 2006—for the HUD Matching Agreement

Which Departments/agencies has FEMA contacted?

FEMA's Recovery Division has been working closely with the FEMA Office of Chief Counsel (OCC) on the Memoranda of Agreement and Matching Agreement due to the complex legal requirements. After meeting and discussing with the Federal agencies, FEMA's Recovery Division has worked very closely with not only FEMA OCC, but also with the FEMA Chief Information Officer (CIO) to address system technical and security access issues that may arise from other Federal agencies' access to information. Outside of FEMA, agencies include DOJ, HUD, and OIGs, based on the description above.

When will the Department/agency agreements be finalized?

The agreements with these agencies were formalized on—

March 1, 2006—for the Katrina Fraud Task Force
June 21, 2006—for the HUD Matching Agreement

As indicated above, the Recovery Division works very closely with FEMA OCC to ensure that we are proactive in efforts to prevent fraud, waste, and abuse. FEMA welcomes the opportunity to work closely with other agencies to utilize various Federal agency's systems and processes to proactively address potential fraud. It is dif-

ficult to estimate the date upon which agreements will be finalized as several steps and requirements remain:

Review and concurrence from each agency's Offices of General Counsel;
- Review and concurrence by each agency's Data Integrity Boards;
- Approval by the Office of Management and Budget;
- Publication in the **Federal Register** for a period of 40 calendar days before the Matching Agreement goes into effect as required by the Privacy Act; and
- Notification to Congress.

17. What employee/contractor training related to fraud prevention is provided?

All call center and processing staff (whether FEMA or contract employees) are provided clear instruction during training classes on how to report suspected fraud by applicants or by FEMA/contract staff. The suspected fraud may be reported to them by the public or the staff may suspect it as a result of their phone discussions with an applicant or their work with an applicant's case. Instructions are also given to members of the public wishing to report suspected fraud directly to the OIG. Refresher and updated information and reminders are provided periodically during in-person pre-shift meetings and issued in bulletins.

The contract housing inspection staff is often in the best position to detect applicant fraud. Inspector trainers discuss possible fraud in the areas where the opportunities are most prevalent so that the inspectors are more sensitive to recognizing potential fraud. For example, identifying deferred maintenance and pre-existing conditions the applicant claims as disaster damage as well as simple applicant exaggeration; awareness is emphasized in the training when the covering Occupancy and Ownership verification; Personal Property "Verbal Unable to Verify" (the applicant has already disposed of damaged items); and actually testing appliances the applicant claims were damaged. The Fraud Hotline number and instructions for reporting suspected are provided to inspectors during training. FEMA audits the contractor training classes to ensure appropriate training is conducted, including fraud detection discussions. Additionally, FEMA in coordination with OIG is developing a specific module to include in FEMA's training for inspectors under the new contracts to be awarded this summer.

After inspectors are deployed to a disaster area, the detection and reporting of fraud are specifically emphasized during the field briefings as they begin conducting the actual inspections.

The contract requirements related to fraud prevention which are covered in training include—

- Inspectors photograph damaged dwelling (currently 2 photos; new contract will require 5)
- Inspectors verify addresses onsite.
- Inspectors verify ownership and occupancy at the time of the inspection.
- Inspectors verify applicant's identity at the time of the inspection.
- Inspectors are now required to list in comments which personal property items the applicant is claiming as damaged when the item wasn't present at the time of the inspection.
- Inspectors are required to test appliances before recording damage to them.
- Inspectors are required to identify categories of deferred maintenance (DF). Identifying DF is a factor that makes the inspectors distinguish true disaster-related damage vs. something the applicant has not maintained.
- Inspectors are required to support their decision when the home needs repairs. They must record the categories of damage that made the home unsafe; i.e. roof, electrical, windows.
- Inspectors are required to identify what caused the disaster-related damage to vehicles; i.e. wind blew tree onto car.
- Inspectors now view receipts for generators and chainsaws verifying date of purchase to coincide with FEMA's eligibility timelines.
- Inspectors must recuse themselves from an inspection if there is a conflict of interest; e.g., inspector's relative owns damaged dwelling.
- Inspectors suspecting fraud must call OIG Fraud Hotline, or their Field Supervisor, who then provides information to the OIG at the Joint Field Office.

18. Ms. Dannels testified on June 14, 2006 that FEMA is adopting "a more systematic use of technology" to prevent fraud. Describe such technology and how it will prevent and detect fraud. Has this technology been field tested? Please describe such field testing.

FEMA's focus on more stringent policy enforcement for applicants who cannot substantiate their identity, along with enhancements for identity verification and

authentication, will prevent and detect fraud. Our response to Question #2 includes specific criteria utilized for identity verification.

The following safeguards have been proposed and are undergoing analysis of feasibility, desirability, and cost-benefit to the agency. Some projects are waiting funding and software development; others are currently under development and will be deployed as soon as feasible. These improvements include—

- Enhancing services and data sharing from government and commercial data providers.
- Implementing additional verification measures before providing Expedited Assistance.
- Implementing new system constraints to prevent inaccurate or over-payments.
- Integrating voluntary, local and government assistance data to ensure that the FEMA IHP is not duplicating benefits with other parts of the organization or other agencies.

Regarding field testing, FEMA is testing hardware, software, and re-engineered procedural processes prior to their release and implementation to end-users in the production environment to ensure effectiveness. Additionally, we are completing validation analysis throughout the course of testing to confirm that requirement compliance is fulfilled and is traceable to system specifications.

19. In FEMA's May 19, 2006, response to the GAO draft report, with regard to rental assistance, the letter stated "$2,358 was provided to those registrants that lived in one of the 5 hardest hit LA parishes or 3 counties in MS. Verification of occupancy at a valid address was established by utilizing a FEMA contractor." If verification of occupancy at a valid address was established before benefits were disbursed, then explain how each of the registration scenarios below took place:

a. thousands of federal and state prisoners apply for and received benefits;

Some applicants provided their pre-incarceration residential address and the FEMA mail was forwarded to them. Any assistance provided under these means would not prove that the pre-incarceration residence was not their primary address or that they did not own the residence. For applicants who did provide prison addresses, our address correction and existing data sources did not automatically identify the applicant as a federal or state prisoner; only that the applicant had a valid address. FEMA is working with its data vendor to provide flags as to the type of address (residence, business, prison, etc.) so that FEMA may limit payments to only those addresses that are primary residential addresses.

b. how an applicant using a cemetery as a damaged address received benefits;

FEMA's address correction and existing data sources did not identify the address as belonging to a cemetery; only that it was for a valid address. There are times when a cemetery address is a valid registration address. For example, if a cemetery caretaker is affected by a disaster, he/she may register for assistance using the cemetery address. However, FEMA is working with its data vendor to provide flags as to the type of address (residence, business, prison, etc.) so that FEMA may limit payments to only those addresses that are primary residential addresses.

c. how a vacant lot used by GAO as the damaged address receive benefits;

FEMA's address correction and existing data sources did not provide that an address was for a vacant lot; only that it was for a valid address. FEMA is working with its data vendor to provide flags as to the type of address (residence, business, prison, etc.) so that FEMA may limit payments to only those addresses that are primary residential addresses. This should include vacant lot information, as the vendor can tell whether taxes were paid on a lot or structure or both.

d. how PO Boxes used as damaged addresses receive $5.5 million in benefits?

FEMA's address correction and existing data sources did not provide that an address was for a PO Box; only that it was for a valid address. Since August 2006, the FEMA registration system no longer allows PO Boxes as a damaged address during the registration.

20. What controls has FEMA put in place to prevent such fraud in future disasters? Describe how these controls have been field tested.

- Coordination is underway to obtain data verifications for individuals that are incarcerated.
- Coordination is underway to obtain data verifications for locations that are not residential.
- PO Box addresses will no longer be accepted as valid for a Damaged Dwelling address.

Regarding field testing, FEMA is testing hardware, software, and re-engineered procedural processes prior to their release and implementation to end-users in the production environment to ensure effectiveness. Additionally, we are completing validation analysis throughout the course of testing to confirm that requirement compliance is fulfilled and is traceable to system specifications.

21. The May 19, 2006 letter states that changes are being made to the NEMIS software. In particular, "NEMIS will conduct verification of ownership and occupancy through FEMA's data contractor during the application process.? Describe what is done to verify ownership and occupancy. Have these procedures been field tested?

In February 2006, FEMA implemented identity verification for applicants registering via the FEMA call centers, thereby subjecting all FEMA disaster assistance applicants to the identity verification process. Additionally, all applicants from the Hurricane Katrina disaster forward who had not previously been subjected to identity verification were verified in April 2006.

Identity Authentication: Identity authentication takes the verification process a step further and ensures that the person presenting the credentials is the actual "owner" of the data. This is accomplished by presenting the applicant with a set of personal questions only they should be able to answer based on the demographic information they have submitted. Currently, FEMA requires identity authentication only for individuals who request an account to access their data via the Internet.

Owner / Occupancy Verification: Traditional FEMA processing involved an inspector visiting an applicant's damaged address and verifying ownership and occupancy first hand. For many Katrina and Rita victims, on site inspections were not possible. For the 2005 hurricane season, FEMA implemented an interface with an outside vendor to verify ownership and occupancy for identified groups of applicants who could not be inspected. In June 2006, a real time interface with FEMA's identity verification vendor was implemented for ALL disaster applicants to confirm owner / occupancy status, making the information available for any necessary future award decisions.

Regarding field testing, FEMA is testing hardware, software, and re-engineered procedural processes prior to their release and implementation to end-users in the production environment to ensure effectiveness. Additionally, we are completing validation analysis throughout the course of testing to confirm that requirement compliance is fulfilled and is traceable to system specifications.

22. The May 19, 2006 letter states "FEMA continues to develop guidance and control measures to prevent the inappropriate use of these funds." Describe guidance and control measures that FEMA is developing. Also describe the field tests conducted on these guidance and control measures.

Existing controls in damage assessments performed by trained inspectors use commercial and insurance industry standard protocols to review and record disaster-related damages. Only those applicants suffering damage related to a Presidentially declared disaster are eligible for payment. As a result of investigations from the 2004 hurricane season, inspectors now are required to photograph each home they visit depicting the extent of damage and the house street number to validate against the registration address data. Inspection contractors are required to review these photographs as a part of their Quality Control process.

Inspectors are also required to view and record information on any insurance the applicant has, specifically those coverages relating to home, personal property, and vehicle damages. Applicants are also asked about insurance coverage during the Registration process. Based on the damages incurred and the type of insurance on the home, NEMIS will disallow any payment that is potentially duplicative of insurance benefits. Caseworkers follow the same guidelines upon an appeal by the applicant. Additional automated insurance checking is a priority for future development. In all flooding events, FEMA uses an automated interface with the National Flood Insurance Program (NFIP) database to determine if an applicant has flood insurance coverage on the home that they are registering. If a policy is found, the NEMIS database is updated with this information and the applicant is deemed insured for flood damages, whether or not the applicant listed this insurance during the registration process.

Internal reviews are also performed when applicants request additional assistance. When an applicant requests additional rental assistance, the applicant is required to submit rent receipts/substantiation that funds have been exhausted and used appropriately. If there has been a misuse of funds, the applicant is not eligible for further housing assistance and his or her case may be sent to Recoupment for recovery of funds if warranted.

23. The May 19, 2006 letter states "Based on the address provided, NEMIS will 'correct' it to the most acceptable form based on USPS data." Explain what "correct" means.

NEMIS utilizes GEOSTAN software that provides an "address correction" or "address matching" capability and geo-coding. Address correction/matching is the process of matching an input address against a postal or geo-coding database. Most address matching solutions work by breaking an address into components such as street name and street type to find a close match to the data source. The returned information identifies the accurate damaged dwelling and mailing address as it is recorded with USPS. Geo-coding is the process of appending the longitude and latitude to an address.

24. FEMA's June 14, 2006 testimony states Expedited Assistance program "allows for a pre-inspection disbursement of funds to an individual household, based on information gathered from the applicant during the registration process that meets the following criteria: the registration must be for the primary residence only; the registrant must be displaced due to the disaster; and the registrant is in need of shelter." Describe the fraud detection and prevention controls FEMA uses to verify such information.

At the time of implementation, FEMA had to balance the requirements of preventing fraud with those of assisting hundreds of thousands of evacuees with immediate and essential needs in a timely manner. The only way to ensure both requirements were being met to the best of our abilities was to tie the eligibility criteria for EA outlined by the Recovery Division Director, to specific questions on the disaster application. An applicant's affirmative response to these questions resulted in immediate, automated Expedited Assistance awards. If an application was found eligible for EA, it was then run through existing NEMIS business rules (Duplicate Investigation) to prevent multiple payments to the same individual or household. For purposes of preventing as many inappropriate payments as possible, the specific questions triggering EA were never publicized to individuals either within or outside the agency.

25. FEMA's June 14, 2006 testimony states "FEMA, in fact, has gone to great lengths to ensure they are good stewards of the taxpayers' dollar by deterring fraud, while still allowing applicants who are in serious need of assistance to receive it quickly and appropriately." Describe FEMA's efforts to deter fraud.

- In June 2005 FEMA added Identity Authentication to the Internet Applicant Inquiry application in order to protect applicant data and ensure that the person logging in was the "owner" of that data.
- In June 2005, FEMA implemented identity proofing to the Internet registration application.
- In October 2005, FEMA launched a new internet registration application that disallows any duplicate registrations;
- In February 2006, FEMA added identity proofing to the call center registration application to ensure all IHP Registrations are subjected to the same criteria as online applications.
- FEMA amended systems to ensure no automated payments are sent to applicants who failed the identity proofing process;
- FEMA began sending all applications taken over the phone from August 2005 until February 2006 to FEMA's data contractor for identity proofing and reviewing those that failed for possible recoupment or referral to the DHS Office of the Inspector General;
- FEMA began data-marking any applications in NEMIS that fail identity proofing so they may be flagged for review and denied automated payment;
- FEMA has implemented enhanced processes related to real-time interaction between the FEMA service representative and the applicant during registration to ensure data is entered correctly before accepting the application.
- In June 2006, FEMA implemented Occupancy and Ownership verification during the registration process.
- FEMA is working with a data vendor to flag addresses that are not residential so that they may be reviewed prior to payment.

• In August 2006, the registration module started preventing applicants from using a PO Box address as a damaged address.

26. Describe the "significant improvements," as stated in the June 14, 2006 testimony, FEMA has made to its delivery process to prevent fraud, waste and abuse. See response to question #25.

27. FEMA's June 14, 2006 testimony states "Through effective planning, enhanced internal controls and a more systematic use of technology, FEMA can limit waste, fraud, and abuse." Specifically, describe in detail the effective planning methods, enhanced internal controls and the systematic use of technology FEMA is employing to detect and prevent waste, fraud, and abuse in federal disaster assistance programs. See response to question #25; also—

INFORMATION DATABASE: The following changes are being made to FEMA's processing software and have been made available for the start of the 2006 hurricane season:

• No registration will be accepted when that registrant has the same SSN as another registrant in the same disaster

EXPEDITED ASSISTANCE: Hurricanes Katrina and Rita presented FEMA with extraordinary circumstances, where it was critical to answer the call of hundreds of thousands of individuals who often had no identification, money or even clothes on their backs. In this instance, the Expedited Assistance (EA) program served as an appropriate tool to provide assistance to victims who had been displaced by the catastrophic event. Although there were problems within the EA program during the 2005 hurricane season, FEMA has already taken steps—and continues to do so—to limit waste, fraud and abuse should this program be used for future disasters including reducing the amount of assistance provided in this initial payment, providing the assistance under the "other needs" category which allows for a federal/state cost share, and eliminating the use of debit cards.

RECOUPMENTS: Starting in March 2006, FEMA began the review process to recoup any disaster relief money that was inappropriately awarded following the 2005 hurricane season and as such has already recouped more than $770,000. As part of its mission to maintain close oversight on the distribution of disaster assistance, FEMA performs detailed reviews of applications and awards, and where appropriate, notifies individuals by letter about necessary repayments, payment plan options and the appeals process, and refers cases of suspected fraud to the DHS Office of the Inspector General.

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