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Office of Inspector General

## Executive Summary

This is the 15th semiannual report issued by the Office of Inspector General (OIG), Federal Emergency Management Agency (FEMA), since becoming a statutory Inspector General office in April 1989. It is issued pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452), as amended, and covers the period April 1, 1996, through September 30, 1996. All activities and results reported fall within the reporting period unless otherwise noted.

### Results

Our audits, inspections, and investigations were instrumental in FEMA management's recovery or deobligation of \$27.9 million, and in agreements to recover or deobligate an additional \$4.6 million. We issued 33 audit and inspection reports, processed an additional 56 reports issued by non-FEMA auditors, closed 53 investigations, arrested/indicted 32 individuals/companies, convicted 14 individuals, and received 376 hotline complaints. We devoted substantial audit, inspection, and investigative resources to disaster response and recovery, including reviews and investigations of disaster relief recipients, and service on National Emergency Response Teams (ERT-Ns). OIG staff were members of the ERT-N that responded to Hurricane Fran, which devastated North Carolina and Virginia; and Hurricane Bertha, which hit the Virgin Islands and Puerto Rico.

Our primary objectives in the areas of disaster response and recovery are to prevent and detect fraud, waste, and abuse; to provide technical assistance and advisory services to management officials concerning the effectiveness of assistance to disaster victims; and to help management deliver assistance better. Our staff accomplishes these objectives by reviewing operations in real time to identify potential problems and suggest corrective actions to managers before problems surface. Immediately after a disaster, we take steps to learn what the applicable current issues and priorities are before we offer advice about disaster activities or delivery of services. We address internal functions, such as procurement and property management, to determine whether assets are managed and controlled properly to prevent loss or theft. We also participate in training sessions to improve FEMA's skills in detecting fraudulent claims, and participate in applicants' briefings to inform subgrantees of audit and financial management requirements.

Recently passed legislation requires better financial systems, audited financial statements, and improved accountability for Federal agencies. We acted to comply with these new requirements by auditing the financial statements issued for several FEMA funds, and working closely with the Office of Financial Management to develop FEMA's new and improved financial management system. Finally, we investigated several cases of alleged fraud in the Federal Insurance Program to assist management in discouraging insurance fraud. We also worked on a joint insurance fraud task force, composed of representatives from the U.S. Attorney's office, Postal Inspection Service, Federal Bureau of Investigation, Internal Revenue Service, and the New York State Insurance Frauds Bureau, to investigate insurance fraud in New York.

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## Federal Emergency Management Agency

April 1, 1996 - September 30, 1996

FEMA is the Federal agency charged with building and supporting the Nation's emergency management system. It works in partnership with groups such as State and local emergency management agencies, fire departments, other Federal agencies, and the American Red Cross and other volunteer organizations. FEMA is authorized 2,501 full-time equivalent positions, who assist individuals, families, communities, and States throughout the disaster cycle. They help to plan for disasters, develop mitigation programs, and meet human and infrastructure needs when major disasters occur. They work at FEMA headquarters in Washington, D.C.; 10 regional offices and other facilities around the country and in the Caribbean; FEMA's National Emergency Training Center in Emmitsburg, Maryland; and Mt. Weather Emergency Assistance Center in Berryville, Virginia. FEMA also maintains a cadre of temporary disaster employees ready to help when disasters occur.

The U.S. Fire Administration and the Federal Insurance Administration also are under FEMA's jurisdiction. The Fire Administration supports the Nation's fire services and emergency medical services communities with training, public education, and research in fire protection technologies and emergency response procedures. The Federal Insurance Administration provides flood insurance to residents of communities that agree to enforce sound land-use practices. More than 18,000 communities participate in the National Flood Insurance Program (NFIP), which has more than 3.5 million home and business policies in effect.

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## Office of Inspector General

April 1, 1996 - September 30, 1996

Congress enacted the Inspector General Act in 1978 to ensure integrity and efficiency in Government. A 1988 amendment to the Act (Public Law 100-504) created the position of Inspector General in FEMA, subject to presidential appointment and senatorial confirmation. Before April 16, 1989, when the law became effective, the OIG was established administratively and the Inspector General was appointed by the Director of FEMA.

The statute conferred on the OIG new authorities and responsibilities, including the power to issue subpoenas; responsibility for various reports, such as this semiannual report; and authority to review relevant proposed laws and regulations to determine their potential impact on FEMA programs and operations. The law also mandates that the OIG audit and investigate FEMA programs.

Our office has three divisions - Audit, Inspections, and Investigations -- and had 60 full-time equivalent positions during this semiannual period. We also employ a cadre of disaster employees on temporary appointments to audit or investigate disaster-related matters

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## Disaster Relief

The Federal Government supplements the human, physical, and monetary resources of States, local governments, and disaster relief organizations in alleviating the consequences of a disaster or emergency when the resources of those entities (the first responders) are insufficient to respond effectively. In so doing, FEMA coordinates the work of 27 Federal agencies and departments that support the affected areas by supplying goods and services such as shelter, transportation, electric power, potable water, and food. FEMA also provides monetary subsidies in the form of grants to individuals and States that incur losses and damage consequent to disasters and emergencies. We have dedicated significant resources to validating disaster assistance costs that were claimed to be attributable to a disaster or emergency, with the following results:

- Issued 3 internal management reports
- Issued 26 external audit reports, of which 18 questioned costs totaling \$3 million
- Processed 7 reports that questioned costs totaling \$75,000
- Investigated 121 cases of disaster fraud and other illegal activities.

### UNINTENDED CONSEQUENCES: THE HIGH COST OF DISASTER ASSISTANCE FOR PARK AND RECREATIONAL FACILITIES

We reviewed options for reducing Federal disaster assistance costs by restricting the eligibility of public park and recreational facilities for disaster assistance funds. Ineligible before 1974, they were specifically made eligible by legislation, with the expectation that the costs of assistance would not be significant. To the contrary, we found that FEMA spent more than \$214 million in disaster assistance for park and recreational facilities in 50 of the largest disasters declared between fiscal years 1989 and 1995. We suggested that FEMA meet with appropriate congressional committees to determine the level of support for regulatory or legislative changes that would restrict eligibility of these facilities, thus reducing Federal disaster assistance expenditures.

The report of our review was published in May 1996. The FEMA Director plans to meet with the Senate Appropriations Committee, Subcommittee on HUD, VA, and Independent Agencies, in the second quarter of fiscal year 1997 regarding ideas for reducing Federal disaster assistance costs.

### REVIEW OF THE PUBLIC ASSISTANCE PROCESS

We reviewed FEMA's public assistance process at the request of the FEMA Director. We looked at how damaged public facilities are surveyed, eligibility for disaster assistance is determined, and claims are processed. We interviewed more than 90 representatives from all levels of government. The prevailing view was that the process is fundamentally sound but needs to be done better, not differently. Our report addressed changes already underway, made 11 recommendations for improvements, and discussed 6 options for more comprehensive changes. We noted, however, that some of those options might make it more difficult to ensure accountability for Federal disaster funds.

### REVIEW OF DISASTER HOUSING PROGRAM

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, P.L. 93-288, as amended (Stafford Act), enables FEMA to make grants to individuals to pay for temporary housing and home repairs needed as a result of a disaster. The Act requires that a home must be uninhabitable to qualify for a home repair grant, and that grants should fund only the repairs needed to make the home habitable. FEMA policy also requires that the cost of making a home habitable be within a

specified limit to qualify for a home repair grant.

FEMA expanded home repair grants to improve assistance to disaster victims but it did so by not enforcing applicable rules and regulations. The Agency did not determine overall habitability of damaged homes, but instead accepted damages in excess of \$100 as evidence of an uninhabitable house. Further, FEMA paid for re-pairs, such as the replacement of carpets, that did not appear to be related to habitability. The repairs accounted for \$23 million, or 34 percent, of \$68 million spent on six disasters. FEMA housing officials also made home repair grants in instances in which damage costs exceeded FEMA's dollar limit for such grants.

## **NORTHRIDGE EARTHQUAKE**

A former manager of a residential care facility for the mentally disabled in Reseda, California, was arrested and indicted by a Federal grand jury on seven counts of theft of FEMA funds from residents of the facility. This individual supervised housing for adults with disabilities, such as Down's syndrome and cerebral palsy. The residents of the facility filed disaster assistance applications to pay for personal property damaged by the earthquake. When FEMA checks arrived, the manager persuaded several residents to sign their relief checks, totaling \$8,100, over to him. He deposited the checks into his own personal account. He pled guilty to three felony charges of converting FEMA funds for his own use, and has already repaid the \$8,100 to FEMA.

Another California resident was found guilty and sentenced to 6 months' detention for falsely claiming that she became homeless when the earthquake destroyed her apartment building. Our investigation found that the claimant never lived in the building.

## **HURRICANE ANDREW**

### **Tri-County Commuter Rail Authority, Florida**

The Tri-County Commuter Rail Authority claimed \$2.5 million to provide emergency protective measures as a result of Hurricane Andrew. The claim included questioned costs of \$858,021 as a result of (1) an over-stated increase in the cost base, and (2) failure to apply credits to FEMA projects. We recommended that FEMA disallow the questioned costs.

### **Excessive Contractor Billings**

A tree service firm in Louisiana claimed \$14 million for tree and debris removal resulting from Hurricane Andrew. The firm used estimates in-stead of actual costs to calculate its claim to FEMA. After meeting with officials from the OIG, FEMA, and the District Attorney's Office, the firm agreed to reduce its claim to \$4 million, resulting in cost savings of \$10 million.

## **HURRICANE HUGO**

### **U.S. Department of Public Works, St. Thomas, Virgin Islands**

FEMA awarded \$3.9 million to the Department of Public Works to re-move debris, provide emergency protective measures, and repair facilities damaged by Hurricane Hugo. We questioned \$413,919, representing the receipt of duplicate funds from the Federal Highway Administration, and claims for non-disaster related charges. As a result, the Department received excess advances of \$248,928. We recommended that FEMA obtain a refund of the excess advances.

### **U.S. Virgin Islands Energy Office**

The Virgin Islands Energy Office claimed \$481,800 for building repairs, replacing vehicles, and acquiring temporary office space required as a result of Hurricane Hugo. The claim included \$281,774 for excess construction costs, rental, and vehicle charges. We recommended that FEMA disallow the questioned costs.

### **U.S. Virgin Islands National Guard**

The Virgin Islands National Guard claimed \$3.3 million for debris removal, emergency protective

measures, and repairs to buildings damaged by Hurricane Hugo. The claim exceeded the FEMA award by \$234,785. We questioned \$300,548 of unsupported, duplicate, and unrelated costs. We recommended that FEMA disallow the questioned costs.

### **City of Charleston, South Carolina**

The City of Charleston, South Carolina, claimed \$14.6 million to remove debris, provide emergency measures, and repair facilities damaged by Hurricane Hugo. The City's claim included \$210,929 of ineligible costs resulting from the City's failure to obtain required flood insurance. The claim also included unrelated costs, excessive engineering and equipment fees, costs for upgrades that FEMA denied prior to the claim, and ineligible administrative costs. We recommended that FEMA disallow the questioned costs.

### **School of the Good Shepherd, Inc., U.S. Virgin Islands**

The Good Shepherd school claimed \$301,648 for debris removal, building repairs, and the replacement of trailer classrooms and contents damaged by Hurricane Hugo. Construction costs of \$116,486 exceeded the authorized amount, and insurance proceeds of \$17,468 were not credited to the FEMA project. We also questioned \$2,679 of administrative costs. We recommended that FEMA disallow questioned costs of \$136,633.

### **Puerto Rico**

Former officials and employees of a Puerto Rican municipality conspired to prepare and submit false statements and documents to FEMA to obtain disaster assistance funds totaling approximately \$116,478. The Puerto Rican municipality submitted claims for repair of privately owned or poorly constructed roads, knowing that these roads previously had been declared ineligible for such assistance. As a result of our investigation, FEMA deobligated \$54,361. In May 1996, these officials, including employees of a construction company, were indicted by a Federal grand jury for conspiring to prepare and submit false statements and supporting documents to FEMA. Two officials were also indicted for concealing and failing to disclose to FEMA that insurance payments in excess of \$142,387 were received by the municipality for damages to public buildings during Hurricane Hugo.

### **HURRICANE MARILYN**

Eight individuals were arrested for making false claims for damages associated with Hurricane Marilyn. Four were arrested in St. Thomas, Virgin Islands, for falsely claiming ownership and/or occupancy of a dwelling during the storm. One was charged in St. Croix, Virgin Islands, with theft and conversion of public money. Two other individuals made false statements supporting applications of other persons for disaster assistance. The remaining individual was indicted by a Federal grand jury for falsely claiming he was renting property at the time of the hurricane and suffered personal property loss. He had received \$11,200 in loans from the Small Business Administration and rental assistance from FEMA.

### **HURRICANE OPAL**

A family of four was indicted and convicted for theft of Government property, filing false claims, and making false statements to FEMA inspectors about damage incurred as a result of Hurricane Opal. We estimated the value of the false claims and Government property at approximately \$50,000. The family members included a mother, two sons, and a daughter. The daughter was sentenced to a year in jail, and the remaining members are scheduled for sentencing in November.

### **OTHER DISASTERS**

#### **Delaware Electric Cooperative, Delaware**

FEMA awarded \$2.5 million to the Delaware Electric Cooperative to remove debris and to repair the electrical system as a result of severe storms that occurred in February 1994. The Electric Cooperative claimed costs of \$174,135 that were unsupported, ineligible, excessive, duplicate, and unrelated. Also, credits were not applied to FEMA projects. We recommended that FEMA disallow the questioned costs.

### **Southern Maryland Electric Cooperative, Inc., Maryland**

The Southern Maryland Electric Cooperative, Inc. claimed \$3.9 million to remove debris and repair electrical systems damaged by an ice storm in February 1994. The claim included \$275,210 in duplicate funding, excessive equipment charges, unrelated pro-program costs, and unsupported costs. We recommended that FEMA disallow the questioned costs.

### **Louisiana Department of Health and Hospitals, Louisiana**

The Louisiana Department of Health and Hospitals claimed \$467,609 to remove debris, provide emergency protective measures, and repair public facilities. The Department claimed \$258,472 for the same purposes from two Federal grant programs. We recommended that FEMA disallow the questioned costs.

## **INTERNAL INVESTIGATIONS**

A former Disaster Assistance Employee (DAE) knowingly submitted 30 false claims to FEMA for payment of per diem, amounting to \$60,000, between January 1990 and December 1991. The DAE listed his/her residence in one location when the DAE actually resided in another location, which was within a 50 mile radius from his/her official work site. Thus, the DAE was not entitled to per diem or reimbursement of travel expenses. The DAE agreed to repay the \$60,000.

In another case, criminal charges were filed in U.S. District Court against a former FEMA employee who was assigned as a Lead Personnel Clerk at a Disaster Field Office. We determined that the employee misused the identity of another FEMA employee in a scheme to fraudulently obtain utility service. We further determined that the employee had falsified an employment application and other personnel and security documents before being hired by FEMA. In fact, the employee had been charged criminally for stealing and attempting to cash a co-worker's paycheck when hired by FEMA. The employee intentionally omitted information about the previous employer where the criminal incident occurred, and falsified responses to questions about the criminal history. The employee was terminated by FEMA. The employee pled guilty and will be sentenced in February 1997.

## **OTHER DISASTER RELATED ACTIVITIES**

### **NATIONAL EMERGENCY RESPONSE TEAMS**

Our office responded as part of the ERT-N when Hurricane Fran hit North Carolina in September. We participated in briefings throughout the State to explain the responsibilities of the State and local applicants relative to OIG audits of FEMA grants. We also advised other ERT-N members on disaster housing payments for victims in the Coastal Barrier Resources Act zones, the program to remove trees from private residences, expediting grants to local governments hit by both Hurricanes Bertha and Fran, and reimbursing Department of Defense components for disaster relief expenses.

We also deployed staff to Disaster Field Offices during the early stages of FEMA's response to other disasters. Staff from our office were on hand in Virginia for Hurricanes Bertha and Fran, and in Arkansas and Illinois for tornado disasters. We participated in applicant briefings to explain to State and local government agencies how to account for and document grant costs, and we provided advice to the field office staff. This proactive approach enabled us to help prevent potential problems from turning into real problems.

### **NATIONAL EMERGENCY MANAGEMENT INFORMATION SYSTEM (NEMIS)**

Our office continues to participate in the National Emergency Management Information System (NEMIS) management steering group and working groups. FEMA will use NEMIS to coordinate and provide services to disaster victims. It is composed of subsystems for human services, infrastructure support, hazard mitigation, emergency coordination, and emergency support. By working with these groups, we are able to provide early technical assistance to prevent problems, and to remain involved in a project until it is complete.

### **PARTICIPATION IN MISSION ASSIGNMENT INTERAGENCY WORK GROUPS**

We participated on several inter-agency work groups established to develop ways to improve the mission assignment process. Mission assignments are work orders that FEMA, as lead agency, issues to other Federal agencies requesting them to complete specific tasks during disaster response and recovery operations. Other participating agencies included signatories to the Federal Response Plan, such as the General Services Administration, the Department of Transportation, and the Department of Veterans Affairs.

We briefed work group members on the process for selecting mission assignments for audit, and responded to questions about eligible costs, establishing an appeals process, and a records retention policy.

#### **PUBLIC ASSISTANCE BUSINESS PROCESS RE-ENGINEERING STEERING COMMITTEE**

The Executive Associate Director for Response and Recovery requested, and we provided, an OIG representative to the Steering Committee reviewing findings and recommendations of the public assistance business process re-engineering effort currently underway. This committee provides strategic direction at key stages throughout the project.

#### **DISASTER FRAUD TASK FORCE**

The U.S. Attorney for the District of Puerto Rico formed a task force to prosecute fraud perpetrated against FEMA, SBA, and other Federal disaster assistance programs in the wake of the Marilyn, Three Kings, and Hugo Disasters. The task force comprises Federal agents from the Inspectors General for FEMA, the Small Business Administration, Department of Housing and Urban Development, Department of Transportation, U.S. Postal Inspection Service, and the Federal Bureau of Investigation.

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