DEPARTMENT OF HOMELAND SECURITY

# Office of Inspector General

## The Federal Emergency Management Agency's Individual and Family Grant Program Management at the World Trade Center Disaster


Office of Audits

OIG-04-49 September 2004

*Office of Inspector General*

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

Homeland Security

# Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (*Public Law 107-296*) by amendment to the Inspector General Act of 1978. This is one of a series of audit, inspection, investigative, and special reports prepared by the OIG as part of its DHS oversight responsibility to identify and prevent fraud, waste, abuse, and mismanagement.

This report assesses the strengths and weaknesses of the program or operation under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and a review of applicable documents.

The recommendations herein have been developed to the best knowledge available to the OIG, and have been discussed in draft with those responsible for implementation. It is my hope that this report will result in more effective, efficient, and economical operations. I express my appreciation to all of those who contributed to the preparation of this report.

Clark Kent Ervin
Inspector General

# Contents



## Appendices



## Abbreviations

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| OIG | Office of Inspector General |
| IFG | Individual and Family Grant |
| WTC | World Trade Center disaster |
| FEMA | Federal Emergency Management Agency |
| SBA | Small Business Administration |
| EPA | Environmental Protection Agency |
| EPR | Emergency Preparedness and Response |

## Introduction

The Office of Inspector General (OIG), at the request of Representatives Carolyn B. Maloney and Jose Serrano, audited the management of the Individual and Family Grant (IFG) program after the World Trade Center disaster (WTC) to determine whether actions by the Federal Emergency Management Agency (FEMA) and the state of New York contributed to reported fraud and abuse in the program. The *Associated Press*, in an article dated February 20, 2003, stated that the program is "rife with fraud and abuse" and that 90% of the applications for air quality items were filed by people not suffering from the effects of contaminated air. A copy of the request letter and the *Associated Press* article are included as Appendixes A and B, respectively.

## Results in Brief

FEMA and state officials took several actions related to air quality items that while, consistent with FEMA regulations, reduced managerial controls and increased the risk of abuse. Some actions, such as eliminating home inspections for air conditioners, were taken for valid practical reasons; other actions were taken to reduce paperwork and expedite program delivery. In addition, FEMA and the state authorized advanced payments to applicants who were financially unable to purchase air quality items. Although FEMA and state officials kept residents informed through press releases, these decisions, exacerbated by misleading advertising campaigns by companies selling air quality items, greatly increased the number of apparently fraudulent applications.

Once the problems were identified, FEMA and the state took action to address suspected fraudulent applications. FEMA program officials selected two samples of applicants to conduct home inspections: one of applicants who

applied for assistance to buy window air conditioners, and one to verify whether cash advances were applied for properly. While the claim that ninety percent of applicants for air quality items were filed by people not suffering from the effects of contaminated air was probably overstated, the number of questionable applications based on the sample was high, as much as 62 percent for those applying for air conditioners. FEMA OIG investigated a number of alleged instances of fraud and referred several for prosecution. While no abuse should be tolerated, OIG found no evidence that problems within the IFG program caused any eligible New York citizens not to receive needed air quality items.

OIG recommended that, when faced with a similar situation in the future, FEMA require the state to sample individual applicants on a continuous basis to verify their eligibility, and lessen the potential for programmatic abuse. FEMA concurred with this recommendation.

## Background

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, Public Law 93-288, as amended (Stafford Act) was enacted to support State and local governments and their citizens when disasters overwhelm them. The Stafford Act authorized FEMA to administer five Individual Assistance programs that provided aid to individuals, families, and business owners, in response to presidential disaster declarations. One of the those programs, the IFG program, was created to meet disaster-related necessary expenses or serious needs that could not be met through other Stafford Act programs or through other means, such as insurance, other Federal assistance, or voluntary agency programs. Eligible expense included real and personal property, medical and dental, funeral, transportation, and others specifically requested by the state. Disaster victims were generally required to apply for, and be denied, SBA disaster loans before being considered for the IFG program.

New York State, as grantee, administered and implemented the IFG program. FEMA worked closely with the state and provided advice, accepted applications, and assisted with eligibility determinations.

## Estimate of Abuse

The Associated Press reported that people who did not suffer from the effects of contaminated air filed 90 percent of the applications for reimbursements for air quality items. The source of this statistic was an estimate by the FEMA disaster recovery officer for the WTC disaster. The estimate was based on an assumption that, of the 225,000 applicants for air quality items, only the 25,000 who lived in lower Manhattan and were eligible to participate in an Environmental Protection Agency (EPA) home cleaning program suffered from contaminated air. Consequently, about 90 percent of the applications were estimated to be filed by people not suffering from the effects of contaminated air. However, although it was reasonable to assume that the participants in the EPA's home cleaning program suffered from contaminated air, it was not reasonable to assume that they were the only ones who were affected by contaminated air. IFG officials believed that residents in other parts of the city also may have suffered from contaminated air and would be eligible for air quality items.

The FEMA disaster recovery officer said that he disclosed the estimate to get the attention of applicants who had applied for, but not yet received, assistance. The intent of the disclosure was to encourage applicants who were not suffering from or affected by contaminated air to voluntarily withdraw their applications. He said that, after publication of the article, several thousand people withdrew their applications.

## Eligibility Requirements were Consistent with Regulations, But Increased Risk of Abuse

FEMA and state officials took several actions related to air quality items that, while consistent with FEMA regulations, reduced managerial controls and increased the risk of abuse. Although FEMA and state officials kept residents informed through press releases, these decisions, exacerbated by misleading advertising campaigns by companies selling air quality items, greatly increased the number of apparently fraudulent applications.

The IFG program, managed by the state with assistance from FEMA, was established to help disaster victims meet disaster related necessary expenses or serious needs. It is not intended to indemnify disaster losses or to permit purchase of items that are non-essential. Eligible expenses include those for real and

personal property, medical and dental expenses, funeral expenses, transportation needs, and other expenses specifically requested by the state. FEMA and the state generally rely on several managerial control mechanisms to verify that applicants meet eligibility requirements.

First, FEMA conducts inspections of applicants' homes to verify that they suffered disaster damage, normally using contract inspectors brought in immediately after the disaster. Next, because the delivery sequence for disaster assistance places the IFG program after assistance from SBA disaster loans, FEMA generally requires that IFG applicants apply for, and be denied, SBA disaster loans before being considered for the IFG program. This helps establish that assistance for a serious need cannot be obtained by other means. Finally, receipts or other expense records can be required to verify that expenditures were used to meet essential needs. This is often done for medical, funeral, and similar expenses.

On October 18, 2001, air purifiers, air filters, and vacuum cleaners with high efficiency particulate air (HEPA) filters, were added to the eligible items list. Eligibility for these items was based on applicants' suffering from contaminated air, a difficult condition to verify. Also, the items were listed in an "other" category, which exempted them from the SBA loan application requirement under FEMA's regulations.

On March 22, 2002, FEMA and the state added window air conditioners to the list of items eligible for IFG program assistance. Eligibility was dependent on applicants' having owned a window air conditioner that was damaged during the disaster. Window air conditioners normally would be inspected to verify damage before being approved for repair or replacement. However, at the time air conditioners were added to the list of eligible property, home inspections had been completed, and FEMA decided that it would not be cost effective to bring the inspectors back to verify damage to a single property item, i.e., the window air conditioner. This was a reasonable decision because there were more than 200,000 IFG applications. Instead, the state implemented a self-certification process and placed window air conditioners in the "other" category, so applicants were not required to apply for and be denied SBA disaster loans before receiving IFG assistance.

On May 1, 2002, FEMA and the state authorized advance payments to applicants who were financially unable to purchase air quality items. Rather than having to provide receipts for the items prior to grant approval as normally required or proving financial need, applicants were permitted to certify that they were unable

to pay for the items and were asked to provide receipts after they purchased the items.

FEMA and state officials kept residents informed about eligibility requirements by periodically issuing press releases that explained what assistance was available and how to apply for it. The OIG found no indications that eligible recipients did not receive assistance. However, many people who received assistance may not have been entitled to it, because reduced managerial controls over air quality items increased opportunities for fraud and abuse.

In addition, the original geographic area of eligibility was very broad. From September 2001 to May 2002, people living in fifteen New York counties were eligible to apply for assistance under the IFG program. This large geographic boundary created an extremely large number of potential applicants. In June 2002, however, the state limited assistance for air quality items to New York City, i.e., counties of New York, Bronx, Kings, Queens and Richmond. Although it was understood that the primary area affected was lower Manhattan, IFG program officials said that, in their judgment, residents in any of the five counties might have been in need of air quality items.

## Deceptive Advertising Exacerbates Risk of Abuse

In June 2002, applications for air quality items rose sharply and continued to increase in July and August. Before then, the number of applications had been dropping each month. FEMA believes that the increases may have been due to deceptive advertising by companies selling air quality items and offering "free air conditioners". These companies distributed fliers to encourage the public to buy their products and get reimbursed by FEMA. In the same timeframe, EPA announced that air quality in New York City was poor. An additional factor may have been the closing of non-profit programs.[1] FEMA officials said that, due to the large increase in applications, they became concerned about possible abuse. In response to this situation, FEMA implemented a sampling program to verify applicant eligibility and to identify abusers.

[1] *FEMA's Delivery of Individual Assistance Programs: New York – September 11, 2001*; FEMA OIG Inspections Division, December 2000.

## Actions Taken to Combat Abuse

Federal regulation 44 CFR 206.131 provides for sampling applicants to verify program effectiveness. FEMA program officials selected two random samples: one of applicants who repaired or replaced air conditioners, and one of applicants who received advances for air quality items. Although the samples were not designed to be statistically valid, the results suggest that a large number of applicants were not suffering from the effects of contaminated air.

In January 2003, FEMA program officials selected a sample of 4,435 people who applied for assistance to buy window air conditioners and visited their homes to verify that they had window air conditioners before the disaster occurred. FEMA representatives inspected damaged air conditioners or, when damaged air conditioners had been disposed of, inspected indentations left in windows by the air conditioners. The home inspections identified 1,704 applicants who had evidence of the prior existence of a window air conditioner, and 2,731 applicants, or 62%, who did not and therefore were probably ineligible for assistance.

The second sample of 5,602 applications was selected in March 2003 to verify the proper use of $5.8 million in advances for air quality items. Applicants who received advances were required to submit receipts to the state within 30 days after receiving the funds, but program officials said that none of the applicants included in the sample complied with this requirement. As of July 22, 2003, FEMA program officials had completed 5,029 home inspections and determined that 3,347 applicants had purchased the air quality items. FEMA referred the 1,682 applicants, or 33%, who had not purchased the air quality items to the state for collection.

The sampling was effective in identifying ineligible applicants and preventing many from receiving grants. Although only a few cases were accepted for prosecution due to the small amount of money involved, there was some deterrent value in publicizing those prosecutions. Finally, OIG investigated complaints against 16 air quality products companies for using unethical sales tactics and referred them to the New York State Attorney General's office.

## Conclusion and Recommendation

The unique circumstances surrounding a disaster often make such measures as advancing payments to applicants and exempting items from home inspection or SBA loan application requirements, which are within FEMA's authority, appropriate. However, it is important to recognize that these measures

significantly increase the risk of abuse. When eligibility is not verified by a FEMA managed home inspection or SBA's disaster loan review process, the state should take extra measures, such as sampling applicants, to ensure that applicants are eligible for the IFG program. Such procedures can identify abuse early in the process, so timely action can be taken to prosecute abusers, and deter others from abuse.

The OIG recommends that the Director, Recovery Division, Emergency Preparedness and Response Directorate, when faced with a similar situation in the future, require the state to randomly select individual applicants on a continuous basis, and take whatever action is appropriate to verify their eligibility.

# Congress of the United States

Washington, DC 20515

February 25, 2003

The Honorable Richard Skinner
Acting Inspector General
Federal Emergency Management Agency
500 C Street, SW
Washington, D.C. 20472

Dear Acting Inspector General Skinner:

We are writing about recent press reports alleging that the Individual and Family Grant (IFG) program is "rife with fraud and misuse" (Sara Kugler, *The Associated Press*, 2/19/03). FEMA officials are quoted as stating that people have "manipulated" and taken advantage of the system, suggesting that as many as 90% of the more than 219,000 applications for reimbursement were filed by people not suffering from the effects of contaminated air due to the September 11, 2001, terrorist attacks on the World Trade Center (Sara Kugler, *The Associated Press*, 2/19/03). In light of these reports, we request that your office immediately investigate the degree to which the mismanagement of this program contributed to the fraud and misuse reported. If these reports are at all accurate it is our belief that the only explanation for such a high level of waste and abuse must be the management of the program by the State of New York's Department of Labor.

In the weeks before the program expired, we, along with other Members of Congress, expressed our concerns about the management of the IFG program. As copies of our enclosed letters state, we asserted that the NYS Department of Labor (DOL), which ran the program, failed to offer clear eligibility criteria for those affected by the terrorist attacks. Specifically, we noted in these prior letters to Director Allbaugh and to New York Governor Pataki the following concerns:

**- FEMA should immediately take over management of the IFG program.**

The ambiguous and misleading IFG program criteria established by New York State should be reconsidered.

**- FEMA should reform and publicly clarify the guidelines for the program to ensure that people still in need understood what is available to them.**

Misleading and potentially fraudulent information circulated throughout the city.

**- FEMA should extend the registration period for the IFG program, with the reformed and clarified rules, so that New Yorkers affected by 9/11 could obtain that they are eligible to receive.**

Confusion about eligibility requirements resulted in a lack of information being provided to those

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who needed help.

We ask you to investigate this matter and to determine how a program administered by the New York State Department of Labor and supervised by FEMA could be so mismanaged as to result in a 90% instance of fraudulent, wasteful or misused applications. Specifically, we would like you to address the following questions:

1) Who was responsible for developing the eligibility criteria used by the state for the administration of the IFG program?

2) Were the eligibility criteria deemed consistent with Stafford Act requirements? Who at FEMA reviewed the criteria? Did that official express concerns about the criteria and eligibility requirements at that time?

3) When did FEMA and/or the NYS DOL realize that this fraud and misuse was occurring? What did they do to correct the application process to prevent this waste?

4) If outright fraud was committed, what steps are being taken to prosecute those individuals who were responsible?

5) How did they address the problem initially?

6) With clearer eligibility criteria and standards, could this reported fraud and waste have been prevented?

7) To what extent did New Yorkers eligible for assistance under this program suffer because of management lapses of the program?

Thank you for your attention to this matter. We look forward to your investigation. If you have any questions, please feel free to contact us or Benjamin Chevat in Representative Maloney's office at 202-225-7944.

Sincerely,

CAROLYN B. MALONEY
Member of Congress

JOSE SERRANO
Member of Congress

[1] We received differing opinions about the effective date for the implementation of the Act. The date stated here was derived from language

## 9/11 Air-Quality Aid Program Troubled (AP)

Associated Press
By Sara Kugler
February 20, 2003

NEW YORK - A $100 million federal program to reimburse New Yorkers for air conditioners, filters, vacuums and other air-purifying tools after the World Trade Center collapse is rife with fraud and abuse, government officials say.

As many as 90 percent of the more than 219,000 applications for reimbursement were filed by people not suffering from the effects of contaminated air, according to estimates from federal officials.

They say fraud has taken several forms: Some people have manipulated the program to score a free air conditioner, while con artists have posed as federal employees and sold air-purifying items to residents.

About $45.8 million has been paid out so far, and while many applications are legitimate, officials said millions have been paid to people scamming the system. The government is so concerned that it is sending a dozen teams of inspectors daily to applicants' homes to verify claims.

The government can turn cases over to prosecutors — though none have brought charges — or they can try to reclaim the money.

The grants were set up by the Federal Emergency Management Agency to reimburse residents in all five boroughs for the purchase of air quality items, up to about $1,500 per applicant.

**Unlike other aid programs created specifically to address the Sept. 11 attack, the reimbursements came from an existing program. The program is traditionally used to help people with costs not covered by other assistance programs, but FEMA officials said they have never encountered this level of misuse in prior disasters.**

The size and extent of the program have proven to be among its problems.

While many trade center grants were limited to residents of lower Manhattan, this program was open to all New York City residents.

**"We were trying to do the right thing. Unfortunately people took advantage of that, so now we have people way out in Queens or upper Manhattan where there was no potential for air quality impacts," said Brad Gair, FEMA's trade center federal recovery officer.**

As word spread about the ways to cheat the system, Gair said, a program that was originally budgeted at $15 million — and initially had trouble attracting applicants — turned into a $100 million monster.

**"We know we've come across people who are not telling the truth," said Jack Casale, a FEMA investigator, during a day of visits to homes in Queens, more than 10 miles east of the trade center.**

Scientists and federal environmental officials are still studying the effect of trade center dust and the path it took, but experts agree that the cloud hovered over lower Manhattan and spread mostly south toward Brooklyn.

**Investigators have discovered numerous cases where people purchased FEMA-covered items, submitted the receipts to get reimbursement checks and then returned the products to the store, pocketing the cash. Some receipts even appear to have been forged, Gair said.**

Home visits have turned up residents who applied for air-conditioner reimbursements living in buildings with central air where the windows do not even open. Other times, applicants who received checks for hundreds of dollars' worth of reimbursed purchases could not produce the items when investigators visited their homes; stores have reported unusual numbers of people returning air conditioners, vacuums and air purifiers.

Local district attorneys say no applicants have been charged in connection with the FEMA program, in part because it may be difficult to prove that someone taking advantage of the system is breaking any laws.

The city Department of Consumer Affairs is also investigating but is concentrating on the wider scams run by people who posed as FEMA employees to sell air quality products at inflated prices. That would be an illegal trade practice.

## Purpose, Scope, and Methodology

This audit's objective was to determine whether actions by FEMA and the State of New York contributed to reported fraud and abuse in the IFG program after the WTC disaster. We interviewed FEMA and state IFG program officials in New York City and Albany who implemented the program under the WTC disaster declaration. Also, we interviewed members of four New York City advocacy groups who were concerned about the assistance provided to their constituents. Finally, we reviewed the IFG program requirements contained in the Code of Federal Regulations and pertinent records maintained by FEMA program officials.

The OIG performed the audit between April 2003 and July 2003 under the authority of the Inspector General Act of 1978, as amended. We complied with government auditing standards, except that we did not, as required by those standards, validate the accuracy of data provided by FEMA on samples of applications tested for eligibility or perform a comprehensive evaluation of the IFG program's internal controls, because the scope of the audit was limited to work necessary to answer the questions posed by Representatives Maloney and Serrano.

Throughout the audit, OIG worked closely with FEMA and state IFG program officials. The cooperation and courtesies extended to the audit team are appreciated. The principal OIG points of contact for the audit are Assistant Inspector General for Audits, J. Richard Berman, at (202) 254-4100, and Dennis White, Director, Emergency Preparedness and Response at (202) 254-4157. Major OIG contributors to the project are identified in Appendix G.

## Recommendation

The OIG recommends that the Director, Recovery Division, Emergency Preparedness and Response Directorate, when faced with a similar situation in the future, require the state to implement a procedure to randomly select individual applicants on a continuous basis, and take whatever action is appropriate to verify their eligibility.

U.S. Department of Homeland Security
500 C Street, SW
Washington, DC 20472

FEMA

June 16, 2004

MEMORANDUM FOR: Clark Kent Ervin
Inspector General

FROM: Michael D. Brown
Under Secretary
Emergency Preparedness and Response

SUBJECT: FEMA Response to "Draft Report of the Federal Emergency Management Agency's Individual and Family Grant Program Management at the World Trade Center Disaster. Report Number OIG-04-11"

Thank you for the opportunity to comment on the above-referenced report. Our detailed comments are attached.

In general, it is important to note that as a result of FEMA's intensive efforts to educate the public as to the true intent of the Individual and Family Grant (IFG) program and an aggressive home inspection initiative, more than 100,000 of the original 229,000 applicants voluntarily chose to withdraw from the program, and either returned or did not accept the grant award. Given that the average IFG award for the World Trade Center disaster was approximately $1,200, these actions helped the federal government save more than $120 million, which in turn was made available to New York City and New York State to pay for high priority programs such as overtime costs for law enforcement personnel to provide enhanced security, pensions for the families of firefighters killed in the terrorist attack, and security improvements at New York City's tunnels, bridges and major train stations.

Furthermore, it is essential to remember that the Individual & Family Grant Program for the World Trade Center was intended to be entirely State-administered. In mid-2002, when the program began to rapidly expand, the State of New York requested and received substantial supplemental support from FEMA in order to handle the large demand; therefore, it is inaccurate to characterize FEMA as taking actions that "eliminated or weakened managerial controls."

In fact, on September 27, 2002, Representatives Carolyn Maloney and Jose Serrano, who asked you to perform this review, along with Representatives Nadler, Rangel, Towns, Weiner and Israel of the New York Congressional delegation wrote to my predecessor FEMA Director Joe Allbaugh praising FEMA's efforts in helping New York State to manage the IFG program, as follows:

"[I]t is evident that there are, and continue to be, vast improvement in FEMA's assistance to the individuals affected by the disaster. The improvements have had a significant positive impact on

numerous applicants.... Accordingly, we respectfully request that FEMA assume full responsibility for the processing of applications for the IFG program and the dissemination of information regarding those applications."

Although FEMA chose to continue to support New York State in their administration of the IFG program, rather than taking it over, it should be clear from this letter that the members of the New York Congressional delegation had full confidence in FEMA and its managerial controls.

I strongly urge you to reconsider the emphasis of your report to give considerably more weight to the impacts of deceptive advertising by unscrupulous vendors who intentionally misled New Yorkers into applying for a program regardless of their true need for assistance.

If your staff would like to discuss our response in more detail, please have them contact Mr. Daniel A. Craig, Director, Recovery Division at (202) 646-3642.

**FEMA Comments on OIG Report #OIG-04-11 (WTC IFG Program)**

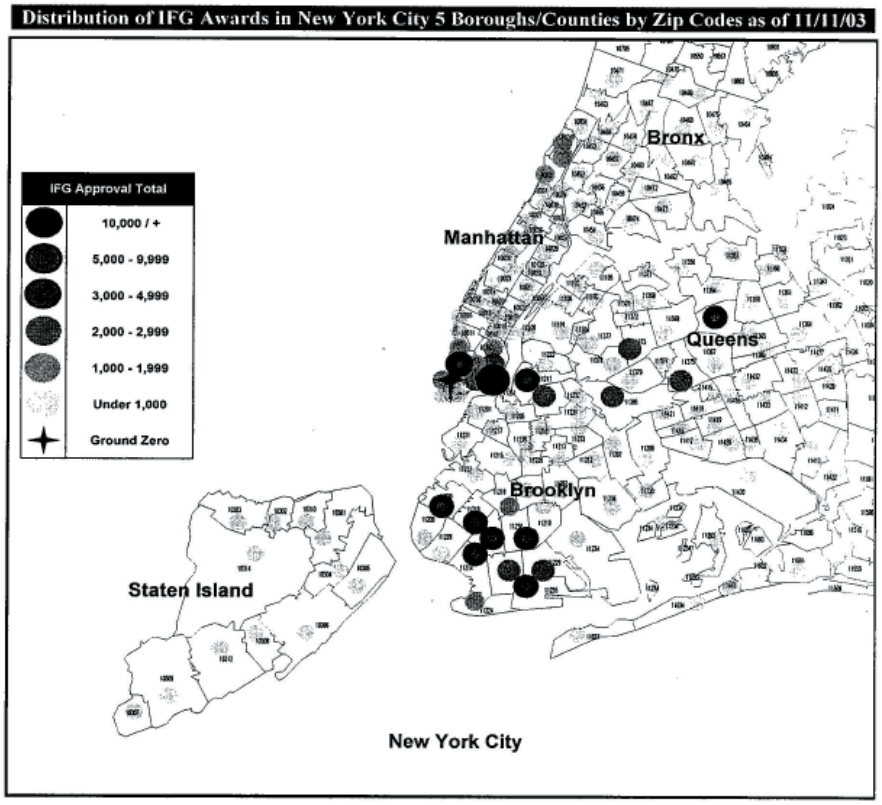
Section – "Overstated Estimate of Abuse"

OIG Statement (Page 3)
*"The [90%] estimate was based on an invalid assumption that, of the 225,000 applicants for air quality items, only the 25,000 who lived in lower Manhattan and participated in an Environmental Protection Agency (EPA) home cleaning program were eligible. Consequently, about 90% were estimated to be ineligible."*

- The OIG report misuses the term "ineligible" in this section. The Federal Recovery Officer made clear during all public statements that everyone in all five boroughs was eligible for the air quality related items offered by the program, and those who owned air conditioners damaged by the event were additionally eligible for repair or replacement. The statement made by the Federal Recovery Officer was not that 90% were ineligible; rather that 90% appeared to involve waste, fraud and abuse either by the applicants or the vendors.

OIG Statement (Page 3)
*"However, the correlation between the EPA and FEMA programs was flawed. Although it was reasonable to assume that the participants in the home cleaning program suffered from contaminated air, it was not reasonable to assume that they were the only ones who were affected by contaminated air."*

- EPA statements at the time, as subsequently supported by detailed studies, have shown that no more than 25,000 residences were located in the areas that had the potential to be affected by dust plume from the WTC collapse and of these; only 1% had any measurable air quality contamination.
- The map below shows the distribution of IFG applicants across the five boroughs. Clearly, the high concentration of applications in areas distant from Lower Manhattan makes it difficult to justify the need for IFG assistance in terms of actual air quality impacts. As this map shows, other than an obvious concentration in Lower Manhattan, there is little correlation between applicants and areas affected by WTC dust.
- It also should be noted that of the 25,000 residences eligible for the EPA testing and cleaning program, only 4,167 felt that the air quality concerns close to Ground Zero were significant enough to participate this program, as compared to tens of thousands in the outer boroughs who took advantage of the IFG program
- Further evidence for this high rate of programmatic abuse is that in the first 8½ months after the disaster, when it is logical to assume that residents would be most concerned about health impacts, only 28,000 IFG applications were received. It was only after vendors began widespread marketing of the "free air conditioner" program that interest in the program swelled.


Distribution of IFG Awards in New York City 5 Boroughs/Counties by Zip Codes as of 11/11/03
IFG Approval Total
10,000 / +
5,000 - 9,999
3,000 - 4,999
2,000 - 2,999
1,000 - 1,999
Under 1,000
Ground Zero
Bronx
Manhattan
Queens
Brooklyn
Staten Island
New York City

Section – "Eligibility Requirements were Consistent with Regulations But Controls were Weak"

OIG Statement (Page 4)
*"FEMA reduced its managerial controls over air quality items in order to reduce costs."*

- As the table below shows, beginning in the summer of 2002, FEMA made an escalating commitment of resources to support New York State's Individual and Family Grant program. Your report provides no evidence that any actions taken by FEMA were intended to reduce costs, nor did your auditors request to review any administrative cost data for the program.

| Applicant Assistance and Application Processing |
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| 1. FEMA hired more than 100 staff to register and process claims in the New York City- based Applicant Assistance Service Center. Additional staff was also allocated to the FEMA National Processing Service Centers in Maryland, Virginia and Texas to facilitate application-intake and case processing. |
| 2. In response to Congressional and NYS request for assistance, FEMA provided IFG program experts to NYS and together, evaluated program protocols/processes for improvement. Important recommendations were made and implemented (see below). |
| 3. FEMA's National Mail Center at Hyattsville, Maryland, took responsibility for receiving and sending all IFG program related mails to and from applicants on behalf of New York State. The Mail Center then scanned all documents and electronically filed them into each applicant's file in the National Emergency Management Information System (NEMIS), thus making all case information needed for processing and responding to inquiries available to all FEMA caseworkers. FEMA also sent teams to evaluate NYS needs and provided senior support staff at the NYS IFG operation in Albany. |
| 4. FEMA staff received and processed more than 200,000 IFG applications, with 130,000 of them filed between October 1, 2003 and November 30, 2003 after the original 9/30/02 deadline. |
| 5. FEMA further reduced backlogs by eliminating paper registrations at the AASC. Instead, online registration was instituted at the Worth Street Applicant Assistance Service Center and carried out by staff who also spoke no less than 25 foreign languages and dialects. |

| Registration Support/Outreach/Language Assistance |
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| 1. To ensure thorough outreach was FEMA issued a series of press releases, ads, public announcements, pamphlets and leaflets in English, Spanish, Chinese, Russian and Albanian were made available to the public and published in mainstream and local/ethnic media. |
| 2. FEMA increased staffing and operating hours in all call centers, including the activation of the call center in Puerto Rico to handle Spanish callers. |
| 3. FEMA established a special calling center in New York City to handle the large volume of Chinese callers, staffed by locally hired Chinese speaking staff that returned calls, registered applicants by phone, and processed these claims. More than 20,000 calls were received and subsequently close to 6,500 applicants were assisted with their applications. |
| 4. FEMA hired and trained more than 100 local residents who speak Spanish, Chinese, Russian, Albanian and other languages to assist applicants and process claims at the Applicant Assistance Center in Lower Manhattan. |
| 5. Staff was also deployed for community outreach and production of IFG informational literature and program correspondence in multiple languages. |
| 6. The rate and number of applicants requiring language assistance were carefully monitored and recorded at the FEMA Applicant Assistance Service Center. Information learned was used to adjust staffing to meet applicants needs. |
| 7. FEMA established an IFG non-English speaking language Helpline to further supplement the NYS IFG Helpline. More than 30 staff members were assigned to the service. |
| 8. FEMA established an appointment system in September 2002 to reduce wait time for applicants, and guaranteed registration and application services to all who needed face-to-face assistance or language assistance. Nearly 49,000 appointments were made with the last ones ending in April 2003. |
| **Compliance & Home Inspections** |
| 1. FEMA established home inspection teams to expedite applications and to ensure program compliance. The inspection teams were first activated in October 2002 and ultimately became 15 teams strong. Each team comprised of 1 inspector and 1 translator and conducted inspections throughout all five NYC boroughs. |
| 2. About 15,000 inspections were conducted between September 2002 and August 2003. |
| 3. FEMA assigned more than 50 staff to initiate and manage compliance processing and recoupment. FEMA then oversaw the screening, review, |

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| delivery and reception of more than 30,000 recoupment letters between June 2003 and August 2003. |
| **Fraud Deterrence** |
| 1. Together with NYS, FEMA developed a list of suspicious vendors which was distributed to caseworkers to review for potential fraud. |
| 2. FEMA inspectors investigated complaints from various sources about potentially unscrupulous vendors. More than 50 vendors were investigated and the list of suspects was forwarded to OIG and NYS. |

OIG Statement (Page 4)
"... reduced managerial controls made eligibility verification ineffective and contributed to excessive abuse."

- Your report identifies the "reduced managerial controls" as:
  a) Not requiring home inspections to determine eligibility.
  b) Not requiring applicants to apply to the Small Business Administration for a loan and be turned down prior to being eligible for the IFG program.
  c) Advancing payments to those with financial need.

- Home Inspections: Since everyone in all five boroughs was automatically eligible for the air quality related items offered by the IFG program, there was nothing to inspect. According to the program guidelines, anyone who wished to obtain the air purifier, HEPA vacuums, filters, etc. was eligible. As for the air conditioners, applicants were required to certify that they owned an air conditioner prior to the disaster and that it was damaged in the event. Since the applicant-reported damage to the air conditioners was not visible, once again there was nothing to inspect. In fact, during home inspections conducted under the FEMA sampling program it was difficult to ascertain if the applicant even owned an air conditioner prior to the disaster since many claimed that they had already disposed of the unit. Your own report states that this "condition [was] difficult to verify"; so it seems inappropriate to characterize this as a weakened managerial control.
- SBA Applications: Your report correctly states that applicants for IFG items in the "Other" category need not apply to the SBA prior to seeking an IFG grant; however, you imply that this is a weakened managerial control. Following are two tables: First (see below) is a list of all items within the IFG "Other" categories; the second (next page) is a list of all IFG Categories. From this list of choices, it should be obvious that the "Other" category is the only appropriate choice for this type of item.

| Clean Air Items | Maximum Payout Per Family | Comment |
|---|---|---|
| Air Conditioners | $500.00 | $500 for Replacement<br>$250 for Repair |
| Air Purifiers | $500.00 | - |
| Air Filters (Replacements) | $300.00 | - |
| HEPA Vacuum Cleaner | $300.00 | If awarded for a HEPA Vacuum, no award would be given for a Wet & Dry Vac |
| Wet & Dry Vacuum Cleaner | $150.00 | |

| What IFG Paid in FEMA-1391-DR-NY (World Trade Center Disaster)<br>*There are 8 eligible categories of assistance under IFG. Number 8 is "Other." | Categories |
|---|---|
| Repairs of portions of Primary Residence damaged by the disaster | 1 |
| Replacement of Personal Property lost or damaged during the disaster | 2 |
| Moving and Storage of Personal Properties from damaged home to prevent or reduce damage | 2 |
| Additional Transportation Expenses incurred due to the disaster | 3 |
| Medical and Dental Expenses incurred due to the disaster | 4 |
| Funeral Expenses incurred as result of the disaster | 5 |
| Premium for the National Flood Insurance Program (NFIP) on behalf of qualified applicants in designated flood hazard zones | 6 |
| Reimbursement for Damage Estimates conducted | 7 |
| Vacuum Cleaner with HEPA filter or Wet & Dry Vacuum Cleaner needed to clean home affected by airborne debris from the collapse of the WTC | OTHER |
| Purchase of Air Purifiers and Air Filters | OTHER |
| Replacement or Repair of Air Conditioners damaged or contaminated by dust or debris from the collapse of the WTC. | OTHER |

- It should also be noted that Representatives Maloney and Serrano, whose letter to your office initiated this report, in another letter to FEMA Director Joe Allbaugh on September 27, 2002, signed by 5 other members of the New York Congressional delegation, strongly urged FEMA to avoid the SBA requirement. In her letter, Rep. Maloney states:

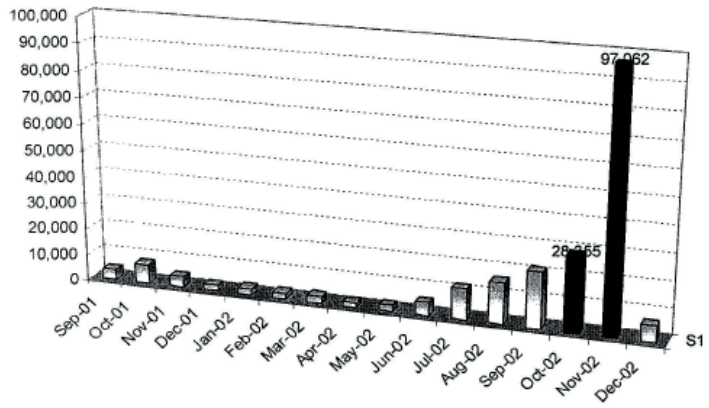
  > *"We believe that the NYS Department of Labor's insistence that applicants must first apply and be rejected by SBA is contrary to Congressional intent. FEMA regulations are sufficiently flexible to permit States to grant IFG applications without requiring applicants to apply for an SBA loan first. Forcing applicants to fill out lengthy and duplicative paperwork only causes unnecessary frustration and delays assistance..."*

  Surely, the members of Congress were not suggesting that FEMA take this action to cut costs or weaken managerial controls, rather, like New York State and FEMA, they were looking for reasonable steps that could be taken to expedite program delivery.

- Advancing Payments: The decision by New York State to advance payments was implemented on May 1, 2002 at which time there were only approximately 26,000 applications in and only a handful of requests for advance payments from residents of Lower Manhattan who genuinely could not afford to purchase the air quality related items in advance. No one could have foreseen, the rapid increase in applications caused by deceptive

advertising, and once it began, it would have been inequitable to revoke this option and virtually impossible to determine whether the applicant really could afford to make the purchase in advance without a detailed examination of all their financial resources. The following table shows trend in applications from September 2001 to December 2002. Please note that after the application peak in October 2001, the number of applications were in decline (Until the application surge beginning in July 2002). This makes it easy to understand why New York State believed that the program was winding down and the number of applicants requesting advance payments would be fairly small.

**IFG Applications - DR 1391 NY**




| Month Ending Date | Total IFG Applications Each Month |
|---|---|
| 9/30/2001 | 3,971 |
| 10/31/2001 | 7,226 |
| 11/30/2001 | 4,026 |
| 12/31/2001 | 2,184 |
| 1/31/2002 | 2,400 |
| 2/28/2002 | 2,195 |
| 3/31/2002 | 2,607 |
| 4/30/2002 | 1,729 |
| 5/31/2002 | 2,348 |
| 6/30/2002 | 4,983 |
| 7/31/2002 | 11,858 |
| 8/31/2002 | 15,713 |
| 9/30/2002 | 21,157 |
| Pre-Extension Total = | 82,397 |
| 10/31/2002 | 28,355 |
| 11/30/2002 | 97,062 |
| 12/31/2002 | 6,269 |
| Post Extension Total = | 131,686 |

Note: December 2002 applications accepted were for those applicants who had utilized the OCTEL message system prior to the November 30, 2002 deadline.

Section – "Actions Taken to Combat Abuse"

OIG Statement (Page 7)
*"[FEMA's] sampling was effective in identifying ineligible applicants and preventing many from receiving grants."*

- FEMA concurs with you that our decision to implement a home inspection program was effective and resulted in more than 100,000 unnecessary applications being withdrawn and tens of millions of dollars being saved. FEMA submits that major impact of the relatively small sample in combination with an aggressive media campaign saved the federal government more than $120 million.
- Although your staff characterizes the FEMA statement that 90% of the applications involved fraud, waste and abuse by the applicants or vendors as "overstated and not supported by reliable information", the OIG report does not offer any quantitative evidence to substantiate this assertion. In fact, your report acknowledges the validity of the FEMA home inspection sampling program which identified a 62% non-compliance rate. In addition to these are tens of thousands of applicants who lived in areas distant from Ground Zero that abused the system by applying for grants that they were eligible for, which your staff attributed to "air quality product companies' [sic] using misleading advertising... [that] confused the public and encouraged ineligible applicants to file claims." Given this information and the total lack of documentation in your report for characterizing the 90% figure as an overstatement, FEMA requests that you remove all references to this overstatement from your final report.
- Since the OIG report does not entirely or accurately describe FEMA's efforts to limit programmatic abuse, a summary of our efforts follows:

| FEMA Efforts to Limit Programmatic Abuses | |
|---|---|
| 1 | Major IFG compliance survey and inspections were conducted between September 2002 and August 2003. About 15,000 inspections and surveys and conducted. |
| 2 | Between September 2002 and December 2002, FEMA conducted a smaller-scale preliminary inspection of about 1,000 applicants who had applied through the 141 Worth Street FEMA Applicant Assistance Service Center for AC units under the Cannot Afford Program. |
| 3 | Between January 2003 and March 2003, FEMA conducted a large scale home inspection involving more than 4,000 applicants who had come to the 141 Worth Street FEMA Applicant Assistance Service Center, and applied for AC units under the Cannot Afford component of the IFG program. Nearly 62% of the ineligible applicants were identified. |
| 4 | Between March 2003 and June 2003, FEMA conducted a large scale inspection of a random sample of more than 5,000 applicants who had received IFG "Cannot Afford" grants but had not complied with the program regulations. Inspections involved home visit and physical |

| | |
|---|---|
| | certification of clean air items purchased and receipts. FEMA identified 33% of the applicants as having failed to fully comply. |
| 5 | Together with NYS, FEMA developed a list of suspicious vendors which was distributed to caseworkers to review for potential fraud. |
| 6 | FEMA inspectors investigated complaints from various sources about potentially unscrupulous vendors. More than 50 vendors were investigated and the list of suspects was forwarded to OIG and NYS for further action. |
| 7 | Between June and August 2003, FEMA conducted 2 major NEMIS reviews of cases that had not complied with all IFG regulations. More than 30,000 recoupment letters were organized and mailed to applicants. |

Section – "Conclusion and Recommendation"

FEMA concurs with the OIG Report that the unique circumstances of the World Trade Center necessitated implementation of special measures in the IFG program that were "within FEMA's authority and are often appropriate." Furthermore FEMA agrees that "these decisions significantly increase the risk of abuse". And finally, FEMA concurs with the recommendation that stricter controls in future events would lessen the amount of programmatic abuse; however, it should be pointed out that many of the actions that FEMA took which enabled programmatic abuse in both the IFG and Mortgage and Rental Assistance programs were in direct response to Congressional requests to make the FEMA programs more accessible. FEMA, the State of New York, and presumably the members of Congress, understood these risks and determined that they were acceptable in order to maximize assistance to New Yorkers.

In response to the draft report, Emergency Preparedness and Response (EP&R) concurred with the recommendation and agreed that the kinds of special measures implemented in the IFG program at WTC significantly increase the risk of abuse. EP&R stated that its actions were often in direct response to Congressional requests to make the programs more accessible. For example, EP&R stated that the New York congressional delegation strongly urged that the SBA process be avoided to expedite program delivery. EP&R also provided additional justification and information regarding the decisions discussed in the report.

After reviewing EP&R's comments, the OIG revised the report to make certain technical corrections and more fully explain the circumstances and relationship between management controls, deceptive advertising, and program abuse. Ultimately, however, it is impossible to quantify the adverse effect that the various conditions, e.g., vendors advertising and relaxation of controls, had on the problems that existed under the program.

The OIG agrees that deceptive advertising by vendors clearly contributed to program improprieties. Further, each relaxation of FEMA program controls, taken separately, may have been prudent under the circumstances. However, relaxing all three control mechanisms left the program vulnerable when the deceptive advertising began. Vendors were encouraging all residents to apply for air quality items regardless of need, and FEMA and the state were awarding and disbursing funds with limited upfront verifications of eligibility and need. Had FEMA and the state maintained regular program controls or implemented alternative measures to verify applicant eligibility, the adverse affect of the vendors deceptive advertising could have been mitigated.

EP&R also took exception to the OIG's conclusion that the reported programmatic abuse estimate of 90 percent was high, and requested that the entire discussion of that estimate be deleted from the report. However, the estimate of 90 percent abuse was at the very heart of the congressional request for this audit and, therefore, the OIG believes its inclusion in the report is necessary.

We consider the recommendation closed.

George Peoples, Audit Manager, Atlanta Field Office
Sharon Thompson, Auditor, Atlanta Field Office
Gary Barard, Director, Atlanta Field Office
Dennis White, Director, Emergency Preparedness and Response Division

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Deputy Secretary
Chief of Staff
General Counsel
Under Secretary for Management
Under Secretary, Emergency Preparedness and Response Directorate
Director, EP&R Recovery Division
DHS OIG Liaison

**Office of Management and Budget**

Homeland Security Branch Chief
DHS OIG Budget Examiner

**Congress**

The Honorable Carolyn B. Maloney, Member of Congress
The Honorable Jose Serrano, Member of Congress
Congressional Oversight and Appropriations Committees, as appropriate

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