

**Special Report:
Lessons Learned from
Previous Audit Reports on
Insurance under the Public
Assistance Program**





DHS OIG SPECIAL REPORT

Lessons Learned from Previous Audit Reports on Insurance under the Public Assistance Program

November 7, 2017

Why We Did This Special Report

We prepared this special report to address challenges FEMA, Texas, Florida, U.S. territories in the Caribbean, and California may face managing insurance under the Public Assistance program in the wake of Hurricanes Harvey, Irma, and Maria, and the October 2017 California wildfires. This report describes lessons learned from findings and recommendations contained in our DHS OIG grant audit reports issued from fiscal years 2013–2017.

What We Recommend

This special report contains no recommendations and no response from FEMA is required.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

If the Federal Emergency Management Agency (FEMA) does not address the recurring issues we identified in our previous reports, it will be at risk of violating the *Robert T. Stafford Disaster Relief and Emergency Assistance Act* and exposing billions of taxpayer dollars to fraud, waste, or mismanagement.

During fiscal years 2013–2017, we issued 37 Disaster Assistance grant audit reports that disclosed challenges with FEMA’s Public Assistance insurance process. The major recurring challenges we identified include:

- Duplicate benefits in which subrecipients claimed FEMA reimbursement for costs that were covered by insurance;
- Insufficient insurance in which subrecipients did not obtain and maintain sufficient insurance coverage required as a condition for receiving Federal disaster assistance; and
- Misapplied or misallocated insurance proceeds in which subrecipients received insurance proceeds, and misapplied or did not allocate those proceeds to FEMA projects.

The reports included 40 recommendations for FEMA to address deficiencies or errors, totaling \$322.1 million in questioned costs.

FEMA will likely face similar challenges pertaining to insurance during recovery from Hurricanes Harvey, Irma, and Maria, and the October 2017 California wildfires.



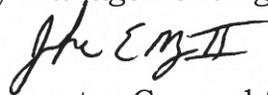
OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

November 7, 2017

MEMORANDUM FOR: Jeffrey Byard
Associate Administrator
Office of Response and Recovery
Federal Emergency Management Agency

FROM: John E. McCoy II 
Acting Assistant Inspector General for Audits

SUBJECT: *Special Report: Lessons Learned from Previous Audit Reports on Insurance under the Public Assistance Program*

Attached is our final *Special Report: Lessons Learned from Previous Audit Reports on Insurance under the Public Assistance Program*. This report was prepared under the *Inspector General Act of 1978*, as amended, Section 2-2, to provide leadership, coordination, and guidance; promote economy, efficiency, and effectiveness; and prevent and detect fraud, waste, and mismanagement in FEMA's programs and operations.

This report describes lessons learned from previously issued Department of Homeland Security Office of Inspector General (DHS OIG) grant audit reports regarding the Federal Emergency Management Agency's (FEMA) management of insurance under the Public Assistance program. We issued 37 reports during fiscal years 2013–2017 that included findings pertaining to insurance (see appendix B, table 3). We made 40 recommendations, totaling \$322.1 million in questioned costs, for FEMA to address issues such as duplicate benefits, insufficient insurance, and misapplied or misallocated insurance proceeds.

We are providing this report to reemphasize to FEMA's leadership the potential insurance-related challenges that will likely arise during the recovery phases of Hurricanes Harvey, Irma, and Maria, and the October 2017 California wildfires. Consistent with our responsibility under the *Inspector General Act*, we will provide copies of this report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post a version of the report on our website for public dissemination.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Background

Between August and October 2017, FEMA faced significant challenges when responding to and recovering from four catastrophic disasters. On the east coast, the landfall of three Category 4 hurricanes were historic events and caused major flooding and widespread destruction in Texas, Florida, and the U.S. territories in the Caribbean.¹ For instance, rainfall from Hurricane Harvey exceeded 50 inches in some areas of Texas, and winds reached 130 miles per hour.

Figure 1: View from FEMA's Urban Search and Rescue, Houston, Texas



Source: FEMA

Hurricane Irma destroyed more than 25 percent of the homes in some communities in Florida.

¹ See table 1 in appendix B for more details.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Figure 2: Fort Myers, Florida, neighborhood after Hurricane Irma



Source: FEMA

As FEMA responded to three major hurricanes on the east coast, on the west, the most destructive wildfires in California's history devastated northern California. During October 2017, wildfires that ignited in California destroyed more than 245,000 acres, an estimated 8,400 structures, and resulted in the loss of 42 lives. In response to the hurricanes and wildfires, the President signed seven major disaster declarations,² providing Individual Assistance,³ Public Assistance,⁴ and Hazard Mitigation to affected communities within the designated areas.⁵

² See table 2 in appendix B for more details of the disaster declarations.

³ FEMA's Individual Assistance program provides housing assistance and assistance for medical, funeral, and transportation expenses to eligible individuals who, because of a federally declared major disaster or emergency, have necessary expenses and serious needs that insurance or other means does not cover.

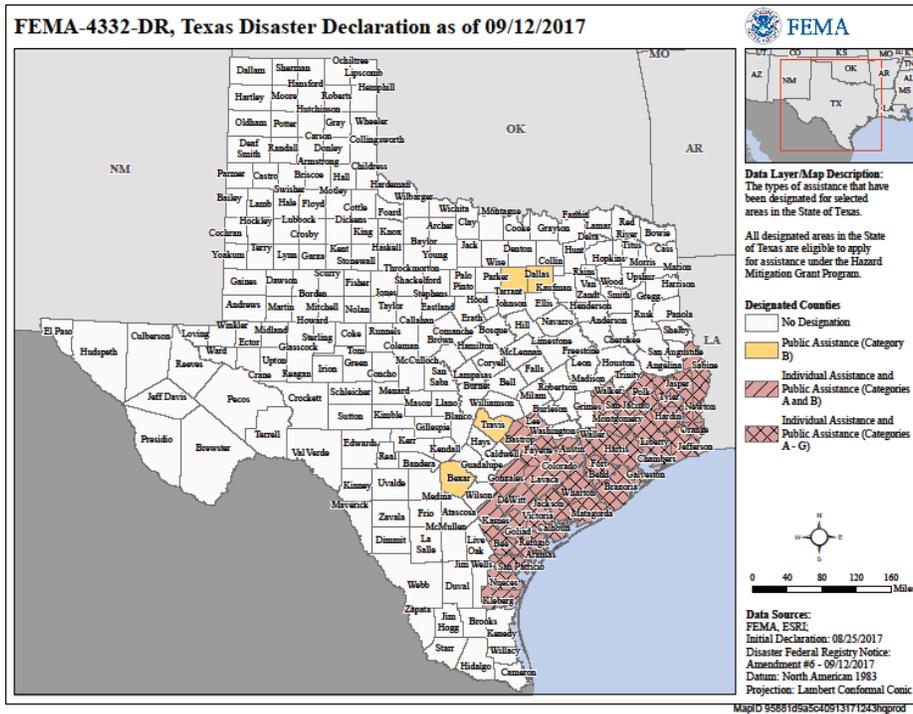
⁴ FEMA's Public Assistance program awards grants to state, local, and federally recognized tribal governments and certain private non-profit entities to assist them with the response to and recovery from federally declared disasters.

⁵ Hazard mitigation is any sustained action taken to reduce or eliminate long-term risk to people and property from natural hazards and their effects.



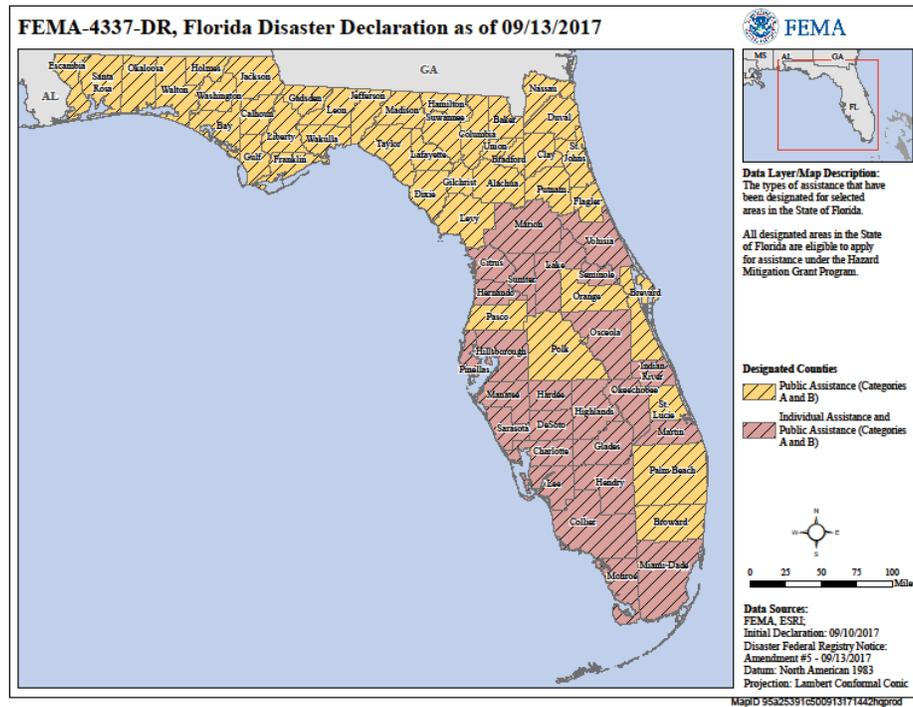
OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Figure 3: Texas Designated Areas



Source: FEMA

Figure 4: Florida Designated Area

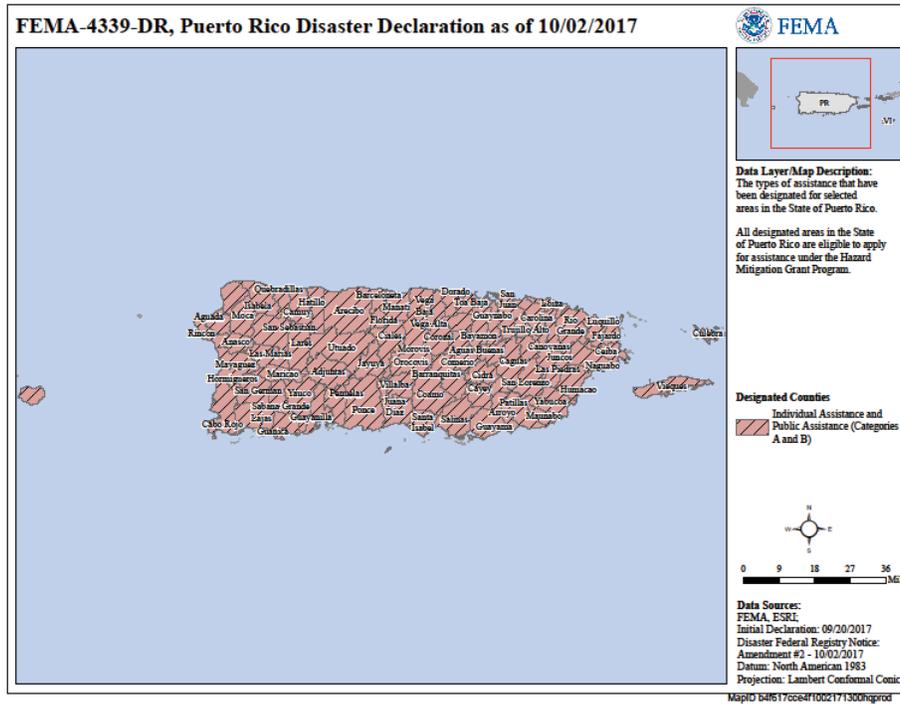


Source: FEMA



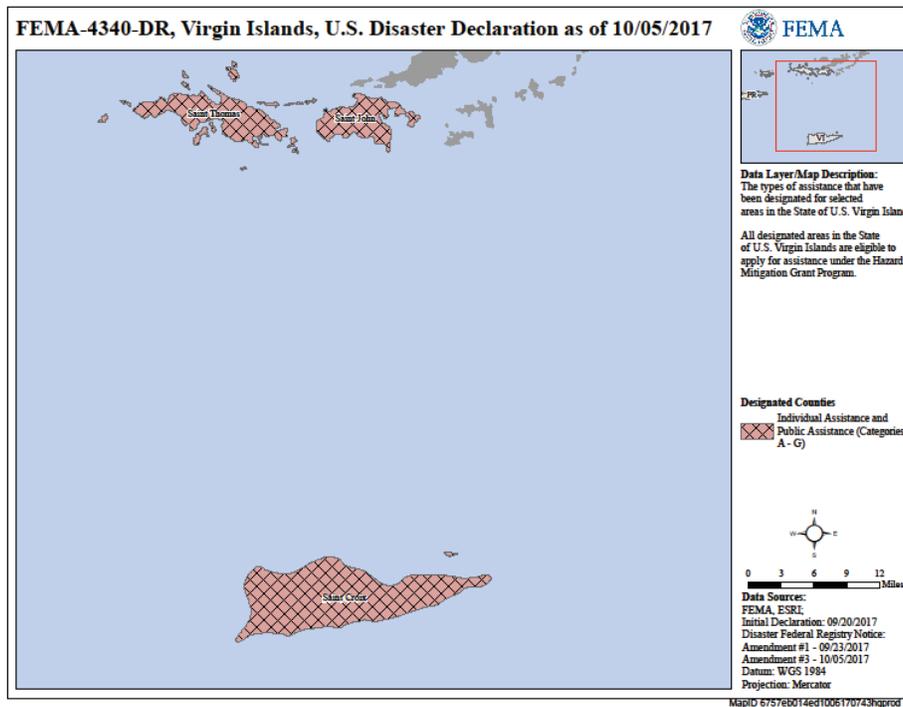
OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Figure 5: Puerto Rico Designated Areas



Source: FEMA

Figure 6: U.S. Virgin Islands Designated Areas

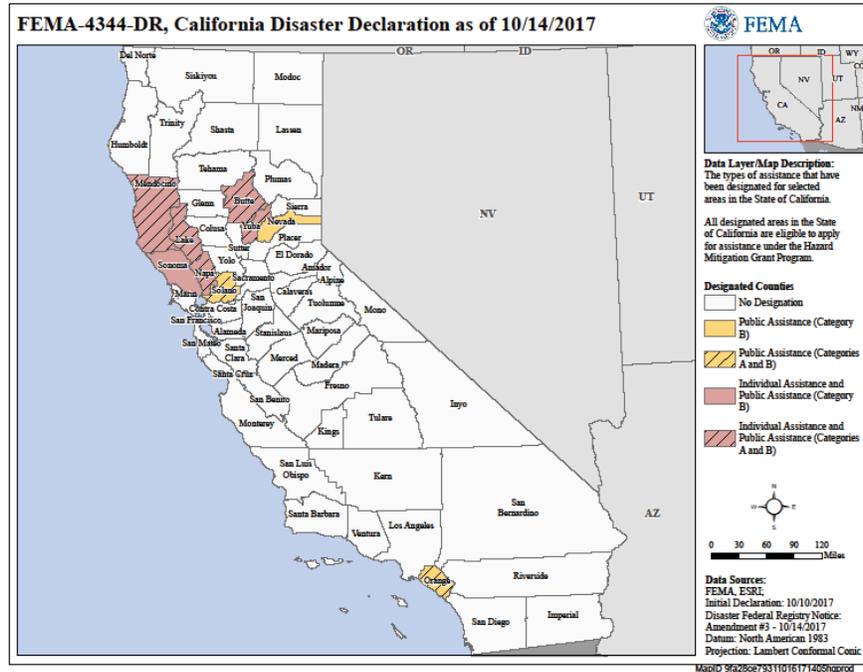


Source: FEMA



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Figure 7: California Designated Areas



Source: FEMA

Under the authority of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act)*, FEMA provides Public Assistance grant funding to states, tribal, and local governments, and certain types of private nonprofit organizations. However, according to Public Assistance insurance requirements, FEMA must deduct actual and anticipated insurance recoveries from eligible costs. The *Stafford Act*, section 312, Duplication of Benefits, stipulates that no entity will receive assistance for a loss for which it has received financial assistance from insurance.

In addition, the 44 Code of Federal Regulations (CFR) 206.252(d) and 206.253(b)(1) require subrecipients of Public Assistance to obtain and maintain insurance against future losses from the hazard that caused the damage to the property as a condition of receiving Federal aid. If subrecipients do not satisfy this requirement, similar damages to repaired insurable facilities from future declared disaster events are ineligible for Federal aid. The required “type and extent”⁶ of insurance coverage should be reasonable and necessary to protect the property from any future losses. FEMA will not require greater types and amounts of insurance than are certified as reasonably available, adequate, or necessary by the appropriate state insurance commissioner.

⁶ “Types of insurance” refers to the hazard(s) that caused the disaster-related damage and “extent” refers to the amount of insurance required (FEMA Recovery Policy FP-206-086-1).



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Prior Findings and Recommendations

From fiscal years 2013–2017, we issued 37 reports with 40 recommendations totaling \$322.1 million in questioned costs for reportable issues pertaining to insurance. These issues included duplicate benefits, insufficient insurance, and misapplied or misallocated insurance proceeds.⁷

Duplicate Benefits

We reported 19 instances in which subrecipients claimed \$182.4 million in project costs that duplicated benefits received from insurance. According to the *Stafford Act*, section 312, however, an entity cannot receive Federal financial assistance for any loss for which it has received financial assistance for the same purpose from any other program, insurance, or any other source.

Duplicate benefits primarily occurred because FEMA’s insurance reviews were inadequate to ensure that approved project costs included required reductions for the maximum amount of insurance benefits available to subrecipients. As a result, FEMA funded \$182.4 million in project costs that insurance should have covered.

Advisement

FEMA should improve its processes and procedures to ensure that approved project costs include required reductions for the maximum amount of anticipated or actual insurance proceeds.

Insufficient Insurance

We reported seven instances totaling \$133.1 million in which subrecipients did not obtain or maintain sufficient insurance required as a condition for receiving Federal disaster assistance. Section 311 of the *Stafford Act*, requires subrecipients of disaster assistance to obtain and maintain such types of insurance “as may be reasonably available, adequate, and necessary, to protect against future loss” to “any property to be replaced, restored, repaired, or constructed with such assistance.”

Additionally, FEMA’s *Public Assistance Program and Policy Guide* (FP 104-009-2, April 2017, p. 88), indicates that subrecipients receiving Public Assistance funding for permanent work to replace, repair, reconstruct, or construct a facility must obtain and maintain insurance to protect the facility against future loss. The issue of insufficient insurance occurred primarily because

⁷ See table 3 in appendix B for more details on the reports issued from fiscal years 2013–2017, the related insurance findings, and questioned costs.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

FEMA's insurance specialists routinely waived the requirement to obtain and maintain insurance for future disasters.

Advisement

FEMA should improve its processes and procedures to ensure that subrecipients obtain and maintain insurance on insurable facilities and their contents with the "types and extent" of insurance that is reasonably available, adequate, and necessary to protect against future loss to the property.

Misapplied or Misallocated Insurance Proceeds

We reported 14 instances totaling \$6.6 million in which subrecipients and FEMA did not correctly apply insurance proceeds. Federal regulations at 44 CFR 206.253(a), require eligible costs be reduced by the actual amount of insurance proceeds relating to the eligible costs. This issue occurred primarily because FEMA did not always complete the required insurance reviews to determine estimated insured losses, although subrecipients are responsible for reporting actual collected insurance. Completing these reviews prevents FEMA from over obligating Federal funds that it could otherwise put to better use.

Advisement

FEMA should improve its processes and procedures to ensure that it correctly applies insurance proceeds to eligible project costs.

Conclusion

FEMA will be at risk of exposing billions of dollars of taxpayer funds to potential fraud, waste, or mismanagement if it does not conduct adequate and thorough insurance reviews during the project approval process and final project reviews. Close attention to the insurance reviews will help to ensure that subrecipients:

- who received financial aid for previous disaster damages satisfy the requirement to obtain and maintain insurance; and
- avoid duplicate benefits by deducting all anticipated and actual insurance proceeds from the cost of eligible facilities and property.

In June 2017, we reported that FEMA was not fully addressing previously issued recommendations pertaining to insurance; these recommendations are critical to FEMA's success in managing insurance requirements in accordance with Federal regulations.⁸

⁸ OIG-17-50-VR, Verification Review: *FEMA's Lack of Process for Tracking Public Assistance Insurance Requirements Places Billions of Tax Dollars at Risk* (June 9, 2017).



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

FEMA emphasized the importance of the insurance reviews as part of the recovery process in a memorandum addressed to the FEMA Regional Administrators on September 10, 2017. To help maintain the integrity of Federal disaster assistance, FEMA highlighted specific insurance issues. FEMA also underscored the importance that subrecipients clearly understand regulations concerning duplication of benefits, as well as the requirements to obtain and maintain insurance for Public Assistance projects.

The Office of Audits major contributors to this report are Humberto Melara, Director; Louis Ochoa, Audit Manager; Renee Gradin, Auditor-in-charge; Victor Du, Auditor; Daniel Flores, Auditor; Kevin Dolloson, Communications Analyst; and LaDana Smith, Independent Reference Reviewer.

Please call me with any questions, or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General for Audits, or Humberto Melara, Director, at (510) 637-1463.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A
Objective, Scope, and Methodology

The purpose of this special review was to notify FEMA of the challenges it may face managing insurance under the Public Assistance program during the recovery from Hurricanes Harvey, Irma, and Maria, and the October 2017 California wildfires. This report describes lessons learned regarding insurance findings and recommendations we made in previous audit reports. To accomplish our objective, we compiled and summarized reportable issues concerning insurance under the Public Assistance program from our reports issued in fiscal years 2013–2017; analyzed the insurance findings and recommendations in those reports; and quantified the financial significance of those findings.

We conducted this special review in September 2017. This report was prepared under the *Inspector General Act of 1978*, as amended, Section 2-2, to provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and mismanagement in, such programs and operations. The work performed in this review does not constitute an audit in accordance with generally accepted government auditing standards.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

**Appendix B
Tables**

Table 1: 2017 Hurricanes Making Landfall in United States and U.S. Territories

	Hurricanes			Landfall Dates
	Harvey	Irma	Maria	
Landfall Location	Texas			August 23
		U.S. Virgin Islands		September 6
		Puerto Rico		September 6
		Florida		September 10
			U.S. Virgin Islands	September 20
			Puerto Rico	September 20

Source: OIG analysis

Table 2: Major Disaster Declarations

States and Territory	Major Disaster Declarations (Hurricanes)			Declaration Dates
	Harvey	Irma	Maria	
Texas	DR-4332			August 25
U.S. Virgin Islands		DR-4335		September 7
Puerto Rico		DR-4336		September 10
Florida		DR-4337		September 10
Puerto Rico			DR-4339	September 20
U.S. Virgin Islands			DR-4340	September 20
State	Major Disaster Declarations (Fires)			Declaration Dates
California	DR-4344			October 8

Source: FEMA



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B (Continued)

Table 3: Fiscal Years 2013 to 2017 Subgrant Reports

Fiscal Year Issued	Report Number	Duplicate Benefits	Insufficient Insurance	Misapplied or Misallocated	Total Questioned Cost
FY13	DA-13-04	\$ 0	\$ 0	\$ 180,626	\$ 180,626
FY13	DA-13-08			21,289	21,289
FY13	DA-13-10			949,378	949,378
FY13	DA-13-16			45,372	45,372
FY13	DA-13-19			63,214	63,214
FY13	DA-13-20			20,105	20,105
FY13	DA-13-22			277,596	277,596
FY13	DA-13-23			189,638	189,638
FY13	DD-13-01		62,391,049	1,714,845	64,105,894
FY13	DD-13-03		13,958,266		13,958,266
FY13	DD-13-04		7,329,927		7,329,927
FY13	DD-13-06			83,075	83,075
FY13	DD-13-12			1,238,599	1,238,599
FY14	OIG-14-07-D		33,072	75,494	108,566
FY14	OIG-14-10-D		48,879,429		48,879,429
FY14	OIG-14-49-D	61,958			61,958
FY14	OIG-14-109-D	20,542			20,542
FY14	OIG-14-114-D	25,000			25,000
FY14	OIG-14-124-D			557,943	557,943
FY14	OIG-14-127-D	67,472			67,472
FY15	OIG-15-19-D	177,178,950			177,178,950
FY15	OIG-15-37-D	87,208			87,208
FY15	OIG-15-50-D	46,500			46,500
FY15	OIG-15-90-D	45,721			45,721
FY15	OIG-15-104-D	135,000			135,000
FY15	OIG-15-127-D	109,773			109,773
FY15	OIG-15-130-D	148,500			148,500
FY15	OIG-15-132-D	226,601			226,601
FY15	OIG-15-136-D		504,896		504,896
FY15	OIG-15-151-D	431,507			431,507
FY16	OIG-16-12-D	33,739			33,739
FY16	OIG-16-21-D		46,478	1,195,876	1,242,354
FY16	OIG-16-24-D	300,315			300,315
FY16	OIG-16-60-D	140,088			140,088
FY16	OIG-16-63-D	247,309			247,309
FY16	OIG-16-140-D	405,158			405,158
FY17	OIG-17-93-D	2,643,936			2,643,936
Totals		\$182,355,277	\$133,143,117	\$6,613,050	\$322,111,444
Recommendations		19	7	14	40

See DHS OIG reports under the "Reports" tab at <http://www.oig.dhs.gov/>.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix C
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
General Counsel
Executive Secretary
Director, GAO/OIG Liaison Office
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs

Federal Emergency Management Agency

Administrator
Chief of Staff
Chief Financial Officer
Chief Counsel
Director, Risk Management and Compliance
Chief Procurement Officer
Regional Administrator, FEMA Region II
Regional Administrator, FEMA Region IV
Regional Administrator, FEMA Region VI
Audit Liaison, FEMA (Job Code 17-119-EMO-FEMA)
Audit Liaison, FEMA Region II
Audit Liaison, FEMA Region IV
Audit Liaison, FEMA Region VI

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees

Additional Information and Copies

To view this and any of our other reports, please visit our website at:
www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General
Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov.
Follow us on Twitter at: @dhsoig.



OIG Hotline

To report fraud, waste, or abuse, visit our website at www.oig.dhs.gov and click on the red "Hotline" tab. If you cannot access our website, call our hotline at (800) 323-8603, fax our hotline at (202) 254-4297, or write to us at:

Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305