

**Verification Review:
FEMA's Lack of Process
for Tracking Public
Assistance Insurance
Requirements Places
Billions of Tax Dollars at
Risk**





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Department of Homeland Security

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June 9, 2017

MEMORANDUM FOR: Corey Gruber
Acting Associate Administrator
Response and Recovery
Federal Emergency Management Agency



FROM: John E. McCoy II
Acting Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *Verification Review: FEMA's Lack of Process for
Tracking Public Assistance Insurance Requirements
Places Billions of Tax Dollars at Risk*
Report Number OIG-17-50-VR

We conducted a verification review to determine whether the Federal Emergency Management Agency (FEMA) implemented recommendations from our fiscal year 2012 report, OIG-12-18, *FEMA's Process for Tracking Public Assistance Insurance Requirements* (prior report), to reduce risk of the Federal Government paying for disaster damages that should be covered by a previous insurance requirement. To avoid wasteful and duplicative spending, it is crucial that FEMA identify all existing requirements for insurance. Due to FEMA's inability to develop an enterprise-wide insurance requirements tracking capability, billions of tax dollars¹ distributed from the Disaster Relief Fund (DRF) since 2001,² have been at risk to fraud, waste, and abuse.

Our prior report included six recommendations for improvements in the processes and systems FEMA uses to manage grant programs. To determine whether FEMA was making progress on our recommendations, we selected the two recommendations we believe were the most critical to reducing the deficiencies identified in our prior report. They are:

¹ FEMA provided an estimate, emphasizing that "at most" \$17.8 billion of federal funds awarded for restoration of disaster-damaged public buildings under the public assistance (PA) program would be at risk.

² FEMA OIG issued a report, I-01-01, in January 2001, which first identified deficiencies in FEMA's ability to make accurate and timely decisions as to whether applicants were prior PA grant recipients and subject to insurance requirements.



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- Recommendation 3 - Modify Emergency Management Mission Integrated Environment (EMMIE) or Electronic Data Warehouse (EDW) so that FEMA can use the data stored in EMMIE to determine whether an applicant previously received disaster assistance for a damaged facility.
- Recommendation 4 - Review and evaluate National Emergency Management Information System (NEMIS) and EMMIE data fields and update any location and insurance fields that are blank or contain erroneous information.

Background

Our prior report, which relied on the results of disaster-related audits issued by the Office of Inspector General during fiscal years 2009 to 2011, noted numerous situations where subgrantees received federal financial assistance and insurance proceeds for the same damages or where damages paid with Federal financial aid would have been covered by insurance. We also noted several instances where the final insurance settlement had not been reconciled against the funded project costs, and we identified situations in which the applicant either did not obtain adequate insurance or did not file an insurance claim.

Every year, we summarize our disaster-related audit activity in a “capping” report. Our capping reports for the 4 years following the release of our prior report (fiscal years 2012 to 2015) have consistently identified issues relating to insurance as recurring reportable problems. In other words, we continue to see the same problems every year that we highlighted in our prior report.

Under the authority of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, FEMA provides public assistance (PA) grants to states and communities to recover from presidentially declared disasters. Federal legislation and regulations require that an applicant seeking a PA grant to repair damage obtain and maintain insurance (insurance requirement) to cover losses in any future disasters. The amount of insurance coverage should be on a par with the eligible damage incurred as a result of the original disaster.³

Applicants who fail to satisfy the insurance requirement are not eligible to receive PA in ensuing disasters. However, 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. The state

³ The *Stafford Act*, as amended, 42 United States Code (U.S.C.) §§ 5121(b)(4), 5154(b), and 44 Code of Federal Regulations (CFR) § 206.253.



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insurance commissioner cannot waive Federal insurance requirements, but may certify the types and extent of insurance reasonable to protect against future loss to an insurable facility.

During the project approval process, FEMA conducts insurance reviews to ensure that applicants who received financial aid for damages in a prior disaster have satisfied the insurance requirement. FEMA will use the applicant's insurance adjustment, if known, to reduce the eligible amount of funding by the amount of the actual insurance proceeds provided. However, if this amount is unknown, a FEMA insurance specialist will review the insurance policy and damaged facility to determine the anticipated insurance proceeds and deduct this estimate from the original eligible amount.

To research historical assistance information, it is often necessary for insurance specialists to query databases that span several decades. FEMA's current system of record is EMMIE, which replaced NEMIS in 2007. NEMIS replaced the Automated Disaster Assistance Management System (ADAMS) in 1996. The Electronic Data Warehouse can generate reports based on data from NEMIS and EMMIE. However, as we noted in our prior report, data reliability and functionality issues with the contributing databases significantly limit the usefulness of EDW results.

Results of Review

We initiated this verification review in December 2015 because we have continued concerns with FEMA's progress in implementing the prior report (OIG-12-18, *FEMA's Process for Tracking Public Assistance Insurance Requirements*) recommendations. We learned that FEMA did not implement our recommendations and suspended improvements on existing information technology (IT) systems.

Recommendation 3 - FEMA Should Make the Insurance Verification Process More Efficient and Effective

FEMA did not implement recommendation 3 from our prior report, which recommended FEMA modify EMMIE or EDW so that FEMA could use the data stored in EMMIE to determine whether an applicant previously received disaster assistance for a damaged facility. Although FEMA has taken some steps to address this recommendation, none of these actions has resulted in the implementation of a permanent, organization-wide solution to the problem. This is because FEMA did not initially accept that a problem existed, even though it agreed with the original finding and recommendation. All subsequent actions taken by FEMA were based on the belief that EMMIE and NEMIS had



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the capability to provide the necessary information to manage the insurance requirement and protect against duplicative spending.

In the management response to our prior report, FEMA concurred with this recommendation but claimed that its information technology systems were capable of managing the insurance requirement. In our response to FEMA's corrective action plan, we noted FEMA's insurance verification capabilities were cumbersome and had data reliability and integration issues, and concluded that, without a reliable system to track insurance information, FEMA is at risk of providing duplicate assistance in violation of the *Stafford Act*.

Initially FEMA focused its efforts on the migration of NEMIS data to EMMIE as the solution. However, FEMA did not ensure that critical historical information is easily accessible and available to the insurance specialists responsible for reviewing insurance issues during the project approval process.

Additionally, FEMA's disaster record management systems since 2001 — ADAMS, NEMIS, and EMMIE — do not provide sufficient insurance information for insurance specialists to complete the reviews necessary to comply with *Stafford Act* requirements.⁴ As a result, field personnel must develop workaround procedures. These practices result in inefficiencies and increase the risk of making erroneous financial decisions.

FEMA corrective action plan updates in 2014 acknowledged the need to capture historical information about a damaged facility. FEMA launched a pilot project in Region 2. The plan was to integrate the fully developed tool into a new process and roll it out for nationwide use. However, in the fall of 2015, FEMA officials told us they had chosen not to expand the tool for nationwide use due to scalability issues and a strategic shift in priorities.

Instead, FEMA intends to address system shortcomings by developing a new platform referred to as the Grants Management Modernization (GMM) platform. GMM is in the early stages of a multi-year acquisition process, with a target launch date in 2020. We project, using the estimate FEMA provided for at-risk funds potentially affected by the insurance requirement, that more than \$5 billion in additional tax dollars will be obligated and put at risk. Furthermore, we have concerns with FEMA's ability to meet the 2020 date, driven primarily by FEMA's failure to deliver a solution to the problem in the period since we issued our prior report and, more importantly, from the time the problem was first reported to FEMA in 2001.

⁴ *Stafford Act* - Section 311; 44 CFR § 206.250-253
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(OIG-12-18) noted NEMIS and EMMIE data fields often contain inconsistent, erroneous, or blank information and that important, relevant data is often stored in unsearchable text fields, making searches difficult.

In management comments to the draft report (OIG-12-18), FEMA agreed to update any location and insurance fields that are blank or contain erroneous information as they became known in the process going forward in future disasters. FEMA believed that a retroactive effort to identify errors and missing data and to update and correct this information in the databases would be an infeasible cost and personnel burden. FEMA further explained that quality reviews of EMMIE fields occur at two stages, and this control combined with the applicant's responsibility to provide complete insurance information made a retroactive review of the databases unnecessary. Furthermore, FEMA did not provide any documentation or analytical studies to support the conclusion that such an effort would "be an infeasible cost and personnel burden."

In our analysis of the management comments, we encouraged FEMA to provide information comparing the cost of the recommended corrective action to estimated improper payments. FEMA did not provide additional information to support its conclusion and reiterated in its Corrective Action Plan provided in June 2012, that it did not agree with retroactive efforts to update its databases, adding that "...budgetary and resource demands of ongoing disaster operations remain significant, and consume FEMA's limited staff and funding resources." Instead, FEMA maintained its position to update blank or erroneous data fields identified during future disasters. While we responded to FEMA that we felt the most prudent approach was to correct any erroneous information, we closed the recommendation in September 2012, concluding that FEMA's plan to update blank fields and correct erroneous information was consistent with the intent of the recommendation.

We interviewed FEMA staff in Regions 2, 4, and 6. FEMA insurance specialists told us that they are unable to make corrections to data from past disasters as they have "read-only" access to historic data in EMMIE and NEMIS. We shared this information with personnel in the Headquarters Response and Recovery division. A FEMA official said that insurance specialists could request system rights to make changes to historical disaster data, but there is no directive or standard procedure for doing so.

We requested documentation supporting development and rollout of FEMA's alternative solution to the finding. A FEMA official told us "the matter was largely passed to regional leadership through meetings, conference calls and other less formal forms of communication." We asked for documentation to support this claim; however, they said there was none and could not support it. Without taking corrective action to address blank or erroneous data fields in



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historic disaster data, FEMA remains at risk of providing duplicate assistance or funding ineligible projects, violating the *Stafford Act*.

We concluded that FEMA did not implement the alternative solution it offered to update blank or erroneous data fields identified during future disasters. We shared our conclusion with FEMA; FEMA responded that it had implemented this corrective action and will continue to take steps to update the quality of the data maintained in its databases as issues with data fields are identified during future disasters. FEMA further explained that forthcoming guidance will provide specific direction to insurance specialists on the appropriate course of action when issues with historical insurance data are identified during future disasters, including the processes to be followed to update such issues.

FEMA issued a guidance document titled *Insurance Specialist Position Assist* in September 2016. We reviewed this document, and concluded that it was incomplete and did not provide sufficient detail for a guidance document. FEMA shared that the document was developed for the new PA Delivery Model, and as the new model is implemented and GMM enhances capabilities, the *Insurance Specialist Position Assist* will be updated.

FEMA planned to develop a detailed training course for insurance specialists under the new PA Delivery Model. FEMA claims the training course will help support the roles and responsibilities of insurance specialists under the new PA Delivery Model and their ability to track insurance requirements within the CRM Tool.

We consider recommendation 4 to be open and unresolved. We will follow up with FEMA to review the insurance training program to ensure it meets the intent of our recommendation. Additionally, we request that FEMA provide documentation to support its position that any retroactive steps to update and improve the quality of data in the NEMIS and EMMIE databases would present an infeasible cost and personnel burden.

Conclusion

FEMA has not implemented the two recommendations selected for examination under this review. We consider these recommendations critical to the success of any effort to manage the public assistance insurance requirement. Without a reliable system to track insurance information, FEMA is at risk of providing duplicate assistance in violation of the *Stafford Act*.



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Over the past 15 years, FEMA's actions to address insurance requirement tracking deficiencies have not yielded results. As a result, billions of dollars of taxpayer funds have been and will continue to be at risk of fraud, waste, and abuse. Although FEMA's latest solution — the GMM platform — appears promising, it is still in the early stages. FEMA leadership should commit to including an enterprise-wide insurance requirements tracking capability in the Grants Management Modernization System.

Based on the results of this review, we will change the status of recommendations 3 and 4 in our prior report to open and unresolved.

Methodology

We conducted this verification review to determine whether FEMA implemented selected recommendations from our 2012 report, OIG-12-18, *FEMA's Process for Tracking Public Assistance Insurance Requirements*, to reduce risk of the Federal Government paying for disaster damages that should be covered under a previous insurance requirement. We reviewed prior reports, corrective action plan updates for OIG-12-18, documents that included policies, procedures, and standard operating procedures, and observed a live demonstration of electronic databases. We also interviewed officials and insurance specialists from FEMA Headquarters and regional offices. We provided FEMA a copy of the draft report and received both technical and management comments and included them as necessary.

We conducted this verification review from December 2015 to July 2016 pursuant to the *Inspector General Act of 1978*, as amended. This review was not conducted according to generally accepted government auditing standards.

The Office of Emergency Management Oversight major contributors to this report are Paul Wood, Acting Deputy Assistant Inspector General; John McPhail, Supervisory Program Analyst; Nathaniel Nicholson, Senior Auditor; and Aaron Naas, Independent Referencer.

Please call me with any questions or your staff may contact Paul Wood, Acting Deputy Assistant Inspector General, at (202) 254-4100.



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