

**Unsupported Payments  
Made to Policyholders Who  
Participated in the  
Hurricane Sandy Claims  
Review Process**





# DHS OIG HIGHLIGHTS

## *Unsupported Payments Made to Policyholders Who Participated in the Hurricane Sandy Claims Review Process*

---

**January 24, 2018**

### **Why We Did This Audit**

In response to concerns from Members of Congress, we audited the Sandy Claims Review Process (SCRP). Our objective was to determine whether FEMA properly conducted its review of claims submitted through the Hurricane Sandy Review Process.

### **What We Recommend**

We made seven recommendations to FEMA, which emphasize the importance of FEMA communicating clear guidance to adjusters, and identifying and implementing better methods to inform policyholders of flood coverage limitations.

#### **For Further Information:**

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

### **What We Found**

Facing continued negative publicity and pressure from Members of Congress, the Federal Emergency Management Agency (FEMA) created the SCRCP. In doing so, FEMA did not rely on certain legislatively mandated internal controls designed to ensure appropriate payments for flood victims. Additionally, during the formation and operation of the SCRCP, FEMA failed to establish contractor expectations or provide consistent guidance and oversight related to Hurricane Sandy claims. These omissions resulted in policyholders receiving unsupported additional payments, excessive costs to operate the SCRCP, and time delays processing the claims.

FEMA received 19,464 eligible requests for re-review through the SCRCP process. As of December 1, 2017, the SCRCP review has cost in excess of \$196 million to perform and has offered policyholders an additional \$270 million for their claims.

### **FEMA Response**

FEMA concurred with all seven of our recommendations and has already begun implementing corrective actions.



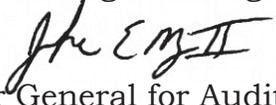
## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

January 24, 2018

MEMORANDUM FOR: Roy E. Wright  
Acting Associate Administrator  
Federal Insurance and Mitigation Administration  
Federal Emergency Management Agency

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

SUBJECT: *Unsupported Payments Made to Policyholders  
Who Participated in the Hurricane Sandy Claims  
Review Process*

Attached for your action is our final report, *Unsupported Payments Made to Policyholders Who Participated in the Hurricane Sandy Claims Review Process*. We incorporated the formal comments provided by your office.

The report contains seven recommendations aimed at improving the National Flood Insurance Program. Your office concurred with all the recommendations. Based on information provided in your response to the draft report, we consider all recommendations open and resolved. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendations. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts. Please send your response or closure request to [OIGAuditsFollowup@oig.dhs.gov](mailto:OIGAuditsFollowup@oig.dhs.gov).

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

---

**Table of Contents**

Background ..... 1  
Results of Audit ..... 6  
    FEMA Did Not Rely on Legislatively Mandated Internal Controls..... 6  
    FEMA Did Not Provide Adequate Guidance and Oversight to the SCRCP. .... 8  
    FEMA’s Hands-Off Approach Resulted in Policyholders Receiving  
    Unsupported Additional Payments ..... 10  
    FEMA Has Begun to Improve the NFIP ..... 12  
    Other Observations ..... 12  
Recommendations, Management Comments, and OIG Analysis ..... 13

**Appendixes**

Appendix A: Objective, Scope, and Methodology ..... 18  
Appendix B: FEMA Comments to the Draft Report ..... 20  
Appendix C: Sandy Claims Review Process Map ..... 24  
Appendix D: Major Contributors to This Report ..... 25  
Appendix E: Report Distribution..... 26

**Abbreviations**

BSA	Bureau and Statistical Agent
FEMA	Federal Emergency Management Agency
FIMA	Federal Insurance and Mitigation Administration
IPERA	<i>Improper Payments Elimination and Recovery Act of 2010</i>
NFIP	National Flood Insurance Program
OIG	Office of Inspector General
QASP	quality assurance surveillance plan
SCRP	Sandy Claims Review Process
SFIP	Standard Flood Insurance Policy
SOP	Standard Operating Procedure



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

---

### Background

The Federal Emergency Management Agency's (FEMA) mission is to reduce the loss of life and property and protect communities nationwide from all hazards, including natural disasters, acts of terrorism, and other manmade disasters. As part of this mission, FEMA oversees the National Flood Insurance Program (NFIP).

The NFIP provides affordable flood insurance for purchase to help protect property owners from damage or loss resulting from floods occurring in the United States.<sup>1</sup> Property owners may purchase an NFIP flood insurance policy, also known as the Standard Flood Insurance Policy (SFIP), from a Write Your Own insurance provider or directly from FEMA through a servicing agent (referred to as NFIP Direct). The Write Your Own Program, begun in 1983, is a cooperative arrangement between FEMA and the private insurance industry. This arrangement allows participating property and casualty insurance companies to write and service FEMA's SFIP in their own names. Non-participating companies can write flood insurance coverage directly with the Federal Government through the NFIP Direct program.

To keep policy premiums affordable, there are many limitations to what the SFIP covers. For example, SFIP only offers coverage up to \$350,000 for the direct physical damage resulting from a flood — \$250,000 for a dwelling and \$100,000 for general property. Additionally, it does not cover flood damage to most items that would be damaged by a flood in a finished basement<sup>2</sup> or for living expenses incurred while a policyholder is displaced.

The NFIP claim process begins when a policyholder notifies his or her insurance provider of a flood loss. Within 24–48 hours of being notified (if possible), a flood adjuster contacts the policyholder to schedule a visit to inspect the damaged property. At the visit, the adjuster investigates the claim by taking measurements, photographs, and noting attributes of the damaged property. Based on results from the visit, the adjuster then prepares an estimate of loss and submits it to the insurance provider. The adjuster also prepares a proof of loss based on this estimate and presents the proof of loss with supporting documentation to the policyholder. The proof of loss is the official claim for damages. The policyholder is responsible for ensuring that the

---

<sup>1</sup> "United States" includes the states, the District of Columbia, the territories and possessions, the Commonwealth of Puerto Rico, and the Trust Territory of the Pacific Islands.

<sup>2</sup> Coverage is limited to 18 items if these items are installed in the basement. These include furnaces, circuit breaker boxes, and fuel tanks. One of the items is for drywall, but only to replace damaged drywall without it being finished, floated, or taped.



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

proof of loss is complete, accurate, and filed in a timely manner with the insurance provider. Upon receiving the proof of loss, the insurance provider reviews it and approves or denies the claim in whole or in part.

If any portion of the policyholder's claim is denied or the policyholder identifies additional damage after filing the claim, the policyholder may file a supplemental claim payment request along with an amended proof of loss. This request should include all documentation to support the supplemental claim, such as paid receipts or invoices, an itemized contractor's estimate, photographs of damage or repairs, and other relevant documents. A policyholder may submit a proof of loss, whether initial or supplemental, up to 60 days following the date of loss. However, due to the catastrophic nature of Hurricane Sandy, FEMA extended this deadline to 24 months following the date of loss. Additionally, FEMA sometimes authorized insurers to accept requests for payment, when appropriate, after the proof of loss deadline. If a policyholder was still dissatisfied with the payment, he or she could submit an appeal with FEMA to review the claim.

After Hurricane Sandy in October 2012, NFIP policyholders filed 144,540 claims and were paid a total of \$8.2 billion for their losses. See table 1 for a breakdown of losses and claims by state.

**Table 1. Hurricane Sandy NFIP Claims and Paid Losses**

State	Losses Paid (in \$ millions)	Number of Claims
Connecticut	\$ 250.2	6,185
Delaware	17.1	1,492
Maryland	20.3	1,610
New Jersey	3,897.7	74,809
New York	3,958.4	57,307
Rhode Island	37.2	1,063
All Other States	31.8	2,074
<b>Totals</b>	<b>\$ 8,212.7</b>	<b>144,540</b>

Source: Office of Inspector General (OIG) analysis of NFIP claims paid prior to May 18, 2015

In early 2015, FEMA faced intense scrutiny from the media and Members of Congress regarding the handling of Hurricane Sandy NFIP claims. As a result,



## OFFICE OF INSPECTOR GENERAL

### Department of Homeland Security

---

FEMA embraced a “survivor-centric”<sup>3</sup> approach to flood insurance to align with FEMA’s mission and the needs of disaster survivors. It also established a Task Force to —

1. resolve expeditiously the litigation involving Hurricane Sandy claims;
2. establish a process for Hurricane Sandy survivors who had not pursued litigation to have their claims reviewed if they believed they were underpaid; and
3. begin developing and executing options to reform administration of the NFIP.

On March 5, 2015, FEMA announced that it was beginning a review of all Hurricane Sandy claims in litigation to resolve those claims expeditiously.<sup>4</sup> As part of the Hurricane Sandy settlement process, FEMA would review each of the approximately 2,000 claims in litigation to determine an appropriate amount to be paid to the policyholder. After reviewing each claim, FEMA would then instruct the insurance provider to issue a payment for each case to its policyholder. (This audit did not review claims settled in litigation.)

On May 20, 2015, FEMA announced that it was also offering to review the Hurricane Sandy claims of all eligible policyholders.<sup>5</sup> Policyholders were eligible to submit an application for claim review if they had previously submitted claims for Hurricane Sandy and did not participate in litigation or previously receive payment at policy limits. FEMA immediately began to notify by mail approximately 142,000 eligible policyholders who had filed claims due to Hurricane Sandy that they could resubmit their claims to FEMA for review. See figure 1 for a brief overview of the Sandy Claims Review Process (SCRCP) or appendix C for a more comprehensive overview.

---

<sup>3</sup> FEMA’s survivor-centric approach is one of five strategic priorities outlined in FEMA’s *Strategic Plan 2014–2018*. The outcomes of this priority include disaster services are transparent, efficient, and effective in meeting the needs of survivors; and individuals know the steps to take, have the tools required, and take appropriate actions before, during, and after disasters.

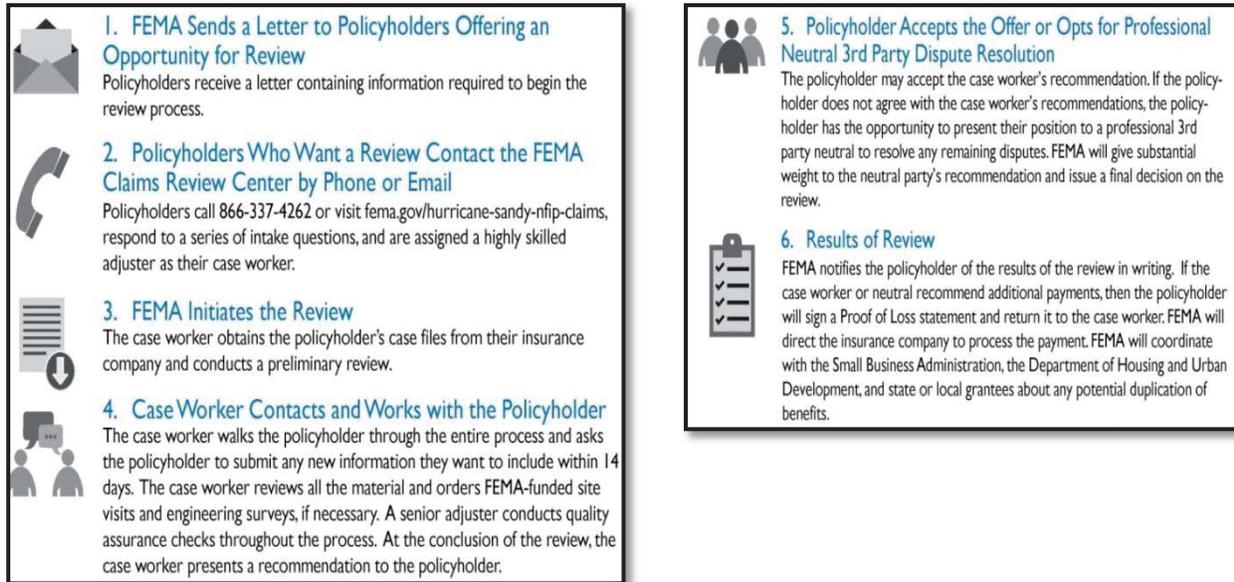
<sup>4</sup> *Hurricane Sandy Settlement Process – Payment of Litigation Expenses* (FEMA Bulletin W-15009, March 5, 2015)

<sup>5</sup> *Superstorm Sandy Review Process* (FEMA Bulletin W-15020, May 20, 2015)



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

**Figure 1. Sandy Claims Review Process**



Source: FEMA Sandy Claim Review Division

The deadline for a policyholder to submit an NFIP flood claim through the SCRCP was October 15, 2015. During the SCRCP process, an adjuster reached out to the policyholder and requested the following information from the policyholder: tangible documentation including receipts, estimates, and photographs; and intangible documentation including policyholder or contractor statements. Regardless of what supporting documentation the policyholder submitted, the SCRCP performed a re-review of the claim file and, if applicable, wrote a new estimate and proposed an additional payment to the policyholder.

In total, FEMA received 19,464 eligible requests for re-review through the SCRCP process and, as of December 1, 2017, offered policyholders an additional \$270 million for these claims. See table 2 for the status of all SCRCP claims.

**Table 2. Status of All SCRCP Claims (as of December 1, 2017)**

Claims File Status	Number of Claims	Percentage of Claims
Open Claims	1,984	10.2
Claims Closed with Additional Payment	14,751	75.8
Claims Voluntarily Withdrawn and Closed without Additional Payment	2,729	14.0
<b>Total Claims in SCRCP</b>	<b>19,464</b>	<b>100</b>

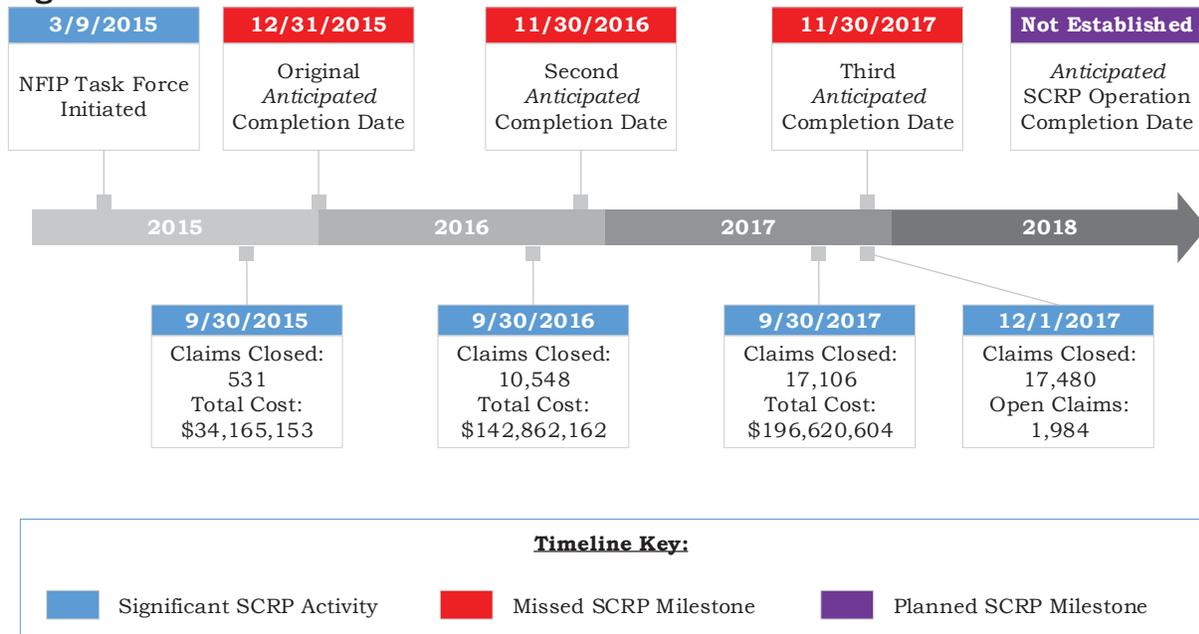
Source: OIG analysis of SCRCP documentation



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

Five years after the initial flood event, the Hurricane Sandy review process continues. Initial estimates were that the review, not including the payment for claims, would cost \$37 million and be completed by the end of 2015. Currently the SCRCP is in its third year of operation, at a cost in excess of \$196 million to the Federal Government. See figure 2 for a timeline of SCRCP costs and milestones.

**Figure 2. SCRCP Costs and Milestones**



Source: OIG analysis of SCRCP documentation



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

---

### Results of Audit

Facing continued negative publicity and pressure from Members of Congress, FEMA established the SCRP. In doing so, FEMA did not rely on legislatively mandated internal controls designed to ensure appropriate payments for flood victims. Additionally, during the formation and operation of the SCRP, FEMA failed to establish contractor expectations or provide consistent guidance and oversight related to Hurricane Sandy claims. These omissions resulted in policyholders receiving unsupported additional payments, excessive costs to operate the SCRP, and time delays in processing the claims.

### **FEMA Did Not Rely on Legislatively Mandated Internal Controls**

The NFIP has many checks and balances in place to ensure the proper processing of claims. Participation in the NFIP subjects insurance providers to internal controls including Financial Control Plan reviews and testing under the *Improper Payments Elimination and Recovery Act of 2010* (IPERA). Rather than relying on the results of these legislatively mandated requirements, FEMA resorted to the SCRP, which led to FEMA offering policyholders approximately \$270 million in additional claim payments.

### **Financial Control Plan**

FEMA established the Financial Control Plan to account for and ensure appropriate spending of Federal funds. Participating NFIP insurance providers must adhere to the requirements outlined in the Financial Control Plan.<sup>6</sup> To ensure these requirements are met and to assess the performance of insurance providers, FEMA has developed various oversight and monitoring activities as part of the plan. In our report, *FEMA Does Not Provide Adequate Oversight of Its National Flood Insurance Write Your Own Program* (OIG-16-47), we found that FEMA performed reviews as required by the Financial Control Plan. Specifically, we determined that FEMA required biennial financial statement audits and performed tri-annual operation reviews.<sup>7</sup>

---

<sup>6</sup> 44 Code of Federal Regulations, Subchapter B, Part 62 Appendix B, *A Plan to Maintain Financial Control for Business Written Under the Write Your Own Program*

<sup>7</sup> Despite FEMA performing reviews required by the Financial Control Plan, the audit found that FEMA is not using the results from its Financial Control Plan reviews to make program improvements; is not performing adequate oversight of the SALAE reimbursement process; and does not have controls to provide proper oversight of the appeals process.



## OFFICE OF INSPECTOR GENERAL

### Department of Homeland Security

---

#### Biennial Financial Audits

The biennial financial statement audit provides FEMA with an independent assessment of the quality of financial controls over activities relating to the insurance provider's participation in NFIP, as well as of the integrity of the financial data reported to FEMA. To determine compliance, independent certified public accounting firms audit selected policy files, claims, and underwriting procedures. All insurance providers that processed claims for Hurricane Sandy received favorable audit opinions.

#### Triennial Operation Reviews

Insurance providers must participate in triennial operation reviews, which cover flood insurance claims. These reviews thoroughly examine a random sampling of claim files to measure the quality of investigations, adjustments, and supervision. FEMA's triennial operation review in fiscal year 2014 consisted of 793 Hurricane Sandy claims; 39 of these policyholders submitted their claims for review to the SCRIP. Of the 39 claim files, FEMA originally identified 90 percent as properly paid and 10 percent as *overpaid*, per the SFIP guidance.<sup>8</sup>

Nonetheless, the SCRIP reviewed these 39 claim files and determined that 35 of the policyholders were due additional payments totaling approximately \$745,000. Had FEMA relied on its internal operation reviews, it would have had confidence that policyholders received adequate compensation for Hurricane Sandy claims per the SFIP guidance. Rather than serving as an effective tool for re-review, the SCRIP operated at odds with established FEMA controls such as the triennial operation review.

#### **IPERA Testing**

FEMA performs IPERA testing for NFIP payments.<sup>9</sup> IPERA defines an improper payment as one that should not have been made or that was made in an incorrect amount. Every fiscal year, FEMA has tested NFIP payments in order to produce a statistically valid estimate of the improper NFIP payments. Since Hurricane Sandy, and prior to the establishment of the SCRIP, IPERA testing of NFIP payments showed improper payment rates of less than 1 percent.

---

<sup>8</sup> SFIP guidance is published and maintained in policy issuances and claims and underwriting bulletins.

<sup>9</sup> IPERA requires agency heads to review all programs and activities administered and identify those that may be at high risk for improper payments.



## OFFICE OF INSPECTOR GENERAL

### Department of Homeland Security

---

We examined FEMA's IPERA testing results for the pre-SCRP timeframe. We found 91 claims were reviewed as part of IPERA testing and then subsequently reviewed by the SCRCP. During IPERA testing, FEMA found only one of the policies was underpaid by \$1,260. FEMA deemed the remaining policies as receiving proper payments. In contrast to FEMA's determination, the SCRCP paid 78 of these policyholders an additional \$2.1 million.

### **FEMA Did Not Provide Adequate Guidance and Oversight to the SCRCP**

Due to internal staffing limitations, FEMA activated the flood disaster response clause<sup>10</sup> within an existing Bureau and Statistical Agent (BSA) business services contract without explicitly defining contractor requirements. FEMA initially estimated the SCRCP to cost \$37 million and be completed by December 31, 2015. FEMA's failure to establish contractor expectations, and provide consistent guidance and oversight, has resulted in the SCRCP operating for more than 2 years with a running cost to the Federal Government in excess of \$196 million.

#### **FEMA Staffing Limitations**

FEMA underestimated the volume of claims and length of time the SCRCP would require, resulting in a shortage of FEMA personnel available to provide adequate oversight. FEMA activated the flood disaster response clause within a BSA contract, thereby relying on more than 300 contractors to manage and operate the SCRCP. Initially, FEMA reviewed all contractor SCRCP estimates and recommended payments. However, this level of engagement proved unsustainable. As a result, FEMA entrusted the quality review process and direction for payment to the contractor. This decision, though operationally convenient, caused many inefficiencies, disruptions, and delays to the SCRCP. The approach also compromised the independence and integrity of the claims review process.

#### **Expectations and Guidance**

FEMA conceded that it did not establish specific requirements and expectations in the extended BSA contract. Despite the SCRCP costing the

---

<sup>10</sup> Under this clause, the contractor provides specific disaster response in the event of a flood. This includes, as directed by the contracting officer's technical representative, establishing, administering, and operating Flood Response Offices and Claims Coordinating Offices to promote and assist the efficient adjustment and settlement of NFIP losses.



## OFFICE OF INSPECTOR GENERAL

### Department of Homeland Security

---

Federal Government in excess of \$196 million to date, the majority of which was for the BSA contract, FEMA has not explicitly defined contractor requirements such as the scope of work, deliverables, and deadlines for this arrangement. FEMA also did not promulgate policies for the SCRCP to use or follow established deadlines for reviews to be completed. To date, FEMA has drafted, but not finalized, a Standard Operating Procedure (SOP). Because the draft SOP was not properly distributed or enforced, it provided little value during the claims review process. Furthermore, this SOP was at times inconsistent with the SFIP and its clarifying guidance. The latter is published and maintained in policy issuances and claims and underwriting bulletins.

As previously reported, initially FEMA's goal was to complete all open cases by the end of December 2015 at a cost of \$37 million. To meet this goal, FEMA told policyholders who participated in the SCRCP that claim reviews would be completed in less than 90 days after submission of required documentation. Continued pressure from Members of Congress and FEMA's lack of overarching goals and standards resulted in FEMA missing its established deadlines for more than 2 years. On June 30, 2017, FEMA's goal was to have all open cases scheduled for resolution by August 1, 2017, and concluded by September 30, 2017. However, due to pressure from Members of Congress, FEMA changed this deadline to the end of October 2017, with the option to extend further. In a sample of 50 claim files we reviewed, the SCRCP had reached a resolution with 44 policyholders by September 30, 2017. It took these policyholders an average of 229 days to reach a resolution. The SCRCP continued to work with six policyholders in our sample. Their claims have spent an average of 737 days in the SCRCP as of December 1, 2017.

#### **Quality Assurance Surveillance Plan**

FEMA did not establish a quality assurance surveillance plan (QASP) to monitor the contractor's performance on SCRCP-related activities associated with the flood disaster response clause. The QASP provides a systematic method to evaluate the services the contractor is required to provide. Despite the fact that a QASP existed for the original BSA contract, it did not specifically address the flood disaster response clause of the contract, which cost more than the original BSA contract. As a result, FEMA cannot ensure that the SCRCP contractor is performing work as required by the contract.



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

---

## **FEMA's Hands-Off Approach Resulted in Policyholders Receiving Unsupported Additional Payments**

We examined 50 SCRP claims to determine whether they were handled in accordance with the SFIP guidance, and the subsequent impact on policyholders. Our analysis found that FEMA's survivor-centric approach led to inconsistent application of the SFIP guidance, particularly with regard to document submission. Had FEMA required the SCRP to follow the same standards that apply to the insurance providers, the majority of these policyholders would not have received additional compensation.

### **Inconsistent Application of SFIP Guidance**

FEMA did not require the SCRP to follow SFIP policies, which led to SCRP paying an average of \$12,300 more per claim than the original payment.<sup>11</sup> In most instances, the additional payments covered undocumented repairs and incorrect pricing rates; incorrect sales tax; and duplicate items. Although the SCRP did find some instances in which the original adjuster omitted items, the regular claims process afforded the policyholder the right for a supplemental claims submission or appeal. In most of these instances, the policyholders did not seek this recourse with their insurance providers prior to the SCRP.

#### Lack of Documentation Led to Use of Improper Pricing Rates

The SCRP did not require policyholders to properly support their supplemental claim. SFIP guidance requires<sup>12</sup> that a policyholder disputing an insurance provider's payment recommendation must submit accurate and complete documentation, such as paid receipts or invoices, an itemized contractor's estimate, photographs of damages, and other relevant information. We identified 43 of 50 claim files where the SCRP recommended payment without complete supporting documentation.

The fact that the SCRP processed claims without accurate and complete documentation necessitated their reliance on pricing tables.<sup>13</sup> FEMA directed the SCRP to use the January 2013 pricing table, which included the highest post-Sandy rates for New York, New Jersey, and Connecticut, to maximize supplemental payments. Typically, the pricing table used for writing a claim's

---

<sup>11</sup> On average, policyholders in our sample of 50 claims received approximately \$65,300 prior to the SCRP.

<sup>12</sup> *Claim Guidance – Sandy Supplemental Claims* (FEMA Bulletin W13027a, May 16, 2013)

<sup>13</sup> Pricing tables, as contained in the claims estimating software, allows insurance adjusters to estimate expected cost of damages following a flood event.



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

---

estimate is a month that falls within the first 45 days following the date of loss or the date when construction materials are purchased. FEMA's survivor-centric approach to the SCRP claims allowed policyholders to receive payments as of January 2013, regardless of their actual expenses. If the policyholder had submitted a request for supplemental payment to his or her insurance provider without paid receipts and invoices, the insurance provider would not have been permitted to use higher pricing table rates to substantiate payment. We identified 30 of 50 claim files where the SCRP recommended payment included amounts for "global pricing adjustments." For example, in one of our sample claims, the policyholder did not provide the SCRP any supporting documentation. Under SFIP guidance, the SCRP should not have made any additional payment to the policyholder. Despite this, the SCRP re-reviewed the policyholder's original claim and allowed for an additional \$6,500 for a "global price adjustment."<sup>14</sup>

### Duplicative Sales Tax and Other Items

Because FEMA chose not to involve the insurance providers in the re-review process, the SCRP did not verify whether sales tax had been appropriately paid in the original estimate. SFIP guidance<sup>15</sup> requires that sales tax be included in the unit cost and noted on the estimate. We identified 9 of 50 claims where the insurance provider either included sales tax in its estimate or its payment recommendation, but the SCRP added duplicative sales tax. For example, in one of our sample claims, the policyholder's original claim identified that sales tax was included in the line item estimate. However, the SCRP provided the policyholder an additional \$10,100 for sales tax on this same estimate and \$1,600 for sales tax on the SCRP estimate. This resulted in sales tax representing over 68 percent of the total SCRP additional payment.

Furthermore, we identified 7 of the 50 claims where the SCRP provided payments for items already covered under the original claim. For example, on one claim the insurance provider had paid \$8,300 for a water heater and boiler on a supplemental claim supported by a paid receipt. However, the SCRP paid the policyholder an additional \$9,900 for the same items. In another claim, the insurance provider paid the policyholder \$2,800 to remove and replace copper wiring in a crawlspace of a home. The SCRP paid an additional \$3,100 to replace the residential electric.

---

<sup>14</sup> Numbers used for all examples in this report are approximates.

<sup>15</sup> *Flood Insurance Claims Guidance* (FEMA Bulletin W-08070, September 25, 2008) and *Claim Guidance – Sandy Supplemental Claims* (FEMA Bulletin W13027a, May 16, 2013)



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

---

### **FEMA Has Begun to Improve the NFIP**

FEMA's decisions in the aftermath of Hurricane Sandy, particularly to establish and operate the SCRP and allow it to deviate from SFIP guidance, has fundamentally changed the public's perception and expectations of the flood insurance program. This was recently on display in the wake of Hurricane Harvey, which hit Texas in August 2017. In the immediate aftermath of the storm, multiple news outlets were reporting problems with the NFIP and FEMA's persistent difficulties resolving flood claims from Hurricane Sandy.

We found in this audit that FEMA has begun to improve the NFIP and is documenting lessons learned in an SCRP After-Action Report.

#### **NFIP Reform Efforts**

Since Hurricane Sandy, FEMA has increased its commitment to a survivor-centric approach in the NFIP. For instance, FEMA has implemented a new Proof of Loss form to help policyholders better understand the purpose of the form and how claim calculations are determined. In addition, FEMA established a new NFIP call center to address policyholders' complex NFIP questions and concerns. FEMA has also developed a *Flood Response Playbook* for large and small flood events.

#### **SCRP After-Action Report**

FEMA is currently preparing an SCRP After-Action Report to identify successes and challenges related to that effort. While many challenges remain, FEMA has begun to revise policies and procedures affecting the NFIP. These changes will affect how FEMA creates and executes special project teams and task forces. Implementation of the final SCRP After-Action Report recommendations will be crucial for improving FEMA's ability to oversee the NFIP. With these and future improvements, FEMA should be in a better position to meet its obligations to flood insurance policyholders.

#### **Other Observations**

During our audit, we found evidence of confusion about SFIP coverage limitations. Unlike homeowners policies that can be *valued policies* or *guaranteed replacement cost policies*, the SFIP is a *single-peril (flood) policy* that only pays for *direct physical damage* to the insured's property. This means that flood insurance only pays for actual flood damages, up to but not exceeding policy limits. For example, a homeowner who has \$250,000 of dwelling coverage determines that he or she needs to rebuild the home because of a



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

---

flood. Actual flood damages for the home are \$150,000, but rebuilding that home is expected to cost \$400,000. The SFIP would only pay for the \$150,000 of the actual damages; the difference of \$250,000 to rebuild would be the homeowner's responsibility. A valued policy or a guaranteed replacement cost policy would have paid the homeowner in this example, either \$250,000 or \$400,000, respectively. If the NFIP did provide these types of coverage, it would put the program further into debt or result in unaffordable policy premiums. FEMA needs to better inform policyholders of the SFIP limitations so that policyholders understand the risks they are assuming in the event of a flood. For example, FEMA might consider amending SFIP renewal procedures to require the policyholder to acknowledge in writing the policy limitations.

### **Recommendations, Management Comments, and OIG Analysis**

FEMA concurs with all seven of our recommendations and has already begun implementing corrective actions. A copy of FEMA's response in its entirety is included in appendix B. FEMA also provided technical comments and suggested revisions to our report in a separate document. We reviewed the technical comments and made changes in the report when appropriate. Our recommendations, a summary of FEMA's response, and our analysis follows.

**Recommendation 1:** We recommend the Deputy Associate Administrator for the Federal Insurance and Mitigation Administration establish procedures to identify and address concerns identified by external parties, including Members of Congress and the media.

**FEMA's Comments:** Concur. To better communicate with external parties, FEMA's Federal Insurance and Mitigation Administration (FIMA) developed and is implementing the *Flood Response Playbook*, which includes outreach efforts to proactively address concerns and issues arising from large scale flood events. Efforts include pushing out guidance to NFIP stakeholders in the form of bulletins, updating websites such as FEMA.gov pages with flood related information, and development of public fact sheets associated with flood issues. Additionally, FEMA is coordinating with key NFIP partners such as the State Insurance Commissioners and the insurance providers to ensure claims issues are identified before rising to the level of congressional concerns and/or potential litigation.

To better identify and address policyholder concerns, FEMA has improved the appeals process by providing greater transparency, access, and accountability. FEMA has dedicated insurance examiners specializing in appeals who track each step of the appeals process to increase accountability and assure quality.



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

---

To prevent issues of claims adjusting and underwriting, FEMA is rewriting manuals such as the *Flood Insurance Manual* and the *Adjuster Claims Manual* in simplified language so partners and stakeholders are able to clearly understand and implement the Program's intent.

FEMA will continue to identify opportunities where procedures can be improved. The Agency has taken steps to enhance data collection and analysis, which allow FIMA to take a data-driven approach to make targeted improvements to underlying processes that impact customers and disaster survivors, including providing for better near-time feedback. Estimated Completion Date: October 31, 2018

**OIG Analysis:** FEMA's planned corrective action is responsive to the recommendation. The recommendation will remain open and resolved until we have reviewed FEMA's implementation of the *Flood Response Playbook* and updates to the *Flood Insurance Manual* and *Adjuster Claims Manual* that will identify and address concerns by external parties. We are requesting FEMA provide us quarterly updates on its progress in implementing corrective actions.

**Recommendation 2:** We recommend the Deputy Associate Administrator for the Federal Insurance and Mitigation Administration re-evaluate existing controls, such as those in the Financial Control Plan, to identify and implement improvements, enabling confidence in the National Flood Insurance Program claims process.

**FEMA's Comments:** Concur. FIMA will continue to re-evaluate and review existing controls to identify and implement improvements for the NFIP.

In FY 2018, FIMA is working to further improve oversight of the insurance providers through the update of the Financial Control Plan, to ensure that all participating insurers meet defined minimum requirements. As part of the Financial Control Plan update, the Program will continue to improve the claims and underwriting operational reviews that it conducts for each insurance provider to ensure the accuracy and propriety of claims paid and files underwritten.

In addition, FIMA will continue to monitor insurance provider performance during flood events and disasters by continuing to implement the Random Claims Quality Check Program to identify and address technical and procedural problems such as coverage issues, scoping, pricing, or other technical issues in various phases of the claims adjustment lifecycle. Its purpose is to collect claim issues before a file is closed and final payments are



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

---

made while tracking trends and data. Estimated Completion  
Date: March 31, 2018

**OIG Analysis:** FEMA's planned corrective action is responsive to the recommendation. The recommendation will remain open and resolved until FEMA provides evidence the Financial Control Plan has been updated and resulted in improvements that provide additional assurance over the accuracy of the claims process.

**Recommendation 3:** We recommend the Deputy Associate Administrator for the Federal Insurance and Mitigation Administration review all contracts that have executed the "flood disaster response" clause within their services contract to ensure that FEMA explicitly defines contractor requirements such as the scope of work, deliverables, and deadlines.

**FEMA's Comments:** Concur. FIMA will review all contracts that include the "flood disaster response" language. Estimated Completion  
Date: October 31, 2018

**OIG Analysis:** FEMA's corrective action is responsive to the recommendation. The recommendation will remain open and resolved until FEMA has provided us evidence that FEMA has reviewed all contracts with an executed "flood disaster response" clause and properly defined the contractor requirements. We are requesting FEMA provide us quarterly updates on its progress in implementing corrective actions.

**Recommendation 4:** We recommend the Deputy Associate Administrator for the Federal Insurance and Mitigation Administration review all contracts that have executed the "flood disaster response" clause within their services contract to ensure compliance with contract requirement.

**FEMA's Comments:** Concur. FEMA will review all FIMA contracts that include the "flood disaster response" language. In response to disasters, FIMA establishes a field office, known as a Flood Response Office to provide technical support to adjusters operating in the impacted area. FEMA will review the contracts to ensure appropriate execution of the NFIP as well as compliance with the SFIP through a customer centric approach. Estimated Completion  
Date: October 31, 2018

**OIG Analysis:** FEMA's planned corrective action is responsive to the recommendation. The recommendation will remain open and resolved until FEMA has provided us evidence that it has reviewed all FIMA contracts with an executed "flood disaster response" clause and ensured compliance with



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

---

contract requirements. We are requesting FEMA provide us quarterly updates on its progress in implementing corrective actions.

**Recommendation 5:** We recommend the Deputy Associate Administrator for the Federal Insurance and Mitigation Administration establish clear guidance for the review and adjustment of all flood claims. This guidance should be periodically updated and made available to National Flood Insurance Program insurance providers and their policyholders.

**FEMA's Comments:** Concur. FIMA is in the process of updating manuals such as the *Flood Insurance Manual* and the *Adjuster Claims Manual* to provide clarity and uniformity so partners and stakeholders are able to clearly understand and implement the Program's intent. The revised manuals will better reflect FEMA's implementation of the SFIP and will consolidate and supersede the various bulletins and other guidance documents currently used in the program. The manuals will be available to the public via FEMA.gov. The updated manuals will address specific issues related to complicated claims that have led to appeals, as well as clarify inconsistencies found in prior versions. Estimated Completion Date: October 31, 2018

**OIG Analysis:** FEMA's planned corrective action is responsive to the recommendation. The recommendation will remain open and resolved until FEMA officials provide evidence that they have updated the *Flood Insurance Manual* and *Adjuster Claims Manual* to provide clear guidance for the review and adjustment of claims. We are requesting FEMA provide us quarterly updates on its progress in implementing corrective actions.

**Recommendation 6:** We recommend the Deputy Associate Administrator for the Federal Insurance and Mitigation Administration evaluate and implement methods to better inform policyholders of their flood insurance coverage under the Standard Flood Insurance Policy.

**FEMA's Comments:** Concur. Since the initiation of the Sandy Claims Review process in 2015, FEMA has redesigned and increased the training and mentoring of insurance agents and insurance adjusters. FIMA recognizes that flood insurance can be a complicated product for the public and simplification will aid policyholders after a disaster. By increasing the training and simplifying the language, policyholders will benefit from more educated agents and adjusters. Specifically, the FIMA is updating the underwriting and claims manuals using plain language to make it easier for policyholders to understand. FIMA is also redesigning the Proof of Loss forms so they are simpler and provide greater clarity to policyholders. FEMA continues to provide and enhance training to agents to better inform them of the rules and



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

---

procedures, as well as key processes that have changed in the program.  
Estimated Completion Date: October 31, 2018

**OIG Analysis:** FEMA's planned corrective action is responsive to the recommendation. The recommendation will remain open and resolved until we have reviewed the redesigned Proof of Loss forms. We are requesting FEMA provide us quarterly updates on its progress in implementing corrective actions.

**Recommendation 7:** We recommend the Deputy Associate Administrator for the Federal Insurance and Mitigation Administration develop and distribute clearer guidance to the policyholders as to what types of documentation are required for supplemental claims.

**FEMA's Comments:** Concur. FIMA is developing outreach materials on the supplemental process and working closely with the insurance providers and the NFIP Direct to distribute the outreach materials as a best practice for future flood events. Estimated Completion Date: March 31, 2018

**OIG Analysis:** FEMA's planned corrective action is responsive to the recommendation. The recommendation will remain open and resolved until we have reviewed FEMA's outreach materials intended to assist policyholder's understanding of acceptable types of documentation.



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

---

### **Appendix A** **Objective, Scope, and Methodology**

The Department of Homeland Security 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*.

In response to continued concerns from Members of Congress, we conducted an audit of the Hurricane Sandy Review Process (SCRP). The objective of our audit was to determine whether FEMA properly conducted its review of claims submitted through the SCRP.

To understand the SCRP and FEMA's oversight role of the program, we obtained and reviewed relevant policies and procedures. These included *The National Flood Insurance Act of 1968*, as amended; *The Flood Disaster Protection Act of 1973*, as amended; Title 44 Code of Federal Regulations Subchapter B, *Insurance and Hazard Mitigation*; *NFIP: The Write Your Own Program Financial Control Plan Guidance*; *NFIP Flood Insurance Manual*; *NFIP Adjuster Claims Manual*; *FEMA Federal Insurance and Mitigation Administration: Sandy Claims Review Process (Draft)*; and relevant memoranda issued by FEMA clarifying or updating existing NFIP policies and procedures. We also interviewed staff directly responsible for the management, oversight, and execution of the SCRP at FEMA, its contractor, and selected insurance providers.

To address whether FEMA properly conducted its review of claims submitted through the SCRP, we selected a statistical sample of policyholders who requested a review as of December 5, 2016. We began by examining 50 SCRP claims to determine whether they were handled in accordance with the SFIP, and the subsequent impact on policyholders. When reviewing these 50 claims we found dominant trends in the claims. As a result, we determined that reviewing the remaining sample was not warranted.

To determine the reliability of the SCRP data, we compared the data against the user input screens to ensure that the SCRP data was properly populated based on the user input. Additionally, we compared the data against the insurance providers' original claim files. We concluded that the SCRP data was sufficiently reliable for meeting our audit objective and supporting our audit findings.

We conducted this performance audit between September 2016 and December 2017 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient,



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

---

appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

**Appendix B**  
**FEMA Comments to the Draft Report**

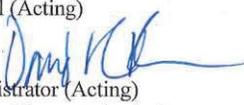
U.S. Department of Homeland Security  
Washington, DC 20472



**FEMA**

DEC 15 2017

MEMORANDUM FOR: John V. Kelly  
Inspector General (Acting)

FROM: David Bibo   
Associate Administrator (Acting)  
Office of Policy and Program Analysis

SUBJECT: Management's Response to OIG Draft Report: "Unsupported  
Payments Made to Policyholders Who Participated in the  
Hurricane Sandy Claims Review Process"  
(Project No. 16-082-AUD-FEMA)

Thank you for the opportunity to review and comment on this draft report. The Federal Emergency Management Agency (FEMA) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

We are pleased to note OIG's recognition of the significant progress made in developing and implementing several policy and program changes in the aftermath of Hurricane Sandy, to better serve National Flood Insurance Program (NFIP) policyholders. FEMA notes the report's characterization of inherently governmental functions, and further notes that throughout this review agency management continued to exercise oversight of the process and specifically the payment process.

The draft report contained seven recommendations with which FEMA concurs. Please see the attached for our detailed response to each recommendation.

Again, thank you for the opportunity to review and comment on this draft report. Technical Comments were provided under separate cover. Please feel free to contact Gary McKeon, Director of FEMA's Audit Liaison Office at 202-646-1308, if you have any questions. We look forward to working with you again in the future.

Attachment



## OFFICE OF INSPECTOR GENERAL

### Department of Homeland Security

#### Attachment: Management Response to Recommendations Contained in 16-082-AUD-FEMA

**Recommendation 1:** Establish procedures to identify and address concerns identified by external parties, including Members of Congress and the media.

**Response:** Concur. To better communicate with external parties, FEMA's Federal Insurance and Mitigation Administration (FIMA) developed and is implementing the Flood Response Playbook, which includes outreach efforts to proactively address concerns and issues arising from large scale flood events. Efforts include pushing out guidance to NFIP stakeholders in the form of bulletins, updating websites such as FEMA.gov pages with flood related information, and development of public fact sheets associated with flood issues. Additionally, we are coordinating with key NFIP partners such as the State Insurance Commissioners and the Write Your Own (WYO) companies to ensure claims issues are identified before rising to the level of congressional concerns and/or potential litigation.

To better identify and address policyholder concerns, FEMA has improved the appeals process by providing greater transparency, access, and accountability. FEMA has dedicated insurance examiners specializing in appeals who tracks each step of the appeals process to increase accountability and assure quality.

To prevent issues of claims adjusting and underwriting, FEMA is rewriting manuals such as the Flood Insurance Manual and the Adjuster Claims Manual in simplified plain language so partners and stakeholders are able to clearly understand and implement the Program's intent.

FEMA will continue to identify opportunities where procedures can be improved. The Agency has taken steps to enhance data collection and analysis which allow FIMA to take a data-driven approach to make targeted improvements to underlying processes that impact customers and disaster survivors, including providing for better near-time feedback.

Estimated Completion Date (ECD): October 31, 2018

**Recommendation 2:** Re-evaluate existing controls, such as those in the Financial Control Plan, to identify and implement improvements, enabling confidence in the National Flood Insurance Program claims process.

**Response:** Concur. FIMA will continue to re-evaluate and review existing controls to identify and implement improvements for the NFIP.

In FY2018, FIMA is working to further improve oversight of the WYO companies through the update of the Financial Control Plan (FCP), to ensure that all participating insurers meet defined minimum requirements. As part of the FCP update, the Program will continue to improve the claims and underwriting operational reviews that are conducted for each WYO company to ensure the accuracy and propriety of claims paid and files underwritten.



## OFFICE OF INSPECTOR GENERAL

### Department of Homeland Security

In addition, FIMA will continue to monitor WYO company performance during flood events and disasters by continuing to implement the Random Claims Quality Check Program (RCQC) to identify and address technical and procedural problems such as coverage issues, scoping, pricing, or other technical issues in various phases of the claims adjustment lifecycle. Its purpose is to correct claim issues before a file is closed and final payments are made while tracking trends and data.

ECD: March 31, 2018

**Recommendation 3:** Review all contracts that have executed the “flood disaster response” clause within their services contract to ensure that FEMA explicitly defines contractor requirements such as the scope of work, deliverables, and deadlines.

**Response:** Concur. FIMA will review all contracts that include the “flood disaster response” language.

ECD: October 31, 2018

**Recommendation 4:** Review all contracts that have executed the “flood disaster response” clause within their services contract to ensure compliance with contract requirement.

**Response:** Concur. FEMA will review all FIMA contracts that include the “flood disaster response” language. In response to disasters, FIMA establishes a field office, known as a Flood Response Office (FRO) to provide technical support to adjusters operating in the impacted area. FEMA will review the contracts to ensure appropriate execution of the NFIP as well as compliance with the SFIP through a customer centric approach.

ECD: October 31, 2018

**Recommendation 5:** Establish clear guidance for the review and adjustment of all flood claims. This guidance should be periodically updated and made available to National Flood Insurance Program insurance providers and their policyholders.

**Response:** Concur. FIMA is in the process of updating manuals such as the Flood Insurance Manual and the Adjuster Claims Manual to provide clarity and uniformity so partners and stakeholders are able to clearly understand and implement the Program’s intent. The revised manuals will better reflect FEMA’s implementation of the Standard Flood Insurance Policy and will consolidate and supersede the various bulletins and other guidance documents currently used in the program. The manuals will be available to the public via FEMA.gov. The updated manuals will address specific issues related to complicated claims that have led to appeals, as well as clarifying inconsistencies found in prior versions.

ECD: October 31, 2018



## OFFICE OF INSPECTOR GENERAL

### Department of Homeland Security

**Recommendation 6:** Evaluate and implement methods to better inform policyholders of their flood insurance coverage under the Standard Flood Insurance Policy.

**Response:** Concur. Since the initiation of the Sandy Claims Review process in 2015, FEMA has redesigned and increased the training and mentoring of insurance agents and insurance adjusters. FIMA recognizes that flood insurance can be a complicated product for the public and simplification will aid in the use of flood insurance as an avenue for recovery after a disaster. By increasing our training and simplifying the language, policyholders will benefit from more educated agents and adjusters. Specifically, the NFIP is updating the underwriting and claims manuals using plain language to make it easier for policyholders to understand. The NFIP is also redesigning the Proof of Loss forms so they are simpler, and provide greater clarity to policyholders. FEMA continues to provide and enhance training to agents to better inform them of the rules and procedures, as well as key processes that have changed in the program.

ECD: October 31, 2018

**Recommendation 7:** Develop and distribute clearer guidance to the policyholders as to what types of documentation is required for supplemental claims.

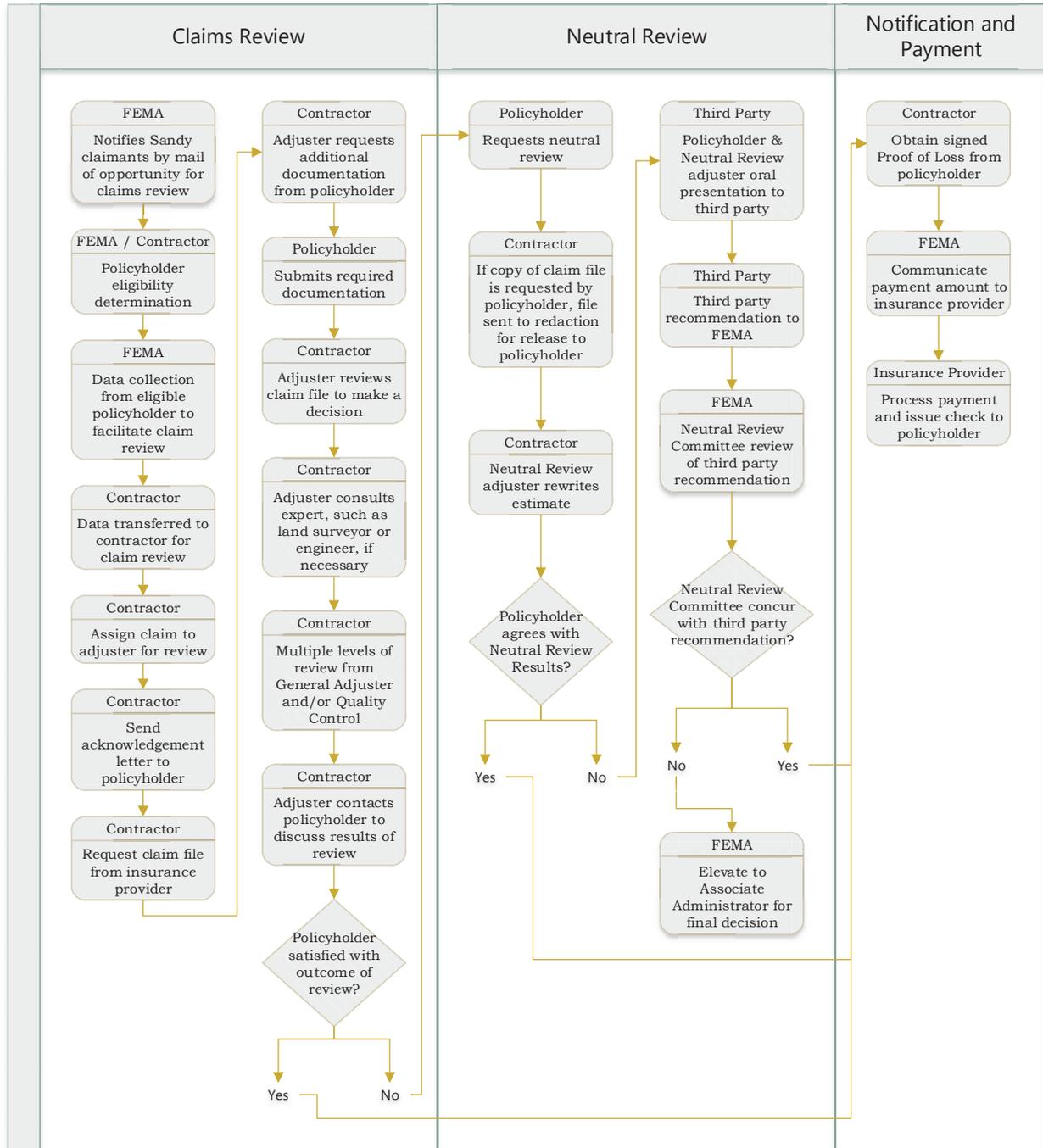
**Response:** Concur. FIMA is developing outreach materials on the supplemental process and working closely with the WYO companies and the NFIP Direct to distribute the outreach materials as a best practice for future flood events.

ECD: March 31, 2018



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

## Appendix C Sandy Claims Review Process Map



Source: OIG analysis of SCRP documentation



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

---

**Appendix D**  
**Major Contributors to This Report**

Sandra John, Director  
Devon Houston, Audit Manager  
Kevin Donahue, Auditor in Charge  
Jamie Clark, Auditor  
Bethany Russell, Auditor  
Kirsten Teal, Program Analyst  
Marisa Coccaro, Program Analyst  
Ellen Gallagher, Communications Analyst  
Audrey Van, Independent Referencer



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

---

**Appendix E**  
**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  
FEMA Administrator  
Associate Administrator, Federal Insurance and Mitigation Administration  
FEMA Audit Liaison

**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](http://www.oig.dhs.gov).

For further information or questions, please contact Office of Inspector General  
Public Affairs at: [DHS-OIG.OfficePublicAffairs@oig.dhs.gov](mailto: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](http://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