

**FEMA Has Made More than
\$3 Billion in Improper and
Potentially Fraudulent
Payments for Home Repair
Assistance since 2003**





DHS OIG HIGHLIGHTS

FEMA Has Made More than \$3 Billion in Improper and Potentially Fraudulent Payments for Home Repair Assistance since 2003

April 6, 2020

Why We Did This Audit

FEMA provides Federal funds through its IHP for home repairs to applicants who claim to be uninsured or are underinsured. From 2003 through 2018, FEMA paid \$7.4 billion to individuals for home repair assistance. We conducted this audit to determine to what extent FEMA's IHP for home repairs has controls to verify applicants' insurance coverage.

What We Recommend

We made two recommendations to FEMA to improve its IHP home repair documentation, verification, and risk management processes.

For Further Information:

Contact our Office of Public Affairs at (202) 981-6000, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The Federal Emergency Management Agency's (FEMA) Individuals and Households Program (IHP) has a robust process for collecting and verifying information provided by underinsured disaster applicants. However, FEMA does not collect sufficient supporting documentation or verify that applicants claiming to have no insurance are eligible for home repair assistance. Rather, according to FEMA, it relies on applicant self-certifications because no comprehensive repository of homeowner's insurance data exists and any additional verification processes would delay home repair payments. As a result, FEMA made, and we are questioning, more than \$3 billion in improper and potentially fraudulent payments to individuals since 2003.

Additionally, FEMA did not properly assess and report improper payment risks within IHP because it disregarded significant internal control deficiencies and prior audit findings when it evaluated program risks. Therefore, IHP applicants who claimed no homeowner's insurance received less oversight even though they posed the greatest risk for improper and fraudulent payments.

Without implementing changes to its home repair assistance processes, FEMA cannot ensure it is being a prudent steward of Federal resources and adequately assessing its risks of improper payments and fraud.

FEMA Response

FEMA disagreed with our conclusions that it made more than \$3 billion in improper and potentially fraudulent payments since 2003. FEMA also did not concur with the two recommendations in this report.



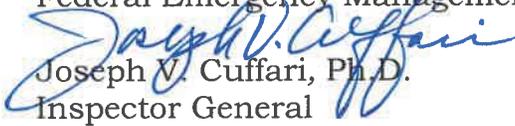
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Department of Homeland Security

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

April 6, 2020

MEMORANDUM FOR: The Honorable Peter T. Gaynor
Administrator
Federal Emergency Management Agency

FROM: 
Joseph V. Cuffari, Ph.D.
Inspector General

SUBJECT: *FEMA Has Made More than \$3 Billion in Improper and Potentially Fraudulent Payments for Home Repair Assistance since 2003*

For your action is our final report, *FEMA Has Made More than \$3 Billion in Improper and Potentially Fraudulent Payments for Home Repair Assistance since 2003*. We incorporated the formal comments provided by your office.

The report contains two recommendations aimed at improving FEMA's Individuals and Households Program for home repairs. Your office did not concur with either recommendation. Based on information provided in your response to the draft report, we consider recommendations 1 and 2 open and unresolved. As prescribed by the Department of Homeland Security Directive 077-01, *Follow-Up and Resolutions for the Office of Inspector General Report Recommendations*, within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Please send your response or closure request to 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 Sondra McCauley, Assistant Inspector General for Audits, at (202) 981-6000.



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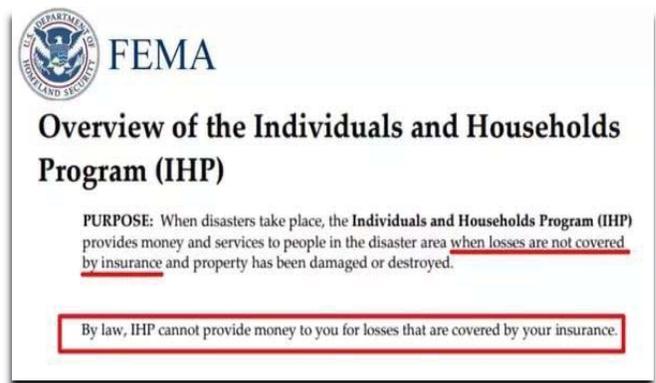
Background

The Federal Emergency Management Agency (FEMA) plays a critical role in response and recovery from Presidentially-declared disasters, whether natural or manmade. Through its Individuals and Households Program (IHP), FEMA provides housing assistance to eligible individuals and households affected by disasters that have uninsured or underinsured expenses and serious needs. The amount of IHP housing assistance available to each applicant is annually adjusted based on the Consumer Price Index. In 2017, each IHP applicant was eligible to receive as much as \$33,300.

Home Repair Housing Assistance

FEMA's housing assistance is intended to meet survivors' basic needs and supplement disaster recovery efforts. One of the main forms of housing assistance is home repair assistance, which provides funding to repair an applicant's residence to a safe and sanitary living or functional condition. Home repair funding can only be used to repair disaster-caused damage not covered by insurance. Figure 1 shows FEMA's IHP insurance requirements.

Figure 1: IHP Insurance Requirements



Source: DHS Office of Inspector General (OIG), derived from FEMA

Home Repair Application Process

Disaster survivors may apply for IHP home repair assistance by phone, online, or in person. Applicants provide FEMA with a variety of information, including name, social security number, address of the damaged property, insurance information, and a description of losses incurred. When applicants complete their disaster applications, they self-certify whether they have any form of home insurance. Those with insurance are required to file a claim with their insurance provider and submit documentation identifying any insurance settlements or benefits received or to be received as a result of disaster damage. Once an application is submitted, FEMA conducts a series of automated and manual checks to validate identity, ownership, and occupancy to ensure applicant eligibility. The information provided by IHP applicants is processed and maintained in FEMA's National Emergency Management Information System (NEMIS).



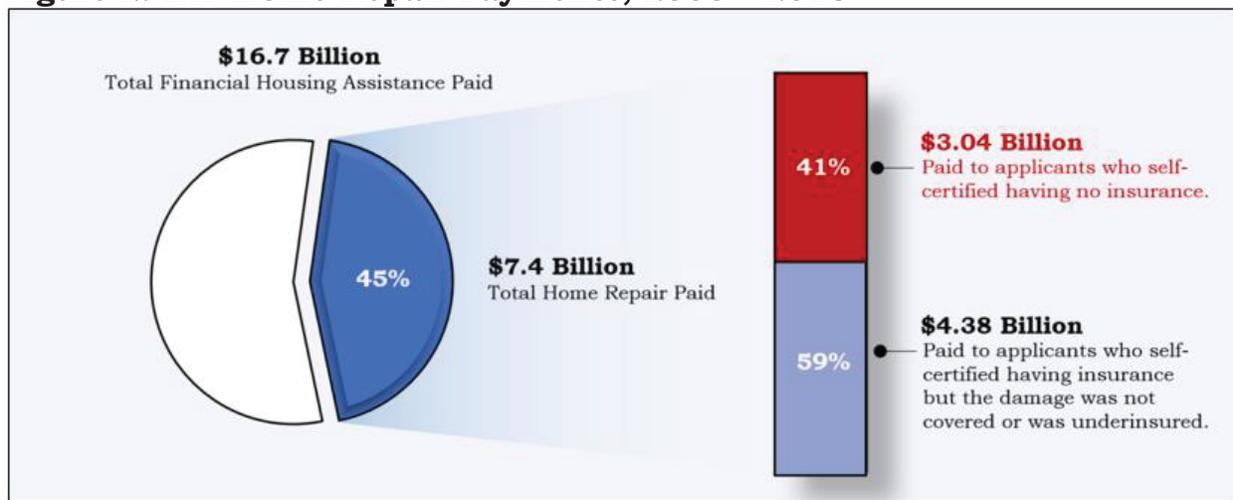
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Home Repair Federal Funding

According to FEMA's data from 2003 through 2018, home repair assistance is its largest form of housing assistance in terms of payouts. From 2003 through 2018, FEMA paid approximately \$16.7 billion in IHP housing assistance. Of this amount, \$7.4 billion (45 percent) went to individuals for home repair assistance. FEMA paid more than \$3 billion (41 percent) of the \$7.4 billion to applicants who self-certified having no home insurance, while the remaining amount was paid to those who self-certified having home insurance but the policy did not cover the damages claimed or the applicant was underinsured. Figure 2 illustrates a breakdown of IHP home repair payments from 2003 through 2018.

Figure 2: IHP Home Repair Payments, 2003 – 2018



Source: DHS OIG analysis of FEMA IHP home repair payments

IHP Improper Payments and Risk Management Practices

Improper payments are harmful to the integrity and reputation of Federal payment systems and to the Federal government as a whole. An improper payment falls into three categories: (1) intentional fraud and abuse, (2) unintentional payment errors, and (3) instances where the documentation for a payment is so insufficient that the reviewer is unable to discern whether a payment is proper. FEMA management conducts risk assessments to evaluate agency operations contributing to significant improper payments. In disaster situations, fraud risk is greater because the need to provide services quickly can hinder the effectiveness of existing internal control processes and create greater opportunities for fraud. Risk assessments take into consideration the improper payment risks associated with agency program operations and deficiencies highlighted in prior audit reports. Effective risk management



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practices within an internal control system help to reduce Federal agencies' susceptibility to improper and fraudulent payments.

We conducted this audit to determine to what extent FEMA's IHP for home repairs has controls in place to verify applicants' insurance coverage.

Results of Audit

Insufficient Documentation and Verification of IHP Home Repair

FEMA's IHP for home repair assistance has no assurance applicants claiming no homeowner's insurance are eligible for disaster assistance payments. According to Federal requirements, when supporting documentation does not exist to verify the accuracy of a payment to discern eligibility, the payment must be considered an improper payment. Further, Federal law requires FEMA to ensure property damaged or destroyed during a disaster is not covered by the applicant's insurance prior to making a home repair payment. However, FEMA does not collect any documentation or verify whether applicants claiming to have no insurance are eligible for home repair assistance payments. Instead, according to FEMA officials, it relies on applicants' self-certification statements because no comprehensive repository of homeowner's insurance exists and any additional verification would delay home repair payments. As a result, FEMA has made, and we are questioning, more than \$3 billion in improper and potentially fraudulent payments since 2003.

Reliance on Self-Certifications Led to Billions in Improper Payments

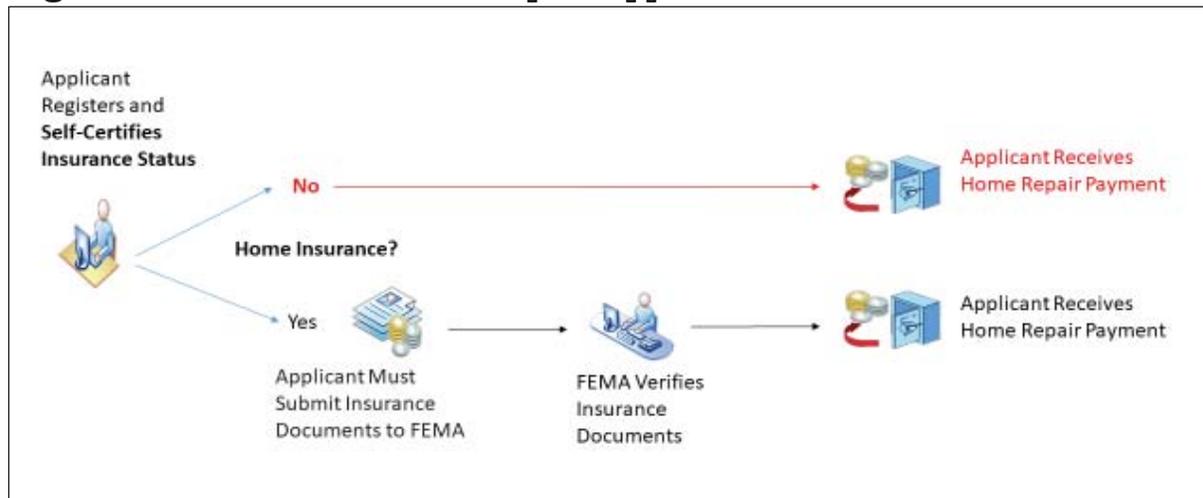
FEMA did not gather or maintain sufficient supporting documentation to determine whether applicants, who claim not to have homeowner's insurance, were eligible to receive IHP home repair assistance payments. Although FEMA collects documents and has a robust process for verifying information provided by disaster applicants who have insurance and are underinsured, it does not collect supporting documentation from applicants who report having no homeowner's insurance. Insured applicants are required to submit documentation showing disaster-caused damages are not covered by their insurance. FEMA manually reviews and validates this documentation prior to making home repair payments. In contrast, when applicants self-certify they do not have homeowner's insurance, FEMA processes their applications in NEMIS without requesting supporting documentation to validate the self-certifications prior to making a home repair assistance payment. Figure 3 depicts FEMA's home repair application process.



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Figure 3: FEMA’s IHP Home Repair Application Process



Source: DHS OIG’s assessment of FEMA’s IHP home repair application process

According to the *Office of Management and Budget (OMB) Circular A-123, Appendix C*, when an agency’s review is unable to determine whether a payment was proper to discern eligibility because of insufficient or lack of documentation, this payment must be considered an improper payment. Although not all improper payments are fraudulent, agency payments lacking supporting documentation to verify an applicant’s eligibility are categorized as improper.

Additionally, the *Robert T. Stafford Disaster Relief and Emergency Assistance Act, Section 312(a)* (Stafford Act) requires Federal agencies that administer any program providing financial assistance to ensure individuals suffering losses from a major disaster or emergency have not received financial compensation from their insurance or any other source for the same disaster-related losses. Taken at face value, the self-certification statements submitted during the application process are not sufficient to demonstrate applicants are qualified for home repair assistance. Self-certifications provide no evidence regarding whether a property owner has homeowner’s insurance for a damaged property. Absent this documentation, FEMA is unable to discern home repair eligibility, and potentially violates the Stafford Act by duplicating benefits covered under a homeowner’s insurance policy.

By relying only on self-certifications for home repairs, FEMA made billions in improper payments to applicants from 2003 through 2018. This lack of documentation to discern eligibility resulted in more than \$3 billion in improper payments to more than a million applicants. According to FEMA officials, its practice of accepting self-certification statements as sufficient documentation to support home repair assistance payments to applicants claiming no insurance has been in place since IHP’s inception in 2003. In



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addition, Federal requirements to ensure there is not duplication of assistance have also remained the same. FEMA has not obtained documentation to support applicant eligibility, leading to improper payments since 2003.

Documentation to support applicant eligibility is critical — especially because 41 percent of all applicants who received home repair payments self-certified having no homeowner's insurance between 2003 and 2018. Furthermore, according to FEMA officials, applicants who self-certify they do not have insurance are more likely to receive payments because their applications are processed with no review, while those who claim to have insurance are reviewed manually.

Not Verifying Insurance Leads to Potentially Fraudulent Payments

FEMA not verifying insurance prior to making a home repair payment constitutes an improper payment, which may also be fraudulent. Although Federal law requires FEMA to provide home repair assistance for losses not covered by insurance, FEMA claims it cannot verify self-certifications of no homeowner's insurance prior to making payments because a reliable and comprehensive insurance database does not exist. We conducted an analysis of 2017 mortgage interest data to demonstrate that other means exist to collect documentation and perform applicant verification besides using a comprehensive database of active insurance policies.

Through our assessment of 2017's top 13 financial institutions by mortgage origination volume, we found that 100 percent of the lenders required their borrowers to maintain homeowner's insurance while having a mortgage.¹ FEMA officials responsible for processing home repair assistance applications also stated that most applicants with mortgages should have homeowner's insurance. Lenders must report annual mortgage interest exceeding \$600 for each borrower's property using Internal Revenue Service (IRS) Form 1098, Mortgage Interest Statement. Therefore, if an IHP applicant has mortgage interest reported on a damaged property, the applicant should be required to maintain homeowner's insurance.

After making this determination, we collaborated with the Treasury Inspector General for Tax Administration (TIGTA) to verify the truthfulness of applicant self-certification statements indicating they had no homeowner's insurance on damaged property.

¹ According to an official from the National Association for Mortgage Brokers, each lender establishes its own requirements for homeowner's insurance as part of the lending process.



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TIGTA identified 4,342² of 201,468, or 2 percent, of the IHP applicants who claimed to have no homeowner's insurance had mortgage interest reported on their damaged properties during 2017. Because FEMA did not verify the accuracy of self-certified information, these applicants received more than \$23 million in home repair payments that were potentially fraudulent. Additionally, 103 of the 4,342 applicants in 2017 received payments greater than \$25,000, totaling approximately \$3 million, which were potentially high dollar overpayments. According to the version of *OMB Circular A-123, Appendix C* in effect in 2017, payments exceeding \$25,000 were considered high dollar overpayments.

According to FEMA officials, they were willing to accept this fraud risk to provide home repair funds more timely to survivors. TIGTA officials noted these results were conservative. Therefore, this data likely underrepresented the extent of potentially fraudulent claims for home repairs. Appendix B contains a summary of TIGTA's comparative analysis of individuals who requested home repair assistance against tax records.

Although our data match resulted in identifying \$23 million in potentially fraudulent payments, the entire population of \$876 million is also subject to intentional fraud and abuse due to the reliance on self-certifications without verification. Therefore, the more than \$3 billion improper IHP home repair payments made to individuals from 2003 through 2018 is also subject to potential fraud. Nonetheless, FEMA officials continue to assert they have no comprehensive mechanism to validate applicants' lack of insurance because this data is not nationally available from the various real and personal property insurers. FEMA officials also assert that implementing controls would hinder the efficiency of providing disaster funds to survivors quickly. Consequently, FEMA did not ensure only eligible individuals received assistance.

In continuing to not collect documentation or verify whether applicants claiming to have no insurance are eligible for home repair assistance, FEMA remains highly vulnerable to making improper and potentially fraudulent payments within its IHP home repair program. Regarding the efficiency of providing assistance quickly, FEMA on average already verifies 59 percent of applicants claiming homeowner's insurance by conducting manual reviews. However, it cannot ensure that it is being a prudent steward of government resources when the remaining 41 percent of applicants remains unverified. This is concerning because from 2003 through 2018, it resulted in more than \$3 billion in improper and potentially fraudulent payments.

² We could not identify these applicants due to privacy restrictions of Internal Revenue Code Section 6103, which generally prohibits the disclosure of tax return information to parties outside of the IRS. However, because of the potential fraud identified, we referred the findings of this report to DHS OIG Office of Investigations for further review.



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Improper Payment Risks for Home Repair Assistance Not Accurately Assessed

FEMA did not properly assess and report improper payment risks within IHP. Specifically, it disregarded significant home repair assistance internal control deficiencies and prior audit findings when it evaluated IHP improper payment risks during fiscal year 2017. According to *OMB Circular A-123, Appendix C*, Federal agencies must conduct improper payment risk assessments of all programs and activities. In conducting these assessments, agencies should consider various risk factors, such as the inherent risks of improper payments due to the nature of agency operations and significant deficiencies from audit reports of the agency Inspector General or the Government Accountability Office (GAO).

In its FY 2017 improper payments reduction program comprehensive risk assessment for IHP, FEMA indicated that frequent assessments of internal controls are conducted through numerous internal and external audits and that any identified deficiencies are handled promptly. However, the FY 2017 risk assessment did not include prior audit findings from 2014 and 2015 specifically related to improper payments.³

These two audits identified internal control deficiencies that made FEMA vulnerable to significant improper payments when providing home repair assistance. Collectively, the two audit reports identified approximately \$252 million in home repair payments at risk of being improper because FEMA did not have a process to document and verify whether IHP recipients had homeowner's insurance during Hurricane Sandy in October 2012. These improper payment risks were not included in the risk assessment because FEMA disregarded the known internal control deficiencies. By excluding relevant audit findings from its risk assessment, FEMA did not accurately report its significant improper payment risks.

Without accurately representing IHP's risks in providing home repair assistance, applicants claiming to have no insurance receive less oversight even though they pose the greatest risk for improper payments. Less oversight of IHP applicants claiming no insurance leaves FEMA highly vulnerable to significant improper payments.

³ *Hurricane Sandy – FEMA Has Improved Disaster Aid Verification but Could Act to Further Limit Improper Assistance*, GAO-15-15, December 2014; *FEMA Faces Challenges in Verifying Applicants' Insurance Policies for the Individuals and Households Program*, OIG-16-01-D, October 2015.



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Conclusion

FEMA cannot continue to rely on applicant self-certification statements as a means of documenting and verifying eligibility because this practice does not comply with Federal improper payments standards. Additionally, FEMA's improper payment risk assessments need to ensure risks specific to the IHP for home repair assistance are accurately assessed and considered. FEMA's more than \$3 billion in improper and potentially fraudulent payments, along with previous audit findings, clearly demonstrate the IHP is susceptible to significant improper payments. FEMA must take action to improve its fiscal accountability by reducing the potential for improper payments and fraud in the future.

Recommendations

Recommendation 1: We recommend the Federal Emergency Management Agency Administrator, due to the questioned costs exceeding \$3 billion, implement a process to collect documentation and verify eligibility for applicants claiming no homeowner's insurance prior to providing IHP home repair assistance payouts.

Recommendation 2: We recommend the Federal Emergency Management Agency Administrator include the IHP as susceptible to significant improper payments subject to annual improper payments estimation and reporting.

Management Comments and OIG Analysis

FEMA did not concur with our two recommendations. FEMA strongly disagreed with our conclusion and methodology for determining that it made more than \$3 billion in improper and potentially fraudulent payments for home repair assistance since 2003. Specifically, FEMA believed we overstated the amount of questionable assistance it provided for home repair assistance because we categorically questioned payments made to applicants who self-certified that they lacked homeowner's insurance.

According to FEMA, no documentation existed to verify whether applicants had homeowner's insurance prior to approving assistance. Therefore, FEMA relied on self-certification, offering IHP home repair assistance without the ability to determine applicant eligibility. However, according to *OMB Circular A-123*, FEMA's reliance on self-certification did not constitute sufficient documentation to substantiate applicant eligibility. FEMA continues to provide



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individuals as much as \$35,500⁴ in assistance, possibly duplicating benefits covered under homeowner's insurance policies and, as a result, potentially violating the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*. This is highly concerning, given that 41 percent of IHP applicants claimed not to have homeowner's insurance from 2003 through 2018. We continue to question the more than \$3 billion as improper and potentially fraudulent payments made to individuals since 2003.

FEMA officials also asserted that no comprehensive system existed to collect documentation and verify the information. Our analysis of 2017 mortgage interest data demonstrated that other means exist to collect documentation and perform applicant verification besides using a comprehensive database of active insurance policies. For example, our verifying whether applicants had received IRS Form 1098 mortgage interest statements on their damaged properties constituted a strong indicator that applicants likely had homeowner's insurance. Nonetheless, we did not assume all mortgage-holders who received IHP assistance had committed fraud. Rather, we concluded that these same individuals who self-certified — under penalty of perjury — to not have homeowner's insurance — may not have been truthful in doing so, resulting in potentially fraudulent claims.

We did not recommend an infeasible or impossible approach to reducing the risk of fraudulent claims, but instead requested that FEMA implement a process adhering to Federal law and guidance. Until FEMA implements a more robust documentation and verification process of self-certifying applicants within the IHP, we will continue to question these payments as improper.

Appendix A contains FEMA's management comments in their entirety. We also received technical comments to the draft report and revised the report as appropriate.

FEMA Response to Recommendation 1: Non-concur. FEMA expressed concerns about the feasibility of confirming a lack of insurance based on supporting documentation. According to FEMA, absent self-certification, no standard documentation existed to prove an applicant lacks insurance. Additionally, FEMA claimed there was not a comprehensive database it might use to validate self-certifying applicants' lack of homeowner's insurance. FEMA stated it was undertaking several efforts to identify viable and timely methods to verify insurance coverage. According to FEMA, it has conducted extensive research to identify ways of accessing information from private sector entities to determine whether an applicant has homeowner's insurance. FEMA will continue its efforts to find feasible solutions to improve the verification process

⁴ For fiscal year 2020, the IHP maximum award is \$35,500 for housing assistance.



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without hindering the expeditious delivery of disaster assistance. Based on these assertions, FEMA requested the recommendation be resolved and closed. Estimated Completion Date: Not Applicable.

OIG Analysis: The absence of a documentation and a verification process to determine eligibility for home repair assistance results in improper payments. We do not seek an impossible or infeasible approach, but rather recommend FEMA adhere to Federal law by implementing such a process to validate that applicants qualify for home repair assistance. The methodology we used throughout our audit demonstrates one feasible process—the use of IRS Form 1098 Mortgage Interest Statements to document and verify applicant eligibility. This recommendation will remain unresolved and open until FEMA implements a process to collect documentation to verify assistance eligibility for applicants claiming no homeowner’s insurance.

FEMA Response to Recommendation 2: Non-concur. FEMA neither believes IHP is susceptible to improper payments, nor considers payments to self-certifying applicants as overpayments. IHP underwent an *Improper Payments Elimination and Recovery Act of 2010* (IPERA) comprehensive risk assessment in FY 2018 based on its more than 20 percent increase in disbursements from 2016 to 2017. FEMA’s assessment identified IHP as low risk. OMB M-18-20, dated June 20, 2018, requires any program or activity that disburses \$10 million or more be subject to IPERA testing. According to FEMA, only if IHP disbursements exceeded the established threshold in 2018, would it test IHP for improper payments in FY 2020. However, FEMA will test IHP because it received supplemental funding in FY 2018 due to disasters resulting from hurricanes Harvey, Irma, and Maria. FEMA will report the testing results in DHS’ 2020 Annual Financial Report. FEMA requested this recommendation be resolved and closed. Estimated Completion Date: Not Applicable.

OIG Analysis: Previous IHP risk assessments performed by FEMA overlooked internal control risks and weaknesses in processes for documenting and verifying applicant eligibility for assistance. Applicant eligibility should have been subjected to IHP reporting, regardless of the \$10 million threshold. Further, based on OMB M-18-20, FEMA’s unjustified payments exceeding the \$10 million threshold identify IHP as susceptible to significant improper payments. As such, this recommendation will remain unresolved and open until FEMA reports its IHP as susceptible to significant improper payments subject to annual improper payments estimation and reporting.



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Objective, Scope, and Methodology

The Department of Homeland Security Office of Inspector General was established by the *Homeland Security Act of 2002, Public Law 107-296*, by amendment to the *Inspector General Act of 1978*. Our audit objective was to determine to what extent FEMA's IHP for home repairs has controls in place to verify applicants' insurance coverage.

To accomplish our objective, we conducted interviews with officials from the FEMA Headquarters Recovery Directorate, the Fraud and Internal Investigations Division, and the Recovery Programs Technology Division. We also conducted interviews with program officials from FEMA's Individual Assistance Division, including the Application Processing Section, Audits Section, Field Services Section, and Program Management Section.

We reviewed prior audits and reports related to the audit objective, including DHS OIG audits, GAO reports, and congressional testimony. We also analyzed applicable Federal requirements regarding management's responsibility for implementing internal controls and managing the risks of fraud and improper payments in Federal agencies. Specifically, we reviewed the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*; *OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*; and *OMB Circular A-123, Appendix C*. We assessed FEMA's control structure, policies, procedures, and risk management practices applicable to oversight of IHP home repair assistance payments.

For audit testing purposes, we focused on all Presidentially-declared disasters in 2017 with IHP payouts to applicants who self-certified not having homeowner's insurance for home repairs. The resulting population was 201,468 applicants who received approximately \$876 million in home repair assistance payments for declared disasters in 2017. We assessed the completeness of this data by comparing the number of applicants and payouts to publicly available reports of home repairs assistance published by FEMA. We assessed the accuracy of the data by reconciling home repair data elements for a limited number of records with actual records in NEMIS. We determined the data was sufficiently complete and accurate and therefore reliable for audit testing purposes.

We selected a statistical sample from our 2017 population using a 95 percent confidence interval, 5 percent sampling error, and 50 percent population error, which resulted in 383 applicant records. To confirm whether FEMA disbursed IHP home repair payments for these 383 applicants, we reviewed FEMA's financial system of record. Additionally, to determine these applicants' eligibility for the home repair assistance payments, we reviewed whether



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supporting documentation existed in NEMIS. Because all 383 applicant records lacked documentation in support of eligibility decisions in NEMIS, we confirmed that FEMA relies on self-certifications and lacks documentation to support eligibility decisions.

Furthermore, FEMA officials confirmed their process of not collecting supporting documentation has been in place since DHS' inception in 2003. In addition, Federal requirements for ensuring duplication of assistance has also remained the same. FEMA officials provided the number of applicants and payments for those who received home repair assistance payments from 2003 to 2018 after self-certifying they did not have homeowner's insurance. We did not conduct data reliability testing. Rather, we relied on FEMA's quantification of the home repair assistance payments made to applicants without homeowner's insurance from 2003 to 2018.

To assess whether a means to collect documentation and perform applicant verification exists besides using a comprehensive database of active insurance policies, we analyzed the entire 2017 population of 201,468 records representing IHP applicants who self-certified they did not have homeowner's insurance.

We reviewed financial industry publications from the top 13 private lending institutions for mortgage origination volume within the United States during 2017 to determine the requirements for property owners to maintain homeowner's insurance while having active mortgages. The lenders used in our analysis were Bank of America, Caliber Home Loans, Chase Bank, Fairway Independent Mortgage, Freedom Mortgage, Guaranteed Rate, Loan Depot, PHH Mortgage, Quicken Loans, Stearns Lending, United Wholesale Mortgage, US Bank, and Wells Fargo Bank. Our analysis of lending institutions confirmed an active mortgage requires a property owner to maintain homeowner's insurance.

We shared our 2017 IHP home repair assistance applicant data with TIGTA, who used this data to determine whether each applicant who received a home repair assistance payment had reportable mortgage interest on the damaged property for which they certified having no homeowner's insurance. This data included the disaster number, full name, social security number, damaged property address, and FEMA-approved payment amount. TIGTA performed data matching of each applicant against the applicant's IRS Form 1098 Mortgage Interest Statement for tax year 2017. TIGTA subsequently provided us the results of its analysis, which is included in Appendix B.



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We conducted this performance audit between January 2018 and June 2019 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.



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Appendix A
FEMA Comments to the Draft Report

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



FEMA

February 10, 2020

MEMORANDUM FOR: Joseph V. Cuffari, Ph.D.
Inspector General

FROM: Joel Doolin
Associate Administrator
Office of Policy and Program Analysis, and
International Affairs

SUBJECT: Management’s Response to OIG Draft Report:
“FEMA Has Made More Than \$3 Billion in Improper and
Potentially Fraudulent Payments for Home Repair
Assistance Since 2003”
(Project No. 18-046-AUD-FEMA)

JOEL A DOOLIN Digitally signed by
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Thank you for the opportunity to review and comment on this draft report.

FEMA disagrees strongly with the OIG’s conclusion that FEMA made \$3 billion in improper and potentially fraudulent payments to disaster survivors for immediate housing assistance as part of the Individuals and Households Program (IHP).

FEMA urges all Americans to insure against risks, from flood to fire. IHP Assistance provides financial assistance and direct services to individuals and households who have uninsured or underinsured eligible necessary expenses and serious needs. IHP is not a substitute for insurance and cannot compensate for all losses caused by a disaster; it is intended to meet the survivor’s basic needs and supplement disaster recovery efforts. During the registration process, FEMA informs applicants that most mortgages require homeowner’s insurance coverage and, if they are covered for the items FEMA funds by peril and still accept assistance, the resulting duplication of benefit may require the applicant to return the assistance.

FEMA believes OIG overstates the amount of questionable assistance FEMA provided by categorically questioning assistance payments made to applicants who self-certified a lack of homeowner’s insurance. FEMA relies on self-certified verifications for disaster assistance because there is no alternative. Beyond a self-certification, which is provided under penalty of perjury, there is no documentation that an applicant may provide that would allow FEMA to conclusively verify that they do not have homeowner’s insurance.

www.fema.gov



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After a disaster, when the survivor is seeking immediate shelter, FEMA accepts the applicant at their word, under penalty of perjury.

FEMA has exhaustively researched potential ways to reliably and expeditiously verify whether an applicant has homeowner's insurance. FEMA's research, which has been ongoing, determined that a reliable and comprehensive database for active insurance policies does not exist – a conclusion with which the OIG agreed.¹

The OIG advises FEMA to discover whether potential IHP applicants pay mortgage interest because mortgage lenders require homeowner's insurance. According to the OIG, any mortgage holder who receives IHP assistance would therefore be committing fraud.

FEMA conducted outreach with the Internal Revenue Service (IRS) regarding accessing their data to determine that an applicant has a mortgage, which would indicate a requirement to maintain homeowner's insurance coverage. The IRS indicated congressional action would be needed to require them to share information with FEMA on a regular or routine basis. Applicants would also be required to sign and submit an additional form to FEMA as part of their application, agreeing to allow FEMA access to their IRS records. FEMA does not consider this a viable method for confirming lack of insurance given the volume of disaster assistance applications and the processing delays that would result from this type of manual data exchange.

Because IHP provides such basic aid, it is a time-limited program, available for only 18 months from the disaster declaration. OIG's proposed policy changes would unduly delay disaster assistance to survivors, likely beyond the legal end of the period of assistance.

FEMA also has significant concerns with the methodology that was used to project the improper payment figure provided within the report. Of the \$3 billion of assistance payments questioned by the OIG, the OIG's report raises potential questions about 2 percent of the limited sample of payments reviewed. The OIG then projects the total questioned costs by extrapolating the results of a limited sample, taken just from 2017 disasters, over a 16-year period. This would include the 98 percent of applicants in that limited sample that were not identified as potentially questionable. This methodology appears to include funds provided for non-insurable items and assistance to applicants that FEMA could confirm did not have flood insurance. Moreover, the OIG's report concedes that the OIG's

¹ GAO-15-15, *Hurricane Sandy: FEMA Has Improved Disaster Aid Verification but Could Act to Further Limit Improper Assistance*, December 12, 2014, and OIG-16-01, *FEMA Faces Challenges in Verifying Applicants' Insurance Policies for the Individuals and Households Program*, October 6, 2015.



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collaboration with the Treasury Inspector General for Tax Administration was unable to identify specific applicants due to privacy restrictions, demonstrating this would also be a challenge for FEMA.

While FEMA appreciates the goals and objectives the OIG is pursuing, it appears that the OIG is expecting an impossibility and then overstates the consequences of failing to meet the impossible. FEMA must always achieve the appropriate balance between taking reasonable steps to verify eligibility and providing timely assistance to disaster survivors. FEMA continues to pursue opportunities to further reduce the risk in accepting self-certification of no homeowner's insurance. However, in the absence of a reliable and comprehensive source for active homeowner's insurance policies, FEMA must continue its effort to find feasible solutions within the insurance industry that would improve the process without compromising the timely delivery of disaster assistance.

The draft report contained two recommendations with which FEMA non-concurs. Attached find our detailed response to each recommendation. We previously provided technical comments under a separate cover.

Attachment



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**Attachment: DHS Management Response to Recommendations
Contained in 18-046-AUD-FEMA**

OIG recommended that:

Recommendation 1: We recommend the Federal Emergency Management Agency Administrator, due to the questioned costs exceeding \$3 billion, implement a process to collect documentation and verify eligibility for applicants claiming no homeowner's insurance prior to providing IHP home repair assistance payouts.

Response: Non-concur. FEMA cannot concur with the recommendation or provide a completion date. FEMA has repeatedly expressed concerns about the infeasibility of confirming a lack of insurance via documentation. Absent self-certification, no standard documentation exists that proves an applicant does not have insurance, nor is there a comprehensive database that can be used to discredit such self-certifying statements.

FEMA currently verifies whether an applicant has flood insurance by using the National Flood Insurance Program (NFIP) database, which FEMA maintains. Applicants who self-certify as being uninsured are checked against the information contained within the NFIP database. FEMA also conducts annual post award reviews, using a statistically valid sample to check homeowners who applied for FEMA assistance without insurance against the National Insurance Crime Bureau (NICB) database. Results from the annual review generates potential fraud referrals for investigation by FEMA's Fraud and Internal Investigations Division. FEMA is undertaking several efforts to identify viable, timely methods to verify insurance coverage and has conducted extensive research on ways to access insurance data from the private sector to determine whether an applicant has homeowner's insurance. FEMA continues its effort to find feasible solutions that would improve the process without hindering the expeditious delivery of disaster assistance.

We request that the OIG consider this recommendation resolved and closed.

Estimated Completion Date (ECD): Not Applicable.

Recommendation 2: We recommend the Federal Emergency Management Agency Administrator include the IHP as susceptible to significant improper payments subject to annual improper payments estimation and reporting.

Response: Non-concur. FEMA IHP is not susceptible improper payments, nor does FEMA consider these payments to be overpayments. IHP underwent an Improper Payments Elimination and Recovery Act of 2010 (IPERA) comprehensive risk assessment in FY 2018 based on an over 20 percent increase in disbursements from 2016 to 2017.



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IHP was found to be low risk. The Office of Management and Budget (OMB) memorandum M-18-20, dated June 20, 2018, requires any program or activity which disbursed \$10 million or more be subject to IPERA testing. If the program had disbursements above the established threshold in 2018, then the program will be tested for improper payments in FY 2020. The program will undergo IPERA testing for the Harvey, Irma, and Maria disasters due to receiving supplemental funding in FY 2018. The results will be reported in DHS 2020 AFR.

We request that the OIG consider this recommendation resolved and closed.

ECD: Not applicable.



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Appendix B
Department of Treasury Data Match Results



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20005

INSPECTOR GENERAL
FOR TAX
ADMINISTRATION

October 17, 2018

MEMORANDUM FOR ACTING ASSISTANT INSPECTOR GENERAL FOR AUDITS,
DEPARTMENT OF HOMELAND SECURITY

FROM: Russell P. Martin 
Assistant Inspector General for Audit (Returns Processing and
Account Services)

SUBJECT: Closing Memorandum – Results of Data Match

This memorandum presents the results of the data match your office requested. On August 22, 2018, your office requested our assistance in performing a data match of Federal Emergency Management Agency (FEMA) Individuals and Households Program (IHP) disaster assistance records to tax records. The purpose of the data match was to obtain the aggregate number of IHP disaster assistance applicants for whom the Internal Revenue Service (IRS) received a Form 1098, *Mortgage Interest Statement*, for Calendar Year 2017.

On September 6, 2018, your office provided us with an electronic data file containing records associated with 201,468 applicants (DHS-OIG File). The file you provided included the disaster number, name and Social Security Number (SSN), damaged property street address, and the approved FEMA payout amount. Our match of the SSNs and addresses associated with the 201,468 applicants you provided identified that:

- The IRS received a Form 1098 for 9,419 (4.7 percent) of the 201,468 applicants. We identified the 9,419 individuals by matching the applicants' SSNs listed in the DHS-OIG File to the SSNs listed on Forms 1098 the IRS received.



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- For the 9,419 applicants, a total of 4,342 applicants¹ had an address match between the applicant's damaged property address listed on the DHS-OIG File to either the payer's/borrower's street address listed on the Form 1098 and/or the address listed in Box 8 (Address of property securing mortgage) on the Form 1098.

Figure 1 highlights the specific fields on the Form 1098 we used in our data match analysis.

Figure 1: Form 1098, Mortgage Interest Statement

RECIPIENT'S/LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0901 2017 Form 1098		Mortgage Interest Statement Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2017 General Instructions for Certain Information Returns.
		1 Mortgage interest received from payer(s)/borrower(s) \$	2 Outstanding mortgage principal as of 1/1/2017 \$	
RECIPIENT'S/LENDER'S federal identification number	PAYER'S/BORROWER'S taxpayer identification no.	3 Mortgage origination date	4 Refund of overpaid interest \$	
PAYER'S/BORROWER'S name		5 Mortgage insurance premiums \$	6 Points paid on purchase of principal residence \$	
Street address (including apt. no.)		7 Is address of property securing mortgage same as PAYER'S/BORROWER'S address? If "Yes," check box <input type="checkbox"/> If "No," enter address of property securing mortgage below		
City or town, state or province, country, and ZIP or foreign postal code		8 Address of property securing mortgage (see instructions)		
10 Number of mortgaged properties	11 Other	9 If property securing mortgage has no address, provide description of the property (see instructions)		
Account number (see instructions)				

Form **1098** Cat. No. 14402K www.irs.gov/form1098 Department of the Treasury - Internal Revenue Service

Source: IRS public website.

In addition, you requested that we identify from the population of applicants receiving a Form 1098 where there was a street address match (*i.e.*, 4,342 applicants), the number of these applicants with an approved FEMA payout amount greater than \$25,000 per the DHS-OIG File. For the 4,342 applicants we identified, 103 were approved for a FEMA payout amount greater than \$25,000. The total payout amounts for the 103 applicants was \$2,971,789. Finally, you requested we provide results associated

¹ The 4,342 applicant matches we identified are conservative. There are likely more matches. However, differences in the formatting of address numbers, street names, cities, *etc.* contributed to the inability to identify all matching records conclusively.



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with the 4,342 applicants we identified by disaster. Figure 2 provides a breakdown of the 4,342 applicants by disaster number.

Figure 2: Number of Applicants and Approved Payout Amount by Disaster Number

Disaster Number	Number of Applicants	Approved Payout Amount
4294	7	\$21,450
4297	8	\$74,611
4300	8	\$81,044
4317	13	\$47,503
4318	3	\$5,710
4331	5	\$4,156
4332	1783	\$14,468,029
4335	9	\$53,111
4337	2403	\$8,236,746
4338	49	\$88,132
4339	40	\$116,976
4340	9	\$26,230
Other ²	5	\$18,726
Total	4,342	\$23,242,424

Source: Treasury Inspector General for Tax Administration analysis of file provided by DHS-OIG and Forms 1098 received by the IRS for Calendar Year 2017.

² These represent disaster codes with less than three applicants receiving a payout. Internal Revenue Code § 6103 prohibits us from sharing Form 1098 information received by the IRS for individuals.



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Appendix C
Report Distribution

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