

**FEMA Insurance Reviews of Applicants Receiving Public Assistance Grant Funds for 2004 and 2005 Florida Hurricanes Were Not Adequate**





# HIGHLIGHTS

## ***FEMA Insurance Reviews of Applicants Receiving Public Assistance Grant Funds for 2004 and 2005 Florida Hurricanes Were Not Adequate***

**December 18, 2014**

### **Why We Did This**

We received two Office of Inspector General (OIG) Hotline complaints about insurance reviews of Florida disaster assistance applicants. In addition, three OIG audits of Florida grant recipients raised similar concerns.

### **What We Recommend**

Federal Emergency Management Agency (FEMA) needs to perform a comprehensive insurance review of \$177 million awarded to 154 applicants to ensure that duplication of benefits does not exist, and avoid potentially up to a billion dollars in future costs by ensuring that Florida applicants obtained and maintained adequate amounts of insurance.

#### **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**

The quality of FEMA's insurance reviews in Florida was not adequate to maximize insurance available under applicants' policies and to ensure that duplication of benefits did not occur. FEMA's Florida Recovery Office knew about these deficiencies in its insurance review process but did not correct them. As a result, FEMA may have funded up to \$177 million that insurance should have covered.

Furthermore, FEMA's insurance specialists routinely waived the requirement to obtain and maintain insurance for future disasters, even though they did not have the authority to take such action. FEMA's Florida Recovery Office did not detect and correct this deficiency. As a result, FEMA potentially stands to lose up to a billion dollars in future Florida disasters because many Florida communities may not have adequate insurance coverage for future disasters such as those that occurred in 2004 and 2005.

### **FEMA Response**

FEMA chose to withhold comments until after we issue our final report. FEMA's written response is due within 90 days of report issuance.




OFFICE OF INSPECTOR GENERAL  
Department of Homeland Security

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December 18, 2014

MEMORANDUM FOR: Andrew Velasquez III  
Regional Administrator-Acting, Region IV  
Federal Emergency Management Agency

FROM:   
John V. Kelly  
Assistant Inspector General  
Office of Emergency Management Oversight

SUBJECT: *FEMA Insurance Reviews of Applicants Receiving Public Assistance Grant Funds for 2004 and 2005 Florida Hurricanes Were Not Adequate*  
FEMA Disaster Numbers DR-1539, DR-1545, DR-1551, DR-1561, DR-1595, DR-1602, and DR-1609  
Report Number OIG-15-19-D

We audited the insurance adjustments applied against Federal Emergency Management Agency (FEMA) Public Assistance funds awarded to applicants who had insurance coverage with a specific insurance provider during the 2004 and 2005 hurricane seasons in Florida. The Florida Department of Emergency Management (Florida), a FEMA grantee, awarded these funds to applicants for disaster recovery work related to hurricanes that occurred in Florida during this time. This audit is a follow-up to two complaints we received through our Hotline and three previous audits we conducted of Public Assistance grant recipients in Florida.<sup>1</sup>

The first complaint, received in January 2011, identified concerns with duplication of benefits and damages that insurance should have covered in the state of Florida. The second complaint, received in February 2011, indicated that, since 2010, FEMA management had been aware of potentially significant issues with insurance adjustments relating to disaster assistance in 2004 and 2005. In addition, our three previous audits of Florida grant recipients raised similar concerns.<sup>2</sup>

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<sup>1</sup> *City of Vero Beach, Florida – Disaster Activities Related to Hurricane Jeanne*, DA-11-18, May 12, 2011; *City of Vero Beach, Florida – Disaster Activities Related to Hurricane Frances*, DA-11-19, May 12, 2011; and *FEMA Public Assistance Grant Funds Awarded to City of Coral Springs, Florida – Hurricane Wilma*, DA-12-15, April 1, 2012.

<sup>2</sup> Appendix B provides additional information about the three previous audits.



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We judgmentally selected nine applicants from a list of applicants that carried insurance through the Insurance Company. The FEMA Florida Recovery Office provided this list to us in 2012. For these nine applicants, we judgmentally selected 78 projects, based on dollar values, from 2,088 projects that FEMA approved. FEMA Region IV provided a more comprehensive list in March 2014, and we used this information to update the data for our audit universe. Table 1 presents the gross and net award amounts for the 154 applicants in our audit universe and the gross and net award amounts for the 78 projects we selected for review.

Table 1 - Gross and Net Award Amounts

	Applicants	Projects	Gross Award Amounts	Insurance Reductions	Net Award Amounts
Audit Universe	154	2,088	\$244,196,468	(\$67,017,518)	\$177,178,950
Audit Scope	9	78	\$66,022,261	(\$14,895,437)	\$51,126,824

Source: Department of Homeland Security (DHS) Office of Inspector General (OIG) prepared with information obtained from the FEMA Florida Recovery Office, FEMA Region IV Office, and FEMA’s National Emergency Management Information System (NEMIS).

Background

The State of Florida experienced historic weather events during its 2004 and 2005 hurricane seasons with seven hurricanes and two tropical storms. Four hurricanes hit the state in 2004 over a span of 44 days, causing an estimated \$45 billion in damages and resulting in Public Assistance funding totaling almost \$2.5 billion. The three hurricanes that passed through Florida in 2005 resulted in Public Assistance funding totaling almost \$1.9 billion. Table 2 summarizes the Federal assistance FEMA provided to Florida for the seven hurricanes. Five of the seven hurricanes that hit Florida during this time rank in the top ten costliest hurricanes in the United States, according to the Insurance Information Institute.<sup>3</sup>

<sup>3</sup> Appendix B provides additional background information.



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Table 2 – Federal Assistance for Florida Disasters

Florida Disaster Declarations 2004 and 2005 Hurricanes				
Year	Disaster number	Incident	Public Assistance Funding	Permanent Work
2004	1539	Hurricane Charley	\$ 612,562,547	\$ 174,624,913
	1545	Hurricane Francis	666,626,360	276,740,261
	1551	Hurricane Ivan	697,541,112	347,468,706
	1561	Hurricane Jeanne	521,496,152	133,641,815
<b>Subtotals</b>			<b>\$2,498,226,171</b>	<b>\$ 932,475,695</b>
2005	1595	Hurricane Dennis	\$ 200,000,891	\$ 75,320,688
	1602	Hurricane Katrina	194,445,713	37,115,273
	1609	Hurricane Wilma	1,482,028,525	483,277,214
	<b>Subtotals</b>			<b>\$1,876,475,129</b>
<b>Grand Totals</b>			<b>\$4,374,701,300</b>	<b>\$1,528,188,870</b>

Source: DHS OIG prepared with information from FEMA.gov.

Results of Audit

The quality of FEMA’s insurance reviews in Florida was inadequate to maximize insurance available under applicants’ policies with the Insurance Company and to ensure that duplication of benefits did not occur. FEMA’s Florida Recovery Office knew about these deficiencies in its insurance review process but did not correct them. As a result, FEMA may have funded up to \$177.2 million that insurance should have covered. To resolve these problems, FEMA needs to:

- (1) conduct a detailed insurance review of all projects associated with applicants that have insurance with the Insurance Company to determine the correct amount of available insurance benefits that the applicants received or should have received for the projects FEMA approved;
- (2) recover the additional insurance proceeds identified in the reconciliation recommended in the first step above; and
- (3) direct Florida, as grantee, to work with applicants, the State Insurance Commissioner, and the Insurance Company to ensure that applicants receive or have received the maximum insurance benefits available under their policies for the projects FEMA approved.

Furthermore, FEMA’s insurance specialists routinely waived the requirement to obtain and maintain insurance for future disasters, even though they did not have the authority to take such action. FEMA’s Florida Recovery Office did not detect and correct this deficiency. As a result, FEMA potentially stands to lose





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up to a billion dollars in future Florida disasters because many Florida communities may not have adequate insurance coverage for future disasters such as those that occurred in 2004 and 2005. Therefore, FEMA also needs to:

- (1) determine the final gross eligible project costs for each project and in turn rewrite the project worksheets to identify the correct amount of insurance that each applicant must obtain and maintain as a condition of receiving disaster assistance; and
- (2) Direct Florida to review all Florida applicants and determine whether they have either obtained the required insurance, or obtained an insurance waiver from the State Insurance Commissioner to avoid potentially paying up to a billion dollars in future costs.

Finally, FEMA told us that, due to the nature of disaster recovery response, some of the insurance specialists who worked on the Florida disasters transitioned to other disasters, including Hurricane Sandy. While this report contains no recommendations specific to Hurricane Sandy, given that we received the Hotline complaints in 2011 for 2004 and 2005 hurricanes, we are concerned that the conditions we identified in this report continue to exist and may be ongoing in some active disasters.

### **Finding A: FEMA's Insurance Reviews Were Inadequate**

FEMA's insurance reviews were inadequate to ensure that approved project costs included required reductions for the maximum amount of available insurance and did not include duplicate benefits. As a result, FEMA funded \$177.2 million that insurance may have covered. This occurred because, after FEMA's Florida Recovery Office insurance staff alerted its management to deficiencies in its own insurance review process, the Florida Recovery Office management did not correct the deficiencies. Instead, FEMA's Florida Recovery Office management chose to accept the Insurance Company's assertion that the policy between the Insurance Company and the applicants did not cover the \$177.2 million in damages.

Section 312(a) of the *Stafford Act*, Duplication of Benefits, states that no entity will receive assistance for any loss for which they have received financial assistance from any other program, from insurance, or from any other source. In addition, Federal regulations at 44 Code of Federal Regulations (CFR) 206.250(c) stipulate that "actual and anticipated insurance recoveries shall be deducted from otherwise eligible costs."



**FEMA Insurance Specialists Did Not Identify Available Insurance**

In some cases, the specialists determined that insurance was not available, even when the applicant had a policy covering the damaged facilities. As table 3 shows, of the 78 project worksheets we reviewed, 38 (49 percent) included a comment that no insurance was available or that insurance did not cover the damages.

**Table 3 - Project Worksheets with “No Insurance” Determination**

Applicant	Disaster Number	# of Projects Selected for Review	Gross Project Amounts for Selected Projects	# of Projects with “No Insurance” Comment	Gross Award Amounts for Projects with “No Insurance” Comment
Everglades City	1609	8	\$ 3,902,431	5	\$ 1,366,567
Fort Pierce	1545	7	34,284,701	4	2,127,041
Islamorada	1609	6	5,263,038	3	553,924
Marathon	1609	3	2,171,668	2	182,759
Monroe County	1609	5	682,689	1	344,597
Pembroke Pines	1609	19	10,619,759	10	2,557,146
Plantation	1609	15	4,522,237	8	1,532,687
Vero Beach	1545	5	610,145	0	0
Wellington	1609	10	3,965,593	5	3,096,958
<b>Totals</b>		<b>78</b>	<b>\$66,022,261</b>	<b>38</b>	<b>\$11,761,679</b>

Source: DHS OIG prepared with information obtained from the FEMA Florida Recovery Office, FEMA Region IV Office, and FEMA’s NEMIS.

Our review showed that FEMA insurance specialists adequately supported only 4 of their 38 “no insurance” decisions; FEMA expects these 4 projects to total \$662,085. As for the remaining 34 projects totaling \$11.1 million, FEMA insurance specialists either incorrectly arrived at that decision, or could not support that decision. Specifically, FEMA insurance specialists incorrectly arrived at a no-insurance determination for 23 projects totaling \$8.6 million, and had no support to justify their determinations for 11 projects totaling \$2.5 million.



**Significant Duplication of Benefits Potentially Exists for Damages Funded by FEMA**

We reviewed the 9 applicants' insurance policies for the 78 selected projects. In particular, we compared the Schedule of Properties and the Statements of Loss, when available, to the project scope of work. Critical documentation was often incomplete, such as the following:

- Insurance policies were incomplete and missing pages.
- Statements of Loss were not available.
- The Schedule of Properties was not available in two cases.
- Summaries supporting and tracking deductible calculations were not available.

Based on the frequency and range of these issues, we concluded that FEMA could not have completed a valid insurance assessment with the documentation available. Comparing the available insurance documentation to the scopes of work FEMA authorized in the project worksheets, we identified \$46,477,751 of project costs that insurance policies potentially covered. This amount represents about 91 percent of the \$51,126,825 FEMA approved (obligated) for the 78 projects we reviewed. It is important to note that our audit covered only 9 applicants out of the total 154 applicants who had policies with the Insurance Company. For the 154 applicants, FEMA approved \$177.2 million for 2,088 projects. Because our audit shows that these projects are at high risk, we conclude that FEMA has little assurance that its insurance specialists properly reduced the \$177.2 million in FEMA-approved damages.

**FEMA's Florida Recovery Office Was Aware of Problems with Insurance Reviews**

Insurance specialists performing closeout activities in the FEMA Florida Recovery Office identified potentially serious problems with insurance in late summer of 2010. They said that they immediately notified management of their concerns. Specifically, the problems they identified were caused by FEMA applying insufficient reductions to the funding of 2004 and 2005 hurricane project worksheets for the amounts of anticipated or actual insurance proceeds applicants expected or received from the Insurance Company.

FEMA's Lead Insurance Specialist initially estimated that between \$80 million and \$120 million of disaster assistance might include duplicate benefits that insurance covered or should have covered. The Lead Insurance Specialist said these problems occurred because of (1) insufficient and inaccurate insurance





reviews at the time of project development, and (2) understated claims adjustments and insurance settlements from the Insurance Company. In March 2014, FEMA provided a comprehensive dataset for applicants with insurance through the Insurance Company. This updated information identified 154 applicants with 2,088 projects totaling a gross award amount of \$244,196,468 (see audit scope paragraph on page 2).

**Insurance Company Established a \$25 Million Reserve Fund for Anticipated Claims of Five Applicants**

In October 2010, FEMA initiated a project to review all projects for five cities (applicants) with insurance through the Insurance Company.<sup>4</sup> In early November 2010, the Insurance Company notified the five cities that their claims relating to the 2004 and 2005 hurricanes may be under review. At the end of December 2010, a representative of the Insurance Company reported to Florida that the Board of Trustees of the Insurance Company had:

- contacted its re-insurers to notify them of the issues;<sup>5</sup> and
- approved a reserve fund of \$25 million for use in the event the Insurance Company was responsible for additional claims for the five initial cities.

**FEMA Accepted the Insurance Company’s Position on “Listed Properties” Despite Differing Opinions**

In February 2011, an attorney representing the Insurance Company sent FEMA’s Florida Recovery Office Public Assistance Infrastructure Branch Director a letter concerning potential Insurance Company’s responsibilities. The letter clearly stated the Insurance Company’s position that “any property damage claims pertaining to items of property not included on the members Property Schedule were not covered under the [Insurance Company’s] agreements with those members.”

A Florida Recovery Office official and some applicants disagreed with the Insurance Company’s position. For example, the Lead Insurance Specialist believed the insurance contract was a standard contract, readily available and obtained from a provider of insurance products and services. The Lead Insurance Specialist also contended that the Insurance Company’s position

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<sup>4</sup> The gross awards for the five initial cities totaled \$33.4 million, as of March 2014.

<sup>5</sup> “Reinsurance is a transaction in which one insurance company indemnifies, for a premium, another insurance company against all or part of the loss that it may sustain under its policy or policies of insurance.” *Source*: Reinsurance Association of America.



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was not consistent with industry interpretations or other cities' interpretations. For example, City of Coral Springs officials stated they obtained insurance on assets listed on the City's property schedule, and challenged the Insurance Company's position that assets not described in detail would not be covered. Despite these opposing viewpoints, the FEMA's Public Assistance Infrastructure Branch Director decided to accept the Insurance Company's position.

Rather than simply accepting the Insurance Company's position, FEMA should have asked the State Insurance Commissioner for advice. The Florida Office of Insurance Regulation "regulates the insurance industry and maintains expertise related to life and health, property and casualty, specialty lines, and other regulated insurance entities. It protects the public through oversight of insurance company solvency and market conduct performance."<sup>6</sup>

### **Florida Recovery Office Re-Evaluation of All Open Claims Did Not Result in Additional Insurance Company Payments**

Subsequently, the Florida Recovery Office insurance staff re-evaluated all the open project worksheets and classified them based on the perceived level of effort to resolve the insurance issues. Representatives from FEMA, Florida, and the Insurance Company met on March 3, 2011. In April 2011, the Insurance Company issued a summary of understanding that documented a "baseline" interpretation of the insurance contract for further review and analysis of projects. However, not one applicant participated in this discussion concerning the interpretation and intent of the Insurance Company's policy. This is also highly unusual because FEMA did not participate in any of the meetings that the applicants had with the Insurance Company. Therefore, FEMA would have no knowledge of what the applicants anticipated they would have received from the insurance company if this had not been a FEMA covered disaster.

### **Further Progress to Resolve the Insurance Issues Did Not Occur Until 2013**

Further progress towards resolution of these insurance issues appears to have stalled at this point. In our audits of Vero Beach, we questioned \$2.9 million for ineligible costs for damages covered by insurance. In its response to that audit, FEMA stated that it deobligated \$2.9 million for these costs pending additional documentation from the applicant. As of the report date, neither the

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<sup>6</sup> Source: Website for the Florida Office of Insurance Regulation.



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applicant nor FEMA has taken any further action. In our audit of Coral Springs, we questioned \$1.6 million for ineligible costs claimed for damages covered by insurance. In its response to that audit, FEMA used an analysis from the Insurance Company to deobligate \$525,577—about one-third of the amount we questioned in the audit. FEMA has not responded to our requests to explain the differences.

In November 2013, Florida provided FEMA documentation that the insurance company paid six applicants a total of \$4.5 million. The \$4.5 million included payments for Coral Springs and Vero Beach totaling only \$2.2 million. However, we questioned almost \$4.5 million in the three audit reports for these two cities (see footnote 1). Despite our requests, neither FEMA nor Florida attempted to reconcile these payments to (1) the scopes of work, (2) the insurance policies, or (3) the findings in our audit reports.

### **Status of the Insurance Company's \$25 Million Reserve Fund**

FEMA has taken no significant actions to address and correct these insurance problems. For example, despite the Insurance Company establishing the \$25 million reserve fund, FEMA has not actively pursued the resolution of these insurance settlements or applied appropriate deductions to project worksheets to avoid any duplication of benefits.

In response to our inquiries about the status of the \$25 million reserve fund, the Insurance Company told us that it eliminated the fund because it no longer expects FEMA to deobligate any of the grant funds. The Insurance Company added that, if FEMA officials had identified specific project worksheets, it would examine them on a case-by-case basis, but currently it was not actively assigning resources to project worksheets for examination. The Insurance Company also clarified that the re-insurance partners were foreign and domestic partners and were no longer actively involved with (the Insurance Company) on these project worksheets.

### **Finding B: FEMA Insurance Specialists Improperly Waived the Obtain and Maintain Insurance Requirement**

FEMA's insurance specialists routinely waived the requirement to obtain and maintain insurance, even though they did not have the authority to take such action. This occurred because FEMA's Florida Recovery Office did not detect and correct this deficiency. As a result, FEMA potentially stands to lose up to a



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billion dollars in future Florida disasters because many Florida communities may not have adequate insurance coverage for future disasters such as those that occurred in 2004 and 2005. As table 4 shows, 32 of the 78 projects we reviewed included an insurance requirement waiver comment. The FEMA approved gross value of the projects with the waiver comments totaled \$41,519,255, or 62.9 percent of the gross award amount of \$66,022,261 FEMA estimated for the 78 projects (see scope paragraph on page 2).<sup>7</sup>

**Table 4 - Project Worksheets with Insurance Requirement Waived**

Applicant	Disaster Number	# of Projects Selected for Review	Gross Project Amounts for Selected Projects	Projects with Insurance Rqmt Waived	Gross Value of Damages with Waiver Comment
Everglades City	1609	8	\$ 3,902,431	3	\$ 912,476
Fort Pierce	1545	7	34,284,701	6	33,219,622
Islamorada	1609	6	5,263,038	3	553,924
Marathon	1609	3	2,171,668	1	82,600
Monroe County	1609	5	682,689	2	250,147
Pembroke Pines	1609	19	10,619,759	3	1,748,124
Plantation	1609	15	4,522,237	8	1,532,688
Vero Beach	1545	5	610,145	0	0
Wellington	1609	10	3,965,593	6	3,219,674
<b>Totals</b>		<b>78</b>	<b>\$66,022,261</b>	<b>32</b>	<b>\$41,519,255</b>

Source: DHS OIG prepared with information obtained from the FEMA Florida Recovery Office, FEMA Region IV Office, and FEMA's NEMIS.

Federal regulations at 44 CFR 206.253(b)(1) require that, as a condition of receiving public assistance for a facility, an applicant must obtain and maintain insurance to cover that facility for the hazard that caused the damage. Such coverage must, at a minimum, be in the amount of the estimated eligible project costs for that structure before any reduction. FEMA guidance directs that an applicant is exempt from this requirement (the obtain-and-maintain requirement) for:

- projects where the eligible damage is less than \$5,000; or

<sup>7</sup> We used the gross award amounts to show the effect of the waivers because Federal regulations require applicants to obtain insurance coverage for the eligible damages (before reductions for insurance).



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- facilities for which, in the determination of the State Insurance Commissioner, insurance is not reasonably available.

FEMA guidance 9580.3 (August 23, 2000), Public Assistance Program Fact Sheet, *Insurance Considerations for Applicants*, explains the process for an insurance waiver: “If the State Insurance Commissioner certifies that the type and extent of insurance is not reasonably available, the Regional Director may waive the requirement in conformity with the certification.” Consequently, FEMA insurance specialists do not have the authority to waive the insurance requirement without being instructed to do so by the FEMA Regional Director. We asked FEMA officials why the insurance specialists would take these actions. FEMA did not provide an explanation for why the insurance specialists were initiating these waivers.

As stated, FEMA insurance specialists waived insurance requirements for 62.9 percent of the \$66,022,261 gross awards for the 78 projects we reviewed. We cannot statistically project this percentage to Florida’s future disasters because we did not randomly select the projects or applicants. However, given the high failure rate for the selected projects, FEMA has little assurance that its insurance specialists required applicants to obtain and maintain insurance for a significant portion of the \$1.5 billion awarded for permanent work from the \$4.4 billion in awards FEMA approved for the seven 2004 and 2005 Florida hurricanes (see table 2). Permanent work, such as the repair, replacement, or restoration of disaster-damaged facilities, is the most likely type of work to be insurable. Without auditing all of the projects that make up the \$1.5 billion in permanent work awards, we cannot determine the amount of the gross awards before insurance reductions. However, the high noncompliance rate demonstrates that FEMA needs to conduct additional work to determine the extent to which its insurance specialists improperly waived the insurance requirements.

### **Conclusion**

FEMA awarded \$4.4 billion of Public Assistance funding to the State of Florida during the 2004 and 2005 hurricane seasons. To ensure that payments are properly supported, and free from fraud, waste, and abuse, FEMA should have policies and procedures in place that provide reasonable assurance that all





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processes are operating as designed. FEMA's insurance review is only one step in the Public Assistance process. However, it is a crucial step.

Clearly, FEMA's insurance review process failed to achieve the intended objectives for the 2004 and 2005 Florida hurricanes. FEMA insurance specialists' work was not reliable, and FEMA may have paid up to \$177.2 million that insurance policies covered. To correct this condition, FEMA needs to review all the project worksheets associated with the applicants insured through the Insurance Company to identify the maximum insurance benefits available and to ensure that duplication of benefits did not occur.

FEMA also needs to take steps to address the requirement to obtain and maintain insurance for future disasters. This is a requirement to receive FEMA disaster assistance and reduces the risk that the Federal Government, and ultimately the American taxpayer, will have to pay for similar damages a second time because of a future disaster. By waiving the insurance requirement, FEMA's insurance specialists have created a potential liability for the applicants and Florida, and possibly for the Federal government in the event of a significant future disaster. To correct this condition, FEMA needs to identify the gross eligible project costs for each project to determine the insurance requirement. Following this, FEMA needs to direct Florida to confirm that each applicant has obtained and maintained the required amount of insurance or obtained an insurance waiver in accordance with regulations and FEMA policies.

Finally, due to the nature of FEMA's disaster recovery response, some of the insurance specialists who worked on the disasters in Florida transitioned to other disasters, including Hurricane Sandy. FEMA needs to take steps to prevent similar problems from occurring on Hurricane Sandy and future disasters. While this report does not make recommendations for more recent disasters, we will discuss the implication of this issue with FEMA Headquarters Response and Recovery officials.



## Recommendations

We recommend that the Regional Administrator, FEMA Region IV:

**Recommendation 1:** Conduct a full, detailed insurance review of all projects (large and small) associated with applicants that have insurance with the Insurance Company to determine the correct amount of available insurance benefits that the applicants received or should have received for the projects FEMA approved.

**Recommendation 2:** Recover all additional insurance amounts (potentially up to \$177.2 million) identified in the review in recommendation 1 for the 154 applicants that carried insurance with the Insurance Company because these costs represent duplicate benefits if insurance covered them.

**Recommendation 3:** Work with Florida, as grantee, the applicants, the State Insurance Commissioner, and the Insurance Company to ensure that all applicants that carried insurance with the Insurance Company receive or have received the maximum insurance benefits available under their policies for the projects FEMA approved, and adjust obligations according to the results of these efforts.

**Recommendation 4:** Determine the final gross eligible project costs for each project and in turn rewrite the project worksheets to identify the correct amount of insurance that each applicant (who had insurance with the Insurance Company) must obtain and maintain as a condition of receiving disaster assistance.

**Recommendation 5:** To avoid potentially up to a billion dollars in future costs, direct Florida to review all applicants who received Federal disaster assistance because of Presidential Disaster Declarations in Florida in 2004 and 2005, and determine whether they either obtained and maintained the required insurance or obtained an insurance waiver from the State Insurance Commissioner.



## **Discussion with Management and Audit Follow-up**

We discussed the results of our audit with FEMA during our audit. We provided a draft report in advance to FEMA and Florida officials and discussed it at exit conferences with FEMA officials on August 26, 2014, and with Florida officials on September 16, 2014. FEMA chose to withhold comments until after we issue the report. Florida officials expressed concerns with the benefit of Recommendation 3.

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 the contact information for responsible parties and any other supporting documentation necessary to inform us about the status of the recommendations. Please email a signed pdf copy of all responses and closeout request to [OIGEMOFollowup@oig.dhs.gov](mailto:OIGEMOFollowup@oig.dhs.gov). Until we receive and evaluate your response, we will consider the recommendations open and unresolved.

Major contributors to this report are Kaye McTighe, Director; Trudi Powell, Audit Manager; John McPhail, Supervisory Program Analyst; and Carlos Aviles, Senior Auditor.

Please call me with any questions, or your staff may contact Kaye McTighe, Director, National Capital Regional Office, Office of Emergency Management Oversight, at (202) 254-4100.



## **Appendix A**

### **Objective, Scope and Methodology**

We conducted this performance audit 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, 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.

The objectives of the audit were to determine whether (1) FEMA's insurance reviews in Florida were adequate to ensure that duplication of benefits did not occur, and (2) Insurance Company settlement payments to Florida subgrantees that received public assistance funding for property damage during the 2004 and 2005 hurricane seasons were appropriate and in accordance with the subgrantees' insurance policies.

The scope of this audit included all applicants who maintained insurance with a specific insurance company during the 2004 and 2005 hurricane seasons in Florida (see page 2 for additional information on our audit scope).

We interviewed FEMA and Florida officials; reviewed judgmentally selected project worksheets (generally based on dollar value); and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of FEMA's internal controls applicable to insurance reviews because it was not necessary to accomplish our audit objectives. We did, however, gain an understanding of the process the insurance specialists followed in completing the insurance reviews.



## **Appendix B**

### **Additional Background Information**

Under the authority of the *Stafford Act* and its implementing regulations, FEMA provides aid to states and communities to recover from presidentially declared disasters as quickly as possible.<sup>8</sup> The primary mechanism that FEMA uses to deliver this aid is the Public Assistance Program.

#### **The Public Assistance Program**

The mission of FEMA's Public Assistance Grant Program is to provide assistance to state, tribal, and local governments, and certain types of private nonprofit organizations so that communities can quickly respond to and recover from major disasters or emergencies the President declares. Through the Public Assistance Program, FEMA provides supplemental Federal disaster assistance for debris removal, emergency protective measures, and permanent work. Permanent work is the most likely type of work to be insurable and includes the repair, replacement, or restoration of disaster-damaged facilities. Federal legislation and regulations encourage states and local governments to obtain insurance to supplement or replace Federal assistance. Regulations also require that an applicant seeking a Public Assistance grant to repair a damaged facility commit to obtain and maintain insurance to protect against future damage, in the amount of the eligible damage that the applicant incurred as a result of the disaster. Applicants that fail to obtain and maintain insurance are not eligible to receive disaster assistance.

#### **Prior DHS OIG Audits of Florida Applicants Revealed Problems with Insurance**

Three of our previous audits of two separate applicants revealed potential problems with FEMA's insurance reviews. The Insurance Company provided insurance to both applicants.

We performed two audits of the City of Vero Beach, Florida—one on the \$10.1 million award it received for Hurricane Jeanne and another on the \$9.6 million award it received for Hurricane Frances (see footnote 1). Both audit reports revealed that Vero Beach claimed losses that its insurance policy

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<sup>8</sup> *Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended (Stafford Act)*, 42 U.S.C. 5121, et seq.





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should have covered—\$762,012 for Hurricane Jeanne and \$2,141,652 for Hurricane Frances. At the time of the audits, FEMA had not completed insurance reviews to determine insured losses because the City did not have statements of loss to identify disaster damages.

The City also did not have an adequate accounting of insurance proceeds it received or paid directly to contractors performing disaster work. According to City officials, the insurance carrier had been unresponsive since 2005 to many requests for schedules of insurance settlement.

The third audit was of the City of Coral Springs, Florida's \$24.7 million award for Hurricane Wilma (see footnote 1). Similar to Vero Beach, Coral Springs claimed \$1,573,592 for losses that its insurance policy should have covered. At the time of the audit, FEMA had not completed an insurance review to determine insured losses because the City did not have a final settlement of claims from its insurance carrier.



## **Appendix C**

### **Report Distribution**

#### **Department of Homeland Security**

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

#### **Federal Emergency Management Agency**

Administrator  
Chief of Staff  
Chief Financial Officer  
Chief Counsel  
Director, Risk Management and Compliance  
Audit Liaison, FEMA Region IV  
Audit Liaison, FEMA (Job Code 13-039-EMO-FEMA)

#### **Office of Management and Budget**

Chief, Homeland Security Branch  
DHS OIG Budget Examiner

#### **Congress**

Congressional Oversight and Appropriations Committees

#### **External**

Director, Florida Division of Emergency Management  
State Auditor, Florida

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Attention: Hotline  
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