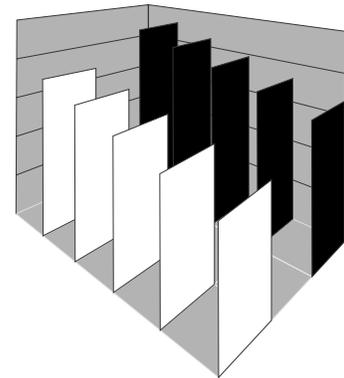


# 1



## *Executive Summary*

This is the 19th semiannual report issued by the Office of Inspector General (OIG), Federal Emergency Management Agency (FEMA), since becoming a statutory Inspector General office in April 1989. It is issued pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452), as amended, and covers the period from April 1, 1998, through September 30, 1998. All activities and results reported fall within the reporting period unless otherwise noted.

We selected reviews and investigations based on the stated strategic goals of the Agency. Specifically, we evaluated the Agency's Property Management Program and the Urban Search and Rescue Program. We also evaluated the State of Oregon's compliance with selected grant management requirements of the Chemical Stockpile Emergency Preparedness Program. We audited the Agency's Fiscal Year 1997 Financial Statements, and conducted cash management reviews at several insurance companies participating in the National Flood Insurance Program. We devoted significant resources to reviewing disaster costs and grant recipients' compliance with applicable laws and regulations. We investigated numerous allegations of fraud and abuse by disaster recipients and false claims by Agency personnel. We continued to support Agency managers to improve the overall operations of the Agency through participation on task forces and working groups.

## Results

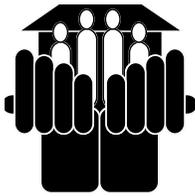
As a result of our audits, inspections, and investigations, FEMA deobligated and recovered \$15.5 million, and agreed to recover an additional \$1.9 million. We issued 66 audit and inspection reports; processed an additional 50 reports issued by non-FEMA auditors; closed 73 investigations; arrested and indicted 17 individuals/companies; convicted 10 individuals; and closed 599 hotline complaints.





# 2

## *Federal Emergency Management Agency*



FEMA is the Federal agency charged with building and supporting the Nation's emergency management system. It works in partnership with groups such as State and local emergency management agencies, fire departments, other Federal agencies, the American Red Cross, and other volunteer organizations. FEMA is authorized 2,488 full-time employees, who assist individuals, families, communities, and States throughout the disaster cycle. They help to plan for disasters, develop mitigation programs, and meet human and infrastructure needs when major disasters occur. They work at FEMA headquarters in Washington, D.C.; 10 regional offices and facilities around the country and in the Caribbean and Pacific; National Emergency Training Center in Emmitsburg, Maryland; National Teleregistration and Processing Centers in Hyattsville, Maryland, and Denton, Texas; and Mt. Weather Emergency Assistance Center in Berryville, Virginia. FEMA also maintains a cadre of temporary disaster employees ready to help when disasters occur.

The U.S. Fire Administration and the Federal Insurance Administration (FIA) also are under FEMA's jurisdiction. The Fire Administration supports the Nation's fire services and emergency medical services communities with training, public education, and research in fire protection technologies and emergency response procedures. The FIA makes flood insurance available to residents and businesses in communities that agree to enforce floodplain management practices. More than 18,900 communities participate in the National Flood Insurance Program (NFIP), which has more than 4 million home and business policies in effect.



# 3



## *Office of Inspector General*

Congress enacted the Inspector General Act in 1978 to ensure integrity and efficiency in Government. A 1988 amendment to the Act (Public Law 100-504) created the position of Inspector General in FEMA, subject to presidential appointment and senatorial confirmation. Before April 16, 1989, when the law became effective, the OIG was established administratively and the Inspector General was appointed by the Director of FEMA.

The statute conferred new authorities and responsibilities on the OIG, including the power to issue subpoenas; responsibility for various reports, such as this semiannual report; and authority to review relevant proposed laws and regulations to determine their potential impact on FEMA programs and operations. The law also mandates that the OIG audit and investigate FEMA programs and activities.

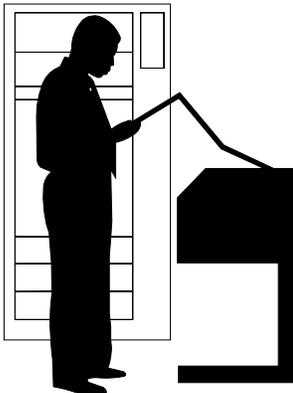
The OIG has three divisions—Audit, Inspections, and Investigations—and was authorized 60 full-time equivalent positions during this semiannual period. The OIG also engages disaster employees on temporary appointments to audit or investigate disaster-related matters.



# 4



## *Summary of Significant OIG Activity*



During this reporting period, the OIG continued to conduct reviews scheduled in its FY 1998 Annual Performance Plan. The Plan, reflecting FEMA's strategic plan, identified the interests and concerns of FEMA senior managers, the Congress, and the Inspector General based on prior experience, priorities, and future objectives. It included provisions for program and efficiency reviews of FEMA activities, and continued involvement in all aspects of development of FEMA's financial management system and acquisition of major information system components. The Plan also dedicated significant resources to validating disaster assistance costs claimed to be attributable to a disaster or emergency, with the following results:

- Issued three internal management reports that recommended more effective use of \$33.9 million.
- Issued 50 external reports, of which 33 questioned costs totaling \$40.8 million and 5 recommended more effective use of \$154 million.

The following are the most significant audits and investigations performed by the OIG to promote economy, efficiency, and effectiveness within FEMA and prevent or detect fraud, waste, and abuse in FEMA programs and operations.

*Preparedness, Training, and Exercises Directorate*

**Oregon Chemical Stockpile  
Emergency Preparedness Program  
(CSEPP)**

FEMA awarded \$30.7 million to Oregon's Emergency Management (OEM) Division to purchase CSEPP equipment, including an alert and notification system and decontamination equipment. The OIG reviewed the program to determine if OEM (1) accurately accounted for CSEPP funds, (2) provided financial reports on the use of the funds, and (3) expended the funds according to the approved budget and program guidelines.

We found that the State properly accounted for the CSEPP funds and that funds were spent on CSEPP items. The review, however, disclosed situations requiring management's attention. These included: (1) the State's accounting system did not produce useful financial reports; (2) OEM did not follow the approved budget in purchasing an Alert and Notification System (ANS); and (3) OEM paid \$61,900 of ineligible costs incurred as a result of contractor delays.

We recommended that the State: (1) add CSEPP accounts, corresponding to the major program elements, to its official accounting system; (2) prepare financial and management reports that will enable OEM and FEMA to track the program's progress; (3) reconcile its receipts and expenditures with the amount disbursed by FEMA; and (4) develop a procurement

plan that sets forth total costs and milestones for the ANS.

*Federal Insurance Administration*

**National Flood Insurance Program**

A three-year joint investigation involving the FBI, IRS Criminal Investigation Division, and FEMA OIG disclosed that a father and daughter were involved in a scheme to defraud the National Flood Insurance Program (NFIP), its insureds, and at least one private company of more than \$3 million in flood insurance premiums. A Federal grand jury charged each with 33 counts of conspiracy, fraud, and money laundering. The father pleaded guilty under an arrangement that will include a dismissal of charges against his daughter after he surrenders for a term of imprisonment. Pursuant to the plea, the father agreed to serve a minimum prison term of five years and make restitution in an amount to be determined. A Federal judge will rule on the term of imprisonment and the level of restitution, which will be no less than \$900,000 and no more than \$3.1 million.

**Interest Earned by Insurance  
Companies Participating in the  
National Flood Insurance Program**

At the request of the Federal Insurance Administration (FIA), we reviewed the cash management practices of four insurance companies participating in the NFIP's Write Your Own (WYO) program. For a fee, these insurance companies market and service flood insurance on behalf of the NFIP.

During a financial statement audit of the FIA, the OIG discovered that four WYO insurance companies were earning interest on NFIP funds and the OIG recommended that FIA recover the interest. Subsequent to that audit, the four insurance companies settled with FIA, remitting \$1.7 million of interest earned. The purpose of our current reviews was to determine whether all the interest earned was remitted to the NFIP and to assess each insurance company's cash management practices to ensure compliance with NFIP regulations. The reviews disclosed insignificant differences between the amounts earned and the amounts remitted to the NFIP. In addition, the OIG determined that all the companies were adhering to NFIP cash management regulations. We provided FIA with the reports for final settlements with the four insurance companies.

*Response and Recovery Directorate*

We have dedicated significant resources to validating disaster assistance costs claimed to be attributable to a disaster or emergency, with the following results:

- \* Issued three internal management reports that recommended more effective use of \$33.9 million.
- \* Issued 50 external reports, of which 33 questioned costs totaling \$40.8 million and 5 recommended more effective use of \$154 million.

**Urban Search and Rescue Program**

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended, authorizes FEMA to administer the

Urban Search and Rescue (US&R) program which provides a structure for integrating local emergency service personnel into disaster assistance response Task Forces. The program provides Task Force members with the necessary tools, equipment, and training for deployment to disaster sites to rescue victims of collapsed buildings. Since inception, the 27 Task Forces have responded to 14 disasters worldwide. As of February 1998, FEMA obligated \$29.9 million for disaster response, and reimbursed the Task Forces \$24 million.

We reviewed the eligibility of \$14.1 million of the \$24 million reimbursed to the Task Forces, and evaluated management controls over reimbursements. We questioned \$2.6 million of claims made by the Task Forces included in our sample. We recommended that FEMA disallow and recover the questioned costs. We also recommended that FEMA:

- \* Improve the effectiveness of its review of Task Force claims by using a standard claim form, publishing clear guidance on eligibility of costs for reimbursement, and requesting Office of Financial Management assistance with technical grant management issues.
- \* Clarify its financial agreements with Task Forces by renegotiating MOAs to include limits on payroll reimbursements to actual hours worked and limits on indirect cost reimbursements to the benefits received, and specifying the extent to which fringe benefit costs and administrative and support costs will be reimbursed.

- \* Deobligate \$3.2 million of unliquidated obligations and develop procedures to identify and deobligate unneeded funds after final claims are paid.

### **California Office of Emergency Services, Public Assistance Payment Procedures**

The California Office of Emergency Services (OES) administers FEMA grant funds provided to the State under the Public Assistance Program. We reviewed OES's payment procedures because we noted overpayments, outstanding advances, and other payment errors during our audits of Northridge subgrantees. OES lacked adequate internal controls over its payment procedures and had not offset or recovered \$135 million of advances paid to subgrantees after the Northridge earthquake. In addition, OES had not recovered approximately \$31 million of interest earned on unused advances, and had overpaid subgrantees \$11 million of FEMA funds. We recommended that FEMA recover the \$146 million of outstanding advances and overpayments, require OES to determine the amount of interest subgrantees earned on unused advances, and refund the interest to the Federal Government.

### **Santa Cruz Metropolitan Transportation District, California**

FEMA allocated \$22 million to cover repairs to District facilities damaged by the Loma Prieta Earthquake in October 1989. However, because there was considerable disagreement between FEMA and the District over the amount of damage caused by the earthquake,

FEMA asked the OIG to perform an audit to determine the eligibility of the repair projects. Soon after beginning the work we found evidence that caused us to question the legality of some of the District's claims. We initiated a civil fraud investigation and determined that some of the claims were for damage that existed before the earthquake occurred. Based on the investigation results, the District returned \$1.8 million of FEMA funds. Continuing our audit, we determined that \$16.8 million of repair projects were not eligible for FEMA funding, primarily because the District could not produce evidence that the work was required as result of the disaster. The approval of ineligible projects was the result of FEMA, the State, and the District not maintaining adequate oversight and control of the project approval process. We recommended that FEMA deobligate \$3.7 million in approved projects, terminate \$8.9 million in suspended projects, and recover \$1.6 million from the District.



### **City of Santa Clarita, California**

The California Office of Emergency Services (OES) awarded \$26 million to the City of Santa Clarita to repair facilities damaged by the Northridge Earthquake. OES overpaid the City \$7.7 million of FEMA funds and did not recover \$6.7 million of \$7 million advanced to the City. The City also did not refund more than \$1 million of interest it earned on the FEMA funds. We recommended that

FEMA recover the \$15 million from OES.

**North Coast Railroad Authority,  
Eureka, California**

The California Office of Emergency Services (OES) awarded \$13.9 million to the North Coast Railroad Authority (NCRA) for repairs necessitated by three major disasters. We audited \$6 million claimed under 25 projects. We were unable to audit \$4 million of claims under the remaining 41 projects because OES did not have NCRA's records in auditable order. We questioned \$1.6 million in unsupported costs, and \$107,200 in ineligible claims. We recommended that FEMA disallow \$1.7 million of questioned costs and designate the NCRA as a high-risk subgrantee.

**Florida's Administration of Disaster  
Assistance Funds for Hurricane  
Opal**

The OIG reviewed the State of Florida's administration of disaster assistance activities associated with Hurricane Opal. The review was conducted as a pilot project to develop an audit program for future reviews of the State's administration of FEMA's disaster assistance programs.

The State of Florida adequately administered \$72 million in disaster assistance funds awarded by FEMA in response to Hurricane Opal. Some improvements, however, were needed in record-keeping for the Individual and Family Grant (IFG) program, financial management, and program reporting. About 12 percent of the IFG files did not contain required documentation, the State did not always disburse Federal funds within three days as required by

the Department of Treasury, and financial reports submitted to FEMA were not always accurate. Improvements are also needed in the State's oversight of Public Assistance Program activities. The State is responsible for ensuring that subgrantees comply with Federal regulations and FEMA guidelines. The audit disclosed that some subgrantees had not complied with Federal cash management and procurement regulations.

The report recommended that FEMA provide technical assistance to help the State improve its grants management policies and procedures governing disaster funds.

**Insurance Applied to State  
Administered Projects, Tallahassee,  
Florida**

FEMA awarded Florida State agencies \$85.8 million to restore facilities damaged by Hurricane Andrew in August 1992. We questioned \$715,493 because the State agencies failed to claim all losses under their insurance policy and credit the FEMA projects with the full amount of the insurance recoveries. We recommended that FEMA disallow the questioned costs, and that the State initiate action to prevent these problems after future disasters.

**Brevard County, Florida**

FEMA awarded Brevard County \$5.7 million to remove debris and repair facilities damaged as a result of Hurricane Fran in August 1996. The County claimed \$5 million. The claim included \$719,213 of excess charges for tipping fees and equipment, and

unapplied credits. Additionally, one project for \$102,717 had been abandoned. We recommended that FEMA disallow the questioned costs and deobligate funding for the abandoned activities.

**Florida Department of Health and Rehabilitative Services,  
Tallahassee, Florida**

FEMA awarded the Department of Health and Rehabilitative Services \$10.2 million to provide emergency protective services as a result of Hurricane Andrew in August 1992. The Department claimed \$4.2 million. The claim included questioned costs of \$737,480 resulting from charges that were not disaster related or were allocable to other Federal programs. We recommended that FEMA disallow the questioned costs.

**Virgin Islands Home Protection Roofing Program, St. Thomas, Virgin Islands**

FEMA awarded the Virgin Islands Department of Property and Procurement \$33 million to repair roofs damaged as a result of Hurricane Marilyn and Hurricane Bertha. The Department claimed \$9.8 million. We questioned \$880,854 in ineligible claims. We recommended that FEMA disallow the questioned costs and instruct Department program officials to implement the Home Protection Roofing Program according to existing requirements.

**City of Chicago, Illinois**

FEMA awarded the City of Chicago \$13 million to remove debris, provide emergency protective measures, and

restore facilities damaged as a result of an underground flood in April 1992. We questioned \$741,933 in excessive and duplicative costs. We also found that the City did not credit the FEMA award with \$3 million received for disaster losses as a result of litigation. Moreover, the City had a \$23-million insurance assignment that should result in additional credits to the FEMA projects. We recommended that FEMA disallow the questioned costs, and monitor the City's actions to recover monies due FEMA as a result of insurance reimbursements and litigation settlements.



**Debris Removal Contractor Bribe**

An employee of the Army Corps of Engineers pleaded guilty to receiving a bribe for his role in monitoring storm

debris cleanup operations after Hurricane Fran struck North Carolina. This was a joint investigation with the FBI and Army Criminal Investigation Division. The employee received a bribe from a contractor to certify inaccurate payroll and improper equipment usage records. A sentencing date has not been set.

**Individual and Family Assistance Fraud**

An active-duty commissioned officer in the U.S. Air Force pleaded guilty to theft of Government funds after an investigation disclosed that he had falsely claimed a house he used for rental income as his primary residence during the Grand Forks, North Dakota, floods. The subject's actual residence was an

U.S. Air Force-furnished duplex on Grand Forks Air Force Base and had not sustained any flood damage. The subject was sentenced to 24 months probation, ordered to pay restitution to FEMA in the amount of \$7,000 and perform 100 hours of community service.

### **Debris Removal Contractor Fraud**

A debris removal contractor was indicted and prosecuted by the State of Alabama, Attorney General's office, for fraud against FEMA associated with an ice storm in northern Alabama in 1994. The contractor pleaded guilty to one count of theft by deception and was sentenced to five years probation. As a portion of his probation requirements, the contractor was to refrain from any Federal Government work efforts and to notify and receive permission from his probation officer prior to leaving the State of Alabama. The contractor ignored these requirements and, during the summer of 1998, was a subcontractor on a debris project near Atlanta, Georgia. These facts were referred to the appropriate officials and the contractor was subsequently re-arrested for probation violation and sentenced to five years confinement.

### **Virgin Islands Disaster Fraud Task Force**

The U.S. Attorney's Disaster Fraud Task Force, Virgin Islands, continues to work well. FEMA OIG has the lead role in several current disaster investigations, and the FBI and the Small Business Administration OIG contribute resources. Current investigations include various fraud charges, conspiracy, money laundering, mail fraud, and other violations of statutes.

In one case, The FEMA OIG had the lead in a joint investigation of a Virgin Islands contractor responsible for a debris disposal and reclamation site on St. Croix. The contractor was arrested for making false statements, money laundering, and converting grant funds to

personal use. The contractor was indicted and arrested on four counts. At the time of the arrest, 13 administrative seizure warrants were executed on both St. Croix and St. Thomas and equipment valued in excess of \$500,000 was seized.

### **Puerto Rico Disaster Fraud Task Force**

As a result of the U.S. Attorney's Disaster Fraud Task Force efforts in Puerto Rico, 10 individuals were prosecuted for various fraudulent activities involving the FEMA disaster fund. Five of these individuals were offered and accepted Pretrial Diversion and, in essence, pleaded guilty to fraud charges. The remaining five subjects were indicted. Three pleaded guilty, one was convicted in a trial, and the other awaits trial.

### **Guam Disaster Fraud Task Force**

Investigations continue in the aftermath of Super Typhoon Paka, which struck the Territory of Guam on December 16, 1997. During this semiannual reporting period, investigations have resulted in monetary recoveries and cost savings exceeding \$125,000 in FEMA's Human Services programs. These programs include grants for temporary housing, home repairs, replacement of damaged essential personal property, and disaster-related unemployment assistance. The U.S. Attorney's Office for

the District of the Territory of Guam criminally charged 12 individuals in U.S. District Court for filing false claims to obtain FEMA disaster assistance. Ten of those individuals have pleaded guilty. Investigations are continuing in Guam and charges against additional individuals are expected before the end of the year.

*Office of Financial Management*

**Management Letter on Fiscal Year 1997 Financial Statements**

A Management Letter was prepared in conjunction with our review of the Fiscal Year 1997 FEMA-wide financial statement audit required by the Chief Financial Officers Act. The Management Letter contained the following findings and recommendations related to internal control weaknesses and non-compliance with certain laws and recommendations.

- \* FEMA continued to lack a fully implemented and documented system of management controls that meets the requirements of Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control," and that supports the preparation of agency-wide financial statements in full compliance with Government Management Reform Act (GMRA) reporting requirements and statutory deadlines.
- \* FEMA did not have a fully implemented single, integrated financial management system to meet the requirements of OMB Circular A-127, "Financial Management Systems." As a result, FEMA was not able to produce trial

balances or financial statements for the specified FEMA activities and Disaster Relief Fund (DRF) for the year ended September 30, 1997, without continuing, extensive reliance on the manual accumulation of data and use of "cuff" systems for the preparation of year-end financial information. FEMA also did not timely reconcile (1) the Fund Balance with U.S. Treasury accounts for Fiscal Year 1997 Appropriations for its organizational components and (2) the multiple year appropriations account for the DRF.

- \* Through FY 1997, FEMA did not enforce the requirement for its grantees to submit "Financial Status Reports," (SF 269), or any similar report of grant financial activities at any time other than grant closeout. FEMA used other sources of data on grantee and subgrantee expenditures in preparing its 1997 financial statements. The alternative data, however, did not produce complete and accurate financial information on the total actual expenditures of its grantees through September 30, 1997, which necessitated a material post-closing adjustment to the financial statements.
- \* FEMA did not comply fully with the provisions of the GMRA related to Annual Financial Reports. GMRA requires the preparation and submission of audited 1997 financial statements covering all accounts and activities of each office, bureau, and activity of the Agency by no later than March 1, 1998, to the Director of the Office of Management and Budget. The Fiscal Year 1997 statements were not prepared until late March 1998.

- \* FEMA did not substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. Specifically, FEMA:
- a. Lacked a fully implemented and documented system of management controls to meet the requirements of OMB Circular A-123 and to support the preparation of agency-wide financial statements in full compliance with GMRA reporting requirements and statutory deadlines;
  - b. Lacked a fully implemented single, integrated financial management system to meet the requirements of OMB Circular A-127 and to support the agency's financial management needs and financial reporting requirements;
  - c. Did not comply with the provisions of the GMRA related to Annual Financial Reports; and
  - d. Had material weaknesses in its system of internal controls over financial reporting.

A separate management letter was issued with respect to the internal controls over financial reporting and certain other observations on accounting and administrative matters related to the National Flood Insurance Program (NFIP). Most of the findings dealt with problems identified at insurance companies that service flood insurance policies on behalf of the NFIP.

#### **Auditors' Report on Fiscal Year 1997 Financial Statements**

We directed the review of the Fiscal Year 1997 FEMA-wide financial statements as required by statements were presented fairly and free of material misstatements. The financial statements included all required statements for Specified FEMA Activities, including a Statement of Financial Position for the Disaster Relief Fund. This statement reports the Disaster Relief Fund's assets, liabilities, and net position. A Statement of Operations for the Disaster Relief Fund, containing financial data regarding expenditures for Fiscal Year 1997, was not prepared; therefore, FEMA was not in compliance with the GMRA requirement for complete agency-wide financial statements. The OIG is working closely with FEMA to ensure that Fiscal Year 1998 financial statements comply with GMRA. The auditors' report also identified instances of non-compliance with laws and regulations and internal control weaknesses. The audit was performed according to OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements."

#### **FEMA's Grantee Compliance with Selected Grants Management Requirements**

FEMA grantees (i.e., States) were not fully complying with FEMA guidelines and Federal grant regulations. Specifically, FEMA failed to enforce grantee compliance with requirements for providing cost-share funds, managing cash, and accounting for and reporting on grant funds.

We reviewed the grant management practices of nine grantees who had received \$6.5 billion in FEMA funds between 1985 - 1997. Eight of nine

grantees included in our sample did not properly record, report, collect or return \$28.5 million in overpayments that were either not collected from subgrantees or collected and not returned to FEMA. The same grantees also drew down almost \$10 million in Federal funds in excess of immediate needs and retained them for extended periods. Grantees did not properly record, report, collect, or return overpayments that were either not collected from subgrantees or collected and not returned to FEMA.

These problems occurred and went undetected because FEMA did not have an effective grants management system. Subsequent to audit completion, FEMA's Office of Financial Management formed a grants management team to develop policies and procedures to assist FEMA's regional offices improve their grants management practices. This is an important first step to improving controls over grants. Our report also provided recommendations that should

assist the team in improving FEMA's grants management system.

### **Travel Voucher Fraud**

Following an OIG investigation, a FEMA employee admitted inflating and altering official government travel vouchers since 1995. In lieu of Federal prosecution, this individual qualified for the Federal Pretrial Diversion Program. Conditions of the pretrial agreement called for restitution to the Agency and administrative remedies to be determined by the Agency.

In another case, a FEMA Disaster Assistance Employee (DAE) entered into a plea negotiation with the U.S. Attorney's office in Minnesota after an OIG investigation determined that the DAE fabricated receipts and other documentation in support of temporary-duty travel claims. The DAE was relieved of duty and is awaiting the outcome of judicial proceedings.

### *Debts Due FEMA*

The Report on the Supplemental Appropriations and Rescissions Bill of 1980, issued by the Senate Committee on Appropriations, requires the Inspector General to summarize amounts owed FEMA and debts that were written off. The Office of Financial Management, which is responsible for debt collection, provided the following information on loans and accounts receivable.

Date	Owed	Overdue
December 31, 1997	\$273,518,160	\$36,452,203
September 30, 1998	\$338,068,482	\$42,609,254
Increase (+) or Decrease (-)	\$ 64,550,322	\$ 6,157,051

OFM reported that debts of \$4,997,644 million were written off during the 6-month period ending September 30, 1998.

*Information Technology Services  
Directorate*

**Management Controls Over NEMIS**

We attempted to evaluate the management controls in FEMA's new National Emergency Management Information System (NEMIS) in anticipation of FEMA performing a comprehensive field-test of the system. However, due to insufficient documentation describing the controls, we were unable to complete our review. Management controls are essential to ensure that NEMIS is reliable and responsive to disaster victims' and management's needs.

We recommended that FEMA, under the leadership of the Chief Information Officer, add details and specificity to its system documentation to describe the management controls accurately and completely.

**Contractor's Non-Compliance with  
an OIG Subpoena**

A federal judge forwarded an arrest warrant to the United States Marshals' office for the arrest of a FEMA contractor who failed to comply with an OIG subpoena. The OIG issued the subpoena to obtain records supporting the contractor's work on a FEMA contract under which the contractor failed to produce a satisfactory product. The contractor faces incarceration or a daily fine of \$500 for each day he fails to provide the required records.

*Operations Support Directorate*

**Review of Property Management  
Systems and Controls**

In response to concerns that telecommunications and related ADP property was not being accounted for in FEMA's property management system (the Logistics Information Management System), or was not being controlled according to FEMA's property management requirements, we reviewed FEMA's property management systems and controls over applicable property acquired at various FEMA locations.

We concluded that adequate controls were not in place to safeguard FEMA's sizable property investment from loss, theft, and abuse. Accounting records indicate that FEMA spent \$25.3 million on telecommunications and ADP property between July 1996 and October 1997. Of 3,679 items of telecommunications and related ADP property included in our tests (valued at \$5.1 million), FEMA could not account for 2,875 items (valued at \$2.6 million). This does not necessarily mean the property was lost or stolen. It does reflect, however, the extent of FEMA's poor record keeping and lack of internal controls. Without proper records it is virtually impossible to ensure adequate accountability for property.

We recommended that FEMA (1) require that all sensitive and serialized property be accounted for in LIMS, (2) convert all locations to LIMS by conducting a complete physical inventory and inputting the information into LIMS, (3) better coordinate the use of information

on ordering and receiving equipment obtained through FEMA's telecommunications ordering system. We also recommended that FEMA strengthen its property management requirements by (a) establishing designated central receiving points and officers and including that information on procurement documents, (b) advising management of its responsibility to ensure that property management requirements are met, and (c) conducting periodic internal management reviews of FEMA locations to ensure compliance with property management requirements.

#### **Theft of Government Property**

After an OIG internal investigation, a FEMA employee admitted falsifying billing records and pilfering \$30,000 in government equipment and materials.

OIG recovered the stolen property at the individual's residence and the employee was later indicted on Federal charges of theft and making false statements. In response to the indictment, the Agency terminated the individual's employment.

#### *Office of Human Resources Management*

##### **Overtime Fraud**

A FEMA employee pleaded guilty to theft when an OIG investigation determined that the employee had defrauded FEMA of over \$50,000 in false overtime claims. The individual was sentenced to four months imprisonment and three years probation, and was also ordered to make restitution of \$50,900 and pay a \$100 fine. The investigation resulted in substantive administrative changes to FEMA's payroll reporting system.

# 5



## *Other OIG Activities*

### **Hotline Complaints**

We received 731 Hotline calls during this reporting period. They consisted of allegations concerning Super Typhoon Paka in Guam and the Ice Storm in New England this past winter. Complaints are just beginning to come in from the Southeastern U.S. relating to the 1998 Hurricane Season. We continue to receive allegations involving hurricanes Marilyn, Opal, Fran, and Andrew, and the Northridge Earthquake. Allegations included:

- \* Applicants used false names and multiple and/or fictitious addresses.
- \* Applicants claimed losses they did not incur or that they were not entitled to claim.
- \* Applicants did not use claim money for its intended purposes.
- \* Townships, cities, and counties misspent FEMA grants due to "incompetence or corruption."
- \* Applicant neighbors who received funds to repair a common bridge or road refused to cooperate or spend

- the money as intended.
- \* Applicants received duplicate payments from FEMA and their insurance companies.
- \* Improper enforcement of flood-zone regulation.

### **Oversight of Non-FEMA Audits**

We processed 50 audit reports prepared by non-FEMA auditors on FEMA programs and activities in compliance with our responsibility to review audit reports prepared by non-FEMA auditors and to monitor actions taken to implement the recommendations. Of the 50 reports, 29 were prepared pursuant to OMB Circular A-128, "Audits of State and Local Governments;" 17 were prepared pursuant to OMB A-133, "Audits of Universities and Non-Profits Institutions;" and 4 were prepared by the Defense Contract Audit Agency pursuant to Federal Acquisition Regulations. One of the 50 audits identified \$889,000 in funds that could be put to better use.

*GAO Activities***Reports in Process**

The General Accounting Office (GAO) began the following reviews in FEMA during the 6-month period ending September 30, 1998:

- \* Homeless Programs;
- \* Weapons of Mass Destruction;
- \* Chemical Stockpile Emergency Preparedness Program for Oregon's Umatilla Depot and Surrounding Communities; and
- \* Terrorism-Related Activities.

**Reports Issued**

GAO issued the following reports involving FEMA activities during this reporting period:

- \* **COMBATING TERRORISM:** Threat and Risk Assessments Can Help Prioritize and Target Program Investments;
- \* **PROGRAM EVALUATION:** Agencies Challenged by New Demand for Information on Program Results;
- \* **BUDGET ISSUES:** Budgeting for Federal Insurance Programs;
- \* **THE RESULTS ACT:** Assessment of the Governmentwide Performance Plan for Fiscal Year 1999;
- \* **CREDIT REFORM:** Greater Effort Needed to Overcome Persistent Cost Estimation Problems; and
- \* **WELFARE REFORM:** Early Fiscal Effects of the Temporary Assistance to Needy Families (TANF) Block Grant.

*Audit Reports Unresolved Over Six Months*

Timely resolution of outstanding audit recommendations continues to be a priority at FEMA. The 25 audit reports containing recommendations unresolved for more than 6 months are reported below.

- \* **Audit of Flood Insurance Reinspection Activities, Audit Report H-03-93, issued February 23, 1993.**

The OIG issued a report in February 1993 on Flood Insurance Reinspection Activities in FIA. We reported that FIA was not getting the potential benefits of its reinspection effort on WYO claims because reinspection procedures did not provide for adjusting claims for judgmental errors such as overscoping, depreciation, cost verification, and repairs versus replacement. Also, most claims were being reinspected after payment was made to the insured. We recommended that FIA develop and implement uniform reinspection procedures that would require General Adjusters to comment on both judgmental and non-judgmental items. We also recommended that the WYO arrangement be changed to reflect FIA's review of judgmental items. FIA agreed with

our recommendations and stated that a pilot test would be carried out for a one-year period to assess the potential savings resulting from a review of judgmental items. As a result, we considered the recommendations to be resolved. Our follow-up on the status of these recommendations, however, revealed that FIA did not follow through with implementation. We have reclassified these recommendations as unresolved and have requested that FIA resubmit an implementation plan to address the unresolved recommendations.

\* **Audit of the Accuracy of Flood-Zone Ratings, Audit Report H-01-95, issued January 6, 1995.**

In January 1995, the OIG issued an audit report on the Accuracy of Flood-Zone Ratings. We reported zone misratings in at least 27 percent of the insurance policies in our random statistical sample. These errors were attributed to the complexity involved in determining a property's flood-zone and elevation requirements as well as the difficulty in implementing the administrative grandfathering rules that allow policyholders to pay lower premiums than warranted by their risk of flooding. FIA also did not have a quality-control program to verify that insurance agents use correct factors to calculate premiums. We recommended that FIA assess the impact of eliminating administrative grandfathering and, if feasible, begin phasing it out. We also recommended that FIA establish a quality control program to monitor the accuracy of premium ratings. FIA

agreed with the recommendations. Our follow-up on the status of these recommendations, however, revealed that FIA did not follow through with implementation. We have reclassified these recommendations as unresolved and have requested that FIA resubmit an implementation plan to address the unresolved recommendations.

\* **Audit of the City of Simi Valley, California, FEMA Disaster 1008-DR-CA, Audit Report Number H-07-95, issued March 1, 1995.**

The audit report contained six administrative recommendations relating to the City's compliance with FEMA regulations and guidelines. We are working with regional officials to resolve the recommendations and anticipate resolution in December 1998.

\* **Audit of Vulcan Services, Inc., FEMA Contract EMW-92-C-3857, Audit Reports E-7-95, issued December 13, 1994; and E-26-95, issued March 31, 1995.**

The initial audit questioned \$1.2 million of the \$2.8 million claimed by the contractor. Additional disputes over \$1.2 million in inspection fees were referred to the contracting officer. The second report provided specific details on costs claimed for inspection services. FEMA's Office of General Counsel referred the case to the Department of Justice for action. We anticipate that the

recommendations will be resolved by December 1998.

- \* **Single Audit Report for the Commonwealth of Massachusetts for the Year Ending June 30, 1996, Audit Report Number E-S-02-97, issued April 24, 1997.**

The audit questioned \$632,000 in ineligible and unsupported costs of the \$20 million awarded to the State by FEMA. The auditors also found that the Massachusetts Emergency Management Agency (MEMA) did not have a system for monitoring subrecipient Single Audit reports in accordance with the requirements of the Single Audit of 1984. We anticipate resolving the recommendations by May 1998.

- \* **Audit of Virgin Islands Port Authority, FEMA - 1067-DR-VI, Audit Report Number E-10-98, issued December 15, 1997.**

The audit questioned \$4,132 of the \$663,090 claimed by the Authority. The Authority did not have documentation to support \$2,852, and the remaining \$1,280 represented unrelated project costs. We are working with the Caribbean Division Office and anticipate a resolution by December 1998.

- \* **Audit of Water and Power Authority, FEMA - 1067-DR-VI, Audit Report Number E-21-98, issued March 3, 1998.**

The audit questioned \$78,527 of the \$2.1 million claimed by the Authority. The Authority did not credit \$28,551 from the sale of salvaged scrap,

claimed duplicate contractor payments of \$33,797, and claimed \$16,179 of excessive salary and fringe benefits paid to permanent employees. We are working with the Caribbean Division Office and expect resolution by December 1998.

- \* **Audit of Citrus County, Florida, FEMA - 982-DR-FL, Audit Report Number E-23-98, issued March 24, 1998.**

The audit questioned \$89,267 of the \$1.2 million claimed by Citrus County. The County did not credit \$81,169 of insurance funds, claimed \$6,423 in excessive materials costs, claimed duplicate equipment charges of \$591, and claimed \$204 of unrelated costs. We are working with the Infrastructure Division and anticipate a resolution by December 1998.

- \* **Audit of Commonwealth of Puerto Rico, FEMA - 1136-IFG-PR, Audit Report Number E-24-98, issued March 24, 1998.**

The audit questioned \$241,163 of unpaid obligations under the Individual and Family Grant Program for the victims of Hurricane Hortense. The unpaid obligations were for items that were not necessary or reasonable for program administration. We are working with the Caribbean Division Office and expect resolution by December 1998.

- \* **Audit of University of Puerto Rico, FEMA - 842-DR-PR, Audit Report Number E-25-98, issued March 24, 1998.**

The audit questioned \$267,195 of the \$975,205 claimed by the University of Puerto Rico. The University did not have supporting documentation for \$267,195 claimed. We are working with the Caribbean Division Office and expect resolution by December 1998.

- \* **Single Audit Report of State of Vermont for Fiscal Year Ended June 30, 1996, Audit Report Number E-S-23-98, issued January 26, 1998.**

Vermont's Agency of Commerce and Community Development had no procedures in place to reconcile expenditures reported to FEMA with expenditures in the State's general ledger. We anticipate resolving the recommendations by January 1999.

- \* **Single Audit Report of State of Pennsylvania for Fiscal Year Ended June 30, 1996, Audit Report Number E-S-06-98, issued January 14, 1998.**

The audit report contained five administrative findings addressed to three State departments: Transportation, Public Welfare, and Emergency Management. We anticipate resolving the recommendations by January 1999.

- \* **Single Audit Report of Virgin Islands Port Authority for Fiscal Year Ended September 30, 1996, Audit Report Number E-S-24-98, issued January 26, 1998.**

The auditors questioned costs totaling \$269,891 for various reasons. The auditors also reported that the

Authority needed to improve its employee time and attendance system and its procurement procedures. We anticipate resolving the recommendations by January 1999.

- \* **Single Audit Report of Illinois Department of Natural Resources for Fiscal Year Ended June 30, 1995, Audit Report Number E-S-27-98, issued January 27, 1998.**

The auditors reported that the Department (1) did not submit disaster assistance progress reports, (2) completed disaster projects after due-date, and (3) did not have an adequate accounting system to manage disaster costs. We anticipate resolving the recommendations by January 1999.

- \* **Single Audit Report of Illinois Department of Natural Resources for Fiscal Year Ended June 30, 1996, Audit Report Number E-S-28-98, issued January 27, 1998.**

The auditors reported that the Department (1) completed disaster projects after the due-date and (2) did not have an adequate accounting system to manage disaster costs. The auditors also reported both findings in their Fiscal Year 1995 report. We anticipate resolving the recommendations by February 1999.

- \* **Single Audit Report of the Government of the U.S. Virgin Islands for Fiscal Year Ended September 30, 1994, Audit Report Number E-S-34-98, issued February 6, 1998**

Of the seven FEMA-related findings, three represented questioned costs of \$6,494,796: unsupported costs (\$5,801,019), improper financial reconciliation (\$293,574), and non-monitored subrecipients (\$400,203). We anticipate resolving the recommendations by January 1999.

- \* **Single Audit Report of the Rhode Island Indian Council of Providence, R.I., for Fiscal Year Ended June 30, 1995, Audit Report Number E-S-45-98, issued February 24, 1998.**

The Council did not have sufficient documentation to support \$3,060.50. We anticipate resolving the recommendations by January 1999.

- \* **Single Audit Report of the State of South Dakota for the Fiscal Year Ended June 30, 1996, Audit Report Number W-S-23-97, issued July 8, 1997.**

The Single Audit Report contained three administrative findings and recommendations relating to internal controls, payroll costs, and subrecipients' audits. We are working with Region VIII to resolve these issues. We anticipate resolution in December 1998.

- \* **Audit of the County of Orange, California, FEMA Disaster 935-DR-CA, Audit Report No. W-02-98, issued December 1, 1997.**

The auditors questioned \$60,173 in duplicate payroll claims, excess fringe benefits costs, excess

approved project costs, and excess equipment costs. We anticipate resolution in December 1998.

- \* **Audit of National Urban Search and Rescue Response System, Pierce County, Washington, Department of Emergency Management, Audit Report No. W-04-98, issued January 20, 1998.**

The auditors questioned \$28,416 of excessive charges, unapproved costs, damaged tools, overcharges, and payment corrections. We are working with FEMA Headquarter personnel and anticipate resolution in December 1998.

- \* **Audit of Fort Totten Indian Reservation, Devil's Lake, ND, FEMA Disaster Nos. 1001, 1032, 1050, and 1118-DR-ND, Audit Report No. W-07-98, issued February 2, 1998.**

The auditors questioned \$64,635 in unsupported project costs. We are working with Region VIII personnel and anticipate resolution in January 1999.

- \* **Audit of the City of Oceanside, California, FEMA Disaster No. 979-DR-CA, Audit Report No. W-10-98, issued March 5, 1998.**

The auditors questioned \$128,402 in duplicate benefits, lack of supporting documentation, and excess administrative costs. We are working with Region IX personnel and anticipate resolving the recommendations in January 1999.

- \* **Audit of County of Kauai, Hawaii, FEMA Disaster 961-DR-HI, Audit Report No. W-11-98, issued March 6, 1998.**

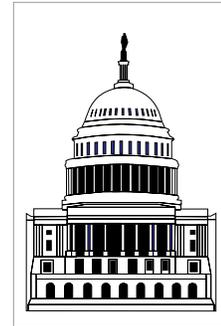
The auditors questioned \$115,580 in overstated labor costs, unallowable surcharges, costs outside scope of project, overstated equipment rates, and duplicate claims. We are working with Region IX personnel and anticipate resolving the recommendations in January 1999.

- \* **Audit of the City of Glendale, California, FEMA Disaster 1008-DR-CA, Audit Report No. W-12-98, issued March 20, 1998.**

The auditors questioned \$17,509 in ineligible salary costs, idle time for equipment, and missing accounting documents. We are working with Region IX personnel and anticipate resolution in January 1999.



# 6



## *Legislative and Regulatory Reviews*

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of FEMA and to make recommendations concerning their impact. In reviewing regulations and legislative proposals, the primary bases for our comments are our audit, inspection, and investigation experience. We also participate in the President's Council on Integrity and Efficiency, which provides a mechanism for all OIGs to comment on existing and proposed legislation and regulations that have a government-wide impact.

During this reporting period, the OIG reviewed and responded to more than 12 proposed changes to legislation, regulation, policy and procedure that could affect FEMA.



7



































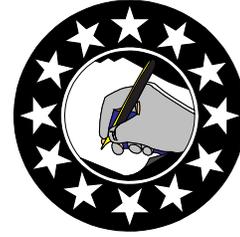








# 8



## *Index of Reporting Requirements*

The specific reporting requirements prescribed in the Inspector General Act of 1978, as amended in 1988, are listed below with a reference to the pages on which they are addressed.

<b>Requirements</b>		<b>Pages</b>
Section 4(a)(2)	Review of Legislation and Regulations	27
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	7 - 18
Section 5(a)(2)	Recommendations with Significant Problems	7 - 18
Section 5(a)(3)	Prior Recommendations Not Yet Implemented	1/
Section 5(a)(4)	Prosecutive Referrals	7-18
Section 5(a)(5) & Section 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of Audit Reports	34 - 47
Section 5(a)(7)	Summary of Significant Audits	7 - 18
Section 5(a)(8)	Reports with Questioned Costs	30, 37 - 47
Section 5(a)(9)	Reports Recommending That Funds Be Put to Better Use	31, 34 - 47
Section 5(a)(10)	Summary of Reports Where No Management Decision Was Made	30 - 31

<b>Requirements</b>		<b>Pages</b>
Section 5(a)(11)	Revised Management Decisions	None
Section 5(a)(12)	Management Decision Disagreements	None

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1/ In FEMA's audit follow-up process, the Office of Financial Management monitors and reports on corrective actions after a decision has been reached. Corrective action information is transmitted in the Director's Report to Congress.

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<http://www.fema.gov/ig>*