



# Department of Homeland Security Office of Inspector General

## Management Advisory Report:

### Recoupment of Improper Disaster Assistance Payments





Homeland  
Security

December 10, 2010

MEMORANDUM FOR: The Honorable W. Craig Fugate  
Administrator  
Federal Emergency Management Agency

FROM: *Richard L. Skinner*  
Richard L. Skinner  
Inspector General

SUBJECT: *Management Advisory Report: Recoupment of Improper  
Disaster Assistance Payments (OIG-11-21)*

We recently initiated an inspection of the Federal Emergency Management Agency's (FEMA) Fraud Prevention and Investigation Branch. As part of our inspection in assessing FEMA's progress in preventing fraud and improper payments, we learned that FEMA has identified approximately 160,000 applicants that received improper disaster assistance payments totaling approximately \$643 million through the Individuals and Households Program commencing with Hurricanes Katrina and Rita. We also learned that since June 2007, FEMA has not attempted to recoup these improper payments or those from any subsequent disaster. These payments remain uncollected because your office has not given final approval of a new recoupment process. Given the volume and significance of these improper disaster assistance payments and the Administration's current effort to cut the billions of dollars wasted each year in improper payments, we recommend that you promptly authorize the collection of this debt.

### **Background**

Immediately after a President declares a disaster, affected individuals are able to apply for individual assistance from the Individuals and Households Program. Individuals are potentially eligible for the following types of disaster-related assistance: temporary housing (rent and lodging), home repair, home replacement, and other needs assistance for personal property, transportation, medical, funeral, moving, and storage.

Since Hurricanes Katrina and Rita, FEMA disbursed more than \$7 billion in individual assistance payments to survivors. FEMA estimates that approximately \$643 million of those payments were improper due to inadequate internal controls, human error, mistake, and fraud.

Both the Congress and the Administration have recently emphasized the importance of agency efforts to identify, reduce, and recover improper payments. The Improper Payments Elimination and Recovery Act of 2010 requires agencies to take actions that include: (1) reviewing and identifying agency programs and activities that may be susceptible to significant improper payments; (2) reporting on what actions the agency is taking to reduce improper payments; and (3) reporting on what actions the agency is taking to recover improper payments. A March 10, 2010, Presidential Memorandum, Finding and Recapturing Improper Payments, states that Executive departments and agencies should use every tool available to identify and reclaim funds associated with improper payments.

### **Recoupment of Improper Disaster Assistance Payments**

As a result of a lawsuit challenging, among other things, FEMA's process for recouping erroneous disaster assistance payments,<sup>1</sup> on June 13, 2007, a federal district court judge ordered FEMA to discontinue its debt collection activities until certain changes were made in its recoupment process. FEMA immediately complied with the court's order. While defending this lawsuit, FEMA found that the Department of Homeland Security had promulgated department-wide rules governing debt collection earlier in 2007, leaving FEMA with no debt collection rules of its own. In response, FEMA announced in 2008 that it was stopping its recoupment of all improper disaster assistance payments made to Katrina and Rita applicants until FEMA established a new process that fully conformed to the department-wide debt collection standards. FEMA also announced that before sending a "notice of debt," it would review each Katrina/Rita case again and confirm the validity of the debt. FEMA's Office of Chief Counsel, in cooperation with the Individual Assistance office and the FEMA Finance Center, developed a new recoupment process, which has been awaiting official approval by the Administrator since late 2008.<sup>2</sup>

Personnel from the Texas National Processing Service Center (NPSC) have been given the responsibility of carrying out the new recoupment process. As of November 30, 2010, NPSC personnel have: (1) established a recoupment strategy; (2) identified staff ready to proceed with the recoupment process; and (3) initiated a review of the 160,000 cases at issue. According to FEMA officials we interviewed, both your office and the Office of Management and Budget (OMB) have been briefed on the new process. OMB has confirmed that this debt should be collected. However, your office has not instructed the responsible parties to restart the recoupment process. Further delay only makes aging debts more difficult to collect.

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<sup>1</sup> Ridgely v. FEMA, No. 07-2146 (E.D. La. filed Apr. 19, 2007) was a class action lawsuit which included a challenge to FEMA's recoupment of some disaster assistance payments following Hurricanes Katrina and Rita. The Court ordered FEMA to stop its termination or discontinuance of assistance until FEMA took certain actions, including providing interested parties with advance written notice of the reasons for termination or discontinuance and notifying them of their right to appeal FEMA decisions.

<sup>2</sup> FEMA stopped attempting to recoup all improper payments that resulted from Hurricanes Katrina and Rita and subsequent disasters until the new recoupment process was approved.

**Recommendation**

We recommend that you promptly take action to initiate the recoupment process for reclaiming improper disaster assistance payments in the Individuals and Households Program.

We hope our recommendation will be of assistance in improving the efficiency and effectiveness of FEMA's Individuals and Households Program. Should you have any questions, please call me, or your staff may contact Matt Jadacki, Assistant Inspector General for Emergency Management Oversight, at (202) 254-4100.



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