United States General Accounting Office

GAO

Report to the Chairman, Legislation and National Security Subcommittee, Committee on Government Operations, House of Representatives

April 1989

DISASTER ASSISTANCE

Program Changes Expedited Delivery of Individual and Family Grants

RESTRICTED——Not to be released outside the General Accounting Office unless specifically approved by the Office of Congressional Relations.

GAO/RCED-89-73

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-226883

April 4, 1989

The Honorable John Conyers, Jr.
Chairman, Legislation and National
Security Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

As requested by the former Subcommittee Chairman in a July 1, 1987, letter and in subsequent discussions with his office, we reviewed, among other things, the effect of the 1986 administrative changes to the Federal Emergency Management Agency's (FEMA) Individual and Family Grant (IFG) Program on the timeliness of delivering program benefits. Specifically, we agreed to review the impact of the 1986 program changes on the timeliness in delivery of grants to disaster victims and how these changes have affected program costs. In addition, we also agreed to comment on other program changes that FEMA had under consideration.

Background

The IFG program provides grants of up to $10,000 to eligible households that are victims of major disasters, as declared by the President.[1] The program is administered by the states, and FEMA is authorized to provide limited funding of state administrative costs. Grant costs are funded under a cost-sharing approach in which the individual states pay 25 percent of the grant costs and FEMA pays 75 percent.

In 1984, FEMA reviewed the IFG benefits delivery system because only about one-half of the applications for assistance were processed within 6 months after disasters—FEMA's goal for processing all applications. In the spring of 1986, FEMA began testing new administrative procedures to help expedite the issuance of grants to eligible IFG applicants. The changes were officially implemented in October 1986. Between May 1986 and October 1988, states had administered 34 programs under the new procedures. IFG applicants from 11 disasters in fiscal year 1988 received about $50.4 million in IFG program assistance, according to FEMA data.

[1] P.L. 100-707, enacted on November 23, 1988, increased the maximum grant from $5,000 to $10,000.

To address the effect of the 1986 administrative changes on program implementation, we analyzed the states' performances in processing 347 cases selected from about 13,700 IFG applications from the 9 programs administered under the new procedures in 5 states we visited.

Results in Brief

With the changes to the program, timeliness has measurably improved. For example, according to FEMA data, the states made grant award/denial decisions within 30 days on about 74 percent of the applications under the new procedures. Under the old procedures, the states made decisions on about 5 percent received within 30 days of the disaster declaration.

At the same time, the new procedures, designed in part to reduce state administrative costs, reallocated verification and other administrative costs from the states to FEMA.

Finally, the federal and/or state cost of future IFG programs will increase because of program changes enacted in November 1988 and proposals being considered by FEMA. Because state officials we interviewed generally supported the 1986 changes and because several disaster assistance agencies are developing additional improvements that should further facilitate delivery of IFG program benefits, GAO is not making recommendations for program changes.

New Procedures Have Improved Grant Decision-making

Decision-making was faster for programs the states administered under the new procedures than for programs under the old procedures. According to FEMA data on 28 programs administered under the new procedures, 74 percent of the applications received an award/denial decision within 30 days after the disaster was declared. In contrast, the states made decisions on only about 5 percent of the applications from eight disasters administered under the old procedures within the 30-day time frame. In the cases we reviewed, under the new procedures states processed 65 percent of the applications within 30 days after the disaster was declared, and all were processed in an average (weighted) of 46 days. State officials we interviewed who had processed over 1,000 applications in a few months using the new procedures estimated that it could have taken up to 1 year to process those applications under the old procedures because of the longer time spent awaiting data from other disaster assistance providers and from applicants.

In addition, two other disaster assistance providers—the Small Business Administration (SBA) and the American Red Cross—have also taken actions to improve their operations, which, in turn, facilitate earlier IFG decision-making. SBA has taken steps to facilitate earlier submission and processing of disaster loan applications, which results in earlier referrals of the applicants to the IFG programs. The Red Cross has cooperated by taking steps to expedite the transmission of data on its assistance to FEMA. According to FEMA and Red Cross officials, the new IFG procedures provide an incentive for all agencies to expedite their procedures to minimize delays in various disaster assistance programs. Additional data-sharing improvements are being developed to further expedite delivery of benefits (see apps. I and II).

New Procedures Reallocated Verification and Other Administrative Costs

Although we were not able to calculate the total impact of the program changes on verification costs, we did determine that the new procedures, which were designed to reduce state administrative costs, reallocated verification and other administrative costs from the states to FEMA. FEMA is now responsible for and pays for most property inspections—previously a state function that, in some aspects, duplicated federal program inspections. Inspections conducted under the new procedures, which are also used for FEMA's temporary housing assistance program, cost the federal government about $4.1 million nationwide from May 1986 to October 1988. The new inspections are generally recognized by federal and state officials we interviewed as more timely and, in most instances, prepared by better qualified personnel, compared with the IFG inspections performed under the old procedures.

FEMA also obligated about $2.6 million for an enhanced information management system that has been credited with expediting application processing. This system is used by several FEMA disaster assistance programs. FEMA officials estimated that the IFG portion of this obligation is about $580,000.

Recent Legislation and Program Changes Under Consideration Will Increase Program Costs

Recent legislation and program changes under consideration by FEMA will increase the IFG program's total cost. The Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1988 increased the maximum limit on grants from $5,000 to $10,000, as well as the federal share of state administrative expenses. FEMA is considering requiring a 3-year group flood insurance policy for disaster victims in high-hazard flood areas that would cost more because the current requirement is only for a 1-year policy.

Scope and Methodology

We met with officials and reviewed documentation at FEMA headquarters and its regional offices in Chicago and in Denton, Texas. We interviewed officials from five states (Arkansas, Illinois, Louisiana, Texas, and Wisconsin) that had administered IFG programs to obtain their views on the implementation of the IFG programs and to obtain cost and other data on recent IFG programs. We also discussed the revised IFG program with officials of the Red Cross and SBA. We also reviewed 347 case files selected from 9 programs administered under the new procedures to analyze the timeliness of benefit delivery.

Information we obtained may not be representative of all states that have administered IFG programs. When comparing the various states' performances, it should be noted that several variables that are not under the control of the state affect the timeliness of application processing. These include the total number of IFG applications received and the number of applicants that must complete applications for SBA disaster loans. Also, Wisconsin and Arkansas officials processed applications of households that were potentially eligible for grants under two disaster declarations that required additional checking to minimize duplication of benefits.

We performed our work between July 1987 and September 1988 and updated the results through December 1988. We performed our review in accordance with generally accepted auditing standards.

We discussed the information we obtained with FEMA and state officials and incorporated their comments in this report as appropriate. As requested, we did not obtain official agency comments.

Appendix I of this report provides general information on the IFG program, the major changes FEMA initiated in 1986, and the detailed scope and methodology of our work. Appendix II discusses the impact of the program changes, including the enhanced computerized information management system, on grant decision-making. Appendix III discusses the impact of the 1986 changes on FEMA and state administrative costs. Appendix IV discusses the cost implications of selected legislative changes enacted in November 1988 and proposals being considered by FEMA. Appendix V lists the major program changes FEMA officially implemented in October 1986. Appendix VI provides characteristics of the disasters included in our review.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Director, FEMA; the Director, Office of Management and Budget; and other interested parties, and make copies available to others upon request. If we can be of further assistance, please contact me at (202) 275-5525.

Major contributors to this report are listed in appendix VII.

Sincerely yours,

John M. Ols, Jr.

John M. Ols, Jr.
Director, Housing and
Community Development Issues

Contents

Abbreviations

FEMA	Federal Emergency Management Agency
GAO	General Accounting Office
IFG	Individual and Family Grant Program
IMS	information management system
RCED	Resources, Community, and Economic Development Division
SBA	Small Business Administration

Introduction

Background on the Individual and Family Grant Program

Created in 1974, the Federal Emergency Management Agency's (FEMA) Individual and Family Grant (IFG) Program makes grants of up to $10,000 to individuals and families for unmet disaster-related necessary expenses and serious needs not met by other disaster programs or insurance.[1] The IFG program is designed for use in conjunction with FEMA's temporary housing program and the Small Business Administration's (SBA) disaster loan program. Each of these programs can be activated when the President declares that a state has suffered a major disaster. Disaster victims usually apply for assistance at local disaster application centers. The state evaluates the applicants' unmet disaster-related expenses to determine eligibility for IFG grants and issues grant checks; FEMA does the same for the temporary housing program. SBA makes its own eligibility determinations.

The states provide IFG grants for repairing or replacing personal property or vehicles, housing repairs, flood insurance, and disaster-related medical, dental, or funeral bills. The temporary housing program can provide grants for home repairs, rent, furniture, or transient accommodations. The housing program can also provide mobile homes to homeowners in certain instances.

Under the authorizing legislation, the states must administer the IFG program, but the federal government shares the funding with the states. The federal government pays 75 percent of the total grant awards and the states pay 25 percent. In addition, FEMA is authorized to provide an allowance to the states to cover a portion of their IFG administrative costs. The administrative allowance was equal to 3 percent of the federal share of the grants at the time of our review.[2] Pursuant to FEMA's interpretation of the legislation, FEMA does not provide funding for administrative costs that states incur in processing applications that are withdrawn or denied, or requests for reconsideration that do not result in a new or larger grant.

In fiscal year 1988, 10 states administered 11 IFG programs. The states approved grants to about 47,100 households at a total cost of about $50.4 million; the federal share was about $37.8 million. An additional 6,000 applicants did not meet the IFG program's eligibility requirements, and states reported 285 applications pending as of September 30, 1988.

[1] P.L. 100-707, enacted November 23, 1988, increased the maximum grant from $5,000 to $1[illegible]

[2] P.L. 100-707 increased the maximum allowance to 5 percent.

Objectives

As requested by the former Chairman, Legislation and National Security Subcommittee, House Committee on Government Operations, we

- evaluated the impact of revised procedures on states' timeliness in providing benefits to disaster victims, and on verification costs for the individual states and FEMA;
- reviewed problems or concerns states have in implementing the revised procedures; and
- considered recommendations for further improving the program.

This appendix describes the major procedural changes in the IFG program benefits' delivery system. Appendix II provides a detailed description of the IFG application process. Appendix III discusses the impact of the 1986 changes on FEMA and state administrative costs. Appendix IV discusses the cost implications of selected legislative changes enacted in November 1988 and proposals being considered by FEMA.

FEMA Initiated Major Program Changes in 1986

To help expedite IFG program grants, FEMA began testing program changes in early 1986 that have had a major impact on program administration. These included revised loss verification procedures, generic pricing, and computer-generated grant proposal packages. A more complete listing of the IFG program changes is contained in appendix V.

FEMA Inspectors Perform Most IFG Verifications

With the new procedures, FEMA officially adopted a new type of loss verification—the combined verification inspection. This inspection combined the verifications needed for both the IFG program and the temporary housing program.

Under the old procedures, the states were responsible for all IFG verifications and had to visit each applicant to verify property damage. Under the new procedures, FEMA has assumed responsibility for verifications of most property damage. States are still responsible for verification of claims associated with disaster-related medical, dental, and funeral expenses. The states are also responsible for verification of vehicle damage if the applicant is not also requesting assistance for other property damage, in which case FEMA inspectors will verify the damage.

In carrying out its new verification responsibility, FEMA uses two types of inspectors—trained temporary employees, referred to as reservists, or professional inspectors provided by one of the firms under contract with FEMA. FEMA has generally used the reservists to perform inspections after smaller disasters, such as the May 1987 Saragosa, Texas, tornado, or disasters on some of the Pacific islands. FEMA also uses reservists for inspections relating to applications received after the contractor has been released and for quality control of contractor inspections. FEMA releases the contractor once it determines that the work load is not large enough to justify retaining the contractors' inspectors.

FEMA regional and headquarters officials believe that, in larger disasters, reservists are not able to perform inspections as quickly or as inexpensively as the contractor-provided inspectors. FEMA regional officials said that differences in the way FEMA pays the reservists and contractors contribute to the differences in timeliness. FEMA pays its employees a fixed salary. On the other hand, FEMA pays contractors according to the number of completed inspection reports it accepts. FEMA officials said that this payment method encourages contract inspectors to work evenings and weekends and thereby complete more inspections per day.

Generic Pricing Eliminates Need for Most Applicant-provided Documents

Under the old procedures, applicants had to provide detailed bills or estimates for items needing repair or replacement to support the requested grant. Applicants encountered difficulties and delays in obtaining acceptable documents. With the new procedures, FEMA eliminated the need for most contractor bills and estimates when it introduced the concept of generic damage reporting and generic pricing. Under this concept, the inspectors completing the combined verification form record the level of damage for personal property, such as clothing and furniture, using alphabetic codes and a FEMA-state price list established at the start of each IFG program. This list provides the repair/replacement dollar allowances for each of the items listed on the inspection report and the percentages of the replacement cost allowance that the codes represent.

For flood-damaged homes, the inspectors apply a generic room concept to record damage, using alphabetic codes for various water depths in rooms of different sizes. The computer then calculates repair or replacement costs based on standard, or generic, rooms. Generic rooms combine costs for restoring baseboards, sheet rock (with base coat of paint), insulation, and window and door trim. To assist the states, FEMA's temporary housing staff develops suggested generic repair/replacement costs for the different rooms in a typical house. Inspectors use generic room pricing only in flood-related disasters. However, FEMA does not use generic room pricing in Puerto Rico or in some of the Pacific islands because housing construction practices, such as cinder block walls and terrazzo floors, do not lend themselves to the generic pricing concept. State officials believe that the new procedures are less burdensome because applicants no longer have to get estimates for the repair or replacement of damaged household items.

To determine if generic pricing increased grant amounts, Texas measured the effect of generic pricing on grants resulting from the Sweetwater tornado disaster declared in April 1986. This IFG program included a FEMA-initiated test of the generic concept that preceded nationwide implementation. The evaluation, which the state incorporated into its quality control review of 38 cases, concluded that the net effect on the grant amounts was not significant. The state reported that the grant amounts averaged about $27 more under the generic concept than under the old procedure, but concluded that a difference of at least this amount could be attributable to damage verifiers' judgments. We calculated that this was a net difference of about 2 percent of the average $1,560 grant award for these cases.

Computerized Lists Help Prevent Duplication of Benefits

According to FEMA regulations, IFG assistance cannot duplicate that provided by other federal or private disaster relief agencies or insurance. Under the old procedures, to prevent duplicate payments for the same losses by several disaster relief programs, the states generally requested assistance information for each IFG applicant from the temporary housing and SBA disaster loan programs, and the Red Cross. The states frequently conducted their inquiries by mail, and if an application was still pending for one of those programs, the reply might have been delayed. States generally would not make an IFG grant decision or issue a check until they received this information.

This situation changed with FEMA's introduction, in 1986, of duplication-of-benefit lists generated by its information management system (IMS) computer system at the disaster field offices. The computer-generated reports help prevent duplication of benefits by providing in one document the status of assistance that may be available from the Red Cross; SBA disaster loans; FEMA's temporary housing, IFG, and flood insurance programs; and homeowner's insurance companies (generally provided by the applicants). The state officials refer to this list before approving grant applications. The IMS computer generates these benefit lists daily when the IFG programs begin—the time when the states are processing the most applications. FEMA produces the lists less frequently as the program activity decreases. The Red Cross has cooperated through timely transmission of data on its assistance to FEMA.

FEMA, SBA, and the Red Cross are developing additional data-sharing improvements that will facilitate data entry into the duplication-of-benefits data base and should further improve benefit delivery. For example, the Red Cross plans to begin electronic data transmission from its local field staff to its disaster operations headquarters and to FEMA's disaster field office.

FEMA Computer Generates Grant Proposal Packages

FEMA's IMS computers at the disaster field offices can also generate proposed packages that replace, in many cases, proposal packages manually prepared by state staffs. These manually prepared proposal packages were time-consuming to produce. They involved analyses and comparisons of a general list of eligible items (with maximum allowances), the state inspection reports, duplication-of-benefits replies from other disaster relief agencies, and applicant-provided documents. The computers generate two types of packages—one for approvals and one for denials—based on the FEMA inspection reports. The state officials review these packages and, if they require no changes, date and sign the letters and send them to the applicants.

If FEMA inspection reports show that an applicant is eligible for an award, the computer generates a three-part award package—an award letter, a detailed listing of the items (such as individual pieces of furniture) eligible for a grant and their dollar allowances, and a separate listing that gives the proposed grant by broad category. These categories are personal property, housing repair, and flood insurance, as applicable. The detailed listing gives the total allowance for all damaged items. The categorical listing limits the proposed grant amount to the program's maximum grant. The states are to include it with the notification letters sent to grantees to advise them on how they must spend the grant.

When the FEMA inspection report shows there was no significant disaster-related damage, or if other programs or insurance have met the applicant's eligible IFG needs,[3] the computer generates an undated denial letter that the states can send to applicants to notify them that the state has denied their application. The computer-generated letters list several potential reasons for denial and the states are to check the appropriate reason(s).

[3]Some states have denied grants if the applicants have insurance coverage before the applicant has received a settlement. In these cases, states advised applicants to appeal the denial if the settlement does not cover all serious needs.

FEMA, state, and SBA officials generally believe that the new IMS system enabled the IFG program to respond faster, more consistently, and more efficiently. However, officials from one state, which did not use the FEMA-provided notification letters, said that they did not like the appearance of the computer-generated letters and that the letters should contain additional guidance on items such as the required period for expenditure of the grant funds. Another state used state letterhead paper after the disaster field office closed because it believed that the computer-generated letters were impersonal.

Less Restrictions on Grant Use Ease Burden on Grantees

The IFG program now provides more flexibility to grantees on how they can use their grants. Under the old procedures, grantees received detailed listings of the items that had to be purchased with the grant funds. Under the new procedures, FEMA requires grantees to spend their grants within broad grant categories as applicable—personal property, housing, medical or dental, funeral, transportation, and/or flood insurance. For example, grantees are no longer restricted to buying specific items of furniture that were listed in their notification letters, such as one end table or two lamps. Grantees may now purchase any items of furniture, except recreational or luxury items, such as stereos, and be in compliance with the new, broader requirement to purchase personal property.

FEMA still requires the state to perform quality control checks. The states must review a random sample of cases to determine, for example, whether the grant funds are meeting the applicant's needs, are not duplicating assistance from other means, and have been spent as specified in the grant award. Although we did not evaluate how well the states were fulfilling this responsibility, we noted during our case file examination that several files contained evidence of state quality control checks.

Administrative Cost-sharing Revisions Reduce State Record-keeping Requirements

FEMA revised the way it funds a portion of the states' administrative expenses. Under the old procedures, FEMA reimbursed states for administrative expenses of up to 3 percent of the federal share of total eligible grant disbursements, or a state's total administrative expense, whichever was less, if the states provided documentation to support their claims. Under the procedures in effect during our review, FEMA provided each state with an administrative expense allowance equal to 3 percent of the federal share of total eligible grant disbursements and did not require the states to accumulate cost data to support their administrative expenses. Appendix IV discusses further changes FEMA officials were considering regarding the recently increased maximum allowance of 5 percent.

Scope and Methodology

To address the question of timeliness of benefit delivery, we used FEMA statistics to compare timeliness of the states' application processing before and after the new procedures were implemented. We also analyzed the states' performances in processing 347 cases selected from about 13,700 IFG applications from the 9 programs administered under the new procedures in 5 states we visited. These states were Arkansas, Illinois, Louisiana, Texas, and Wisconsin. We reviewed each of the nine IFG programs—for disasters receiving presidential declarations between August 1986 and December 1987—to provide a reasonable overview of how FEMA and the states had implemented the new procedures under various conditions: large disasters, small disasters, floods, and tornadoes. See appendix VI for a listing of the nine disasters included in our review.

For comparison purposes, we divided the IFG program processes into 20 separate milestones that an applicant's case history could include—from application for assistance to resolution of appeals, if applicable. We collected and analyzed data from the states' case files, FEMA-generated duplication-of-benefits reports, and other relevant documentation.

To address the issue of program costs, we obtained state data, to the extent available, on verification and other costs to implement the program under the old and new procedures. We interviewed officials in the five states we visited to discuss how the states carried out their inspections and other responsibilities under the old procedures and how their roles and costs changed under the new procedures. We developed cost data for FEMA inspections under the combined verification procedures and discussed inspection costs under the contracts awarded in April 1988. We also obtained cost data on FEMA's IMS that the IFG and other disaster assistance programs use at disaster field offices.

To learn about states' problems and concerns with the new procedures, we interviewed state officials in states we visited who had experience in administering the program under the old and new procedures. We discussed, for example, documentation requirements; efforts to prevent duplication of benefits with other disaster programs; coordination with other disaster agencies; and development of proposed grant amounts.

We also analyzed data from our case file review for evidence of problems or concerns with the revised procedures, such as the accuracy of the FEMA inspections.

We also discussed IFG program operations and coordination between the various disaster relief programs with officials in FEMA headquarters and Regions V (Chicago) and VI (Denton, Texas) and SBA headquarters. We also interviewed officials from the Red Cross headquarters (Washington, D. C.) and its Centex Chapter (Austin, Texas) and the Red Cross representative in FEMA Region VI (Denton, Texas). We requested that the Red Cross review its case records maintained in St. Louis to determine (1) if the states had sent requests for additional assistance to the Red Cross in accordance with IFG program guidance and (2) what action the Red Cross had taken on those referrals.

We performed our work between July 1987 and September 1988 and updated the results through December 1988.[4] We performed our review in accordance with generally accepted auditing standards, except with respect to verifying the accuracy of financial data provided by the states.

[4]With the concurrence of the former Subcommittee Chairman's office, we suspended work on this review from September to November 1987.

New Procedures Have Improved Grant Decision-making

The new procedures, which FEMA began implementing in the spring of 1986, have expedited the grant decision-making process and thus the delivery of IFG benefits to eligible applicants, according to our analysis. This view was also expressed by officials from FEMA headquarters and the two FEMA regional offices we visited; the five states visited; the Red Cross at the national, regional, and local levels; and SBA headquarters. We also noted that states we visited implemented some procedures in varying ways and that verification of certain eligibility requirements can still affect overall timeliness.

Decision-making was faster for programs the states administered under the new procedures than programs under the old procedures. According to FEMA data on 28 programs administered under the new procedures, 74 percent of the applications received within 30 days of the disaster declaration received an award/denial decision within the same time frame. In contrast, states processed only about 5 percent of the applications from eight disasters administered under the old procedures within the 30-day time frame. In the cases we reviewed, states processed 65 percent within 30 days of the disaster declaration, and 100 percent in an average (weighted) of 46 days.

To help explain the impact of the 1986 program changes and to discuss problems or concerns with program implementation, we discuss below the steps taken in handling IFG applications and the varying ways in which the states implemented them.

New Procedures Improved Programs' Timeliness

Our analysis is based on FEMA data on 8 programs administered under the old procedures and 28 programs administered under the new procedures. We found that the new procedures contribute to much more timely IFG programs. As shown in table II.1, the weighted percentage of applications on hand processed within 30 and 60 days of the disaster declaration date increased significantly under the new procedures.

Table II.1 Percentage of Applications Processed Within 30 and 60 Days of Disaster Declaration Under Old and New IFG Procedures

Description	Weighted percentages: Processed within 30 days	Weighted percentages: Processed within 60 days
IFG programs before combined verification procedure	4.9	30.0
IFG programs since combined verification procedure	73.7[a]	89.0[b]

[a]Percentages are based on reports the states sent to FEMA on 28 programs.

[b]Percentages are based on reports the states sent to FEMA on 23 programs.

Source: GAO analysis of FEMA-compiled data.

In eight programs administered under the old procedures, the states issued within 30 days of the declaration an award or denial letter for 0 to 24 percent of their applications received within the same time frame. Within 60 days, they processed a minimum of 2 percent of the applications and a maximum of 86 percent. In 28 programs administered under the new procedures, states processed 23 to 100 percent of their applications on hand within 30 days of the declaration. In 23 programs administered under the new procedures,[1] the states processed a minimum of 69 percent of the applications on hand and a maximum of 100 percent. Sixteen of the 23 programs processed 90 percent or more of the applications on hand within 60 days of the disaster declarations.

IFG Application Process Began With FEMA Registration

Disaster victims can apply for IFG grants in two ways. An applicant household usually completes a registration form at a FEMA disaster application center. FEMA tries to open application centers within a few days after the President has declared a disaster eligible for assistance. FEMA opened the first disaster application centers for the disasters we reviewed within 3 to 6 days of the declaration date.

Some applicants provided registration information to FEMA by using a toll-free hot line. Regardless of which registration method the households used, the applicants provided information on items such as the extent and location of damage suffered in the disaster, family size and income, and insurance coverage.

[1]FEMA did not have 60-day data on 5 of the 28 programs administered under the new procedures.

Many IFG Applicants Received Summary SBA Loan Declines

In order to avoid duplication of disaster relief benefits, FEMA requires households that apply for IFG grants for real or personal property to first apply for disaster loans from SBA according to the procedure described below. Many IFG applicants in the programs we reviewed received prompt SBA summary declines on disaster loan applications. Using family income data provided by the applicant, SBA officials at the disaster application center determine whether the household is eligible for a summary SBA loan decline. Generally, households receive a summary decline because SBA determines, according to its criteria, that the household does not have enough income after paying living expenses, to repay an SBA disaster loan.[2] Households receiving summary declines are then eligible for consideration for IFG grants. Households not receiving a summary decline are given an SBA loan application package. To address past problems of delays in loan processing,[3] SBA held workshops to help disaster victims submit earlier, more complete loan applications.[4]

Once SBA receives the completed package, staff review the package and either offer a loan or advise the household that it is not eligible for a loan. If SBA denies a loan application, the applicant may be eligible to apply for an IFG grant. SBA took steps to increase the percentage of disaster loan applications processed within 60 days, providing earlier referrals to the IFG programs.

We found that SBA declined 268 of 334 applicant households (about 80 percent) on the same day that the household registered at the disaster application center.[5] For 292 households out of 334 (about 87 percent), SBA provided a denial letter in 10 days or less. SBA provided approvals or denials to all 334 cases in a weighted average of about 10 days, as shown in table II.2. The number of days ranged from 0 (the same day) to 102 days. One SBA application was pending in March 1988 when we performed our case file review.

[2] Although IFG applicants can also apply for disaster loans from the Farmers Home Administration, none did so in the cases we reviewed.

[3] For more information on this problem, see, Disaster Assistance: Response to West Virginia's November 1985 Flood Shows Need for Improvements (GAO/RCED-88-5, Feb. 4, 1988).

[4] Such assistance is required, to the extent possible, by P.L. 100-590, enacted November [illegible]

[5] Dates needed for our calculations were not available for an additional six cases.

Table II.2: Number of Days From Date of Application to SBA Loan Approval or Denial

State	Number of days: Average	Minimum	Maximun
Arkansas	1.3	0	30
Illinois	15.4	0	97
Louisiana	1.4	0	48
Texas	3.5	0	88
Wisconsin	7.8	0	102
Weighted average[a]	10.3		

[a]Based on the number of applications received by the states as of the dates of the GAO visits.

SBA issued denials in 336 of the cases in our sample and offered loans to 4 others.[6] The average time reflects mailing time and the time that applicants took in completing the loan package. It also reflects the time that SBA took to process the application packages of a relatively large number of Illinois households that did not receive summary declines. State and FEMA regional officials told us that they were generally satisfied with the timeliness of the SBA review process, although some noted problems with slower processing of loan applications after the disaster field offices closed.

New Verification Procedures Facilitated Program Administration

We found that the new verification procedures facilitate timely loss inspections. Also, state officials had identified few errors in the inspection reports or the proposed grant packages. Some state officials also believed that the new verification procedures were less confusing and burdensome for the grant applicants.

New Procedures Expedited Loss Verifications

IFG regulations require that the losses reported by the applicants must be verified. Under the 1986 IFG revisions, loss verification generally falls into two categories: (1) inspection of property damage by a FEMA contractor or a FEMA reservist or (2) state verifications of medical, dental, funeral, and transportation claims (if a household did not also report a property loss). FEMA verifications are done on site at the damaged property. FEMA's inspectors complete a verification report that lists the parts of the building and/or its contents that were damaged or destroyed and

[6]Households with serious disaster-related needs not covered by the amount of the SBA loan are eligible for IFG grants.

indicates the level of damage, in many cases using a generic damage concept also introduced in 1986.

Under the new procedures, the FEMA inspections were performed in a weighted average of about 6 days from the time the household registered for the program, as shown in table II.3. The number of days ranged from 0 (the same day) to 108 days.

Table II.3: Number of Days From Date of Application to Date of Inspection Report

	Number of days		
State	Average	Minimum	Maximum
Arkansas	3.1	1	30
Illinois	8.2	0	108
Louisiana	3.3	1	13
Texas	2.5	0	45
Wisconsin	7.4	1	85
Weighted average[a]	6.3		

[a]Based on the number of applications received by the states as of the dates of the GAO visits

About 93 percent of the FEMA inspections—292 of the 315 for which the files contained a registration date from the disaster application center and the FEMA inspection date—were performed within 10 days of registration at the disaster application center. This period includes inspections that involved delays in arranging for the victim to be present at the damaged property and verifications that required more than one visit to complete the initial inspection report. It also includes inspections that were delayed until SBA had considered the applications of victims who had to submit an application package, but who did not apply for temporary housing program assistance. Under program procedures, if a household applies for housing assistance, FEMA arranges for a property inspection regardless of the SBA loan application's outcome.

In the cases we reviewed, FEMA's inspections were made as many as 100 days before SBA declined the applicant and up to 77 days after. In the former case, the applicant's inspection was performed in connection with its application for temporary housing assistance, but the FEMA grant recommendation for IFG assistance was delayed while the applicant sought an SBA loan. In the latter case, the household applied late for IFG assistance only and received an SBA decline after FEMA released the inspection contractor, so FEMA had to make special arrangements for a property inspection. Also, although the inspectors generally had little difficulty in performing the inspections, in a few cases they had difficulty contacting the applicants to arrange for the inspections.

Few Inspection-related Errors Identified

We found few indications of inspection-related errors in our review of case files. Also, FEMA and state officials were generally fully satisfied with the timeliness and accuracy of the FEMA inspections under the new procedures. We note, however, that four of the five states we reviewed had not accompanied inspectors on verification visits to review their work. During one Texas program, state quality control staff accompanied the FEMA inspectors to provide translation assistance and perform quality control-related inspections.

Under the new procedures, FEMA is responsible for any errors—such as excessive grant awards—attributable to its inspections. FEMA holds the states harmless for the 75 percent federal portion of the grant if the states are unable to recover the excessive grant. FEMA officials believe that possible errors in the cost of grants attributable to incorrect information from the FEMA inspections would be offset by the actual savings to the states because FEMA now pays for most of the property inspections that the states formerly paid for.

In the 318 case files we reviewed involving a FEMA inspection, 14 applicants alleged in appeal actions that they should have received larger grants because of errors or omissions attributable to the inspection process.[7] States sustained five of these appeals because the inspectors did not

- record all eligible damage;
- record, or incorrectly recorded, the highest level of flood waters in flooded residences; or
- adequately explain discrepancies between what the applicant reported as damage at the time of registration at the disaster application center and the damage the inspector reported as a result of the visit to the damaged property.

In four of the five cases, the states awarded the applicants larger IFG grants totaling about $5,300. Arkansas reinspected one of these four cases—the only instance in our sample for which a state had reinspected a property previously inspected by FEMA. In the fifth case, the

[7] Seven other appeals were not related to inspections, and we were unable to determine whether eight additional reconsiderations or appeals were attributable to the FEMA inspections.

applicant's appeal was upheld but the applicant did not receive a grant because the additional verified loss had already been offset by a grant from other sources.

To review another indicator of the quality of IFG program implementation, we examined FEMA's program reviews of the programs administered in the five states. For each IFG program, FEMA staff conduct program reviews to (1) assure compliance with the state administrative plan and program regulations and policies, (2) identify problem areas, and (3) recommend appropriate changes to alleviate any identified program deficiencies. FEMA reviewers noted no problems in program operations for the four IFG programs administered by Illinois and Wisconsin. They noted a few problems, such as timing and quality of training, and timely inclusion of Red Cross data in duplication-of-benefits listings, in programs administered by other states we visited. Several of these problems were attributable to FEMA rather than the states. FEMA headquarters and regional officials said that such results were in sharp contrast to the larger number and more serious types of problems that reviewers typically found in programs administered by many states under the old procedures.

Some state officials told us that FEMA's taking responsibility for property inspections resulted in major savings in time, and inspections were, in some instances, more accurate than those performed by the states. Previously, states used state or county welfare employees or hired temporary staff to visit the affected properties. Further, their IFG procedures had previously resulted in voluminous files that included itemized damages and the bills and estimates of costs of repairs or replacements. Applicants usually had to provide the documents before the state issued the grant.

Some states that had used welfare workers to perform inspections under the old procedures told us that the workers were not adequately trained in estimating damage repair costs—especially when compared with the professional inspectors FEMA uses. They also said that the welfare workers had difficulty in identifying pre-disaster damage that had not been repaired and damage attributable to deferred maintenance. Such damage is not eligible for IFG grants, and the workers had to note it on the inspection report. In addition, under the old procedures, some contractors included estimates for ineligible items in their bids that state staff had to identify and exclude.

Combined Inspections Were Less Confusing for Grant Applicants

A FEMA official also said that the new inspection process was less confusing for disaster victims because it requires fewer inspections of the damaged properties. Under the old procedures, the household may have been subject to separate inspection visits by the state IFG verifier and the FEMA temporary housing inspector, as well as an SBA verifier, a flood insurance adjuster, and/or an insurance adjuster/agent for homeowner/renter insurance. The household may also have had to arrange for contractors to visit the property to provide estimates for the state IFG agencies. Under the new combined verification procedure, the verifications of losses to damaged properties are now performed by one inspector simultaneously for the IFG and temporary housing programs.

Processing Applications Involving State Verifications Took Longer Than Those Involving FEMA Inspections

Certain kinds of assistance require state verifications—medical, dental, funeral, and transportation claims (if a household does not also report a property loss). Processing of such applications generally took about twice as long as those requiring FEMA inspections, partly because of mailing time and time spent waiting for the applicant to obtain the required information and respond to the state agency. In contrast, for FEMA verifications, inspectors obtain needed information at the time of their on-site inspections without relying on the applicants to mail in damage and repair estimates.

FEMA reviews each registration form at the disaster field office and identifies applicants who indicate that they need assistance from the categories requiring state verification. The state then opens a case and requests documentation to support that the claim is disaster-related and that expenses exceed insurance settlements.[8] Proof requested includes documents, such as doctor bills that define disaster-related illness or injuries, vehicle repair estimates, copies of current vehicle registration or title, and insurance settlements. Texas' officials told us that they hired inspectors to perform on-site inspections for vehicle damage claims. Illinois' officials said that they also made some vehicle inspections.

We compared the number of days from the date of application to the date of the award/denial letter for applications involving state verification with the number of days for applications involving FEMA inspections. We found that the weighted average number of days was about 45 (about 31 days unweighted) for the applications with state verification.

[8] Applicants seeking transportation assistance only must first apply for an SBA disaster loan for vehicle repair or replacement.

For applications with FEMA inspections, the weighted average number of days was 24 (about 18 days unweighted). We believe that this difference is particularly significant because the shorter time frame for FEMA inspection cases includes applications that FEMA did not forward to the state agency for processing until FEMA received an SBA loan decision.

State Procedures for Initial Review of Inspection Reports Differed

The states we visited generally reviewed the inspectors' reports before FEMA's computer generated the proposed grant awards. After the inspectors return their reports to FEMA, the states have the option of reviewing the reports before they are sent to FEMA's information management system (IMS). The states we visited had done so in eight of the nine disasters included in our review. Texas did not screen the reports related to a November 1987 disaster.

Screening procedures varied among the states we visited. Illinois and Wisconsin independently reviewed the reports and identified on them any changes they wanted the IMS to reflect in the proposed grant award. For example, if the state official determined that the inspector had included an allowance for more household members than IFG regulations permit, the state official would indicate that the IMS unit should adjust the proposed grant award. Wisconsin had one person screen each report. Illinois had one person independently reviewing and another person concurring on each report before they sent it to the IMS.

States in Region VI had the option of participating in a joint FEMA/state panel that reviewed the combined verification inspection report for IFG and temporary housing assistance simultaneously. Arkansas and Louisiana participated; Texas did not. Region VI tested this approach to determine if the report review function could be expedited for both programs. Before panelists reviewed any reports, FEMA and state personnel were to be cross-trained in the two programs. A panelist would review each report only once, rather than receiving a separate review by FEMA for temporary housing purposes and by the state for IFG purposes. Under the joint procedure, the final decision on the proposed IFG grant could only be authorized by the state representative to ensure proper program accountability.

State officials we interviewed had mixed reactions to this joint approach. Some state officials stated that the approach worked very well in their programs. One official expressed concern that the state representatives on the joint panels were unfamiliar with the IFG program when one disaster was declared and thus had to learn quickly two programs before beginning the reviews, which was stressful.

States Made Some Revisions to Proposed Award or Denial Packages

For the eight of the nine disasters in which the state screened the inspection reports before the computer generated the proposal packages, we found that the IMS generation of documentation was generally timely and that state officials made some revisions to the proposed grant packages generated by the IMS computer.[9] We found that the IMS was able to generate the award packages for the nine disasters in a weighted average of 11.7 days after the date of the FEMA inspection. We found no cases where the computer had incorrectly generated a denial letter for an applicant who should have received a grant; in one case an ineligible household received $4,607.[10]

In the 9 disasters, we also found some instances—53 out of 301 cases (about 18 percent) for which we could establish that FEMA had generated a proposed grant package in which the state changed the packages to reflect an error or omission. Most of the changes were the result of

- the IMS staff not entering into the computer all eligible categories indicated on the inspection report or making data entry errors (about 37 percent), and
- not subtracting grant items that duplicated assistance provided by other programs (about 31 percent) or insurance (about 27 percent).

However, we found revisions in about 61 percent of the case files from the November 1987 Texas tornadoes. For this program, the state did not review the inspection reports before the FEMA computer generated the proposed grant package. When we exclude each of the 36 cases from this program for which FEMA generated a grant proposal, the revision rate for the remaining 265 cases decreases to about 12 percent.

Several factors have contributed to the limited number of errors. FEMA and state officials stated that the screening conducted by state officials or by state and FEMA officials helped minimize the number of errors. Also, the officials stated that the IMS-generated duplication-of-benefits

[9]Texas did not screen the inspection reports prior to generation of the grant proposal packages for one of the two disasters we reviewed.

[10]Ineligibility was because of the applicant's failure to maintain flood insurance on a previous SBA loan as required; the IMS computer system did not have an edit function to identify this as an ineligible application. After GAO identified this case, the state initiated steps to recover the grant.

lists, which the IMS produces on a daily basis at the disaster field offices, greatly helped the states in minimizing time spent in identifying assistance provided by other programs or agencies. One state official said that, although it took some time to adapt to the relatively small amount of information used in determining the proposed grant amount—a single generic inspection report versus folders full of bills, estimates, and receipts—state officials became comfortable with the idea that the system generated accurate grants.

Computer-generated Proposals Facilitated State Grant Decision-making

State and FEMA regional officials told us that the grant proposals generated by FEMA's computer, which replaced proposal packages manually prepared by state staff in many cases, facilitated the state decision-making process to some extent. As shown in table II.4, the weighted average for Arkansas, Illinois, Louisiana, and Texas was 7 days from the date on the FEMA computer package to the date indicated in the file as the date of the state panel decision. The number of days ranged from 0 (the same day) to 198 days. We were not able to calculate this information for Wisconsin because it did not document the date of the panel decision. FEMA does not require the states to record this date.

Table II.4: Number of Days From FEMA Grant Recommendation to First State Panel Decision

	Number of days		
State	**Average**	**Minimum**	**Maximum**
Arkansas	3.4	0	49
Illinois	8.9	0	198
Louisiana	3.2	0	11
Texas	6.7	0	52
Weighted average[a]	7.0		

[a]Based on the number of applications received by the four states as of the GAO visits. Comparable data from Wisconsin were not available.

We were not able to calculate the time lapsed between the FEMA computer package and the state panels' decisions to deny grants. Specifically, the IMS does not generate dated documentation for the case files for a proposed denial, as it does for proposed award packages.

State Procedures for Check Issuance Varied

Time frames for check ordering and processing varied considerably among the five states we visited in part because of the various mechanisms states used in check issuance. The total time from the decision to cut the first check to disbursement of the first check averaged 12.4 days on a weighted basis; the range was from the same day[11] to 32 days, as shown in table II.5.

Table II.5: Number of Days From First Award Decision to Check Issuance

State	Number of days: Average	Minimum	Maximum
Arkansas	10.9	2	21
Illinois	14.0	7	25
Louisiana	13.0	3	32
Texas	3.4	0	10
Wisconsin[a]	8.8	0	19
Weighted average[b]	12.4		

[a]Comparable data were available for only one of two Wisconsin disasters.

[b]Based on the number of applications received by the states as of the dates of the GAO visits.

One reason that check-ordering times differed was that the states used different methods to transmit the check order from the disaster field office or the headquarters of the state IFG agency to the next appropriate level of state government. For example, Texas ordered its checks daily by computer from the disaster field office. Illinois used a private courier service to order its checks. Wisconsin staff drove the requests to the state capital for its last two IFG programs. Arkansas telefaxed its check orders to the state capital. Louisiana mailed its orders to the capital.

Staff in some state capitals had to re-key check requests after they arrived from the disaster field offices. In other states, requests were electronically transmitted without re-keying. Some states ordered and/or cut IFG checks daily. One state cut IFG checks less frequently.

Four of the five state agencies we visited that administered the IFG program did not issue the IFG grant checks. In those states, staff sent the vouchers from the agency that administers the IFG program to the state comptroller's and/or treasurer's office for issuance. In some states, staff routed the check requests through other departmental groups or other agencies before the comptroller's office received them. Louisiana issued the checks within the Department of Health and Human Resources, which also administered the IFG program.

[11]We cite 0 as the minimum number of days. However, in one case file, the date recorded for check issuance was 1 day before the date recorded for the first award decision.

Several of the states had taken or were planning to take steps to reduce state check issuance time frames. For example, Louisiana arranged for the cutting of IFG checks on a daily rather than a twice-a-week cycle. Similarly, Arkansas arranged for a faster-than-normal ordering of IFG checks. By October 1988, Louisiana had developed a procedure for computerized check ordering from the disaster field office to replace the mailing of vouchers (check orders) from the disaster field office to the state capital.

States had various problems in check processing. Arkansas officials told us that their agency suspended check processing for a few days because FEMA did not issue a supplemental letter of credit to cover the grant costs before the initial letter of credit was fully drawn down. According to these officials, state legislation does not allow the IFG program to issue checks if the letters of credit have not been issued by FEMA and deposited by the state. Texas used state funds to cover the full amount of the initial grants in one disaster because FEMA funding was delayed because of computer problems at the U.S. Treasury. Louisiana had delays in its program because vouchers were lost in the mail and had to be identified and reissued before the state could issue checks. Louisiana has designed a new computerized check-ordering procedure to prevent delays because of such documents being lost in the mail.

States Handled Reconsiderations and Appeals Differently

The states we visited handled IFG applicants' reconsideration and appeal cases differently. FEMA requires all states to report periodically the number of appeals they handle. FEMA uses these data to help measure program performance. For example, a relatively high number of appeals could indicate problems with the property inspections.

FEMA permits states to informally review applicants' requests for revisions in grant decisions. Such informal treatment can result in a new or increased grant amount and is usually referred to as a reconsideration. If applicants are dissatisfied with the reconsideration decision, FEMA procedures allow them to file requests for a more formal appeal within a specified time frame.

The formal appeal process varied among the states we visited. Louisiana's Office of Family Security, the agency that administers the IFG program, sent its appeals to an administrative law judge within the Department of Health and Human Resources. Texas' Department of Human Services sent its appeals to the Department of Public Safety. Illinois and Wisconsin referred their appeals to officials who were not involved in the initial decision within the state agency that administered the IFG program. In Arkansas a joint panel consisting of the IFG grants coordinating officer from the Department of Human Services—whose signature appears on state grant notification letters—and a representative of the Department of Finance and Administration handled appeals. After we discussed Arkansas' appeal process with FEMA headquarters officials, they said that Arkansas would be required to revise its procedure to provide for review by an official not identified with the original decision.

Of the 347 cases we reviewed, 47 had been reconsidered or appealed. Households requested 45 of these reviews, the state agency requested 1 review, and the originator of the 1 additional case was not indicated in the case file. We found that the state agencies resolved reconsideration/appeal requests in an average of about 39 days.[12] The range was from 1 to 92 days, as shown in table II.6.

Table II.6: Number of Days to Resolve Reconsideration/Appeal Cases

	Number of days		
State	**Average**	**Minimum**	**Maximum**
Arkansas	28.0	1	53
Illinois	48.1	20	84
Louisiana	43.9	1	73
Texas	10.0	2	24
Wisconsin	27.5	6	92
Weighted average[a]	38.6		

[a]Based on the number of applications received by the states as of the dates of the GAO visits

The following factors may contribute to the variations in the frequency of reconsiderations and appeals:

- Some applicants received $5,000 grants and were therefore ineligible for additional IFG assistance. For example, 17 of the 70 Texas cases in our sample received the maximum grant and 5 of the remaining households, which could have received additional grant funds, appealed. None of the 67 Wisconsin cases received the maximum grant, and 15 households appealed.
- States' policies differed on whether applicants had to submit requests in writing or could just speak to a state official on the telephone. Only two

[12]This average is based on the 39 of the 47 cases for which the dates necessary for our analyses were on file.

of the five states visited performed reconsiderations that applicants did not request in writing.

- During some IFG programs in FEMA Region VI, state officials automatically denied some applications if the applicants had insurance. States advised the applicants in the denial letters to appeal if the insurance settlements did not cover all serious damage. Although Texas' officials stated that they received reconsideration requests for this reason, none of the appeal cases we reviewed were the result of such denials.

When we discussed the differences in handling reconsiderations and appeals with FEMA officials, they said that they plan to clarify the IFG regulations on handling reconsiderations and appeals.

New IFG Procedures Reallocated Administrative Costs

FEMA's administrative costs have increased, in part, because the revised IFG regulations have reallocated program administrative costs to FEMA. FEMA has taken on these costs because it has assumed some of the states' responsibility for verification of damages. FEMA has also developed and implemented an enhanced information management system—the automated disaster assistance management system. Because some of the states we visited did not isolate all IFG-related administrative costs, we were unable to evaluate fully the impact of the program changes on state costs. Our review did indicate, however, that some categories of state administrative costs have shifted to FEMA with the implementation of the new procedures.

Combined Verification Inspections Have Increased FEMA Costs

Between May 1986 and October 1988,[1] FEMA paid inspection contractors a total of about $4.1 million to perform about 91,400 combined verification inspections. Previously, such costs were incurred by the states. FEMA contractors performed these inspections in 27 of the 34 disasters declared during that period whose victims were eligible for FEMA's assistance programs. We developed statistics on the use of the inspections by the individual assistance programs that indicate relative usage. For 8 of the 9 disasters we reviewed, 3,239 of the 20,937 inspections (about 15.5 percent) involved households that applied only for the IFG program. Another 8,583 of the inspections (about 41 percent) involved households that applied for the IFG and temporary housing programs. A total of 9,115 inspections (about 43.5 percent) did not involve the IFG program.

To obtain the required inspection capability, FEMA contracted with three firms to provide inspectors. For disasters declared between May 1986 and March 1988, FEMA paid from $42 to $58 per inspection, depending on the firm selected, plus the firm's costs to get the inspectors to the disaster scene.

In deciding which contractor to use for a given disaster, FEMA officials said that they consider the availability of contractor personnel and reimbursable travel costs of inspectors, in addition to cost per inspection. For disasters outside the continental United States, FEMA pays the travel costs of inspectors and the contractors' supervisory staff to the disaster area. FEMA does not pay for travel costs incurred in conducting the individual, on-site inspections of damaged properties. From May 1986 to March 1988, FEMA used the contractor with the lowest base cost per inspection to perform over 81 percent of the inspections performed

[1] Contractors did not perform any FEMA inspections between May and October 1988.

by the contractors. FEMA used the most expensive contractor for less than 1 percent of the contractor-provided inspections.

Effective April 1988, FEMA arranged to pay the three contractors from $34 to $42 per inspection, depending on the firm selected. Under the new contracts, FEMA also has the flexibility of using contractor inspectors at specified hourly rates. As of October 1, 1988, no inspections had been performed under the reduced rates.

Several Disaster Assistance Activities Share Cost of Computer System

In fiscal year 1985, FEMA began developing an enhanced information management system to better manage the disaster field offices. The new system has modules for each of the four major disaster field office activity areas—individual assistance, public assistance, hazard mitigation, and program support. The individual assistance module contains the IFG and temporary housing programs.

As of fiscal year 1988, FEMA had obligated about $2,575,000 to develop the new stand-alone IMS for the disaster field offices and to buy the equipment necessary to implement it,[2] plus about 4 staff years of FEMA staff time, which was included in FEMA's overhead for salaries and expenses. FEMA officials estimated that the individual assistance module represented about one-third of the development costs and one-half of the equipment costs. If we use these general estimates, the individual assistance module cost about $1,164,000 to develop and implement, not including FEMA staff time. FEMA officials estimate that one-half ($582,000) or more of the individual assistance module's costs could be assigned to the IFG program.

Impact on State Costs Varied

Although states are no longer required to perform on-site property inspections, other state costs may have increased. Except for Texas, state officials told us that the states had not calculated or isolated inspection costs under the old procedures. For example, states did not isolate costs of inspections by state or county staff from their ongoing duties. Texas, on the other hand, hired temporary staff to perform its inspections and was able to track its inspection costs. Therefore, Texas calculated savings of about $22,000 for its IFG program that tested the combined verification concept after an April 1986 disaster. Also, Texas staff responsible for administering the IFG program were dedicated to

[2]The dollars cited do not include the costs of developing an earlier mainframe-dependent data management system that FEMA tested for use with the temporary housing program.

disaster relief on a full-time basis. A FEMA official told us that Texas may be atypical in this aspect. In some other states, the staff that handles the IFG program normally works on other programs, such as food stamps or Aid to Families with Dependent Children, and handles disaster relief on a daily basis only when a disaster strikes.

Some state officials commented that the states were incurring new expenses by the colocation of federal and state staff at the disaster field offices, where before the state may have administered the IFG programs from the state capitol. Other state or county staff worked in the disaster application centers and/or performed inspections. In other states, state staff established a disaster center at one of the local welfare offices and administered the IFG program from outside the state capitol. Although colocation may have added a new category of state expense, state officials said that colocation was a much better approach because it

- allowed for more efficient use of staff by lessening distractions from competing priorities;
- aided in prompt, correct decision-making because representatives of all major disaster assistance providers were available on site to answer questions;
- provided ready access to inspection contractor personnel who could answer questions about information in the inspection reports; and
- facilitated delivery of program information such as duplication-of-benefits lists to various program officials.

FEMA regional officials also told us of similar benefits from having all the disaster relief agencies colocated. One official stated that FEMA also gave the states access to telephones, photocopying, and office space, for which the federal government paid.

Illinois officials noted that the change in the audit requirement could save money in states that administer an IFG program. A state audit official told us, for example, that Illinois had used about 160 staff hours to audit the individual IFG programs in fiscal year 1987. FEMA does not require the states to audit the IFG programs separately under the new procedures. Procedures in some states, such as Arkansas and Texas, still require audits of each program.

Additional Program Changes Will Increase Costs

Two legislative changes enacted in November 1988 will increase program costs for FEMA and the states that administer IFG programs.[1] The revision increases the maximum IFG grant and the state administrative funds that FEMA will pay. Further, some policy proposals being considered by FEMA would increase federal and state IFG program costs. The impact of the various proposals depends on several factors as described below.

Increasing Ceiling for Maximum Grant Will Increase Program Costs

The new law increases the maximum IFG grant amount from the $5,000 that the Congress established in 1974 to $10,000. It also requires FEMA to update the maximum grant amount each year to reflect changes in the consumer price index.

FEMA estimated that the cost of this new provision would be about $1.9 million annually. We note that the impact depends on variables that are difficult to anticipate, such as the number of presidentially declared disasters, the number of households with eligible damages exceeding the current maximum grant level, and the extent of disaster victims' insurance coverage.

Of the 347 cases we reviewed, 33 households had eligible damage that exceeded the old $5,000 limit. Total IFG-verified damages for these households ranged from $5,046 to $63,630, with 12 households having verified damages exceeding $10,000. If the new $10,000 limit had been in effect, those 33 grantees collectively would have qualified for over $90,000 in additional IFG grants.

New Legislation Could Affect Program Interrelationships and Cost-sharing

The new legislation could affect the relationship of the IFG program to Red Cross assistance and to FEMA's Cora Brown Fund. The states refer households that receive the maximum grant and have eligible damages exceeding that amount to the Red Cross. The Red Cross can provide "additional assistance" to victims and/or refer the cases to FEMA for a possible Cora Brown Fund grant.[2] The Fund can provide grants to disaster victims who have extraordinary losses that other programs have not covered or cannot cover. With the recent increase in the maximum IFG grant to $10,000, the relative number of cases referred to the Red Cross

[1] P.L. 100-707, enacted November 23, 1988.

[2] This Red Cross assistance is called "additional assistance" to differentiate it from the emergency assistance—such as clothing and basic kitchenware—that the Red Cross provides immediately after a disaster strikes.

should decrease. States, however, would still refer the most severe cases for additional Red Cross assistance.

To evaluate coordination between the IFG program, Red Cross additional assistance, and the Cora Brown Fund, we asked the Red Cross to determine whether the states had referred 33 cases from our sample that had received the maximum grant. Red Cross records showed that the states had appropriately referred these cases. The Red Cross provided three of the households with additional assistance ranging from $860 to $11,860. Red Cross officials stated that the Red Cross had not referred any of the cases to FEMA for Cora Brown Fund grants.

Red Cross officials stated that the provisions on using the Cora Brown Fund were very restrictive and that the Fund was not always of use in addressing the problems of victims of smaller disasters. Under FEMA regulations, FEMA can only provide Cora Brown Fund grants to victims of presidentially declared disasters. Red Cross officials noted that a presidential declaration makes a victim potentially eligible for several federal disaster relief programs. Such programs are not available to households sustaining severe damage from minor storms that the President does not declare as major disasters. Also, they noted that other volunteer or charitable assistance providers are more likely to respond to presidentially declared disasters than to smaller disasters.

FEMA officials stated that they would review the legal and regulatory provisions relating to the Fund to determine whether FEMA could revise the criteria to include victims in other than presidentially declared disasters and whether such a change was appropriate.

Increasing the Maximum State Administrative Expense Allowance Could Increase Federal IFG Program Costs

The new legislation increases the maximum federal share of state administrative expenses from 3 to 5 percent of the federal share of the grants, but does not specify how FEMA is to determine the federal contribution. The increase in federal costs would be higher if FEMA gave each state an amount equal to 5 percent of the federal share of grant costs as authorized. The new legislation however, does not require FEMA to reimburse the states for 5 percent of expenses; it allows FEMA to pay "up to" 5 percent.

Although the states we visited did not all keep records on the total costs of administering their IFG programs, Texas' records help illustrate the effect of the change. We calculated Texas' administrative expenses as a percentage of the federal share of the total grant amounts for 21 IFG programs for disasters declared from September 1974 through November 1987. The percentages ranged from 3.5 to 34.2. Thus, federal administrative funding did not cover total state administrative costs under any of these programs. We also note that the percentages for two disasters in our sample administered under the new procedures were 7.0 and 13.5—percentages that federal cost-sharing would not fully cover under the new 5 percent maximum federal share of the total grants.

FEMA officials stated that they plan to issue new program guidance that would require the states to document expenses exceeding the former 3 percent cost-sharing in order to qualify for cost-sharing up to the new maximum level. A FEMA official also stated that the increased costs of the IFG program amendments contained in the recent legislation should be offset by another legislative amendment that reduced the maximum benefits that disaster victims can receive from the FEMA-funded program that provides disaster-related unemployment assistance.

FEMA Policy Changes Could Increase Federal and State Costs

FEMA is considering several changes that would increase federal and state costs for the IFG program. These changes involve requirements for purchasing flood insurance, funding of mitigation efforts, and expansion of generic pricing to include vehicles.

Group Insurance Policy Would Raise IFG Program Costs

FEMA requires IFG grantees who were flood victims and live in high-hazard flood zones to purchase flood insurance.[3] FEMA is considering a group flood insurance policy that would initially raise program costs for the states and FEMA. Under the proposal, FEMA would replace the individual policies with a single, group policy issued to the state on behalf of all grantees required to purchase insurance. FEMA and the states would share the cost of this group policy. The federal government would pay 75 percent of its costs and the states would pay 25 percent. Now, FEMA requires grantees living in high-hazard flood areas to maintain these policies for 3 years or until they move from the residence, whichever is less. Under the group policy, FEMA's Federal Insurance Administration would issue one policy to the state to cover the 3-year period.

State and FEMA regional officials had mixed reactions to the proposal for a group flood insurance policy. Some state officials supported the concept but had reservations about its implementation. Some believed that

[3]FEMA exempts renters who receive personal property grants and live in basement apartments from the purchase requirement.

their states would be willing to pay the additional cost of the proposal, and some expressed concern about the additional responsibilities a proposal of this type would require of the states. Federal Insurance Administration officials estimated that their agency could offer the 3-year group policy providing $5,000 coverage at a total cost of $90 to $100 per household. For example, using rates effective September 1, 1988, FEMA would require grantees who own homes to spend the $86 allowance specified in the IFG grants for 1-year policies with $5,000 coverage.[4] At these rates, the same grantees would have to spend about $170 more for the last 2 years of required coverage if they continued to live in a high-hazard flood area.

Under the grant limits contained in the November 1988 legislation, FEMA will require grantees to purchase insurance to cover the maximum $10,000 grant. Such coverage would cost $103 per year if the group insurance concept is not instituted.

FEMA officials said that the current proposal would not place much of an administrative burden on the states. Under a previous group policy prepared for a disaster in Puerto Rico, FEMA required the Commonwealth to monitor loss claims for the 3 years that the policy was effective and issue notices of loss to the Federal Insurance Administration. According to FEMA officials, the current proposal would require the states to provide a list of grantees to be included in the group policy but would not require the states to monitor the policy after it was issued. FEMA would relieve the state of the requirement to determine if current IFG applicants received IFG grants within the last 3 years and were required to purchase flood insurance. If so required, the states must determine whether the applicants kept a flood insurance policy for 3 years after the last grant's award date. FEMA required a total of 64 households in our sample to purchase flood insurance as a condition of accepting the grants. Four households in our sample received flood insurance settlements on policies that were in force at the times of the disasters. These settlements ranged from $1,665 to $16,743.

FEMA regional officials also had mixed reactions to the group policy concept. Some believed it is a good idea because some IFG grantees cannot afford the second and third years' flood insurance premiums. Some supported the concept, but questioned whether it was a good investment of

[4]The notification letters that grantees receive specify the portion of the total grant that the grantee must spend for flood insurance. If a grantee does not purchase the insurance or does not provide proof of purchase to the state, FEMA regulations require the states to attempt to recover the full amount of the grant.

government funds in view of the small likelihood that repeat flooding would affect the IFG grantee. They said that this is especially true because FEMA had reduced the period that the grantees have to maintain flood insurance from the duration of time that they live in a defined high-hazard flood area to a specific, 3-year period from the disaster declaration date. Of the states we visited, only Illinois had repeat flooding that enabled it to deny IFG grants to about 30 applicants who had not maintained flood insurance as required by previous IFG grants.

Mitigation Funding Could Increase Grant Costs

FEMA is considering adding another category of IFG grant assistance that could increase overall program costs for the federal and state governments. This new category would fund projects intended to eliminate or lessen damage in future disasters. For example, under the proposal, IFG grants would include the costs of elevating electrical outlets instead of the current practice of paying to repair them in place. The costs would increase for the current program, but FEMA anticipates that repair costs would be reduced in future disasters.

The potential cost of this new assistance category increased because legislation recently raised the maximum grant level. Households can receive additional grant funds under this new category only when grant allowances under the existing assistance categories have not reached the maximum level. For example, the $5,000 ceiling in effect for the programs included in our review prevented 33 of the 273 grant recipients (about 12 percent) from additional assistance under the existing categories because they had already qualified for the maximum grant. Because states could not increase grants to such households, the new grant category would not affect them.

Although FEMA tested the mitigation funding approach in two disasters without actually funding the projects, FEMA officials told us in November 1988 that they had suspended work on this proposal. In February 1989, they said that FEMA will reconsider the mitigation funding about July 1989.

Generic Pricing of Vehicle Damage Could Increase Grant Awards

FEMA's Region VI has proposed that states test the feasibility of generic grant awards for vehicle repairs. Under the proposal, inspectors would classify the damaged vehicles as either repairable or destroyed. This approach could simplify the state verification of vehicle damage, but some state officials expressed concerns that it would also increase state—and federal—grant costs. For example, under generic pricing, the owner of a car that received only a broken windshield could get a grant equal to one-half of the replacement allowance for a vehicle. One state official commented that an award of this amount was unnecessarily generous.

Another variable that would affect the impact of this proposal is the difference in car allowances established by the states. For example, as table IV.1 shows, the replacement allowance in the states we reviewed ranged from $875 to $2,500.

Table IV.1: State Vehicle Allowances Used to Determine Transportation Grant
(As of December 1987)

State	Allowance for replacement	Maximun allowance for repair
Arkansas	$2,500	$2,000
Illinois		
1978-87 vehicle	1,750	1,750
1977 or older vehicle	875	875
Louisiana	1,500	1,500
Texas	1,500	1,500
Wisconsin	2,000	2,000

Because of the comments that the proposal could result in higher grants, we analyzed the cases of 37 grantees that received specific grant allowances for vehicle replacement or repairs. These ranged from $66 to $1,750. We calculated that, if the states had used a generic criteria of 50 percent of the replacement allowances in table IV.1, at least 20 of the 37 grantees would have received larger vehicle repair allowances totaling about $9,600.

This proposal's impact would depend on whether the household had other grant allowances equal to the maximum IFG grant. For example, in one case we reviewed, Illinois reduced the grantee's vehicle allowance because, when the full vehicle allowance was added to assistance allowances for the personal property and flood insurance categories, the total exceeded the $5,000 maximum in effect when the state awarded the grant.

Major IFG Program Changes Officially Implemented in October 1986

1. To help clarify program intent and ensure consistency in grant award decisions, FEMA added or revised definitions for "individual," "family," "dependent," "necessary expense," and "immediate threat of damage."

2. FEMA now requires some grantees to maintain flood insurance for 3 years or for as long as they live in the structure, whichever is less, with no penalty for failure to renew after 3 years. Previously, FEMA required grant recipients who had to maintain insurance to do so indefinitely.

3. Expendable items, such as clothing, pots and pans, or bed linen, are no longer considered duplication of benefit if other agencies, such as the Red Cross, provide them.

4. Applicants in jurisdictions such as Puerto Rico that do not have normal proof of ownership of a residence may now prove such ownership using state attorney general-approved conditions for such proof. FEMA requires the states to include these conditions in their administrative plans.

5. FEMA, rather than the states, will now perform most verifications in housing, personal property, and transportation categories. States will generally perform verifications in the medical, dental, and funeral categories, and on late applications and appeals. States will be held harmless from repaying FEMA for the federal share of grants where FEMA's verification information may prove incorrect.

6. FEMA replaced the applicant's self-certification of eligibility to SBA, used to determine if the applicant is eligible for an SBA disaster loan, with a written certification of income on FEMA's disaster application form.

7. FEMA eliminated IFG eligibility for persons who knowingly assumed the risk of living in three types of hazardous areas specified in the regulations.

8. FEMA eliminated the requirement to prove that public transportation is unavailable prior to obtaining a grant to repair/provide private transportation.

9. The states must now submit their state administrative plan for FEMA review and approval each January. Previously, FEMA had not established a specific date for states to submit their plans. Also, state plans

must now contain a management/staffing module to facilitate prompt activation of the plan in the event of a disaster declaration.

10. FEMA no longer requires the states to perform program-by-program audits, pursuant to the Single Audit Act.

11. Although FEMA regulations still provide that a state can receive an advance from FEMA to cover state program costs, states may no longer receive advances if they are delinquent in repaying advances from a prior IFG program.

12. FEMA allows the states the option of handling applicant requests for reviews of their grant award decisions as informal reconsiderations.

13. If a state is unable to recover funds in cases of fraud or misapplication, FEMA must now try to do so.

14. FEMA established two levels of appeal for states to use to appeal the issuance of bills for collection. The first level of appeal is to the appropriate FEMA regional director. States may then appeal to the Associate Director of FEMA's State and Local Programs and Support Directorate, who is responsible for FEMA's disaster assistance programs, in FEMA headquarters.

Characteristics of Disasters Included in GAO Review

Date declared	State	Type of disaster	Number of IFG applications received[a]
Aug. 16, 1986	Wisconsin	Flood	1,367
Oct. 7, 1986	Wisconsin	Flood	657
Oct. 7, 1986	Illinois	Flood	2,499
May 27, 1987	Texas	Tornado	117
Aug. 21, 1987	Illinois	Flood	3,967
Nov. 20, 1987	Texas	Tornadoes	562
Nov. 30, 1987	Louisiana	Floods and tornadoes	2,551
Dec. 17, 1987	Arkansas	Tornado	868
Dec. 31, 1987	Arkansas	Floods	1,256

[a]As reported to FEMA by the states as of May 9, 1988.

Major Contributors to This Report

Resources, Community, and Economic Development Division, Washington, D.C.

John M. Ols, Jr., Director, Housing and Community Development Issues
(202) 275-5525
Richard Hart, Assistant Director
Charles Hessler, Evaluator-in-Charge
Janice Rothlauf, Evaluator

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are $2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100