'Breathtaking' Waste and Fraud in Hurricane Aid

The New York Times

June 27, 2006

By Eric Lipton

WASHINGTON, June 26 -- Among the many superlatives associated with Hurricane Katrina can now be added this one: it produced one of the most extraordinary displays of scams, schemes and stupefying bureaucratic bungles in modern history, costing taxpayers up to $2 billion.

A hotel owner in Sugar Land, Tex., has been charged with submitting $232,000 in bills for phantom victims. And roughly 1,100 prison inmates across the Gulf Coast apparently collected more than $10 million in rental and disaster-relief assistance.

There are the bureaucrats who ordered nearly half a billion dollars worth of mobile homes that are still empty, and renovations for a shelter at a former Alabama Army base that cost about $416,000 per evacuee.

And there is the Illinois woman who tried to collect federal benefits by claiming she watched her two daughters drown in the rising New Orleans waters. In fact, prosecutors say, the children did not exist.
The tally of ignoble acts linked to Hurricane Katrina, pulled together by The New York Times from government audits, criminal prosecutions and Congressional investigations, could rise because the inquiries are under way. Even in Washington, a city accustomed to government bloat, the numbers are generating amazement.

"The blatant fraud, the audacity of the schemes, the scale of the waste -- it is just breathtaking," said Senator Susan Collins, Republican of Maine, and chairwoman of the Homeland Security and Governmental Affairs Committee.

Such an outcome was feared soon after Congress passed the initial hurricane relief package, as officials at the Federal Emergency Management Agency and the American Red Cross acknowledged that their systems were overwhelmed and tried to create new ones on the fly.

"We did, in fact, put into place never-before-used and untested processes," Donna M. Dannels, acting deputy director of recovery at FEMA, told a House panel this month. "Clearly, because they were untested, they were more subject to error and fraud."

Officials in Washington say they recognized that a certain amount of fraud or improper payments is inevitable in any major disaster, as the government's mission is to rapidly distribute emergency aid. They typically
send out excessive payments that represent 1 percent to 3 percent of the relief distributed, money they then ask people to give back.

What was not understood until now was just how large these numbers could become.

The estimate of up to $2 billion in fraud and waste represents nearly 11 percent of the $19 billion spent by FEMA on Hurricanes Katrina and Rita as of mid-June, or about 6 percent of total money that has been obligated.

"This started off as a disaster-relief program, but it turned into a cash cow," said Representative Michael McCaul, Republican of Texas, a former federal prosecutor and now chairman of a House panel investigating storm waste and fraud.

The waste ranged from excessive loads of ice to higher-than-necessary costs on the multibillion-dollar debris removal effort. Some examples are particularly stark.

The $7.9 million spent to renovate the former Fort McClellan Army base in Anniston, Ala., included fixing up a welcome center, clinic and gymnasium, scrubbing away mold and installing a protective fence between the site and a nearby firing range. But when the doors finally opened, only about 10 people
showed up each night, leading FEMA to shut down the shelter within one month.

The mobile homes, costing $34,500 each, were supposed to provide temporary housing to hurricane victims. But after Louisiana officials balked at installing them inland, FEMA had no use for them. Nearly half, or about 10,000, of the $860 million worth of units now sit at an airfield in Arkansas, where FEMA is paying $250,000 a month to store them.

The most recent audit came from the Government Accountability Office, which this month estimated that perhaps as much as 21 percent of the $6.3 billion given directly to victims might have been improperly distributed.

"There are tools that are available to get money quickly to individuals and to get disaster relief programs running quickly without seeing so much fraud and waste," said Gregory D. Kutz, managing director of the forensic audits unit at the G.A.O. "But it wasn't really something that FEMA put a high priority on. So it was easy to commit fraud without being detected."

The most disturbing cases, said David R. Dugas, the United States attorney in Louisiana, who is leading a storm antifraud task force for the Justice Department, are those involving government officials accused of orchestrating elaborate scams.
One Louisiana Department of Labor clerk, Wayne P. Lawless, has been charged
with issuing about 80 fraudulent disaster unemployment benefit cards in
exchange for bribes of up to $300 per application. Mr. Lawless, a state
contract worker, announced to one man he helped apply for hurricane benefits
that he wanted to "get something out of it," the affidavit said. His
lawyer did not respond to several messages left at his office and home for
comment.

"The American people are the most generous in the world in responding to a
disaster," Mr. Dugas said. "We won't tolerate people in a position of
public trust taking advantage of the situation."

Two other men, Mitchell Kendrix of Memphis and Paul Nelson of Lisbon, Me.,
have pleaded guilty in connection with a scheme in Mississippi in which Mr.
Kendrix, a representative for the Army Corps of Engineers, took $100 bribes
in exchange for approving phantom loads of hurricane debris from Mr. Nelson.

In New Orleans, two FEMA officials, Andrew Rose and Loyd Holliman, both of
Colorado, have pleaded guilty to taking $20,000 in bribes in exchange for
inflating the count on the number of meals a contractor was serving disaster
workers. And a councilman in St. Tammany Parish, La., Joseph Impastato, has
also been charged with trying to extort $100,000 from a debris removal
contractor. Mr. Impastato's lawyer, Karl J. Koch, said he was confident his
client would be cleared.

A program set up by the American Red Cross and financed by FEMA that
provided free hotel rooms to Hurricane Katrina victims also resulted in
extraordinary abuse and waste, investigators have found.

First, because the Red Cross did not keep track of the hundreds of thousands
of recipients -- they were only required to provide a ZIP code from the
hurricane zone to check in -- FEMA frequently sent rental assistance checks
to people getting free hotel rooms, the G.A.O. found.

In turn, some hotel managers or owners, like Daniel Yeh, of Sugar Land,
exploited the lack of oversight, investigators have charged, and submitted
bills for empty rooms or those occupied by paying guests or employees. Mr.
Yeh submitted $232,000 in false claims, his arrest affidavit said. His
lawyer, Robert Bennett, said that Mr. Yeh was mentally incompetent and that
the charges should be dismissed.

And Tina M. Winston of Belleville, Ill., was charged this month with
claiming that her two daughters had died in the flooding in New Orleans. But
prosecutors said that the children never existed and that Ms. Winston was
living in Illinois at the time of the storm. The public defender
representing Ms. Winston did not respond to a request for comment.

Charities also were vulnerable to profiteers. In Burbank, Calif., a couple has been charged with collecting donations outside a store by posing as Red Cross workers. In Bakersfield, Calif., 75 workers at a Red Cross call center, their friends and relatives have been charged in a scheme to steal hundreds of thousands of dollars in relief.

To date, Mr. Dugas said, federal prosecutors have filed hurricane-related criminal charges against 335 individuals. That represents a record number of indictments from a single hurricane season, Justice Department officials said. Separately, Red Cross officials say they are investigating 7,100 cases of possible fraud.

Congressional investigators, meanwhile, have referred another 7,000 cases of possible fraud to prosecutors, including more than 1,000 prison inmates who collected more than $12 million in federal aid, much of it in the form of rental assistance.

Investigators also turned up one individual who had received 26 federal disaster relief payments totaling $139,000, using 13 Social Security numbers, all based on claims of damages for bogus addresses.
Thousands more people may be charged before the five-year statute of limitations on most of these crimes expires, investigators said.

There are bigger cases of government waste or fraud in United States history. The Treasury Department, for example, estimated in 2005 that Americans in a single year had improperly been granted perhaps $9 billion in unjustified claims under the Earned-Income Tax Credit. The Department of Health and Human Services in 2001 estimated that nearly $12 billion in Medicare benefit payments in the previous year had been based on improper or fraudulent complaints.

Auditors examining spending in Iraq also have documented hundreds of millions in questionable spending or abuse. But Mr. Kutz of the accountability office said that in all of his investigative work, he had never encountered the range of abuses he has seen with Hurricane Katrina.

R. David Paulison, the new FEMA director, said in an interview on Friday that much work had already been done to prevent such widespread fraud, including automated checks to confirm applicants' identities.

"We will be able to tell who you are, if you live where you said you do," Mr. Paulison said.
But Senator Collins said she had heard such promises before, including after Hurricane Frances in 2004 in which FEMA gave out millions of dollars in aid to Miami-Dade County residents, even though there was little damage.

Mr. Kutz said he too was not convinced that the agency was ready.

"I still don't think they fully understand the depth of the problem," he said.