

WRITTEN STATEMENT AND REPORT OF
STEVEN J. KANSTOROOM
PATTERN RECOGNITION AND FRAUD DETECTION EXPERT

BEFORE THE

**HOUSE OF REPRESENTATIVES HOUSING AND COMMUNITY
OPPORTUNITY SUBCOMMITTEE**

**“REVIEW AND OVERSIGHT OF THE NATIONAL FLOOD INSURANCE
PROGRAM”**

APRIL 14, 2005

**This report and its embedded links to documents and video referenced herein can
be viewed online at
www.femainfo.us**

Mr. Chairman, thank you for inviting me to testify today. My name is Steve Kanstoroom.

Background and Experience

I have spent more than 6,000 hours investigating National Flood Insurance Program (NFIP) related problems over the past 15 months. Prior to Hurricane Isabel, I had recently retired after working for twenty two years as a pattern recognition and fraud detection expert. My experience was primarily with massive systems and programs. These systems were responsible for supporting more than ten million customers and processing billions of dollars of transactions per year. An underlying requirement of each of my projects since the early nineties was to comprehend, design, automate, audit and manage systems that interpreted complex federal regulations as they pertained to various consumer activities. In each case, I was tasked with the responsibility of assuring the complex regulations were applied uniformly to all consumers. I was also solely responsible for all management aspects of the systems and the data that they processed.

Prior to that I designed and ran systems that processed data for the U.S. Department of Justice and other government agencies.

I gained my experience in protecting multi-billion dollar bank and corporate portfolios, from leading experts of the nation’s largest banks, credit bureaus, MasterCard International, Visa USA, the U.S. Secret Service, the U.S. Postal Inspectors and others.

Most recently I focused my experience upon finding the root cause of the problems within the NFIP.

History

In December 2003, I found that my elderly neighbors had received pennies on the dollar for their flood loss. They were living in my unheated, flood damaged home that I believed was unfit for my family to live in. It was 16 degrees outside. I felt something was dreadfully wrong and set out to find what it was.

Initially, I determined that FEMA had sanctioned the wrong use of a cost book for determining insurance losses. The publisher of the book, Mr. Gary Moselle of Craftsman Book Company, offered to fly from California to testify here today. His written testimony states “Such use of our data was never intended by the publisher and, if used as is, would result in pennies on the dollar for insurance claims”. In fact, this was the core issue in March 2004 that caused the Senate Banking Committee to direct the independent review of all Isabel claims.

The day after the hearing, the Federal Insurance Administrator made very positive statements to the press regarding my work and findings. I was then recognized as someone that perhaps could get the ear of people in a position to remedy the NFIP problems. Soon thereafter, industry insiders started calling, and in April 2004, people from inside the NFIP did as well – late at night. They explained wrongdoing and, fearful of reprisals, started leaving documents for me at various locations around the DC area.

Findings – Executive Overview

I learned that, rather than conduct an independent review of Isabel claims as the Senate Banking Committee directed, leaked documents revealed that FEMA quietly assembled a Task Force comprised of the identical management and same adjusters or adjusting firms that originally low-balled the victims’ claims.

Video tape reveals that FEMA has taken the remarkable position that the program is intended to provide “some assistance.” FEMA’s insurance partners have gone as far as to say the NFIP doesn’t offer insurance at all, but merely a form of aid. Former Federal Insurance Administrator J. Robert Hunter wrote in the attached letter to the contrary. He describes the NFIP, during his tenure under Presidents Ford and Carter as an agency that “always restored victims to their pre-flood condition, less their deductible.”

Former Federal Insurance Administrator Jo Ann Howard also wrote a letter regarding her tenure from 1998 through 2001. Both former administrators describe the NFIP operating in sharp contrast to the NFIP’s current positions. Mr. Hunter made himself available to testify in this hearing.

Mr. Hunter’s letter and videotaped interview also describe the rationale for the low-balling of claims encountered by flood victims, the same rationale I learned from an insurance industry examiner.

Mr. Hunter states that the reason for the low-balling is due to the insurance industry's concern for setting a precedent on their non-flood claims – the same thing that I was told by an insurance claims examiner and numerous adjusters.

Mr. Hunter said in his letter, and later in his linked video interview, “History seems to be repeating itself. Similar to [Kanstoroom's] findings, in the early 1970s I found private insurance carriers refusing to pay legitimate claims out of concern for setting precedent related to similar language in their homeowners insurance policies. In fact, they told me so point blank. At the time the private carriers were members of the National Flood Insurers Association (“NFIA”). NFIA members were refusing to pay claims related to evacuations. I asked the General Counsel of HUD (the agency in which the FIA was located prior to being sent into FEMA) to review the matter to determine if our interpretation of coverage was correct. He agreed and issued orders for NFIA to pay the claims. NFIA refused and we began a process to have them kicked out of the program, which was accomplished in the late 1970s”.

Regardless of FEMA's current interpretation of the congressional intent for the NFIP, I discovered a training disparity that an industry official, Mr. William Griffin, Jr., wished to testify to today. Mr. Griffin's sworn statement attests to the fact FEMA's private contractor, Computer Sciences Corporation (CSC) trains sales agents to tell policyholders they will be restored to their pre-flood condition while simultaneously training claims adjusters to allow only narrowly defined coverages in limited amounts. Mr. Griffin's written testimony is attached. I too can attest to this fact. I too attended the training.

I learned that FEMA's private contractor, CSC, is responsible for the day-to-day affairs of the NFIP, including training its sales agents and claims adjusters. Maryland State Senator Grosfeld wished to testify here today, that as early as July, 2004, CSC was aware of the training disparity as well as intentional training misrepresentations, such as instructing adjusters to suggest and allow for deodorizers as way of remediating toxic substances. I made CSC aware of these and other problems in a meeting held in the Senator's office. CSC's Vice President and Deputy General Counsel clearly stated that “FEMA has approved all of our actions.”

In the meeting, information was presented regarding CSC wrongly telling victims and adjusters they trained that fuel oil contamination could be remediated with what amounts to perfume. To date, CSC has failed to take any corrective action regarding the contaminated properties sited as examples.

Concerning this point, Senator Grosfeld wrote in part, “The information regarding the fuel oil contamination was also quite alarming, particularly given that weeks later Governor Ehrlich announced that the state had just completed cleaning up 600 tons of contaminated soil. To think the state hauled people's front yards away due to the toxicity, yet victims have been left to live in houses knowingly contaminated with toxic and suspected substances is unconscionable.”

Government and industry whistleblowers also expressed a desire to testify today. They wished to testify that the identical management, and same adjusters or adjusting firms that originally low-balled the claims were also responsible for the failed Isabel Task Force review. Others wanted to testify regarding directions they received to low-ball the victims' flood claims.

Linkage to Florida Wind and Flood Claims Problems

And lastly, Mr. Moselle wanted to point out that these issues are inextricably linked to the property insurance industry. The same problems that plagued Isabel victims resurfaced in the Southern storms last Fall.

Citing a September 13, 2004 WINK TV news report from Ft. Myers, Florida, Mr. Moselle's testimony says in part, "I understand from a number of articles in the public domain that insurance adjusters routinely take the position that they are not permitted to deviate from the electronic book of numbers. For the reasons outlined above, taking such a position will result in a woefully inadequate reimbursement of damages, easily less than fifty percent of the actual repair cost. Moreover, leading the consumer to believe that new construction pricing represent a fair and complete valuation of their damages is, in my expert opinion, fraudulent.

In September 2004, I received another call from Mr. Kanstoroom regarding the use of our New Construction database, in Florida, for adjusting wind and flood claims.

I immediately wrote a letter to Florida's Chief Financial Officer Tom Gallagher, Governor Jeb Bush, and the Florida Attorney General, Charley Crist. I attempted to alert these officials that, in the wake of such widespread destruction, permitting the use of an artificially low set of numbers for insurance claims adjustments would lead to the same problems for Floridians that Isabel victims had endured for the past year.

I urged the Florida Officials to issue a statement that all losses should be adjusted by starting with repair and renovation cost standards, not the much lower prices for new construction.

I understand from media reports that Mr. Kanstoroom had met with these men as well on this same point.

Nevertheless, apparently no such statement was ever issued and widespread media reports now indicate tremendous suffering is being experienced by Floridians in regards to their insurance claims.

For all of these reasons I respectfully request that you recommend to FEMA, and its insurance partners, that they use the proper price book containing repair and renovation figures as the starting point for writing repair estimates. To allow them to continue to mislead the public into thinking that new construction pricing will result in Replacement Cost Value (RCV) will lead to untold and wholly avoidable suffering by the American

public at a time when they are likely to be under stress and, in some cases, shock from their catastrophic loss.”

Data Collection

In August, 2004, the Baltimore County Executive, James T. Smith, Jr., requested that I write a report of my findings. The contents of that report, and information that I have gathered from a victim’s website I constructed are included within this document and its attachments.

The website provides information the victims of catastrophic storms can use to help them recover from their loss. It also provides a means for victims to learn about wrongful adjusting practices being replayed in different towns. One of the largest problems victims face is a lack of information. The website helps in that regard. It also helps to determine where the problems are occurring by accepting complaints, and I can tell you, the problems plaguing flood victims are consistent anywhere it floods in the United States.

Underlying Problems

Many factors caused the NFIP problems to occur. The data collected shows:

- Disparate sales agent / adjuster training. Adjusters are trained to tell policyholders they will be restored to their pre-flood condition and will be compensated for the unbroken chain of events flowing from the loss; while claims adjusters are trained to allow narrowly defined coverages in pre-set amounts. This is perhaps the most common and destructive problem reported by victims.
- Adjusters mistakenly believe that direct physical loss means direct contact with flood waters. After two months of my urging FEMA to correct this problem, the NFIP published a Claims Guidance Memorandum on May 7, 2004 attempting to correct this misconception. Unfortunately, Task Force personnel were, and adjusters throughout the industry are, largely unaware of this bulletin. Flood victims are generally also not aware of the bulletin.

Significant damage to construction materials and personal property can occur regardless of water contact; for example in the event of moisture damage, mold contamination and partial collapse occurs.

A large number of claims were dramatically reduced, often by more than half, when the claims adjusters refused to consider damage that was not physically contacted by flood waters.

- Non-existent processes for assuring constancy in the interpretation and administration of the flood insurance regulations by the NFIP, CSC, the third party adjusting firms and WYO carriers.
- NFIP Claims Guidance bulletins are not being publicized nor followed by CSC, nor followed in many cases, by the third-party adjusting firms and WYO carriers.
- Adjusters stating that they are required to use new construction pricing in lieu of more costly repair and renovation pricing.
- Adjusters taking depreciation on Replacement Cost Value (RCV) losses.
- Adjusters refusing to reimburse for sales tax charges on taxable items; stating that “the government does not have to pay sales tax”.
- Undue pressure exerted on victims by claims adjusters to sign Proof of Loss forms.
- FEMA failing to publicize extended deadlines for filing Proof of Loss forms, leading to additional adjuster pressure to sign Proof of Loss Forms.
- Adjusters wrongly telling victims that a) Advance Payments were no longer available, b) Advance payments could not exceed \$10,000 (instead of 50% of the loss), and; c) adjusters telling victims that carriers were not interested in processing an advance payment because they wanted to settle the loss. All of these events lead to additional undue pressure for victims to accept low settlement offers.
- A faceless bureaucracy with seemingly no sense of the consequences they cause that leaves victims feeling hopeless and despairing, suggesting to victims trapped in campers, with no way out that they “get on with their lives”.

The low-ball settlements have in many cases left policyholders trapped in campers designed for summer use. Their pipes freeze in the winter leaving them without indoor plumbing. The lack of HVAC in these vehicles designed for intermittent use leads to mold growing on the victim’s belongings that are stored under their beds. Victims develop chronic respiratory problems and mold related illnesses, such as recurring sinus infections.

Many victims find themselves in a downward spiral that is impossible to escape. The result is that many families split up, leaving single parent households. Children who once had a home are left with no place to play or study.

Summary

A review of flood insurance complaints from a twelve state area reveals that the problems Isabel victims encountered are identical to those being encountered from Ohio to Texas. The media reports of Isabel problems have been limited to local stories. As a result, victims in other states are at this time largely unaware of the website used for data collection – www.femainfo.us .

FEMA's claims that the program was never designed to restore victims to their pre-flood condition are not consistent with the facts. Its former directors, current marketing practices, and marketing directives contradict FEMA's assertions.

The result is policyholders' damages are inspected by adjusters, who in many cases are wholly unaware of what the proper flood adjusting practices are – they just do as they are trained.

The use of new construction prices exacerbates the low-ball problem. Victims do not realize they are in a negotiation. By starting the negotiation at thirty cents on the dollar, the victims are severely disadvantaged. By the time they realize they have been shortchanged, many are unaware they can file a supplemental claim. In the event that they do, they are in for a very rough time, and unlikely to achieve a settlement close to what they are entitled to receive.

Many lenders wrongly advise that the limit of insurance must equal the amount of the loan; however, that is incorrect. FEMA's regulations state that :

The coverage required by law is the lesser of the following:

The maximum amount of NFIP flood insurance coverage available, the outstanding principal balance of the loan, or; the value of the property minus the land.

Conclusions

The NFIP is in a tailspin. It, like the flood victims, desperately need your intervention. The best way to help the victims is to help the NFIP by adopting the suggestions within this document.

I have offered repeatedly to sit with NFIP officials, as I did prior to the management change at FEMA in the Summer and Fall of 2004 to share my findings. Copies of several of my letters are included in the attachments. I have concrete solutions to complex problems, solutions that will cost the taxpayer nothing, and benefit the NFIP and its policyholders tremendously. The only losers will be those entities that are attempting to gain something for nothing.

Regarding the multiple congressional calls for DOJ and other investigations, it seems that much could be gained by acting upon what the former Federal Insurance

Administrator and Texas Insurance Commissioner J. Robert Hunter stated, “If the training disparity exists as your information indicates, I believe fraud may have occurred on a large scale. I agree with you if such practices are occurring the FTC should also be made aware inasmuch as the private carriers are advertising insurance replacement coverage they later indicate never existed.”

In the current climate, the policyholders have virtually no recourse against wrongful, abusive and deceptive NFIP claims practices. The WYO carriers are indemnified by the NFIP, in other words, the policyholders’ premiums fund the WYO carriers’ legal defense. The FTC could reign in the carriers who it appears have played a large role in the NFIP’s demise.

Recommendations – Actions FEMA Can Take

- Provide policyholders the same information regarding their policies as their agents receive in the form of clear, easy to understand benefits and rights.
- Provide policyholders with adjusting highlights at the time of a loss. Included shall be their major benefits; i.e. a) They are to be paid for the unbroken chain of events flowing from the loss, b) RCV losses are not subject to depreciation, c) sales tax is a covered expense for taxable items, d) advance payment rules are clearly defined, e) claims may be reopened in the event hidden damage is found, repair costs rise or materials prices rise, and; f) other key rights regarding the settlement of claims are described.
- Establish a penalty for the parties responsible for delaying claims payments to policyholders that does not come out of the fund containing the policyholders’ premiums. In other words, unlike current WYO legal defense expenses, it costs the companies money that are causing damage to the victims.
- Establish a penalty for NFIP’s private contractor in the event it fails to disseminate Claims Guidance Memorandums, or otherwise not enforce them..
- Modify the audit requirements for WYO carriers whereby a penalty is not only charged for overpaying a claim, but a similar penalty is charged for underpaying a claim.
- Establish an independent appeals process controlled by flood insurance professionals that have no affiliation with the NFIP, its contractor or private insurance partners. Such professionals should have the authority to make claims decisions and levy penalties for abusive claims practices.
- Act upon the urging of FEMA’s approved data vendor, Craftsman Book Corporation, and recommend to “its insurance partners, that they use the proper price book containing repair and renovation figures as the starting point for writing repair estimates”.

Recommendations – Actions Congress Can Take

The NFIP issues I have uncovered are repeating themselves across the country. Although FEMA is made aware of the problems occurring in a small town in Pennsylvania for example, and perhaps increases a payment on an individual basis or two, reports of identical problems surface with the next flood in the next town.

- Flood victims across the country would be saved from needless suffering if Congress directed FEMA to issue the Proposed Claims Guidance Memorandum found at Attachment 14. The Memorandum addresses the twenty points of low-balling uncovered in my investigation. If enforced by FEMA and its contractor, this will immediately end the vast majority of low-ball claims practices. As a result, it will immediately reduce the burden upon FEMA, CSC and the Congressional staff tasked with the ongoing paperwork burden associated with mishandled claims.
- Direct the GAO to make use of the 6,000 hour investigation, more than a thousand pages of whistleblower documents and other materials, described in this report, as well as the materials contained within the report prepared by the Maryland Insurance Administration.
- Direct FEMA to implement the recommendations contained in this report.
- Investigate the linkage between alleged problems with CSC in regards to the NFIP and other projects CSC is connected to, and which members of congress have sharply criticized. These projects include the \$600 million FBI Trilogy System, and the IRS tax-compliance and enforcement systems.

Senator Judd Gregg said the FBI had “squandered” \$100 million from a supplemental fund on Trilogy. On May 12, 2004, the National Research Council completed a report on the Trilogy Project at the FBI’s request.

The report criticized the Trilogy system as inadequate to perform the functions required and said it is “nearly guaranteed to cause mission critical failures” and urged the bureau to build new systems from scratch. “It is not now, and unlikely to be, an adequate tool for the counter-terrorism analysis” for which it was designed.

IRS Commissioner Mark Everson barred CSC from performing work on upcoming projects to modernize the IRS tax-compliance and enforcement systems, last spring, according to *Federal Computer Week*. Months later the IRS reversed its position.

Congress can shine the light on these issues, with the material uncovered to date, in the course of several days of hearings. In that time Congress would learn about:

- How the NFIP operated under the tenure of previous administrators.
- The NFIP sales agent and adjuster training disparity.
- The disparity between the NFIP's marketing materials and its adjusting practices.
- The underling reasons for the low-balling of NFIP claims.
- What FEMA's private contractor CSC knew and when they knew it regarding these problems.
- The major issues discovered during the 6,000 hour NFIP investigation.

I believe if Congress were to set dates for such hearings, and permit the key witnesses to testify, all of these issues would likely begin to resolve themselves as a result of the media focus. Your constituents need your help now.

Thank you Mr. Chairman for the opportunity to address your Committee. I welcome your questions. My cell number is 301 503-6078.

[Click Here For On-Line Supplemental Documents](#)

- Attachment 1Craftsman Book Company, Smoking Gun Document
- Attachment 2Craftsman Book Company, Letter to Florida Officials
- Attachment 3NFIP Marketing Press Release "Flood Insurance Can Make You Whole"
- Attachment 4Former Federal Insurance Administrator J. Robert Hunter; Intent of the Program; History of Low-Ball Pricing
- Attachment 5 Former Federal Insurance Administrator Jo Ann Howard; Intent of the Program; Contract of Adhesion; RCV; Industry Lawyer's Potential Conflict of Interest
- Attachment 6NFIP Agent / Adjuster Training Disparity Per Industry Exec.
- Attachment 7Industry Executive William Griffin, Jr. Written Testimony
- Attachment 8 Senator Sharon Grosfeld; Computer Sciences Corporation July 30, 2004 Meeting
- Attachment 9Kanstoroom Report, Background
- Attachment 10.....Kanstoroom Report, Interim Report
- Attachment 11..... NFIP May 7, 2004 Claims Guidance Memo

- Attachment 12Letters to FEMA Undersecretary Michael Brown – Pleas for Intervention Regarding NFIP Problems
- Attachment 13Letter from Congressman Steny Hoyer to Nationwide Insurance CEO and President and CEO
- Attachment 14Proposed NFIP Claims Guidance Bulletin
- Attachment 15Summarized Findings
- Attachment 16Craftsman Book Company; Re: Fraudulent Use of Database

**WRITTEN STATEMENT AND REPORT
ATTACHMENT 15 - SUMMARIZED FINDINGS**

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Root Causes – Training Disparity

Many underlying causes for NFIP claims problems have been identified. One significant problem on the surface is an existing training disparity between *sales agents* and *claims adjusters*. Sales agents are trained to tell policyholders they will be covered for the unbroken chain of events flowing from the loss and they will be restored to their pre-flood condition. Claims adjusters are trained to pay only limited amounts for narrowly defined types of damages. Recently many adjusters have been telling claimants their flood insurance is merely a form of assistance.

[Click here](#) to view a transcript of the agent training .

[Click here](#) to watch and listen to FEMA's Acting Director describe flood insurance as "some assistance".

Flood adjusters do not get paid until they have a signed proof of loss and many victims have complained they were pressured to sign such forms. It generally takes months before a victim learns of their actual damages due to problems obtaining estimates. Yet FEMA tells its adjusters they will fare better if they settle claims within fifteen days, “that’s even a better score” according to the trainer caught on video. The video shows the NFIP Director of Claims looking on while the statement is made. [Click here](#) to view this excerpt within the September 13 WINK TV broadcast.

A significant number of written reports from policyholders describing how the adjusters’ training has hurt them are now on file as well.

The entire adjuster training was recorded on videotape and is also on file.

Root Causes – Pricing

Victims have produced considerable documents whereby they were offered new construction pricing in lieu of more costly repair and renovation figures. In these cases adjusters did not adjust upward to compensate for the difference.

I first documented this problem for the Maryland Insurance Commissioner and US Senate Committee on Banking, Housing and Urban Affairs in February 2004. [Click here](#) to see one of the pricing documents.

In September 2004, the publisher of the data was made aware of the impact the data was having on recent hurricane victims in the South. [Click here](#) to view his letter to Florida officials concerning the problems associated with settling claims based upon new construction pricing .

Task Force Review and Conflict of Interest

Many victims complained that they never received a notice of the review. Others reported that when they attempted to obtain a review the NFIP told them either they or their property did not qualify. And others were told that the review could result in them having to repay a portion of the settlement back to the NFIP. This caused many victims to run from the review with what little they had already received.

Although there are more than 6,000 flood adjusters in the country, the Task Force was largely comprised of the adjusters that originally wrote the problem claims in question, or who were associated with the same third-party adjusting firms that wrote the initial claims. [Click here](#) to view these instructions included within the penultimate paragraph of the Hearing Record and Witnesses document.

The US Senate directed that FEMA conduct an independent review of the claims in question and to make all efforts to assure the claims were settled fairly. FEMA insiders felt so strongly about Task Force examiners reviewing each others work, and connections between examiners and those that hired them, they forwarded internal Task Force materials to me in an effort to call attention to the issue. The materials included proof of loss forms with the same adjuster's names as on the Task Force employee roster.

Examiners' Credentials and References

Industry insiders contacted me regarding what they believe to be a lack of credentials held by some adjusters working as Task Force examiners as well as by some NFIP General Adjusters. I brought this matter to FEMA's attention in late June 2004. Shortly thereafter, a memo was circulated in the Task Force requesting the resumes of all

examiners. The following day another memo, backdated, was circulated by a more senior member whereby examiners were instructed to disregard the previous request.

[Click here](#) to view the redacted memos.

The un-redacted memos were provided to CSC's General Counsel, Maryland Assistant Attorney General Kathleen Birrairie and others in July 2004.

FEMA's regulations do not require flood adjusters working on behalf of WYOs to have any specialized training. FEMA states the WYO are free to establish any related qualifications or requirements for adjusters.

[Click here](#) to view the regulation on FEMA's website.

[Click here](#) to view a FEMA memo with additional information.

Contamination - Mold, Sewage and Fuel Oil

Many mold and sewage contamination claims have not been properly paid. Experts agree these contaminants pose a serious health risk especially for very young children and the elderly. Nevertheless, contrary to FEMA's own documents written by their General Counsel's office, Task Force examiners routinely tell policyholders they have minimal coverage for remediation.

According to numerous industry experts, fuel oil is a known toxin, irritant and suspected carcinogen. Governor Erlich released a press statement describing the completion of the cleanup of 600 tons of fuel oil contaminated soil associated with Isabel. The State and FEMA literally hauled away victims' yards due to the health risk. Yet at this time many of the same victims are *living in* homes contaminated with fuel oil. According to industry experts, initial symptoms associated with exposure may mimic stress and therefore victims may not know to seek treatment. And even though the odor may dissipate, experts agree the health risk remains.

In June 2004, I learned adjusters had been instructed to advise victims to remediate fuel oil contamination with what amounted to perfume. Yet, according to industry experts, there is no remediation available - only replacement. In late June 2004, I called this matter to FEMA's attention and also several US Representatives. In July, I also brought the matter to the attention of CSC's Deputy General Counsel and MD Assistant Attorney General Kathleen Birrairie. [Click here](#) to view two of the documents provided.

Regardless, Task Force examiners continued to refuse to allow for replacement of fuel oil contaminated building materials.

Notification Problems

Many victims have written regarding a lack of notification of the review and being told by FEMA their request for a review had been lost. Others reported that FEMA told them they were ineligible for a review.

Insiders reported piles of return mail due to address problems. They also reported it was common knowledge many notices were never mailed. In short, FEMA was quick to

state how well the review was going while insiders tell a tale of utter chaos within the Task Force.

A glimpse inside the Task force can be seen on one document leaked from insiders. In it, adjusters who claim to have never received written policies regarding coverage issues are urged to "sound smart".

[Click here](#) to view the document.

Missing Federal Funds

Insiders wrote to me, "FEMA has hired Price Waterhouse Coopers to conduct a comprehensive analysis and review of WYO company claims handling practices, methodologies and procedures, post Hurricane Isabel."

In September 2004, I met with US Senator Barbara Mikulski and her aides, aides for Senator Sarbanes and Counsel to the Senate Banking Committee regarding FEMA related issues. I included information regarding very large discrepancies between the funds reported to the Senate vs. funds contained within internal FEMA audits.

[Click here](#) to view a redacted version of an outline of our meeting.

The following day it was learned FEMA had terminated the independent audit of NFIP claims. [Click here](#) to view the letter referring to the termination.

IG Conflict of Interest

Written Congressional Testimony of Insurance Industry lawyer Gerald J. Neilsen confirms the fact he, 1) represents every insurance company participating in the NFIP; 2) has lobbied effectively to make it much more difficult for policyholders to bring claims against the NFIP and the WYOs in State courts; 3) teaches the workings of the NFIP to adjusters, insurance agents and insurance company personnel; 4) has trained the Computer Sciences Corporation General Adjusters – the individuals responsible for training NFIP insurance adjusters, and; 5) trained DHS Inspector General Agents. [Click here](#) to view his Congressional Testimony.

Investigatory Issues

Federal government insiders and others associated with the WYOs have made an effort to blow the whistle on what they perceive to be criminal wrongdoing. Part of those efforts has come in the form of a steady stream of documents and other information these people have sent or otherwise provided to me, including documents produced by the FEMA General Counsel's office and are marked, "Attorney-client privileged – for FEMA and DOJ use only." These documents include FEMA's General Counsel's positions whereby many of the insurance claims denied by the Task Force were, according to the document, covered losses.

FEMA's Response

I first shared substantive NFIP related issues with the Federal Insurance Administrator, Anthony S. Lowe in March 2004. Mr. Lowe seemed very concerned with what I had found. He personally made photocopies of some of my findings and seemed genuinely determined to correct what he viewed as NFIP irregularities. [Click here](#) to watch and listen to several of Mr. Lowe's comments. Additional comments and are also on video files.

FEMA states Mr. Lowe left for personal reasons.

Beginning in late March, I began working very closely with DHS Under Secretary Michael Brown's Deputy Director Trey Reid. Mr. Reid was very determined to correct NFIP's problems and was enthusiastic about taking over where Anthony left off. He explained he was also looking forward to directing the NFIP overhaul called for in Senate Bill 2238.

On July 6th I met with Mr. Reid for five hours at FEMA. We spent thirty minutes of time reviewing twelve claims I was intimately familiar with. Each of the claims had spreadsheets and detailed information documenting the difference between what was paid and what was owed under the terms of the policy. The difference averaged fifty-four thousand dollars per claim, not including Increased Cost of Compliance (ICC).

In most every case, the items being disputed had been paid on a number of other claims. In addition, they were paid on my claim, a claim personally inspected by FEMA's Acting Director Trey Reid and the NFIP Director of Claims James Shortley. The claim was personally approved by Mr. Shortley.

We discussed the issue of FEMA's Task Force understated results. FEMA had released numbers to the press indicating the review had yielded 1.2 million dollars in adjustments. Yet at that time, the adjustments for a handful of claims victim's advocate Beth Midgett and I had been involved with also equaled 1.2 million dollars.

We also discussed the lack of NFIP instructions regarding the Task Force review. For example, many examiners were wholly unfamiliar with the May 7th claims guidance memo. The memo set forth some of the positions FEMA agreed to at the meeting I attended in March with the Baltimore County Executive. One substantive point regarded contractors' invoices and proposals were to be accepted in lieu of synthetic numbers. Another point spelled out adjusters were to cover losses as a result of water, moisture, mildew or mold damage. [Click here](#) to view the memo.

It was agreed the absence of such instructions was causing significant problems for policyholders and Task Force personnel. Mr. Reid agreed to have all items resolved within ten days. In the event an examiner made any determination differing from amounts submitted by the victims, Mr. Reid agreed to meet again with me to discuss any unresolved issues.

Unfortunately, FEMA had other more pressing matters unrelated to the NFIP it needed Mr. Reid to attend to. They are described under separate cover.

Since Mr. Reid was effectively removed from the process, FEMA's response deteriorated to the point of stonewalling the victims and attempting to mislead our

Congressional Representatives and Governor into thinking the victims had received the compensation to which they are entitled. FEMA refused to return numerous calls to our US Senators weeks prior to the Fall 2004 storms thus leaving Isabel victims hanging in the balance. Contrary to Mr. Reid's position and the CFR, Task Force examiners in many cases told the victims they were not due any additional monies.

Mr. Reid left FEMA on Friday, October 1, 2004.

The thirteen families associated with the claims, as of April 14, 2005, remain in the same position – no resolution was ever reached by FEMA. They suggested many of the victims file suit.

Effect of Late Summer 2004 Storms

The Task Force effectively disbanded prior to Tropical Storm Alex. While several supervisors and others remained, many victims reported their files were once again unable to be located within the Task Force. They also reported having to start over again with yet another examiner wholly unfamiliar with their loss.

It has become abundantly clear FEMA attempts to quiet the squeakiest wheels rather than implement policies to correct its problems.

Insiders report FEMA's General Counsel is very concerned with setting any precedents, hence their refusal to issue policies Mr. Reid said were on his desk in May of 2004.

To underscore the depth of FEMA's problems, on September 27, 2004, FEMA issued a bulletin directing WYOs to pay claims from recent storms without a proof of loss. Director Maurstad stated FEMA was having trouble finding adjusters due to the large number of claims. [Click here](#) to view the bulletin.

In reality, many adjusters said they were refusing to work flood claims, and turning those they had back to the carriers. They cited concerns over fines by Florida officials for underpaying claims, something Florida's CFO vowed to do. They also cited concerns over an NFIP that is driven by verbal commands in lieu of written policies. As a result, seasoned adjusters were opting to work wind claims leaving flood victims in a place where it was absolutely essential for them to understand what they were entitled to receive.

Ongoing Impact to Isabel Victims

I have personally inspected a number of victims' flood damaged properties. I found that the Task Force denied the majority of claims I inspected. Yet I have a number of identical claims, including my own, for which the NFIP has approved payment. FEMA's current position regarding the NFIP being merely a form of assistance is exacerbating the problem.

Task Force adjusters have told victims to find a lawyer if their claims were not settled by September 18, 2004, a day that has since passed.

The personal toll this continues to take on families is devastating. As each day goes by more families are at risk of being permanently fractured. More children at risk of living

in a single parent household. Many victims have heard tales of Task Force examiners threatening to find overpayments and demand monies back. This coupled with FEMA's failure to tell victims why they would likely benefit from a review had a chilling effect on many victims.

In April 2004, FEMA agreed to include language in it's notice of review to victims detailing example cases where a review would likely result in additional payments. For example, "If you were told you are not entitled to mold clean-up costs, or water had to physically touch an item to be covered, you are likely due additional funds". No such notice ever came and many people felt they had no reason to request a review inasmuch as a federal employee had previously told them they had limited coverage. They had absolutely no reason to doubt the voracity of their adjuster, especially when wearing a blue FEMA jacket.

In the fall of 2004, FEMA told our US Senators they had approximately twenty outstanding Maryland claims. Yet it is possible even today, more than six months later, to find twenty victims with unpaid claims in a small area, let alone the entire state.

FEMA's attempts to minimize the numbers of families trapped in limbo should be of great concern to all of our elected officials. Their current structure is paralyzed with concerns over doing the right thing. Some believe doing so will open the floodgates to an overwhelming number of claims from past events that have been improperly handled.