



THIS STORY HAS BEEN FORMATTED FOR EASY PRINTING

Katrina fraud stretches far beyond Gulf



By Sharon Cohen, AP National Writer | April 2, 2007

An Illinois woman mourns her two young daughters, swept to their deaths in Hurricane Katrina's floodwaters. It's a tragic and terrifying story. It's also a lie. An Alabama woman applies for disaster aid for hurricane damage. She files 28 claims for addresses in four states. It's all a sham. Two California men help stage Internet auctions designed to help Katrina relief organizations. Those, too, are bogus.

More than 18 months after Hurricane Katrina decimated the Gulf Coast, authorities are chipping away at a mountain of fraud cases that, by some estimates, involve thousands of people who bilked the federal government and charities out of hundreds of millions of dollars intended to aid storm victims.

The full scope of Katrina fraud may never be known, but this much is clear: It stretches far beyond the Gulf Coast, like the hurricane evacuees themselves. So far, more than 600 people have been charged in federal cases in 22 states -- from Florida to Oregon -- and the District of Columbia.

The frauds range in value from a few thousand dollars to more than \$700,000. Complaints are still pouring in and several thousand possible cases are in the pipeline -- enough work to keep authorities busy for five to eight years, maybe more.

"The reason we're seeing such widespread fraud is individuals were evacuated to all 50 states. Katrina was a national phenomenon," says David Dugas, U.S. attorney in Baton Rouge, La., and director of a command center that's part of a special Hurricane Katrina Fraud Task Force. "Everybody knew what was going on. Therefore, criminals knew what was going on."

Major disasters and fraud frequently go hand in hand. It happened after the Sept. 11 terrorist attacks and Hurricane Andrew's devastating sweep through Florida in 1992. People tried to cash in, falsely claiming to be victims.

After Katrina, the same thing happened: Disaster aid was sent to inmates who applied from prison and to people who claimed property damage and provided addresses of vacant lots or cemeteries, among many abuses documented in Government Accountability Office reports.

"We found several dozen schemes. There are probably a lot more out there," says Gregory Kutz, a GAO investigator who has testified about Katrina fraud six times on Capitol Hill. "The real clever ones cover their trail and disappear and they'll never be caught."

GAO undercover investigators demonstrated how easy it was to cheat the system: Using phony names, Social Security numbers and addresses of damaged residences -- such as the 13th floor of a two-story building -- they still received several checks.

While many people filed bogus claims, the growing roster of the accused goes beyond the usual con artists. It includes employees of the Federal Emergency Management Agency and the Army Corps of Engineers, other public officials, business owners, even temporary workers for the Red Cross.

"You can find criminals in every walk of life and that's what we're seeing here," Dugas says.

The GAO has referred more than 22,000 potential cases of fraud to the Katrina task force, though Dugas says the majority probably will not pan out. In a recent audit, the GAO also concluded FEMA had recovered less than 1 percent of some \$1 billion investigators claim was fraudulent aid.

FEMA believes the fraud total may be inflated but says it won't have an estimate until later this year. Kutz's

response: "I don't think they know the magnitude of the problem."

FEMA also says the relative scope of Katrina fraud isn't that unusual.

"I don't think the numbers are proportionally too far away from what we normally experience in a disaster," says David Garratt, FEMA's acting recovery director. "It's extraordinary only in terms of the size of the population that was affected."

A recent Associated Press analysis of government data obtained under the federal Freedom of Information Act suggested the government might not have been cautious enough as it doled out nearly \$5.3 billion in aid to storm victims. The analysis found the government made more home grants than the number of homes in one of every five neighborhoods after Katrina.

The nature of Katrina fraud already has shifted as the Gulf Coast has begun reconstruction. Dugas says there now are more elaborate schemes with bigger losses.

In Mississippi, for instance, three people, including a Florida contractor, recently pleaded guilty to falsifying records of Katrina debris cleanup and billing the federal government \$716,677 for the work.

Charges also have been filed against organized rings in Florida, Texas and Oregon.

The Oregon case offers a textbook example: Ten people have pleaded guilty to applying for disaster checks. In their scheme, a few ringleaders recruited friends, neighbors and relatives, then split the proceeds. They collected about \$324,000.

None had any connection to Katrina.

"The folks who originally thought this up (discovered) ... this is kind of easy and said, 'Let's use some others to make applications,' " says Lance Caldwell, an Oregon prosecutor who won punishments ranging from probation to several years in prison.

Disasters create opportunities for people who are inclined to exploit others, says Dr. Lynne Tan, a psychiatrist at Montefiore Medical Center in New York who has counseled Sept. 11 survivors.

After traumatic events "there's chaos and no one is accounting for the money that well (and) they see it as a time to come in for the kill," Tan says. "It's almost like leaving a house wide open. People come in and burglarize it."

The federal government isn't confronting this problem alone. The Louisiana attorney general's office has received more than 2,000 complaints related to contractor fraud and made dozens of arrests. Louisiana State police have made nearly 50 arrests for suspected insurance fraud. And the Red Cross has investigators ferreting out scams.

The Red Cross says 104 people have been charged with cheating the charity in hurricane-related fraud; 86 have been convicted so far, according to Devorah Goldberg, an agency spokeswoman.

About three-quarters of those accused were temporary contract workers at a Red Cross call center in Bakersfield, Calif., she says. Hired to authorize cash payments to storm victims, they allegedly helped family and friends file phony claims.

Some 2,500 other fraud cases representing about \$5 million in losses have been referred to law enforcement as potential cases to prosecute, while nearly 21,000 allegations totaling another \$34 million are being checked out, Goldberg says.

So far, the Red Cross has recovered \$2.6 million in overpayments or fraudulently obtained funds, some of it returned in anonymous envelopes, Goldberg says. "People realize we're serious about investigating

allegations," she adds. "They're seeing it. They're hearing it."

Besides false claims, types of fraud include extortion, bank larceny, overbilling, public corruption, identity theft and using fictitious Social Security numbers or those of the deceased.

"We expected all these things. We just know that criminals follow the money," says Alice Fisher, assistant U.S. attorney general and head of the fraud task force, which also is investigating scams connected to Hurricanes Rita and Wilma.

Among task force cases in the last several months:

-- In Illinois, Tina Marie Winston claimed she watched as her daughters, 5 and 6, drowned in the raging waters. She also said her New Orleans home had been swamped. Winston has no children and was living hundreds of miles away when Katrina struck. A judge acknowledged Winston's mental troubles but sentenced her to four years in prison for defrauding FEMA and others scams.

-- In California, two Romanian nationals were charged with helping stage bogus Internet auctions that duped victims into thinking their contributions -- bids for items such as a motorcycle that was never awarded -- would help Katrina relief groups. Losses exceeded \$150,000. Leontin Salageanu pleaded guilty; Teodor Manolache is a fugitive.

-- In Louisiana, Jesse Pingno, former police chief of Independence, and Brian Lamarca, a former captain, await sentencing after pleading guilty to overbilling FEMA for overtime and vehicle use after Katrina.

-- In Alabama, Lawanda Williams was sentenced to 75 months in prison for using false Social Security numbers and different names to claim losses in Mississippi, Alabama, Louisiana and Florida. Her Alabama home was not damaged. Authorities say she collected \$277,377 and will have to pay restitution and forfeit items she bought including real estate, a mobile home, three cars and a 50-inch TV.

--In Washington, D.C., Jeffrey Alan Rothschild was sentenced to 8 1/2 years in prison after pleading guilty to trying to acquire more than \$100,000 in disaster aid, and admitting other financial crimes. Rothschild created false identities, obtaining some from a legal directory. He was able to get 38 FEMA checks, using mailboxes in Florida, Tennessee, New York and Virginia.

Although some recent cases involve six-figure scams, many involved a few thousand dollars in emergency relief, prompting a watchdog group to question the focus of investigators.

In a report last fall, the Project on Government Oversight said most indictments, arrests and convictions involved people involved in "petty crimes" and claimed "so far the government has picked the low-hanging fruit from the tree."

"It seems like they're picking on the small guy," says Scott Amey, the group's general counsel. "No doubt it's adding up. ... But I don't know if the system is going after contractors in a way to hold them accountable for the larger fraud."

Dugas says those kinds of cases -- contracting and procurement fraud and public corruption -- will surface in the years ahead, noting that much relief money has yet to be spent.

About 150 to 250 complaints still come in each week, Dugas adds, and more than 9,600 possible fraud cases have been referred to investigators.

Restitution is almost always ordered for those convicted, but "most of the money is gone for good," says Kutz, the GAO investigator. "It really is down the drain. I'm not suggesting they shouldn't try to recoup it ... but the most important thing is to look forward and make sure they have a system in place they've tested in advance."

Garratt, the FEMA official, says changes already have been made. An instant verification system that was available online during Katrina has been expanded to include phone calls. FEMA says about 60 percent of

Katrina disaster aid requests came by phone -- and were a major source of bogus claims.

How effective will these improvements be?

"I think they'll do better," GAO's Kutz says. "Whether it's enough to stem the full tide of fraud and abuse -- I don't know yet. ... The proof will be when the next disaster hits." ■

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