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BEFORE THE

SELECT BIPARTISAN COMMITTEE TO INVESTIGATE THE

PREPARATION FOR AND RESPONSE TO HURRICANE KATRINA

U.S. HOUSE OF REPRESENTATIVES

NOVEMBER 2, 2005

Good morning Mr. Chairman and Members of the Committee. Thank you for the opportunity to be here today to discuss the role and progress of the Inspector General (IG) community in evaluating contracting for disaster response and recovery. I will also discuss our oversight activities related to individual assistance, temporary housing, and public assistance grants.

Overview of OIG Hurricane Oversight in the Gulf States

Hurricane Katrina was a catastrophic event for the Gulf Coast states of Louisiana, Mississippi, and Alabama. Her Category IV winds and rains produced an unprecedented level of damage. Within just a few weeks, Hurricane Rita hit the Gulf Coast again on September 24, 2005, causing further damage to the State of Louisiana and parts of Texas. Congress quickly passed legislation that provided over \$63 billion to the Department of Homeland Security (DHS) for disaster relief, including \$15 million for the DHS Office of Inspector General (OIG) to oversee the management and expenditure of those funds. Although the Federal Emergency Management Agency (FEMA) is responsible for coordinating response and recovery efforts, the enormous effort required to restore the Gulf Coast will require the combined, and collaborative, efforts of many federal, state, and local government entities. With estimates of the cost to recover from the storm and rebuild the affected areas as high as \$200 billion and more, the circumstances created by Hurricane Katrina provide an unprecedented opportunity for fraud and mismanagement. With this much damage, money, and number of agencies involved, the oversight task necessarily encompasses more than just the DHS OIG.

It is important to note the distinction between management's responsibility for planning and operational control of the funds, and the independent IGs' oversight responsibilities. The overriding objective of the OIGs' oversight plan is to ensure accountability and prevent problems before they occur. Our plans focus heavily on prevention, including reviewing internal controls; monitoring and advising department officials on precedent setting decisions, contracts, grants, and purchase transactions before they are finalized; and meeting with applicants, contractors, and grantees to advise them of their fiduciary responsibilities and assess their capability to account for the funds. The plans also encompass an aggressive and ongoing audit and investigative effort designed to ensure that disaster relief funds are being spent wisely and to identify fraud, waste, and abuse as early as possible.

To answer the call for oversight in the face of these unprecedented disasters, my office and other Inspectors General have been working together to coordinate our efforts from the beginning. We are collectively focused on our departments' and agencies' response and recovery efforts and the related disaster assistance spending. I am coordinating these oversight initiatives through my role as Chair of the President's Council on Integrity and Efficiency (PCIE) Homeland Security Round Table. We are also working closely with the Government Accountability Office (GAO).

In addition, my office is currently providing oversight of Katrina operations at FEMA Headquarters and the Joint Field Offices. I have created a separate Office of Assistant Inspector general for Katrina Oversight, within the DHS OIG, to ensure appropriate oversight of our efforts, as well as to coordinate with the other Inspectors General. This will allow us to stay current on all disaster relief operations, and provide on-the-spot advice on internal controls and precedent setting decisions.

Auditing Contracting and Procurement Activities

In addition to its own activities related to Hurricanes Katrina and Rita, FEMA tasked other federal departments and agencies through mission assignments. Most recent data indicate that FEMA has made mission assignments totaling just over \$7.4 billion, with \$2.2 billion for the Department of Defense (DOD) and \$4.1 billion for the United States Army Corps of Engineers (COE) ¹. Departments use mission assignment funds to award contracts or provide direct support for response efforts. In addition, some departments and agencies, including DOD, received direct appropriations for Hurricane Katrina activities. We expect more disaster relief funds and direct appropriations for Katrina relief in the weeks and months ahead.

As government agencies rushed to meet requirements in the immediate aftermath of Katrina, they used expedited contracting methods as authorized under federal acquisition regulations. In many cases, procurement personnel authorized contractors to begin work without a definitive statement of work, often on a sole-source basis with no attempt to independently estimate costs. This lack of clear work statements, competition, and cost estimates created an environment where contractors may perform their work efficiently and in good faith, but still fail to meet the requirements of the Gulf Coast. In other cases, the Government will have little basis upon which to challenge inflated contractors costs submitted for payment under questionable contracts. As you well know, the newspapers have already reported many alarming instances of inflated costs and potential fraud, waste, and abuse.

DHS has reported awarding over \$3.9 billion in contracts to date and other OIG's have reported a total of over \$1.2 billion in awards by their agencies. We are implementing a proactive and aggressive audit oversight program of contracting activities resulting from Hurricane Katrina. Our objectives will be to determine the extent: (1) federal acquisition regulations are being adhered to, (2) effective contracting practices are being used on these procurements, and (3) the expenditures are necessary and reasonable. Auditors are currently reviewing the award and administration of major contracts, especially those awarded in the first two weeks. Particular emphasis will be placed on cost-reimbursement, time and materials, no-bid, and limited competition contracts.

As a community, the OIGs have committed to providing effective contract oversight and have established a Hurricane Katrina Contract Audit Task Force to coordinate our efforts. This group includes auditors from DHS, the Government Accountability Office, and the

¹ As of October 26, 2005.

Departments of Defense (including the service audit agencies from Army and Navy), Housing and Urban Development (HUD), Health and Human Services (HHS) and Energy, the General Services Administration, and the Environmental Protection Agency. One of the objectives of this group is to provide consistent contract oversight across all government agencies involved in Katrina. To this end, contract audit experts from the community are currently developing a methodology to evaluate the risks presented by large dollar contracts awarded without competition or definitive requirements and identify contracts that require more detailed review or investigation. As we perform these reviews, we will identify situations where the government agencies can save federal funds by amending or ending questionable contracts. In other cases, we will perform detailed cost incurred audits to identify questionable costs that the Government should not reimburse to the contractor.

As a specific example of how the OIG community is cooperating on contract oversight, I point to our work on the use of cruise ships to house Katrina evacuees. FEMA tasked the Military Sealift Command within the Department of Navy to contract cruise ships to provide housing and other services for evacuees displaced by Hurricane Katrina. My office is working with auditors from the Naval Audit Service to provide a thorough review of both the programmatic and contracting aspects of the program. Auditors from DHS OIG are working to evaluate FEMA's decision making regarding the use of cruise ships and how effectively FEMA monitored and managed the cruise ship berths to maximize occupancy aboard the ships. At the same time, the Naval Audit Service is reviewing contracts awarded by the Military Sealift Command under a FEMA Mission Assignment to determine the reasonableness of the contract terms and the resulting costs. We anticipate completing both reviews and issuing final reports in the near future.

My office is also working with Army Audit Agency to review Corps of Engineers contracts for debris removal and other emergency response activities in the Gulf Coast states. While Army Audit is doing the actual contracting reviews, DHS auditors are sharing tips, information and concerns on debris removal activities and oversight. Most of the DHS auditors working on Katrina oversight have extensive experience with disaster response and are conversant on the inherent risks in debris removal operations.

The OIGs will be issuing reports as soon as problems and issues are identified so that corrective actions can be taken immediately. For example, my office just issued a management advisory report on FEMA's use of verbal authorizations and pre-award cost notifications to expedite work for housing assistance to Katrina evacuees. FEMA has reported 92 active verbal authorizations that have been issued and has authorized six contractors to spend \$285.6 million in pre-contract costs. Because of the urgency to undertake an expedited response for Katrina relief, we do not take exception to the use of pre-award cost authorizations, per se. However, we recommended that FEMA establish not-to-exceed ceilings as soon as possible after issuance of such verbal authorizations instead of waiting until a definitive contract can be negotiated.

In addition to reviewing the award and administration of major contracts, we are participating in a joint review with the GAO in monitoring purchase card transactions to

ensure that purchasers are following federal acquisition regulations and guidelines to ensure that expenditures are necessary and reasonable. Data mining techniques will provide continuous oversight of purchase card transactions to identify spending anomalies for further review.

Ultimately, we expect that contractors will be tasked to fulfill many of the post Katrina requirements. One of the major challenges facing the OIG community is to build and maintain an inventory of contracts awarded outside DHS for Katrina response and recovery efforts. When FEMA issues mission assignments to other agencies, they expect that agency to handle the contracting; FEMA receives no information on the actual contract arrangements. Therefore, OIG or program personnel at DOD, HHS, HUD and other agencies will have to locate the responsible individuals in their agencies and track down the contracts awarded for each mission assignment. This can be relatively easy for mission assignments awarded to the Corps of Engineers, but money sent to the Department of Defense can move in many different directions before a contract is awarded and is proving more difficult.

We are also concerned about the government's responsibility to oversee contractor performance. Contracting officer technical representatives serve a critical role in verifying that delivered products and services meet contract requirements and reviewing contractors' invoices to ensure that contractors are only paid the amount that they are actually due. Therefore, we are assessing the availability of qualified contracting officer technical representatives to effectively administer the awards.

Oversight of Individual Assistance, Temporary Housing and Public Assistance Grants

We are closely monitoring FEMA's Individuals and Households Program (IHP) and, in coordination with HUD OIG, the Temporary Housing Program. Our auditors are especially working to identify flaws in the application receipt, review and award processes to ensure that only those eligible applicants received payments for housing and other emergency needs. The news media has already reported many apparent issues with temporary housing, and we plan to provide continuing oversight of this program to determine whether temporary housing was procured at reasonable prices and adequately managed once purchased.

For example, FEMA has reported that they have procured 96,798 trailers to house Katrina evacuees, 18,998 of which came from retail lots and the balance from manufacturers. In addition, FEMA reports the procurement of 21,237 mobile homes, including 2,275 came from retail lots and the balance from manufacturers. FEMA has reported that currently 15,451 trailers and 327 mobile homes are occupied.² In addition to reviewing the purchasing process for trailers and mobile homes, we are also reviewing actions to identify potential occupants and provide them short-term housing.

² As of October 26, 2005 per Temporary Housing Progress D+58 Report

Another issue in the temporary housing situation is the potential duplication of benefits across government agencies. FEMA has done some work with the Department of Housing and Urban Development to identify individuals in public housing who have also received rental assistance payments from FEMA. We will work with the HUD OIG to monitor this effort and identify duplication before FEMA spends millions on rental assistance to unqualified persons.

Although the money spent so far on response and emergency needs is extremely significant, we expect much larger expenditures to come during the recovery and reconstruction phase. FEMA has already made public assistance grants to three states³ totaling \$1.38 billion⁴, and the amounts will increase dramatically in years to come. My staff is already providing oversight in the very important area, providing applicants with information and advice on accounting systems and sub-grant administrative policies, procedures, and practices. We will also monitor and, as necessary, audit Public Assistance projects and Mitigation projects approved by the States and FEMA. Reviews will start early in the project execution phase and remain ongoing to identify questionable activities early, prevent misspending, and ensure compliance with federal laws and regulations. We will be leveraging our resources by working in partnership with state and local audit organizations. Other OIG's will audit Katrina related grants awarded by their agencies.

Hurricane Katrina Fraud Task Force

We are actively participating in the Hurricane Katrina Fraud Task Force that was established on September 8, 2005, by the United States Attorney General. The Task Force is charged with deterring, detecting, and prosecuting unscrupulous individuals who try to take advantage of the Hurricane Katrina and Hurricane Rita disasters. The Task Force has mobilized to bring prosecutions as quickly as possible to send a strong message of deterrence. By casting a broad net and using the investigative assets of federal law enforcement agencies, federal Inspectors General, and state and local law enforcement – together with the prosecution resources of the 94 United States Attorneys' Offices – the Task Force is positioned to act quickly and aggressively to bring to justice to those who would further victimize the victims of these natural disasters.

The principal types of fraud on which the Task Force is now concentrating include:

- **Fraudulent Charities:** Cases in which individuals falsely hold themselves out as agents of a legitimate charity, or create a “charity” that is in fact a sham;
- **Identity Theft:** Cases in which the identities of innocent victims are “stolen” and assumed by criminals who convert the funds of, or otherwise defraud, the victims;
- **Government-Benefit Fraud:** Cases in which individuals file false applications seeking benefits to which they are not entitled;

³ Alabama, Mississippi and Louisiana.

⁴ As of October 26, 2005.

- Government-Contract and Procurement Fraud and Public Corruption: Cases in which individuals and companies engage in fraud and public corruption relating to federal funds provided for the repair and restoration of infrastructure, businesses, and government agencies in the affected region; and
- Insurance Fraud: Cases in which false or inflated insurance claims are filed.

In the six weeks since the Task Force was established, United States Attorneys' Offices and a variety of investigative agencies – including the FBI, the Postal Inspection Service, the Secret Service, and the DHS Office of Inspector General (DHS OIG) – have pursued a significant number of prosecutions stemming from Hurricanes Katrina and Rita. In that period, 36 persons have been charged with hurricane-related fraud. The prosecutions span eleven Federal districts from Oregon to Florida and many places in between. This large number of prosecutions, brought in such a short period, exemplifies the Task Force's effectiveness in fighting fraud.

Operating the “Hurricane Relief Fraud” HOTLINE

While each of the OIGs has its own HOTLINE for receiving allegations of fraud, waste, and abuse, the community has also established a single Hurricane Relief Fraud HOTLINE and is widely publicizing this number. The DOD OIG will operate the HOTLINE on behalf of the entire OIG community. I personally recorded public service announcements to inform the Gulf Coast residents about the Hotline and urge those with knowledge of fraud to come forward.

Reporting OIG Progress and Results

Each OIG will be reporting their progress to me, and my office, in turn, will prepare consolidated status reports, which will be posted regularly on our website. Each IG will also be issuing individual management advisory reports as weaknesses or problem areas needing attention are identified. These advisory reports are intended to inform management of potential problems and provide recommendations for corrective and preventative actions quickly.

Conclusion

Hurricane Katrina has been a catastrophic event beyond anything in recent experience. We will debate its lessons and calculate its total monetary and economic impact for many years to come. Our oversight efforts are focused on prevention of waste, fraud and mismanagement in the expenditure of Katrina related funds, but we also hope to provide lessons for future disasters. For example, in addition to the activities described above, evaluators from my office are evaluating the overall adequacy of FEMA's emergency management program for major natural disasters (i.e., how well FEMA carried out its disaster management responsibilities in response to Hurricane Katrina). This will encompass three of the four major phases of disaster management - preparedness,

response, and recovery - as well as certain emergency management support functions, such as financial management, public affairs, and congressional affairs.

I believe that, collectively, the Inspectors General are uniquely qualified and positioned to provide the most timely and effective oversight of Hurricane Relief activities in the Gulf Coast region. Working together, the OIG community will ensure that taxpayers' dollars are managed and used wisely, and that the affected communities and people receive the full benefit of the funds to be spent on response and recovery.

Mr. Chairman, that concludes my prepared statement. I would be happy to answer any questions you or the members may have.

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