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HURRICANE KATRINA: WASTE, FRAUD, AND ABUSE WORSEN THE DISASTER

HEARING

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

FEBRUARY 13, 2006

Printed for the use of the
Committee on Homeland Security and Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE

27–030 PDF WASHINGTON : 2007

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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HURRICANE KATRINA: WASTE, FRAUD, AND ABUSE WORSEN THE DISASTER

MONDAY, FEBRUARY 13, 2006

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senators Collins, Lieberman, Levin, Akaka, and Dayton.

OPENING STATEMENT OF CHAIRMAN COLLINS

Chairman COLLINS. The Committee will come to order.

Good morning. Federal assistance programs are vital to those who are the true victims of natural disasters. The critical nature of this assistance makes reports of waste, mismanagement, and outright fraud particularly disturbing. We cannot sweep such allegations under the rug. We must face them head on to preserve public support for these programs.

Although our focus today is on Hurricane Katrina, the ramifications of this issue are relevant to future disaster relief efforts in all regions of our country. If those words sound familiar it is because I spoke them, with one obvious change, at a hearing that the Committee held last May in which the Committee examined serious problems with the integrity of FEMA's disaster relief programs following the hurricanes that struck Florida in 2004.

We are here today because although the names of the hurricanes have changed, the waste, fraud, and abuse remain all too much the same.

This hearing will examine the mounting evidence of fraudulent claims, wasteful spending, and ineffective management in the disaster assistance programs triggered by Hurricane Katrina. Our witnesses will testify about criminal behavior ranging from filing false claims for individual assistance payments to bribing public officials. They will point to the lack of controls that allow precious resources to be squandered while so many true victims remain in dire need. And they will describe the unprecedented efforts of the Hurricane Katrina Fraud Task Force to deter and prosecute criminal offenses, enforcing the Administration's pledge to prosecute every case of fraud against the government and the American taxpayers.

Following the Committee's work on this very problem last year, I am sure that we all expected that another hearing on the same

subject would be a progress report. Instead, it is a fresh indictment. Our witnesses will provide many examples of the ways that disaster relief programs have been abused and of the FEMA policies and procedures that failed once again to prevent abuse, waste, and outright fraud.

After the hearing last May, Senator Lieberman and I wrote a letter to then-FEMA Director Michael Brown in which we provided a list of straightforward, doable, and logical reform recommendations that could have been implemented quickly and that would have clamped down on waste, fraud, and abuse without delaying assistance to those truly in need. The response we received from Mr. Brown was utterly non-responsive, yet another example of a failure to act to reform a flawed system.

Our witnesses today will provide many more shocking examples of absent safeguards and wasted tax dollars. To date, FEMA has distributed more than $6 billion in financial and housing assistance to nearly 1.5 million individuals. Most of that aid is essential, and I want to emphasize that most of the recipients are true victims. However, some of the money—far too much of the money, desperately needed by victims—has gone to people who were nowhere near Hurricane Katrina and were in no way harmed by it.

Multiple payments have been made to individuals, many of whom were not eligible for aid in the first place. GAO investigators found that debit cards had been used for such items as a tattoo, gambling, traffic fines, and a diamond ring when, in fact, they were intended for necessities such as food and shelter.

Rental assistance was provided with no inspections of the recipients' homes to verify damage and no instructions on the proper use of these funds—exactly the problem that we explored in May of last year. This "pay first, ask questions later" approach has been an invitation to the unscrupulous. FEMA paid for hotel rooms that were left unused or simply used as storage units for personal goods. Some of these rooms were at very expensive hotels and resorts costing as much as $400 a night.

But the problem goes far deeper than a number of individuals getting money to which they are not entitled or spending it improperly. The real problem is that once again FEMA failed to adequately plan for the very type of disaster that occurs virtually every year. Now, Katrina was different in magnitude, but it was another hurricane. One of the most egregious examples of this failure to plan is the purchase of 25,000 manufactured homes at a cost of approximately $850 million. A significant number of these homes will likely go unused because FEMA cannot install them in a floodplain.

In the absence of effective pre-disaster planning for essential services, FEMA awarded many contracts without competition, such as four no-bid contracts for technical assistance, including installation of FEMA trailers, each with an original ceiling of $100 million that later ballooned to $500 million. The government made numerous other purchases at retail prices and without government discounts for needed supplies that could have been obtained before the crisis struck. This lack of preparation is a recipe for wasteful spending. Perhaps most troubling, however, are the cases of contractor fraud and allegations of bribery. Our witnesses will describe

some of these cases today. Nothing is more offensive than this abrogation of the public trust.

I am pleased that the Inspectors General of the Federal agencies involved in the Katrina recovery have administratively adopted many of the proposals that Senator Lieberman and I included in legislation that we introduced last fall. I am also very interested in the information that will be presented today on the Hurricane Katrina Fraud Task Force. This multi-agency task force was established by the Attorney General just one week after Katrina hit, and it is committed to deterring, investigating, and prosecuting hurricane-related fraud in a more coordinated and comprehensive way and in adherence to a zero tolerance policy, which I think is critical.

These measures are all highly commendable, but they are primarily reactive, and that is why it is so disturbing to me that many months after we first held hearings exposing the lack of safeguards in FEMA's disaster assistance programs, we are sitting here today hearing much of the same problems. We cannot continue to clean up waste, fraud, and abuse after disasters. We must do more to prevent the mess from occurring in the first place.

Senator Lieberman.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thanks very much, Madam Chairman. Thanks for your excellent opening statement.

I want to just say, as I have told you, that there is good news and bad news associated with the snowstorm that occurred here in Washington and throughout the Northeast over the weekend. The bad news is that I could not get out of Washington. The good news is, as a result, I am here this morning. Senator Akaka had graciously offered to sit in for me this morning, so I am going to say a few words and then yield to Senator Akaka for an opening statement.

Basically I am going to say "Amen" to everything you have said, Senator Collins. I think we have discovered in our extensive hearings now on the preparation and response to Hurricane Katrina that the key word here is "preparation" and that preparation is the difference between an effective response and a failure in response to a disaster. And lack of preparation is the cause of the failures that we have seen in the case of Hurricane Katrina at almost every level of government and almost everywhere, unfortunately, in the Federal Government.

We have been focused mostly on preparation for and response to the immediate disaster. Today we are focused on relief, and I suppose in some sense it shocks us that people would try to take advantage of relief programs for those hit by a disaster. But they do. That is the world we are in. And, therefore, FEMA and DHS have to be prepared when disaster strikes to expedite assistance to people in need and prevent fraud. It is as simple as that.

Senator Collins was right on target that this is not the first time this has happened. This is another case where the problems that FEMA confronted were not only predictable, they were predicted because they had happened. They happened in the Florida hurri-

canes. And I was proud to join with Senator Collins in the letter that we sent. And yet here we go again.

They are under pressure at FEMA, no question about it. They are probably under double pressure because they were embarrassed by the immediate failures in response to the hurricane to get assistance out to those hurt. But it is no excuse. They should have been ready. And I am a great believer in government so I always hesitate to make the private-public sector comparisons. But when you think about what the witness from Wal-Mart told us when he was here, what we know companies like Home Depot did, getting ready for any disaster that might strike and the ability to deliver when needed, we simply have to do better.

The four people before us are the waste, fraud, and abuse busters in the Federal Government, and we appreciate what you have done. My hope is that FEMA and DHS get the message because their behavior thus far, that you will describe, is unacceptable and ultimately infuriating. It rips off not only the true beneficiaries, those who really need the relief assistance after a disaster; it obviously also rips off American taxpayers. And I just feel that we have to do everything we can to insist that FEMA and DHS prepare for the next disaster, not during but before it, so that they are ready to respond and offer relief and prevent the kind of waste, fraud, and abuse that we are going to hear about today.

With that, Senator Akaka, I am proud to yield to you for your opening statement, with thanks to the Chairman. She is very nonpartisan, but today, to allow two Democratic opening statements really is a first. [Laughter.]

Senator DAYTON. She would be hard pressed to find another Republican. [Laughter.]

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Senator Lieberman, for yielding to me, and thank you, Madam Chairman.

I want to commend you, Madam Chairman, and our Ranking Member for your diligence and your desire to understand why tens of thousands of people were left to fend for themselves in the aftermath of Hurricane Katrina and for the bipartisan manner in which you have conducted these many hearings. I really want to commend you for that and to tell you it is so good working with you.

I do have a longer statement that I ask be made part of the record.

Chairman COLLINS. Without objection.

Senator AKAKA. I would like to say, however, that GAO's ongoing audit of illegally claimed and received benefits highlights the need for adequate safeguards to deter fraudulent applications for benefits. And I wish to associate myself with the remarks of the Chairman and of our Ranking Member on this and other areas of these Katrina hearings.

But there is a larger, more systemic problem of major management challenges at the Department of Homeland Security. These led DHS Inspector General Skinner to include contract management and disaster response and recovery in his end-of-the-year report. For any agency that obligates tens of billions of dollars for relief and reconstruction, it is critical that there are sound procure-

ment practices, that there will be a trained acquisition workforce, that contractors are held accountable, and that discovery of fraudulent claims be handled quickly. DHS is the government's third largest agency, and it is wrong that there are no department-wide policies and procedures for procurement operations. We should examine if components within DHS, such as FEMA, should come under the authority of the Department's procurement office. I cannot help but wonder whether decentralization of procurement activities may have added to the array of contract abuses related to Hurricane Katrina.

Over 10 years ago, I introduced legislation to impose criminal penalties on those who conned Federal disaster victims as well as disaster victims who accepted Federal relief funds illegally in the aftermath of Hurricane Iniki, which devastated the island of Kauai in 1992. I think it may be a good time to revisit this idea.

What we do need is a more effective way to ensure that when the Federal Government is forced to expend millions and eventually billions of dollars in large relief and reconstruction projects, either at home or abroad, these funds are not wasted.

Thank you very much, Madam Chairman.

[The prepared statement of Senator Akaka follows:]

PREPARED STATEMENT OF SENATOR AKAKA

Thank you, Madam Chairman. Let me commend you and Senator Lieberman for your diligence and desire to understand why tens of thousands of people were left to fend for themselves in the aftermath of Katrina and for the bipartisan manner in which you have conducted these many hearings.

Hurricane Katrina is our Nation's worst natural disaster to date. Unfortunately, the damage inflicted by this single storm has been compounded by the actions of those who have benefited at the expense of the Federal Government and the victims.

As with any massive mobilization of government assets and funds, Hurricane Katrina offered substantial opportunities for contractor abuse and individual misuse of relief funds. The Government Accountability Office's (GAO) ongoing audit of illegally claimed and received benefits highlights the need for adequate safeguards to deter fraudulent applications for benefits.

There is, however, the larger, the more systemic problem of major management challenges at the Department of Homeland Security (DHS) that led DHS Inspector General Skinner to include: (1) contract management and (2) disaster response and recovery in his end-of-year report. For any agency that obligates tens of billions of dollars for relief and reconstruction, it is critical that there are sound procurement practices, that there be a trained acquisition workforce, that contractors are held accountable, and that discovery of fraudulent claims be handled quickly.

DHS is the government's third largest agency, and it is wrong that there are no department-wide policies and procedures for procurement operations. We should examine if components within DHS, such as the Federal Emergency Management Agency (FEMA), should come under the authority of the Department's procurement office.

DHS is working on these management shortfalls, but the longer that these deficiencies exist, the greater the opportunities for waste, fraud, and abuse. I cannot help but wonder whether decentralization of procurement activities may have added to the array of contract abuses related to Hurricane Katrina.

GAO's on-going audit confirms that the weaker the internal controls, the greater the probability of waste, fraud, and abuse in distributing Federal disaster relief. But, the inability of FEMA to validate the identity of claimants and confirm damaged addresses is an old problem.

In testimony before this Committee last May, Inspector General Skinner discussed his recommendations to strengthen FEMA's internal controls over the Individuals and Household Program, known as IHP. As we now know, FEMA did not take those actions because, just as with Hurricane Frances in 2004, FEMA failed to perform required damage assessments and verify identities. Addressing these de-

ficiencies is the responsibility of FEMA and, ultimately, the Department of Homeland Security's senior management.

Over 10 years ago, I introduced legislation to impose criminal penalties on those who conned Federal disaster victims, as well as disaster victims who accepted Federal relief funds illegally in the aftermath of Hurricane Iniki, which devastated the island of Kauai in 1992. I think it may be a good time to revisit this idea.

I also believe it is important that this Committee continue to investigate waste, fraud, and abuse wherever it occurs.

I appreciate the Chairman's intention to maintain a keen focus on the Katrina-related expenses. I should also mention that at the request of the Chairman, Senator Lieberman, and I, GAO is conducting a series of reviews of acquisition challenges within DHS.

I also have the pleasure of working with Senator Collins and Senator Lieberman on the Armed Services Committee, whose Readiness Subcommittee, on which I serve as Ranking Member, held a hearing last week on Iraqi reconstruction and contracting problems. In that hearing, the DOD Inspector General testified that more than half of the contracts paid for out of Iraqi funds and more than 20 percent of the contracts paid for out of U.S. funds failed to contain evidence that the goods or services paid for had ever been received.

The American taxpayer is spending billions of dollars both at home in the Gulf Coast and abroad, in Iraq and in Afghanistan, in relief and reconstruction. In both regions we are seeing evidence of substantial fraud and abuse.

In the case of Hurricane Katrina relief, the Department of Justice established a special task force because of concern that large sums of money were being dispensed quickly and there was a need to ensure that it got to the people who needed it the most.

Unfortunately, we have a similar problem in Iraq, although there we do not have a zero tolerance policy such as we have in the U.S. Gulf States, where the Justice Department is prosecuting fraud cases for as little as $2,000. Perhaps we need a similar approach in Iraq.

What we do need is a more effective way to ensure that when the Federal Government is forced to expend millions and eventually billions of dollars in large relief and reconstruction projects, either at home or abroad, those funds are not wasted. Today's hearing demonstrates that we do not yet have such a system.

There is no excuse for that failure. And I hope that the Committee will focus its attention following the conclusion of the Katrina investigation into similar problems elsewhere so that this Congress can assist the Executive Branch in doing a better job of preventing taxpayer funds from being wasted.

Thank you, Madam Chairman.

Chairman COLLINS. Thank you, Senator.

I would now like to welcome today's distinguished panel of witnesses. Greg Kutz is the Managing Director of Forensic Audits and Special Investigations Unit of the Government Accountability Office. Mr. Kutz has been with the GAO since 1991 and assumed his position as Managing Director in 2005. He is accompanied by Special Agent John Ryan, an Assistant Director of the Forensic Audits and Special Investigations Unit. I would note that this team is no stranger to this Committee. We have worked with both Mr. Kutz and Mr. Ryan on many different investigations, and once again, I am very impressed with the high quality of their work.

Richard Skinner is the Inspector General of the Department of Homeland Security and was confirmed by this Committee last year. He has been with the DHS IG's office since it was established in 2003. It is notable that he served in the IG's office at FEMA from 1991 to 2003, so he has a great familiarity with many of the programs that we are discussing today. He also testified as a key witness at our hearing last May.

Alice Fisher is the Assistant Attorney General for the Criminal Division of the U.S. Department of Justice and the Chair of the Hurricane Katrina Fraud Task Force. I am very impressed with the Justice Department stepping up to the plate this time since one of the findings of our previous hearings is that often fraud in the

assistance programs goes completely unpunished. And I hope we are seeing a change now.

Because this is part of our Katrina investigation, we are swearing in all witnesses, so I would ask that you stand and raise your right hand. Do you swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. KUTZ. I do.

Mr. RYAN. I do.

Mr. SKINNER. I do.

Ms. FISHER. I do.

Chairman COLLINS. Thank you.

We are going to violate protocol a little bit this morning, Ms. Fisher, which I hope you will bear with us just in the interest of telling the story, and we are going to begin with Mr. Kutz.

TESTIMONY OF GREGORY D. KUTZ,[1] MANAGING DIRECTOR, FORENSIC AUDITS AND SPECIAL INVESTIGATIONS, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, ACCOMPANIED BY JOHN J. RYAN, SPECIAL AGENT, FORENSIC AUDITS AND SPECIAL INVESTIGATIONS, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. KUTZ. Chairman Collins and Members of the Committee, thank you for the opportunity to discuss fraud and abuse related to Hurricanes Katrina and Rita. Our testimony relates to our work on the Individuals and Households Program. Our focus to date has been on expedited assistance payments. These $2,000 fast track payments are made prior to individuals providing any proof of loss. Through December, over $5 billion had been disbursed for this program. The bottom line of my testimony is that weak or nonexistent controls leave the government vulnerable to substantial fraud and abuse for this program.

My testimony has three parts: (1) fraud prevention controls, (2) indications of fraud and abuse, and (3) controls over the issuance of debit cards.

First, we found that FEMA did not validate any identity or damaged property address information for most disaster applications. Limited procedures were in place to validate identities for Internet applications. However, no validation was done for damaged property addresses.

We tested the Internet application process using bogus identities and were unable to successfully register. Those who failed the Internet verification process were instructed to apply by telephone. We then tested the telephone application process using falsified identities, bogus addresses, and fabricated disaster stories. However, this time we were successful and received several $2,000 expedited assistance payments.

The poster board shows one of the Treasury checks that we received from FEMA for our bogus applications.[2] As it turned out, FEMA did not validate any identity or damaged property address information for any telephone applications. As of December, 1.5

[1] The prepared statement of Mr. Kutz appears in the Appendix on page 41.
[2] The posters referenced by Mr. Kutz appear in the Appendix on page 110.

million, or about 60 percent of applications, were made by telephone.

The next poster board shows a picture of one of our bogus addresses in Louisiana. For this case, our registration was for an apartment on the 13th floor of this building. However, as you can clearly see from the picture, this is a two-story building.

Given the weak or nonexistent controls, it is not surprising that our data mining and investigations show the potential for substantial fraud and abuse. For example, 165 of the 250 registrations that we are investigating have potential misuse of Social Security numbers. This includes Social Security numbers that were never issued, that belonged to deceased individuals, or that belonged to someone else.

Further, our site visits confirmed that at least 80 of the damaged property addresses that we are investigating are bogus. Some of the criminal activity that we have identified includes fraudulent statements to the government, bank fraud, and Social Security fraud. These fraud case registrations were from New Orleans, Lake Charles, Beaumont, and Port Arthur. Let me discuss three of these case studies to give you a flavor for what we are finding.

The first case involves eight individuals who used 61 different Social Security numbers to receive $122,000. At least 25 of the damaged property addresses for this case are bogus. The poster board shows one of these addresses, which is a vacant lot in Louisiana.

In another case, 17 individuals used 36 different Social Security numbers to receive $103,000. Only two of the 36 Social Security numbers belonged to these individuals. At least 12 of the damaged addresses are bogus, including six in one apartment complex in New Orleans that I visited in January.

In another case, eight individuals used 30 different Social Security numbers to receive $92,000. Twenty-two of the properties for this case were in Texas. I visited Texas in January, and guess what? All 22 of these addresses are bogus.

The poster board shows where two of the properties were supposed to be. However, as you can see, there is nothing there but another vacant lot.

Our data mining shows that these fraud case studies are representative of a much broader problem. For example, we believe that thousands of individuals misused Social Security numbers. FEMA also clearly made payments to many individuals using bogus property addresses. It also appears that FEMA made tens of millions of dollars of duplicate $2,000 payments to identical registration numbers.

Chairman Collins, we don't know the extent of fraud and abuse in this program. However, as we progress with our work, we will attempt to project the extent of invalid claims for this program. Further, our case studies show that the fraud extends beyond the $2,000 expedited assistance payments. Note that for every fraudulent registration in FEMA's system, the individuals can receive up to $26,200.

Moving on to my third point, nearly 11,000 debit cards were handed out for disaster assistance at three relief centers in Texas. I have an example of one of these debit cards in my hand, which

the Chase Bank was kind enough to provide for today's hearing. This card could generally be used wherever MasterCard was accepted.

We found similar problems for debit cards that we found for other disaster assistance. Further, FEMA made duplicate expedited assistance payments to about 5,000 of the nearly 11,000 recipients of debit cards. In other words, these individuals received $2,000 debit cards and then subsequently received $2,000 checks or electonic funds transfer payments.

With respect to the use of debit cards, 63 percent of the money was withdrawn at ATM machines, and thus we cannot tell you how it was spent. The remainder was used primarily for food, clothing, and personal necessities. However, some cards were used for purposes that are inconsistent with the intent of disaster relief programs. For example, debit cards were used for adult entertainment, tattoos, bail bond services, and to pay for prior traffic violations.

In conclusion, we understand that FEMA was under great pressure to get money as quickly as possible to disaster victims. However, for every fraudulent disbursement made, there is a new, larger group of victims—American taxpayers. More needs to be done for future disasters to protect taxpayers from fraud and abuse for this program. Also, individuals who have committed fraud should pay the price for their crimes. Last week, we began referring our fraud cases to the Katrina Fraud Task Force. We believe that aggressive prosecution of these individuals will send a strong message that stealing disaster money from the Federal Government will not be tolerated.

Chairman Collins, this ends my statement. I look forward to your questions, and Special Agent Ryan is here also.

Chairman COLLINS. Thank you. Mr. Skinner.

TESTIMONY OF RICHARD L. SKINNER,[1] INSPECTOR GENERAL, U.S. DEPARTMENT OF HOMELAND SECURITY

Mr. SKINNER. Good morning. Chairman Collins, Ranking Member Lieberman, and Members of the Committee, thank you for having me here today.

Before I begin, I would like to recognize a few people, and that is, the talented and hard-working people, the men and women of FEMA, who have been assigned to the Gulf Coast. They have been working day and night for months on end, away from their homes and families, unselfishly assisting those communities devastated by Hurricanes Katrina, Rita, and Wilma to get those people back on their feet again. They need to be recognized and commended, not criticized and chastised as they have been, as I see each time I read the papers from the New Orleans area. Asking them to do better or to do more, well, it is like asking Hank Aaron to hit 755 home runs with a whiffle ball bat. Without the right tools, it is an impossible task. The dedicated FEMA employees who are assigned to the Gulf Coast are doing the best they can with the tools they have been given.

Now, let me begin my remarks with a brief overview of what we are working on in our future oversight efforts, and then I would

[1] The prepared statement of Mr. Skinner appears in the Appendix on page 67.

like to talk briefly about some of the issues that are giving us some concern.

Given the extent of damages caused by Hurricanes Katrina, Rita, and Wilma and the cost to the Federal taxpayer to assist the affected States to recover from those damages, the necessity for oversight is obvious. Recognizing the need to protect taxpayer dollars, the Inspector General community, as you know, initiated what is the most aggressive, coordinated oversight effort in its history. I have been coordinating this initiative through the Homeland Security Roundtable of the President's Council on Integrity and Efficiency. I am pleased to report that Inspector General representatives from all the Federal agencies with hurricane relief responsibilities have been working tirelessly to ensure that agency internal controls are in place; agency stewardship plans for hurricane relief activities are in place and operating as intended; we are also exercising or executing our hurricane relief oversight efforts in a coordinated fashion so that our resources are utilized as efficiently and effectively as possible; and, finally, we are also working very closely with the Department of Justice Hurricane Katrina Task Force.

Incidentally, I would like to say that without the commitment and support of the Department of Justice Hurricane Katrina Task Force, which is led by Attorney General Alice Fisher, who is sitting next to me today, we would not be enjoying the level of success that we are now having to detect, prevent, and prosecute Hurricane Katrina fraud. All in all, the efforts of the Inspector General community are commendable, and I am proud and honored to be part of that outstanding group of professionals.

I have also created, as you know, a separate oversight office just for Gulf Coast hurricane recovery, which is headed by a Special Inspector General who reports directly to me. The Special IG's office allows us to stay current on all disaster relief operations, provide on-the-spot advice on internal controls and precedent-setting decisions, and plan for and implement a series of audits, inspections, and special reviews of FEMA's programs and operations relating to the Gulf Coast hurricanes.

For example, that office currently has reviews underway addressing sheltering and transitional housing issues, contract management, property management, the Individuals and Households Program, and management of mission assignments. In addition, that office plans to initiate soon a review of FEMA's Mitigation Program, the National Flood Insurance Program, the Public Assistance Program, and the Volunteer Recruitment Program. We are also wrapping up a special study that addressed FEMA's performance in response to Hurricane Katrina. We expect to have that report to you very soon.

Today, I will focus my remarks on two of the reviews that we now have underway: Housing and contract management. I would like to emphasize, however, that our reviews in these areas are still in process. Much work remains to be done, and many questions remain unanswered.

First, regarding housing, we are learning that the difficulties experienced by FEMA, finding adequate housing for those left homeless as a result of Hurricane Katrina, can be linked directly to

weaknesses in preparedness, planning, communication, and coordination. To compound matters, the breadth of States to which victims were evacuated is unprecedented. As you can see from this map, literally every State is being impacted by this disaster as evacuees are being housed across the country.[1] To date, more than 5 months after Hurricane Katrina made landfall, more than 60,000 evacuees have yet to be placed into FEMA's Temporary Housing Program.

FEMA introduced a relatively new concept to address housing needs called the Housing Area Command. The Housing Area Command, which had never been tested to any large extent, was charged with the task of coordinating and overseeing housing solutions throughout the affected area where several Joint Field Offices had been established. It was not intended to be an operational element. The housing functions were to remain within the JFO, that is, the Joint Field Offices. FEMA's housing strategy involved using shelters, hotels, cruise ships, and tents to address immediate housing needs of disaster victims. It then would transition those victims to travel trailers and mobile homes and finally to apartments to address longer-term housing needs.

Unfortunately, this traditional approach of providing housing was not suitable for an event as large as Hurricane Katrina. Some components of FEMA's housing strategy were not well planned or coordinated, while other components were not as effective or as efficient as FEMA had anticipated. Most noteworthy is the confusion that existed between the Housing Area Command, FEMA headquarters, and the JFOs. Some FEMA officials viewed the Housing Area Command as becoming an operational element working parallel to JFO operations, while others viewed it as working in disregard of housing resource needs requested by the JFOs.

Essentially, the authority and responsibilities of the Housing Area Command in the chain of command relationship with FEMA headquarters, JFOs, and housing contractors were foggy, at best. Consequently, housing decisions made by the Housing Area Command were often made in a vacuum, without appropriate coordination and input from the JFOs, causing confusion and most likely wasteful spending.

For example, it appears that FEMA may have purchased unneeded or unusable mobile homes and manufactured homes. It is still unclear as to how this decision was made. However, we determined that FEMA purchased nearly 25,000 manufactured homes at a cost of $857 million and around 1,300 modular homes at a cost of $40 million.

As seen in this aerial photo,[2] almost 11,000 of those manufactured homes are sitting on runways in the open fields in Hope, Arkansas. Since they were not properly stored, as you can see from this second picture, the homes are sinking in the mud, and their frames are bending from sitting on trailers with no support. Insofar as many of these homes failed to meet FEMA specification requirements or FEMA has no qualified, prearranged site location to place them, they may have to be disposed of.

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[1] The map referenced by Mr. Skinner appears in the Appendix on page 122.
[2] The photos referenced by Mr. Skinner appear in the Appendix on pages 123–124.

With regard to contract management, as government agencies rushed to meet requirements in the immediate aftermath of Katrina, they used expedited contracting methods as authorized in the Federal Acquisition Regulations. While we have found many instances where contractors performed their work efficiently and in good faith, we have also found instances where there are problems. For example, we are finding contract taskings without the knowledge of the contracting officers' technical rep; contracts with firms with no experience; poor invoice acceptance procedures, that is, paying contractors the full contract price before the period of performance was complete; firm fixed-price contracts with cost reimbursement-type invoicing, and the subsequent payment of invoices with both firm fixed-price and cost reimbursement-type charges.

And we found cases where FEMA accepted and paid for flawed goods and property. For example, FEMA accepted and paid for at least 21 damaged travel trailers that cannot be used for housing and should have been returned to the contractor. To make matters worse, as you can see from this photo, they are using the parts from the damaged trailers to equip other trailers that were delivered, accepted, and paid for without all the required parts.[1] These, too, should have been returned to the vendor.

We are finding contracts with poor statements of work, poor specifications, and unknown terms, conditions, and deliverables. Because FEMA did not always articulate its specifications for mobile homes, for example, many expensive, luxury-style mobile homes were delivered, accepted, and paid for by FEMA. Then to ensure consistency among the mobile homes being delivered to evacuees, FEMA would cannibalize the luxury mobile homes of such amenities as TVs, microwaves, and dishwashers. To date, we have been unable to locate the cannibalized parts or how they were disposed of.

Finally, we are finding contracts with no incentives for contractors to control costs. For example, as you can see from this chart,[2] the FEMA contractor responsible for finding hotel rooms for evacuees paid a hotel in New York City its published rate of $438 per night. Another facility in Panama City, Florida, charged between $330 and $375 per night for beachfront condominiums. A hotel in downtown Chicago charged up to $399 per night.

We also found cases of apparent price gauging. For example, a hotel in Chicago was charging $391 per night per room for evacuees, yet its published or advertised rate was only $249 per night per room. In another case in Ontario, California, the hotel charged evacuees $199 per night per room, yet its published rate was only $72 per night per room. These are just two of the many examples that we have found to date. Unfortunately, due to the terms of FEMA's contract with the firm responsible for hotel rooms, the government may not have or may have little recourse to recoup these excessive charges.

I can see my time is starting to run out, so I would just like to leave you with a few words.

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[1] The photo referenced by Mr. Skinner appears in the Appendix on page 126.
[2] The chart referenced by Mr. Skinner appears in the Appendix on page 127.

First, we can all agree that Hurricane Katrina has been a catastrophic event beyond anything in recent experience, and we will debate its lessons and calculate its total monetary and economic impact for many years to come. The bottom line, however, notwithstanding the overwhelming effects of Hurricane Katrina, it does not mitigate our fiduciary obligations as stewards of public dollars. That is why our oversight efforts are focused on the prevention of fraud, waste, and abuse, but we also hope to provide lessons for future disasters. I believe that collectively the Inspector Generals are uniquely qualified and positioned to provide the most timely and effective oversight of hurricane relief activities in the Gulf Coast, and you can be sure that we will do so.

Chairman Collins, Members of the Committee, that concludes my remarks. I will be happy to answer any questions.

Chairman COLLINS. Thank you very much for your excellent testimony. Assistant Attorney General Fisher.

TESTIMONY OF ALICE S. FISHER,[1] ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION, AND CHAIRMAN, HURRICANE KATRINA FRAUD TASK FORCE, U.S. DEPARTMENT OF JUSTICE

Ms. FISHER. Thank you, Chairman Collins, Senator Lieberman, and other distinguished Members of the Committee. Thank you for inviting me to testify today and also thank you for having this hearing. It's my belief that having this hearing will act as a further deterrent on those who would intend to commit fraud, and it helps us to get our message out that we won't tolerate it. So I thank you for doing that and thank you for having me here.

When Hurricane Katrina hit, it brought an outpouring of donations from across America and across the globe to the victims of the hurricane. We knew that the government would have to send money quickly and in record amounts, and we wanted to protect the integrity of that money. So the Attorney General established the Hurricane Katrina Fraud Task Force on September 8, with one goal in mind: To make sure that relief money makes it into the hands of the victims and not to the pockets of fraudsters.

We must try to deter fraud by anticipating problems, coordinating, learning from patterns, and we must prosecute the wrongdoers. Every dollar lost to fraud is a dollar that does not make it into the hands of the people that deserve it—the victims of the hurricane and those that are struggling to rebuild their communities and their lives.

I immediately reached out to my counterparts inside the Department of Justice and throughout the Federal Government, pulled us in a room together to discuss our goals and to discuss our mission. I was overwhelmed by the commitment, the dedication and support I received from across the government—the Federal law enforcement community, including the FBI, Secret Service, IRS, the U.S. Attorneys; the Federal Inspector General community, too many, too numerous to mention all here today, but including Mr. Skinner from DHS, Department of Defense, Department of Housing, HHS, Social Security, and a host of others; Federal regulators such as the

[1] The prepared statement of Ms. Fisher appears in the Appendix on page 85.

FTC and the SEC; State and local partners through the National Association of Attorneys General and the National District Attorneys Association; and partners such as the American Red Cross.

We got together into that room and talked about the mission, and every agency was energized and standing behind it. We have been working hand in hand from that day forward.

The task force has made it clear from the start we will have zero tolerance for fraud in a time of disaster, whether it is benefit fraud, charity fraud, insurance fraud, identity theft, or public corruption. We are determined to prosecute criminal activity to the fullest extent of the law.

In no time at all did we see people trying to rip money out of the hands of the victims. For example, in Miami, a man set up a website. He called it AirKatrina.com, and on this website it said, "Donate money here. I am going to fly a plane into the Gulf region with humanitarian relief, and I will fly out sick children."

That was not true. That was a fraud. I am pleased to report that this man is now convicted.

We went on the offensive with the websites. The FBI and the Secret Service scoured the Internet for false charity websites and shut down 44 of them. The Secret Service shut down six so-called phishing websites that were only there to harvest information about the donors and steal their identity.

In another example, we saw temporary contract employees out in California who were working at a Red Cross call center engage in a conspiracy where they would accept fraudulent FEMA assistance applications and send their co-conspirators out to the nearby Western Union to pick up the cash. So far, 53 individuals have been prosecuted for that fraud in California.

We brought our first prosecution within weeks after the Hurricane Katrina Fraud Task Force was set up, and since that date, we have prosecuted 212 individuals in over 23 judicial districts across the Nation. We have convicted 40 of them, but our work continues and will continue for the long haul.

It is also particularly disturbing, as you mentioned, Chairman Collins, when public officials try to use their position of trust to make money off the disaster through corrupt means. We have brought criminal charges in three separate cases of public corruption—two involving FEMA officials and one involving a councilman in Louisiana.

As an example of this, about 10 days ago, two FEMA employees were indicted in the Eastern District of Louisiana for soliciting bribes from a contractor. The public officials asked the contractor to inflate his charges for meals pursuant to a government contract and provided a road map to the contractor on how to do it. Those public officials asked for a $10,000 up-front cut and a $2,500-a-week payment after that. The contractor turned them in. That contractor chose not to engage in the fraud. We want to make that decision easy for everyone. We want to hear those tips. We want people to come in and tell us because we will prosecute those cases, we will investigate them, and we will fine them. The people displaced by the Gulf Coast hurricanes have lost enough. They do not need to lose even more to criminals and fraudsters.

By going on the offensive and attacking this problem so forcefully, our plan was to deter people from committing frauds in the first place, and I am optimistic that our prosecutions are having some effect. FEMA and Red Cross have reported to me that over $8 million in assistance has been returned.

I don't know how much of that is because of our prosecutions and deterrents, but there are signs that some of it is. We have received returned assistance checks anonymously. Some people return only partial funds and ask for a payment plan to repay the rest. Others have simply acknowledged in returning the funds that they took it wrongfully.

We have engaged in other efforts at deterrence, setting up tip lines, websites, advertising of warning about fraud schemes, distributing pamphlets on how to protect yourself from identity theft. We publicized the criminal prosecutions in furtherance of deterrence. Senate hearings, as I said, such as this help get that message out.

I cannot underscore enough that none of this could have been possible without the support of all of the task force members. One of the most visible examples of this cooperation is at the Joint Command Center that we have set up in Baton Rouge, Louisiana. At this Command Center, we have IG agents, FBI, Secret Service, and others working hand in hand every day, sharing information from their databases, sharing information about investigations, talking about patterns that they are seeing, talking about analysis of things to prevent future fraud.

LSU gave us the space, and their assistance has been unwavering. Men and women from the Department of Justice went down there with supplies in hand, from computers to staplers, to set this up. The FBI has been so supportive. The U.S. Attorney from New Orleans, Jim Letten, provided leadership in the early days of the Command Center, did this while battling the loss of his city and looking for his unaccounted-for staff and dealing with a colossal law enforcement crisis. Rick Skinner and all his fellow IGs have added analysts and resources down to the Command Center to work on investigations.

It is working. Every day it is making new strides and improving information sharing, and it is moving under new heights under our Executive Director, U.S. Attorney Dave Dugas, from the Middle District of Louisiana. This Command Center will be critical to our long-term efforts to protect the money going out to the Gulf Coast region.

Benefit fraud cheats the victims. Fraud in the rebuilding process cheats the taxpayers of hard-earned money. It also delays and cheats the rebuilding effort itself. The task force is committed to its mission to combat fraud for as long as it takes. I am so honored to work with everybody on the task force, and I look forward to any questions that you may have.

Chairman COLLINS. Thank you very much for your testimony.

Inspector General Skinner, I am going to start my questions with you. You stated that FEMA purchased mobile homes valued in total at more than $850 million that, by FEMA's own regulations, could not be installed in most of the affected area. Some of the mo-

bile homes did not even meet FEMA's specifications. Others were unsuitable for installation in a floodplain.

This is an enormous amount of money, but it also is a source of enormous frustration, as we heard when we visited the Gulf region where you have residents who are desperate for housing. And yet here we have all of these mobile homes sitting unused and unable to be used.

My question for you is a basic one: How did this happen?

Mr. SKINNER. Essentially, it is because FEMA did not have a plan in place to react to the massive requirements that they had for housing. That coupled with the fact that they were experimenting with or used for the very first time a Housing Area Command that has never been used for anything as great as this before. There was lack of communication. There was lack of coordination with the Housing Area Command and the individual housing components within the individual Joint Field Offices, not only in Louisiana but also in Mississippi and Alabama.

FEMA reacted. They knew they needed housing. But they did not coordinate their efforts in a strategic manner, that is, defining how they were going to provide that housing, how much housing was needed, and where it was needed. They had not coordinated with the locals to find out where they could place the trailers, manufactured homes, or modular homes. They bought first, then tried to fit their inventory into their decisionmaking processes. As a result, they may have certain types of housing, like manufactured homes and modular homes, that they will not be able to use. Instead, they may need to buy more trailers, which leaves them with a large inventory of modular housing that is very costly and that may not be used. And, as we speak, FEMA is developing some type of strategy, which we have not seen, as to how they want to dispose of these units. They may use them for future disasters or dispose of them by donating them to GSA for use by other Federal agencies that may have housing requirements, or they may just sell them.

Chairman COLLINS. If they are sold as surplus property, what kind of return can you expect on that?

Mr. SKINNER. I can only speculate, but it is certainly not going to be very high, and the reason for that is they have been sitting exposed to the elements for months. Some of the trailers that we inspected are actually warping and have lost wheels. And some have been cannibalized, parts taken out, and we don't even know where the parts are right now. So their value is going to decrease tremendously.

Chairman COLLINS. So they have been allowed to deteriorate, but also, from my experience with the government selling surplus property, it seems that oftentimes the government only gets pennies on the dollar. Is that a fair assessment?

Mr. SKINNER. Absolutely, and FEMA has experience in reselling used trailers. It is my understanding they will refurbish a trailer once, but the second time that it is used, they will put it up for sale, and they literally only get pennies on the dollar.

Chairman COLLINS. Mr. Kutz, I was struck by your testimony that it appeared if someone applied for help via the Internet, that FEMA officials had instituted procedures for verifying identities and Social Security numbers. But if that individual applied over

the telephone, there were no such verification steps taken. Is that accurate?

Mr. KUTZ. That's correct.

Chairman COLLINS. And did you actually find cases where people were turned down when they applied via the Internet because the Social Security number may have been bogus or the identity couldn't be verified and then they were able to get the assistance by using the toll-free number?

Mr. KUTZ. Yes. The cases that we did, the bogus cases GAO did in our covert operation, in fact, that is what happened. We don't know how many other cases that happened because no one kept track of the rejected Social Security numbers and identities from the Internet application, or at least we haven't been given any support for that. We asked for that several months ago, and we haven't gotten it. So we believe that no one kept track of that.

So, really, the Internet, although it was a control, it was not an effective control because if you just were told to call on the telephone and they didn't keep track of who was rejected on the Internet, it was really not an effective process.

Chairman COLLINS. It just is amazing to me that FEMA would have pretty good controls on the Internet, nonexistent controls on the telephone system, and then refer people who had been rejected by the Internet to apply on a system that had no such controls.

Did FEMA have any explanation for why there weren't controls for the telephone registrations?

Mr. KUTZ. They claimed that they had a system change request in place back in August 2005. We have been provided no support for that. They also claimed at one point that they didn't have funding to do it, and, again, we have been provided no support for that. So we really don't know the reason, but this has been something that should have been done years ago. I would call this "Fraud Prevention 101," and I don't think they have gotten into the 101 course at this point.

So, validating identities and damaged property address information before someone gets in the system is the building of what we call the foundation of information upon which you have got this whole program to build on.

Chairman COLLINS. It does not seem like rocket science to verify an individual's identity, Social Security number, and address before cutting a check.

Mr. KUTZ. Correct. Agreed.

Chairman COLLINS. Mr. Ryan, I want to talk with you further about the Social Security numbers that you found because I was struck on your charts by the number of individuals who used multiple Social Security numbers.

GAO's testimony has indicated that 165 of the 248 fraudulent registrations that you are investigating did involve the misuse of Social Security numbers. Can you give us some examples of the ways in which Social Security numbers were misused?

Mr. RYAN. Yes, Senator. A Social Security number is a unique number. It is provided by the Social Security Administration. It is identified to a particular individual.

What happens in this particular case is that someone will take a chance, make up a series of numbers, and claim it is their Social

Security number. If you do not validate that number against the authenticator, then you have a possibility of a misuse of a Social Security number.

In the cases that we are investigating, that is one of the main themes that we have seen, is the misuse of the Social Security number.

Chairman COLLINS. Were there Social Security numbers used that belonged to people who are no longer living?

Mr. RYAN. Yes. We were able to take the database of Social Security numbers and work very closely with the Social Security IG, who was very helpful to us. In that particular case, we were able to run the Social Security numbers against their system, and we were able to determine that there was a series of numbers that were linked to individuals and dates of birth that were already recorded in the Social Security Administration's death files.

Mr. KUTZ. There were about a thousand of those, Senator, that were deceased.

Chairman COLLINS. A thousand.

Mr. KUTZ. About a thousand, yes.

Chairman COLLINS. That actually is a good lead-in to my next question. You used data-mining techniques to identify some of these cases. Do you think that the data mining you did indicates the scope of the problem? Or do you think it is likely much beyond the cases that you have identified?

Mr. KUTZ. It is certainly beyond the cases we have identified. We cannot quantify it. We want to be able to do that down the road, and we would hope to be able to report back to the Congress in aggregate. But certainly in addition to the thousand or so deceased individuals' Social Security numbers, there were about a thousand other Social Security numbers that had never been issued by the Social Security Administration. So those are pretty much slam-dunk cases.

There is also tens of thousands of other mismatches where the name, date of birth, and Social Security number do not match, and within our fraud cases, we did see instances where those, in fact, were specific frauds of misuse of Social Security numbers. So the potential is certainly thousands and thousands of—and that is just Social Security misuse. That doesn't include bogus property addresses or identity theft or all the other types of fraud that you likely have in this program.

Chairman COLLINS. The lack of these basic controls seems to be an invitation to massive fraud, and I just am at a loss to understand why these basic safeguards were not built into the system.

Mr. KUTZ. Mr. Skinner could probably comment, too, because he has a longer history with this, but I don't really believe FEMA believes it is their purpose to have fraud prevention. That is why they haven't got to Fraud Prevention 101 yet because they haven't looked on that as a purpose.

I would say that they have been very open to our discussions with them on doing some of the things we have talked about. It is just a matter of actually going out and getting it done. And even with respect to using the Social Security Administration to help them with this, as Special Agent Ryan said, those are the people who issue the Social Security numbers. It is surprising to us that

they had not been in contact with and working directly with the Social Security Administration years ago to figure out a way to use government information to identify individuals.

Chairman COLLINS. Thank you. Senator Lieberman.

Senator LIEBERMAN. Thanks to all of you. I don't know about my fellow Committee Members or people watching on television, but I think we need some of that medication that reduces blood pressure. [Laughter.]

As we listen to what you have said because it really is infuriating.

I must say, in response to your last statement, Mr. Kutz, which is that FEMA has not viewed its role as fraud prevention but as support extension, there is just no excuse for that because as Senator Collins said, just last year FEMA should have been embarrassed greatly by the stories of waste, fraud, and abuse that were coming out of Florida after the hurricanes there. We conducted an investigation. We held a hearing. We sent those 19 recommendations for fraud prevention, so they were really on notice. This is double notice. It is long past time for FEMA to understand that if we are going to sustain public support for the relief that we all want to give our fellow Americans when they are hit by a disaster, they have to consider fraud prevention part of their emergency management charge.

I am going to direct this question to you, Mr. Kutz—I understand that you do not have a precise estimate, but is it possible to estimate the upper range of dollars of total fraud under the expedited assistance program?

Mr. KUTZ. No, not really. I mean, it certainly is millions of dollars, could be tens or hundreds of millions. It is difficult to tell. Again, we would hope to be able to report back to you later this year some sort of a range based on a statistical sample of what that might be. But certainly tens to hundreds of millions is possible given what we have seen.

Senator LIEBERMAN. OK. Give us, to the best of your ability, some sense of what the profile is here of those engaging in Katrina-related fraud. Are these professional criminals and con artists? Or are they people who may have been entitled to benefits under the relief program because of Katrina and when they saw how easy it was, they just decided to cash in? Or is it something else? Who are these people?

Mr. KUTZ. For the fraud cases we looked at, some of the individuals had actually lived in the disaster area at some point in time. Most of them had not lived there when the hurricane hit.

Senator LIEBERMAN. So they were just people out across America who decided that they would try to figure out how to rip off the system.

Mr. KUTZ. I wouldn't say across America. I would say primarily in places like Texas, Georgia, Alabama, so on the outskirts of the disaster area. That is where we believe many of the crimes are taking place. But some of the indictments that they have had that we have read that Ms. Fisher talked about are all over the country, actually.

Senator LIEBERMAN. But since most of this is over the phone, at least for the assistance, you could be anywhere and make the calls, so long as your number was blocked.

Mr. KUTZ. We did it from Washington, DC.

Senator LIEBERMAN. Yes, exactly.

Let me next ask you about this Internet-phone question that is so interesting, and maybe you have answered it already, but it is puzzling to me as to why FEMA could not train the people on the other end of the phone to impose the same requirements that the Internet was imposing. Do you know what I mean?

Mr. KUTZ. Yes. They could have. The technology is there. Actually, it is probably easier to do on the phone because based on our covert operations, the phone applications took anywhere from 15 to 40 minutes to do, so you would have had plenty of time to type in a Social Security number, send it to the contractor, and get a yes or no as to whether it was a valid Social Security number. So there really is no excuse why they didn't do it.

Senator LIEBERMAN. Let me ask this question: I had been under the impression—my staff had, too—that there may not be a formal information-sharing agreement between FEMA and the Social Security Administration. Is that correct?

Mr. KUTZ. That's correct.

Senator LIEBERMAN. So in the cases where they checked the Social Security numbers, how did they do that?

Mr. KUTZ. They used a company called ChoicePoint.

Senator LIEBERMAN. Ah, got you.

Mr. KUTZ. They had a contract in place I believe before the hurricanes hit with ChoicePoint that was implemented immediately.

Senator LIEBERMAN. Is there any reason from your point of view at GAO why that would be preferable to having a direct information-sharing program? Or is there no difference really?

Mr. KUTZ. Well, I think that the Social Security information may be more up-to-date and current. We did see that there were 60 Social Security numbers that were registered by Internet that were not valid Social Security numbers. So the Internet process is not foolproof either. And what happened, Senator, is I believe people before the disaster probably created fictitious identities using bogus Social Security numbers by opening up a credit card or something. And so in the credit information that ChoicePoint was probably using to validate, these people appeared to be real individuals.

Senator LIEBERMAN. So they had set up a kind of fraudulent foundation to use that fake Social Security number somewhere, since they did it before Katrina struck. Is that what you are saying?

Mr. KUTZ. Yes. That's correct. And, again, I think ChoicePoint periodically validates their information against Social Security records.

Senator LIEBERMAN. Right.

Mr. KUTZ. But they were validating, we believe, against credit headers or credit histories from credit reports.

Senator LIEBERMAN. Mr. Kutz, am I correct to say that you are not arguing—or are you—that the expedited assistance program should be ended or dramatically altered? You are saying that there

ought to be more fraud prevention in the carrying out of that program.

Mr. KUTZ. That's correct. We are not arguing that the program should be ended or that the debit card was necessarily bad either. It is really a management issue, Senator.

Senator LIEBERMAN. Correct.

Mr. Skinner, thank you for what you said. Like Senator Collins, I am shocked by the story of these thousands of manufactured homes purchased with no apparent purpose or utility, which are now allowed to begin to deteriorate in that open area, the floodplain in Hope, Arkansas. These trailers are going to take the place of those very expensive toilet seats that we remember from Pentagon days. It is really absolutely unbelievable and unacceptable.

Did I hear you correctly that if we ask you how this happened, you would put the blame more on poor management within the Federal Government and FEMA, rather than in this case on poor performance by the government contractors who were hired to do this?

Mr. SKINNER. Yes, that's correct. The contractors were only reacting to what FEMA asked for.

Senator LIEBERMAN. Yes. What about the decision to leave the manufactured homes in an area where they now are rapidly beginning to deteriorate? Who was responsible for that?

Mr. SKINNER. Those are the questions we are still trying to find answers to. We do know that we are talking about 25,000 modular homes. About 11,000 are in Hope, Arkansas. Others are scattered throughout the Southeast and Southwest. For those in Hope, Arkansas, they were put there because, I think, it was a former military base and, therefore, they could enter into some type of an agreement with the military, or whoever was the custodian of the property.

Senator LIEBERMAN. So let me get this clear: The 25,000 manufactured homes that were bought, how many are actually being used?

Mr. SKINNER. We think about 200 have been deployed to house——

Senator LIEBERMAN. Two hundred out of the 25,000?

Mr. SKINNER. About 2,200. I am sorry, about 1,200. Two hundred had been deployed to help those that were affected by the recent fires in Oklahoma and Texas.

Senator LIEBERMAN. Yes. Not Katrina.

Mr. SKINNER. Not Katrina.

Senator LIEBERMAN. Right.

Mr. SKINNER. And about 1,000 had been deployed in Alabama, Mississippi, and Louisiana in the non-floodplain areas.

Senator LIEBERMAN. Right.

Mr. SKINNER. So I am going to say about 1,200 to date.

Senator LIEBERMAN. And just state again for the record why these 25,000 homes, purchased at a cost of $850 million, roughly, have not been able to be used to satisfy the continuing need for housing by Katrina victims.

Mr. SKINNER. There are several reasons that we have been given. One is that they cannot be placed in floodplains because that is a violation of the floodplain regulations.

Senator LIEBERMAN. In other words, if you were going to move them into New Orleans or large parts of Mississippi, which was going to be one of the purposes, to let people move back close to where they had previously lived, you couldn't do it because they are floodplains.

Mr. SKINNER. That's correct. Second, they were purchased before they had coordinated with the State and local officials as to where they could be placed. Many of the officials, for example, in Alabama—and as you have read in the paper, many places in New Orleans as well—do not want to have trailer parks.

Senator LIEBERMAN. Yes.

Mr. SKINNER. So they don't have a place to put them, even if it was outside the flood zone.

Senator LIEBERMAN. This is just such basic stuff. It goes back to preparation. It goes back to just plain common sense to have been ready—incidentally, as we found over and over and as you know, the predictions of a hurricane like this go back decades and the effect it would have on New Orleans. A year before, there was a mock exercise saying that about 100,000 people would not be able to evacuate in time. Of course, many that were able to evacuate would need emergency housing to come back. And it looks like there was effectively no sensible planning ahead of time to meet those housing needs. And the result is a disastrous and infuriating waste of public money.

Mr. SKINNER. Yes, it is very disturbing, and everyone keeps referring to exercise Pam, which goes back one year.

Senator LIEBERMAN. Right.

Mr. SKINNER. But I would suggest that FEMA and the Federal Government and the State of Louisiana and the City of New Orleans knew about this 20 years ago.

Senator LIEBERMAN. You are right.

Mr. SKINNER. These analyses are not new. These exercises and the results, the information that we garnered from these exercises is not new. It is not something we just learned a year ago. We have known about this for 20 or 30 years, if not longer.

Senator LIEBERMAN. Absolutely right. Thank you. My time is up.

Chairman COLLINS. Thank you. Senator Akaka, Senator Dayton has indicated that he would like you to go next. And it sounds like you are going to defer back to him.

OPENING STATEMENT OF SENATOR DAYTON

Senator DAYTON. All right. Thank you, Madam Chairman. Sorry for the confusion.

Mr. Skinner, I cannot accept your Hank Aaron analogy because this is what FEMA does. It is like saying that the last place team in the league, using your baseball analogy, with a horrendous record deserves credit because its players showed up for the 162 games of the season. That is what they get paid to do. The National Transportation Safety Board gets—they sign up, they build their careers to show up, so I appreciate what they do, but I don't think they deserve special recognition for showing up at the site of airplane disasters. This is what FEMA does.

I think the disaster—we have a continuing disaster, and that is FEMA. I think I have reached a point where I almost say we ought

to just dispense with FEMA, just start all over again, because it would be one thing if these kinds of failures occurred in the immediate aftermath of what we all agree is an overwhelming disaster, unprecedented disaster. But this is continuing today.

Last week's *Washington Post* says—just reading some of it, the story is about Limbo Land. "Vast sections of the city are still without utilities. Without electricity, businesses cannot open their doors. Without open businesses, electric bills cannot be paid. Of an estimated 50 million cubic yards of hurricane and flood debris, about 6 million has been picked up, the city's website reported."

"And everyone is waiting for the FEMA maps like they were oracles at Delphi. The maps will tell residents and businesses where and how they can rebuild."

"Preliminary FEMA maps are scheduled to come out in the spring, but final Federal guidelines for rebuilding may not be released until August, when New Orleans will already be several weeks into the hurricane season. 'People are afraid to do the wrong thing, to put money into a home that may or may not be insurable in the long run, and this is causing a tremendous amount of paralysis,'" the local official said.

Madam Chairman, I would like to submit into the record a memo I received over the weekend from my staff.[1] The City of Roseau, which was flooded in June 2002—on February 3, 2006, an appeal to Region V of FEMA for—this is about a $500,000 project for an alternate project request. It took 3 years to get that request processed for $500,000 as an alternate project in a recovery from a flood that devastated that city, and they were turned down. Now they have to go through an appeals process.

This is a scale that is not New Orleans, but it is devastating to Roseau. But this is just part and parcel to me of how it operates, and there are no consequences. Mr. Brown has left. But I am glad you are prosecuting those who are guilty of criminal acts. But the kind of incompetence that buys these mobile homes and yet, Mr. Skinner, you say it is unclear how the decision was made. So nobody is responsible then. It is unclear why the contractor can overcharge, can't function. Presumably that is what the contractor is hired to do, to parcel a contract for room rates around the area. And I think we should get—I would request, Madam Chairman, a list of the hotels, the names of the hotels who gouged the American people because I consider that to be an unpatriotic act, especially in the context of what is going on. And let's put those names up on that bulletin board there. I think people should be held accountable. I would like the name of the contractor who can't buy room rates at less than $496, or whatever it is, in New York or $396 in Chicago.

But this stuff goes on, and then we have another report, we have another GAO audit. I am glad we are prosecuting those. But nothing fundamentally changes because this organization, which is set up to respond to emergencies, isn't responding. Let's put the National Guard in charge. Dispense with FEMA for a year or so and just start from the ground up and see if you can put together an agency. And I agree with you, there are some good people. I saw

[1] The memo and letter submitted by Senator Dayton appear in the Appendix on page 108.

that in Roseau, Minnesota. I saw that in East Grand Forks in 1997. But they are so snarled in their bureaucratic entanglements that the good people cannot act, they cannot make decisions, they cannot give approvals for things. I guess when they do give approvals for things, then often those are fraudulent.

So I just throw up my hands and say somebody who can—but there is never any consequence in the Federal Government for anything that just goes fundamentally wrong. And given your efforts, Madam Chairman—and I commend you for them, in the aftermath of previous hurricanes, to get this agency responsible and ready to respond to, yes, a catastrophe, but it is in the business of responding to catastrophes. And if it cannot do it, if what we heard the other day down in Mississippi and in New Orleans about the views of the public down there who are in critical situations to FEMA, then it doesn't have the public trust, in my view, to be able to continue to function.

Mr. Kutz, I would like to ask you, What is your estimated loss rate for these fraudulent claims? Not the ones where they took the $2,000 and you cannot determine what they spent it on, but what is the loss rate for those that are—of all the emergency claims processed? Can you approximate that?

Mr. KUTZ. Not yet. We are trying to look at that.

Senator DAYTON. Are we talking 5 percent? Fifty percent? What is the ballpark?

Mr. KUTZ. I don't know. We are going to hope to report that back to you later this year. We are going to try to project that.

Senator DAYTON. Well, if you sampled enough—you have these examples of horrendous situations. Is that the norm or is that the exception?

Mr. KUTZ. Presumably most of the people that applied for disasters were, in fact, entitled, so hopefully it is the exception. And, again, I would anticipate tens or hundreds of millions of dollars we are talking about, but we don't know for sure.

Senator DAYTON. But a State auditor—I am not a professional auditor—but you can go back and based on a sampling make a projection——

Mr. KUTZ. That is what we plan to do, yes.

Senator DAYTON. By the end of the year? This is February, right?

Mr. KUTZ. Before the end of the year.

Senator DAYTON. Before next December? It is going to take you that long to do a sample?

Mr. KUTZ. No, we will have it done probably this summer.

Senator DAYTON. Probably. So is that probably, what, 6 months from now? How long does it take to do a sample?

Mr. KUTZ. Well, it depends. It is difficult because we are going to have to try to validate everything, including whether people had insurance—this goes beyond just the expedited assistance payments and the addresses. We would look into whether people had insurance and whether the properties existed, whether they were reimbursed for property they ever actually owned.

Senator DAYTON. Thank you, Madam Chairman. I yield back the rest of my time. And I yield back the agency.

Senator LIEBERMAN. We do not accept it. [Laughter.]

Chairman COLLINS. We will put the memo that you mentioned, Senator Dayton, and any additional materials into the record.

Senator Akaka.

Senator AKAKA. Thank you very much, Madam Chairman.

The witnesses have a good sense of how the Committee feels about finding the problems, the mistakes, and correcting them so that we can help when the next disaster happens.

Mr. Skinner, if a disaster occurred today that would require FEMA to use temporary housing, like the manufactured or mobile homes that you described, do you think that FEMA is prepared to deal with that problem today?

Mr. SKINNER. No. I know they are in the process of preparing themselves. They recognize that they have made many mistakes after Hurricanes Katrina, Rita, and Wilma. But they are not where they should be. They still have many contract problems. I think that they need pre-disaster type contracts, defining what requirements they are going to need. Additional training is necessary and additional staff is going to be necessary. Their IT systems and internal controls still need to be tweaked. If a disaster occurred today, I think we would be no better prepared than we were after Katrina. As a matter of fact, maybe even less prepared because we have so many people already deployed.

Senator AKAKA. Mr. Skinner, that is for me a shocking admission that our government, and in particular, FEMA, whose mission is to deal with disasters, to help people, is not ready or cannot do it today. This is something I feel that this Committee and the Senate need to really get after and locate those who have that responsibility and see what we can do about it so that they can be prepared today for any other disaster.

Mr. Kutz, do you know whether debit card recipients were given information as to the products or services that could be purchased with the debit cards? Were any limitations or restrictions relayed to the recipients by FEMA?

Mr. KUTZ. The best we can tell, they were instructed on how to actually use the debit cards. They got their PIN numbers. But they were not advised on how they actually should spend the money, which was different than the checks or the EFT payments that they received. For checks and EFT payments, they received a detailed booklet in the mail that I thought was very well done by FEMA that laid out very clearly what the purpose of the program is, what all the rules and regulations are, the appeals process, etc.

So it does not appear for the debit cards or we have seen no evidence for debit cards that they were given any instructions on what they were to be used for.

Senator AKAKA. You also indicated that there were groups, organized groups, prior to Katrina who set out to commit fraud. Is there any way that we can identify these groups before a disaster?

Mr. KUTZ. Not necessarily because they did not register with the Social Security numbers until actually the disaster had taken place, but they were individuals that used Social Security numbers that, again, were never issued, and they had real credit histories, it appears. So they had established these bogus credit histories before the disaster, and they were individuals—I don't think they

were working together, necessarily, but it would be difficult, until they registered for disaster assistance, to determine who they are.

Senator AKAKA. Mr. Skinner, your testimony indicates that DHS has taken a number of initiatives to address the concerns raised by your audit and management reports. What are the top three recommendations that have not been addressed by DHS? And what further actions will you take to ensure their implementation?

Mr. SKINNER. Those that have not been addressed?

Senator AKAKA. Yes.

Mr. SKINNER. Generally speaking, they have been responsive to about all of our suggestions, and when I say "initiatives," these are just initiatives. They have not been completed. These are actions that they are just now getting underway, and examples are the need for increased contracting officers, the need for increased contracting officer technical reps, the need for increased controls within their NEMIS, the National Emergency Management Information System for disaster operations. Also, one of the things that we have suggested, as a matter of fact, just last week, I think they need to enter into MOUs with the Social Security Administration and other government agencies that can be used to help prevent fraud claims.

But are they there? No, they are not. They are nowhere near there. But they are working toward that. Many of the issues that we have identified they agree with, and they have identified other issues that we have not even touched upon yet that they are going to be addressing. But it will take months, if not years, to get a lot of these things done.

Senator AKAKA. So what you are saying is that many of these are not completed. They are working on it. I understand from other hearings that one of the huge problems that we have had has been contracting officers, there is a major shortage for that. Do you find that to be true?

Mr. SKINNER. Yes. When Katrina hit, they were woefully understaffed in contracting officers. There is a plan now to hire, I believe, an additional 120 just within FEMA, half of which will be housed in Baton Rouge at an acquisitions center and the other half that will be assigned to headquarters to look at the big contracts. But they are not there yet.

I don't even want to suggest that 120 may be enough. If we have another Katrina-like event, 120 additional people in their contracting office may not be sufficient.

Senator AKAKA. Ms. Fisher, you mentioned zero tolerance. I would like to ask you about the origins of the zero tolerance program. Is this the first time the Department of Justice has used this standard? And if so, who came up with that idea?

Ms. FISHER. I can't speak historically over the many years of the Justice Department to say that this was the first time zero tolerance was instituted with a program like this. But after the hurricane hit and realizing how much money was going to go out the door from people across America that were going to open up their hearts and wallets and from the Federal Government, we thought it was the right thing to do, to make sure that we set that zero tolerance policy to protect the money that was going to the victims and to send a very loud and clear message of deterrence in this regard.

Senator AKAKA. How long can your Department afford to devote resources to prosecuting this level of fraud without affecting your ability to take and deal with other cases?

Ms. FISHER. Well, I can tell you we have so much help across America. We have 93 U.S. Attorney's offices that are contributing to this effort and that are looking at all of the investigations, and we have the Command Center, of course, that is set up for the long haul. We are here for the long haul. So while I cannot predict forever in the future, the zero tolerance policy, I believe, is working as the numbers that I described for the deterrence and the money that we are seeing returned show, and we have no intention of changing that right now. But I can't predict forever into the future.

Senator AKAKA. Ms. Fisher, I appreciate the efforts by DOJ to move quickly on fraud cases, as you have reported, relating to relief and reconstruction in the Gulf. I know there was concern over large amounts of funds being distributed quickly and everyone wants to ensure that the victims of this terrible tragedy receive the necessary assistance.

There were numerous articles in the press last fall about lobbyists facilitating large contracts going to favored corporations with little or no competition.

Are you looking into any of these cases to see if there was any abuse of Federal contracting procedures?

Ms. FISHER. Absolutely, procurement fraud is part of what the task force is going to look at, and we have done a lot of things to prepare for that. We have been training the auditors down in the Gulf Coast region on what red flags to look for. Our task force members, as you know, include the entire Federal Inspector General community, who are tied back to the agencies that they are working for and the contracts that are going out.

So any evidence of fraud, procurement fraud, is being fed into the Command Center to make sure that we dedicate the appropriate resources to investigate that fraud.

Senator AKAKA. Do you have any cases now?

Ms. FISHER. We have three cases that I mentioned earlier with regard to public corruption, and those involved contracting. Two of them involve debris removal contracts, and one of them involved a FEMA contract for meals provided to a tent environment down in FEMA. So while they are public corruption because they involve public officials, they are really also contracting cases.

Senator AKAKA. Thank you very much. Thank you, Madam Chairman.

Chairman COLLINS. Thank you. Senator Levin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you very much, Madam Chairman, and thanks to all of our witnesses.

I was also very much interested in the number of contracts that have been awarded on a no-bid basis. Senator Akaka is addressing that question in part with his question, and I would like just to pursue that.

How many of the contracts that were awarded by, say, DHS have been awarded on a no-bid basis, without competition?

Mr. SKINNER. With regard to the disaster or——

Senator LEVIN. Yes.

Mr. SKINNER. I have the numbers here.

We are talking about—DHS awarded about 2,500 contracts immediately following Hurricane Katrina. Of those, 706 were awarded on a no-bid basis or with limited competition.

Senator LEVIN. Now, of the contracts over $500,000——

Mr. SKINNER. Just those over $500,000.

Senator LEVIN. Right, so that over half of the contracts was over $500,000. Is that right? My figures that I assume you provided to us are that over half of the contracts awarded by DHS——

Mr. SKINNER. Yes, 405 of the 712. Then again, if you look, there are also some with very limited competition. So it is well over half. And I think that is the trend throughout the entire Katrina operations, just not within DHS.

Senator LEVIN. Is that unusual?

Mr. SKINNER. Yes, it's unusual in this sense: FEMA has never experienced anything this big before, and generally they have the ability to go out and get contractors on a competitive or at least a limited competitive basis. They have also had contracts in place prior to a disaster that were let competitively, and they just needed to be activated after a disaster. This was so large that it required them to react in a very quick manner and obtain services through a no-bid mechanism.

Senator LEVIN. When Mr. Paulison, who is the Acting Director of FEMA, came before this Committee in October, he said, "We are going to re-bid all of those no-bid contracts." Do you know what he was talking about?

Mr. SKINNER. Yes, and that's a recommendation we had made to him. Right now, in conjunction with our office, they are reviewing each and every one of these no-bid contracts. The determination is being made. Do we still need the contract? Are the services or goods still required? If not, let's terminate. If the services and goods are required, is it for a short-term or long-term nature? If it is short term, we will let them run their course, then terminate. If it is long term, for example, contracts for the maintenance of housing, those are going to be re-bid.

FEMA is now working with DHS procurement, in fact, to put bids out or are in the process of submitting requests for proposals on all long-term type contracts.

Senator LEVIN. How do you re-bid a contract that has been issued?

Mr. SKINNER. You terminate for the convenience of the government.

Senator LEVIN. So have any contracts been terminated?

Mr. SKINNER. Yes, I believe some have.

Senator LEVIN. Do you know about how many of those?

Mr. SKINNER. No, I don't have that at my fingertips.

Senator LEVIN. Would it be more than a few of the 60 percent of the DHS contracts that were awarded?

Mr. SKINNER. It could be because many of those were for short-term services, for goods and services that we needed immediately. For example, we needed water, we needed——

Senator LEVIN. No, I am just talking about were they terminated, not were they expired. I am not talking about a short-term contract.

Mr. SKINNER. OK.

Senator LEVIN. I am talking about where a contract is a longer term, but where they have been terminated. You say some have been terminated, actually.

Mr. SKINNER. Yes, some have been and some will be. Some of these contracts were so broadly defined that the specifications or the taskings under the contracts were like mini contracts within a contract, so to speak. For example, the big four housing contracts, one tasking required the contractor to "haul and install" trailers, while another tasking required them to maintain the trailers. What they will be doing is terminating the tasking for the maintenance and recompeting that to other vendors. The same thing with inspections of damaged homes contracts.

Senator LEVIN. Can you give us for the record how many contracts have been terminated?

Mr. SKINNER. Yes, we can obtain that.

Senator LEVIN. Now, is it fair to say from earlier answers that have been given here that there was a lot of sloppy administration inside FEMA of these contracts? I am not saying all contracts, but there was a lot of failure, a lot of——

Mr. SKINNER. Yes, there was. There are many contracts that worked very well. And, on the other hand, there are many that are not working very well.

Senator LEVIN. And has anybody inside FEMA been held accountable, other than the Director, for sloppy administration?

Mr. SKINNER. To my knowledge, no one has yet been held accountable other than the top leadership. I know FEMA recognizes that contract management is a serious problem, not only DHS-wide, but particularly with regards to the FEMA operations after Katrina. I do know that their focus—as a matter of fact, they have a Procurement Oversight Board in which I participate at weekly meetings to address corrective actions that need to be taken.

Senator LEVIN. We have reason to think that none of the contracts have been re-bid, but you are going to give us that for the record. Apparently, there were some conversations with FEMA staff and, I think, Senator Lieberman's staff that indicated that none of the contracts have been re-bid.

Mr. SKINNER. I don't want to say for the record that some have been re-bid. I do know some will be re-bid.

Senator LEVIN. All right.

Mr. SKINNER. And the ones we are focusing on right now are the four big contracts, the multi-million, the $500 million contracts.

Senator LEVIN. Right. I think Senator Lieberman, in his opening comments, made reference to the fact that the IG's recommendations to FEMA from May 2005, which followed the 2004 Florida hurricanes, have not been implemented, or most of them have not been implemented. And I am just wondering, are you familiar with that issue?

Mr. SKINNER. Yes, I am. Some have, in fact, been implemented.

Senator LEVIN. Have some key ones not been implemented?

Mr. SKINNER. Yes.

Senator LEVIN. And why is that?

Mr. SKINNER. We are monitoring the recommendations we made with regard to our review of Miami-Dade as well as the recommendations that this Committee has made. We were told that many of these recommendations had not been implemented, first, because of lack of funds, which I question, and, second, because of Hurricanes Katrina, Rita, and Wilma. In the process of building up to implement those recommendations, everything was put on hold to react to Katrina events.

Senator LEVIN. Would you give the Committee the list of the recommendations, if they are not already in the Committee's possession, that have been made by the IG's office?

Mr. SKINNER. Yes.

Senator LEVIN. And the ones that have not been implemented and why?

Mr. SKINNER. Yes, we can do that. Many of our recommendations are similar to or the same as the Committee's recommendations.

Senator LEVIN. You have indicated, and I believe Ms. Fisher has indicated, that there is going to be some review of fraud among contractors. It seems to me following Senator Akaka's line of questions that this is critical. We want to go after the individual people who have defrauded the government, but we also want to go after the big fish who may have defrauded the government as well.

How many of these contracts—or how many contractors, not individual violations by individuals of Social Security fraud and that kind of thing, but how many contractors have been referred to the Department of Justice by the IG's office?

Mr. SKINNER. Most of those cases right now are ongoing.

Senator LEVIN. Have there been any references to the Department of Justice yet?

Mr. SKINNER. Actual referrals?

Senator LEVIN. Of contractors, yes, referrals.

Mr. SKINNER. Let me get back to you on that. We have cases—when you say "referrals," wherein we have consulted with the Department of Justice to ensure that it is a worthwhile case that we want to pursue. We work very closely, hand in hand, with the Katrina Fraud Task Force. When we open a case, oftentimes even before we open it, we will consult with the attorneys, the U.S. Attorneys at that task force.

Senator LEVIN. Have any been referred yet to the Department of Justice; do you know? I mean a specific reference. I think that is a term of art. At least I am using it in a technical way. Have you referred any cases to the Department of Justice with recommendations that there be criminal prosecution?

Mr. SKINNER. We are drawing a fine line, Senator.

Senator LEVIN. All right. Then I will not draw any more fine lines.

Ms. Fisher, last question. It is on this subject, if the Chairman would just let me conclude just this one subject, and I know I am over my time.

How many indictments of contractors have there been following Katrina?

Ms. FISHER. Well, to date, we have not had any public prosecutions of contractors, but we do expect to see them in the future, un-

fortunately, and we are working hand in hand down at the Command Center to make sure that we are getting information directly from the IGs as they see these contracts. We have also sent down prosecutors to train the audit staff from across the IG community on what to look for. I have sat down personally with the HUD individuals that are about to send out the large amount of contract assistance to talk about their fraud programs, and we certainly have more training scheduled.

So I believe certainly, Senator, I share your concern, and we are trying to get ahead of the problem.

Senator LEVIN. OK. But in terms of past misdeeds alleged, no indictments yet?

Ms. FISHER. No public prosecutions yet, sir.

Senator LEVIN. What is the difference between a public and private prosecution?

Ms. FISHER. Well, we have ongoing investigations, and then they become public when we make a complaint or an indictment.

Senator LEVIN. There has been no criminal complaint filed yet?

Ms. FISHER. That is correct, sir.

Senator LEVIN. Thank you, Madam Chairman. Sorry I went over.

Chairman COLLINS. Thank you.

Mr. Skinner, I want to follow up on the contracting issue. As you could tell from my opening statement and the questions of many of us, the no-bid contracts are of tremendous concern to this Committee. But I also understand that your investigation has also found very questionable practices in how the government has been charged under some contracts.

It is my understanding that you have found at least two large contracts that were originally awarded as fixed-price contracts, but they are actually being billed as time and materials or cost-plus contracts.

Now, it is my understanding that if they are being billed that way, that totally takes away the protection afforded by a fixed-price contract. Could you comment on that?

Mr. SKINNER. Yes, that's correct, and we have found—and I think maybe even more than just two, this is because the contract in itself was very poorly written and the instructions that went to the contractor from FEMA were very confusing.

What we are finding is, under these firm fixed-price contracts, the contractor is billing FEMA—let's say it is a 1-month contract, they would be billing FEMA every 7 days. They would just divide the total value of the contract by four. And at the same time, they would be billing the government for its time and materials. So FEMA was paying for time and materials plus the fixed price value of the contract.

Now, we are still in the middle of looking at how and why this is happening and the impact it is going to have on the contract. This is a 6-month contract, and under this billing mechanism, the contractor will be paid in full in 3 months. Therefore, FEMA has to go back and renegotiate the contract, and that is where we are at right now. And hopefully what we will see, based on our recommendations, is that FEMA will not increase the value of the contract; FEMA need to amend the way it is being billed.

The bottom line is the contractor will end up being paid 100 percent, but will have only delivered half of the goods or services.

Chairman COLLINS. That is very troubling, and I would ask that you keep us informed of your investigation in that area.

Mr. SKINNER. Yes. We are looking at all of those now. We already found two instances of this, and now we are looking at all the contracts for that particular problem.

Chairman COLLINS. Because even if there had been competition originally, if it is being billed as time and materials or cost-plus rather than the firm fixed price, the taxpayers are going to end up paying an awful lot more, and the incentives for holding costs down evaporate.

Mr. SKINNER. Yes, that is a problem with all these contracts. We have found very few incentives to keep costs down, and that is another area of contract management that needs to be addressed now, before the next hurricane season, because if we wait until June or July, we are going to find ourselves in the same situation that we found ourselves in after Katrina.

Chairman COLLINS. Ms. Fisher, I want to get back to the small-dollar fraud cases. I obviously want you to go after all kinds of fraud cases, whether they are big or small. But what was disturbing to me in the wake of the Florida hurricanes last year is too often if the fraud did not exceed $10,000, nothing happened. There was no punishment at all. And, of course, there are at least two problems with that. One is it sends a signal to the fraudsters that as long as you keep the dollar number under $10,000, you can rip off the government and the taxpayers with impunity. Second, it ignores the fact that small-dollar fraud cases in the aggregate amount to significant sums. And I think GAO's study is a perfect example of that.

GAO found, when looking at individuals who received debit cards and also got a deposit into their checking accounts—in other words, they got duplicate expedited assistance payments. And just with your sample, assuming my math is right, which showed that 5,000 of the 11,000 people received those duplicates, that amounts to a $10 million mistake or fraud, depending on how one looks at it.

So I guess my message to you today is I want to encourage you to go after those small-dollar cases as well. They amount to big money in the aggregate, but also, I think it will have a tremendous deterrent effect. And, indeed, the fact that you are going after them has prompted the kinds of recoveries that you are seeing where people are voluntarily turning in money that they might not otherwise.

Would you like to comment on that?

Ms. FISHER. Well, I agree with you 100 percent, which is why we are doing that. I think it is important, and we have seen that they have been aggregated in individual cases where each one may be $2,000, but one defendant is getting 25 friends to do the same thing, and those aggregate cases add up. And that is why we hope that it is having a deterrent effect.

And so thank you for that support, and I do agree with you, Senator.

Chairman COLLINS. Thank you.

Mr. Kutz, I want to go back to those debit cards again, and I just want to build on an answer that you had earlier. Is it the debit cards themselves that were the problem? Are they just a poor way to deliver assistance? Or was it the way that they were administered and managed that is the problem?

Mr. KUTZ. I would say it was the way that they were administered and managed. It is the same as the purchase card hearings we have had before you. There was never anything wrong with the purchase card. It was the way they were being managed by government agencies.

So, no, I think that there is great potential that this is a way to get money to people quickly, and it provides flexibility as to how they can either go to ATM machines or grocery stores or wherever the case may be.

Chairman COLLINS. And, Mr. Ryan, did you find that people received instructions on how to use these debit cards and what were appropriate uses versus inappropriate uses, such as the tattoo expenditures that you found?

Mr. RYAN. I believe in the cases that we as the group looked at, there was more concern on how to get the cards out than there was instructions on really what to use it for. I think we reported 63 to 65 percent of the people used it for ATM transactions. There is no real way to determine, but you have to assume that the people used the money for what they needed at that time.

In the case of the debit cards, the cases of the guns and using the debit card to pay off tickets and buy jewelry, I guess you are always going to find a certain number of people that will take an opportunity and use it and turn it to the best of their advantage at that particular time. But we did not find that they were handed instructions on how to use the card.

Chairman COLLINS. One final question, Mr. Kutz. You stated that FEMA was well aware that there could be duplicate payments to people who received debit cards. Did FEMA institute any safeguards to try to prevent those kinds of duplicate payments?

Mr. KUTZ. I would say they were aware that there might have been a few. I think they were shocked that almost half of them were duplicate payments. I really don't think that they understood that until several weeks ago. And, obviously, they did not have any controls in place to prevent that, and I think they have had a hard time explaining to us why they made duplicate payments to almost half the people that received debit cards.

Chairman COLLINS. It is an enormous number, and as I said, that appears to be a $10 million mistake.

Mr. KUTZ. Yes.

Chairman COLLINS. Senator Lieberman.

Senator LIEBERMAN. Thanks, Madam Chairman.

Mr. Skinner, I cannot get those manufactured homes out of my head. I want to just see if I have it clear because there were two categories, or maybe three, approximately 25,000 manufactured homes and then, if I heard you correctly at the beginning, another 1,100 of what you called modular homes?

Mr. SKINNER. Yes.

Senator LIEBERMAN. And are the modular homes similarly not in use, or are they used?

Mr. SKINNER. That's correct. I don't believe any of those have been put to use.

Senator LIEBERMAN. Right. And so the total, if I have it right, cost of those is now about $900 million.

Mr. SKINNER. That's correct.

Senator LIEBERMAN. And those categories are different from what I have heard described as travel trailers. How many of those has FEMA either purchased or leased, do you know?

Mr. SKINNER. I believe it is around 125,000.

Senator LIEBERMAN. It is a much greater number.

Mr. SKINNER. Yes.

Senator LIEBERMAN. And most of those are in use, if I have it right.

Mr. SKINNER. Yes, most of those are in use. I know they just ordered about 4,000 again last week.

Senator LIEBERMAN. There are complaints about them, but at least they are in use.

Mr. SKINNER. That's correct.

Senator LIEBERMAN. OK. So what we are focused on here is approximately 26,000 manufactured or modular homes costing approximately $900 million, all but about 1,200 of which are not in use. Is that right?

Mr. SKINNER. That's correct.

Senator LIEBERMAN. Who was responsible at FEMA for the decision to acquire those homes?

Mr. SKINNER. We are in the middle of our review as we speak, and those are the answers that we are trying to get.

Senator LIEBERMAN. All right. And we will look forward to answers.

Mr. SKINNER. We will have that. We will be issuing a report on this subject once we have nailed everything down.

Senator LIEBERMAN. Is there a single contract provider of the manufactured or modular homes, or are there many?

Mr. SKINNER. There are many.

Senator LIEBERMAN. OK. Ms. Fisher, let me now go to you with a few questions. I believe you said that there was somewhere over 220 prosecutions that have come out of the work of your task force that were Katrina-related.

Ms. FISHER. Two hundred and twelve, yes, sir.

Senator LIEBERMAN. Two hundred and twelve. Give us a sense, generally, of what the range of crimes that people are being charged with is.

Ms. FISHER. Absolutely. It ranges from fraudulently applying for $2,000 FEMA assistance to conspiracy on a larger level in working at the call centers and setting up lines of people to come in and get individual assistance that is fraudulent, to the corruption cases that I mentioned, to the websites that I mentioned that were fraudulent and asking for donations.

We had one case in Houston that comes to mind where there was an individual that applied for labor assistance, the unemployment labor assistance, and received that benefit and then went over to a hotel and convinced many other people at that hotel to apply for that and got them to do that in exchange for drugs and for cash.

And it was a large amount of money at the end of the day, again, going back to the aggregation point.

So it really runs the gamut, but what we really want to do is prepare for all types of crime, and in this operation, where we are working together hand in hand to try to make these referrals proactive and to add the resources necessary to combat crime, we are preparing ourselves for the entire range.

Senator LIEBERMAN. OK. This morning, I believe, Mr. Kutz, you were the one who talked about the hotel price gouging.

Mr. KUTZ. No. That was Mr. Skinner.

Senator LIEBERMAN. I am sorry. Mr. Skinner.

Mr. KUTZ. Yes.

Senator LIEBERMAN. I know there are State price-gouging statutes. Do you have any intention to prosecute those cases? Maybe this is the first you have heard about it. Or do you ever forward cases to State prosecutors for action?

Ms. FISHER. Well, as I mentioned earlier, we are working with the National Association of Attorneys General and the National District Attorneys Association, and many of them as members of the task force are reporting on numerous price-gouging cases that they have in their States. It is more of a State problem with regard to there is no Federal legislation that goes to it. But to the extent our State partners need our assistance or need our cooperation, the task force is cooperating.

Senator LIEBERMAN. OK. I share Senator Dayton's outrage, and so does everyone, and I hope you will take a look at those hotel price-gouging cases. Those are outrageous amounts of money to charge the Federal Government in this emergency.

Because this Committee has been active in Katrina-related investigations, we have gotten a few of what you might call private sector whistleblower calls along these lines. Give me your reaction to them and see if you have heard of them. These are from smaller—well, not big companies, but subcontractors who say that the contractors who received jobs from FEMA for Katrina-related work are grossly overbilling, and, in fact, they are giving the subcontractors so little money that some of the subcontractors say, "We have had to let our legal workers go because we cannot afford to pay them, and we are hiring undocumented aliens to do this work because the contractors are not paying us enough and they are inflating the price."

Have you heard any of that? If so, what do you think about it?

Mr. SKINNER. Yes, I know we have received allegations in that regard, and we are, in fact, reviewing many of the contracts and their billing practices to see exactly how much they are being paid, the contractor, and what they are paying their subcontractors to make a determination whether there is inequity there or excess profit being made by the contractor. I don't know what the extent of the problem is.

Senator LIEBERMAN. I do not either.

Mr. SKINNER. But there are cases out there, this may exist.

Senator LIEBERMAN. I am glad you are looking at it. What would be a charge in that case, Ms. Fisher?

Ms. FISHER. Well, with regard to overbilling, you could have false statements, false claims, major fraud, wire fraud, and mail fraud. There is a whole host of Federal criminal statutes.

Senator LIEBERMAN. Mr. Kutz, do you want to add anything?

Mr. KUTZ. No, not to that.

Senator LIEBERMAN. A final question, Mr. Skinner. I know that last September 19, you announced that—is it Matthew Judacki——

Mr. SKINNER. That's correct.

Senator LIEBERMAN [continuing]. Would join your office to establish a Special Office for Hurricane Katrina Oversight, which would, and I quote from an announcement, "focus on preventing problems through a proactive program of internal control reviews and contract audits and would maintain a visible presence primarily in the States of Alabama, Mississippi, and Louisiana." That was quick action. I don't know how many people you have working in that office.

Mr. SKINNER. Approximately 100 right now.

Senator LIEBERMAN. That is a good size. So far, after 5 months, what kind of IG report would you give to your special office? How is it doing?

Mr. SKINNER. I think it is doing very well. As a matter of fact, we have expanded the responsibilities for that office to include Texas, as well, in response to Rita and Florida in response to Wilma. We will be issuing several reports over the next 90 days or so, which will reflect the work that we have been doing over the last 5 or 6 months. Our biggest problem is staffing up. In order to get the people immediately on the ground, I had to borrow from our existing staff here in Washington as well as out in the field, and that has worked a hardship on my office. But those people have been performing at a very good pace, and we are now starting to hire people to replace them so they can go back to their normal jobs.

But we intend to keep at least anywhere from 100 to 125 people fully employed over the next 5 years just on this operation.

Senator LIEBERMAN. Five years?

Mr. SKINNER. At least. It could be longer.

Senator LIEBERMAN. Yes, I agree. That is good to hear. Thank you.

We have heard—for your own follow-up, not for a response now—that the Chief Procurement Officer at FEMA has over the last 6 years at different times been asked to also serve as Acting Chief Financial Officer or Deputy Financial Officer of FEMA. So she has been asked to do two jobs at once, and you wonder whether that diminished the focus on the procurement part of it.

Mr. SKINNER. Yes. Well, that is no longer the case. FEMA now does have a full-time Chief Financial Officer, and I believe they have hired a Deputy as well.

Senator LIEBERMAN. OK. Thank you all. Keep up the good work. We need you.

Mr. SKINNER. You are welcome. Thank you.

Chairman COLLINS. Thank you. Senator Levin.

Senator LEVIN. Thank you, Madam Chairman, and thanks to both you and Senator Lieberman for this really extensive and detailed effort at oversight, and it is, I think, a really great example

of what Congress should be doing in the area of oversight. I commend you for it. It has taken a lot of digging on your part and the part of your staff, and it is just really what Congress should be doing more of. And as always, I think you two are the role models for the oversight that is so essential if we are going to keep the Administration's—any administration, not just this one, but any Executive Branch—feet to the fire.

Ms. Fisher, you have talked about zero tolerance for individuals committing Katrina fraud, and when I look at the Attorney General's outline of priorities for your task force that was dated September 8, it all seems to be aimed at individuals rather than contractors. I know you have this morning indicated that you are, in fact, going after contractors, but I just want to emphasize the importance of that and I think the absence of that in the mandate that was given to you by the Attorney General. He talked about identity theft; he talked about insurance fraud where insurance claims are inflated, government benefit fraud. So you have 212 indictments so far, all individuals. And I know you are looking at some of the—you have two FEMA employees, I believe, who have been indicted.

But the contract area is an area which involves a huge amount of money, and I happen to agree with our Chairman that individual fraud cases are important and they add up, and they are a deterrent and they send a signal. And what I say does not in any way—it is not intended to diminish the importance of those cases.

But I just want to make sure that there is a very significant focus on contracting fraud here because there are allegations, which are mighty serious. None have led yet to indictments. And I do not want to prejudge any case, but I just do not think that there has been adequate attention that has been paid to it, at least from the results so far, and from the mandate itself. So you may want to look at that mandate and see if you agree with me. I do not know if you are referring to that or not.

Ms. FISHER. Well, Senator, I couldn't agree with you more. Procurement fraud is going to be the big dollars, and while these cases may come a little later than the immediate assistance cases that went out so quickly, we are working very hard—I am working with Mr. Skinner and others in the IG community to not wait for the investigators to turn them over to criminal prosecutors, but actually to get ahead of the game and to work with them hand in hand to try to push the investigations through aggressively.

We did a report to the Attorney General, and it does very much set out in our mission as part of the Hurricane Katrina Fraud Task Force that procurement fraud is an absolute part of the mission. We are very committed to it. So while, again, these FEMA fraud cases that may have been the lower dollar amounts were the first ones that were being made, we never took our eye off the ball, and we tried to train and get ready for what we expect to be a long haul with regard to the procurement contracts. And I am working with the investigators very proactively to try to identify them. So I thank you for your support in that regard.

Senator LEVIN. I take it that the zero tolerance policy applies to contractors, not just individuals.

Ms. FISHER. Absolutely, sir.

Senator LEVIN. OK. One of the no-bid contracts that has been, I think, in the media has related to the price paid for classrooms in Mississippi, 450 portable classrooms to 70 schools in Mississippi. Is that under investigation, that whole issue?

Mr. SKINNER. Yes, that is something that was referred to our office. We're working, I believe, with the Department of Defense IG's office. It was the DOD Corps of Engineers, I believe, who may have let that contract. And that is currently under review by that office.

Senator LEVIN. The allegation here—and I emphasize "allegation"—is that a local contractor with a track record of providing portable classrooms had a proposal to provide them for about half the cost of a no-bid contract. Is that your understanding?

Mr. SKINNER. That's correct.

Senator LEVIN. All right. Is debris removal cost subject to an investigation as well?

Mr. SKINNER. Yes. In fact, we have several ongoing audits of debris removal operations, not only those that were contracted out through the Corps of Engineers, but also those that were contracted out through the State and local governments. All of those are also receiving a lot of attention and review by our investigators as well.

Senator LEVIN. Is that an example of no-bid contracts in that case, do you know?

Mr. SKINNER. Most of those that were let by the States we are finding, in fact, were let through open and competitive means. Some of those let by the Corps were through prearranged contracts. But we also learned that many of the Corps contracts, because the needs were overwhelming, were done through a no-bid process.

Senator LEVIN. The information we have or the allegation is that the Federal Government is paying far more than what the States are paying for debris removal. Is that the allegation?

Mr. SKINNER. Yes, that's correct.

Senator LEVIN. OK. Now, the GAO stated in its report that there has not been great cooperation by DHS. Mr. Kutz, I believe the report says that a great deal of documentation, page 3 of your report, has not been forthcoming. Some of the databases have been, but the majority of what we requested has not been provided, according to the bottom of page 3 and top of page 4. Is that still the case?

Mr. KUTZ. That is the case, yes.

Senator LEVIN. And do you know why, what the excuse is?

Mr. KUTZ. I would say it's mostly with the DHS Office of General Counsel. That is where all the FEMA data goes through before we get it. That may have been how your Committee operated in getting information. And so there seems to have been a bottleneck there of requests going back to October.

Senator LEVIN. What is the excuse given? Because it is totally unacceptable, obviously. What is the reason given?

Mr. KUTZ. No valid reason. We may need your assistance going forward on this.

Senator LEVIN. I have no doubt our Chairman and Ranking Member will provide that kind of support, as they do on everything else that comes to their attention. I cannot speak for them, but they have been great supporters.

Chairman COLLINS. You can in this case. [Laughter.]

This once.

Senator LEVIN. I am proud to announce that I have been delegated to—— [Laughter.]

If I can have 10 more seconds, on the question of missing children and fractured families, there are still 1,500 cases of children who have been reported missing that are still unresolved; 275 adults still remain unresolved. The Department of Justice has, I guess, designated two private organizations—the National Center for Missing and Exploited Children and the National Center for Missing Adults, who do great work—to help to identify those. And yet apparently, we have been told, when FEMA is asked by those two organizations to take the lists which those organizations have and to check those lists against the FEMA list where individuals have applied for help, financial assistance, FEMA will not take that list handed to them by these two organizations and make those comparisons to see if they can identify a location for those kids and those adults.

Do you know anything about that, Ms. Fisher? And if not, can you weigh in on that to try to—I guess the Department of Justice is not the problem. It would have to be somewhere inside of the Department of Homeland Security. So between the two of you, if you have not consulted about this, since you are in front of us and since I have been given such leeway by our Chairman, could I ask you to get together and see if you cannot resolve that bottleneck? Because that is unconscionable. We have missing kids. It is not a privacy issue because the lists are going to be handed to FEMA. They are not asked by FEMA, Where are these people? They are just asking FEMA, see if you cannot find requests for assistance from those people so that then you can go out and identify where these people are. Could you try between your two agencies to see if you cannot resolve this?

Mr. SKINNER. Most certainly. I'm well aware of the issue here, and our office is, in fact, trying—or we are reviewing what are the hang-ups and how they can be resolved, and we will be issuing a report in the very near future, not necessarily dealing with this particular issue, but dealing with like issues so that, in the future, this doesn't happen again.

Senator LEVIN. Thank you. Thank you, Madam Chairman.

Chairman COLLINS. Thank you.

I want to thank our witnesses today. Each of you has contributed greatly to the Committee's understanding, and I appreciate your ongoing commitment to eliminate or at least reduce waste, fraud, and abuse in disaster assistance programs.

The American people are very generous, and everyone wants the Federal Government in the event of a disaster to deliver swift and compassionate aid to the victims. But when scarce resources are wasted, when fraudulent claims are paid without questions being asked, when safeguards are ignored or are absent altogether, there are new victims, and that is the taxpayers. And I have always felt that it was a false choice to say that we can either deliver the aid quickly and compassionately or we can protect the taxpayer.

I firmly believe that we can do both, and with your help that is our goal and our expectation. So we look forward to continuing to work with you.

Senator Lieberman.

Senator LIEBERMAN. Thanks, Madam Chairman. You said it just right. That is exactly the purpose of this Committee.

I thank the witnesses. In some ways, you have brought us a lot of bad news today. But it is the kind of bad news that if we don't get and people out there doing bad things don't know we are going to get, then it will just get worse. And hopefully, from this bad news we can work with FEMA and the Department of Homeland Security so that the next time disaster strikes, most important of all, they are ready so that they do not run around like Keystone Kops in the middle of a crisis and inevitably make the kinds of wasteful mistakes that have been made here.

So I thank you for your public service, and through it I think public service generally will get better, certainly at protecting the money that the American taxpayers give us to carry out our public purposes. Thanks very much.

Chairman COLLINS. Thank you.

The hearing record will remain open for 15 days for additional questions and materials. Thank you so much for your testimony today, and this hearing is now adjourned.

[Whereupon, at 12:14 p.m., the Committee was adjourned.]

APPENDIX

United States Government Accountability Office

GAO

Testimony

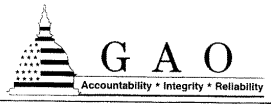
Before the Senate Committee on Homeland Security and Governmental Affairs

For Release on Delivery
Expected at 10 a.m. EST
Monday, February 13, 2006

EXPEDITED ASSISTANCE FOR VICTIMS OF HURRICANES KATRINA AND RITA

FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse

Statement of Gregory D. Kutz, Managing Director
Forensic Audits and Special Investigations



GAO-06-403T

February 13, 2006

GAO
Accountability · Integrity · Reliability
Highlights

Highlights of GAO-06-403T, a testimony before the Senate Committee on Homeland Security and Governmental Affairs

EXPEDITED ASSISTANCE FOR VICTIMS OF HURRICANES KATRINA AND RITA

FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse

Why GAO Did This Study

As a result of widespread congressional and public interest in the federal response to hurricanes Katrina and Rita, GAO conducted an audit of the Individuals and Household Program (IHP) under Comptroller General of the United States statutory authority.

Hurricanes Katrina and Rita destroyed homes and displaced millions of individuals. In the wake of these natural disasters, FEMA faced the challenge of providing assistance quickly and with minimal "red tape," while having sufficient controls to provide assurance that benefits were paid only to eligible individuals and households. In response to this challenge, FEMA provided $2,000 in IHP payments to affected households via its Expedited Assistance (EA) program. Victims who received EA may qualify for up to $26,200 in IHP assistance. As of mid-December 2005, IHP payments totaled about $5.4 billion, with $2.3 billion provided in the form of EA. These payments were made via checks, electronic fund transfers, and a small number of debit cards.

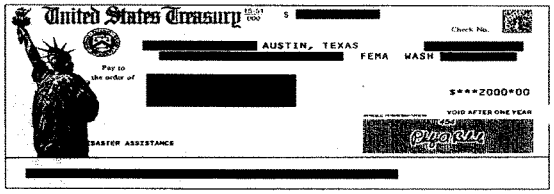
GAO's testimony will provide the results to date related to whether (1) controls are in place and operating effectively to limit EA to qualified applicants, (2) indications exist of fraud and abuse in the application for and receipt of EA and other payments, and (3) controls are in place and operating effectively over debit cards to prevent duplicate EA payments and improper usage.

www.gao.gov/cgi-bin/getrpt?GAO-06-403T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-7455 or kutzg@gao.gov.

What GAO Found

We identified significant flaws in the process for registering disaster victims that leave the federal government vulnerable to fraud and abuse of EA payments. For Internet applications, limited automated controls were in place to verify a registrant's identity. However, we found no independent verification of the identity of registrants who registered for disaster assistance over the telephone. To demonstrate the vulnerability inherent in the call-in applications, we used falsified identities, bogus addresses, and fabricated disaster stories to register for IHP. Below is a copy of one of the $2,000 checks that we received to date for our bogus telephone applications.



Source: GAO.

We also found that FEMA's automated system frequently identified potentially fraudulent registrations, such as multiple registrations with identical social security numbers (SSN) but different addresses. However, the manual process used to review these registrations did not prevent EA and other payments from being issued. Other control weaknesses include the lack of any validation of damaged property addresses for both Internet and telephone registrations.

Given the weak or non existent controls, it is not surprising that our data mining and investigations to date show the potential for substantial fraud and abuse of EA. Thousands of registrants misused SSNs, i.e., used SSNs that were never issued or belonged to deceased or other individuals. Our case study investigations of several hundred registrations also indicate significant misuse of SSNs and the use of bogus damaged property addresses. For example, our visits to over 200 of the case study damaged properties in Texas and Louisiana showed that at least 80 of these properties were bogus—including vacant lots and nonexistent apartments.

We found that FEMA also made duplicate EA payments to about 5,000 of the nearly 11,000 debit card recipients—once through the distribution of debit cards and again by check or electronic funds transfer. We found that while debit cards were used predominantly to obtain cash, food, clothing, and personal necessities, a small number were used for adult entertainment, bail bond services and weapons purchase, which do not appear to be items or services that are essential to satisfy disaster related essential needs.

Chairman and Members of the Committee:

Thank you for the opportunity to discuss our ongoing forensic audit and related investigations of assistance provided to individuals and households related to hurricanes Katrina and Rita. The Individuals and Households Program (IHP), a major component of the federal disaster response efforts established under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act),[1] is designed to provide financial assistance to individuals and households who, as a direct result of a major disaster, have necessary expenses and serious needs that cannot be met through other means. As of mid-December 2005, the Federal Emergency Management Agency (FEMA) had distributed nearly $5.4 billion in IHP assistance on more than 1.4 million registrations. Hurricanes Katrina and Rita destroyed homes and displaced individuals across the gulf coast region. In the wake of these massive natural disasters, FEMA faced the formidable challenge of providing at least some initial assistance to over a million registrants quickly with minimal "red tape," while having sufficient controls in place to provide assurance that benefits were paid only to eligible individuals and households.

Disaster relief covered by IHP includes temporary housing assistance, real and personal property repair and replacement, and other necessary expenses related to a disaster. IHP assistance is generally delivered after an inspection has been conducted to verify the extent of loss and determine eligibility. Because of the tremendous devastation caused by hurricanes Katrina and Rita, FEMA activated expedited assistance to provide fast track money[2]—in the form of $2,000 in expedited assistance payments—to eligible disaster victims to help with immediate, emergency needs of food, shelter, clothing, and personal necessities. This swift response was vital in helping victims of hurricanes Katrina and Rita. FEMA specified that expedited assistance payments were to be provided only to individuals and households who, as a result of hurricanes Katrina and Rita, were displaced from their predisaster primary residences and

[1]Pub. L. 93-288, 88 Stat. 143 (1974) (amended 2000).

[2]The expedited assistance process is not specifically authorized in the Stafford Act. However, FEMA previously has asserted, and we have agreed, that it has legal authority under the act to implement expedited, or fast track, procedures. *Disaster Assistance Guidance Needed for FEMA's "Fast Track" Housing Assistance Process*, GAO-RCED-98-1 (Washington, D.C.: Oct. 1997).

were in need of shelter. Typically a household[3] can only receive one expedited assistance payment. Exceptions are made in situations where household members are displaced to separate locations, in which case more than one member of the household may be eligible for payments. FEMA provided expedited assistance payments related to hurricanes Katrina and Rita predominantly through electronic funds transfer (EFT) and checks sent to the registrants' current addresses.[4] In addition, FEMA provided a limited amount of expedited assistance via debit cards[5] distributed at three locations in Texas.

As of mid-December 2005, FEMA data showed that the agency had delivered 44 percent ($2.3 billion) of the $5.4 billion in IHP aid through expedited assistance to hurricanes Katrina and Rita registrants across at least 175 counties in 4 different states. Almost $1.6 billion went to individuals with damaged addresses in Louisiana, more than $400 million to individuals in Texas, and over $300 million to individuals in Alabama and Mississippi. Registrants determined to be eligible for expedited assistance may also be eligible to receive additional IHP payments up to the overall IHP cap of $26,200.

Our current audit and investigation is being performed under the statutory authority given to the Comptroller General of the United States. Our audit and investigation is conducted under the premise that while the federal government needs to provide swift and compassionate assistance to the victims of natural disasters, public confidence in an effective disaster relief program that takes all possible steps to minimize fraud, waste, and abuse needs to be preserved. Today, we will summarize the results from our ongoing forensic audit and related investigations of the IHP program.[6]

[3]The Act's implementing regulations define a household as all persons (including adults and children) who lived in the predisaster residence, as well as any other persons not present at the time but who are expected to return during the assistance period. 44 C.F.R. § 206.111.

[4]Current address refers to the address at which the disaster victim is currently residing. Damaged addresses are the addresses which were affected by the hurricanes.

[5]The debit card program is a pilot program implemented primarily to provide expedited assistance to individuals and households housed at three Texas shelters. The debit cards, which resemble credit cards and bear the MasterCard logo, can be used at ATMs and at any commercial outlet that accepts MasterCard.

[6]We are also releasing today the results of our limited investigation into allegations that Military Meals, Ready-To-Eat rations intended for use in the hurricane relief efforts were instead sold to the public on the Internet auction site eBay. See GAO, *Investigation: Military Meals, Ready-To-Eat Sold on eBay*, GAO-06-410R (Washington, D.C.: Feb. 13, 2006).

This testimony will provide the results of our work related to whether (1) controls are in place and operating effectively to limit expedited assistance to qualified registrants, (2) indications exist of fraud and abuse in the registration for and receipt of expedited assistance and other payments, and (3) controls are in place and operating effectively over debit cards to prevent duplicate payments and improper usage. We plan to issue a detailed report with recommendations on the results of our audit.

Thus far, our work has focused primarily on the IHP registration process because individuals whose registrations are approved have access to expedited assistance payments and subsequently the full range of IHP benefits. To assess the design of controls, we performed walkthroughs of FEMA's processes for accepting registrations and awarding expedited assistance funds. To determine whether indications existed of fraud and abuse in expedited assistance and other disbursements, we provided FEMA data to the Social Security Administration (SSA) to verify against their records of valid social security numbers (SSNs), and reviewed the FEMA database of IHP registrations for other anomalies using data mining techniques. To determine whether registrations resulted in potentially fraudulent or improper payments, we selected a nonrepresentative selection of 248 registrations from our data mining results for further investigations. The 248 registrations represented 20 case studies—some involving multiple registrants—that we linked together through identical names, SSNs, damaged addresses and/or current addresses. Our analysis of potentially fraudulent use of SSNs and other data mining efforts are ongoing, and we plan to report on additional results in the future. For purposes of this testimony, we did not conduct sufficient work to project the magnitude of potentially fraudulent and improper IHP payments. We also proactively tested the adequacy of controls over the registration process for disaster assistance by submitting claims for relief using falsified identities, bogus addresses, and fabricated disaster stories. These tests were performed before FEMA provided us any information related to the processes used to screen IHP registrations and preclude some fraudulent registrations. Additional details on our scope and methodologies are included in appendix I.

In the course of our work, we made numerous written requests for key documents and sets of data related to the IHP, most dating back to October 2005. While FEMA officials promptly satisfied one key part of our request—databases of IHP registrants and payments—the majority of what

we requested has not been provided. On January 18, 2006, the Department of Homeland Security (DHS)[7] Office of General Counsel did provide us with well less than half of the documents that were requested. While the database and other data provided by FEMA enabled us to design procedures to test the effectiveness of FEMA's system of internal controls, it did not enable us to fully determine the root causes of weak or non-existent controls and formulate detailed recommendations. For example, as will be discussed later, FEMA and the DHS had not provided us documentation to enable us to conclusively determine the reason that FEMA submitted some registrations, and did not submit other registrations, to identity validation prior to issuing expedited assistance payments.

We conducted our audit and investigations from October 2005 through January 2006. Except for restrictions discussed previously related to the limitations that DHS placed on the scope on our audit work, we conducted our audit work in accordance with generally accepted government auditing standards and conducted investigative work in accordance with the standards prescribed by the President's Council on Integrity and Efficiency. Our findings today focus primarily on the results to date from of our data mining and investigative techniques.

Summary

We found weaknesses in the process that FEMA used to review registrations for disaster relief and approve assistance payments. These weaknesses leave the government vulnerable to fraud and abuse. Our work indicates that FEMA put in place limited procedures designed to prevent, detect, and deter certain types of duplicate and potentially fraudulent disaster registrations. However, FEMA did not apply these limited procedures to most registrations, thus leaving a substantial number of registrations without any protection against fraud and abuse. Specifically, individuals could apply for disaster assistance via the Internet or telephone. FEMA subjected Internet registrations to a limited verification process whereby a FEMA contractor used credit and other information to validate the identity of registrants. Those who failed the Internet verification process were advised to contact FEMA via telephone to reregister. However, FEMA did not apply the identity validation process

[7]In 2002, FEMA became part of the Department of Homeland Security (DHS). DHS officials required GAO to submit written requests for all documentation to DHS Office of General Counsel.

to any of the 1.5 million registrants who contacted FEMA and applied for assistance over the telephone. Our data mining and investigations confirmed FEMA's representation. For example, using falsified identities, bogus addresses, and fabricated disaster stories, we applied for disaster assistance over the telephone and obtained $2,000 expedited assistance payments.

Other control weaknesses further increased the government's exposure to fraud and abuse. We found that FEMA instituted automated checks that flagged hundreds of thousands of potentially duplicate registrations in the computer system FEMA used to process and approve IHP registrations for payments. FEMA officials informed us that these flagged registrations were subjected to additional reviews to conclude whether they were, in fact, duplicates. However, while the additional review process may have prevented many potentially fraudulent and improper payments, it did not prevent what appear to be other potentially fraudulent and improper payments based on duplicate registrations. We also found that FEMA did not implement procedures to validate whether damaged addresses used to register for assistance were bogus, for either Internet or telephone registrations.

With limited or nonexistent validation of registrants' identities and damaged addresses, it is not surprising that our data mining and investigations found substantial indicators of potential fraud and abuse related to false or duplicate information submitted on disaster registrations. For example, according to SSA data, FEMA made millions of dollars in payments to thousands of registrants who submitted SSNs that have not been issued or belonged to deceased individuals. Our data mining also detected that FEMA made tens of thousands of payments to registrants who provided other false or duplicate information on their registrations. Specifically, in the 20 case studies we investigated, a majority—165 of 248—of registrations contained SSNs that according to the SSA were never issued, belonged to deceased individuals, or did not match the name provided. In addition, about 80 of the over 200 alleged disaster addresses that we attempted to validate were bogus addresses. Also, our case study registrants did not live in many of the remaining valid addresses. In one specific case example, 17 individuals, some of whom shared the same last name and current addresses, used 34 different SSNs that did not belong to them and addresses that were bogus or not their residences to receive more than $103,000 in FEMA payments. In addition, because the hurricanes had destroyed many homes, we could not determine if approximately 15 of the alleged disaster addresses had ever existed.

Similar to the control weaknesses over expedited assistance payments distributed through checks and electronic funds transfers, we found that FEMA did not validate the identities of debit card recipients at three relief centers in Texas who registered via the telephone. Consequently, FEMA issued $2,000 debit cards to over 60 registrants who provided SSNs that were never issued or belonged to deceased individuals. We also found that FEMA made multiple expedited assistance payments to nearly 5,000 of the 11,000 debit card recipients. That is, FEMA provided the registrant both a $2,000 debit card and a $2,000 check or electronic fund transfer. Further, at the time of debit card issuance, unlike the recipients who received expedited assistance payments via checks or EFTs, FEMA did not issue specific instructions to debit card recipients on the use of the cards. We found that debit cards were used predominantly to obtain cash and thus are unable to determine how the money was actually used. The majority of the remaining debit card activities were for food, clothing, and personal necessities. However, in isolated instances, a few debit cards were used for to pay for items or services that, on their face, do not seem essential to satisfy disaster related needs. For example, these debit cards were used in part to purchase adult entertainment, a .45 caliber hand gun, jewelry, bail bond services, and to pay for prior traffic violations.[8]

FEMA's Controls to Prevent Potentially Fraudulent Payments Were Not Effective

We found weak or nonexistent controls in the process that FEMA used to review disaster registrations and approve assistance payments that leave the federal government vulnerable to fraud and abuse. In the critical aftermath of hurricanes Katrina and Rita, FEMA moved swiftly to distribute expedited assistance payments to allow disaster victims to mitigate and overcome the effects of the disasters. In this context, the establishment of an effective control environment was a significant challenge. Specifically, we found that FEMA had implemented some controls prior to the disaster to provide automated validation of the identity of registrants who applied for assistance via the Internet. Our work thus far indicates that this resulted in FEMA rejecting some registrants who provided names and SSNs that did not pass the validation test. However, FEMA did not implement the same preventive controls for those who applied via the telephone. Our use of fictitious names, bogus addresses, and fabricated disaster stories to obtain expedited assistance

[8]Under the Act's implementing regulations, FEMA may recover funds that it determines were provided erroneously, that were spent inappropriately, or were obtained through fraudulent means. 44 C.F.R. § 206.116 (b)

payments from FEMA demonstrated the ease with which expedited assistance could be obtained by providing false information over the telephone. Because expedited assistance is a gateway to further IHP payments (up to $26,200 per registration), approval for expedited assistance payments potentially exposes FEMA, and the federal government, to more fraud and abuse related to temporary housing, home repair and replacement, and other needs assistance.

Pressure to Swiftly Deliver Aid Led to Approval of Expedited Assistance Payments with Minimal Verification

During the course of our audit and investigation, FEMA officials stated that they did not verify whether registrants had insurance and whether registrants were unable to live in their home prior to approving expedited assistance payments. According to FEMA officials, the unprecedented scale of the two disasters and the need to move quickly to mitigate their impact led FEMA to implement expedited assistance. Expedited assistance differs from the traditional way of delivering disaster assistance in that it calls for FEMA to provide assistance without requiring proof of losses and verifying the extent of such losses. Consequently, FEMA implemented limited controls to verify eligibility for the initial expedited assistance payments. According to FEMA officials, these controls were restricted to determining whether the damaged residence was in the disaster area and limited validation of the identity of registrants who used the Internet. Registrants who FEMA thought met these qualifications based on their limited assessments were deemed eligible for expedited assistance.

FEMA Did Not Validate Identity of Registrants Who Applied for Assistance via Telephone

FEMA implemented different procedures when processing disaster registrations submitted via the Internet and telephone calls. Of the more than 2.5 million registrations recorded in FEMA's database, i.e., registrations that were successfully recorded—60 percent (more than 1.5 million) were exempt from any identity verification because they were submitted via the telephone. Prior to sending out expedited assistance payments, FEMA did not have procedures in place for Internet or telephone registrations that screened out registrations where the alleged damaged address was a bogus address. The lack of identity verification for telephone registrations and any address validation exposed the government to fraud and abuse of the IHP program.

For registrations taken through FEMA's Web site, registrants were required to first provide a name, SSN, and date of birth. This information was immediately provided (in electronic format) to a FEMA contractor to compare against existing publicly available records. While registrants were

waiting on the Internet, the FEMA contractor took steps to verify registrants' identities. The verification steps involved confirming that the SSN matched with a SSN in public records, that the name and SSN combination matched with an identity registered in public records, and that the SSN was not associated with a deceased individual. The FEMA contractor was responsible for blocking any registrations for which any of these three conditions was not met. Additionally, registrants who passed the first gate had to provide answers to a number of questions aimed at further corroborating the registrants' identities. Registrants who were rejected via the Internet were advised to contact FEMA via telephone. Our audit and investigative work indicated that this verification process helped deter obviously fraudulent Internet registrations using false names and SSNs. However, FEMA kept no record of the names, SSNs, and other information related to the rejected registrations, and no record of the reasons that the FEMA contractor blocked the registration from going forward. FEMA acknowledged that it was conceivable that individuals who were rejected because of false information submitted via the Internet could get expedited assistance payments by providing the same false information over the telephone.

Although the identity verification process appeared to have worked for most Internet registrations, it did not identify a small number of registrations with invalid SSNs. According to information we received from the SSA, nearly 60 Internet registrants who received FEMA payments provided SSNs that were never issued or belonged to individuals who were deceased prior to the hurricanes. Results indicate that these individuals may have passed the verification process because public records used to verify registrants' identities were flawed. For example, one credit history we obtained indicated that a registrant had established a credit history using an invalid SSN.

Unlike the Internet process, FEMA did not verify the identity of telephone registrants who accounted for over 60 percent of disaster registrations recorded in FEMA's system. For registrants who registered only via telephone, or registrants who called FEMA subsequent to being denied on the Internet, FEMA did not have controls in place to verify that the SSN had been issued, that the SSN matched with the name, that the SSN did not belong to a deceased individual, or whether the registrants had been rejected on prior Internet registrations. Because the identity of telephone registrants was not subjected to basic verification, FEMA did not have any independent assurance that registrants did not falsify information to obtain disaster assistance. According to FEMA officials, FEMA had a request in place to modify its computer system to allow for identity

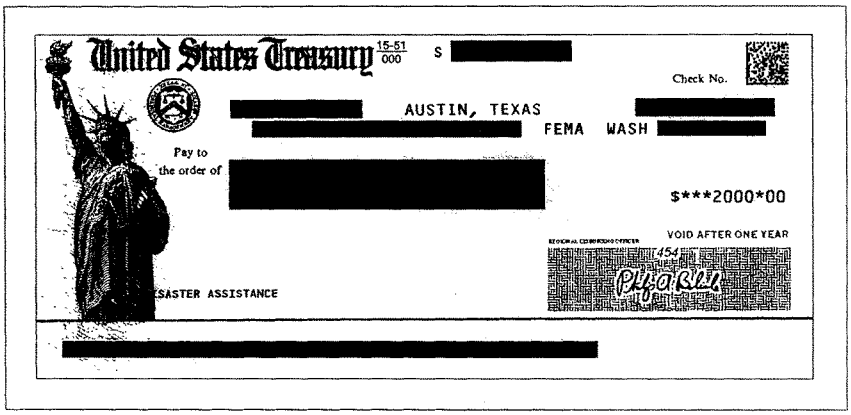
verification for telephone registrations similar to those used for the Internet. FEMA also represented to us that due to budget constraints and other considerations, the change was not implemented in time to respond to hurricanes Katrina and Rita. However, to date we have not received documentation to validate these representations.

Control Weaknesses Enabled GAO to Obtain $2,000 Expedited Assistance Checks

The lack of identity verification of phone registrants prior to disbursing funds makes FEMA vulnerable to authorizing expedited assistance payments based on fraudulent information submitted by registrants. Prior to obtaining information on the control procedures FEMA used to authorize expedited assistance payments, we tested the controls by attempting to register for disaster relief through two portals: (1) the Internet via FEMA's Web site and (2) telephone calls to FEMA. For both portals, we tested FEMA's controls by providing falsified identities and bogus addresses. In all instances, FEMA's Web site did not allow us to successfully finalize our registrations. Instead, the Web site indicated that there were problems with our registrations and advised us to contact the FEMA toll-free numbers if we thought that we were eligible for assistance. This is consistent with FEMA's representation that Internet registrations were compared against third-party information to verify identities.

Our investigative work also confirmed that the lack of similar controls over telephone registrations exposed FEMA to fraud and abuse. Specifically, in instances where we submitted via the telephone the same exact information that had been rejected on the Internet, i.e., falsified identities and bogus addresses, the information was accepted as valid. Subsequently, the claims were processed and $2,000 expedited assistance checks were issued. Figure 1 provides an example of an expedited assistance check provided to GAO.

Figure 1: $2,000 Expedited Assistance Check Provided to GAO Based on Bogus Registration



Source: GAO.

Additional case study investigations, which we discuss further later, demonstrated that individuals not affected by the disasters could easily provide false information to obtain expedited assistance and other IHP payments from FEMA. Convictions obtained by the Department of Justice also show that others have exploited these control weaknesses and received expedited assistance payments. For example, one individual in a College Station, Texas relief center pleaded guilty to false claims and mail fraud charges related to IHP and expedited assistance. Despite never having lived in any of the areas affected by the hurricane, this individual registered for and received $4,358 ($2,000 in expedited assistance and $2,358 in rental assistance) in hurricane Katrina IHP payments.

Other Control Weaknesses Exacerbated Government Exposure to Fraud and Abuse

We also found that FEMA instituted limited pre-payment checks in the National Emergency Management Information System (NEMIS) to automate the identification of duplicate registrations. However, the subsequent review process used to resolve these duplicate registrations was not effective in preventing duplicate and potentially fraudulent payments. We also found that FEMA did not implement procedures to

provide assurance that the disaster address was not a bogus address, either for Internet or telephone registrations.

FEMA's controls failed to prevent thousands of registrations with duplicate information from being processed and paid. Our work indicates that FEMA instituted limited automated checks within NEMIS to identify registrations containing duplicate information, e.g., multiple registrations with the same SSNs, duplicate damaged address telephone numbers, and duplicate bank routing numbers. Data FEMA provided enabled us to confirm that NEMIS identified nearly 900,000 registrations—out of 2.5 million total registrations—as potential duplicates. FEMA officials further represented to us that the registrations identified as duplicates by the system were "frozen" from further payments until additional reviews could be conducted. The purpose of the additional reviews was to determine whether the registrations were true duplicates, and therefore payments should continue to be denied, or whether indications existed that the registrations were not true duplicates, and therefore FEMA should make those payments. It appeared from FEMA data that the automated checks and the subsequent review process prevented hundred of thousands of payments from being made on duplicate registrations. However, FEMA data and our case study investigations also indicate that the additional review process was not entirely effective because it allowed payments based on duplicate information.

We also found that FEMA did not implement effective controls for telephone and Internet registrations to verify that the address claimed by registrants as their damaged address existed. As will be discussed further below, many of our potentially fraudulent case studies show that payments were received based on claims made listing bogus damaged addresses. Our undercover work also corroborated that FEMA provided expedited assistance to registrants with bogus addresses.

Potentially Fraudulent Activities Resulting from Weak or Nonexistent FEMA IHP Controls

With limited or nonexistent validation of registrants' identities and the reported damaged addresses, it is not surprising that our data mining and investigations found substantial indicators of potential fraud and abuse related to false or duplicate information submitted on disaster registrations. Our audits and investigations of 20 cases studies comprising 248 registrations that received payments, and the undercover work we discussed earlier, clearly showed that individuals can obtain hundreds of

thousands of dollars of IHP payments based on fraudulent and duplicate information.[9] These case studies are not isolated instances of fraud and abuse. Rather, our data mining results to date indicate that they are illustrative of the wider internal control weaknesses at FEMA—control weaknesses that led to thousands of payments made to individuals who provided FEMA with incorrect information, e.g., incorrect SSNs and bogus addresses, and thousands more made to individuals who submitted multiple registrations for payments.

Case Study Examples Show That Control Weaknesses Have Been Exploited

Our audits and investigations of 20 case studies demonstrate that the weak or nonexistent controls over the registration and payment processes have opened the door to improper payments and individuals seeking to obtain IHP payments through fraudulent means. Specifically, a majority of our case study registrations—165 of 248—contained SSNs that were never issued or belonged to deceased or other individuals. About 20 of the 248 registrations we reviewed were submitted via the Internet. Further, of the over 200 alleged damaged addresses that we tried to visit, about 80 did not exist. Some were vacant lots, others turned out to be bogus apartment buildings and units. Because the hurricanes had destroyed many homes, we were unable to confirm whether about 15 additional addresses had ever existed. We also identified other fraud schemes unrelated to the weak and nonexistent validation and prepayment controls previously discussed, such as registrants who submitted registrations using valid addresses that were not their residences.

In total, the case study registrants of whom we conducted investigations have collected hundreds of thousands of dollars in payments based on potentially fraudulent activities. These payments include money for expedited assistance, rental assistance, and other IHP payments. Further, as our work progresses, we are uncovering evidence of larger schemes involving multiple registrants that are intended to defraud FEMA. We found these schemes because the registrants shared the same last names, current addresses, and/or damaged addresses—some of which we were able to confirm did not exist. While the facts surrounding the case studies provided us with indicators that potential fraud may have been perpetrated, further testing and investigations need to be conducted to determine whether these individuals were intentionally trying to defraud

[9]We used various indicators such as identical names, SSNs, damaged addresses, and current addresses to link multiple registrations together into the 20 case studies.

the government or whether the discrepancies and inaccuracies were the results of other errors. Consequently, we are conducting further investigations into these case studies. Table 1 highlights 10 of the 20 case studies we identified through data mining that we investigated. In addition, some individuals in the cases cited below submitted additional registrations but had not received payments as of mid December 2005.

Table 1: Examples of Potential Fraudulent and Duplicate Registrations That Received FEMA Payments

Case	Number of Registrations with Payments/ SSNs	Payments Received[a]	Number of Bogus Properties Used to Receive Payments[b]	Case Details
1	36/36	$103,000	At least 10	• Seventeen individuals received payments on 36 registrations using 34 SSNs that were not theirs. • Of the 17 addresses we visited, 13 were from the same apartment building, of which 6 did not exist. • 4 additional addresses were also invalid. • Payments included 31 expedited assistance payments totaling $62,000, and 18 in other payments, including rental payments.
2	15/15	$41,000	At least 8	• One individual received payments on 15 different SSNs—only one of which belonged to that person. • Investigative work also showed that 3 addresses were valid but were not addresses of the registrant. • Payments included 13 expedited assistance payments totaling $26,000 and $15,000 in other assistance, including housing. • The individual may have committed bank fraud by using an invalid SSN to open an account. • The individual had established credit using 2 SSNs that did not belong to the individual.
3	8/1	$16,000	None	• One individual received 8 expedited assistance payments using the same name, SSN, and current address. • Of the 8 addresses declared as damaged, two appeared to belong to the individual. • FEMA's automated edits identified at least 7 registrations as duplicates, nevertheless payments were issued.
4	23/23	$46,000	At least 14	• Two individuals received expedited assistance payments on 23 SSNs – 21 of which were not theirs. • Public records indicate that the individuals did not live at any of the 9 valid addresses. • Payments included 22 expedited assistance payments and 1 housing assistance payment.

Case	Number of Registrations with Payments/ SSNs	Payments Received[a]	Number of Bogus Properties Used to Receive Payments[b]	Case Details
5	38/38	$76,000	At least 10	• Six individuals received 38 payments on different SSNs—only 1 of which was traced back to them. • Payments included 37 expedited assistance payments totaling $74,000 and over $2,000 in other assistance.
6	18/18	$36,000	At least 12	• Individual received 18 expedited assistance payments using the same name and 18 different SSNs—only 1 of which belonged to the person. • Investigative work and public records also indicate that the individual had never lived at any of the 6 remaining valid addresses.
7	31/30	$92,000	At least 22	• A group of 8 individuals received payments on 31 registrations using 26 SSNs that did not belong to them. • 22 of the registrations were for addresses that did not exist. The remaining addresses were not validated. • Payments include 32 payments for expedited assistance and over $28,000 for other assistance including housing assistance.
8	6/6	$23,000	None	• Six apparent members of the same household registered 6 times using the same damaged addresses. • Five of the 6 individuals also shared the same current address. • Payments included 5 expedited assistance payments and $13,000 in other payments including housing assistance.
9	7/7	$15,000	None	• Seven apparent members of the same household received payments using the same damaged address. • One family member used a SSN that did not belong to the family member. • Six of the 7 individuals also shared the same current address. • Payments included 7 payments for expedited assistance.
10	7/7	$80,000	None	• Seven apparent members of the same household registered using the same damaged address. • Payments included 6 expedited assistance payments and $68,000 in other assistance.

Source: GAO analysis and investigation of FEMA data.

[a]Amount reflects total payments for IHP, which includes expedited assistance, temporary housing assistance, payments for repair and replacement of real and personal property, and payments for other needs such as medical, transportation, and other necessities.

[b]One address could be associated with multiple registrations.

The following provides illustrative detailed information on several of the cases.

- Case number 1 involves 17 individuals, several of whom had the same last name, who submitted at least 36 registrations claiming to be disaster victims of both Katrina and Rita. All 36 registrations were submitted through the telephone, using 36 different SSNs and 4 different current addresses. These individuals used their own SSNs on 2 of the registrations, but the remaining 34 SSNs were never issued or belonged to deceased or other individuals. The individuals received over $103,000 in IHP payments, including $62,000 in expedited payments and $41,000 in payments for other assistance, including temporary housing assistance.
  Our analysis shows that the individuals claimed 13 different damaged addresses within a single apartment building, and 4 other addresses within the same block in Louisiana. However, our physical inspection of these addresses revealed that 10 of the addresses were bogus addresses. Further audit and investigative work also shows that these individuals may not have lived at any of the valid disaster addresses at the time of hurricanes Katrina and Rita. We are conducting additional investigations on this case.

- Case number 2 involves an individual who used 15 different SSNs—one of which was the individual's own—to submit at least 15 registrations over the telephone. The individual claimed a different damaged address on all 15 registrations, and used 3 different current addresses—including a post office box, where the individual received payments. The individual received 16 payments totaling over $41,000 on 15 of the registrations. In all, the individual received 13 expedited assistance payments, 2 temporary housing assistance payments, and another payment of $10,500. Further investigative work disclosed that the individual may have committed bank fraud by using a false SSN to open a bank account. Other publicly available records indicate that the individual had used 2 SSNs that were issued to other people to establish credit histories.

- Case number 3 relates to a group of 8 registrations that resulted in 8 payments totaling $16,000. According to FEMA data, an individual registered for Rita disaster assistance at the end of September 2005. About 10 days later, the same individual submitted at least 7 additional registrations claiming 7 different disaster addresses, 2 of which we were able to confirm belonged to the individual and may be rental properties that the individual owns. However, because the FEMA database showed that these addresses were entered as the individual's primary residence—a primary requirement for IHP—the individual received 8 expedited assistance payments instead of just the one that he qualified for. We also found that the automated edits established in NEMIS identified these

registrations as potential duplicates. In spite of the edit flags, FEMA cleared the registrations for improper expedited assistance payments.

- Case number 4 involves 2 individuals who appear to be living together at the same current address in Texas. These 2 individuals received payments for 23 registrations submitted over the telephone using 23 different SSNs—two of which belonged to them—to obtain more than $46,000 in disaster assistance. The information the registrants provided related to many of the disaster addresses appeared false. The addresses either did not exist, or there was no proof the individuals had ever lived at these addresses.

- Case number 8 relates to 6 registrants with the same last name who registered for disaster assistance using the same damaged address, with 5 of the 6 using the same current address. FEMA criteria specify that individuals who reside together at the same address and who are displaced to the same address are entitled to only one expedited assistance payment. However, all 6 possible family members received 12 payments totaling over $23,000—$10,000 in expedited assistance and more than $13,000 in other assistance, including rental assistance.

Data Mining Indicates Potential Fraud and Abuse Beyond Our Case Studies

The case studies we identified and reported are not isolated instances of potential fraud and abuse. Rather, our data mining results show that they are indicative of fraud and abuse beyond these case studies, and point directly to the weaknesses in controls that we have identified. The weaknesses identified through data mining include ineffective controls to detect (1) SSNs that were never issued or belonged to deceased or other individuals, (2) SSNs used more than once, and (3) other duplicate information.

Misuse of Social Security Numbers on Registrations

Our data mining and case studies clearly show that FEMA's controls over IHP registrations provided little assurance that registrants provided FEMA with a valid SSN. Under 42 U.S.C. § 408, submitting a false SSN with the intent to deceive in order to obtain a federal benefit or other payment is a felony offense. Based on data provided by the SSA, FEMA made expedited assistance payments to thousands of registrants who provided SSNs that were never issued or belonged to deceased individuals. Further, SSA officials who assisted GAO in analyzing FEMA's registrant data informed us that tens of thousands more provided SSNs that belonged to other individuals. This problem is clearly illustrated in case 2, where FEMA made payments totaling over $41,000 to an individual using 15 different SSNs. According to SSA records, the individual received payments on 4 SSNs that belonged to deceased individuals and 10 SSNs that did not

match with the names provided on the registrations. As previously discussed, further testing and investigations need to be conducted to determine whether this individual was intentionally trying to defraud the government or whether the discrepancies and inaccuracies were the results of other errors.

Same Social Security Numbers Used on Multiple Registrations

Our data mining and case studies clearly show that FEMA's controls do not prevent individuals from making multiple IHP registrations using the same SSN. We found thousands of SSNs that were used on more than one registration associated with the same disaster. Because an individual can receive disaster relief only on his or her primary residence and a SSN is a unique number assigned to an individual, the same SSN should not be used to receive assistance for the same disaster. This problem is illustrated in case 3 above, where an individual registered for IHP 8 times using the same name, same SSN, and same current address—and thus could have qualified for only 1 expedited assistance payments—but instead received expedited assistance payments of $2,000 for 8 different registrations.

Multiple Payments Made to Different Registrations Containing the Same Key Information

Our data mining and case studies also show that the IHP controls to prevent duplicate payments did not prevent FEMA from making payments to tens of thousands of different registrants who used the same key registration information. FEMA's eligibility criteria specify that individuals who reside together at the same address and who are displaced to the same address are typically entitled to only one expedited assistance payment. FEMA policy also provides for expedited assistance payments to more than one member of the household in unusual circumstances, such as when a household was displaced to different locations. However, both our investigations and data mining found thousands of instances where FEMA made more than one payment to the same household that shared the same last name and damaged and current addresses. As illustrated in case 8, 5 of 6 individuals with the same last name, the same damaged address, and the same current address received multiple expedited assistance payments, instead of just one for which they qualified. While not all of the registrations that used the same key information were submitted fraudulently, additional investigations need to be conducted to determine whether or not the entire family was entitled to expedited and other IHP assistance.

Similarly, our data mining also determined that FEMA made payments to tens of thousands of IHP registrants who provided different damaged addresses but the same exact current address. As shown in case study 4 above, some registrations that fell into this category contained bogus addresses or addresses that were not the registrants' residences. Under 18

U.S.C. § 1001, a person who knowingly and willfully makes any materially false, fictitious, or fraudulent statement or representation shall be fined or imprisoned up to 5 years, or both.

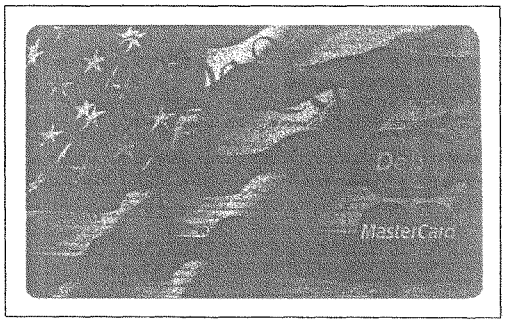
Our data mining also found that FEMA made duplicate expedited assistance payments to tens of thousands of individuals for the same FEMA registration number. FEMA policy states that registrants should only receive one expedited assistance payment. However, in some cases, FEMA paid as many as four $2,000 expedited assistance payments to the same FEMA identification number. As discussed later, we also found that FEMA issued expedited assistance payments to more than 5,000 registrants who had already received debit cards. FEMA officials represented to us that they traced some of these obviously duplicate payments to a computer error that inadvertently caused the duplicate payments. However, they provided no supporting documentation.

Controls over Debit Cards Were Ineffective in Preventing Duplicate Payments and Improper Use

In the days following hurricane Katrina, FEMA experimented with the use of debit cards to expedite payments of $2,000 to about 11,000 disaster victims at three Texas shelters[10] who, according to FEMA, had difficulties accessing their bank accounts. Figure 2 is an example of a FEMA debit card.

[10]The shelters were located in Dallas, Houston, and San Antonio.

Figure 2: FEMA Debit Card



Source: JP Morgan Chase.

The debit card program was an effective means of distributing relief quickly to those most in need. However, we found that because FEMA did not validate the identity of debit card recipients who registered over the telephone, some individuals who supplied FEMA with SSNs that did not belong to them also received debit cards. We also found that controls over the debit card program were not effectively designed and implemented to prevent debit card recipients from receiving duplicate expedited assistance payments, once through the debit card and again through check or EFT. Finally, unlike the guidance provided to other IHP registrants, at the time FEMA distributed the debit cards, FEMA did not provide instructions informing them that the funds on their cards must be used for appropriate purposes.

Debit Cards Issued to Individuals Providing Invalid Social Security Numbers

As discussed previously, FEMA did not verify the identity of individuals and/or households who submitted disaster registrations over the telephone. This weakness occurred in the debit card program as well. FEMA required the completion of a disaster registration prior to a household or individual being able to receive a debit card. According to FEMA officials, registrants at the three centers applied for assistance via the telephone and Internet. Therefore, to the extent that registrations for the debit card were taken over the telephone, FEMA did not subject the identity of the registrants to a verification process. Consequently, we identified 50 debit cards issued to registrants listing SSNs that the SSA had

no record of issuing, and 12 cards issued to registrants using SSNs belonging to deceased individuals. For example, one registrant used an invalid SSN to receive a $2,000 debit card and used about $500 of that money to pay prior traffic violations to reinstate a driver's license. In another case, a registrant used the SSN of an individual who died in 1995 to receive a $2,000 debit card. FEMA subsequently deposited an additional $7,554 in IHP payments to that debit card account for additional claims submitted by that individual. This registrant withdrew most of the $9,554 deposited into the debit card account by obtaining ATM cash withdrawals.

Thousands of Debit Cards Recipients Received Multiple Expedited Assistance Payments

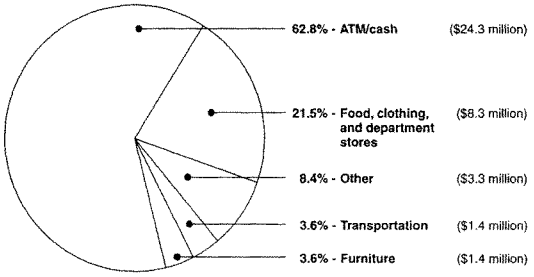
Based on a comparison of FEMA's IHP payments and the list of debit card recipients, we found that over 5,000 of the 11,000 debit card recipients received more than one $2,000 expedited assistance payment because they received a debit card and another form of payment (check or EFT). According to FEMA officials, they were aware that several individuals had already registered for IHP assistance and that some payments had already been made prior to issuance of a debit card. However, FEMA officials stated that individuals in the three shelters in Texas would not have access to their home addresses or bank accounts and therefore needed immediate assistance in the form of debit cards. Our review of FEMA data disproved FEMA's belief that only a few individuals who received debit cards also received other disaster assistance payments. Instead, thousands, or nearly half, of the individuals who received debit cards also received checks or EFTs that were made several days after the debit cards had been issued. The result was that FEMA paid more than $10 million dollars in duplicate expedited assistance payments to individuals who had already received their $2,000 of expedited assistance.

FEMA Debit Card Transactions

In general, once FEMA receives a disaster registration, FEMA sends a package containing IHP information and detailed instructions, including instructions on how to follow up on benefits, how to appeal if denied benefits, and the proper use of IHP payments. However, FMS and FEMA officials informed us that FEMA did not specifically provide instructions on how the debit cards should only be used for necessary expenses and serious needs related to the disasters at the same time the debit cards were distributed. We found that in isolated instances, debit cards were used for adult entertainment, to purchase weapons, and for purchases at a massage parlor that had been previously raided by local police for prostitution.

Our analysis of debit card transaction data provided by JP Morgan Chase found that the debit cards were used predominantly to obtain cash which did not allow us to determine how the money was actually used. The majority of the remaining transactions was associated with purchases of food, clothing, and personal necessities. Figure 3 shows a breakdown of the types of purchases made by cardholders.

Figure 3: Breakdown of Purchases Made with FEMA Debit Cards



Source: GAO analysis of JP Morgan Chase debit card transactions.

We found that in isolated instances, debit cards were used to purchase goods and services that did not appear to meet serious disaster related needs as defined by the regulations. In this regard, FEMA regulation provides that IHP assistance be used for housing-related needs and items or services that are essential to a registrant's ability to overcome disaster related hardship. Table 2 details some of the debit cards activities we found that did not appear to be for essential disaster related items or services.

Table 2: Purchases that Did Not Appear Necessary to Satisfy Immediate Emergency Needs

Vendors	Location	Nature of Transaction	Amount
Elliot's Gun Shop	Jefferson, LA	.45 caliber pistol	$1,300
D Houston	Houston, TX	Gentlemen's club	1,200
Friedman's Jewelers	Plano, TX	Diamond engagement ring	1,100
Argosy Casino	Baton Rouge, LA	7 ATM withdrawals within one day at a gambling institution	1,000

Vendors	Location	Nature of Transaction	Amount
Tim Fanguy Bail Bonds	Houma, LA	Partial bail bond payment	1,000
Department of Public Safety	Baton Rouge, LA	Payment of prior traffic violations for driver's license reinstatement	700
Cat Tattoo	Addison, TX	Tattoo on arm	450
Swedish Institute	Irving, TX	Massage parlor	400
Tiger Beer and Wine	Dallas, TX	Alcohol beverages	200
Condoms To Go	Dallas, TX	Adult erotica products	150

Source: GAO analysis of debit card transactions and additional investigations.

Conclusions

FEMA has a substantial challenge in balancing the need to get money out quickly to those who are actually in need and sustaining public confidence in disaster programs by taking all possible steps to minimize fraud and abuse. Based on our work to date, we believe that more can be done to prevent fraud through validation of identities and damage addresses and enhanced use of automated system verification intended to prevent fraudulent disbursements. Once fraudulent registrations are made and money is disbursed, detecting and pursuing those who committed fraud in a comprehensive manner is more costly and may not result in recoveries. Further, many of those fraudulently registered in the FEMA system already received expedited assistance and will likely receive more money, as each registrant can receive as much as $26,200 per registration.

Another key element to preventing fraud in the future is to ensure there are consequences for those that commit fraud. For the fraud cases that we are investigating, we plan to refer them to the Katrina Fraud Task Force for further investigation and, where appropriate, prosecution. We believe that prosecution of individuals who have obtained disaster relief payments through fraudulent means will send a message for future disasters that there are consequences for defrauding the government.

Madam Chairman and Members of the Committee, this concludes my statement. I would be pleased to answer any questions that you or other members of the committee may have at this time.

Contacts and Acknowledgements

For further information about this testimony, please contact Gregory D. Kutz at (202) 512-7455 or kutzg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony.

Appendix I: Objectives, Scope, and Methodology

To assess controls in place over the Federal Emergency Management Agency (FEMA)'s Individuals and Households Program (IHP), we interviewed FEMA officials and performed walkthroughs at the National Processing Service Center in Winchester, Va. We reviewed the Stafford Act, Pub. L. 93-288, the implementing regulations, and FEMA's instructions to disaster registrants available via the Internet. In addition, to proactively test controls in place, we applied for assistance using falsified identities, bogus addresses, and fictitious disaster stories to determine if IHP payments could be obtained based on fraudulent information. Because of several key unanswered requests for documentation from the Department of Homeland Security (DHS), information needed to fully assess the expedited assistance program was limited. For example, FEMA and DHS had not provided us documentation to enable us to conclusively determine the reason that FEMA submitted some registrations, and did not submit other registrations, to identity validation prior to issuing expedited assistance payments. Consequently, our work was limited to our analysis of the FEMA databases, investigations we conducted, data widely available to the public via the Internet, and information FEMA officials orally provided to us.

To determine the magnitude and characteristics of IHP payments, we obtained the FEMA IHP database as of December 2005. We validated that the database was complete and reliable by comparing the total disbursements against reports FEMA provided to the Senate Appropriations Committee on Katrina/Rita disbursements. We summarized the amounts of IHP provided by type of assistance and by location of disaster address.

To determine whether indications existed of fraud and abuse in expedited assistance and other disbursements, we provided FEMA data to the Social Security Administration (SSA) to verify against their records of valid social security numbers (SSNs). We also used data mining and forensic audit techniques to identify registrations containing obviously false data, such as multiple registrations containing the same name, same current or damaged address, but different SSNs, and registrations containing duplicate information, such as duplicate names and SSNs. To determine whether registrations from our data mining resulted in potentially fraudulent and/or improper payments, we used a nonrepresentative selection of 248 registrations representing 20 case studies (case studies included multiple individuals and registrations) for further investigation. We restricted our case studies to registrations that received payments as of mid-December 2005, and noted that some registrants within our case studies also submitted additional registrations—for which they may receive future

payments. We also identified instances where groups of registrants may have been involved in schemes to defraud FEMA. We found these schemes because the registrants provided the same SSNs, last names, current addresses, and/or damaged addresses on their registrations. Our macro analysis of potentially fraudulent use of SSNs and other data mining are ongoing, and we plan to report additional results at a future date. For purposes of this testimony, we did not conduct sufficient work to project the magnitude of potentially fraudulent and improper payments of IHP. We also visited over 200 of the claimed damaged addresses related to our case studies to determine whether or not the addresses were valid.

To assess the types of purchases made with FEMA debit cards distributed at relief centers, we reviewed a database of transactions provided by JP Morgan Chase, the administrating bank for the debit cards. SSA also assisted us to compare cardholder data with SSA records to determine whether registrants receiving debit cards had provided valid identities. We performed data mining on debit card transactions to identify purchases that did not appear to be indicative of necessary expenses as defined by the Stafford Act's implementing regulations. Finally, we validated specific transactions identified in the database by obtaining information on actual items purchased from the vendors.

In the course of our work, we made numerous written requests for key documents and sets of data related to the IHP, most dating back to October 2005. While FEMA officials promptly complied with one key part of our request—that is FEMA made available databases of IHP registrants and payments—the majority of items requested have not been provided. On January 18, 2006, the Department of Homeland Security Office of General Counsel provided us with well less than half of the documents that were requested. For example, FEMA and the DHS had not provided us documentation to enable us to conclusively determine the reason that FEMA submitted some registrations, and did not submit other registrations, to identity validation prior to issuing expedited assistance payments. While the database and other data provided by FEMA enabled us to design procedures to test the effectiveness of the FEMA's system of internal controls, it did not enable us to comprehensively determine the root causes of weak or non-existent controls.

During the course of our audit work, we identified multiple cases of potential fraud. For cases that we investigated and found significant evidence of fraudulent activity, we plan to refer our cases directly to the Hurricane Katrina Fraud Task Force. Except for scope limitations due to a lack of documentation provided by DHS, we performed our work from October 2005 through January 2006 in accordance with generally accepted government auditing standards and quality standards for investigations as set forth by the President's Council on Integrity and Efficiency.

STATEMENT OF RICHARD L. SKINNER

INSPECTOR GENERAL

U.S. DEPARTMENT OF HOMELAND SECURITY

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

FEBRUARY 13, 2006

Good morning Madam Chairman and Members of the Committee.

Thank you for the opportunity to be here today to discuss our ongoing and future audit and investigative efforts. I would like to focus my remarks on two important areas, sheltering initiatives and contract management.

However, before I begin my testimony, there are four groups I want to be sure are recognized. First, there have been many negative stories in the media about FEMA. It's not a secret that there are issues that need to be addressed. However, given all the negative press, the FEMA employees on-the-ground are working extraordinarily long hours, living away from their families for weeks at a time, and are not being recognized for their genuine commitment and hard work. Despite their heavy workload, FEMA employees have been very cooperative with my office. I understand from some of them that if they're recognized in the public as FEMA employees, they often are spat on and booed. This is unfortunate. Most are hard working federal employees trying to make a difference. To them, it's not just a job, but a way to serve their fellow citizens in a time of need.

Second, I want to take this time to recognize the support and assistance of the Department of Homeland Security (DHS). Both Secretary Chertoff and Deputy Secretary Jackson have made every effort to ensure that my office has access to whatever information we may need and deem important. The Secretary and Deputy Secretary have formally requested that we provide management counsel about how best to work through the issues of procurement, financial controls, and related matters that will help ensure DHS components are the best stewards of taxpayer dollars.

Third, I would like to recognize the efforts of the President's Council on Integrity and Efficiency (PCIE), and the Government Accountability Office (GAO), for their collective efforts to ensure that disaster relief funds are being spent wisely. Hundreds of auditors and investigators are now working, and will continue to work aggressively, in a coordinated manner to oversee the Federal Government's Gulf Coast Hurricane response and recovery efforts. I am extremely proud to be part of the PCIE community.

Finally, I would like to recognize the efforts of the Department of Justice (DOJ) in supporting the Inspectors General investigative activities. Their cooperation and support is unprecedented, and the success that we have had to date combatting Hurricane Katrina fraud can be tied directly to their fraud task force initiatives.

Thank you for allowing me to digress, I want to make sure that all the hardworking federal employees and agencies get the recognition they so rightly deserve.

OVERVIEW OF OIG HURRICANE KATRINA OVERSIGHT

Hurricane Katrina devastated the Gulf Coast regions of Louisiana, Mississippi, and Alabama. Katrina was the third most intense hurricane to hit the United States in history, and the sixth strongest hurricane ever recorded in the Atlantic basin. Katrina's damage

alone was significant; however, followed by Hurricane Rita, the damage remains uncalculated.

As you well know, in the wake of Katrina, Congress responded quickly with funds for immediate relief efforts, and the long process of recovery began. To date, emergency appropriations totaling about $85 billion have been made available for the recovery effort, of which $36.6 billion went to FEMA. Of the $36.6 billion added to the Disaster Relief Fund, $22 billion has been obligated for contracts, grants, and other disaster related activities.

Although FEMA is responsible for coordinating response and recovery efforts, the enormous effort required to restore the Gulf Coast necessitated the combined and collaborative efforts of many federal, state, and local government entities. Estimates of the cost to recover from the storm and rebuild the affected areas are as high as $200 billion. With this much damage, money, and number of agencies involved, the necessity for oversight is unprecedented.

Recognizing the need to protect taxpayers' dollars, the Office of Management and Budget in early September 2005 mandated that the federal agencies involved in the disaster response and recovery efforts develop a stewardship plan. The plan sets the framework for mitigating risks associated with crisis procurement, managing the broad scope of oversight work, and overseeing contracts awarded. On the heels of the Office of Management and Budget/Department of Homeland Security plan, the Federal Office of Inspectors General (OIGs) involved in oversight of disaster relief efforts developed an audit hurricane coordination model. The model outlined which OIGs would focus on what recovery activities and during which phase of the recovery. By December 2005, the federal OIGs published the first Compendium of Hurricane Oversight Plans for single- and multiple-agency management reviews, audits, and investigations. To date, the OIGs have completed 15 reviews, initiated more than 121, and plan at least 50 more within the next six months. This does not take into account the thousands of man hours expended by the OIGs to provide oversight, counsel, and technical advisory services to their respective program managers involved in hurricane relief activities.

On September 8, 2005, the U.S. Attorney General established the Hurricane Katrina Fraud Task Force to deter, investigate, and prosecute disaster-related federal crimes. The task force is led by the Department of Justice, Criminal Division, and is based in Louisiana. The task force includes federal, state, and local law enforcement agencies.

In October 2005, the PCIE and the Executive Council on Integrity and Efficiency (ECIE) developed an investigation coordination model to address how case referrals, and investigations would be coordinated and managed by the litany of law enforcement agencies involved in the prevention and detection of fraud in disaster assistance programs.

Additionally, the Hurricane Relief Fraud Hotline was created on October 4, 2005, to support all federal agencies involved in the recovery. The Department of Defense Office

of Inspector General serves as the operator of the Hotline on behalf of all OIGs. The Hotline, which has reported 11,102 calls through the end of January 2006, functions as a channel for tracking incoming complaints and allegations of wrongdoing.

In the first 90 days after Katrina swept the Gulf Coast area, more than 4,700 contracts were awarded, valued at more than $8.1 billion, mostly for emergency response and the initial stages of recovery. Usually, disaster response periods last roughly 72 hours. In this case, the initial response to help the millions affected by the hurricanes lasted approximately three months. Also unique to this disaster is the breadth of states to which victims were evacuated. FEMA reports that currently 42 states plus the District of Columbia are housing victims of Katrina. At one point, evacuees were reported in all 50 states. This phenomenon, in itself, has increased the opportunity for fraud, waste, and abuse.

As the emergency response phase diminishes, individual and household assistance is growing. Likewise, public assistance grants have increased dramatically over the past several months as the arduous task of rebuilding the Gulf Coast's infrastructure begins in earnest.

Fortunately, the OIG community is well poised to address the need for oversight of the Federal Government's disaster response and recovery programs and operations. Prior to Hurricane Katrina, the PCIE established a Homeland Security Roundtable, based on their collective experience after the 9/11 attacks. The roundtable is a natural focal point around which hurricane recovery oversight can revolve. And, as Chair of the PCIE's Homeland Security Roundtable, I have been tasked with coordinating its activities. Needless to say, Hurricane Katrina oversight has been my number one priority for the past five months, and it will continue to be so for months and years to come. In addition to the OIGs involved in disaster response and recovery, I have invited the DOJ Katrina Fraud Task Force, GAO, and staffers from both Senate and House oversight committees to participate—since we all have one mission in common, to ensure that disaster relief funds are spent wisely.

In addition, I have created a separate Special Inspector General for Gulf Coast Recovery within my office. The Special IG provides:

- Independent audits and investigations of disaster relief operations
- Independent and objective leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of disaster programs and operations, and prevent and detect fraud, waste, and abuse.
- An independent and objective means of keeping the Congress, the Secretary of Homeland Security, and all other federal departments and agencies involved in disaster relief fully and currently informed about problems and deficiencies relating to the administration of disaster relief programs and operations, and the necessity for and progress of corrective action.

This allows us to stay current on all disaster relief operations, and provide on-the-spot advice on internal controls and precedent setting decisions.

Although FEMA has cooperated with our efforts and is in the process of implementing procedures to identify and reduce waste, fraud, and abuse, it has yet to implement a number of DHS/OIG recommendations, which, in our opinion, could have mitigated many of the problems they are experiencing today. In May 2005, we provided FEMA with a report entitled, "FEMA's Individuals and Households Program in Miami-Dade County, Florida, for Hurricane Frances." In the report, we identified the need for better development and implementation of policies, procedures, and guidelines in the granting of awards to individuals and households for hurricane relief. Unfortunately, FEMA had not implemented those controls when Katrina struck. The lack of basic internal controls is contributing partially to the fraud, abuse, and waste we are currently seeing.

We have initiated a number of reviews as part of our stewardship role for the Department's Hurricane Katrina relief efforts. Our plan of action to ensure the appropriate use of FEMA funds can be summarized as follows:

- Assigned Audit and Investigation Teams to Joint Field Offices (JFOs). We deployed audit and investigative teams to each of the JFOs in Alabama, Mississippi, Louisiana, Texas, and Florida to provide technical assistance to FEMA, State, and local officials. The auditors are providing advice on various matters to FEMA, state, and local officials and perform proactive procedures related to the internal activities of the JFOs to ensure the appropriate control and use of FEMA funds. The investigators are coordinating with the respective federal, state, and local law enforcement agencies and prosecutors as part of their "fraud awareness" initiatives and initiated a series of investigations of allegations received through the Katrina "Hotline," and other sources.

- Assigned Team to FEMA Emergency Operations Center. We assigned a team to the FEMA EOC to monitor disaster relief operations and provide consulting services and advice, as requested, on the precedent setting decisions that relate to the "welter of issues" confronting FEMA as it attempts to carry out its emergency response and recovery responsibilities.

- Participate in Applicant Briefings and Kickoff Meetings. The auditors are assisting program officials during applicants' briefings and also participate in any follow-up meetings with selected applicants and inform potential applicants of FEMA's documentation requirements.

- Provide Upfront Technical Advice on Grant Recipient Accounting Systems and Procedures. During meetings with applicants, our auditors are offering to visit their place of business to review their accounting systems and subgrant administration policies, procedures, and practices. The auditors are making site visits to state and local offices, as well as others who qualify for disaster assistance, to evaluate their systems and subgrant management controls to account

for FEMA funds and identify weaknesses early in the process that need to be corrected.

- Review Major Contracts. Our auditors are reviewing all major FEMA contracts, including those awarded by our federal partners working under Mission Assignments and grant recipients to ensure that appropriate federal acquisition regulations are being adhered to, and expenditures are necessary and reasonable.

- Review Property Management. Our auditors are determining whether FEMA property management practices provide sufficient safeguards against pilferage and loss, particularly property acquired for use under mission assignments.

- Review Supporting Documentation for Public Assistance Projects. The auditors are also closely monitoring FEMA's approval of Public Assistance projects. We are initiating audits of selected projects in their early implementation stages to ensure compliance with federal laws and FEMA regulations, and before funds can be misspent.

- Review FEMA's Disaster Management Programs in Response to Hurricane Katrina. We plan to issue, within the next couple of months, an inspection of the overall adequacy of FEMA's emergency management program, i.e., how well FEMA carried out its disaster management responsibilities in response to Hurricane Katrina.

We are also conducting performance reviews of the individual household assistance program, FEMA's sheltering initiatives, and its management of mission assignments.

The above lays out just a few of our immediate plans to address the overwhelming need for oversight and stewardship. Today, I want to share with you some of the issues that we are currently raising through our on-going reviews and audits of FEMA's disaster response and recovery efforts. Many of the issues I will discuss are directly attributable to poorly managed programs, the lack or circumvention of basic internal controls, the absence of consistent and authoritative guidance, communication breakdowns, and ineffective information systems. We plan to issue reports on these issues in the near future.

OVERSIGHT OF SHELTERING INITIATIVES

This is the largest disaster that FEMA has had to respond to in its history. However, it does not mitigate the need for controls to be in place to prevent duplication of benefits and to manage the overall assistance being provided to victims of the disaster.

We are conducting a performance review of the sheltering initiatives to ensure that controls are in place and fraud and mismanagement are minimized. We are working closely with other OIGs through the PCIE that have temporary housing programs, such as the Department of Housing and Urban Development.

To coordinate the sheltering initiatives, FEMA established a Housing Area Command (HAC) that was set up in the Baton Rouge JFO to meet the needs of evacuees. The initial purchases for manufactured and modular homes and travel trailers were authorized by the HAC. While it appears the HAC overreacted to the overwhelming number of evacuees needing temporary housing, we are still evaluating the initial decisions made to determine the number and types of transitional housing needed, as well as the controls in place to ensure accountability of the transitional housing units purchased.

In addition to manufactured and modular homes and travel trailers, evacuees with immediate housing needs were placed in shelters, including hotels/motels and apartments, that were dispersed throughout the country. FEMA is working to transition all eligible evacuees into its Section 408 Direct Housing assistance program by March 1, 2006. However, there are a number of issues that we are finding that need to be addressed to ensure that the transition is done in an economic, efficient, and effective manner.

Manufactured Housing

It appears that FEMA may have over purchased manufactured homes and modular homes in excess of housing needs. FEMA is now paying to store and maintain them at various sites throughout the country. It is unclear how the decision was made; however, we determined that FEMA purchased 24,967 manufactured homes at a cost of $857.8 million and 1,295 modular homes at a cost of $40 million.

FEMA regulations prohibit using mobile homes in flood plains; therefore, the manufactured homes and modular homes cannot be used where most needed, i.e., in parts of Louisiana and Mississippi. Currently, the only use for modular homes has been to house emergency personnel, 50 in Alabama and 50 in Mississippi, and there is consideration to use some to store supplies at some of FEMA's locations, e.g., the furniture for the modular homes. To date, FEMA has identified the need for 2,600 manufactured homes in Louisiana and 2,000 in Mississippi. FEMA officials have also advised us that they plan to make some of these homes available for victims of the fire declarations in Texas and Oklahoma and for use in the areas that are not in flood plains. They also advised that with hurricane season close at hand, they might use some of the manufactured housing stock in other areas of the country. While there currently is no plan to sell any of the homes, FEMA officials advised that they plan to establish a staff of 22 sales personnel to work out of the Cumberland, Maryland, Distribution/Logistics Center in case the homes cannot be utilized. Needless to say, should FEMA opt to sell the surplus homes, they will be unable to recoup their investment since many of the homes are being poorly maintained and others have had built-in TVs, microwave ovens, and dishwashers removed because FEMA did not want some evacuees to get a manufactured home with a television or microwave while others did not receive the same amenity.

At one Emergency Housing Site in Hope, Arkansas, there are 10,777 manufactured homes, costing approximately $301.7 million, sitting on runways and in open fields. Since they are not properly stored, the homes are sinking in the mud and their frames are

bending from sitting on trailers with no support. FEMA is now in the process of installing jacks under the manufactured homes to help steady the frames. As of January 2006, none of the manufactured homes stored at Hope, Arkansas, have been moved out to house evacuees.

The problem is exacerbated because FEMA cannot use any manufactured homes greater than 14 feet wide or 60 feet long, of which they currently have approximately 2,360 in stock, because they do not meet current FEMA specifications. FEMA is considering declaring these homes as surplus and transferring them to the General Services Administration (GSA) for donation to other federal agencies that may have a need.

Travel Trailers

FEMA purchased 114,341 travel trailers at a cost of $1.7 billion. Approximately 75,000 are being used by evacuees and another 21,000 travel trailers are available for delivery to disaster victims. The remainder are being transported to sites or undergoing preparations for use. FEMA officials recently authorized the purchase of 4,000 more trailers.

We are currently reviewing the entire process for accountability of the trailers from the initial orders, the receipt by FEMA, to final delivery to an evacuee. We have reviewed various reports all with a different set of numbers as to what has been ordered, received, and occupied. These discrepancies suggest that FEMA and its contractors do not have sufficient controls or systems in place to account for the trailers and their ultimate disposition.

We are also concerned with contractors who are taking parts from damaged trailers that were not fully mission capable to bring other trailers into mission capable status. We found 36 cannibalized trailers in Mississippi and were told by FEMA officials that the total number is actually 51. Trailers that were not fully mission capable were missing batteries, propane tanks, or other small parts. At the beginning of the disaster, parts were not readily available, thus the contractor felt it was necessary to cannibalize non-mission capable trailers to meet the needs of the applicants. According to FEMA officials, trailers with missing parts were not reported nor were the trailers that were not mission capable. Both of these categories remain in FEMA inventory as usable trailers. Much of the damage to the trailers that were cannibalized appeared to be structural in nature, consistent with damage that would occur while in transit. Damage incurred during transit should be covered by, and filed with, the transporter's insurance company. Also, trailers received with missing parts or not fully mission capable should have been reported to the manufacturer and repaired under the manufacturer's warranty. The decision to cannibalize damaged trailers that most likely would have been covered under the manufacturer's warranty, or would be the responsibility of the transporter, unnecessarily increases FEMA's overall cost of travel trailers.

Inspection and Acceptance Processes

We observed the delivery and acceptance of travel trailers and mobile homes without any formal inspection procedures. Absent a thorough inspection prior to acceptance, FEMA could take possession of defective or non-compliant inventory. Given the high cost of individual units, comprehensive inspections are needed before acceptance.

Trailer Specifications

FEMA purchased over 27,000 travel trailers "off the lot" from over 300 local firms who had a variety of travel trailers in inventory. We reviewed a number of these contracts and noted that the contracts identified the model type and the Vehicle Identification Number for each individual trailer. However, the contracts that did not specify minimum specifications requirements, making it possible that some trailers did not meet FEMA's requirements or had significant deficiencies. Because minimum specifications were not included in the "off the lot" contracts, FEMA may have difficulty requiring contractors to repair defects in delivered trailers. We noted that when buying directly from manufacturers, FEMA included in the contract, extensive specification requirements to protect the interests of the Government.

Apartments

Under the Public Assistance program, FEMA has utilized the option of leasing apartments for evacuees. There are over 43,000 apartment leases in approximately 32 states to house evacuees with the majority of those in Texas. Some cities in Texas established 12-month lease agreements to house evacuees. However, evacuees were placed in these apartments before FEMA determined their eligibility for disaster assistance. FEMA is now planning to determine whether those in apartments are eligible for disaster assistance.

If a household is eligible for direct assistance, FEMA will refer the applicant to its contractor who will enter into an agreement with the landlord/lessor to pay the rental amount on a month-to-month basis up to the Fair Market Rent (FMR) published by HUD. A household may rent a unit that exceeds FMR; however, unless approved by FEMA, the applicant will be responsible for the difference in the rental amount. FEMA's contractor will not be responsible for the performance of the lease agreement and will not be liable or responsible for the household's behavior or conduct in tenancy. The contractor will continue the direct assistance payments until FEMA notifies the contractor to discontinue or until the applicant is no longer residing in the unit. The above procedures hold true for all apartment leases with the exception of those located in the City of Houston. FEMA has a separate contract with Houston to provide apartments for evacuees.

Other Transitional Housing

FEMA obtained a no cost lease to use facilities at the Starship facility in Anniston, AL, at the former Fort McClellan Army base for a period of two years on August 31, 2005. The

facility is owned and operated by the Joint Powers Authority—a non-profit organization. It is co-located with FEMA's Nobel Training Center. In return for the no cost lease, FEMA was required to refurbish the facility in order to make it a suitable housing site for approximately 1,000 evacuees. FEMA spent an estimated $7.9 million in disaster relief funds to refurbish the facility as it was in poor condition after having been mothballed for over six years with mechanical systems and building interiors in poor condition. Most metal surfaces were reportedly corroded and non-metallic surfaces were covered with a black mold. The renovated buildings were adjacent to a firing range that required expensive fencing to minimize risk from unexploded ordinance. Additionally, the contractor performing the work renovated a boiler plant, gymnasium, clinic, resource center, and welcome center.

The Starship facility received the first evacuee on September 15, 2005, but was shutdown by FEMA less than two months later on October 25, 2005, as the number of projected evacuees never materialized and facility-operating costs were too high. The Starship facility averaged less than ten evacuees per day during the short time that it was open for business. The contractor performing the work did not receive a formal statement of work until October 25, 2005; the same day the facility was shutdown by FEMA. Between September 15, 2005-October 25, 2005, daily occupancy at the Starship facility ranged between four and 19 evacuees. At the maximum occupancy level, this equates to $416,000 per evacuee. We understand that FEMA terminated the lease and returned the improved property to the Joint Powers Authority.

Individual Assistance

We are currently conducting a performance review of the Individuals and Households Program (IHP), and are also working closely with other OIGs through the PCIE, that have individual assistance programs, e.g., Department of Health and Human Services (HHS) and the Small Business Administration. We are working to identify weaknesses in the controls of the application process from receipt, review, and award to ensure only those individuals eligible for FEMA assistance receive it. Because of the varying types of assistance including rental assistance, home repairs, hotels/motels, apartment leases, and travel trailers, we are reviewing the potential for duplication of benefits or fraud.

CONTRACT MANAGEMENT ACTIVITIES

As government agencies rushed to meet requirements in the immediate aftermath of Katrina, they used expedited contracting methods as authorized under Federal Acquisition Regulations. The media has already reported many cases in which 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. While we have found many instances where contractors performed their work efficiently and in good faith, we have also found instances where there were problems. In some cases, the Government will have little legal recourse to recoup payments to contractors for payments under questionable contracts.

DHS has reported awarding over $5 billion in contracts to date and other agencies have reported a total of over $4.2 billion in awards. We are implementing a proactive and aggressive audit oversight program of contracting activities. Our objectives are 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 is being 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 those efforts. This group includes auditors from DHS, GAO, the Departments of Defense (including the service audit agencies from Army and Navy), HUD, HHS, the Department of Energy, GSA, and the Environmental Protection Agency.

One of the objectives of the Contract Audit Task Force is to provide consistent contract oversight across all government agencies involved in Katrina. To this end, contract audit experts from the community are currently evaluating the risks presented by large dollar contracts awarded without competition or definitive requirements and identifying 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 terminating questionable contracts. In other cases, OIGs or the Defense Contract Audit Agency (DCAA) will be performing detailed cost incurred audits to identify questionable costs that the Government should not reimburse to the contractor. The OIGs will be issuing reports as soon as problems and issues are identified so that corrective actions can be taken immediately.

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 have determined that FEMA's initial decision to lease cruise ships was reasonable under the urgent circumstances following Hurricane Katrina. Our auditors determined that the use of cruise ships may have been economical in a high cost area such as New Orleans so long as occupancy remains high, but are not economical in low cost areas such as Alabama and Mississippi. We found the cruise ship average occupancy rate to be 80%, however, the cruise ships require a 95% occupancy rate to be cost effective compared to per diem.

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. In addition to our work with related OIGs, my office is conducting an extensive program of reviews and audits on DHS and FEMA awarded contracts.

Technical Assistance Contractors

FEMA contracted with four major engineering firms to provide technical assistance to the Individual Assistance Program. The Individual Assistance Program provides, among other support, housing assistance to Katrina evacuees, which may include temporary housing in travel trailers, modular homes, and mobile homes. The four technical assistance contactors' work scope includes: supporting staging areas for housing units (travel trailers and mobile homes), installation of housing units, maintenance and upkeep, site inspections and preparations, site restoration, group site design, group site construction, site assessments, property and facility management, as well as housing unit deactivation and rehabilitation. While one contract had been awarded in response to a previous hurricane, the other three contracts were awarded as letter contracts. FEMA's procurement activities were consistent with the Federal Acquisition Regulations and can be justified under the critical need for expedited action resulting from Hurricane Katrina.

FEMA is using pre-award authorization notifications with ceilings on pre-contract costs to initiate contractor work to meet urgent requirements in advance of a negotiated contract or task order. FEMA had been incrementally increasing the allowable cost ceiling on the pre-award authorization notifications every two weeks. FEMA has reported 88 active verbal authorizations that have been issued and has authorized these four contractors to spend $281.6 million in pre-contract costs. However, the current process may not be the most optimal approach to controlling costs as use of pre-award cost authorizations have no impact on the control of total costs for the effort. My office therefore recommended that FEMA negotiate a not-to-exceed ceiling within a brief period (i.e., two - three weeks) after issuance of new and existing verbal authorizations and letter task orders. In addition, we recommended that FEMA develop binding spending schedules against the not-to-exceed ceiling to limit the government's liability in the event of a change in the government's requirements.

FEMA has recently reported to us that the four technical assistance contractors have incurred costs over $8.2 million for 133 site assessments that were ultimately rejected for reasons such as: the owner withdrew from negotiations, lack of need, parish rejected the site location, etc. While the costs for most of these sites involved minimal expenditures, some sites were significantly more expensive ($300,000 - $600,000). We will be

reviewing these more expensive sites to determine whether the incurred costs were reasonable.

Hotel Invoices

FEMA's Individual Assistance Program also provides for temporary housing for disaster victims in hotels until such time as the victims can be transferred to longer term housing programs such as apartments, travel trailers and mobile homes. Immediately after Hurricane Katrina, the American Red Cross provided hotel rooms for evacuees until October 24, 2005. The American Red Cross was awarded a contract on October 20, 2005 for $250 million to provide housing and pharmaceutical assistance to eligible evacuees for the period from August 29 to October 24, 2005. Subsequent to October 24, 2005, FEMA assumed responsibility for providing hotel rooms for Katrina evacuees and awarded a task order under a GSA contract. Under this task order, the contractor, was to be paid a flat rate of $2.48 per night per room. The actual lodging costs were to be paid separately.

Among these charges, 773 rooms were over $150 per night with a total cost of $147,935 or a $191 per night average. Over 15,000 rooms were over $100 per night. In some instances, the room rates were excessive compared to the contract's estimated cost, but were consistent with the hotel's published price. For example, the contractor paid a hotel in New York City its published rate of $438.00 per night. Another facility in Panama City, Florida, charged between $330 and $375 per night for beachfront condominiums. A hotel in downtown Chicago charged up to $399 per night. As late as December 2005, FEMA was still paying relatively high prices – up to $364 per night at a hotel in San Diego, CA and as high as $339 per night in New Orleans, LA. We understand that FEMA discontinued allowing evacuees to stay at expensive hotels and put limits on the amount it would pay for a hotel room.

In other instances, we found hotel charges that appeared to be excessive compared to the published room rates for the hotel, however, we do not have sufficient data to determine whether it was because the charges were for a family that required more than one room or there were excessive charges to the Government. We are auditing the individual hotels charges from both the American Red Cross and FEMA's contractor to ensure that the hotel charges to FEMA were not in excess of the hotel's published room rates.

We have recommended that FEMA require that the contractor continue to obtain appropriate credits to hotel billings where room charges were higher than published room rates plus applicable taxes. We have requested that GSA modify the contract to provide incentives for meeting contract cost estimates and/or penalties for failing to meet contract cost estimates. Finally, we recommended that FEMA work with its contractor and the American Red Cross to revise the process for selecting hotels to prevent excessive per night room charges.

Invoice Payments

A routine part of the contracting process is the review and approval of contractor invoices by FEMA procurement and program management personnel. We are pleased to note that we are aware of several instances where FEMA procurement and program personnel have identified and withheld portions of invoices received from contractors due to questioned charges. Examples of these questioned charges include: unreasonable charges for holiday pay, billings for individuals who apparently did no work on the contract, and invoice reductions because of the poor quality of supervisory services received. FEMA, DCAA, and our office will continue to review all invoices to ensure their reasonableness prior to payment.

On one contract for base camp support, we have reported invoice payments of $4.9 million for work that was performed before the effective date of the contract. In addition, mathematical errors in the invoices indicated over $2 million in overcharges. Finally, even though the contract was a firm fixed price contract, the contractor billed FEMA on a time and materials plus a fixed per diem rate producing additional overcharges. On another firm fixed price contract for base camp support, we identified $353,030 in invoice overpayments where the contractor was billing FEMA on a cost-reimbursement basis plus a fixed per diem rate. In this instance, the contractor was directed to invoice in this manner because of incorrect invoicing instructions in the contract. In addition, recent media reports have commented on a Federal investigation of a $5 million award to a contractor that received payment in full before services were rendered. Subsequently, the contractor is reported to have failed to complete the work under the contract.

Purchase Cards

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 through the use of data mining techniques. Data mining involves subjecting purchase card transactions to an automated review to identify more easily questionable transactions. For example, purchase card transactions with certain types of businesses, such as casinos, are considered to be more likely to involve fraudulent or wasteful purchases. In addition, we are reviewing these purchases 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 be responsible for auditing the contracts awarded under 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 through many

different organizations before a contract is awarded and is proving more difficult to monitor funds accountability.

Staffing Issues

We are also concerned about FEMA's capacity 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 will be reviewing the availability of qualified contracting officer technical representatives to administer the awards effectively.

DHS OVERSIGHT

Although there are a number of issues where we have concerns, it is worth noting that DHS has already undertaken several initiatives to address our concerns and improve its disaster operations. The following efforts complement and are supported by a broader series of efforts at DHS and within the federal government to strengthen internal financial controls and implement oversight measures that minimize waste, fraud and abuse.

- Established a Katrina Internal Controls and Procurement Oversight Board to ensure proper controls are in place to manage the response and recovery efforts. Participants include officials from the DHS Management Directorate, DHS General Counsel, DHS Inspector General, and FEMA. Weekly meetings are held to review key issues and coordinate on oversight matters.

- Increased oversight over FEMA contracts, including reviews of on-going contracts awarded during Katrina to validate that requirements still exist and to ensure appropriate expenditure of funds.

- Initiated a comprehensive program to randomly test for improper payments across all programs and activities that are believed to be susceptible to improper payments according to the Improper Payments Information Act of 2002.

- Established the Gulf Region Acquisition Center along with plans to hire an additional 60 contracting officers or contracting officer technical representatives to strengthen procurement within FEMA.

- Entered into a memorandum of understanding with the Defense Contract Audit Agency to provide independent contract audit support for the four individual assistance Technical Assistance Contractors.

- Completed a review of internal control processes for disaster relief programs, including financial and systems controls.

We believe that the above actions are a step in the right direction and demonstrate the commitment of DHS management to address both program and management deficiencies. We will continue to collaborate with the Department to ensure that these and other improvements are implemented.

HURRICANE KATRINA FRAUD TASK FORCE

We are 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. It 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;
- 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 five months 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, other IGs and my office, have pursued a significant number of prosecutions stemming from Hurricanes Katrina and Rita. The statistics are impressive. As January 2006, in our office alone, we have opened 340 cases, made 68 arrests, indicted 98 individuals, and obtained 15 convictions. The prosecutions span Federal districts from Oregon to Florida and many places in between. This large number of arrests, indictments, and prosecutions, brought in such a short period, exemplifies the Task Force's effectiveness in fighting fraud.

You can be sure there are many more arrests and indictments to come in the months ahead. It also appears to have had a notable preventive impact on potential fraud. Due to our efforts, along with the highly publicized work of the U.S. Attorney's office, approximately 2,484 individuals have returned checks to FEMA for a total of $6.3 million dollars.

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 operates the HOTLINE on behalf of the entire OIG community. Furthermore, I personally recorded public service announcements to inform the Gulf Coast residents about the Hotline and urged those with knowledge of fraud to come forward. Additionally, FEMA has referred over 500 suspicious activities by individuals related to assistance. We are pursuing these referrals aggressively along with the U.S. Attorney's office.

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 OIG will also be issuing individual reports as weaknesses or problem areas needing attention are identified. These 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 fraud, waste, and abuse in the expenditure of Katrina related funds, but we also hope to provide lessons for future disasters.

My office is currently evaluating how well FEMA carried out its disaster management responsibilities in response to Hurricane Katrina. This will encompass preparedness, response, and recovery, as well as certain emergency management support functions, such as financial management, public affairs, and congressional affairs. We plan to issue our report on this subject no later than April 1, 2006.

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, with the support of the DOJ Hurricane Katrina

Fraud Task Force, 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.

The bottom line is, notwithstanding the overwhelming affects of Hurricanes Katrina, Rita and Wilma, it does not mitigate our fiduciary obligations as stewards of public dollars.

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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Department of Justice

STATEMENT

OF

ALICE S. FISHER

ASSISTANT ATTORNEY GENERAL

CRIMINAL DIVISION

UNITED STATES DEPARTMENT OF JUSTICE

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

CONCERNING

"HURRICANE KATRINA: WASTE, FRAUD AND ABUSE WORSEN THE DISASTER"

PRESENTED ON

FEBRUARY 13, 2006

Chairman Collins, Senator Lieberman, and distinguished Members of the Committee, thank you for inviting me to testify before you today about the activities of the Hurricane Katrina Fraud Task Force.

Amid the challenge of the immediate response to Hurricane Katrina, the Department of Justice was mindful of the need to ensure that the money pouring into the region gets into the hands of the needy and was concerned about ensuring the integrity of what promised to be an unprecedented relief and reconstruction effort. Against that backdrop, Attorney General Gonzales announced the creation of the Department of Justice Hurricane Katrina Fraud Task Force on September 8th, and appointed me as its Chair.

The Task Force's mission is to detect, deter and prosecute Hurricane Katrina-related fraud, and associated crimes such as public corruption. Of course, the mission has expanded to include frauds associated with Hurricanes Rita and Wilma that followed on the heels of Katrina. Our immediate goal was to spread the word that the Department will not tolerate opportunistic fraud in the midst of this humanitarian crisis and to send the unequivocal message that we will work tirelessly to discover these frauds, and corrupt public officials, and prosecute them vigorously. To that end, and to deter fraud in the first place, the Attorney General announced a zero-tolerance policy for hurricane-related fraud offenses and associated corruption crimes.

I have been honored to lead the efforts of the Task Force, whose members include Department of Justice components, such as the Federal Bureau of Investigation (FBI); other federal law enforcement agencies, such as the U.S. Postal Inspection Service and U.S. Secret Service; the federal Inspector General Community; and federal regulators with criminal enforcement powers. The Task Force has also partnered with other regulators, private partners and state and local law enforcement, to accomplish its mission. The progress and accomplishments of the Task Force are the result of the combined and coordinated efforts of this community.

I firmly believe that it is our responsibility as a nation to provide the necessary support to the people and communities of the Gulf region to rebuild their lives and their communities. That worthy goal commands a high price. To date Congress has appropriated $85 billion to that effort. Maintaining the integrity of the relief and reconstruction effort will promote confidence in those who provide the money for this worthy effort – be they individual donors to the American Red Cross or the American taxpayer through this Congress. Conversely, a lack of confidence in the integrity of the process could dry up donations and undermine taxpayer confidence. It would also significantly impact the reconstruction effort with necessary reconstruction either not happening (because the contractor was a fraud) or happening in a seriously substandard fashion that could have a devastating impact down the road. For these and many other reasons, I view the role of the Hurricane Katrina Fraud Task Force as vitally important.

I am so pleased to report that the Task Force has enjoyed early success. I can think of few other circumstances where the federal law enforcement community pulled together so cohesively, and so quickly, to bring about a palpable and effective message of deterrence. The sheer number of prosecutions that have been undertaken to date – in just 5 months – reflects the singular purpose with which we have approached this challenge. Many of these prosecutions were undertaken by the besieged U.S. Attorneys' Offices in the affected area – making their contribution that much more meaningful.

The success of our Task Force, which I outline below, can be credited to the unprecedented level of genuine cooperation and coordination of the Task Force members. We pulled together our resources, quickly and efficiently, to turn our mission into a reality. U.S. Attorneys in the affected areas formed working groups that brought together federal law enforcement, including agents from the Inspector General community, and state and local law enforcement. I directed the creation of a Joint Command Center to add the important elements of deconfliction, coordination, lead referral and analysis. Today, that Joint Command Center is up-and-running, making new headway with each passing day. From joint databases, to systematic lead referral to trend analysis, the Joint Command Center is improving the capabilities of each individual IG and law enforcement agency and U.S. Attorney-led working groups to fulfill their crucial mission of detecting and deterring hurricane-related fraud in the region.

The birth of the Joint Command Center itself exemplifies the high degree of cooperation and coordination among the Task Force members. The FBI immediately located space for the Command Center in Baton Rouge, a city that was bursting at the seams with evacuees and where space was nearly impossible to come by. That space was provided to us by Louisiana State University (LSU) – whose assistance has been unwavering. Men and women from the Department of Justice traveled down with supplies in hand – from computers to staplers – to jump-start the operation. New Orleans United States Attorney Jim Letten, battling the loss of his city, unaccounted-for staff, and a colossal law enforcement crisis, provided leadership for the Command Center in its start-up phase. Now that U.S. Attorney Letten has been able to return to New Orleans, his close partner, the United States Attorney for the Middle District of Louisiana, David Dugas, has accepted the responsibility of managing the day-to-day operations of the Command Center. Under his leadership, the Command Center is making important strides. The Inspector General community immediately detailed or assigned points of contact to the Command Center. Other law enforcement agencies, such as the Postal Inspection Service, immediately volunteered to provide human resources to support the operation. Perhaps most important has been the tremendous support of the FBI to this endeavor.

Truly, the FBI has been instrumental in turning the Command Center into a functioning and valuable asset. The support has come from the highest levels of headquarters all the way down to the Special Agents in Charge and their personnel in the region. Without this support – in the form of money, personnel, commitment and vision – we would not be nearly as successful.

The United States Attorney's community has been equally instrumental. Every U.S. Attorney's Office has heeded the Attorney General's directive that no hurricane-related fraud is too small to be prosecuted. The U.S. Attorney community worked with the IG community and law enforcement partners to quickly develop these cases and bring charges. The numbers of prosecutions to date reflect well on the U.S. Attorney community.

Finally, the IG community itself has been an invaluable partner. I particularly appreciate the close and cooperative relationship with Rick Skinner who is coordinating the efforts of the IG community generally. He has proven to be a true partner and responsive colleague. Like Rick, there are a number of Inspectors General who have worked hand-in-glove with the Task Force. Their combined efforts and support have made our successes possible.

I wish I could do justice to the contributions of each and every one of the Task Force members and partners. In addition to those already mentioned, federal regulators such as the Securities and Exchange Commission (SEC) and Federal Trade Commission (FTC) have worked closely with us to monitor hurricane-related activity in their areas of interest. The FTC has been particularly active in getting the word out to people so they will not become victims of hurricane-fraud identity theft. The Postal Inspection Service has been another true partner in that effort. The American Red Cross has worked closely with the Task Force to allow us to identify and successfully prosecute Red Cross charitable donation and benefit fraud. The Secret Service and the FBI mobilized quickly to shut down fraudulent websites seeking to solicit donations. State and local law enforcement, through the National Association of Attorneys General and the National Association of District Attorneys, have coordinated with, and provided support to the Task Force.

The Task Force just published a progress report to the Attorney General that will provide greater detail on our progress and accomplishments. However, I want to take this opportunity to highlight some of the more important accomplishments:

- The establishment of the Task Force's Joint Command Center, which has become a model for nationwide coordination, deconfliction, and referral of disaster-related fraud cases;
- Extensive national-level coordination among multiple agencies - at all levels of government and with the private sector – to expedite the identification and investigation of fraud cases; and
- A substantial number of prosecutions that United States Attorneys across the country are pursuing.

Joint Command Center

Early on it became apparent that we needed to develop a mechanism to coordinate our anti-fraud efforts. There were scores of Inspectors General on the ground in the affected area following the trail of their agency money and looking for fraud and corruption. Other law

enforcement agencies had their boots on the ground – FBI, U.S. Postal Inspection Service, U.S. Secret Service, and more. Added to the mix were the men and women from state and local law enforcement also looking to safeguard the integrity of the relief and reconstruction effort. With so many law enforcement agents, from so many different agencies, an effective means of deconflicting and coordinating was absolutely essential. We needed to find a way to make sure one agency did not inadvertently disrupt the investigation of another, and to make sure that lessons learned of one agency could benefit the entire law enforcement community. From that goal was born the Joint Command Center.

Located in a secure facility on the LSU campus in Baton Rouge, Louisiana, the Command Center is playing a vital role in ensuring nationwide coordination of our law enforcement efforts in rooting out disaster-related fraud and corruption. Already, the Command Center has a number of important accomplishments, listed below. As we move forward, with a database in place and full-time analytical staff, I expect that the Command Center will be instrumental in identifying fraud trends, pockets of fraud, and systemic vulnerabilities where we will likely find fraud.

Early accomplishments:

- **Made hotline tips readily accessible to the law enforcement community:** Two major Task Force hotlines – operated by the FBI and the President's Council on Integrity & Efficiency (PCIE) Homeland Security Working Group – have already received many complaints. To standardize the process of complaint intake, the Command Center created a standard Task Force Complaint Referral Form for transmitting fraud complaints and investigative leads to the Command Center, and an interagency complaint index to expedite screening, deconfliction, and referral of complaints to appropriate law enforcement agencies and Task Force working groups for investigation.

- **Designed and developed a deconfliction database:** The Command Center has developed, in conjunction with Department of Justice technical personnel, an innovative Referral and Deconfliction Database (RADD). The RADD will allow automatic deconfliction of complaints and leads, merger of duplicate complaints, referral of complaints to appropriate agencies and working groups, and tracking of complaints and referrals. The database will be brought online in the near future. The Command Center is performing those functions currently with a more limited database.

- **Promoted meaningful coordination between federal law enforcement partners:** To date, 32 federal agencies and Department of Justice components have representatives assigned to the Joint Command Center or designated as Points of Contact for the Command Center. The Command Center now has onsite interagency exchange of information and trends, through regular (weekly) Joint Command Center meetings and day-to-day interaction of the Joint Command Center staff and agency representatives.

- **Assigned full-time personnel to add analytical value:** In addition to these Command Center agency representatives, the FBI has assigned full-time support staff to the Joint Command Center. The FBI, the Department of Homeland Security Office of Inspector General, and the Postal Inspection Service have agreed to assign full-time analysts to the Joint Command Center to ensure that information gathered by the Joint Command Center is properly screened, analyzed, and reported to investigative agencies on a timely basis. The Joint Command Center analysts will also review information obtained from ongoing investigations and prosecutions in order to detect trends or patterns of fraudulent activity and possible systemic weaknesses.

- **Trained:** To enhance interagency coordination and development of cases, the Command Center has begun to provide on-site training for federal agents and prosecutors. Building on an initial training and information-sharing law enforcement conference that the Task Force held in New Orleans in October, the Command Center has already hosted training by Department of Justice prosecutors for Inspector General auditors, and plans to conduct additional training on a variety of topics relating to fraud and public corruption.

National-Level Coordination

To complement the coordination that the Command Center is providing in the field, the Task Force has taken a number of steps to ensure full and meaningful coordination and cooperation among all Task Force members. I have promoted this coordination in a number of ways. Since the initial set-up meetings of the Task Force, I have convened two plenary meetings, one in September and another in December 2005, where member agencies are represented at a headquarters level. At these meetings we are able to identify, discuss and resolve important issues affecting our common ability to combat this type of fraud.

I convened an all-hands meeting of the Task Force in New Orleans in October of 2005 to bring definition to our common mission, to learn from and of each other, and to introduce the Joint Command Center. We had approximately 100 participants from a wide swath of agencies. Agencies were represented by their on-the-ground assets as well as their headquarters policy makers. Attorney General Gonzales, Louisiana Attorney General Foti, FBI Assistant Director Chris Swecker, and Department of Homeland Security Inspector General Rick Skinner were among those attending and speaking.

I have met with or spoken personally, often on numerous occasions, with my counterparts in many affected agencies, to identify issues and to resolve them quickly. My staff and the Executive Director of the Command Center meet with and speak to affected agencies on a daily basis – identifying monies destined for the affected region, learning of the fraud controls if any, and identifying means to curb any fraud from the outset.

My staff participates in the regular meetings of the Command Center and visits often. We are in daily communication with Executive Director David Dugas – often until late hours of

the night. I have personally visited the Command Center in Baton Rouge twice, and have been highly impressed by the continuing professionalism and dedication of the agents and prosecutors I have met there. What makes that professionalism and dedication all the more significant is that many of these agents and prosecutors who live in the Gulf Coast region are working under the same difficult conditions as many others whose homes and offices were damaged or destroyed by the hurricanes. For example, the staff of the United States Attorney's Office for the Eastern District of Louisiana has only recently returned to its offices in New Orleans. Yet that office continued to pursue new cases, including Katrina Fraud Task Force cases, even while it was temporarily colocated in Baton Rouge with the United States Attorney's Office for the Middle District of Louisiana.

The Inspector General community has embraced the Task Force. My staff attends all the PCIE Homeland Security Roundtable meetings and participates in several of the working groups. We are working with investigative agencies and the IG community to proactively and expeditiously identify possible fraud. For example, we are working closely with several Offices of Inspectors General to track the disbursement of disaster-related funds in the affected areas, and to streamline processes for analyzing disaster-benefit applications and identifying significant cases of potential benefit fraud. Because the Federal Emergency Management Agency (FEMA) reports that more than 2.5 million people have applied for Hurricane Katrina or Rita benefits as of early January 2006, the Task Force's members recognize the importance of finding ways to identify fraud schemes as quickly as possible and pursuing these cases efficiently.

Prosecutions

This coordination, at both the national and field levels, and the dedication and commitment of federal agents and United States Attorneys across the country to a zero-tolerance approach to this type of crime, has resulted in a truly remarkable number of prosecutions in such a short period of time. There is some evidence that our strategy of maximizing deterrence through swift and certain prosecution is having the desired effect – with the Red Cross and FEMA reporting to the Task Force that, together, they have seen money returned by individuals – some under circumstances suggesting that fear of prosecution was driving the decision to return the funds (or to ask for a payment plan to repay already spent funds).

The prosecutions brought to date cover the gamut of the Task Force's mandate: charity fraud; government and private-sector benefit fraud; identity theft; insurance fraud; procurement fraud; and public corruption. Here are just a few examples of the Task Force's current cases:

- *Contract Fraud and Public Corruption.* Just ten days ago, a federal grand jury in the Eastern District of Louisiana indicted two FEMA employees, charging both with soliciting bribes as public officials. According to the criminal complaint previously filed, the two FEMA employees were responsible for managing the FEMA base camp located in Algiers, Louisiana. Those employees allegedly approached a local contractor and, in a series of meetings, solicited a $20,000 bribe from the contractor in exchange for inflating

the headcount for a $1 million meal service contract at the base camp. The two FEMA employees were arrested on January 27, after each took one envelope containing $10,000 from the contractor.[1]

On December 6, 2005, the United States Attorney's Office for the Southern District of Mississippi filed a criminal complaint against a subcontractor involved in debris removal after Hurricane Katrina, as well as a U.S. Army Corps of Engineers employee. The complaint charged both with conspiracy to commit bribery of a federal official. According to the complaint, the subcontractor paid the Corps of Engineers employee multiple bribes, to create false load tickets for debris that the subcontractor never dumped at a dumpsite where the Corps of Engineers employee served as a quality assurance representative.[2]

Finally, on December 16, 2005, a federal grand jury for the Eastern District of Louisiana indicted a St. Tammany Parish Councilman on charges of extortion under the Hobbs Act and money laundering. The indictment alleges that the defendant used his official position as a councilman to obtain inside information about a debris removal contract resulting from Hurricane Katrina, and that he used his official position to influence a prime contractor in St. Tammany Parish to enter into a contract with another company. It further alleges that the defendant pressured the owners of the second company to pay him 50 percent of the funds that the company received from the prime contractor.[3]

- *Benefit Fraud and Identity Theft.* The vast majority of persons charged to date allegedly engaged in fraud when applying for and receiving disaster-assistance benefits to which they were not entitled. Here are some of the most frequent patterns of criminal conduct we are seeing in these cases:

    - The first involves multiple applications with others' identifying information. For example, on January 20, 2006, the United States Attorney's Office for the Southern District of Texas filed a criminal complaint against a man on mail fraud charges relating to his fraudulently applying for disaster unemployment assistance. The man had evacuated from New Orleans to Conroe, Texas because of Hurricane Katrina. He proceeded to recruit multiple residents of Conroe, who had not been evacuees, to let him use their identifying information to obtain multiple debit cards issued by the Louisiana Department of Labor for disaster

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[1] *See* United States Attorney's Office, Eastern District of Louisiana, Press Release, Jan. 27, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/1-27-06USAOEDLA.pdf

[2] *See* U.S. Attorney's Office for the Southern District of Mississippi, Press Release, December 6, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/12-06-2005-USAOMS.pdf.

[3] *See* United States Attorney's Office, Eastern District of Louisiana, Press Release, Dec. 16, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/12-16-05-USAOEDLA.pdf.

unemployment assistance. According to the complaint, the individual paid people in cash or drugs for their information.[4]

On December 13, 2005, federal authorities arrested a man on a criminal complaint in the Middle District of Louisiana, alleging wire fraud and false use of Social Security numbers to obtain fifty disaster unemployment debit cards for alleged losses resulting from Hurricane Katrina. According to the complaint, 50 applications filed with the Louisiana Department of Labor resulted in fifty disaster unemployment debit cards being mailed to a post office box in Villa Rica, Georgia. The complaint alleges that 49 of the 50 applications for unemployment assistance bore the same date of birth, all had the last name of Ramirez or Garcia, and all the Social Security numbers were the same, except for one or two digits.[5]

In some of these cases, the ringleader of the scheme sought the assistance of family members or acquaintances to carry out the criminal scheme. For example, on January 11, 2006, a federal grand jury in the Northern District of Texas indicted three Dallas-area residents and two Meyersville, Mississippi, residents, for various offenses related to their role in a FEMA fraud scheme. According to the indictment, the defendants made numerous fraudulent claims for hurricane disaster relief by filing the fraudulent claims over the telephone and online with FEMA and the Louisiana Department of Labor (LDOL). The lead defendant reportedly submitted more than 50 fraudulent online applications to FEMA and the LDOL, and filed most of the fraudulent claims on behalf of family members who lived in two areas not affected by Hurricane Katrina. The lead defendant allegedly received approximately $65,000 in fraudulently obtained Hurricane Katrina disaster benefits and there is no evidence to indicate that she ever lived in New Orleans.[6]

- The second type of conduct involves applications by persons living well outside the disaster areas. We have seen numerous cases in which the applicants for disaster benefits lived two, three, or more states beyond the affected areas, and were not in fact displaced by the hurricanes. For example, during the week of January 23, 2006, a federal grand jury in the District of Oregon indicted nine Portland-area residents on charges relating to their falsely representing that they

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[4] *See* United States Attorney's Office, Southern District of Texas, Press release, January 26, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/1-26-06USAOSDTX.pdf.

[5] *See* United States Attorney's Office, Middle District of Louisiana, Press Release, December 14, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/12-14-05USAOMDLA.pdf.

[6] *See* United States Attorney's Office, Northern District of Texas, Press Release, Jan. 17, 2006, *available at* http://www.usdoj.gov/usao/txn/PressRel06/hall_lakietha_etal_katrinafraud_indict_pr.html.

were displaced by Hurricane Katrina in order to receive FEMA expedited-assistance and rental-assistance checks.[7]

One factor that made this possible was the creation, by disaster-relief organizations, of telephone and Internet-based application processes for disaster assistance. While this was a necessary decision to try to improve timely delivery of emergency assistance to people displaced from their homes, a number of our cases show that criminals have been able to exploit those processes for their personal benefit. The most significant example of this to date is the fraud scheme that the United States Attorney's Office for the Eastern District of California and the FBI have been investigating in connection with the American Red Cross's call center in Bakersfield, California. The scheme was to defraud the American Red Cross of funds intended for Hurricane Katrina victims, by submitting or causing others to submit fraudulent claims through the call center. The indictments allege that a number of temporary employees at the Bakersfield call center, and some close associates of those temporary employees, obtained false claim information and, using that information, obtained payment from Western Union.[8] As of February 2, 2006, 53 persons have been federally charged in this investigation.

- The third type of conduct involves applications by prison inmates at institutions outside the disaster areas. For example, on October 27, 2005, a federal grand jury in the Western District of Louisiana indicted two women, incarcerated at the Avoyelles Women's Correctional Facility in Cottonport, Louisiana, for claiming to be hurricane victims in order to fraudulently obtain FEMA relief funds.[9]

- The fourth type of conduct involves schemes by individuals to defraud the public of their money by falsely representing themselves to be charitable organizations or agents of charitable organizations. There have been a number of cases where persons falsely claimed to represent the American Red Cross and received "donations." In other cases, persons set up fraudulent websites to collect money from unsuspecting donors. For example, one defendant who pleaded guilty on January 30, 2006 in the Southern District of Florida, set up a website (www.airkatrina.com) which netted him $40,000 in donations in just two days from 48 different victims around the world. He falsely claimed that he was piloting flights to Louisiana to provide medical supplies to the areas affected by

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[7] *See, e.g.*, United States Attorney's Office, District of Oregon, Press Release, January 26, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/1-26-06USAOOR.pdf.

[8] *See, e.g.*, United States Attorney's Office, Eastern District of California, Press Release, October 27, 2005, *available at* http://www.usdoj.gov/usao/cae/PRESS/pdf_2005/10-27-05katrinarelease.pdf.

[9] *See* United States Attorney's Office, Western District of Louisiana, Press Release, October 27, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/10-27-05USAOWDLA.pdf.

> Hurricane Katrina and to evacuate children and others in critical medical condition. He further claimed that he had organized a group of Florida pilots to assist him in his supposed relief efforts.

As the bigger dollars start flowing into the area for the major reconstruction projects, we expect that we may see a greater number of procurement fraud cases developing. We have geared up for this important phase, with a robust infrastructure that supports broad-based information-sharing, deconfliction and analysis.

I am pleased to share with this Committee the early successes of the Task Force and am humbled by the talent and commitment of the men and women who are turning this important mission into a reality. Madam Chairman, that concludes my prepared statement. I would be pleased to take the Committee members' questions at this time.

* * *

United States Government Accountability Office
Washington, DC 20548

April 7, 2006

The Honorable Susan M. Collins
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate

Dear Chairman Collins:

Subsequent to the February 13, 2006, hearing titled "Hurricane Katrina: Waste, Fraud, and Abuse Worsen the Disaster," you asked us to submit responses to two questions for inclusion to the official record. Our responses are listed below.

1. From the cases that GAO is currently investigating, do you have some idea of how many more cases you expect to refer for prosecution, and is there a timetable for doing so?

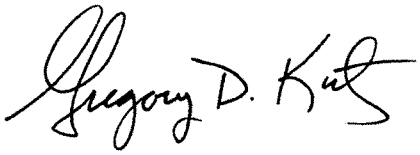
   Response: The number of cases we refer will depend on the amount of funds Federal Emergency Management Agency continues to disburse, the results of additional data-mining, and the desire of the Department of Justice to pursue each case. We plan to continue to develop cases involving multiple suspects who all used the same damaged addresses and suspects using invalid damaged addresses. We are also in the process of referring approximately 3,000 cases involving the use of both invalid social security numbers and social security numbers belonging to deceased individuals.

2. GAO has testified before this Committee and our Permanent Subcommittee on Investigations for fraud and abuse in other agencies. As part of that work, you typically refer your cases of fraud to Inspectors General for further investigation. You noted that you plan to refer the fraud cases that you have uncovered in this investigation to the Hurricane Katrina Fraud Task Force for prosecution. Can you describe GAO's relationship with the Task Force so far?

   Response: We continue to have a dialogue with the Hurricane Katrina Fraud Task Force and we are working on ways to streamline the criminal referral process. We are also providing the Task Force with the type and number of potential cases going forward.

If you or your staff need any further information, please contact Assistant Director John Ryan at (202) 512-9587.

Sincerely yours,



Gregory D. Kutz
Managing Director,
Forensic Audits and Special Investigations

(192207)

Post-Hearing Questions for the Record
Submitted to Richard L. Skinner
From Senator Susan M. Collins

"Hurricane Katrina: Waste, Fraud, and Abuse Worsen the Disaster"

February 13, 2006

1. If manufactured housing was purchased that did not even meet FEMA specifications, who should be held responsible? Will procurement officers be held responsible for this wasteful spending?

Answer: The cognizant program personnel are usually responsible for establishing the government's requirements, not the government contracting officers. We are still trying to conclusively identify who was responsible for making the decisions regarding the manufactured housing.

2. We understand that DHS, FEMA, and other agencies made significant purchases of property, such as generators and other equipment, during the response and recovery effort. What actions is your office planning or undertaking to ensure that all property is recorded and accounted for?

Answer: To ensure all property purchases relating to Hurricane Katrina in the Gulf Region are recorded, tracked and accounted for appropriately, we are undertaking three concurrent actions: 1) we are procuring audit services to assist in the assessment of property management controls and practices at FEMA for property purchased by FEMA directly through contracts for Hurricane Katrina relief efforts; 2) we are reviewing the purchase, recording, tracking and utilization of mobile homes, modular homes and travel trailers due to the large volume of purchases; and, 3) we are reviewing the purchase and accounting of property acquired through mission assignments with other DHS entities. The unprecedented amount of property being acquired for the Hurricane Katrina relief efforts mandates a strong DHS OIG oversight and stewardship role.

3. A. Why is it necessary to review property management to ensure there are sufficient safeguards against pilferage and loss?

Answer: With unprecedented amounts of federal funds spent on property purchases in the aftermath of Hurricane Katrina, it is prudent for the DHS OIG, in its oversight and stewardship role, to review the adequacy of FEMA property management controls and practices to ensure that there are sufficient safeguards against pilferage and loss. This is especially critical as a number of reports have been issued over the past decade relating to inadequacies of FEMA's property management practices. My office is dedicated to preventing problems through a proactive program of assessing controls; advising management on issues, policies, and approaches as they arise; and, conducting audits to ensure disaster funds are being spent wisely. Property management is part of this effort.

B. Has it been your experience that agencies sometimes take advantage of access to disaster relief funds to purchase items they want but have not had the funds to purchase?

Answer: We have no examples of agencies using disaster assistance funds to purchase items they need but cannot fund. However, we believe that some agencies are not aware that property purchased with disaster funds must be returned to FEMA. We have frequently heard allegations that agencies keep equipment for their own use when it is no longer needed for the disaster response. We are beginning two audits: one of property management and one of mission assignments, both audits will address this issue.

4. Do you have the staff and resources to adequately conduct your regular non-Katrina audits and investigations?

Answer: The critical need to ensure oversight of the resources devoted to the Gulf Coast recovery efforts required the OIG to quickly shift our resources. The second Katrina supplemental passed by the Congress in September appropriated to the DHS OIG $15 million to support those efforts.

Even though we had the authority under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. §§ 5121-5206 to use the funds to hire temporary staff to supplement permanent employees, the time required to hire and train qualified staff would have significantly impaired those oversight efforts.

This support for the Gulf Coast hurricanes has had an impact on the non-disaster work, resulting in some delays of audits underway and planned. This negative impact will be reduced as temporary staff are hired and trained.

Of the 51 detailees assigned to the Office of Gulf Coast Hurricane Recovery at the end of February 2006, 47 are employees that were previously working in the Office of Audits. Losing those 47 employees reduced DHS OIG's on-board audit staff by 25 percent. As a result, DHS OIG Office of Audits reduced the number of performance audits it planned to begin during FY 2006. In addition, OIG Office of Audits expects to perform fewer financial grant audits in FY 2006, due to the reduced staffing.

The additional work associated with the Gulf Coast hurricanes has also had a significant impact on the DHS OIG Office of Inspections and Special Reviews. In order to conduct a review of FEMA's readiness, preparation, response, and initial recovery related to Hurricane Katrina, the OIG had to substantially reallocate its inspectors and evaluation resources. Basically, the Office of Inspections and Special Reviews had to staff up a team that could examine FEMA operations in three states during and immediately after Hurricane Katrina; evaluate FEMA's preparedness efforts over 10 years; conduct over 230 interviews and teleconferences; and examine samples of action request forms, work orders, situation reports, and budget and staffing data. The work had to be completed in four and one-half months.

Ten employees, approximately 30 percent of ISP's inspectors and senior managers, were reassigned from other work to staff the Katrina Review team. In consequence, some ISP work took more time to complete, but the principal consequence was that many new projects could not be started in sequence.

In addition to the impact on the audit and inspections areas, there has also been a substantial impact on the investigative workload. Approximately 25 DHS OIG investigators have been assigned to work on hurricane recovery cases. From August 2005 to February 2006, the DHS OIG Office of Investigations has received a total of 8,097 hurricane-related complaints, of which 4,053 complaints were received directly and 4,044 complaints were received through the PCIE Katrina Task Force hotline. The DHS OIG's Dallas and Atlanta field offices handle the vast majority of these complaints, due to their proximity to the affected areas, and work hurricane-related fraud exclusively. The Miami and Houston field offices are similarly affected, albeit to a lesser degree, with fraud work related to Wilma and Rita, respectively. A historical comparison demonstrates the marked increase in work represented by hurricane-related fraud. In the six-month period preceding Hurricane Katrina (March 2005 to August 2005), the DHS OIG received 5,682 complaints. These complaints dealt with our traditional caseload, i.e., criminal and administrative misconduct by DHS employees, and were spread over 24 field offices, whereas, the 8,097 (a 43% increase, excluding traditional complaints) hurricane recovery complaints are being worked exclusively by just four field offices.

Finally, working hurricane-related fraud has adversely affected a field office far from the Gulf region. In order to better respond to hurricane recovery cases, we opened an office in Baton Rouge, LA. As a result of already strained resources, we had to transfer a special agent from the Seattle sub-office, which left that office shorthanded.

Post-Hearing Questions for the Record
Submitted to Richard L. Skinner
From Senator Daniel K. Akaka

"Hurricane Katrina: Waste, Fraud, and Abuse Worsen the Disaster"

February 13, 2006

1. It is my understanding that the Inspector General for the Department of Defense (DOD) has had few, if any, employees based in Iraq to monitor the tens of billions of dollars that DOD is spending there. Do you think the task force approach developed in response to Katrina relief could be applied to similar situations where massive amounts of government funds are being dispensed quickly?

Answer: In the wake of Hurricane Katrina and due to the large sums of money made available for the recovery effort, the need for oversight was unprecedented. The federal Inspectors General (IG), through the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE), offered the capacity needed for consistent reporting and the preventive interaction to oversee the billions in recovery dollars. The federal IG community was a natural fit for oversight and stewardship of the recovery funding effort.

Just prior to Hurricane Katrina, the PCIE/ECIE had established a Homeland Security Roundtable to deal with government-wide homeland security related issues. After Hurricane Katrina, the Homeland Security Roundtable served as the forum for the IG community to plan and discuss hurricane recovery oversight. The roundtable members meet regularly to share information and collaborate. The result being that no one agency is responsible for all oversight and stewardship activities. The benefit of this organizational structure is that each agency is best able to monitor and investigate its own recovery responsibilities. As a result, greater oversight is taking place and oversight efforts are not being duplicated. This approach can work effectively in situations involving the need for financial oversight of numerous departments and agencies.

2. You testified that the Hurricane Relief Fraud Hotline has received over 11,000 calls from whistleblowers. Do you know whether there have been any complaints of retaliation against those who have called the hotline, and, if so, how have these cases been addressed?

Answer: We have received no complaints of retaliation against those who called the hotline.

3. The December 30 report of the President's Council on Integrity and Efficiency (PCIE) stated that 11 Offices of Inspectors General have reported 164 contract reviews in process and 47 reviews completed concentrating on large dollar values. With respect to the completed investigations, could you provide some examples of the larger dollar value cases – and please include the nature of the case and the dollar value associated with the findings?

Answer: We have performed preliminary reviews of many large contracts. For example, Clearbrook, LLC, provides food and lodging to disaster responders at seven base camps under an $80 million contract. Although we are beginning a comprehensive audit of the contract, our initial review identified possible overcharges of about $3 million and $4.9 million for work performed before the date of the contract. FEMA's four technical assistance contracts contained verbal authorizations not converted to task orders with definitive prices and no spending ceilings. Also, FEMA purchased 25,000 manufactured homes for $858 million without having a plan for how they could be used. Consequently only about 5,000 are being used for evacuees. These few examples demonstrate why we are concerned about FEMA's contracting. We are continuing to review major contracts and monitor contractor performance.

4. The PCIE report notes that the Office of Management and Budget and the Department of Homeland Security started tracking key vulnerability areas for the federal Inspectors General. Could you describe what is meant by key vulnerability areas and how the DHS Inspector General utilizes this information in planning investigations?

Answer: Key vulnerability areas include:

- internal controls
- financial management
- property management
- grants management
- contract management
- debris removal

These are the areas where we most often find problems after a disaster declaration. Accordingly, we focus our attention on these areas as we design our detailed work plans.

5. Were any major hotel chains involved in fraud or over-charging for hotel rooms for evacuees?

Answer: Based on our survey work, we identified certain hotels that appeared to be over-charging for hotel rooms. For example, we found charges that exceeded the estimated cost of $60 per room. A New York City hotel charged $438 per night and a Chicago hotel charged $399 per night. Also, some hotels charged more than their published rate. For example, a hotel in Illinois published a rate of $109.99 per night but charged an evacuee $242.17 per night. However, we have only just begun formal audit work on the hotel/motel charges for both the FEMA/American Red Cross contract and the FEMA/Corporate Lodging Consultants, Inc. contract, which were responsible for providing hotel/motel rooms for victims of Katrina. We will report on this issue when we complete our audit work.

Committee on Homeland Security and Governmental Affairs
Hearing on
"Hurricane Katrina: Waste, Fraud, and Abuse Worsen the Disaster."

February 13, 2006

Follow-up Questions to:
Alice S. Fisher
Assistant Attorney General
Criminal Division
United States Department of Justice

Questions from Chairman Susan M. Collins

1. **I understand that the Department of Justice has been reluctant to prosecute cases developed by GAO investigators in the past. Is it your intention to prosecute any and all quality cases, consistent with your zero tolerance policy, that GAO develops as a result of their investigations whether they bring the cases to you directly or through Mr. Skinner's office?**

   The zero-tolerance policy that the Attorney General announced remains in effect for all types of hurricane-related fraud cases. All referrals, regardless of the reported dollar amounts of loss, that the GAO presents to the Task Force – whether through the Task Force's Joint Command Center or any specific investigative agency participating in the Task Force – will be considered for prosecution by the appropriate U.S. Attorney's Office. While the dollar amount of loss is not a factor impacting the decision to bring criminal charges, the quantum of evidence and other factors enumerated in the Department of Justice's Principles of Federal Prosecution will obviously continue to apply as they must.

2. A. **What is the budget of the Task Force?**

   The Task Force does not have a separate budget for current operations. All personnel, equipment, and overhead costs are being borne by the Department of Justice, the FBI, and other investigative agencies under their respective current-year budgets and supplemental appropriations. The FY 2006 emergency supplemental budget request for Iraq and hurricane relief includes $9.7 million for the Department to support the Command Center and the prosecution and investigation of fraud and related cases stemming from hurricanes in the Gulf Coast region. This request is pending Congressional action. The resources from this supplemental appropriation would be used for the costs associated with the continued operation of the Command Center, as well as the costs associated with the significant increase in caseload stemming from the Department's

prosecutions.

B. What is the full time dedicated level of the Hurricane Katrina Fraud Task Force Command Center? Who specifically is filling these positions and for how long?

Initially, the Command Center relied entirely on temporary-duty (TDY) staffing except for a Federal Bureau of Investigation (FBI) supervisor who was assigned to the Command Center. The Command Center is moving to permanent staff through the following agency commitments:

FBI. The FBI has assigned an agent from the Baton Rouge Resident Office to the Command Center on a full-time basis, and a support staff member on a TDY basis. The FBI is working toward the addition of three financial analysts and three criminal analysts to the New Orleans Field Office with a view toward assigning two or more of these to the Command Center to replace the TDY analysts.

Department of Homeland Security Office of Inspector General (DHS-OIG). DHS-OIG has hired three new agents and an intelligence analyst for the Baton Rouge office. One agent and the analyst will be assigned to staff the Command Center full-time. The agent is scheduled to report in April 2006; the analyst has been hired and is awaiting security clearance.

Housing and Urban Development Office of Inspector General (HUD-OIG). HUD-OIG is assigning a forensic auditor to the Command Center. The auditor is scheduled to arrive in May 2006.

Postal Inspection Service. The Postal Inspection Service is hiring an analyst in Baton Rouge to be assigned to the Command Center.

Department of Transportation Office of Inspector General (DOT-OIG). DOT-OIG has a TDY agent working at the Command Center and is hiring a permanent replacement. DOT-OIG is currently in the process of establishing a temporary field office in Baton Rouge and hiring two full-time agents whose duties will include replacing the TDY agent and supporting the Task Force, as appropriate.

This means that the Command Center currently has commitments for three full-time agents, four analysts, and one forensic auditor to be assigned to the Command Center for the duration of its work. The number of FBI analysts can be increased if needed, and DHS-OIG is considering co-locating their Resident Agent in Charge and one administrative person at the Command Center.

3. **Recognizing that some of the fraud cases the Task Force is prosecuting are for $2,000-$5,000, and others are much larger, how are cases prioritized for investigation and prosecution?**

There is no single policy or procedure governing all United States Attorneys' Offices for prioritization of hurricane fraud-related cases. Each of these offices, particularly those in the affected areas of the Gulf Region, make individual determinations about potential matters, depending in part upon the number of agents from various federal investigative agencies, such as the FBI, the Postal Inspection Service, and the DHS-OIG, who are available in that region, and in part upon the speed with which the investigating agencies can amass relevant evidence to warrant prosecution.

4. A. **What happens when you come across criminal behavior that is not a federal offense? Are you referring these cases to local authorities?**

Yes.

B. **What is the process for referring cases that do not have a federal criminal component to state and local officials for prosecution at that level?**

The process varies from district to district across the Gulf Region. A number of United States Attorneys' Offices in the region have established local and regional working groups on hurricane-related fraud that include various state and local law enforcement agencies. As federal authorities determine that certain cases lack a sufficient federal nexus, they can consult with appropriate state or local law enforcement authorities in their respective areas about possible referral for state or local prosecution.

Questions from the Honorable Daniel K. Akaka

1. **The Hurricane Katrina Fraud Task Force is focusing on fraud in five principal areas, including fraudulent charities, identity theft, government benefit fraud, government contracting and procurement fraud, and insurance fraud. Which of these five areas dominates the Task Force's investigations – either open cases or complete – and which area has had the most significant dollar loss of fraud, waste, or abuse? What is the amount of fraud in this area?**

To date, the largest volume of the Task Force's criminal cases involves government-benefit fraud, particularly emergency-assistance payments received from the Federal Emergency Management Agency (FEMA). This is due to two factors. First, as emergency-benefit funds began flowing into the affected areas immediately after the hurricanes, fraud schemes that targeted those funds were among the first to emerge throughout the Gulf Region. (In contrast, other types of

disaster-related fraud, such as procurement fraud, routinely take longer to emerge after disasters. It can take extended periods of time – weeks, months, sometimes even years – for government agencies to seek bids on contracts, evaluate bids and select contractors, and have the successful bidders begin to carry out the terms of the contract for debris removal and reconstruction efforts.) Second, as it received numerous reports of fraud schemes targeting emergency-benefit funds in the first weeks after Hurricane Katrina, the Task Force determined that, pursuant to its zero-tolerance policy, it was necessary to pursue such fraud schemes aggressively to maximize deterrence of other fraud.

We cannot quantify the total dollar loss of benefit fraud at this time. We expect that government-contract fraud and insurance fraud are likely, in the longer term, to cause substantially greater amounts of loss than emergency-benefit fraud.

2. **I am impressed with the task force approach that you set up and wonder why a similar approach is not applied to other large government programs. For example, as you know, we have a Special Inspector General reviewing programs in Iraq. Why has the Department of Justice (DOJ) not set up the same task force on fraud in Iraq, where tens of billions of dollars have been spent quickly with very poor oversight and allegations of massive amounts of corruption?**

While the Department of Justice has not adopted exactly the same task force approach for Iraq fraud cases as it has for hurricane-related fraud cases, it has established a unified and coordinated approach that melds the prosecutive resources of the Public Integrity Section, the Fraud Section, and the Asset Forfeiture and Money Laundering Section of the Department's Criminal Division in prosecuting these cases. One significant reason for the difference between this approach and the Department's approach to Hurricane Katrina fraud is the geographic dispersal of potential fraud cases. In Hurricane Katrina fraud, the Department anticipates that procurement-fraud cases may arise in multiple federal judicial districts across the Gulf Coast region, and possibly elsewhere in the United States. Moreover, the benefit-fraud cases that the Hurricane Katrina Fraud Task Force has been pursuing span an even larger number of jurisdictions, from the East Coast to the Pacific Northwest. Under these circumstances, the creation of the Task Force was essential to ensure effective coordination among dozens of United States Attorneys' Offices, federal and state investigative agencies, and federal Inspectors General on hurricane-fraud cases. In the case of Iraq, the Special Inspector General for Iraq Reconstruction (SIGIR) has been the primary source of the Iraq criminal referrals provided to the Department for prosecution. The close physical proximity of the three Criminal Division Sections in Washington, D.C. allows effective coordination and prosecutive staffing of SIGIR cases by these Sections without having to characterize their coordination as a "Task Force."

3. **A civil fraud case against Custer Battles concerning allegations of fraud related to Iraq reconstruction projects has begun in Virginia. The Coalition Provisional Authority has been criticized for failing to properly oversee the spending of more than $20 billion in U.S. reconstruction funds. The special inspector general examining that spending said financial systems were so shoddy that billions of dollars cannot be accounted for. How is DOJ pursuing these allegations and how much DOJ resources, in terms of devoted manpower, are being spent investigating these charges?**

In March 2006, a jury in a private *qui tam* action returned a $10 million verdict against Custer Battles for their fraudulent contracting practices in Iraq. The Department will continue to devote resources necessary to investigate allegations of fraud and corruption associated with any American company doing business in Iraq.

MEMO

To: Mark

From: Val Gravseth

Date: February 10, 2006

Re: Roseau FEMA Appeal

The City of Roseau recently filed an appeal with FEMA Region V Director Ed Buikema. From the date Director Buikema receives the appeal, he is allowed 90 days to respond. However, if FEMA determines it needs additional information to review the appeal, FEMA can wait until the 89th day to request the information, then the 90-day clock starts to tick again. Conceivably, 180 days could pass before Roseau is informed if its appeal has been successful.

Roseau's construction season is short, so another delay would further frustrate the city's efforts to rebuild. Therefore, I have drafted a letter (attached) to Director Buikema, for your signature, requesting that he do what he can to hasten FEMA's response to Roseau's appeal. Ultimately, if the Roseau appeal is denied, the city plans on filing a second appeal, which would be heard by FEMA Headquarters in Washington.

* * *

United States Senate
WASHINGTON, D. C.

MARK DAYTON
MINNESOTA

February 10, 2006

Mr. Edward Buikema
Regional Director
FEMA Region V
536 South Clark Street
Chicago, Illinois 60605

Re: DR-1419 - Alternate Project Request

Dear Director Buikema:

On February 3, 2006, the City of Roseau officially appealed Region V's decision to deny an alternate project request for Project Worksheet Numbers 963, 969, and 1042. I respectfully request that you shorten the 90-day decision-making process for responding to this appeal.

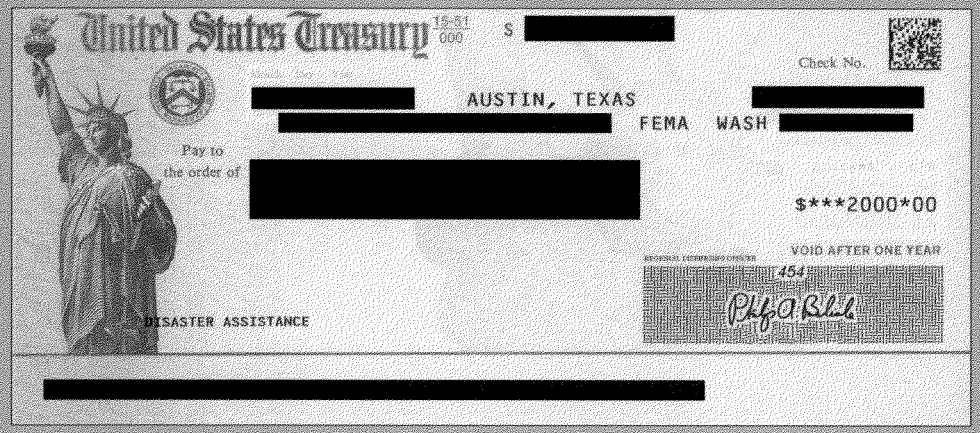
Roseau's request for an alternate project was first submitted to FEMA in February, 2003. Delays in FEMA's decision-making process have already hindered the city's efforts to recover from the devastating flood of June, 2002, and any future delays would further impede progress.

Thank you for your consideration of my request.

Sincerely,

Mark Dayton
United States Senator

Individuals and Households Program Expedited Assistance Check Sent to GAO Investigators



Source: FEMA.

GAO

Bogus Address Associated with GAO Undercover Registration

Source: GAO.

GAO

Bogus Address Associated with Potentially Fraudulent Case Study

8 Individuals

61 Registrations with payments

$122,000 in payments

61 Social Security Numbers Used

Source: GAO.

GAO

Bogus Addresses Associated with Potentially Fraudulent Case Study

8 Individuals

31 Registrations with payments

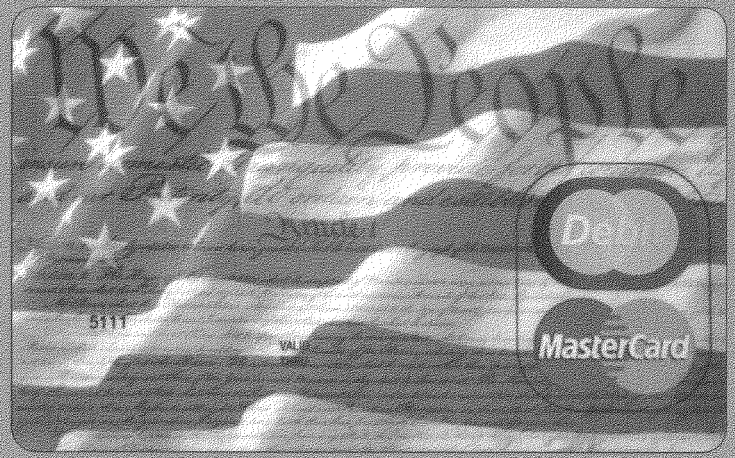
$92,000 in payments

30 Social Security Numbers Used

Source: GAO.

GAO

Individuals and Households Program Debit Card



Source: JP Morgan Chase.

United States Government Accountability Office
Washington, DC 20548

February 13, 2006

The Honorable Susan M. Collins
Chairman
The Honorable Joseph I. Lieberman
Ranking Minority Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Tom Davis
Chairman
The Honorable Henry A. Waxman
Ranking Minority Member
Committee on Government Reform
House of Representatives

Subject: *Investigation: Military Meals, Ready-To-Eat Sold on eBay*

As a result of widespread congressional and public interest in the federal response to Hurricanes Katrina and Rita, we conducted a limited investigation into allegations that military Meal, Ready-To-Eat (MRE) rations intended for use in the hurricane relief efforts were instead sold to the public on the Internet auction site eBay. We focused our efforts on confirming whether selected MREs being offered for sale on eBay were military issue and, if so, interviewing the sellers to determine how they obtained the MREs.

In summary, after investigating 1 day of MRE sales on eBay, we found that 8 of 12 eBay sellers we investigated were selling MREs over the Internet. In addition, there is evidence that at least some of these MREs were diverted from hurricane relief efforts. Specifically, 2 of the MRE sellers, who were victims of Hurricane Katrina, accumulated cases of MREs during the relief efforts; however, rather than consume all of the MREs, they sold some of them on eBay. In addition, a member of the Georgia National Guard who was mobilized for Hurricane Katrina relief efforts may have stolen and sold MREs intended to feed other mobilized servicemembers. Because this National Guard member refused to provide information that would have corroborated his claim regarding how he obtained the MREs, we concluded that it is possible, and perhaps likely, that he obtained the MREs through unauthorized or improper means, such as theft. Although we cannot conclusively link the remaining five MRE sales to the hurricane relief efforts, our investigation revealed additional instances where sellers may have improperly obtained MREs and sold them to the public for private gain.

Scope and Methodology

To perform our work, we conducted a limited, or "snapshot," investigation by focusing on the sale of MREs on eBay on October 18, 2005. We chose that day because relief efforts, which included distributions of MREs, were under way in all the states affected by Hurricanes Katrina and Rita. We investigated a nonrepresentative selection of eBay members selling MREs on that day—the 12 claiming to offer more than four cases of military MREs for sale. Using limited information provided by eBay, we were able to positively identify 9 of these 12 sellers. By examining information from the MRE cases and interviewing three manufacturers of military MREs, we confirmed that 8 of these 9 sellers were in fact offering military MREs for sale. To determine whether the sellers had any connection to hurricane relief efforts, we reviewed documents from eBay; asked the sellers to explain how they obtained the MREs; and, if possible, conducted follow-up interviews with sources identified by the sellers. Four of the 8 sellers would not provide us with information about their sources; in these cases, we could not corroborate the stories they gave us about how they came to be in possession of the military MREs. We conducted our work from September 2005 through January 2006 under the statutory authority given to the Comptroller General of the United States and in accordance with quality standards for investigations as set forth by the President's Council on Integrity and Efficiency.

Background

Military MREs are designed to sustain an individual engaged in strenuous activity, such as military training or actual military operations, when normal food service facilities are not available. In general, military MREs contain a full meal packed in a flexible bag; are boxed in cases of 12; and labeled with the National Stock Number (8970-00-149-1094), government contract number, and other markings. Within DOD, the Defense Logistics Agency's (DLA) Defense Supply Center Philadelphia (DSCP) is responsible for the acquisition and disbursement of operational rations—including military MREs. Neither DSCP nor any of the three manufacturers we interviewed will sell military MREs to civilians; however, DSCP resells MREs to other government entities. On average, DSCP pays about $52.57 per case of MREs.

As a result of unauthorized sales to civilians, DOD began requiring that "U.S. Government Property, Commercial Resale is Unlawful," be printed on each case of MREs (see fig. 1).[1] Furthermore, although no statutes or regulations specifically prohibit the sale of military MREs, DSCP's customer eligibility policy states that DOD regulations permit the sale of MREs to a limited number of organizations, including, among others, U.S. military organizations and federally funded activities.[2] Consequently, servicemembers, federal civilian personnel, and contractors selling stolen MREs could face criminal charges related to theft of military property.[3]

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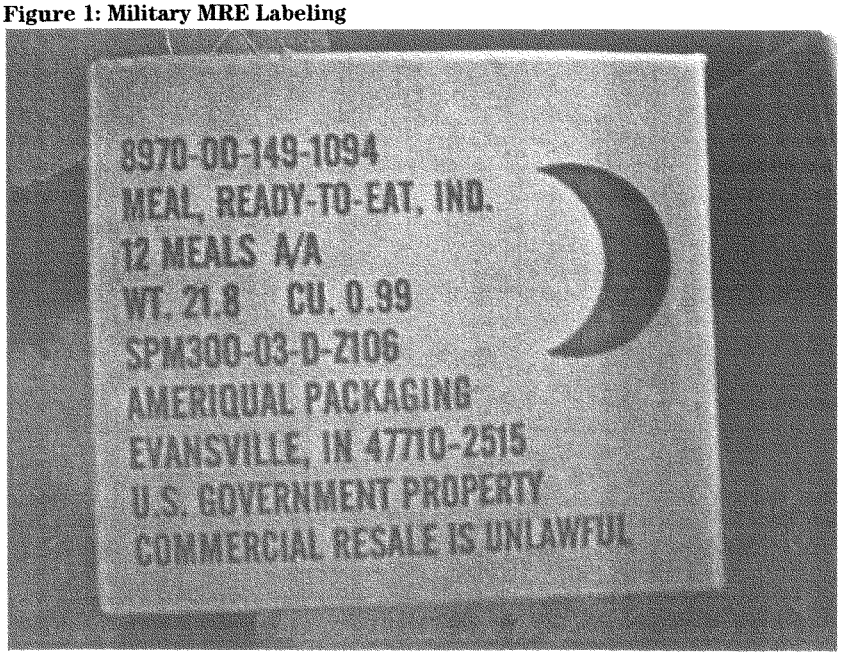
[1] Civilian MREs may be sold to the general public and are not labeled with this information.
[2] See http://www.dscp.dla.mil/subs/rations/index.htl.
[3] For laws applicable to military personnel, see U.C.M.J. Art. 108 (sale, loss, damage, destruction, or wrongful disposition of military property); Art. 121 (larceny and wrongful appropriation); and Art. 134 (stolen property: knowingly receiving, buying, or concealing). For laws applicable to civilian personnel and contractors, see 18 U.S.C. § 641 (taking public money, property, or records).

Figure 1: Military MRE Labeling



Source: GAO.

In 2002, after discovering that military MREs were being sold to the public on eBay, DSCP sent an e-mail to the sellers requesting that they voluntarily terminate these sales because military MREs are procured by DLA with taxpayer dollars and owned by the government until consumed by authorized personnel or disposed of. The e-mail also advised the sellers that military MREs are never considered surplus and that resale of MREs is strictly prohibited. Sales dropped off dramatically for a short time after this e-mail; however, military MRE sales have since resumed. Since the 2002 letter, DSCP has made two other unsuccessful attempts via e-mail to deter sales of military MREs.

Details of Investigation

On October 18, 2005, eight eBay members that we investigated sold military MREs over the Internet. Table 1 highlights the information we obtained from eBay records and the eight sellers. During the course of our investigation, we determined that two of the eight were disaster victims and could have received the MREs through legitimate means. Of the other six, four could not provide information to corroborate their claims regarding how they obtained MREs, one provided information that was inconsistent with what we subsequently learned, and the other admitted to taking MREs from his base. Consequently, as indicated in table 1, we referred these six cases to DOD's Inspector General (IG) for further investigation after concluding that it is possible, and perhaps likely, that the sellers either indirectly or directly obtained

the MREs through theft or some other improper or unauthorized means and profited from their sale. More detailed information on each of the cases follows the table.

Table 1: Military MRE Sales on eBay on October 18, 2005

Case	Seller's location	Seller a military member?	How did Seller claim to obtain the MREs?	GAO referred case to DOD IG?
1	Murfreesboro, Tenn.	No.	Purchased at a flea market in Kentucky. Seller stated that he could not recall the location of the flea market.	Yes.
2	Kenner, La.	No.	Picked up numerous MREs at several hurricane relief distribution centers. Seller was a victim of Hurricane Katrina	No.
3	Norco, La.	No.	Picked up numerous MREs at several hurricane relief distribution centers. Seller was a victim of Hurricane Katrina.	No.
4	Pensacola, Fla,	Yes; retired.	Purchased at neighborhood yard sales. Seller stated that he could not provide any information to corroborate this story.	Yes.
5	Woodstock, Ga.	Yes.	Given permission to take MREs when deployment for hurricane relief ended. Seller refused to provide the name of the person who gave him permission.	Yes.
6	Alamogordo, N.M.	Yes.	Received MREs from a fellow service member for storage. This fellow service member had permission to take the MREs, but Seller sold the MREs without his knowledge.	Yes.
7	Albany, Ga.	Yes.	Took MREs out of a dumpster at Marine base. Seller is currently under investigation.	Yes.
8	Barstow, Calif.[a]	No.	Purchased from local scouting and camping groups. Seller stated that he was unable to provide any information to corroborate this story.	Yes.

Source: GAO.
[a]Seller's previous address was in Louisiana.

Case 1: Seller is a policeman with the Tennessee State Guard and was a coordinator of shelters in the Nashville area for hurricane relief. Seller said he purchased 50 cases of MREs at a flea market in Kentucky for about $25 a case and has been selling them on eBay for about $50 a case. We asked Seller to provide us with the exact location of the flea market, but he said he could not recall where it was. While at Seller's residence, we found approximately 21 cases of military MREs packaged, labeled, and ready to be shipped to buyers from eBay in the Seller's truck (see fig. 2). According to Seller's supervisor in the Tennessee State Guard, Seller did not have access to military MREs while coordinating the shelters in Nashville. We also confirmed with the Tennessee Emergency Management Agency that MREs were not being distributed to disaster victims in Nashville.

Figure 2: MREs Ready to Be Shipped

Source: GAO.

Case 2: Seller was a victim of Hurricane Katrina and said that he picked up the MREs at local distribution centers established in his area of Louisiana. Seller said he sold some of the MREs on eBay because he was unemployed and needed money.

Case 3: Seller was a victim of Hurricane Katrina and said that he picked up the MREs at local distribution centers in Destrehan, Louisiana. Seller's home address is in a part of Louisiana directly affected by the hurricane. Seller said that he sold approximately six or seven cases on eBay since the beginning of September, for approximately $40 each. He said that he sold the MREs because he was unemployed and needed money.

Case 4: Seller retired from the U.S. Air Force in July 2004, where he was a financial superintendent responsible for voucher processing. Seller stated that he obtained the MREs from neighbors and yard sales prior to the hurricanes. We asked Seller to provide specific names and addresses for these sources, but he said that he could not do so. Seller said he has sold approximately 40 or 50 cases of MREs since March 2005.

Case 5: Seller is a Sergeant in the Georgia National Guard and was deployed to Lyman, Mississippi, from September 3 to 22 as part of the Hurricane Katrina relief effort. Seller stated that his unit received MREs during this mission. According to Seller, these MREs were intended for use by his unit, and not for distribution to

hurricane victims. After his deployment ended, Seller stated that he was given permission to take some of the leftover MREs but actually took all of the remaining 26 cases. Seller acknowledged that he began selling these MREs on eBay on October 1, 2005, for approximately $45 per box. We asked Seller to provide the name of the person who gave him permission to take these MREs, but he refused to do so.

Case 6: Seller is a member of the U.S. Air Force and is stationed at Holloman Air Force base in New Mexico. Seller stated that a friend, a fellow U.S. Air Force member assigned to the same base, gave him approximately eight cases of MREs to store. Seller insisted that the MREs in question were not allocated for hurricane relief efforts, and stated that he sold them on eBay for approximately $40 each but did not give any of the proceeds to his friend. We also contacted Seller's friend, who claimed that he gave Seller 14 boxes of MREs to store and stated that the Seller sold the MREs without his knowledge. The friend said that he got permission from an instructor at Lackland Air Force base in San Antonio, Texas, to take excess MREs for use on a future training exercise. We spoke to the instructor, who stated that he gave permission for 1 case of MREs to be used on a future training exercise but was not aware that 14 cases were taken. The instructor confirmed that the MREs in question were for use by military trainees, and not allocated for hurricane victims.

Case 7: Seller is a member of the Marine Corps and is stationed at the Marine Corp Logistics Base in Albany, Georgia. Seller refused to talk to us, but acknowledged that he was being investigated by Marine Corps Criminal Investigative Division (CID) because of his involvement in the sale of MREs. A Major in the CID office said that the Seller admitted to taking the MREs from a dumpster on base and explained that expired or damaged cases are thrown into this dumpster for eventual destruction. CID investigators found 61 cases of MREs in Seller's home and vehicle but did not find evidence that any of the MREs had actually been sold. The Major stated that he did not think that Seller would be charged with any crime related to the MREs because they had been thrown away.

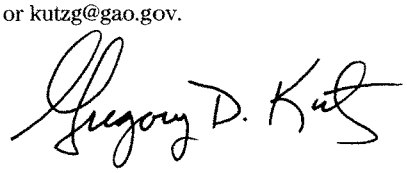
Case 8: Seller, a former resident of Louisiana, is a businessman in California who resides approximately 37 miles from the National Training Center at Fort Irwin, which specializes in desert training. Seller stated that over the past 5 years he has sold about 40 cases of MREs for approximately $34 per case. He said that he used to obtain MREs from military personnel, but that he discontinued that practice on the advice of base authorities. Seller said he now purchases the MREs from local scouting and camping groups that receive MRE donations from the military. We asked Seller to provide contact information for these sources, but he said that he was unable to do so. We verified that the California Department of General Services (CDGS) is a state agency that receives surplus MREs from the military and that the Boy Scouts of America (BSA) are authorized to requisition MREs from them. However, the Manager and Senior Re-Use Specialist of the CDGS stated that neither the BSA nor any other similar organization received MREs donated to the state of California by the military.

Conclusion

Military MREs are procured by government entities using taxpayer dollars, and are intended to be consumed by individuals from authorized organizations and activities.

Consequently, if military MREs are sold to the general public on eBay, then they are clearly not reaching their intended recipients and represent a waste of taxpayer dollars and possible criminal activity.

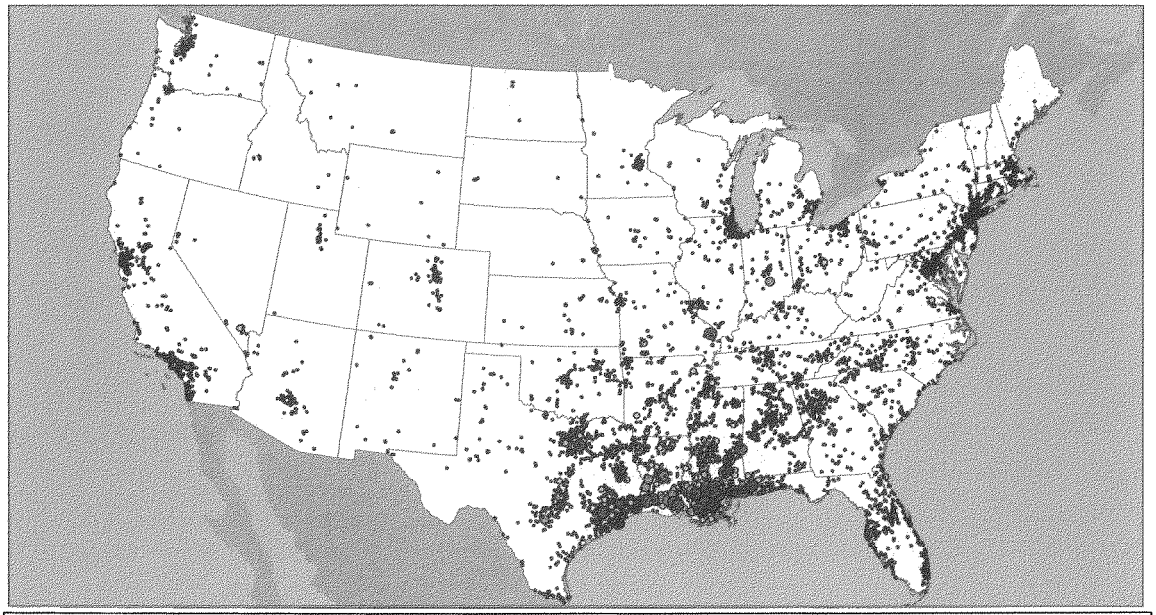
Although we are issuing no recommendations, we have referred six of the eight cases we identified to the Department of Defense Inspector General. In addition, we are sending copies of this report to the Director of the Defense Logistics Agency. We will provide copies to others on request, and the report is available at no charge on GAO's home page at http://www.gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. If you or your staff have any questions about this report, please contact me at (202) 512-9505 or kutzg@gao.gov.



Gregory D. Kutz
Managing Director
Forensic Audits and Special Investigations

(192195)

Locations of Katrina/Rita Applicants from Louisiana, Mississippi, Alabama, and Texas as of 01/20/06



Map Not To Scale

Data provided by
Recovery Division IA Management Cell

The figures contained on this map
are based on the best available data.

****Cities with less than 5 applicants not shown****

Legend

Applicants per city

- Less than 1,000
- 1,000 - 5,000
- 5,000 - 10,000
- Greater than 10,000

- DR-1604 Mississippi
- DR-1606 Texas
- DR-1605 Alabama
- DR-1603 and DR-1607 Louisiana

FEMA

Recovery Division
Washington, DC
01 20 06 -- 18:48:00 EST

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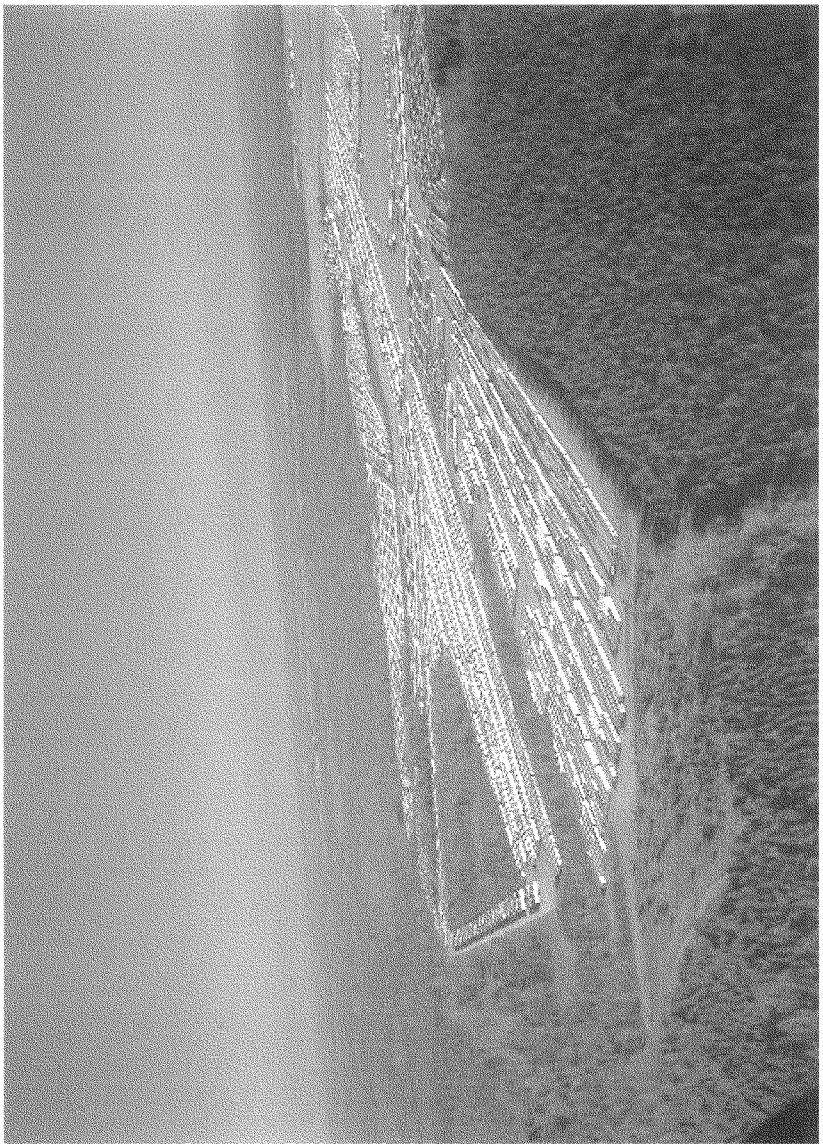

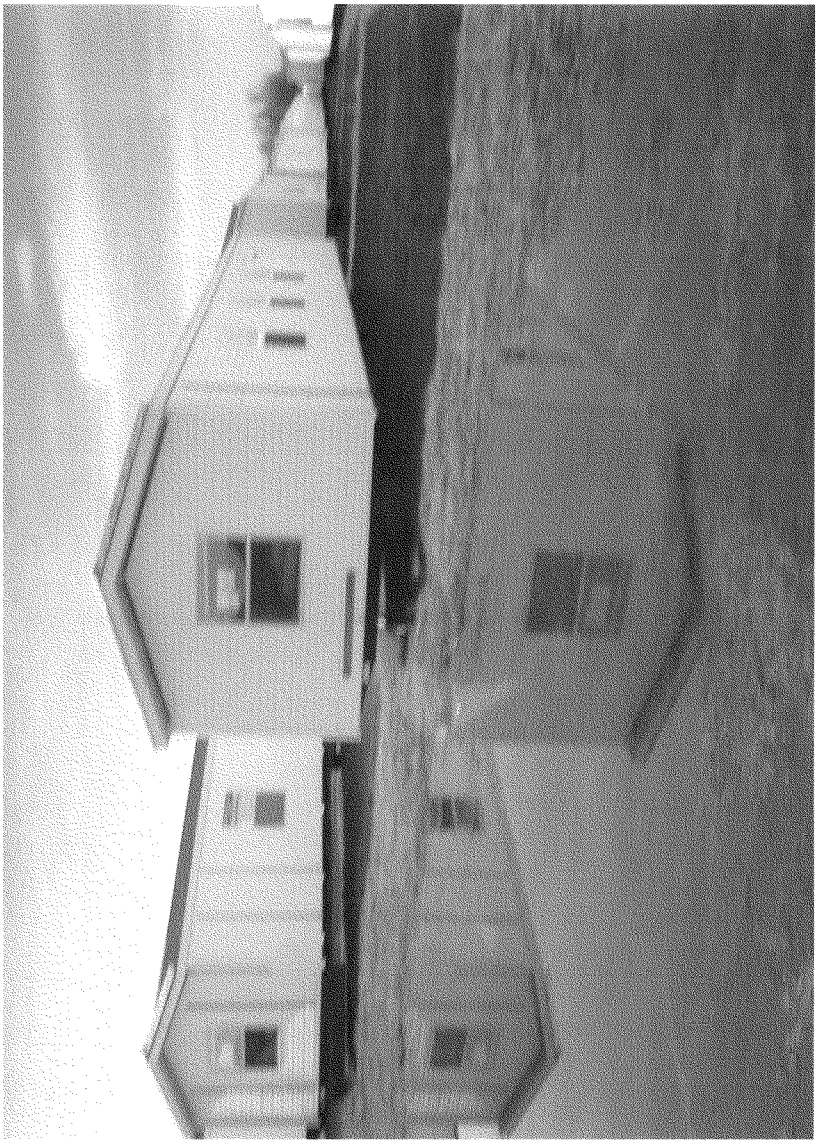

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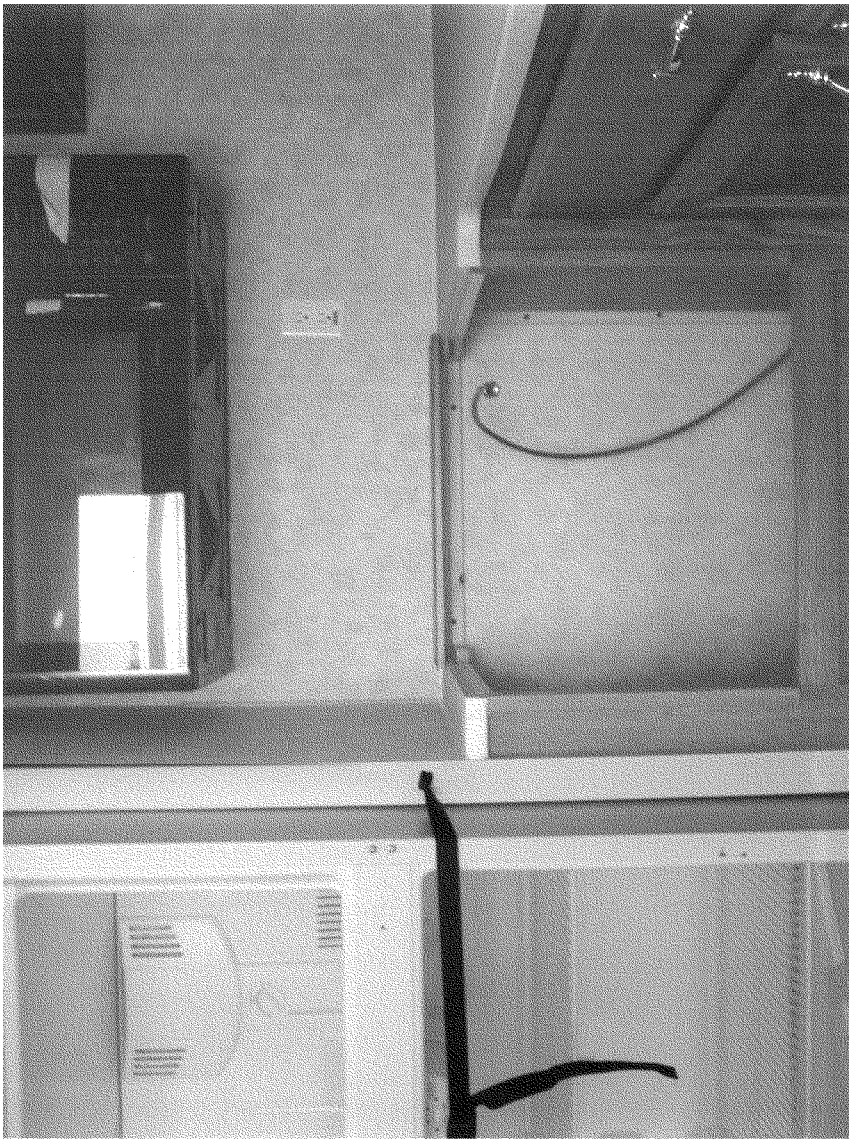
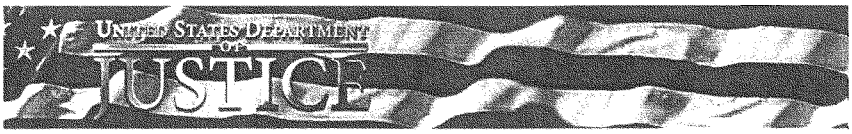


EXCESSIVE HOTEL CHARGES PAID BY FEMA

New York City	$438.00 per night
Panama City, Florida, (for Beachfront Condo.)	$330 to $375 per night
Chicago	$399 per night
San Diego, CA	$364 per night
New Orleans, LA	$339 per night



Hurricane Katrina Fraud Task Force

A Progress Report to the Attorney General

February 2006

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LETTER FROM ASSISTANT ATTORNEY GENERAL ALICE S. FISHER TO THE ATTORNEY GENERAL

The Honorable Alberto R. Gonzales
Attorney General

Dear Attorney General Gonzales:

I am pleased to submit the second report on the progress of the Hurricane Katrina Fraud Task Force. We have strived to meet the mission and achieve the results you set out when creating the Task Force in the wake of the devastation caused by Hurricanes Katrina, and later Rita and Wilma. The work of the Task Force is continuing at a brisk and aggressive pace.

Since the establishment of the Task Force in September 2005, 23 United States Attorneys across the country have charged 212 people with various hurricane fraud-related crimes, including charity fraud, benefit fraud and political corruption, and have obtained 40 guilty pleas to date.

The zero-tolerance policy you set forth in establishing the Task Force has been responsible for a great number of those prosecutions, and has resulted in a significant deterrent effect. Those who seek to profit from the misfortunes of others are seeing that their conduct can result in swift prosecution and punishment. The Task Force, under your leadership, is doing everything in its power to ensure that disaster resources will flow only to those who are entitled to receive them. The Task Force has already seen evidence that benefits being received – money to which some individuals may not be legally entitled – are being returned to organizations such as the Federal Emergency Management Agency (FEMA) and the American Red Cross.

The establishment of the Task Force has led to exemplary interagency cooperation. The Department of Justice, investigative agencies, and Inspectors General are coordinating and cooperating in a wide range of operational and investigative matters. Together, we are tracking the disbursement of disaster-related funds in the affected areas, and working to identify significant fraud schemes as quickly as possible and to pursue these cases efficiently. The potential for fraud is ripe, with FEMA estimating that more than 2.5 million people have applied for Hurricane Katrina or Rita benefits, so it is essential that we continue our efforts of cooperation, coordination and aggressive investigation.

The cooperation by the government across the board is most evident at the Task Force's Joint Command Center in Baton Rouge, Louisiana. The Command Center is now fully operational due to the tireless efforts of United States Attorney David R. Dugas, the Command Center's Executive Director, and the FBI. The FBI, in particular, has devoted substantial resources, personnel and logistical support to establish and operate the Command Center. Many

other investigative agencies and United States Attorneys' Offices are now making use of the Command Center's growing capabilities. We have established standard hotline complaint forms for the more than 4,000 complaints received, and created training programs on fraud-related issues for agents and prosecutors. We have developed an innovative database and procedures for deconfliction and referral of cases. I have personally visited the Command Center twice, and I have been highly impressed by the professionalism and the commitment of the agents and prosecutors I have met there. I deeply appreciate the dedication of federal investigative agencies, federal Inspectors General, and state and local law enforcement to the investigations they are pursuing.

It is my privilege to work with so many dedicated and resourceful law enforcement representatives, at all levels of government, in this important endeavor. We will continue to carry out the vital mission with which you have entrusted us, and will strive to sustain the level of accomplishment that all of our law enforcement partners have made possible.

Sincerely,

Chairman
Hurricane Katrina Fraud Task Force

TASK FORCE MEMBERS

The Hurricane Katrina Fraud Task Force includes the following members:

- The Federal Bureau of Investigation (FBI);
- The Criminal Division of the Department of Justice;
- The Executive Office for United States Attorneys;
- United States Attorneys' Offices in the Gulf Coast region and throughout the country;
- The Antitrust Division of the Department of Justice;
- The Civil Division of the Department of Justice;
- The Internal Revenue Service Criminal Investigation Division;
- The United States Postal Inspection Service;
- The United States Secret Service;
- The Department of Homeland Security (DHS);
- The Federal Trade Commission (FTC);
- The Securities and Exchange Commission (SEC);
- The President's Council on Integrity and Efficiency, the Executive Council on Integrity and Efficiency, and numerous Inspectors General, including –
    - the Department of Agriculture;
    - the Department of Commerce;
    - the Department of Defense;
    - the Department of Education;
    - the Department of Energy;
    - the Department of Health and Human Services;
    - the Department of Homeland Security;
    - the Department of Housing and Urban Development;
    - the Department of Justice;
    - the Department of Labor;
    - the Department of Transportation;
    - the Department of the Treasury (for Tax Administration);

- the Environmental Protection Agency;
- the Federal Deposit Insurance Corporation (FDIC);
- the General Services Administration;
- the National Aeronautics and Space Administration;
- the Small Business Administration;
- the Social Security Administration;
- the United States Postal Service;
- the Veterans Administration; and

- Representatives of state and local law enforcement, including –

  - the National Association of Attorneys General; and
  - the National District Attorneys Association.

The Task Force also operates in close partnership with the American Red Cross and a variety of private-sector organizations that have been assisting law enforcement in identifying new hurricane-related fraud schemes.

TASK FORCE BACKGROUND AND MISSION STATEMENT

"We cannot allow the kindness of Americans to be exploited in this time of disaster and crisis. The Hurricane Katrina Fraud Task Force is helping to ensure that those offering a helping hand do not themselves become the victims of fraud, and that the money and support so generously being offered goes to the intended recipients."

Attorney General Alberto R. Gonzales

On September 8, 2005, in the immediate aftermath of Hurricane Katrina, United States Attorney General Alberto R. Gonzales established the Hurricane Katrina Fraud Task Force. 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 overall goal is to stop people who seek to illegally take for themselves the money that is intended for the victims of the hurricanes and the rebuilding of the Gulf Coast region.

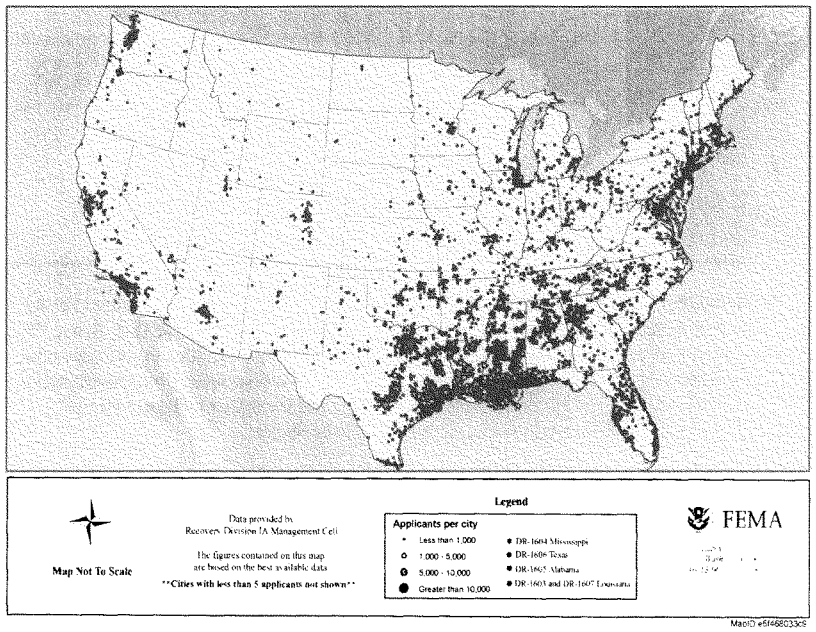
The Task Force has mobilized to send a strong message of deterrence by bringing prosecutions as quickly as possible. The Task Force tracks referrals of potential cases and complaints, coordinates with law enforcement agencies to initiate investigations, and works with the appropriate United States Attorneys' Offices to ensure timely and effective prosecution of Hurricane Katrina- and Rita-related fraud cases. 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 93 United States Attorneys' Offices – the Task Force is positioned to act quickly and aggressively to bring to justice those who would further victimize the victims of these natural disasters.

Since Hurricane Katrina made landfall last August 29, it has become clear that vast numbers of people have needed help from government and private-sector entities. Throughout the Gulf Coast region hundreds of thousands of people have been displaced, hundreds of thousands of homes have been destroyed or damaged, and residents have suffered tens of billions of dollars in losses because of storm damage.[1] As of January 4, 2006, FEMA had received more

[1] *See* John LaPlante, *Numbers show magnitude of problem*, Baton Rouge Advocate, January 15, 2006, *available at* http://www.2theadvocate.com/opinion/2202407.html and FEMA, Press Release, January 11, 2006, *available at* http://www.fema.gov/news/newsrelease.fema?id=22403.

Figure 1

Locations of Katrina/Rita Applicants from Louisiana, Mississippi, Alabama, and Texas as of 01/12/06



[Source: FEMA]

than 2.5 million applications for disaster assistance relating to Hurricanes Katrina and Rita.[2] (See Figure 1 above.)

The vast majority of these applicants have legitimate need for the assistance they are seeking. The Task Force's work to date, however, has shown that numerous people have committed fraud in seeking benefits to which they are not entitled. Disaster-relief organizations have reported to law enforcement that they have identified thousands of questionable or possibly

[2] *See* FEMA, Press Release, January 4, 2006, *available at* http://www.fema.gov/news/newsrelease.fema?id=22199.

fraudulent payments to purported hurricane victims. In addition, the Task Force is already seeing clearcut instances of contract fraud and public corruption.

The Task Force is combating all types of fraud relating to private-sector and government efforts to help victims of Hurricanes Katrina and Rita to rebuild their lives and their communities.[3] The Task Force will adapt to combat whatever fraudulent schemes criminals may create to exploit the hurricanes' effects on the Gulf Coast region. 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- and Private-Sector Benefit Fraud*: Cases in which individuals file false applications seeking benefits to which they are not entitled, and file fraudulent claims for insurance;

- *Government-Contract and Procurement Fraud*: Cases in which individuals and companies engage in fraud relating to federal funds for the repair and restoration of infrastructure, businesses, and government agencies in the affected region; and

- *Public Corruption*: Cases in which public officials participate in bribery, extortion, or fraud schemes involving federal funds for the repair and restoration of infrastructure, businesses, and government agencies in the affected region.

The Task Force has ongoing investigations in each of these areas.

The Task Force is committed to ensuring the integrity of relief and reconstruction efforts and guarding against the unlawful diversion of federal and charitable funds intended to rebuild the region and help its residents. Task Force members are working to keep the public informed about fraudulent schemes, and to give them the information they need to avoid becoming victims of fraud. Similarly, the Task Force is widely publicizing its criminal prosecutions, so that would-be fraudsters think twice about engaging in this type of criminal activity.

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[3] The Task Force does not generally have jurisdiction to address price-gouging, since there is no general federal statute that makes price-gouging a federal criminal violation. Of course, where the price-gouging also evidences price-fixing or has an element of fraud, federal jurisdiction may exist for the Department to pursue such a case. A number of state statutes address price-gouging, and some states have been actively enforcing those statutes in the wake of apparent price-gouging related to the Katrina relief effort.

ACCOMPLISHMENTS OF THE TASK FORCE

SUMMARY OF ACCOMPLISHMENTS

A. Prosecution and Enforcement

Since the first progress report in October 2005, the Task Force has made significant strides in achieving full-scale regional and nationwide coordination among law enforcement agencies pursuing fraud investigations, and in increasing the number of Hurricane Katrina- and Rita-related prosecutions. United States Attorneys in 23 districts have now charged 212 individuals in schemes involving fraud, identity theft, theft of federal funds, and public corruption.

While the FBI and the Department of Homeland Security Office of Inspector General (DHS-OIG) have taken the lead in many of the Task Force's current investigations, a wide array of investigative agencies and Inspectors General has also been conducting disaster-related investigations, and a substantial number of these are joint investigations by two or more agencies. In addition, federal investigative agencies and private-sector entities cooperated closely in identifying and shutting down websites that appeared to be engaging in fraudulent solicitations of charitable donations for hurricane victims. The FBI Cyber Division reports that as a result of agent interviews and FBI coordination with private-sector entities, 44 questionable websites have been shut down. The Secret Service reports that it has shut down 16 "phishing" websites (i.e., websites that purport to be operated by legitimate corporate or nonprofit entities, but which are created to harvest personal data from individuals for identity theft and fraud).

B. Deterrence and Returned Funds

The Task Force's prosecutions, coupled with the intensive public-education campaigns that Task Force members conducted in the first six weeks after the Task Force was established, appear to be having a noticeable effect in deterring criminal conduct. According to FEMA and the American Red Cross, a total of $8,016,417.62 in disaster-assistance funds has been voluntarily returned to those organizations. While some individuals may have returned some of these funds because they concluded the funds had been provided by mistake, there are indications that other individuals have returned funds because they believed they were not entitled to the funds under any circumstances and wanted to avoid possible prosecution. These indications include letters confessing the fraud, anonymous returns of checks and money orders, and contacts by persons who wanted to arrange time-payment plans to pay back the money they had taken.

C. Increased Coordination

Investigative agencies and federal Inspectors General have expanded their cooperation and coordination on hurricane-related investigations. Beginning with the Task Force Conference

in New Orleans on October 20, 2005, the Task Force has made great strides toward full and effective coordination among federal, state, and local law enforcement agencies and United States Attorneys' Offices.

A vital component of coordination is the Task Force's Joint Command Center, which is now in full operation in Baton Rouge, Louisiana. The Command Center, to which the FBI has provided personnel and logistical support, promises to be a major source of support for hurricane-related investigative efforts throughout the country. Already, the Department and investigative agencies are making sound use of the Command Center for receipt, deconfliction, and referral of complaints; review and analysis of potentially fraudulent applications for disaster-related benefits; and timely information-sharing with relevant law enforcement agencies. The Department is also working closely with federal Offices of Inspectors General to advise them of systemic weaknesses and vulnerabilities that agents are identifying through their criminal investigations.

D. Training and Proactive Detection

The New Orleans Conference served not only to forge closer working ties among law enforcement agencies throughout the Gulf Coast region, but to initiate the Task Force's efforts to provide agents and prosecutors with training on fraud-related and public corruption-related issues. The Command Center has since hosted training of Inspector General auditors by Department of Justice prosecutors, and is planning more extensive training for Gulf Coast-based Assistant United States Attorneys and other agencies at the Command Center. The Department of Justice also has taken the lead in coordinating and expediting proactive responses by various agencies to potential disaster-related fraud. The Command Center is also playing a significant role in proactively identifying patterns of potentially fraudulent activity in applications for disaster-related benefits.

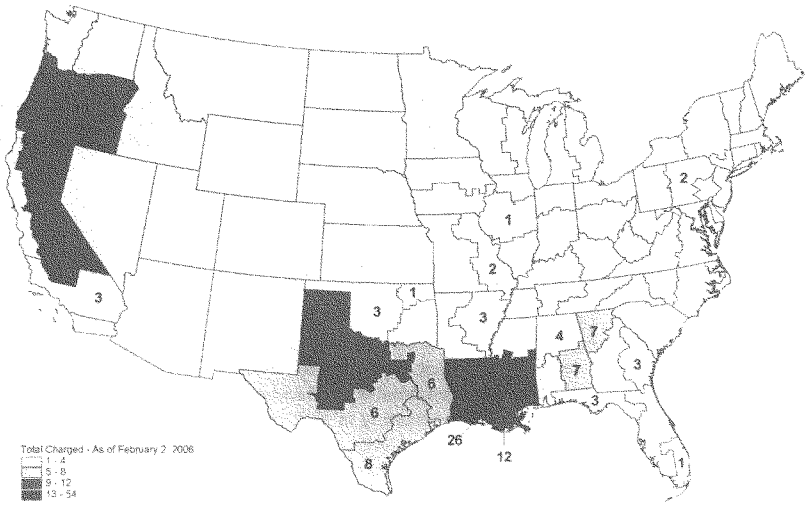
E. Public Education and Prevention

Since October 2005, various agencies – including the Department of Justice, the Federal Trade Commission (FTC), the Postal Inspection Service, and FEMA – have continued to provide members of the public with information about hurricane-related crimes and prevention issues. The techniques being used include websites, public-service advertisements, distributions of publications and flyers, and press releases.

PROSECUTION AND ENFORCEMENT

Since the first progress report in October 2005, the Task Force has continued to carry out the strategy of zero tolerance for hurricane-related fraud. Task Force members have recognized the value of pursuing swift and visible prosecutions to effect maximum deterrence and prevent future violations. Accordingly, investigative agencies and United States Attorneys across the country have worked together in close collaboration to make the zero-tolerance policy a top priority.

Figure 2: Federal Criminal Prosecutions, September 1, 2005 - February 2, 2006



Note: Totals represent 212 persons charged in 23 districts. [Source: U.S. Department of Justice]

The most tangible proof of their commitment is the dramatic increase in the number of prosecutions stemming from Hurricanes Katrina and Rita. As of October 17, 2005, the date of the last progress report, the Task Force had charged 36 people in 17 separate cases with hurricane-related fraud. As of February 2, 2006, 212 people have been charged in 173 separate cases with hurricane-related fraud. (See Figure 2 above.) To date, 40 of these defendants have pleaded guilty to one or more charges. These prosecutions span 23 federal districts in all regions of the United States. State and local prosecutors' offices have also continued to bring criminal cases involving hurricane-related fraud.

From the criminal investigations and prosecutions that the Task Force has already initiated, federal law enforcement has seen several patterns of criminal behavior in disaster-related benefit fraud schemes. These include:

- Persons living outside the disaster areas – often two or three states away – who falsely claimed to have primary residences within the disaster areas;

- Persons using Social Security numbers other than their own on multiple applications;
- Prison and jail inmates, incarcerated at facilities outside the disaster areas, who falsely claimed their primary residences in the disaster areas had been damaged; and
- Persons misrepresenting themselves to be agents of bona fide charitable organizations.

The majority of hurricane-related prosecutions brought since October 17, 2005 involve fraud to obtain emergency benefits from FEMA and the American Red Cross. The sample list of cases reflects a broad range of cases ranging from benefit fraud to identity theft to corruption. We have selected samples from a variety of United States Attorneys' Offices to provide a flavor of the fraudulent schemes.

Alabama - Middle District (United States Attorney Leura Garrett Canary) [7 Persons Charged]

- On November 15, 2005, a federal grand jury in the Middle District of Alabama indicted four individuals residing in Montgomery, Alabama, alleging they fraudulently sought disaster-assistance benefits from FEMA. The defendants allegedly included in their FEMA applications false claims that they had suffered damage to their primary residence in Harvey, Louisiana. The DHS-OIG, with assistance from the Montgomery Police Department, investigated the case.[4]

- On January 20, 2006, a federal grand jury in the Middle District of Alabama indicted three individuals residing in Montgomery, Alabama, alleging they fraudulently sought disaster-assistance benefits from FEMA. The defendants allegedly included in their FEMA applications false claims that they had suffered damage to their primary residence in Louisiana. The DHS-OIG, with assistance from the Montgomery Police Department, investigated the case.[5]

Alabama - Northern District (United States Attorney Alice H. Martin) [4 Persons Charged]

- On November 30, 2005, a federal grand jury in the Northern District of Alabama indicted four individuals on charges relating to filing false claims with FEMA. Two women claimed to have suffered disaster-related damage to their home in Slidell, Louisiana when in fact they were residents of Alabama. A third defendant reportedly was assisted by private citizens, church volunteers, and the American Red Cross while posing as a hurricane evacuee. The DHS-OIG – in cooperation with the FBI, the Alabama Attorney

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[4] *See* United States Attorney's Office, Press Release, November 15, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/11-15-05USAOMDAL.pdf.

[5] *See* United States Attorney's Office, Middle District of Alabama, Press Release, February 6, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/2-6-06USAOMDAL.pdf.

General's Office, the Tuscaloosa County Sheriff's Office, and the Jasper, Northport, and Attalla Police Departments -- investigated the cases.[6] On January 24, 2006, one of the individuals pleaded guilty to the charges in her indictment.

California - Eastern District (United States Attorney McGregor W. Scott) [54 Persons Charged]

- The United States Attorney's Office for the Eastern District of California and the FBI have aggressively continued their ongoing investigation into a scheme to defraud the American Red Cross of funds intended for Hurricane Katrina victims by submitting or causing others to submit a fraudulent claim through the American Red Cross call center located in Bakersfield. To date, 53 persons have been federally charged in this investigation. According to the indictment, when a person contacted the call center to request assistance, call-center employees allegedly verified their personal information, including an address within the area affected by the hurricane. Once that information was verified, the caller was given instructions on how to obtain financial assistance from the American Red Cross and, on approval of financial assistance, how to obtain that assistance at the closest Western Union branch. The indictments further allege that a number of temporary contract employees at the Bakersfield call center, and some close associates of those temporary contract employees, obtained false claim information and, using that information, obtained payment from Western Union.[7] In a separate case, one defendant was charged with fraudulently applying for and receiving thousands of dollars in hurricane assistance from the American Red Cross and other organizations. The FBI investigated the cases.

Florida - Southern District (United States Attorney R. Alexander Acosta) [1 Person Charged]

- On January 30, 2006, a defendant pleaded guilty in the United States District Court for the Southern District of Florida to wire fraud in connection with his fraudulent solicitation of charitable donations supposedly intended for Hurricane Katrina relief. According to the indictment, the defendant falsely claimed in conversations on the Internet, and ultimately via the website www.AirKatrina.com, that he was piloting flights to Louisiana to provide medical supplies to the areas affected by Hurricane Katrina and

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[6] *See* United States Attorney's Office, Norther District of Alabama, Press Release, November 30, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/11-30-05USAOUSAOMDAL.pdf.

[7] *See, e.g.*, United States Attorney's Office, Eastern District of California, Press Releases, October 27, 2005, and February 2, 2006, *available at* http://www.usdoj.gov/usao/cae/PRESS/pdf_2005/10-27-05katrinarelease.pdf and http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/2-2-06USAOEDCA.pdf.

to evacuate children and others in critical medical condition. He further claimed that he had organized a group of Florida pilots to assist him in his supposed relief efforts. In just two days, the defendant received almost $40,000 in donations from 48 different victims from around the world. The FBI investigated the case.[8]

Georgia - Northern District (United States Attorney David Nahmias) [7 Persons Charged]

- On December 6, 2005, a federal grand jury in the Northern District of Georgia returned separate indictments against five individuals for mail fraud, making false statements to FEMA in order to obtain Hurricane Katrina victim assistance, and stealing FEMA funds. The DHS-OIG, the Postal Inspection Service, and the FBI investigated the cases.[9]

Georgia - Southern District (United States Attorney Lisa Godbey Wood) [3 Persons Charged]

- On November 3, 2005, a federal grand jury in the Southern District of Georgia indicted three individuals for falsely and fraudulently representing themselves to be agents of the American Red Cross for the purpose of soliciting and receiving money from persons in the Dublin, Georgia area, purportedly to aid victims of Hurricane Katrina. The three defendants were also charged in a related gambling operation involving the solicitation of persons to buy tickets in an illegal lottery or raffle that was supposedly sponsored by the American Red Cross. The FBI investigated the case.[10]

Louisiana - Eastern District (United States Attorney Jim Letten) [12 Persons Charged]

- On December 16, 2005, a federal grand jury for the Eastern District of Louisiana returned an indictment charging a St. Tammany Parish Councilman with extortion under the Hobbs Act and with money laundering. The indictment alleges that the defendant used his official position as a councilman to obtain inside information about a debris removal contract resulting from Hurricane Katrina, and to influence a prime contractor in St. Tammany Parish to enter into a contract with another company. It further alleges that the defendant pressured the owners of the second company to pay him 50 percent of the funds that the company received from the prime contractor. The FBI, the Internal

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[8] *See* United States Attorney's Office, Southern District of Florida, Press Release, January 30, 2006, *available at* http://www.usdoj.gov/usao/fls/060130-01.html.

[9] *See* United States Attorney's Office, Northern District of Georgia, Press Release, December 13, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/12-13-05USAONDGA.pdf.

[10] *See* United States Attorney's Office, Southern District of Georgia, Press Release, November 3, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/threeIndicted_KatrinaScam110305.pdf.

Revenue Service Criminal Investigation (IRS-CI), and the DHS-OIG investigated the case.[11]

- On February 3, 2006, a federal grand jury for the Eastern District of Louisiana indicted two FEMA officials working in New Orleans for soliciting bribes as public officials. According to the criminal complaint by which they were first charged on January 27, the two officials approached a local contractor and solicited a bribe from the contractor in exchange for inflating the headcount for a $1 million meal service contract at the Algiers, Louisiana base camp. During this meeting, the two officials allegedly told the contractor that they could inflate the "headcount" for meals served and that they would require the contractor to kick back to them (the two FEMA officials) $20,000. During a subsequent meeting on January 19, 2006, one of the FEMA officials demanded $20,000 from the contractor to be split evenly between him and the other FEMA official, and indicated that the other official would continue to intentionally inflate the occupancy number at the base camp falsely.

  During a subsequent meeting on January 24, 2006, the $20,000 bribe that had been demanded was further discussed, and during the same meeting, the two officials allegedly discussed various ways and means that the contractor could use to inflate the meal service count. During the same meeting and a subsequent one on the same day, both charged defendants allegedly continued to discuss various ways and means to inflate the invoices for meal service counts, and made a further bribery demand for $2,500 per week for each of them. Finally, on the morning of January 27, 2006, the officials each took one envelope containing $10,000 from the contractor, after confirming that these two payments were for the inflated meal service count from December 3, 2005 through January 15, 2006. Thereafter, according to the complaint, both defendants and the contractor continued to discuss the mechanics of how to continue to fraudulently inflate the meal service count numbers. Federal agents arrested both immediately thereafter on the scene. The FBI and the DHS-OIG investigated the case.[12]

Louisiana - Middle District (United States Attorney David Dugas) [26 Persons Charged]

- On January 20, 2006, a federal grand jury in the Middle District of Louisiana returned a 16-count indictment against a resident of Villa Rica, Georgia, charging him with fraudulently obtaining 51 disaster unemployment compensation debit cards from the

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[11] *See* United States Attorney's Office, Eastern District of Louisiana, Press Release, Dec. 16, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/12-16-05-USAOEDLA.pdf.

[12] *See* United States Attorney's Office, Eastern District of Louisiana, Press Release, January 27, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/1-27-06USAOEDLA.pdf.

Louisiana Department of Labor (LDOL). Also on January 20, 2006, a grand jury returned indictments against four individuals residing in Baton Rouge for fraudulently applying for FEMA disaster benefits. The United States Secret Service, the DHS-OIG, the Social Security Administration - Office of Inspector General (SSA-OIG), the FBI, and the East Baton Rouge Parish Sheriff's Office investigated the cases.[13]

Louisiana - Western District (United States Attorney Donald W. Washington) [19 Persons Charged]

- On October 27, 2005, a federal grand jury in the Western District of Louisiana indicted two individuals, incarcerated at the Avoyelles Women's Correctional Facility in Cottonport, Louisiana, for claiming to be hurricane victims in order to fraudulently obtain FEMA relief funds. The DHS-OIG, the Postal Inspection Service, and the FBI investigated the cases.[14]

Mississippi - Southern District (United States Attorney Dunn Lampton) [20 Persons Charged]

- On December 6, 2005, the United States Attorney's Office for the Southern District of Mississippi filed a criminal complaint charging a subcontractor with paying an Army Corps of Engineers employee multiple bribes to create false load tickets for debris that the subcontractor never dumped at a dumpsite in Perry County, Mississippi. The FBI, the Department of Defense - Defense Criminal Investigative Service (DOD-DCIS), and the United States Army Criminal Investigation Division investigated the case.[15]

Oklahoma - Western District (United States Attorney John C. Richter) [3 Persons Charged]

- On October 27, 2005, two individuals were arrested, based on a criminal complaint in the Western District of Oklahoma, for filing a false claim for hurricane disaster assistance. According to the complaint, both individuals, in separate applications to FEMA, falsely claimed that their primary residences in Metairie, Louisiana had been destroyed. In fact,

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[13] *See* United States Attorney's Office, Middle District of Louisiana, Press Release, January 20, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/KatrinaPR_FEMA_chrgs102006.pdf.

[14] *See* United States Attorney's Office, Western District of Louisiana, Press Release, October 27, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/10-27-05USAOWDLA.pdf.

[15] *See* United States Attorney's Office, Southern District of Mississippi, Press Release, Dec. 6, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/12-06-2005-USAOMS.pdf.

both defendants resided in Lawton, Oklahoma. The Oklahoma Economic Crime and Identity Theft Task Force and the DHS-OIG investigated the case.[16]

Oregon (United States Attorney Karin Immergut) [10 Persons Charged]

- On January 25, 2006, a federal grand jury in the District of Oregon returned separate indictments against nine individuals on charges relating to fraudulent applications for FEMA disaster-relief funds. The Postal Inspection Service, the FBI, and the DHS-OIG investigated the cases.[17]

Texas - Eastern District (United States Attorney Matthew D. Orwig) [6 Persons Charged]

- On January 12, 2006, a federal grand jury in the Eastern District of Texas indicted two individuals on charges relating to filing false claims with FEMA. The DHS-OIG investigated the case.[18] On January 18, 2006, a federal grand jury in the Eastern District of Texas returned indictments against two individuals on charges relating to filing false claims with FEMA. The DHS-OIG investigated one case, and the DHS-OIG with the assistance of the Bureau of Immigration and Customs Enforcement investigated the other case.[19]

Texas - Northern District (United States Attorney Richard Roper) [11 Persons Charged]

- On January 11, 2006, a federal grand jury in the Northern District of Texas indicted three Dallas-area residents and two Meyersville, Mississippi, residents, with various offenses related to their role in a FEMA fraud scheme. According to the indictment, the defendants – who include a 35-year-old Dallas resident as the lead defendant and her 61-year-old mother – made numerous fraudulent claims for hurricane disaster relief by filing them over the telephone and online with FEMA and the LDOL. The lead defendant reportedly submitted more than 50 fraudulent online applications to FEMA and the

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[16] *See* United States Attorney's Office, Western District of Oklahoma, Press Release, October 27, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/KatrinaPR10-27-05.pdf

[17] *See* United States Attorney's Office, District of Oregon, Press Releases, January 26 and 27, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/1-26-06USAOOR.pdf and http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/1-27-06USAOOR.htm.

[18] *See* United States Attorney's Office, Eastern District of Texas, Press Release, January 12, 2006, available at http://www.usdoj.gov/usao/txe/news/newton_blake.pdf.

[19] *See* United States Attorney's Office, Eastern District of Texas, Press Release, January 18, 2006, *available at* http://www.usdoj.gov/usao/txe/news/harris_henderson.pdf.

LDOL, and filed most of the fraudulent claims on behalf of family members who lived in two areas not affected by Hurricane Katrina. They allegedly provided FEMA and LDOL with current mailing addresses they controlled, caused the disbursement of disaster assistance funds and disaster unemployment assistance funds to them via debit cards, checks and/or electronic transfers, and used the funds for their own personal use. The lead defendant allegedly received approximately $65,000 in fraudulently obtained Hurricane Katrina disaster benefits and there is no evidence to indicate that she ever lived in New Orleans. The Department of Labor Office of Inspector General (DOL-OIG), the Postal Inspection Service, the DHS-OIG, and the LDOL investigated the case.[20]

- On December 21, 2005, a federal grand jury in the Northern District of Texas indicted an individual for conspiring to defraud the United States. The defendant allegedly obtained and aided one or more individuals to obtain disaster relief funds from FEMA by submitting false claims representing that their primary residences, located in hurricane-damaged areas, suffered property damage as a result of the hurricanes. The defendant also allegedly used the addresses of multiple UPS stores in Texas to receive and forward mail from FEMA, and hired a man at a homeless shelter in Dallas to stay at a hotel to which the defendant had mail forwarded from UPS stores or other commercial-mail receiving agencies and inform him about mail that was delivered to the hired man at the hotel. The Postal Inspection Service and the DHS-OIG investigated the case.[21]

Texas - Southern District (United States Attorney Chuck Rosenberg) [8 Persons Charged]

- On January 18, 2006, a federal grand jury in the Southern District of Texas indicted an individual on charges of filing a false claim with FEMA for disaster assistance and for mail fraud. The individual was arrested on January 24, 2006. The DHS-OIG investigated the case.[22]

- On January 20, 2006, the United States Attorney's Office filed a criminal complaint charging an individual with mail fraud in connection with his obtaining a Louisiana Department of Labor Disaster Unemployment Assistance (DUA) debit card in the name of another individual who was not a hurricane evacuee. The individual allegedly

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[20] *See* United States Attorney's Office, Northern District of Texas, Press Release, January 17, 2006, *available at* http://www.usdoj.gov/usao/txn/PressRel06/hall_lakietha_etal_katrinafraud_indict_pr.html.

[21] *See* United States Attorney's Office, Northern District of Texas, Press Release, December 21, 2005, *available at* http://www.usdoj.gov/usao/txn/PressRel05/mcclain_fema_indict_pr.html.

[22] *See* United States Attorney's Office, Southern District of Texas, Press Release, January 25, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/1-26-06USAOSD_2.pdf.

evacuated from Louisiana to the Conroe, Texas area and obtained a DUA card in his own name. Thereafter, he allegedly conducted a scheme in which he paid certain Conroe-area residents in cash or in drugs to obtain their identification information, which he then used to file for DUA benefits in their names listing a false prior place of employment in Louisiana. The defendant was also allegedly involved in assisting others in fraudulently obtaining DUA debit cards, resulting in his involvement in fraud totaling hundreds of thousands of dollars during the course of the scheme. The DOL-OIG with the DHS-OIG investigated the case.[23]

Texas - Western District (United States Attorney Johnny Sutton) [6 Persons Charged]

- On November 16, 2005, a federal grand jury in the Western District of Texas indicted an individual for false representation of a Social Security number. The defendant, who was arrested on December 21, 2005, allegedly falsely used a number, which he alleged to be his Social Security number, for the purpose of obtaining Hurricane Katrina related emergency assistance from the American Red Cross, for which he was not eligible. The SSA-OIG, with the Midland Police Department, investigated the case.[24]

Other United States Attorneys' Offices that have brought hurricane-related criminal prosecutions include the Eastern District of Arkansas (3 persons charged); the Central District of California (3 persons charged); the Northern District of Florida (3 persons charged); the Central District of Illinois (1 person charged); the Eastern District of Missouri (2 persons charged); the Northern District of Oklahoma (1 person charged); and the Middle District of Pennsylvania (2 persons charged).

Two aspects of these cases are worth noting. First, many of these cases are the direct result of interagency working groups that have been established in the judicial districts directly affected by the storms. These working groups are located in Baton Rouge (Middle District of Louisiana), Covington (Eastern District of Louisiana), Jackson (Southern District of Mississippi), Lafayette and Shreveport (Western District of Louisiana), and Mobile (Southern District of Alabama). The working groups provide day-to-day coordination of investigative activities by the line agents who are working on the cases. This coordination is critically important, because the working groups provide the means for teaming the agents and prosecutors who live in and are most familiar with the region with agents and inspectors from around the country who have been sent to augment the investigative resources in the most heavily affected regions. The working groups also directly facilitate the multi-agency investigations that the

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[23] *See* United States Attorney's Office, Southern District of Texas, Press Release, January 26, 2006, *available at* http://www.usdoj.gov/usao/txs/releases/January2006/060126-Good.pdf.

[24] *See* United States Attorney's Office, Press Release, December 21, 2005, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/12-21-05USAOWDTX.pdf.

Task Force is coordinating.

Second, much of the Task Force's work is being performed by United States Attorneys' Offices and agency field offices that were themselves victims of the hurricanes' devastation. Many of the prosecutors and agents in the affected areas were displaced from their homes and offices, but have continued to carry out their duties despite suffering significant personal losses. For example, the United States Attorney for the Eastern District of Louisiana and his staff only returned to their office in New Orleans a few weeks ago, and the FBI field office in New Orleans is still out of commission. Both agencies have been working from temporary office space, and many of their people have not yet been able to return to their homes. In addition, the Internal Revenue Service (IRS), the Postal Inspection Service, the Secret Service, the DOL-OIG, the Housing and Urban Development Office of Inspector General (HUD-OIG), and the Social Security Administration (SSA) had offices and people in New Orleans that were affected by the storms.

Examples of state and local prosecutions reported to the Task Force include the following:

Louisiana

- The Insurance Fraud Unit of the Louisiana State Police (LSP) reports that it has arrested nine individuals on various charges concerning hurricane-related insurance fraud, and has 54 other cases under investigation. The LSP Insurance Fraud Unit reports that the fraud-related activities of the individuals arrested included the following:

  - An out-of-state contractor purported to remove mold contamination but had his cleaning crews begin work without finishing it or performed the work poorly, then submitted bills three to four times higher than normal for such work.

    - When some homeowners challenged the bills, the contractor allegedly threatened to place liens on their property and turn them over to collection agencies to ruin their credit if they failed to pay within a short time frame. Witnesses also said that in some instances, they were threatened with losing their houses completely.
    - In one case where a family arranged with the contractor to remove a tree from their house, a family member agreed to pay the contractor $1,000 by credit card over the phone from his temporary housing in Shreveport, but declined any further work. The family allegedly later learned that the contractor forced entry into their home without their consent and gutted the home's interior, which was not flooded, removed interior wallboard and belongings, and later demanded payment from them for this service. When they refused to pay, he reportedly took the money from their credit card account.

  - In two separate cases, an individual allegedly claimed that Hurricane Katrina had damaged his residence, but subsequent investigation found that the individual had

claimed the same damage on at least two prior occasions and had received payment in each instance.

- An individual initiated an insurance claim by reporting that her vehicle was stolen from a New Orleans housing project after she evacuated the area due to Hurricane Katrina. Investigation disclosed that the individual was still in possession of the vehicle when it was recovered in an apartment complex in Texas, where she was residing.

In addition, the Insurance Fraud Unit reports that, working in conjunction with the National Insurance Crime Bureau, it has indexed 246,712 vehicle identification numbers on vehicles damaged by Hurricanes Katrina and Rita in Louisiana. During this indexing initiative, the LSP recovered 84 stolen vehicles from the New Orleans metro area. The stolen vehicles were turned over to the New Orleans Police Department for storage. To date, the Unit reports that there have been no significant investigations as a result of the fraudulent sale of flood vehicles. The LSP is working with the Louisiana Office of Motor Vehicles to place registration stop flags on all flood vehicles considered missing. This will prevent any title activity without LSP Insurance Fraud Unit approval.

- Louisiana Attorney General Charles C. Foti, Jr., announced the arrests of a Louisiana police chief and police officer. Both were charged with two counts of looting, two counts of felony theft, and malfeasance in office. They were booked into Acadia Parish Jail as fugitives, subsequently transported to New Orleans, and booked for the above charges.

In addition, state Attorneys General continue to pursue civil actions in hurricane-related matters involving alleged consumer deception and price-gouging. As reported to the Task Force, Alabama Attorney General Troy King, Florida Attorney General Charlie Crist, Louisiana Attorney General Charles C. Foti, Jr., New York Attorney General Eliot Spitzer, Texas Attorney General Greg Abbott, and former Virginia Attorney General Judith Williams Jagdmann, among others, have brought civil enforcement actions for activity ranging from alleged gasoline and hotel price gouging to home improvement fraud and other schemes to defraud. United States Attorney's Offices are coordinating with state Attorneys General and other state and local law enforcement as appropriate.[25]

Deterrence and Returned Funds

It is worth noting that, according to FEMA and the American Red Cross, a total of

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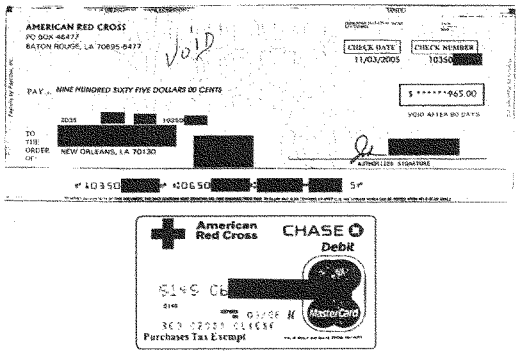
[25] The subject of gasoline price-gouging remains a focus of interest for state Attorneys General. In November 2005, Arizona Attorney General Terry Goddard, New Jersey Attorney General Peter Harvey, and South Carolina Attorney General Henry McMaster testified on the issue before a joint hearing by the United States Senate Committee on Commerce, Science, and Transportation, and the United States Senate Committee on Energy and Natural Resources.

$8,016,417.62 in disaster-assistance funds has been voluntarily returned to those organizations. (See Figure 3 at right for examples of payments returned to the American Red Cross.) As of January 24, 2006, FEMA had $6,126,433.42 in disaster-assistance checks and money orders returned to it. As of the end of December, 2005, the American Red Cross had received $1,889,984.20 in returned disaster-assistance funds, including 2,358 checks, 96 client-assistance cards, and 24 debit cards.

Figure 3 - Examples of Check and Debit Card Returned to American Red Cross



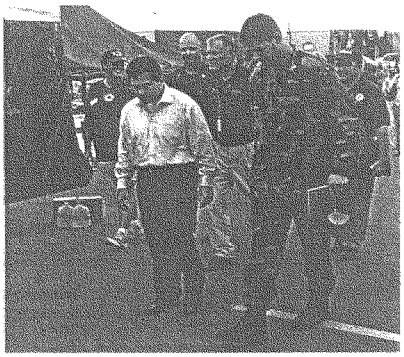
In some cases, individuals may have returned some of these funds because they concluded the funds had been provided by mistake. In other cases, however, there are indications that individuals have returned funds because they believed they were not entitled to the funds under any circumstances and wanted to avoid possible prosecution. These indications include letters confessing the fraud, anonymous returns of checks and money orders, and contacts by persons who wanted to arrange time-payment plans to pay back the money they had taken.

Increased Coordination

A. The New Orleans Conference

From the outset, the Task Force recognized the importance of ensuring full and effective coordination among law enforcement agencies at the national, regional, and local levels of government. To expedite this process, the Task Force organized and conducted a training and information-sharing conference in New Orleans, Louisiana, on October 20, 2005. This conference brought together more than 100 senior-level and working-level representatives of federal and state law enforcement, including United States Attorneys, the FBI, the Secret Service, the Postal Inspection Service, numerous federal Inspectors General, and the Louisiana State Police. (See Figure 4 below.)

Figure 4 - New Orleans Conference, October 20, 2005

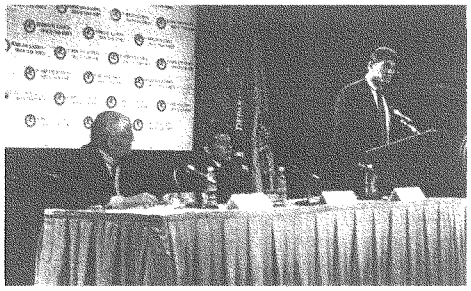


"Fraud will not go unpunished. Every dollar that is directed for Hurricane relief should be used in affected communities, not to pad the bank accounts of fraudsters and criminals."

Attorney General Alberto R. Gonzales, speech at Hurricane Katrina Fraud Task Force Conference, New Orleans, Louisiana, October 20, 2005.

This conference included remarks by Attorney General Alberto R. Gonzales, FBI Assistant Director Chris Swecker, Department of Homeland Security Inspector General Richard Skinner, and Louisiana Attorney General Charles C. Foti, Jr. It also featured panel discussions, working groups, and practical guidance on investigating and prosecuting Katrina- and Rita-related fraud cases. (See Figure 5 below.)

Figure 5 - Interagency Cooperation at New Orleans Conference



"We have a responsibility to ensure that government relief efforts are not undermined by unscrupulous individuals. It is very unfortunate that natural disasters, such as Hurricane Katrina, while bringing out the best in most people also draw out criminal elements who would take advantage of the federal government's relief efforts."

Assistant Director Chris Swecker, FBI Criminal Investigative Division, September 15, 2005 statement.

Assistant Director Swecker (at right) speaks at the New Orleans Conference (Louisiana Attorney General Charles C. Foti, Jr. and Attorney General Alberto R. Gonzales at left).

Participants in the conference found it highly effective in identifying key issues and concerns in hurricane-related investigations, facilitating networking and cooperation among agency representatives, and underscoring the importance of rapid coordination and response by law enforcement to the growth of fraud and corruption.

B. The Joint Command Center

Since its creation in October 2005, the goal of the Joint Command Center has been to facilitate a fully integrated and coordinated nationwide law enforcement response to fraud and corruption associated with the unprecedented destruction of Hurricanes Katrina and Rita. The Joint Command Center operations over the past three months have steadily grown in scope and complexity, as federal law enforcement agencies and Inspectors General have dedicated investigative and analytical resources to the mission of the Task Force. In this regard, the FBI deserves particular mention for its consistent provision of personnel and logistical support to the Command Center.

The following 32 agencies and Department of Justice components currently have representatives assigned to the Joint Command Center or designated as Points of Contact for the Joint Command Center:

- Department of Justice, Criminal Division
- Department of Justice, Civil Division
- Department of Justice, Antitrust Division
- Department of Justice, Office of Inspector General
- FBI
- Department of Homeland Security Office of Inspector General (DHS-OIG)
- United States Secret Service
- Social Security Administration, Office of Inspector General
- Department of Housing and Urban Development, Office of Inspector General
- Department of Labor, Office of Inspector General
- U. S. Postal Inspection Service
- Internal Revenue Service, Criminal Investigation
- Treasury Inspector General for Tax Administration
- Department of Health and Human Services, Office of Inspector General
- Environmental Protection Agency, Office of Inspector General
- Environmental Protection Agency, Criminal Investigative Division
- Department of Agriculture, Office of Inspector General
- Department of Commerce, Office of Inspector General
- Department of Defense (Office of Inspector General (OIG) and Defense Criminal Investigative Service (DCIS))
- Department of Energy, Office of Inspector General
- Department of Transportation, Office of Inspector General
- National Aeronautics and Space Administration, Office of Inspector General
- General Services Administration, Office of Inspector General

- Small Business Administration, Office of Inspector General
- Department of Veterans Affairs, Office of Inspector General
- United States Attorney's Office for the Eastern District of Louisiana
- United States Attorney's Office for the Middle District of Louisiana
- United States Attorney's Office for the Western District of Louisiana
- United States Attorney's Office for the Eastern District of Texas
- United States Attorney's Office for the Southern District of Texas
- United States Attorney's Office for the Southern District of Mississippi
- United States Attorney's Office for the Southern District of Alabama

Significant Joint Command Center operational developments over the past three months include:

- The appointment of United States Attorney David R. Dugas to serve as the Executive Director of the Joint Command Center. Mr. Dugas currently serves as the United States Attorney for the Middle District of Louisiana and has assumed responsibility for the day-to-day coordination of the Joint Command Center activities. (See Figure 6 below.)

- The establishment of a Hurricane Katrina Fraud Task Force (HKFTF) Special Interest Group (SIG) on the Law Enforcement Online (LEO) website. The HKFTF SIG allows the Joint Command Center to collect information from and disseminate information to Task Force members around the country in a secure electronic environment. The HKFTF SIG currently has 127 participating members from 23 federal agencies and Inspectors General offices.

Figure 6 - Hurricane Katrina Fraud Task Force Command Center

"It's easier to work together when everyone is under one roof. With this Joint Command Center, Task Force representatives from federal law enforcement, the federal community of Inspectors General, and United States Attorneys Offices can better pool their resources to ensure a coordinated attack on procurement fraud and public corruption."

Attorney General Alberto R. Gonzales, speech at Hurricane Katrina Fraud Task Force Conference, New Orleans, Louisiana, October 20, 2005.

United States Attorney David R. Dugas (at right), Executive Director of the Command Center, leads a discussion at a Command Center meeting.

- The development of a standard Task Force Complaint Referral Form that is used to transmit fraud complaints and investigative leads to the Joint Command Center for screening, deconfliction, and referral to appropriate law enforcement agencies and Task Force working groups for investigation. The Complaint Referral form is accessible from the general membership section of LEO and may be used by any law enforcement officer in the country with access to LEO.

- The deployment of an interagency complaint index to collect, screen, deconflict, and refer the Task Force Complaint Referral forms received by the Joint Command Center. The information contained on the Complaint Referral forms is posted on the LEO HKFTF SIG and is accessible to designated agency representatives.

- The development, in conjunction with Department of Justice technical personnel, of an innovative Referral and Deconfliction Database (RADD) that will allow automatic deconfliction of complaints and leads, merger of duplicate complaints, referral of complaints to appropriate agencies and working groups, and tracking of complaints and referrals.

- The preliminary analysis of fraud trends revealed by the information contained in the complaints received by the Joint Command Center and investigative information developed by the Task Force members and shared through their Joint Command Center representatives.

- The consolidation of complaints received by the Task Force hotlines into the Complaint Index. To date, more than 4,000 complaints have been received by the Task Force hotlines operated by the FBI and the PCIE Homeland Security Working Group. These complaints are transmitted to the Joint Command Center for entry into the Complaint Index.

- The establishment of Points of Contact between the United States Attorney's Offices in the affected areas and the Joint Command Center to facilitate coordination of Joint Command Center operations with the Task Force working groups in the affected districts.

- The onsite interagency exchange of information and trends, through regular Joint Command Center meetings and day-to-day interaction of the Joint Command Center staff and agency representatives. This interaction has been particularly valuable in alerting participating agencies to fraud indicia revealed by ongoing investigations, such as (1) unexplained grouping of benefit claims from areas that were unaffected by the disasters, (2) the types of information that can lead to the discovery of individuals making multiple fraudulent benefit claims, and (3) methods for obtaining information and leads that could reveal other fraudulent activity. In addition, agency representatives share information on the programs used by their departments to disburse disaster relief assistance and discuss appropriate investigative methods to detect criminal activity related to those programs.

As the relief, recovery, and reconstruction efforts continue, the Joint Command Center is building a more complete information-gathering and data analysis capability that will allow real-time trend analysis and lead generation. As part of that effort, the LEO Support Center, located in the same building as the Joint Command Center, provides invaluable support and technical assistance to the Joint Command Center operations. In addition, the FBI has assigned full-time support staff to the Joint Command Center. The FBI, the DHS-OIG, and the Postal Inspection Service have agreed to assign full-time analysts to the Joint Command Center to ensure that information gathered by the Joint Command Center is properly screened, analyzed, and reported to investigative agencies on a timely basis. The Joint Command Center analysts will also review information obtained from ongoing investigations and prosecutions in order to detect trends or patterns of fraudulent activity and possible systemic weaknesses.

C. Other Investigative Coordination and Assistance

- **Antitrust Division**

  - The Antitrust Division is actively training agents and procurement officials in the prevention and detection of collusive conduct in the post-Katrina marketplace. The Division created an antitrust primer for agents, auditors, and procurement officials titled, "Preventing and Detecting Bid Rigging, Price Fixing, and Market Allocation in Post-disaster Rebuilding Projects." The Division has widely distributed more than a thousand copies of this primer to federal agents and investigators, United States Attorneys' and FBI offices in the affected judicial districts, all federal Inspector General offices in the Southeast region, state Attorneys General, and state purchasing, Department of Transportation (DOT), and emergency management officials in Louisiana, Florida, Alabama, and Mississippi. The Division also electronically distributed the primer to the National Institute of Government Purchasing and its regional chapters. The primer can be found at www.usdoj.gov/atr/public/guidelines/disaster_primer.htm and is electronically posted on the LEO and Task Force websites.

  - Antitrust Division representatives made a presentation on the training and assistance the Division could provide in identifying and preventing collusion for Task Force members at the Joint Command Center and will be involved in more extensive future training of task force members. Division attorneys met with representatives from various federal agency inspector general's offices, including DHS and the General Services Administration (GSA), and are arranging for training sessions for agents, auditors, and procurement officials at these agencies.

  - The Antitrust Division also launched its public Disaster Recovery and Katrina websites at www.usdoj.gov/atr/disaster.htm containing educational materials and contact information for reporting anticompetitive activity. The Antitrust Division is prepared to devote resources to investigating and criminally prosecuting collusion wherever it occurs.

- **Federal Bureau of Investigation**

  - To date, the FBI has initiated approximately 127 investigations related to Katrina, Rita, and Wilma fraud. Of these investigations, approximately 60 subjects have been indicted or charged by information, and 18 subjects have been arrested. Both the Criminal Investigative Division and the Cyber Division of the FBI remain actively involved in overseeing and coordinating the FBI's nationwide response to the hurricanes.

  - The FBI Cyber Division reports that as a result of agent interviews and FBI coordination with private-sector entities, 44 questionable websites have been shut down since August 2005.

- **Postal Inspection Service**

  - As of January 11, 2006, the Postal Inspection Service had conducted 22 criminal investigations, resulting in 24 arrests, related to false claims submitted to FEMA and state government agencies. In addition, the Houston Division of the Inspection Service opened a National Coordination Case because of the scope, complexity and long-term commitment of the Postal Inspection Service to Hurricane Katrina fraud-related investigations. The national coordination of these investigations being conducted by the Postal Inspection Service will facilitate the tracking of cases and the resolution of any conflicting issues with the numerous other agencies involved. This will also provide a focal point for coordination with the Hurricane Katrina Fraud Task Force, including its Joint Command Center.

- **United States Secret Service**

  - In conjunction with other federal, state, and local agencies, the United States Secret Service has continued to investigate numerous cases related to Hurricanes Katrina and Rita. It has also continued to work in cooperation with the private sector to shut down numerous fictitious websites. With the assistance of a private-sector company, it was able to detect and effectively shut down websites that were victimizing Hurricane Katrina victims, the American Red Cross, and Red Cross donors. These shutdowns included 16 "phishing" websites (i.e., websites that purport to be operated by legitimate corporate or nonprofit entities, but that are created to harvest personal data from individuals for identity theft and fraud). Nine of those phishing sites were shut down within a few days of initial posting.

- **Internal Revenue Service-Criminal Investigation (IRS-CI)**

  - IRS-CI continues to be an active participant in the Task Force, with agents assigned to the Baton Rouge, Louisiana, Covington, Louisiana, and Hattiesburg, Mississippi

task forces. IRS-CI agents are working closely with representatives from local, state and federal agencies and lending their expertise in analyzing suspicious financial transactions related to the recovery efforts. In addition, the agency has expedited the clean up efforts in the New Orleans Field Office and has returned to full staffing and operations.

- **Inspectors General**

The federal Inspectors General community continues to make vital contributions to the work of the Task Force, as reflected in the recent 90-Day Progress Report to Congress by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE).[26] In recognition of the need to enhance the already substantial coordination and communication between the Department of Justice and the Inspectors General, Department of Justice representatives of the Task Force are attending the regular meetings of the PCIE Homeland Security Roundtable and the Roundtable's Contract Audit Task Force and Individual Assistance Subgroup, as well as special meetings with Inspectors General on specific issues. Department of Justice attorneys also conducted a briefing of DHS-OIG auditors at the Command Center on criminal fraud issues that they may encounter in performing their audits. Finally, the Department of Justice is working closely with several Offices of Inspector General to streamline processes for analyzing disaster-benefit applications and identifying significant cases of potential benefit fraud.

Various Inspectors General have reported the following fraud-related activities to the Task Force:

- **Department of Homeland Security Office of Inspector General (DHS-OIG)**

  - The DHS-OIG has hired or assigned 79 personnel to the newly established Office of Special Inspector General for Gulf Coast Hurricane Recovery Oversight and is in the process of hiring additional staff at the FEMA headquarters and the Joint Field Offices (JFOs) in Louisiana, Mississippi, and Alabama. The DHS-OIG continues to work closely with other OIGs and the Government Accountability Office (GAO) in conducting oversight and investigative activities, including active participation in the PCIE Homeland Security Roundtable.

  - Audit Initiatives: DHS-OIG auditors continue to provide oversight of operations related to hurricane relief efforts. DHS-OIG auditors continue to monitor operations at the FEMA JFOs and Emergency Operations Center and other DHS headquarters efforts to remain current on all disaster relief operations, while providing oversight and on-the-spot technical assistance to FEMA, state, local, and other federal

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[26] *See* PCIE and ECIE, Oversight of Gulf Coast Hurricane Recovery: A 90-Day Progress Report to Congress (December 30, 2005) [hereinafter PCIE 90-Day Report].

officials. Reviews are complete or in process for more than 50 percent of contracts awarded to date. One hundred percent of purchase card transactions have been data mined and anomalies will be reviewed in more detail. More than 300 referrals have been made to DHS-OIG investigators related to possible fraud in eligibility for individual assistance. DHS-OIG financial statement auditors continue to provide oversight of the agency's financial operations and coordinate closely with the DHS-OIG hurricane office auditors.

- Investigative Initiatives:
  - Task Force: DHS-OIG continues to provide investigative support to agents involved in the Hurricane Katrina Fraud Task Force, including the FBI, HUD, DOL, USDA and several local law enforcement departments. DHS-OIG has also received information requests from several state law enforcement agencies. The DHS-OIG continues to work closely with the Postal Inspection Service in pursuit of possible fraudulent claims filed by unaffected individuals for disaster assistance.
  - Investigations: DHS-OIG continues to conduct investigative activity on open investigations, to review and process voluminous amounts of complaints and hotline reports as they are received, and to conduct National Emergency Management Information System (NEMIS) checks where necessary on above identified complaints.
  - Liaison: DHS-OIG continues to conduct Fraud Awareness Briefings and Law Enforcement liaison with state, local and federal law enforcement and prosecutors and to work in close association with the agencies involved in the Gulf Coast Hurricane Oversight Office, i.e., Long Term Recovery Center (LTRC), and the Task Force to develop criminal investigations for prosecution by the United States Attorney's Offices; and is working to establish a permanent office in Biloxi, Mississippi and preparing to transition to a permanent office there.
  - Debris Removal: DHS-OIG continues to conduct several debris-removal investigations, as well as proactive efforts regarding debris-hauling contracts.
  - Other Actions: DHS-OIG remains in daily contact with FEMA personnel at the LTRC regarding the analysis of applications.

- Fraud Hotline: To streamline the reporting of allegations of fraud associated with the recovery effort, the DHS-OIG established the DHS Hurricane Katrina Relief Fraud Hotline that is managed by the DOD-OIG. In addition to the toll-free telephone number for the Hotline (see page 32 below), complaints are received by fax, mail, and email at katrinafraud@dodig.mil.

- **Department of Defense - Office of Inspector General (DOD-OIG)/Defense Criminal Investigative Service (DCIS)**

  - The DCIS, the criminal investigative arm of the DOD-OIG, has received 10 allegations related to Hurricane Katrina that involved theft, false claims, bribery,

kickbacks, product substitution, and procurement fraud. DCIS agents reviewed the allegations, and seven were determined to be unfounded. The remaining three allegations were developed into criminal investigations of bribery, kickbacks, and possible product substitution. One DCIS investigation resulted in the filing of a criminal complaint by the United States Attorney's Office for the Southern District of Mississippi against two individuals for conspiracy to commit bribery in violation of 18 U.S.C. § 371. [See page 11 above.]

- DCIS continues to educate industry, government contracting personnel, and regulators, and has conducted 31 mission and fraud awareness briefings since October 2005. DCIS agents are providing support to the joint law enforcement and United States Attorney's Offices Working Group in Covington, Louisiana, and the Joint Criminal Investigative Task Force headquartered in Mississippi. Furthermore, DCIS participates in the PCIE Homeland Security Roundtable.

- **Environmental Protection Agency Office of Inspector General (EPA-OIG)**

  - Since September 2005, EPA-OIG has deployed six Special Agents on several missions to the affected Gulf States to participate in Hurricane Katrina Fraud Task Force efforts, has met with EPA officials, government contractors, federal prosecutors, and state and local law enforcement officials, and has conducted a variety of investigative steps in addressing allegations of fraud. EPA-OIG Agents are also participants at the Joint Command Center. These Special Agents have access to Task Force databases, intelligence, and staff for operational support during investigations conducted in the affected Gulf States, and are engaged in periodic meetings with Task Force members to discuss investigative operations.

  - The EPA-OIG has coordinated with the Louisiana State Police, Troop B Headquarters, Kenner, Louisiana, and several New Orleans Police Department officers assigned to the Fifth District, Lower Ninth Ward, in order to discuss potential fraud scenarios and criminal complaints that would be of interest and within the jurisdiction of the EPA-OIG.

  - The EPA-OIG Financial Fraud Directorate has conducted fraud awareness briefings with EPA Incident Response Teams, on-scene coordinators, and senior procurement officials within the EPA Office of Acquisition Management with expectations to continue such briefings with several EPA procurement teams in the field. Weekly meetings are held with EPA-OIG auditors to discuss audit findings, potential fraud indicators, and progress in audit support of active investigations.

  - EPA-OIG has been aggressively pursuing tips and leads in several investigations concerning allegations of labor and equipment cost mischarging in the performance of EPA contracts, and con artists posing as EPA officials in fraud schemes. Task Force members have supported investigative efforts.

- **Department of Housing and Urban Development Office of Inspector General (HUD-OIG)**

  - The response by the Department of Housing and Urban Development (HUD) to Hurricanes Katrina and Rita falls into three separate categories: (1) use of existing appropriations on the ground just before hurricane impact; (2) new appropriations for hurricane relief; and (3) FEMA funds administered by HUD in support of mission-critical assignments. HUD was provided $1.525 million to provide personnel to assist FEMA as part of the housing task force in Baton Rouge, Louisiana. HUD is also administering the Katrina Disaster Housing Assistance Payments (KDHAP) that has been previously funded to a level of $79 million, as well as new appropriations of $390 million in housing vouchers for families displaced by Hurricanes Katrina and Rita.

  - HUD has new appropriations of $11.5 billion in emergency Community Development Block Grants for recovery expenses associated with Hurricane Katrina and Rita. HUD is preparing to administer the new funds, which will be grants made directly to the respective five Gulf States impacted by the hurricanes. The Governors of Louisiana, Mississippi, Alabama, Florida and Texas will identify the appropriate state agency to receive the funds and will submit a plan to HUD detailing how the block grant funds will be used. HUD officials have conferred with Hurricane Katrina Fraud Task Force Chairman Alice S. Fisher and her staff about ensuring that appropriate monitoring and antifraud measures will be in place as these funds are provided to the states.

  - HUD-OIG has created a far-reaching fraud prevention program designed to: (1) create a training course for agents/auditors and program officials to teach how to identify fraud in Community Planning and Development (CPD) grant programs; (2) provide for fraud prevention meetings between HUD-OIG and the major programs of HUD; and (3) hold fraud prevention meetings between HUD-OIG and industry groups, private insurance companies, multi-family owners, public housing Executive Directors, state governments, and economic development agencies. As part of its fraud-prevention program, HUD-OIG has created a Suspicious Activity Report (SAR) that will be given to HUD grantees, sub-grantees and others associated with delivering disaster funds. The SAR is a method of informing HUD-OIG of suspected irregularities in the delivery of HUD program money. HUD-OIG forensic auditors have been assigned to review temporary housing programs and FEMA payments to HUD assisted housing residents. OIG plans to use forensic auditors to review all programs that are not audited by the Office of Audit.

  - The Office of Audit has created a new entity to address audit issues in the Gulf States. Auditors are currently reviewing real estate owned properties used to place FEMA designated evacuees and are monitoring contract awards made by HUD.

- HUD-OIG has created: (1) a Gulf States Region, based in New Orleans, staffed with an investigative manager, four special agents, and an administrative officer (as well as six forensic auditors, based in Arlington, Texas, who have been assigned to the Gulf States Region); and (2) an Office of Hurricane Relief Oversight in Washington, D.C. with an investigative manager, a Special Agent desk officer, and a management analyst. Both of the newly created offices report to a Deputy Assistant Inspector General.

- **Department of Justice Office of Inspector General (DOJ-OIG)**

  - DOJ-OIG has opened three cases concerning hurricane-related benefit fraud, including a Department employee who allegedly submitted a false application for unemployment benefits under a Hurricane Katrina-related program.[27] It also has conducted oversight of the Department of Justice's expenditures related to Hurricane Katrina, and plans to issue an audit of the Department's hurricane-related purchase card transactions, as described in the PCIE 90-Day Report.[28]

- **Department of Labor Office of Inspector General (DOL-OIG)**

  - According to the PCIE 90-Day Report, DOL-OIG "initiated four investigations involving potential Unemployment Insurance or Disaster Unemployment Assistance fraud and mail fraud. One of the cases involved circumvention of [DOL's] processes for issuing employment-based foreign labor certifications."[29] DOL-OIG investiga-tions have already resulted in federal criminal charges against seven individuals.

- **Social Security Administration Office of Inspector General (SSA-OIG)**

  - The SSA-OIG Office of Audit has initiated a review to report on the status of SSA service delivery to individuals affected by Hurricanes Katrina and Rita. As part of this review, it will assess SSA's plans to ensure that payments made under emergency procedures were appropriate and properly safeguarded.

  - SSA's service delivery to recipients and beneficiaries is vital to the region's recovery. As part of its immediate response to the disaster, SSA temporarily changed or eliminated several existing control procedures to ensure continued benefit payments in the affected area. SSA-OIG will assess SSA's plans to ensure that payments made

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[27] *See* PCIE 90-Day Report at 66.

[28] *See id.* at 43.

[29] *Id.* at 66.

are proper and that controls are sufficient to safeguard against fraud, waste, and mismanagement.

- The SSA-OIG Office of Investigations Hotline has received 20 allegations of potential fraud related to Hurricanes Katrina and Rita (18 of the 20 were received between September 12 and October 7, 2005). The Office of Investigations is actively pursuing allegations of fraud involving SSA's programs and operations, including allegations of Social Security number misuse. To date, the Office of Investigations has opened nine cases. There have been two indictments and arrests.

- **Federal Trade Commission (FTC)**

  - The FTC receives consumer complaints about fraud, including hurricane-related fraud, through its toll-free hotline (1-877-FTC-HELP) and online complaint forms, as well as from external database contributors. FTC staff developed a code for hurricane-related complaints in Consumer Sentinel, the FTC's online fraud complaint database, to make it easy for FTC staff, Task Force members, and more than 1,400 other law enforcement agencies to identify these post-hurricane scam complaints. Between October 16, 2005 and January 12, 2006, the FTC received 108 hurricane-related fraud complaints and 259 hurricane-related identity theft complaints. The most common type of identity-theft complaints related to imposters applying for government benefits in the victim's name. To provide law enforcement with better access to the hurricane-related complaints, the FTC developed specialized data reports based on complaints related to post-hurricane scams and identity theft. It posted links to these custom reports on Consumer Sentinel, thus facilitating law enforcement access to these case leads. Finally, the FTC reviews all complaints received to identify trends and possible targets for investigation or referral to criminal authorities.

Training and Proactive Detection

The New Orleans Conference in October 2005 was the first opportunity for the Task Force to provide training for federal agents and prosecutors on legal and practical issues stemming from disaster-related fraud. Experienced Department of Justice prosecutors highlighted key criminal offenses that could be applied in various fraud schemes, and Postal Inspectors from the Postal Inspection Service and Special Agents from the FBI and the Secret Service offered practical guidance on how to investigate these offenses. Audience participation was high, and the audience, which included the Inspector General community, state and local law enforcement, and United States Attorneys, made good suggestions. Since the conference, the Command Center has hosted a training session by Department of Justice prosecutors for Inspector General auditors. The Command Center is also planning more extensive training for Gulf Coast-based Assistant United States Attorneys and other agencies at the Command Center.

As one of its proactive initiatives to identify potential emerging types of fraud, the

Department of Justice has taken the lead in coordinating and expediting responses by various agencies to potential disaster-related fraud. Recently, for example, Hurricane Katrina Fraud Task Force Chairman Alice S. Fisher met with an Assistant Secretary at HUD to discuss fraud-prevention and fraud-detection measures that HUD is establishing in connection with the disbursement of $11.5 billion to the affected Gulf Coast states. The Joint Command Center is also playing a significant role in proactively identifying patterns of potentially fraudulent activity in applications for disaster-related benefits.

Public Education and Prevention

Various agencies have continued to provide the public with information about hurricane-related crimes and prevention issues, including websites, public-service advertisements, distribution of publications and flyers, and press releases:

- ***Websites***

  - The Department of Justice maintains a constantly updated website on the Task Force, including continuing reports of prosecutions, at http://www.usdoj.gov/katrina/Katrina_Fraud/index.html. The FTC has a Hurricane Recovery website at http://www.ftc.gov/bcp/conline/events/katrina/index.html. This website (in English and Spanish) was created to provide important information to families and businesses affected by the hurricanes. It has been accessed more than 45,000 times since its launch in September 2005. Agencies and organizations linking to the site include: MyMoney.gov; the Federal Reserve Board; the Federal Deposit Insurance Corporation; Consumers Union; and the JumpStart Coalition for Personal Financial Literacy.

- ***Public-Service Advertisements***

  - The FTC also distributed a series of live-read public service advertisements (PSAs) to radio stations across the country. Two sets of PSAs were distributed. One set was e-mailed to 584 radio stations in the states affected by Hurricanes Katrina and Rita, including the following three messages in 30-second and 15-second formats, in both English and Spanish: (1) Beware of charity fraud; (2) Beware of home repair fraud; and (3) Protect yourself against identity theft. The other set was mailed to 5,712 stations in the states that were not directly impacted by either hurricane. This package contained 30-second and 15-second PSAs in English and Spanish, cautioning consumers to beware of charity fraud.

    Based on responses from radio stations as of January 5, 2006, there were more than 17,900 reported airings of the English-language spots. The average number of airings per station was 89, and the total audience impressions exceeded 38 million. The Spanish-language spots saw more than 6,270 reported airings; the average number of airings per station was 118; the total audience impressions exceeded 11 million.

- ***Publication and Flyer Distribution***

  - In December 2005, the Postal Inspection Service issued a publication, *Crime Watch - Avoiding Hurricane Fraud*, which was distributed nationwide to 204 newspapers with a readership of more than 6.7 million.

  - In addition, at a workshop for hurricane evacuees sponsored by the University of Houston Law School's Center for Consumer Law, the FTC provided 850 pre-stuffed bags of hurricane-related fraud alerts that were distributed to the evacuees.

- ***Press Releases***

  - FEMA has recently issued a series of press releases asking the public in various parts of the Gulf Coast region to be watchful for fraud and providing information about possible fraud to law enforcement.[30]

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[30] *See* FEMA, Press Release, January 13, 2006, *available at* http://www.fema.gov/news/newsrelease.fema?id=22438; FEMA, Press Release, January 11, 2006 *available at* http://www.fema.gov/news/newsrelease.fema?id=22380; FEMA, Press Release, January 10, 2006, *available at* http://www.fema.gov/news/newsrelease.fema?id=22358.

REPORTING HURRICANE-RELATED FRAUD

- Government Fraud and Public Corruption:
  - Call the FBI's tipline at 1-800-CALL FBI (1-800-225-5324)
  - Call the DHS Katrina Hurricane Relief Fraud Hotline (operated by the Department of Defense OIG), at 1-866-720-5721
- Charity Fraud, Emergency-Benefit Fraud, and Other Types of Consumer Fraud:
  - Call the FTC's Consumer Response Center, toll-free, at 1-877-FTC-HELP (1-877-382-4357), or
  - File an online complaint with the Internet Crime Complaint Center (a joint project of the FBI and the National White Collar Crime Center) at http://ic3.gov
- Identity Theft:
  - Call the FTC's Identity Theft Hotline, toll-free, at 1-877-ID-THEFT (1-877-438-4338), or
  - File an online complaint with the FTC at http://www.consumer.gov/idtheft/

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